

Stora Enso
Moderator: Keith Russell, Jukka Härmälä, Hannu Ryöppönen
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14:00

Operator: Please stand by, we are about to begin. Good day, ladies and gentlemen, and welcome to today's Stora Enso Q3 Results conference call. For your information, this conference is being recorded. At this time, I would like to turn the call over to Keith Russell. Please go ahead.

Keith Russell: Thank you very much. Good afternoon from Helsinki and everyone. Welcome to our webcasting conference call regarding the financial results for the first nine months and particularly the third quarter of 2006. The full Press release containing these results was published three hours ago and was preceded just by two separate releases – one was announcing the commencement of exclusive discussions with [Aralco] regarding possible joint ownership of certain of the Arapoti that we recently acquired in Brazil and the separate release about three investments being made within our existing operations in Finland and Austria. These three releases, together with the PowerPoint slides that we will refer to during this call are available now on the investor section of our website and you may wish to have them to hand.

But today we'll follow our usual format for the quarterly earnings call. Our CEO, Jukka Härmälä, will begin with highlighting certain aspects of the results and with brief comments also on our market outlook. We are joined today on the call by our CFO, Hannu Ryöppönen. Following these summary comments, we will open up to your questions, and at that time, the operator will remind you about how to pose a question.

And finally, I just want to draw your attention to slide number 2 of our slide presentation which contains certain important information regarding forward-looking statements. So, with that introduction, I turn the microphone over to Jukka Härmälä.

Jukka Härmälä: Ok. Thank you, Keith. Good afternoon, everybody. Jukka Härmälä speaking from Helsinki office. In very general terms, if you pick up the page number 4 – what has happened. The basis as such has been going pretty much along the – what I would call the usual lines. We do have some operational problems, namely Port Hawkesbury – we're still down, coming to an end of the very long strike period. And Corbehem Mill in France, we have had good lots of problems as a result of the closing down of two machines from the facility, striking and with lots of additional costs. And then, the market-related curtailment, something that has been especially hitting the publication paper area.

All in all, what we can be happy about is that the cash flow after investing activities has actually been generating pretty well, third consecutive quarter now – going up to reasonable levels, whereas the operating profit is more or less in line with the previous quarter on a non-recurring basis.

This very quarter has been announced earlier did also achieve the announcement of lots of non-recurring items, mainly related to the closure and divestment of certain assets. Now, I will go to the financial highlights – pick out a few numbers here – page 5. And, first of all, coming back to the operating profit now ending up with 195 million on a non-recurring basis. Our EPS has been going up and down now, quarter after quarter – mainly because of the variation of the net finance of – due to reasons that I think everybody knows – these valuation items I'm coming back to those in a moment.

Well, our operating profits increased in Packaging Boards, and Wood Product remained more or less unchanged in publication paper, where the newly mentioned operations at Port Hawkesbury

and Corbehem do play a role, and then we saw a decrease in Fine Paper, where you have to remember also the dispersal of the Celbi Pulp Mill which did belong to Fine Papers.

Let me then go to page number 6 and the analysis on change in EPS and the chart would show this change from the second quarter to the third where you see this real big change coming from the financials, where the fair valuation of those items last time was negative, and now it's very high positive number. All the other changes have been rather minor and also a reflection [for] the marketplace is that sales price mix has a very little impact, whereas the volumes have been increasing our results on an EPS basis somewhat [unclear].

Then, what I started with was the cash flow – operating cash flow of the company – page 7 – and, really, quarter by quarter, we've been now coming up, whether you measure it by a cash flow from operations or especially cash flow after investing activities, now ending up with a number starting – getting closer to 500 million for the quarter. All in all, this cash generation has been a rather positive development.

Now, and this very briefly, on page 7 – the financial items, where we have, for the second quarter a rather high negative number – about 150 million, and now ending up with close to zero - minus 8 only - and that's already stated – these unrealised fair valuation items are the main elements of change up and down, depending on what happens, especially in the stock market.

Then I will go to page number 12 and here – to make a comparison over a longer period of time – the first nine months of last year vis-à-vis the first nine months of this year, bearing in mind we had the strike in Finland last year, whereby the comparison is not necessary totally fair. All in all, what you see from this comparison analysis is how much the sales prices and volume do actually play a role in the improvement from 15c to 43c earning per share, on a non-recurring basis.

Number 12 – capex. And here we have a new comment – you may remember earlier we said that the target for capex was to not to exceed 800 million which was already a lower number compared to earlier years and now, the way it looks, that we will be below this 800 million well enough for the year.

Now, if I draw your attention to the market outlook and page 15 would go for both the European markets and, with on glance, you can actually see that the demand, as we are stating also in the report, generally speaking, has been developing in a positive and this market outlook covers the period until the end of the year and the same trend, to our mind, would continue.

We have some areas where you can say that the market will be remaining very competitive, and that does especially for coated magazine, where we have seen some price pressure throughout the year and this same feeling for the rest of the year would remain. For most of the product, until the end of the year, same pricing level would continue and the only major area as far as paper is concerned, would be uncoated fine paper, where earlier announced price increases would now be implemented during the fourth quarter.

Wood Product – picking up from the other Fine Paper area has been now enjoying a rather positive trend demand-wise and price-wise, leading to a situation with the return on capital employed for this very [big] area, after a very long sluggish period is now coming up to double digit numbers.

And, finally, out of the market outlook North America – page 16 – very little new things would happen, actually, towards the end of the year. We have this ongoing market – except from coated fine paper - where this demand seems to be still picking up. Prices will remain more or less at the levels where we are today.

And now, finally, to end my presentation – I'm on page 17 with the Summary Outlook – and first to pick profit 2007 programme, together with the APR, Asset Performance Review, the ones which were, initially, initiated in Spring 2005 and with all the details – October last year – they've been running well – profit 2007, where we had the target of an improvement of 300 million, is now expected to be clearly exceeded, once the target date next year, Summer 2007 is coming. Also the Asset Performance Review, which consisted of a number of various types of actions – they will all done according what was promised – and the only two elements remaining today – the ones we will inform you tomorrow – it's about the planned closures of Reisholz and Berghuizer Mills are underway.

We would anticipate market related production curtailment in coated magazine paper still to continue for the fourth quarter showing also only the rather competitive situation of this very [place]. All in all, other prices would remain more or less where they are towards the end of the year.

So, this was the story short, and now Hannu and me, we are ready to address your questions, please.

Operator: Thank you, sir. The question and answer session will be conducted electronically. If you would like to ask a question, please press the * or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 now for your questions. We will pause for just a moment to allow everyone to signal for questions.

We have a first question from Thomas Brodin with Citigroup. Please go ahead, sir.

Thomas Brodin: Yes. I have two questions. The machines that you are now planning to close throughout your system – do you intend to scrap them all or do you have any intention of selling those machines maybe to some other part of the world – that's first question. Second question is, can you just give us some kind of idea what kind of book value you have in the Port Hawkesbury Mill.

Jukka Härmälä: First starting from your latter question, we have not been disclosing book value for any single machines or mills and, therefore, I'm not really making a comment here. When it comes to your first question, closing down of Berghuizer and Reisholz, we do not have any final plans at what to do. There are a good of, even legal, requirements as what to do with the mill side if you really give up all the operations, especially this is something that goes with Germany. When looking at the short history when we will be closing down machines, or rebuilding – replacing – we have one example, that is the Maxau machine. In a modernised way, it's now under construction for the Chinese market, being the only example of this type. So there is no one policy. Generally speaking, you can say that the – we are not marketing our [unclear] capacity.

Thomas Brodin: Ok. Thank you.

Operator: Our next question will come from Johan Swahn with Handelsbanken. Please go ahead.

Johan Swahn: Yes, thank you. I was wondering if you could talk a little bit about the inventory movements in the third quarter, you had a reduction in inventories and normally I would assume we would have an increase. Why is this in this quarter? That's the first question.

Hannu Ryöppönen: Yes, ok. We have not seen any unusual changes such in our inventory levels during the quarter. We had a number of maintenance shut downs and so on in September in particular, i.e. towards the end of the quarter, and this has had some impact, but there is nothing really clearly different or unusual in the development.

Johan Swahn: Should I read it that maybe demand in the third quarter was weaker than you thought and you had to take some downtime to correct that, or should I read it as you're trying to position yourself ahead of the price negotiations?

Hannu Ryöppönen: No, I don't think there's any price negotiation positioning going on. As I said, there were maintenance shut downs that we had as we have mentioned in [unclear], fairly major market curtailments also in the third quarter, so it could be another factor there.

Johan Swahn: Ok. And then on working capital, obviously a very good figure in Q3, if this inventory change. What shall we expect for Q4?

Hannu Ryöppönen: Difficult to say, but we have expectations of further reduction and so permanent reduction, but inventory is not necessarily the biggest driver of that, the focus has been already in receivables, we'll also make sure, trying to make sure that we don't pay our payables too quickly and so on. I see now a move towards a reduction and permanent, but we're not talking hundreds of millions, but maybe in the hundred to two hundred range, but the direction is the right one.

Johan Swahn: Ok. And just finally then on LWC, could you talk a little bit about what's going on in that market? What's driving sort of the weak market condition? Is that the European demand or is it the export markets, overseas markets that are weakening.

Hannu Ryöppönen: I guess the biggest, kind of an old reason has been our capacity, but at the same time, what has happened, we have seen a rather strong growth in the uncoated magazine and certain migration between the grades I feel is also part of the game.

Johan Swahn: Ok, thank you.

Operator: You now have a question from Myles Allsop with UBS. Please go ahead.

Myles Allsop: Just a few questions. Firstly on the fighting out as you talked about your source for Q4, could you give us a sense of what you're expecting for 2007, so more the kind of medium term outlook, whether, I mean we've seen all these closures being announced, whether that kind of impacts the way you're thinking.

Hannu Ryöppönen: Well the outlook in the first like what we commented on, that is in a way until the end of the year. Now we are coming to, and partly are in a process of the [beyond middle changes] especially in the area of various publication grades and at this point we are not really willing to make any statement on the future price development. Let's first negotiate with the customers rather than do it through the public media.

Myles Allsop: Ok, and then maybe on the closures that you announced earlier this month, I mean I was just [unclear] the summary of announcing that they're going to close capacity as soon as possible and sort of targeting the first half. Could you give us any particular update in terms of the timing, I mean you were sort of reasonably vague I think in terms of it's going to be next year some time, or that the two mills...?

Hannu Ryöppönen: There are no new facts or data in this, we have the union processes that are obviously initiated and ongoing, and they can take a number a month. We also have, when it comes to Reisholz in particular, the whole issue that we already talked about in October last year about the switchover to [unclear] of capacities and so on that needs to be first planned and implemented. So the timetable as such as we announced it, it's the one we are following and there is no news to that one.

Jukka Härmälä: You have Corbehem as an example, we stopped production of the two machines in June July and we are still having to struggle on because of the legislation and related issues, so these

are rather lengthy processes and a little bit difficult to talk about in advance about the exact timetable.

Myles Allsop: Could you maybe give us a bit of an update on Corbehem, I saw that there's some really [unclear] so you're going to have to sell to the Green Recovery. I mean what else can be said at this stage, I mean are these mills, the two machines going to stay closed?

Keith Russell: Myles, it's a straight forward line there. I think your question was about the current status at Corbehem and in particular the ending of these discussions with Green Recovery, is that what you're asking?

Myles Allsop: That's correct, sorry.

Jukka Härmälä: Yes, your line is very, very bad. So the legal, the court related process was coming to an end actually yesterday and the outcome to say is pretty much the way that this lengthy process will be now finished without getting anybody to run the machines the way they will say a trial on [unclear] and things should settle down sometime starting next week, on the other hand we have seen so many changes in the process so that let's see what happens. We should be, like we said, approaching now the end of the whole lengthy process.

Myles Allsop: That's sounding encouraging. And just maybe finally on the sort of cost savings, you were saying that, that you clearly exceed the target and seems a little bit bolder than what you were saying for the last of the second quarter, and are you going to change the target at any point or give us a sense of what clearly exceed means financially in terms of next years sort of, what's realised next year and sort of '08 onwards.

Jukka Härmälä: Well the numbers we are publishing only on a half year basis like I said last time, so this is pretty much a very qualitative comment for the time being and once we come out with our annual numbers you will be precisely briefed on this issue.

Myles Allsop: Ok, thank you.

Operator: Our next question will come from Lars Kjellberg with Credit Suisse. Please go ahead.

Lars Kjellberg: Yes, hi gentlemen, a couple of questions starting with, when you announced the Reisholz etcetera you also had a profit guidance that in retrospect now seems somewhat unnecessary. What's prompted that, did something turn out to be a lot better than you had expected when you saw the numbers or what was actually behind that like warning if you like?

Hannu Ryöppönen: I would like to comment here. First of all the comments and the warnings are as relevant today as they were at that point, there's nothing new that's happened in either [unclear] if you want in that respect. And secondly, what we saw when we put together the whole quarter was in certain areas we have some very strong performance in September and I would like to just highlight timber, or wood products as the one that came in very much above any expectation and you could say was a month where everything just happened to go the right way. It should be taken as no necessary sign of future similar development as we know that whole industry is very much dependent on the price of timber as well as then the development of the prices and that was one driver here that we did not see happening to the extent it did come out in September and hence I think what we are reporting is a solid quarter and a solid result and that's I think good news for everybody.

Lars Kjellberg: No doubt. Coming on to the wood side, obviously there's been a sharp contrast now between what's gone on in Europe and with your guidance the control we see a rise in price, so

hat's going on in North America. Do you think that this can continue and if so what is driving that huge differential in terms of direction of prices?

Jukka Härmälä: Well the whole timber business and really the wood market, first of all something that you will see in this seven or whatever number on all four years and now all of a sudden for no reason why the market is up and well, I would not like to use the old saying but sometimes you feel like you have got seven bad years and then seven good months. The situation will become overheated; you see it from wood prices in Europe and yet the European market has been now the stronger one, whereas in North America as you know how things start have been now on their down and there the markets, timber markets have actually been levelling off. Very frankly, I would not anticipate this European trend to continue for years unfortunately but longer probably than what was initially thought.

Lars Kjellberg: On the note of fibre cost increases I noted that especially in Continental Europe you have seen significant wood chip cost increases really accelerating over the summer. How does that impact you and what kind of increases have you seen in your pulping activities down there? Does that also account for a [run] into your mechanical [unclear]?

Jukka Härmälä: Well in Central Europe good lot of new capacity has been installed especially I would say in Southern Germany, sawmill capacity and today there is a shortage of saw logs and the transportation distances have become much, much longer and automatically leading to higher wood prices. We are in the very middle of this very process.

For paper production we are not that much dependent on the wood prices. Good lot of recycled fibre is part of the Central European usage of our capacity and really it concentrates into saw logs where they overall wood prices. Yet saying this they are not two isolated items and we do face a situation where wood prices are going to be higher next year as an average. We don't have very very great number yet once we are then commenting on the coming years when publishing our

numbers that has been traditionally at the moment to say to what's about the various cost elements including wood as well. [unclear]

Lars Kjellberg: Ok.

Hannu Ryöppönen: It would be one more factor to keep in mind, which is the biofuels issue and the use also increased use of wood. This is a Continental question but it also already clearly we see in Sweden for instance as a major factor and that obviously hits more the pulping side than the timber side.

Lars Kjellberg: Yes, two more questions. Could you quantify the effects from Celbi in the Fine Paper division and secondly do I understand correct there's potential JV with [Aralco] is really about the sawmill but also, somewhat curiously, about the land, i.e. the forest plantations, because I thought that's actually why you bought it, to get the forest.

Jukka Härmälä: If start from this [Aralco] thing. At the time when we published the acquisition of this asset we expressed ourselves I think very clearly that our main interest was this paper making, magazine paper and you know in our strategy sawmilling in South America has never been on the agenda. When we came out with this statement it did raise some interest from the local players and we have now been approached by [Aralco] asking about a possible co-operation whether it then is in a form of a joint venture or something, focusing now on the sawmilling and then related wood supply. We are really in the very beginning of the process and on agreed on a period of until end of January to try to finalise or see whether there is a solution. I'm not able to elaborate more but clearly our focus is on sawmilling and related wood supply.

Hannu Ryöppönen: And then on Celbi which I would like to combine to Pankakoski, Celbi and Wolfscheck, the EBITD back there was six million, i.e. the net of that was, has been a positive contribution that was in the impact the third quarter.

Lars Kjellberg: And certainly obviously a clear positive and the other one is possibly slightly negative].

Hannu Ryöppönen: You got that right.

Lars Kjellberg: Ok, thank you.

Operator: Ladies and gentlemen, as a quick reminder please press *1 on your telephone key pad for your question. We take our next question from Claes Rasmuson with SvedBank. Please go ahead.

Claes Rasmuson: Yes good afternoon, question regarding third quarter results here: if you could quantify the impact from the service and maintenance cost that you had and also if you could say roughly how much of market related downtime you took in LWC and if you expect it to be more or less in the fourth quarter.

Hannu Ryöppönen: In terms of the service maintenance, costs we do not quantify those as such and in the press release we had a number of 93,000 I think it was of 93,000 tons and that was pretty much all of it in Celbi magazine.

Claes Rasmuson Ok.

Hannu Ryöppönen: [I can't] quantify beyond that.

Claes Rasmuson: Nothing...what do you expect for the fourth quarter.

Hannu Ryöppönen: I don't think we would comment on that right now; it's a pretty [unclear] prediction.

Claes Rasmuson: Ok, and also regarding...

Jukka Härmälä: Maintenance of course we referring to there – they were pretty much in the [fine text] area that was said in the report I've got.

Claes Rasmuson: Yes, and also regarding to wood product where you had a very strong result. If you could just briefly comment on the drivers for that sector going forward. [Long term].

Hannu Ryöppönen: Right, we're obviously operating primarily in Europe so the development in Europe has been very strong in this sector. However we do see the wood supply side as being very critical and difficult down in the Central Europe and that's one area of long term concern. The performance right now is strong that we will see a repetition of September is not something we expect but a steady development for a few more quarters is probably reasonably fair assumption.

Claes Rasmuson: All right, thank you very much.

Operator: We now move to Richard Nilsson with SEB Enskilda. Please go ahead.

Richard Nilsson: Thank you, two questions starting with the asset performance review programme you say in your slide that the problem has now been completed with exemption of Berghuizer. Just wondering has Varkhaus also been closed?

Jukka Härmälä: Varkhaus, the planning is going on I think it will close within three weeks or so. It's very much totally in the pipeline in that respect.

Richard Nilsson: Great, and then also a question on North America in your slide you talk about demand developments in North America. I think if you take an average of most of the paper grades in North American demand is down somewhat this year despite a fairly healthy US economy. I think it's acknowledged by most people that there has been demand structural decline in the US but do you also think that we are seeing a structure change in the demand patten for other grades in North America.

Jukka Härmälä: Well, like I said newsprint is a typical example of a structural change where so much capacity has been closed down and even though the demand is on its way down for newsprint still the balance between supply and demand has maintained rather well leading to, let's call it reasonable pricing of newsprint. We do not have similar overcapacity situation in those trades where we're operating more of a balanced situation. Even though you can say that the all publication paper back the demand was actually weaker than a year earlier. Newsprint on decline but we do not expect this go to magazine and uncoated magazine to continue the way.

Richard Nilsson So you are not worried ...

Jukka Härmälä: Coated fine paper has been developing rather well now...

Richard Nilsson: Exactly.

Jukka Härmälä: And the demand outlook for the fourth quarter is actually pretty healthy

Richard Nilsson: Ok great so you don't think we're seeing structure change in the other grades apart from newsprints.

Jukka Härmälä: Not for this grade.

Richard Nilsson: Ok.

Jukka Härmälä The way which we are seeing in the newsprint side.

Richard Nilsson: Great, thank you very much.

Operator: Our next question will come from Olof Grenmark with Handelsbanken Capital. Please go ahead.

Olof Grenmark: Good afternoon, I didn't catch why capex for 2006 will be lower than you earlier-

Jukka Härmälä: Sorry, you know we don't hear you at all.

Keith Russell: Olof can you repeat that and/or speak up please.

Olof Grenmark: Can you hear me?

Keith Russell: Yes, that's better.

Olof Grenmark: Ok, I had a question regarding your capex. You said that this will be lower than all you're guided for. I didn't catch why and I wonder if they are spill over effects into 2007, and if you can give any guidance for capex in 2007?

Hannu Ryöppönen: I think if we talk about this year to start with we have seen this trend that we are now getting more confirmed through out the year so far and I think we now feel comfortable that we will come from in below the 800 for the year. Talking about the future, we would not comment specifically but we will most likely continue in though of a cash flow mode for this some time

come, we do not feel comfortable yet with our structure and also to see an even stronger operating performance is key to any significant [deviance] of any of the cash flows targets.

Olof Grenmark: So it's fair to assume then that capex will be below depreciation all for 2007?

Hannu Ryöppönen: I think that's a fair assumption, as such; it certainly will not be going over as we see the world today.

Jukka Härmälä: This is a consequence of the policy I think we'd be declaring and passing on to the markets as well. When this old programme for upgrading good lots of our assets was quite a long process, several years and what's coming to an end last year. We were very firm on cutting down the capex and in a way describing the situations as 'Hey, let's now maximise the cash flow out of what has been run rather than going further to new projects.' And while putting this cap to 800 for the current year our plans initially for the year were really very low and I'm very happy that this rather disciplined way of operating has been now possible.

Olof Grenmark: Ok, thank you. Then regarding prices for packaging boards, you're talking about stable prices. Is it possible to get some kind of diversification there with in the different version fibre board grades?

Jukka Härmälä: The general comment about packaging is certainly stable and when judging actually the whole of our packaging, I think to split it down into various small items doesn't clearly lead to any kind of consequences as far as the results are concerned. We have been actually out for the specialities with a price increase announcement of about 8% but it doesn't change the big picture at all.

Operator: Our next question comes from Scott Hudson with Morgan Stanley. Please go ahead.

Scott Hudson: Yes hi, good morning. Just in terms of the season being weak at demand that you were talking about in terms of packaging boards, could you give some clarity on what sort of volume numbers you a're talking about?

Keith Russell: Your question is what kind of changes we might see in demand for packaging board in the fourth quarter versus the third?

Scott Hudson: That's correct yes, and profitability.

Jukka Härmälä: Yes, well normally the last quarter is seasonally weaker and but it's likely this year as well but the changes are not to dramatic. A difficult thing we are facing now is a question where we run the facilities throughout the forthcoming Christmas might not be the case because of this seasonal backlog.

Scott Hudson: So we looking at a volume of about similar to the second quarter?

Jukka Härmälä: I have not made that comparison; I'm not able to comment on it. When we say weaker then it means weaker than the third. But that's the difficult seasonal element; there is nothing new or old coming from the marketplace.

Scott Hudson: That's great. Thanks very much.

Operator: Our last question will come from Mikael Doebel with Mandatum Securities. Please go ahead.

Mikael Doebel: Yes hi. I have two questions, one regarding the cost side. I heard you weren't ready to comment on the outlook for 2007 regarding the cost inflation but could you shed some light on Q4; do expect costs to stabilise in Q4 from Q3?

Hannu Ryöppönen: I think first of all I would just like to reiterate that for this year overall we are guided by 2.5 to 3% overall cost decrease and that we feel will keep our main challenge in the fourth quarter is on the goods supply side where the prices are going up and how that will develop for us, we're focusing on but that's an element.

Jukka Härmälä: And that can be pushing prices up but the 2.5-3% is still seen as where we will land for the full year. And as far as next year is concerned we do not comment but obviously trends do not stop at New Year's Eve.

Mikael Doebel: Ok, thank you. Then one last question regarding your customers, have you seen any build-up in customer inventory during the last month, in graphic papers had there been any build-up going into price negotiations or are they at normal level? How do you see this?

Jukka Härmälä: Not in particular.

Mikael Doebel: Ok, good. Thank you.

Keith Russell: Operator, were there any final questions?

Operator: As there are no further questions gentlemen I would like to hand the call back over to you for any closing remarks.

Jukka Härmälä: Ok, thank you for joining us today. Like I said here, the changes that we anticipate towards the end of the year are not going to be anything dramatic. This Profit 2007 programme goes on, starts building up its impact into the numbers more and more. And then I am going to get these slides to repeat what has been heard that the market climate for coated magazine we

anticipate to continue, All in all once we've come to the end of the year its going to be very exciting to see how will be the negotiations for prices next year are coming through. Thank you.

Operator: Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation, you may now disconnect.