

Stora Enso
Moderators: Jukka Härmälä, Hannu Ryöppönen, Keith Russell
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Operator: Please stand by, we are about to begin. Good day, ladies and gentlemen, and welcome to today's Stora Enso 2005 Financial Results conference call. For your information, this conference is being recorded. At this time, I would like turn the call over to your host today, Mr Keith Russell, Senior Vice President, Investor Relations. Please go ahead, sir.

Keith Russell: Thank you very much. Hello everyone. Welcome to you from – to this event, which is being hosted jointly from Helsinki and Stockholm. This webcast and conference call concerns our fourth quarter, and the full year 2005.

The full press release relating to the results was issued four hours ago, and we hope that many of you have had the chance now to review it. For those of you listening via the conference call line, the slides that will be referred to now are available on the Investors section of our corporate website, so you can follow along.

The format for today is that Jukka Härmälä, Group CEO, will make a short presentation covering the highlights of the results, following which we'd be pleased to take your questions in the usual way. The operator will provide relevant instructions at that time about asking questions. Joining Jukka on the line today is also Hannu Ryöppönen, our CFO. And finally, before beginning, I should just draw your attention to slide number 2 of the presentation, which is of our message concerning forward-looking statements, which governs the whole presentation. I now turn the microphone over to Jukka Härmälä.

Jukka Härmälä: OK, thank you Keith. And on my behalf also, everybody welcome to listen to our presentation. I'm going to run it according to the material which has been presented, first stating the number of page I'm referring to, and most likely jumping over some of the material you have received, with the assumption that everybody has actually read the numbers.

Well, starting with page number 5, some highlights for the Q4, and first of all, you have seen that our sales have gone up by 13%, which is in a way, bearing in mind the circumstances, exceptionally [well]. This is however, a result of not consolidating our merchanting, newly acquired Schneidersöhne interest to write the numbers, that is the main reason for the increase. On the other hand, for future structural reasons, it's good to remember that merchanting as such is a low-margin business by nature, and therefore, it has an impact on the ratios. This time, the merchanting did not really have anything actually to add to the operating profit; on the contrary, because of the consolidation period, accounting rules, etc. which I explained in the numbers.

Our operating profit before the externally non-recurring items was coming up from the previous quarter; things were running pretty much along what we internally were expecting, no big issues here. The quarter, and the year ended, as far as debt to equity is concerned, with a ratio 0.66. It's definitely lower than our target not to exceed 0.80, but as it is up as a result of of course the results being low, cash flow exactly as well, and last year still our capex was high when we completed our long-term capital expenditure product, coming back to this – and also has an impact coming from the share buybacks. All in all, during the last quarter, what – I think the numbers were pretty much volume-driven, coming from the market, whereas the prices were constant mainly in Europe. North America we had some price increases in the beginning of the quarter, bringing up the American numbers.

Also typical for the quarter is now to have proceeded with our earlier announced Profit 2007 and related programmes – remember they were coming out in August. Now they are so complete that

we were able to actually make the relative provisions, which finally totalled to as far as 440 million, covering a period from this moment onwards, the way we have also said before.

Out of the provisions, there is an immediate, or was an immediate, cash impact of about 90 million, whereas the bulk of the cash collected, the rest being 135, will materialise during the course of 2006/7, more or less work of related issues we have been talking about.

Now I'm going to page 7, where we have the comparison of operating profits by quarters, and as a result of the labour dispute we had in Finland last year, the continuous running is not possible, and therefore the earlier typical fall of operating profit for the fourth quarter, or the second, exactly the same way, should disappear, and as a consequence, now we already see from the fourth quarter of last year, the change of the fluctuation now being even up.

The main effect otherwise from the labour dispute, the constant running and especially the maintenance work done to the mills, I think we are going to see the full positive effects now during the year 2006.

And let me then go to page 8, where the variance analysis on changes from Q3 to Q4 have been illustrated, and I only want to repeat what I said earlier, this much increase of EPS was pretty much volume-driven for the period.

Now I'm going to have a short comment on the full year 2005, first turning to page 11, where the numbers are presented, and only to say that the year as a whole was an exceptional year because of the labour market dispute in Finland, and the various provisionals related to the Profit 2007 or the full P&L. We ended up with a return on capital employed more or less on the same level as the year before, and of course the 3.1% represents a much too low of a return. Earnings per share on a non-recurring basis was up by 3 cents only.

Then page 12, and here I want to close the monitoring of North American operations and relate the Profit Enhancement Plan with something we have been reporting on a regular basis, bearing in mind that from the 1st September last year, we already disowned the North American division, and the respective operations are now part of the global product divisions. But really, to close the books for the profit improvement plans, a summary out of the year has been now made here. And to pick up to numbers from development from last year's first EBITDA, in terms of US dollars coming to 276 million, from 136 of the previous year, and when we did report an operating loss for the first half of the year, that was well covered by the performance from the latter half of year, and the current running of the business is certainly now in black numbers.

And finally, the free cash flow, cash flow after investing activities, did bring in more than USD190 million last year, whereas the previous year, we were still consuming money, to the extent of 70 million. All in all, we are more or less back into normal development, and of course a lot of improvement is needed for the whole industry including North America, but the special programmes for the time being, they are now over.

Variance analysis for the year on an EPS basis [first in] will show that on an annual basis, sale prices and actually sales mix did also have a good impact here, did increase EPS by as much as 33 cents, where the volumes were taken down by 15 cents. I'm not commenting on the rest of the changes, ups and downs here and there.

Then, for capex, coming back to the slide [there], we've been having the capex policy not to exceed the level of depreciation already for quite some time – as a policy we have not changed it but now when coming to the end of the rather massive programme where lots of renewal capacity has been part of the story, also the emerging market is [basically] Brazilian operations coming all to an end for the time being. Now for the year 2006 we are going to lower the level of capex. Our target figure today is somewhere around 800 million, a good change, good drop from the previous years.

Now let me concentrate a moment on the market outlook and as we have these arrow pictures I will go through the whole market into some more detail yet starting from page 16. First of all we can say that the global demand was modest last year but seasonal improvement continued in the fourth quarter – we saw it in the volume, and operating range for the industry improved as expected. In Europe a slight pickup in advertising and direct marketing is predicted to drive demand of advertising driven papers forward, something we can see very clearly now. And in North America, print advertising specs remain healthy, however an increase in postal rates in January may have some impact on the magazine and catalogue market. Still, an element we don't know the full effect but everybody talks about it.

And now [going for] the grades here in Europe. First of all newsprint. Last year the European newsprint, demand was slightly higher than the previous year and this is expected to grow moderately also this year. Growth comes mainly from free sheets and regional newspapers. Demand for improved newsprint is growing steadily, driven by expanding newspaper supplements market. Now we are in the middle of the contract negotiations and, as it has been said many times, prices are expected to rise, outcome as for the prices is on the higher side of the single digit. But we are still only at a level of somewhat over 50% of the total contracts needed, and therefore the final picture will only be seen once we come to the end of the process. All in all, newsprint supply and demand is well in balance and this seems to continue also during the couple of coming years at least.

Then the magazine papers market demand is seasonally improving, was improving in the fourth quarter, and shipments to overseas recovered and capacity utilisation improved [we thought] also supported by the current value of the dollar. Order books are modest in coated magazine paper but strong in uncoated magazine. And predicted healthy growth in the global economy should stimulate demand for advertising driven paper grades and support all further price rises underway, although, at the same time we must admit that the over-capacity situation is prevailing

in this grade. All in all, the current situation look from our point of view is that the price rises are going to materialise actually in both grades, coated and uncoated, but single digit on the lower side seems to be the case. We have only concluded about one third of the agreements, so the fight is still fiercely on.

Then coated fine paper: European demand has been growing since last spring and this trend continued also in the fourth quarter. Both mill and merchant inventories are pretty normal. Now fine paper market is heading into a seasonally good first quarter. The demand outlook is favourable and should support some price increases this coming spring. And yes, I have to repeat something everybody knows: the over-capacity is prevailing but we are looking forward to getting in the price increases later now in the spring.

Then uncoated fine paper, where the European demand has been growing but somewhat slowly. The main contributor to the growth again was copy paper, and overseas exports seem to have decreased. Order inflow is expected to remain healthy during the seasonally strong first quarter, both mill and merchant inventories are quite normal, and here again price increases are targeted for all grades but probably here we are talking about the weakest side of paper business when it comes to the pricing.

Let me then go over to the US and only talking about our grades. Newsprint, even if it is a small rate for us, you can say that the overall demand is downward and this trend will continue; but at the same time [good luck for] our production capacity has been closed down and the utilisation rates are good and therefore prices are expected to improve. This is a good example of what effects of a good balance between supply and demand brings about.

Magazine paper: demand for uncoated and coated magazine papers remained healthy and started levelling off towards the end of the year following the normal seasonal pattern. Some price increases were implemented in the fourth quarter in uncoated magazine paper.

Print: advertising is forecast to remain healthy – however, increases in postal rates will dampen the growth in the magazine and catalogue markets and only a modest growth in demand is anticipated for magazine paper. We expect prices to remain stable at the present level.

And finally, coated fine paper, where the fourth quarter showed a slightly weaker demand than in the previous quarter. Imports now from overseas started to pick up again after having decreased in the third quarter. Inventories are moderate throughout the whole supply chain. The short term outlook is quite favourable, as demand is expected to grow moderately and capacity closures late last year and early this year something roughly 8% of the total capacity will, is an upward situation. Prices are expected to remain firm.

Well, let me then continue and make a summary of the current situation to end up my presentation. I'm now on page 19. I don't repeat what I said about paper markets, only to say that demand would drive prices somewhat up the way I summarised [quality by quality] a moment ago. And as a result of this story and especially after the exceptional year, profitability is expected to improve for the year 2006 definitely. What we are focusing on is first of all free cash flow, lowering now capex, perhaps put lots of more emphasis in working capital management, and have been pretty restrictive of share buybacks recently and this policy is now continuing. And at the same time of course now it's the year for implementing all these earlier announced Profit 2007/APR issues and also we are approaching the time when the mills put underneath our scrutiny are coming to a point of decision making.

OK, now I think I'll finish and we are ready for the questions. Please.

Operator: Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please press the star key followed by the digit one on your telephone keypad. If you are using a phone with a mute function, please make sure your mute function is

turned off to allow your signal to reach our equipment. Once again, please press *1 on your touchtone telephone to ask a question. We will pause for just a moment to give everyone an opportunity to signal for questions.

We take our first question from Lars Kjellberg of Credit Suisse. Please go ahead.

Lars Kjellberg: Hi and good afternoon, gentlemen. Two questions to start off with, with regards to the profit improvement programmes. Can you update us on when you now anticipate to close the mills you have already decided to close, and also if you can give us some thoughts on your process with mills under scrutiny, where you stand on that and when we should expect any kind of decisions.

Jukka Härmälä: Hannu please.

Hannu Ryöppönen: Yes, it's Hannu Ryöppönen here and good afternoon. On the closure plans they have all been established and set and all the four mills, and machine in one case, will be closed during the year. And at this point, because there's still some union processes, that we cannot go public with the date as such but we have a couple of them in the middle of the year and the one that is the last one is the Varkaus Mill, [that's Okkers] Paper Machine at the end of the year. But they are in progress, all the signs are healthy in terms of achieving this, so that will happen as said already in October.

On the 'under scrutiny' the plans that the mills have developed to improve their profitability are well underway and being implemented. We are reviewing this during the middle of the year somewhere to see how progress is made, and final decisions will definitely be made towards the end of this year somewhere in the autumn. If something would indicate a need for a decision earlier, that would obviously be made but it's pretty much early to make any comments in that direction.

Lars Kjellberg: Where do you stand today in terms of – I come back to the free cash flow that you talked about earlier – you're obviously guiding towards say roughly a 800 million capex number for '06. What should we be looking for going forward in '07 and what kind of sustainable level do you think it should be running at?

Hannu Ryöppönen: That is a practically impossible question to answer on a long term basis. While our policy in line with depreciation, if we are there in 2007 or somewhere else is very difficult to give any precise answer on. We have now the objective of getting our capex to the 800 million level, as Jukka said, and that's one part of our free cash flow attempt. Working capital another one; the restricted share buyback activity; and then we have also from a cash flow basis the divestment programme, which we also expect to be positive from a cash flow perspective on all of this year.

Jukka Härmälä: If I may still make a comment on the overall capex, what we have passed on as information already earlier during the course of last year several times is that very little of anything major was decided for the future as far as capex is concerned. We came to an end of the major programme, and therefore even today we are in a situation where we are, capex-wise, pretty flexible. Looking at the year 2007, it's very little what has actually been decided when it comes to something over the normal maintenance.

Lars Kjellberg: OK, one final question. When it comes to restrictive share buybacks, why are you changing your strategy on that considering in '05 at this time you were fairly aggressive instead in buying back shares. What has changed and why do you make that change?

Hannu Ryöppönen: I think the essential view, if we could turn the clock back, was that the view at the time of development of operational performance there was no strike planned at the time or labour

dispute in Finland and the development of 2004 had been, as Jukka said, unsatisfactory from an operating cash flow point of view. This makes us...

Jukka Härmälä: 2005.

Hannu Ryöppönen: 2005, sorry, I beg your pardon...has made it as one option here to look at this in a very cautious way. We are taking the authorisation as a matter of routine from the annual general meeting.

Lars Kjellberg: OK, thank you.

Operator: We now move on to Myles Allsop of UBS.

Myles Allsop: Sorry, just first of all I was wondering what your guidance is for cost inflation in '06 versus '05?

Hannu Ryöppönen: Sorry, is your question about cost inflation?

Myles Allsop: Yes, so what level of cost inflation do you expect in '06 relative to '05?

Hannu Ryöppönen: We have said in giving the guidance that we expect a gross cost increase on all our cost factors, i.e. all the way from wood to energy to chemicals, labour, et cetera, of about 2.5-3%. But this is a gross number and any impact we have from the Profit 2007 programme are positive in relation to this.

Myles Allsop: What are you expecting from the savings in '06?

Hannu Ryöppönen: We have announced earlier that we will communicate more details around that programme in connection with the Q2 result.

Myles Allsop: OK. And then I was wondering with Port Hawkesbury, should we...what is going to be the impact of the strike there in terms of earnings in the first quarter?

Jukka Härmälä: Well, Port Hawkesbury, now that the strike walkout was started and nobody knows how long the whole thing is going to continue, so what we have calculated is actually a monthly [quote] being in the range of say EUR5 million.

Myles Allsop: OK. And then I was just wondering with the kind of merchanting division as well why we haven't...I noticed that the accounting costs this quarter that we haven't seen any benefit at all from Schneidersöhne. When do we expect to see sort of margins improving and what sort of target margin do you expect to get out of that division going forward?

Hannu Ryöppönen: If I could comment here. As Jukka said earlier, the acquisition was actually closed the very first days of September in 2005, and we had in 2005 also acquisition related cost impacts that in fact impacted both third and fourth quarter. It's a pretty significant integration process going on, which will take pretty much all of this year. So from a result point of view the disability will not be great. We have to also remember that merchanting is a, by definition, low margin business as such, but what I can say is that the integration work and the expected and planned calculated synergies are being realized as the work progresses.

Jukka Härmälä: If I can still make an additional comment here. When it comes to the daily operations of the merchanting, and especially Schneidersöhne being the real big piece of the cake, what I'm happy to say that they have been selling very well and operationally running exactly or even better than what we expected. The integration what Hannu was referring to is a story of its own and therefore certain time will go before anything is seen there. But at the same

time, to remember it's not only the merger bringing in something to operating profits. We do have an impact also to fine paper once things are put in good order.

Myles Allsop: So shall we not expect a material improvement for the first half of next year, is that the way to look at it, because of the integration cost?

Hannu Ryöppönen: I would be a bit cautious the first half... You mean 2006, I assume, or 2007?

Myles Allsop: No, '06.

Hannu Ryöppönen: I think we are talking a bit later this year then we can really actually see these impacts come through in a significant way.

Myles Allsop: And then just finally on the pricing side, I was wanting just to clarify in terms of the fine paper side, I mean, on your charts you have prices sort of slack near term but then you kind of implied that maybe some price improvement would come through sort of in your discussion. Then should we expect to see some price improvement or is it still too early days?

Hannu Ryöppönen: Well, this trading pattern unfortunately is different from what we have discussed pretty firmly on the magazine and newspaper, newsprint, and only what we are saying now is currently the prices are steady the way the analysts were describing it. On the other hand we have already announced some price increases for 1st April and therefore when pushing through the increases here only time will tell show how successful we are.

Myles Allsop: So beginning of the second quarter you'll be trying to push through the prices? OK.
That's very helpful. Thank you.

Operator: Our next question comes from Charles Spencer with Morgan Stanley.

Charles Spencer: Afternoon. I have three questions. The first is just looking at your slide 24 which breaks down the Q on Q profit changes. It strikes me that the biggest negative Q on Q impact came from higher fixed costs – EUR40 million Q on Q effect. Could you sort of expand on what some of these items in fixed costs were impacting your fourth quarter?

Hannu Ryöppönen: Sure. The short answer is it's maintenance cost related. The slightly more elaborate answer is that as we had the stoppage in May/June, we were not allowed to do any maintenance either during that period, and that means that some of the spring/summer or typical June maintenance was postponed and some were also planned for the fourth quarter from the beginning. That is the primary explanation to that fixed cost impact in the fourth quarter.

Charles Spencer: OK, so it's fair to say these will reverse perhaps in the first quarter then?

Hannu Ryöppönen: From the individual point of view you have to remember we have maintenance every year, obviously, and the planning can now be freely decided on for whatever is the best under all circumstances.

Charles Spencer: But in terms of the Q on Q change, looking to the first quarter that might be a positive effect?

Jukka Härmälä: That is correct but there's not necessarily an identical event in Q1.

Charles Spencer: The second question was sort of touched on before, but I wanted to come back to the reasoning behind perhaps your reduction of capex spending. It's good to see that you are reducing capex, but is a focus more on your balance sheet ratios in ratings, or is there just not a lot of favourable payback projects to invest in?

Jukka Härmälä: I think the reason – it's both that you commented on. Both that we have had some very heavy investments transferred and Schneidersöhne, and so on in 2005 that were finished in 2005. There are no big investments that are going on. You have to remember that we are talking cash for the year here, not necessarily decisions and the other one is that we also have a focus on our free cash flow, i.e. also our balance sheet ratios.

Charles Spencer: And the last question is sort of in that regard, Veracel - very impressive mill but how does the growth of that mill change the growth rate that now change perhaps with the – your new capex guidance?

Jukka Härmälä: I don't fully understand – there's no impact [unclear]. First of all remember Veracel is a joint venture. It's not a capex number in our books.

Charles Spencer: Is there not plans to do...?

Jukka Härmälä: It would be an equity investment if it – and then obviously there will be financing of it in the joint venture company.

Charles Spencer: OK, so that's not included.

Jukka Härmälä: But I can also say at the same time that in as far as any major activity going on at Veracel this very year 2006 are fairly limited. They are now focusing on running – getting the run up – mill up and running as efficiently as possible.

Charles Spencer: So there's no imminent plans to expand Veracel, say in selling a second line in '06?

Jukka Härmälä: We are not going to – I mean even for [unclear] we are not reporting on, you know, [unclear] on a mill basis. And what we have said earlier, and also it's in the report, the effect for our side of the operation is actually divided between the associated companies and mainly pulp paper. We've been trying to maximise – maximise tax in fact. When it comes down to Veracel 2, the concept itself I think is going to be pretty much based on exactly repeating the formula we have here now, getting in the preparations now, or they are underway for the second pipeline, but the real decision is certainly still pending all kinds of calculations, so the key element would be then the acquisition of land. Also we are process of going forward from that point of view. And like Hannu was saying earlier the Veracel 2 [related] capex or the impact we separated from the running of the plan 1, so that there is clearly this running of the mill and then the possible construction of the new line to different items. So when I made a reference to how the one is recorded, it's actually the running of the operation.

Charles Spencer: OK, thank you very much.

Operator: Our next question comes from Thomas Brodin with Citigroup.

Thomas Brodin: Yes, Thomas Brodin here. Two questions, one on if you could just give us an update on what you see in Asia, in terms of the fine paper market and as well the possibilities of continued export from Europe, in terms of demand, and as well price? Second question is with S&P now putting you on credit watch, if you would get a lowered rating, would that have any impact on your borrowing costs during the years 2006/07/08?

Hannu Ryöppönen: OK, if I start from the Asian market and what we are focusing on is certainly the coated fine paper, as we have the mill for this product. Yes, we recently did expanded mill and we have been focusing on the local markets almost entirely. Also after the increase of the capacity, it's designed for the Chinese market. Generally speaking you can say that the demand now is seasonally slow, because of the Chinese new year and related issues, but would most likely I'm

sure, recover after that period. Mill inventories to our understanding, they are relatively low and now prices are fairly firm. There was a downward trend earlier because of good lot of new capacity. However, saying all this, there is a new element we have to keep in mind and that is actually the abolishment of the reduced – you would call it VAT for export, that was altogether something like 13%, and the Chinese are going to clearly take away the reduction, and therefore the export from China to the outer world becomes dearer. This is an unknown element. It's fairly new anyhow, we will see only a little bit later on what kind of an impact does it have.

Jukka Härmälä: Then the second question about the credit watch from S&P, very difficult to predict but maybe also important to the cost impact [on others forming]. This is – the whole industry has been under, you could call under scrutiny from the rating agencies for some time, and we now got this I think announcement from S&P coming out here, it obviously will hit our short term cost of funds. Exactly how much, we'll know very soon. We saw when we had that previous downgrade, it was fairly marginal – we're talking basis points. Here I expect something slightly more, but I will not go and put any basis points on it, but it could be. We need to see how the market reacts to that. I think more importantly from our point of view, is to see how the market will react to the actions we are taking to generate free cash flow during this year.

Thomas Brodin: OK, thank you.

Operator: We take our next question from Mark Henderson of Steubing.

Mark Henderson: Good afternoon, Mark Henderson here. Just a couple of questions, getting back to the guidance on pricing – if I could call it guidance – you said that you've announced some price increases from April, can you give us an indication of how many, if any customers have actually agreed to those price increases? Or given an indication of that? That's the first point, the second point: I understand how you're clearly focused on free cash flow for 2006, because your operating cash flow in 2005 was very disappointing, and for the first time in – I guess it's

something like fourteen years, your capital expenditures significantly exceeded your operating cash, and obviously your buybacks and dividends have had to be paid out of an increase in net debt. Do you see the free cash flow, so the operating cash flow relative to capital expenditure improving, sufficient to continue paying the same sort of level of dividends going forward?

Jukka Härmälä: Well if I first start from the – your question about the fine paper market. When I was referring to the announced increase for April, that is mainly for coated fine paper, and of course at this point of time, there are no estimates what will happen. Markets are sensitive and we still got a good lot of time for – to go for that point. There was earlier an increase announced for uncoated fine for the beginning of the year. That was done last year, and we are in the middle of this process and I don't want to comment this because of the nature of the business, until we see the final outcome.

Then going to the cash flow issues, I guess the – what happened last year was typically – like Hannu already pointed out – an exceptional year from the point of view that all of a sudden a good lot of capacity was down for a longer period of time, and at the same time markets were where they were. On the other hand the capex programme, the system for the main projects have been done even years before, and certainly it was reasonable to complete them, make them now running and making money, and like had already been decided in the earlier part of the year that we are not going to decide on the major project for the year 2006, as far as consumption of money is concerned already getting prepared for coming down pretty much. So this has not been all of a sudden decision, it has been already done long, long time ago. When it comes down to how do we cope with in the future, Hannu why don't you make your comment on this?

Hannu Ryöppönen: As you alluded to dividend, we also today announced that the board of directors will propose a – maintain the dividend level also for this year, and I think this has been to be taken as a clear sign that the situation has been reviewed very carefully, and we feel that all things added up. It makes sense to continue with a con – a staple dividend payment to our

shareholders, and also a clear belief that we can improve the performance, we can generate free cash flow, and we are in a good position in that respect, but we are at the stage of the year where we have focused part of this conference call on price increases. We would like to see how that totally will evolve and therefore we are also focusing on other aspects of the business. capex: there are clearly a natural slow down in capex, we are also reviewing that on an ongoing basis and we are looking at our working capital, so a programme to focus on free cash flow is clearly very high on the agenda for this year.

Mark Henderson: Thank you very much.

Operator: We take our next question from Richard Nilsson with Enskilda.

Richard Nilsson: Hi it's Richard Nilsson with Enskilda Securities. Can you please update us on your view on the possibility to hike paperboard prices? And then I have some – two follow up questions.

Jukka Härmälä: Well paperboard, it's correct that the – very little was commented on this. Generally speaking we can say that the – those qualities we are in for, the current pricing situation continues, so no major changes. There are, however, some qualities like white line chipboard, where we are in the middle of a process to put the prices up. For us, of course, white line chipboard – I will not call it a marginal but still a small product. So this big picture doesn't really change. We are positive about getting prices up in this grade.

Richard Nilsson: Some of your competitors have maybe have been open and public with their price hike announcement or ambitions. Why have you not been more sort of – or maybe I interpret you wrong, but I've used – I expected you, I see that you have maybe been less – somewhat less aggressive on prices. Why is that?

Jukka Härmälä: Well I've seen some folding boxboard related price increase announcements. From our side, we don't speak about this unless we are out with something – the current situation is – but not – we have not announced anything, like you say.

Richard Nilsson: Yes, great. And then just two quick follow-up questions on first of all, what do you expect for a tax rate – maybe both full and paid – in 2006? And also, how do you think we should view the P&L impact in the first quarter of 2006 from the price hikes which are now filtering through? I think we should assume that there'll be [enough] of January 1, or should there be a sort of slow effect during the quarter?

Jukka Härmälä: On the tax rate, I think our sort of more long-term guidance is a 28% tax rate. And we have had and also had in 2005 an unusual year. We – in fact the fact that Langerbrugge turned positive was what made it possible for us to utilise some tax was carried forwards. We also – were also successful with some tax issues to actually be able to free up some provisions and so on, and I would say also for 2006, as a general comment, that when you are in a restructuring phase, tax is one of the lines that is most difficult to predict on an even quarter or annual basis as these come through as you succeed, to either negotiate with the tax authorities, or how you look at the likelihood of certain deductibility of losses etc., but it's the 28% in our long-term target from an operational point of view.

On the price hikes impacts I think it's – at least from my perspective, too early to tell. Our aim is to go through from 1st of January. Some will succeed, some may well be delayed, but it is pure speculation at this point. Those that have been mentioned that have been contracted, already they are obviously there.

Richard Nilsson: OK, thank you.

Operator: We take our next question from Julien Dumas of JP Morgan.

Julien Dumas: Good afternoon. I've got a quick question regarding your cash generation in Q4. On my calculation you're putting cash flow [whether] on €181 million. It seems surprisingly low in context of the increased EBITDA you've reported for the quarter. Could you explain us exactly what happened? Did you have some cash impact below the EBITDA line?

Jukka Härmälä: No, if anything there was non-cash impact on the EBITDA line of some of the provisions to the tune of, I think around 135 million, that are recorded in the EBITDA, but are from the provisions in other words. So there will be cash mainly realised from a cash point of view mostly in '06 and for a time in '07 as well. Sorry, I'm not sure I totally follow your question apart from that.

Julien Dumas: No problem. I'll review my calculation then.

Jukka Härmälä: OK thank you.

Operator: Our next question comes from Linus Larsson of Alfred Berg ABN Amro.

Linus Larsson: Good afternoon. Does your strong focus on free cash flow imply other acquisitions are unlikely in 2006?

Jukka Härmälä: Well, time will show. I think we don't speculate about these elements. No comment.

Linus Larsson: OK.

Hannu Ryöppönen: I think it is fair to say though, that there are no major plans on the table at this very moment.

Linus Larsson: Not even with regards to smaller acquisitions at this stage?

Hannu Ryöppönen: That...we're not prepared to comment on.

Jukka Härmälä: No, we're not commenting.

Linus Larsson: OK. And then also on the Port Hawkesbury situation, if you could give an update? And what's the situation? Are you negotiating at the time being, and if not, when will you start negotiating? And also, is there a risk that you might not even start up the PM1 at that site again at all?

Jukka Härmälä: Well as we are now in a lockout, standstill situation I will definitely not make any comments on a possibility of what to run what not to run. These issues have to be seen locally before we are talking about them in public talks.

Linus Larsson: OK. And then finally on the energy situation, you've guided in the past, I think it was in conjunction with the third quarter results, that you expect price – the price component in your annual energy bill to increase some 10, 15% in 2006, versus 2005, but looking at the energy bill as a whole, I believe you also said that it was 1 billion in the – in 2005, also considering the volume component. Could you give some more guidance what the total bill should be roughly in 2006?

Hannu Ryöppönen: No we will not give any detailed guidance in relation to energy cost per se, but you're right Linus, that the price increase levels we have indicated is 10 to 15% as such, and that the 2005 energy bill was approximately 1 billion. But it – the energy impact, which is obviously a significant one, is in the 2.5 to 3% guidance we gave.

Linus Larsson: OK. And also there on energy to follow up, in the fourth quarter versus the third quarter, it appears that the – there was a increase in the energy costs sequentially of I think it said 13 or 14

million in your presentation material. Will we see something in that magnitude in the first quarter versus the fourth quarter, or are there any effects of expiring hedges or anything like that?

Hannu Ryöppönen: There's nothing that we are aware of but if you can predict oil prices, I'll give you an answer.

Linus Larsson: But isn't it so that a fair amount of your volume in 2006 is hedged?

Hannu Ryöppönen: Yes but we have – it's a combination of things and it varies from country to country. It's not a very straightforward picture in it's either hedged, or not hedged so to speak.

Linus Larsson: OK and would you dare to say how much of the volume that is hedged for 2006, like in total?

Jukka Härmälä: No we don't comment on that.

Linus Larsson: OK. Thank you very much.

Operator: We take our next question from Eshan Toorabally with Goldman Sachs.

Tim Cowen: It's actually Tim Cowen calling from Goldman Sachs here. The first question is in relation to rising energy costs. If we forget about your cost-cutting plans for a second, you've said that energy costs will go up by about 2.5 to 3% in 2006 year-on-year. Do you think that higher paper prices will be enough to offset that? Or will you actually need the benefit of your cost-cutting plan to drive your margin forward?

Hannu Ryöppönen: First of all, I'd just like to correct that the 2.5 to 3% is an overall...

Tim Cowen: ...total cost. Yes exactly, sorry yes.

Hannu Ryöppönen: Energy being a part of that obviously.

Tim Cowen: Sure yes.

Hannu Ryöppönen: If it would be so easy that you could add the energy bill to the price, would be one thing but there's a demand and supply situation that will determine our price to our customers. We are working as hard as we can, as Jukka has indicated to achieve this and we are in the first negotiations where we are.

Jukka Härmälä: You just have to remember that the way the market by and large has been functioning, it's only newsprint which is concluded – contracted for the whole year in Europe. Whereas magazine, and especially fine paper, is working on a shorter-term basis, and therefore what is now decided or achieved is not necessarily at all the end of the year 2006. It's the more favourable situation as we have now seen some signs of it continues, we would certainly go for more increases during the course of the year. OK, highly speculative comment but only to remind you of the structure of pricing on the market.

Tim Cowen: Sure. And then my second question is in relation to the outlook. All you've really said so far is that you expect the profitability in '06 to be better than '05, but when you remember the impact of the strike in '05, that's not really telling us a whole pile. Would you be able or willing to give any more detailed outlook comment in terms of maybe a range that '06 could beat '05 by?

Jukka Härmälä: We have not made any number comments on this.

Tim Cowen: OK thank you.

Operator: We take our next question from Aidan Cheslin of Deutsche Bank.

Aidan Cheslin: My question has been answered, thank you.

Operator: Mr Cheslin, your line is open now.

Aidan Cheslin: Yes, my questions have been answered, thank you.

Operator: We take our final question from Tobias Mueller with Lehman Brothers.

Tobias Mueller: Yes, hi. I've just got a quick question on newsprint. You stated early on that you increased prices for newsprint by a high single-digit percentage, and I was just wondering if you lost market share on the back of these increases, and if so maybe you could comment on whom you think you lost them to? Thanks.

Jukka Härmälä: Well first of all the situation we are in now with is that somewhat more than 50% of the trade is now with a contract so good lots of work is still ahead of us, determining then finally what will happen with all of our newsprint. We are quite sure that as the balance between supply and demand statistically, and I think it's pretty correct, will justify actually a critical running for the whole of 2006, and not only focusing on the European market, remembering that newsprint prices today both in Asia and US, they are higher than they are in Europe, so the outlet for outside Europe is existing as well. But of course, our main market for our newsprint production is definitely Europe, and will remain Europe.

Tobias Mueller: OK, and you're not afraid of losing market share in Europe by raising the newsprint?

Jukka Härmälä: As a whole, I don't think so. It's certainly like also in the past been a little bit going up and down on a single customer basis, but for the whole of Europe, I'm pretty confident it's going to remain more or less where it's been.

Tobias Mueller: Thank you.

Jukka Härmälä: OK I understand that there are no further questions...I don't have too much to add on ..working for the rest for the year as we are anticipating result wise....but only part of the improvement comes from the Market we are very fiercely fighting for the various internal issues to be put through for the improvement not only for the year 2006 but very especially onwards
With this comment, I thank you for joining us today.
That will conclude today's conference. Thank you for your participation. You may now disconnect.