

Stora Enso
Moderator: Keith Russell
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14:00 UK Time

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

Keith Russell: Thank you, hello. Welcome, everyone, from a very sunny and warm Helsinki. We hope it's sunny where you are because it's been absolutely beautiful here so far this summer. Today's webcast and event, as you know, is about our second quarter and in fact our first half results for 2006. About three hours ago we issued the press release, the full press release regarding the results, and also I draw your attention to the fact that fifteen minutes before that we had a separate press release, giving you further details about our progress with the Profit 2007 programme.

If you are listening in on the conference call line, you might want to download the slides that we will be referring to, they're available on the 'Investor' section of our website, and also I should draw your attention to slide 2, which is the disclaimer concerning forward-looking statements.

Today's event is being led by our CEO, Jukka Härmälä, and also he is joined by the Group's Chief Financial Officer, Hannu Ryöppönen. The gentlemen will comment firstly on a few highlights on the results and also on the progress of the Profit 2007 programme, and then of

course we'd be happy to open up the line to your questions in the usual way, and I know that the operator will come back and remind you how to pose a question.

So with that introduction I will turn the microphone over now to Jukka Härmälä.

Jukka Härmälä: Well, good afternoon, everybody. Jukka Härmälä speaking here; and I am now referring to page number 4 in the presentation material with the highlights of the Quarter 2 2006.

In very general terms, we can say that sales and operating profit they broadly were unchanged for the Quarter 2 vis-à-vis Quarter 1 but being considerably higher than a year ago, whereas pre-tax profit was negatively impacted by unrealised and non-cash fair valuation financial items, something we are coming back onto. This is merely a reflection of our share price fluctuation. I guess a more meaningful comparison would be actually to compare the first half of last year to first half of this year. Well, then the cash flow after investing activities improved considerably, and the Profit 2007 programme, introduced separately as something we are coming back onto, is proceeding somewhat ahead of the schedule. All in all, and so in the markets you can say that demand for most of the Group's products was somewhat softer than in the previous quarter here, even though higher than a year ago.

Then I am on page 5, picking up only a few numbers from the financial highlights. Like already said, operating profit was more or less at the same level; the same you can say about the EBITDA a year ago; the previous quarter 463 and now 451, reflecting the operational performance of the Group. And what was said about earnings per share: highly affected by this fair valuation unrealised items. All in all, what we had for the operating profit, we had somewhat lower deliveries, especially in the coated magazine – I'm coming back later onto the market situation. Then we have, surprisingly, an illegal strike in Finland in this industry and nothing very, say, major but somewhat higher maintenance-related stoppages now, especially for the second quarter.

Let me then continue by giving the work to Hannu about business financial items, and they do play a significant role in the comparison here. Hannu, please.

Hannu Ryöppönen: Thank you, Jukka, and good afternoon. I will try to go through with you in some detail, although not in great detail the net financial items slide, slide 8 of the package. And before I go into it, I should just also then draw your attention to the fair valuation item we have on our 'Other' line in the EBIT figure, which was a positive of around 70 million for this year, for this quarter and a negative of about the same amount in the first quarter. This all relates to the synthetic option programmes that we have, where the expenses for such programmes would have to be reflected on our personnel costs, and hence it would be part of the EBIT, as such; while then the hedging we use for this, we have in the financial items, and I will come back to that in a moment.

Before coming to that though, if you look at the second line here 'Interest expense', where it increased from 66.5 million to 70.1, that is a reflection of our true interest expense for the two quarters. The increase is driven by two main factors: the general increase in interest rates that we see, have experienced, during the quarter; and then a longer duration of our portfolio as we have the dollar/pound exchange taking place in April, so it has affected more or less the entire quarter as such. They were the key drivers from an expense point of view. As you may have noticed, the net debt has actually reduced during the quarter as such.

Then, moving on, the foreign exchange gains and losses: that's reflected on the – taken as debt portfolio, not much to comment on. And then under 'Other financial items', we had in the first quarter, the main driver there was the Sampo share sale, the capital gain there of about 130 million.

And then we have the unrealised fair valuation of options hedges at the next line: 41.7 million positive in the first quarter and 61.2 million negative in the second quarter. And why is that so significantly different than what we have in the EBIT line that I have mentioned, the 17 million in each quarter plus and minus, that is a consequence of the fact that the total returns loss we utilised reflect directly to the share price that we have at the time compared to the exercised price, while in the EBIT the Black-Scholes formula is used, hence both volatility and duration of the options impact the results of that. And that is the easy and short explanation to the rather technical issue that we have here.

Then the other items are not really of significance as such, the unrealised fair valuations of other financial items. Having said that though, they are also non-cash as such.

And when, looking at all of that together, you can then see how the net impact movement is quite dramatic for these two quarters, and then we keep in mind that during the two quarters our share price moved from end of December, it was at 11.44 to the of March where it was 12.70, a movement of some 1.30 or so, thereabouts, and then again dropping during the second quarter from 12.70 to 10.92 – a volatility in our share price we haven't seen for quite some time, and going back you could find a more stable development which, for this reason obviously, has also meant that these valuation numbers have been fairly small.

That was about what I wanted to say, any further questions we will take later.

Jukka Härmälä: Ok, thank you Hannu. And already I stated a comparison first half '05 first half '06 is shown on the slide number 9, where we are coming from 7c per share to 25c per share, supported mainly by sales prices and somewhat coming from the mix and it's, in particular here, the sales volume, as we had this labour market conflict a year ago.

Then there are two other main items: one is energy. Over a year period, on a half year basis it

had a negative impact of 7c; and also what Hannu was explaining, the financing costs now an additional 6c. All in all, I think this picture is showing a much better comparison of what is actually happening.

Then I am turning to capex on page 10, and what you have seen, our capex for the first six months has been 275 million, being very much below the depreciation for the half year period and what we want to confirm, once again, is to keep the capex for the whole year under the mark of 800 million, being well below our depreciation for the year.

Now let's turn to Profit 2007 programme, and Hannu will take the word again. Hannu, please.

Hannu Ryöppönen: Thank you. Well, as we have promised we would communicate more details around the Profit 2007 programme now, and as you also have seen in the press release, we will now do this on a semi-annual basis as long as we have some meaningful news to report around this programme. It's basically good news. The programme has gained quite significant momentum and there is good focus in the organisation around it, and the annualised achievement at the end of the second quarter was 159 million out of the 300 million that we set as a target for the programme in October – in fact, already back in April last year and then the details launched in October last year.

We are ahead of schedule, and we feel very comfortable that we will exceed the 300 million. And before somebody will ask me, 'Well, how much?' I do not feel that we want to, at this point, really communicate any number about the 300. There are components in this programme that are still in implementation or sequentially have to start. To secure a successful start of those would be important to really be able to pinpoint the number more precisely than this.

If we look at more the details then of the three main categories that we classified already earlier: the production costs is one; support and admin cost as the second; and then the sales and

production mix as the third. 104 million have been achieved in the production cost area, and it has progressed very nicely and we see some clear – we will exceed the 160 target we expect in this one. On the support and admin, the progress has not been as fast as we would have hoped. We think this, that there will be some delays in achieving this; however, in the reviews we are now conducting and have conducted, we feel comfortable with, certainly, reaching the target – although somewhat delayed. On the sales and production mix, the progress has been very good and we have achieved 15 of the 20, and here we also feel very comfortable with a clear, clear final result exceeding the original.

I will not go into slide number 14 in any great detail, as to the more specific projects that are underway. Then, on the personnel side, where we announced a reduction of up to 200 – 2,000, excuse me – for the programme, we are at this point around 1,200-1,300 people and have progressed very much in line, if not even exceeding, the original target set for this period in time.

And there's more details, again, next time in connection with Q4 reporting. And that was it in Profit 2007.

Jukka Härmälä: Ok, thank you, Hannu. And now, if I may draw your attention to the market outlook, and I'm first turning this page 17 with Western European market situation. Like already said earlier, the market demand has been twofold – you can call it fairly favourable, as it has been certainly stronger than a year ago, yet the Q2 was slightly weaker than the first quarter. We have seen very strong growth in Central and Eastern Europe.

Then for the grades, if I start from magazine papers: again, a twofold approach, you can say, about uncoated and coated. For the uncoated magazine, we have seen a stronger demand, market demand, than last year, and we do expect the demand to continue. Price is more expected to be stable from this point on. Whereas coated magazine, the demand has somewhat stagnated and we will get a good lot of substitution actually coming from the uncoated side. For

the near term, we see [stabilising] demand and prices, again, expected to be stable. Here the overcapacity plays a role in the game.

Newsprint, where the trading, as always, has been to fix the prices for the whole year, explains also the comment for price expected to be stable, but the demand has been good and will continue to be good. This supported by ad markets and circulation especially of free [magazines or] newspapers.

Then fine papers: in the uncoated fine paper we have seen rather favourable demand, development and outlook for the future, and we have been coming out with price increase announcements for the coming September. And here the inventories are on the low side. Whereas in coated fine paper now, we have a pretty flat demand, seasonally normal demand to be anticipated for the future but again, this overcapacity has an impact to our forecast that prices would be more or less stable. Here we also do have somewhat higher mill inventories.

Then packaging board: nothing particular; the rather stable situation to continue, both for demand and prices.

And finally – a little bit in a broader sense as well for wood products – the stable demand outlook is to continue, but here we have a particular phenomenon, that is the constrained supply because of raw material tight supply, and this has allowed us to go for some price increases; also, this is expected to go for the coming quarter.

And now for North America: and here, by and large, you can say that the ad-driven paper grades, their demand has been somewhat low and the negative development of ad spaces has been in the background.

Now for the catalogue business being the other significant part of the story, somewhat slow in growth in the catalogues because of the postal rate increase in North America.

So for the rest, uncoated magazine: we see a moderately improving demand from the current situation and yet the price is expected to remain stable. And for coated magazine: moderate demand, prices more or less at the level where we are today. Well, for us newsprint currently has no significance because Port Hawkesbury is standing still, but here you can say that the demand is fairly weak and the prices, after a good lot of increases, start to remain stable. Here the supply/demand balance is more or less the leading indicator. Fine papers looks better. Good demand expected to continue, and also some price increases are expected, especially in reels – all this supported by strong commercial printing in North America.

That's pretty much to say about the various grades and the general market outlook. And let me then conclude the overall presentation here by going to page 19 and to repeat that the outlook for paper markets is generally stable or positive, somewhat positive, with moderate demand growth and fairly stable prices with some possibilities for increases.

Then the Profit 2007 is continuing to proceed ahead of schedule. Port Hawkesbury I already mentioned, been standing still already the whole year from the beginning of the year, and it is still expected to continue until we finally reach an agreement with the local energy utility company for a new formula for energy prices. Some time in autumn, I guess, is time, to be realistic, to be able to restart the mill. And then we have a much more of a general statement about whether the world economy, now looking fairly all right, whether it might change because of the energy prices going up and interest rates going up. And then the uncertain geopolitical situation, especially in the Middle East.

Well, let's go for the questions, thank you.

Operator: Thank you, sir. The question and answer session will be conducted electronically. If you would like to ask a question, please press the star 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. We will take questions in the order received and we will take as many as time permits. If you find that your question has been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause just for a moment to allow everyone to signal for questions.

We will take our first question from Richard Nilsson from Enskilda. Please go ahead.

Richard Nilsson: Hi, it's Richard Nilsson with Enskilda. I was wondering, a question on energy cost for 2007. Assuming energy costs remain – or energy prices, rather – remain at current levels, roughly how much would your energy costs increase in 2007? As the ballpark number.

Jukka Härmälä: I think, Richard, that at this point – as far as 2007 is concerned, even if you say at current oil price levels and so on – we would not really be prepared to comment, as such. It would be premature. We have one of the things that are happening in the Profit 2007 programme is also some energy saving initiatives that already are bearing fruit, so I would like to come back to this question certainly later on the year, but a bit too...a bit premature.

Richard Nilsson: Ok, great. And then also, do I interpret you correctly on the pricing outlook that you do not envisage any price changes to the non-contractual prices of, for example, magazine paper in the second half of this year.

Jukka Härmälä: This has been pretty much a philosophical issue when discussing with various parties whether we, in a way, talk to the markets, paper market, trying to put up the prices or whether we make the best possible forecast what might happen. And the latter is the way we have been always commenting on the market and, currently at least, we find it extremely difficult to go for

price increases as far as coated magazine is concerned. The overcapacity here plays a role, no doubt.

Richard Nilsson: And when do you think the capacity – I mean, there is significantly quite a lot of capacity closures coming up in November we see. When do you think we will start to see these capacity closures have an effect on price? Do they actually have to materialise first, these closures? Do you think that prices could move ahead of that?

Jukka Härmälä: Well, it's very difficult to say. The closing down on capacity has an impact, it just actually came to an end with the closing process of Corbehem, coated magazine, and at the point when this appeared in from the market with its production, I mean nothing really happened but yes. The market should continue with this. Kind of a good sign of the balance between supply and demand I think you see in newsprint, where even though the prices have been fixed for the whole year according to the old trading pattern, the demand has been very strong and once we come to the end of the year, and the negotiation period for next year, that looks pretty promising just because of this balance.

Richard Nilsson: Great, thank you very much. Thanks.

Operator: Our next question comes from Mr Johan Swan from Handelsbanken. Please go ahead.

Johan Swan: Yes, hi. This is Johan Swan with Handelsbanken. First a question on uncoated wood-free prices: you were talking about the price increase there in September. Could you just specify that a little bit more?

Jukka Härmälä: Well, we have been out with the announcement to our customers. I am not willing to state any number here now. I guess it has not been in public, and yes, this is the way we do – we

are not talking about an announcement of a very low number, really trying to thresh through something a little bit more significant.

Johan Swan: Ok, and it's across the board, so of all uncoated grades?

Jukka Härmälä: That's correct.

Johan Swan: And the other question I was thinking about was on your excellent [unclear] charge in the presentation package, you're talking about the mix and sales price effect of a negative 27 million. Can you talk a little bit about what that might be?

Jukka Härmälä: What are you now referring to? Hannu, why don't you...?

Hannu Ryöppönen: Yes, could you repeat that? Which slide number or you are on?

Johan Swan: The slide number is, sorry, it's on page 34...32.

Hannu Ryöppönen: 32, yes. Ok.

Johan Swan: There is a negative item there for 27 million for sales price and mix, and I was just curious to see what prices went down.

Hannu Ryöppönen: Could I come back to this question a little bit later? I will answer it for you before you finish, but if we could jump it right now.

Johan Swan: Yes. Final question is on coated wood-free then. Some of your competitors have been out with a price hike for September, I think. Is it fair to assume that you will not support that?

Jukka Härmälä: No, we have not made a decision on this now.

Johan Swan: Ok. That's all I had, thank you.

Operator: Your next question comes from Lars Kjellberg from Credit Suisse. Please go ahead.

Lars Kjellberg: Hi, it's Lars Kjellberg, Credit Suisse. When you are talking about 'weaker demand', what exactly do you mean on a sequential basis, because I'm looking at statistics and there doesn't seem to be greater weakness or a [unclear] situation in the market, I think, has calmed down a bit.

Jukka Härmälä: Well, what we are trying to elaborate when talking about the market demand is really the one coming straight from the markets, and the real weak area has been coated magazine, where it's been actually put a little bit somewhere between the lines. We have taken actually a downtime because of lack of orders during this second quarter of the year. So that's not kind of a healthy demand. And part of the reason I already elaborated on is it's most likely really some of the end users going for uncoated, away from coated magazine.

Lars Kjellberg: What I'm trying to figure out: have you sensed any change in the market sentiment between Q1 and Q2, or...?

Jukka Härmälä: Not yet now, in the middle of summer you can't actually see too much of it yet. But we do expect the situation to improve. It should do that. That's in our forecast.

Lars Kjellberg: Yes. You're referring to Port Hawkesbury, you know, shutting down and having a [charge] of about 30 million in the first half. I'm just trying to figure out how that works, because a fair estimate, I guess, of sales if you were running the mill would be about 100 million on a quarterly basis, which works then, bring it up to 15% operating margin, which clearly that mill

cannot have. If you can clarify how you can lose 30 million on keeping a mill from losing money, how that works.

Jukka Härmälä: Well, when you look at the sort of stand-alone situation on that, and the fact that you also have it closed where you have running costs while you have it closed as well, it's obviously a combination of not getting the volumes or the income from it but also the costs you have while it is closed. It is not standing there for free, so to speak.

Lars Kjellberg: All right, but when you are saying that you are operating others more efficiently when this thing is shut or not? For me, this is a theoretical calculation as opposed to being [a loss], I guess.

Keith Russell: Yes, this is a stand-alone calculation. It's not meant to take account of any, you know, compensating actions elsewhere in the system. It's looking at the lost contributions specifically from that mill.

Lars Kjellberg: I understand that.

Keith Russell: Owing to the closure.

Lars Kjellberg: Going on to the merchant, clearly a somewhat disappointing quarter, I guess. Is this all about integration costs and, if so, when should we expect this to be finished and when should we start to have more reasonable returns and margins again?

Hannu Ryöppönen: First of all, on the integration process – we have to remember it is practically an integration of almost four different operations, although Schneidersöhne is being the biggest one, but you have also the other acquisitions in France and Holland, and then [as far] is being combined. That programme is running quite well, in line with plan, and there is no bad news, as such, from that programme. When you see the result impact coming from is somewhat weaker

volumes and also some challenges in putting through price increases from the merchant out to his customer base.

Lars Kjellberg: Ok, final question then. What should we expect for tax rate for the full year?

Hannu Ryöppönen: It's in the 28-28.5 range. The pick-up here is partly related to the divestitures, the one, the [unclear] where the loss is not tax deductible, is one part of the explanation here.

Lars Kjellberg: Ok, thank you.

Hannu Ryöppönen: Could I, before we go on, come back to Johan Swan's questions on the sales and price mix. It is relating to the coated magazine development during the quarter as well as the consumer boards. That's where that explanation would come from, the explanation that I told you. And then we can take the next question.

Keith Russell: Ok operator, we're ready for the next question.

Operator: Thank you. The next question is coming from Myles Allsop from UBS. Please go ahead.

Myles Allsop: Hi, I was just wondering: you say, with the closures, the decision is going to be based on the financial performance and the strategic fit of the mill. Are you also going to sort of take into consideration the supply/demand balance for the different grade areas?

Jukka Härmälä: Well, like we said in the very beginning, it's a mixture of the stand-alone profitability but not at all only. We have [certainties] over the overall strategic positioning.

Myles Allsop: But whether there's an oversupply in the different grade areas...

Jukka Härmälä: Well, that's all part of the story.

Hannu Ryöppönen: That is not one part of it, but you could also then take it into the overall portfolio analysis as to that particular suitability of that production in our future strategic fit.

Myles Allsop: Ok, and I just, I guess you can't really comment much more as to how the review process is going but could you give – I mean, you say by the Q3 results. Is there anything else that you can share with us at this point?

Jukka Härmälä: I think what we have said and confirmed that obviously all these mills have made significant efforts in trying to improve their profitability as such. Regarding success to secure a continued operation, it's a different story and that is part of the ongoing review and analysis that we are carrying out as we speak.

Myles Allsop: Ok, and then I was wondering: what is the expected – from the asset performance review – what sort of savings should we expect on top of the 300 million, or is that included in the 300 million of that?

Hannu Ryöppönen: The result that will come out of potential closures, so to speak, would then be the EBIT impact on the result of the mill.

Myles Allsop: Ok, and...sorry.

Keith Russell: Sorry, we've communicated those individually as those closures have taken place.

Hannu Ryöppönen: Yes.

Myles Allsop: Ok, and then on the wood products side, I mean what is driving the shortage in raw materials?

Keith Russell: The shortage in raw materials on the wood.

Jukka Härmälä: Oh on the wood, yes. Well, this has to do with various situations, not the least with the supply coming from Russia, the Baltics, Finland as well, as a result of change in taxation system. So it's actually a multi-dimensional issue, but all those leading to a shortage of wood. Nothing dramatic here, but a trend leading to this very situation we are in for now.

Myles Allsop: And have you seen sort of an increase in your cost of fibre, and should we expect to see sort of a negative impact in the paper making division?

Jukka Härmälä: Well, certainly the shortage has led to some of the increased wood prices, but not dramatically at all, and what the wood product prices have gone up have more than been offsetting this. And then the secondary effect to pulp wood is zero, I can say.

Myles Allsop: Ok.

Jukka Härmälä: No effect from that.

Myles Allsop: Ok.

Operator: Once again, ladies and gentlemen, if you would like to ask a question please press *1 on your touchtone telephone. We now go to our next question from Scott Hudson from Morgan Stanley. Please go ahead.

Chuck Spencer: Yes, afternoon. It's actually Chuck Spencer from Morgan Stanley. Two questions: can you comment at all on the financial performance of the Veracel pulp mill, given the stronger pulp markets that we are seeing and where those profits might have been booked. And then secondly, looking at Port Hawkesbury, if you do achieve a new energy agreement, is it definite that you are going to restart this mill; and is there some possibility that maybe one of the machines there, maybe in a different grade segment, could be closed or how do you see that?

Jukka Härmälä: Well first of all, starting from Veracel, like we have said before, we are not reporting results on a mill basis. And part of Veracel's results, they are recorded under the 'Associated companies' in that line. The mill itself now is running very, very well – actually somewhat ahead of all the plans when it comes to the total production of the year. What happens actually to the numbers, list pretty much in general terms, is that the product effect locally, in the local accounting, as you see from the Brazilian companies really plays a role. So there we have a variation from time to time.

And for Port Hawkesbury, we do have a definite plan to start the mill once the energy agreement has been reached. How to start it: most likely not the way that both machines would be actually restarted at the same time. And then what to do with the mill and the machines, that's another story we will be seeing only at a later stage.

Myles Allsop: Ok, thank you.

Operator: Once again, ladies and gentlemen, please press *1 to ask a question or a follow-up question. As a reminder, if using a phone with a mute function, please be sure that your mute function is turned off to let your signal to reach our equipment. We will pause just for a moment to allow everyone to signal.

We have a new question from Linus Larsson from ABN Amro. Please go ahead.

Linus Larsson: Thank you, good afternoon. Coming back to energy, I wonder if you could shed some light on your electricity hedges during the remainder of the year and in 2007 please.

Jukka Härmälä: Electricity specifically? Hedges.

Hannu Ryöppönen: Hedges, yes.

Linus Larsson: Yes, specifically electricity hedges.

Hannu Ryöppönen: I do not have the exact number in my head for the moment as to how much we – I think I will have it in a moment here but if you look at our overall situation, the electricity picture obviously, it's getting increasingly difficult in Sweden and we are also looking at various solutions down in Germany where we have a less...and a good self-sufficiency position overall. And Linus, if I could come back more specifically in a moment.

Linus Larsson: Sure.

Hannu Ryöppönen: I'm just looking to get the number here and we could maybe, if you had another question...

Linus Larsson: Sure. In the meantime, coming back to the four mills under scrutiny, I wonder if you could possibly say whether there are large differences among these four mills in their ability to improve.

Jukka Härmälä: At this point we don't comment on a single mill basis. They are different types of mills working in different environments, so therefore most likely their results are also different. But like

said earlier, it's not only the kind of straight profitability that we focus on; it has a good lot of other dimensions.

Linus Larsson: And is it quite clear that there will be a final decision for all four mills by the latest in conjunction with the third quarter report?

Jukka Härmälä: Well, we would anticipate to give pretty much the full solution by that moment.

Linus Larsson: Ok, and finally, if you maybe could give an update on the sales process for the Wolfscheck mill and whether a closure could be a potential alternative also for that mill.

Jukka Härmälä: Well, Wolfscheck mill as such is really the last one on the list for potential disposals. The process has been on and, like we have said before, when it comes to the SE paper production whatever solution we come up with, there is a buyer, and this product is to be discontinued. So sales focus is on, has been on, and we are somewhat positive today about coming to a good solution on that.

Linus Larsson: Great, thank you very much.

Operator: We now have a follow-up question from Scott Hudson from Morgan Stanley. Please go ahead.

Scott Hudson: Hi, good afternoon. In your first quarter results statement you talked about, in terms of your guidance, you talked about the overall trading conditions being sort of down, in the second quarter being down on the first quarter. Is there any sort of guidance you can give on where trading conditions in the third quarter will be in comparison to the second quarter?

Jukka Härmälä: Generally speaking slightly up.

Scott Hudson: So operating profit will be slightly up 3Q to 2Q?

Jukka Härmälä: Trading conditions.

Scott Hudson: Trading conditions. And in terms of operating profitability?

Jukka Härmälä: We have not made any statement on this.

Scott Hudson: Will you be incurring sort of similar maintenance charges in the third quarter as you were in the second quarter?

Hannu Ryöppönen: Maybe a comment that could be of interest upon maintenance now, also dealing with new Finnish situation, seems to be peaking in the second quarter, if anything. That was the way we read it this year anyway. And that's why the winter is low, given the climate conditions in Northern Europe and so on, and so maintenance stoppages and so on have, as we have indicated, been fairly significant during the second quarter and we anticipate continuous, obviously, stoppages as we go along but the top seems to be second quarter right now.

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

Operator: We have another follow-up question from Myles Allsop from UBS. Please go ahead.

Myles Allsop: I was just wondering , with the use of cash now that gearing has started to come down and we'll have the proceeds from Celbi coming through next quarter, how you are going to prioritize the use of cash. When will you start thinking about acquisitions and share buybacks again?

Keith Russell: Buybacks.

Hannu Ryöppönen: Well, we certainly said that for the moment we have no absolute plans on any reactivating the buyback programme and I would say, at this stage, net debt is still high in relation to our operating performance. What we did say around the Celbi disposal is that we have earmarked that money in a way so that, more philosophically, for potential investment into emerging markets, i.e. moving that resource in a way to a lower-cost area. But no plans at this stage.

Myles Allsop: And are the acquisition front or the consolidation fund in the European market, do you get a sense that we could see another round of consolidation?

Jukka Härmälä: Well, I'm not ready to start forecasting anything. Looking at – one more philosophical issue is clearly what is going to happen, especially in China in this very industry; whether, as I said earlier, also in public, that I would believe that in the years to come, either sooner or later, we would see a consolidation, exchange of the ownership structure of the newly-built Chinese capacity. And there are some signs of that. Whether it's materialising and, even furthermore, whether we are having a role in that play, that's a total different story.

Myles Allsop: Ok, that's very helpful. Thank you.

Operator: As a final reminder, if you would like to ask a question please press *1 now on your touchtone telephone. As we have no further questions I would like to turn the call back over to you for any additional or closing remarks.

Hannu Ryöppönen: Then this is Hannu Ryöppönen here. Back to Linus Larsson's questions about electricity hedging. I'm afraid I don't have the detail here today. I cannot get hold of it in this short notice. We are actually waiting for it. But what I could comment on is that our overall

energy development this year has been very much in line with what we anticipated before where we gave a guidance of 2.5-3% overall cost increase, i.e. energy being one component in those. We have seen naturally some smaller increases in that but, based on chemicals we have [unclear].

Jukka Härmälä: Well, to continue with this issue: this year certainly, like Hannu was mentioning, that's well covered. And the other point we were not able to reply on what's actually the year 2007 – how far we really are.

Ok, now as a concluding remark, as we said here before, we are somewhat positive about the market demand development towards the end of the year and the big issue is going to be whether the industry is going to have pricing power enough to be able to go up with the prices. In some areas we are currently trying. Whether there is room for something else, we dare not to comment on that as of today yet. Thank you for joining us today.

Operator: Thank you. Ladies and gentlemen, this is concluding today's conference. Thank you for your participation. You may now disconnect. Have a good evening.