Stora Enso
Q1 2007 Results Presentation

Keith Russell
SVP IR

Thank you very much. Hello everyone. Welcome from Helsinki, Finland and welcome to this first quarter 2007 earnings conference call. Just to remind you that you should have all had the full press release, which was issued just three hours ago, which has all of the details of this. And also, if you're dialling in separately to the conference call, the slides that we're about to refer to are available there in the Investor section of our website if you're not participating directly in the webcast.
The format for today will be for Jouko Karvinen, our CEO, to start out with some highlights from the first quarter. Hannu Ryopponen, who is here, our Deputy CEO, will touch on some of the financial issues for the quarter and then I know Jouko wants to spend some time speaking about the Group's priorities before moving back to take your questions. And, in the usual way, the operator will come back and poll for questions electronically.
Before we begin with the remarks, I'd just bring to your attention slide number two which is the one regarding forward-looking statements, which applies to the material we're about to address. So, with that short introduction, I turn the microphone over now to Jouko Karvinen.

Jouko Karvinen
CEO

Thank you, Keith. Ladies and gentlemen, good afternoon and thank you for being with us this afternoon. If you go to slide three, I believe, which is the simple agenda for today's presentation, I'll start with a quick recap on the highlights, obviously, of the first quarter and the challenges we see short term ahead.

Hannu, my colleague here, will discuss the more specific financial results with you and we'll talk a little about the market outlook as we see it by market and product line. Then I will move on to the priority, which is really trying to give you a little more insight on how the strategy work and portfolio review is progressing and how we do that. And then, we'll just summarise.

If you go to page four please, which are the highlights of first quarter 2007. The short format is that it was a great quarter. I think the team did an outstanding job. I was not surprised, but I am impressed. Obviously, there are a few differences. The very strong performance in fine paper, specifically, if you exclude the first quarter of '06 (the Selby sale gain) it's a very strong performance as is the wood products earnings improvement. The packaging boards division performed very well in my view - good earnings levels and also a year-on-year improvement.

The challenge for us and the industry is publication paper, where the magazine paper product lines do operate in a very challenging market situation, not only in North America, but also in Europe. The divisional result was slightly below last year.
One more critical subject is not the highlight, in fact, I think it's a highlight. We, as you may have seen from earlier correspondence, have operated and are operating in a very tight wood supply situation. The primary driver short term is very short, almost non-existent winter which has made both the harvesting and removal of wood from the forests very challenging in Finland, Sweden, but also in Russian side. The highlight of it is that I must say I'm very impressed with our wood supply team who, not only very rapidly were able to increase the capacity when the very short winter came, but also have managed to start driving increased wood supply from Finland and so forth.

If you then look at the key numbers, revenue growth of 6.9%, operating profit excluding non-recurring items of 24% plus and, obviously, including non-recurring is even better but the like-for-like operational performance metric to me is this one - I think it's a very solid performance.

The quarterly Group return capital employed of 10.8% is also very strong and, even though one quarter doesn't change the company, I think we should give credit to the team. It's a long time since we've had double-digit growth in the Company.

If you go to page five then, with that strong performance, we still face challenges short term. And the number one challenge is the wood availability specifically in Finland, again, still driven by the short winter but also a slowdown of the Russian imports, partially driven by weather but partially because of the situation of the upcoming duties starting July 1. I have told the wood management team, the wood supply team that after the performance I've seen in my first three months with the Company, that I absolutely expect them to do an outstanding job managing this challenging situation during the coming quarters.

We have planned and intentionally proactively are planning some stoppages in some Finnish pulp mills during Q2. Why do we plan them proactively? This is how we can, first of all, minimise the earnings and cash impact to the Company because we can look at the long fibres/short fibre balance. We can maximise as much as we ever can the imported Brazilian. And then, given the seasonality of our business, if you look at the market side, say, on the fine paper side, the office papers in the second quarter. But we also used all the annual maintenance stops, obviously, in the second quarter in a thoroughly thought through manner, and holiday stoppages to again minimise the impact of the shortage.

Magazine paper worldwide, be it Europe or North America, from a pricing point of view, is still weak in terms of trend, and I'll talk a little more about that in the market outlook. If you specifically look at North America, then, we say it's an uncertain trend in demand, specifically for printing and writing or, if you want to call it, Magazine and Fine Paper.

So, to summarise before I turn it over to Hannu, a great start for the year. I'm proud and grateful to the team obviously, and I've told them that I'd like to see many more performances like this ahead, but we also have realised and are realising and are communicating that we are living in a specific aspect in a challenging environment. Hannu.

Hannu Ryöppönen

Deputy CEO and CFO

Thank you, Jouko. And I'll be fairly short. But, starting with the first quarter, as you've already heard and seen it was a great quarter for us. As you also know, the first quarter tends to be seasonally very strong for us and no exception here. Another quarter on our improvement path and in a very good and impressive way performing in almost all segments very strongly, with the exceptions of European magazine paper in particular and then we had some geographic weaknesses, also, that came through.

So a good, strong quarter and as you can see, and Jouko said, the sales growth of close to 7% where also close to 4% of that is actually volume, which is important to keep in mind. That is very, very strong. The other one is obviously connected to the price. Newsprint: new prices from the beginning of the year and so forth. Foreign exchange played a very small role from a revenue perspective and from an EBIT perspective, jumped there already during this quarter. So this was certainly a very good quarter in that respect.

I'd like to highlight a few things from the slide seven, in the financial results for the Q1. First of all, on operating profit, if we look at that we have to note the reclassification we have done of our TRF treatment. As you may remember, we have had the two sides of that, which has to do with our option programmes, the valuation of the options on one side, the synthetic options in our operating profit and then the hedging consequences in our financial statements. This has resulted in the previous quarters as our stocks price has moved, to big volatility in both these numbers and that's been difficult and confusing to always follow.

Our conclusion has been, and we start from this year, in good line with our accounting practices, to show these two under operating profit so they, to some extent, neutralise each other and therefore reduce our overall volatility within the P&L. Obviously, there's no net P&L effect from this.

But having said that, and looking at operating profit before non-recurring items, as Jouko said, 25% improvement from same quarter last year. There are many factors, good development, also impacts on profit 2007 and so on, that have helped to get this to this type of excellent improvement.

On our net profit, or then also in earnings per share, comparing in a similar way, you can see that we are almost flat, somewhat down, actually. The main driver, and I would like to remind you, is the Sampo shares that we sold in the first quarter last year which gave us an after-tax gain of €130m. So that was a direct net impact resulting in that. If we take that away, earnings per share before these non-recurring items, we had a 30% improvement on a year-on-year basis.

And I don't even want to go to the 100% improvement from fourth quarter because it may not be necessarily a relevant comparison, but certainly good numbers. So we take it all when we can.

The double-digit ROCE number, I think it's some five years ago since we've shown anything like that. Good news and fantastic news on this improvement programme and path that we're trying to achieve.

And maybe just to comment on the debt/equity where, as you probably remember and are familiar with, we tend to record, as our AGM falls in late March, the dividend in the first quarter and, hence, it has been recorded also this year and has a quarterly, weekly impact in our debt to equity ratio due to that.

On slide eight, the changing earnings per share. The only thing I'd like to highlight from here, we talked about the volumes and prices and so on already, is the variable cost, where the single biggest driver for this quarter was actually recycled paper and the cost increases in that. We know how the demand for this is growing and obviously it also, to some extent, follows other cost developments. Wood cost was, was as such, compared to the first quarter last year, not as significant a driver but we expect this to contribute towards latter part of this year, i.e., starting already from first quarter in a more significant way. There are other items, chemicals, also somewhat negative and then we have some positive elements to come to the net impact of 0.2 on earnings per share.

Then our Group ROCE on slide nine. Here we can see the seasonality in the business, which is obviously a lot less than it used to be prior to the labour dispute and the settlement after that in '05. But Q2 and Q4 tend to be weaker, while Q1 and Q3 tend to be the stronger ones, and I think we also see that pattern materialising this year as well in general terms.

Debt to equity, next slide: not much more to comment than we had a good strengthening of our balance sheet happening last year. The blip here in terms of increase was, as I said, from the dividend and we can see a steady development here and a level where we feel comfortable for the moment giving more earnings capacity as we speak.

The last one I want to comment on is slide 11 on the capex, where our first quarter capex was €109m, a rather low level if we sort of look at it historically. We have no big projects going on. It is more or less in line with what we saw last year. And, as you remember, our guidance for this year is €900m of capex. We believe and have looked at this. We believe we will reach this for the year. The difficult part to predict in this was partly also an aspect of last year. If our land purchases for our plantations, both in Latin America and in China, if and when and how they happen, i.e., land, how much in one go the price should be right, so all these timings, they come when the time and position, size and so on is right and that may make these numbers jump up and down more than our steady otherwise capex programmes that we're obviously well aware of and are well-planned and well-monitored throughout the Group otherwise.

I think I'll stop there, as far as the financials are concerned and we'll come back to Q&As later. Jouko, please.

Jouko Karvinen

Very good. Thank you, Hannu. What we'll do now is the fairly quick near-term market outlook. If you can please go to slide 13. I think before we go through the fairly specific details of the slide, the overall picture in the demand development in Europe is good, pretty much through all the ranges, even including publication paper overall. The price development, also fairly healthy with one exception, which is magazine paper.

To be a little bit more specific, there is some pressure on the non-contractual part of our magazine paper in Europe, which is the minority of the total volume but that's still there. If you look at, then, more specifically fine paper, we still see that, based on the first quarter experience, and the outlook now is that we can still forecast a variety of coated and uncoated paper. Packaging being a fairly diverse set of businesses, we see some opportunity for price rises in some segments. In wood products, which was a stellar performance in Q1, we see steady prices now but on a good level.

That's a pretty good story. North America; a lot more challenging. We now say the demand for publication paper (specifically for magazine paper, because newsprint is a very, very small part for us) is uncertain. So the weakness of the newsprint isn't that significant for Stora Enso in North America, which means also that the foreseen weakness on pricing going forward… we're not too impacted by that, whereas, the downward pressure continuing in magazines is an issue for us.

Coated fine paper, graphic paper, the demand we expect to stagnate, meaning the growth will not continue and that's called stagnation because, in the first quarter, we still saw sequentially some growth in the coated fine paper demand. And the price, we say, is a mixed view.

If you allow, so that we also make sure we have time for your questions, I'll leave the market outlook there and I will move to priorities. So if you can please go to page 15. And I'll start with repeating some fairly intentionally specific and simple statements. I've said also in the Annual Shareholder Meeting that the conclusion of the management team and us is that the priority of the Company now is to improve our returns. With that, it goes that it is not the market share or size that is the most important thing. It is improving our returns.

Value creation, and to be clear I'll show you a example chart that's not real numbers, but to make sure that we communicate how do we measure value creation in simplistic terms. It starts from having a return that is above cost of capital. So the starting point is not zero or some smaller number. We have and are re-confirming the Group target of 13%, but that by no means means every business will have a target of 13%.

There are several businesses - when I say businesses that's specifically a lot more detail level than what we publish. The global divisions are performing well above 13% now and my objective setting, together with Hannu, has been very simple; everybody better start improving. So those businesses are getting goals that are clearly above 13%. Why? Because there are some other businesses that will not necessarily get to 13%, whereas, being above cost of capital is, in many ways I believe, for me and Hannu, the minimum required.

If you can please go to page 16. We talked about this before. It's about choices and focus. It's about selecting the battles or the races, if you want to call it, the races to win. And I'm trying to describe to you a path. At least in the media in Finland there's been - and Sweden also, there's been both speculation about us coming out with a long list or a grand plan for three years even though we have clearly stated, I believe, in the Shareholder Meeting that we shall not do that because it's not a single decision. It is a path forward.

Our portfolio review, and I'll talk a little bit more about that in a minute, is progressing well, but that's more the analysis part. We also need to find solutions for businesses and I am intentionally leaving it at that generic level. Solutions, obviously, can mean things that we can do internally; restructuring cutting capacity or, in some cases, maybe investing more to become more cost effective and more competitive. But it can, in our considerations, also include other solutions; combinations of our business with somebody else's business. So all the means are on the table and under consideration. And I hope, and you probably understand it very well, that's also the reason why we cannot start a speculative list or a list-under review, because that doesn't help making these solutions happen and that's pretty much the only thing I care about that we, at the maximum speed, find solutions that make sense for the business and for the shareholders.

I also wanted to highlight that we're not just looking at the non-value creating, or you can say, value-destroying businesses, businesses who may have a track record of not covering their cost of capital, which is one thing that we look at in the track record. We also look at the credibility of the plans forward. That's a high priority and we're working hard on those businesses.

But we also look at businesses that are actually performing very well, meaning they could be close to or above 13%. In some cases, we always have to question, "is this the best business combination or could we create even more value, not in percentage only, but in real money in a different combination?" Method - we're not just solving problems. We're trying to build value.

Third bullet, create efficient organisation. Why is this there? Obviously, every company needs to look at organising efficiently and so forth. There's two messages there. One, it's intentionally after the portfolio review. Why? Because we, as a company, have to decide what our future is. What are we going to be in the future? And only after we know that, do we understand and know how do we build an organisation that's decisive, fast, entrepreneurial and is cost efficient? We've done the basic cost and benchmarkings by function and so forth, so the work is going on. But that's the sequence.

I did not want to join the Company and start a one-year re-organisation, a.) because it would take the momentum away from the business and that I don't want and b.) first we need to decide what the business is and then we'll organise it right. Invest in the value creators, the winning businesses, the businesses that we see critical for the future of Stora Enso and then through the focus and choices create a situation where we can invest sufficiently. It's not about splitting the money or the management resources evenly, it's about making sure you have the possibility to invest to win.

And then, last bullet, get and stay on an improvement path. I keep talking about a path. There's a very specific reason for that, because I think business improvement is a path. The good news for me as a CEO with, I don't know, 25 days of experience is that if you look at page 17, that's how we look at the business. And I want to be very clear because it's not clearly written on the slide where you see value creation, growth weighted average cost of capital by business area. This is not a real chart. This is totally made up. It's intentionally made up. I have the real chart, it's got a lot more bars, many, many more and it does have a scale. This is to show you that the method is cost of capital level return is when you don't create value don’t destroy that.

And I believe from the day I started here, working together with Hannu and the management team, we have been very clear; this is how we look at businesses. And this chart is obviously a point in time. Like I said before, we look at track record in these metrics. In past years we looked at the strategic plans of the units. And we go on a fairly detailed level. We looked at business lines, or business areas they're called here. We looked at product lines even, and we looked at geography. But I can assure you that the real chart has a lot of specific detail, and we fundamentally start from the customer’s end and trying to understand that. We're not looking at manufacturing facility by manufacturing facility. We actually start from the customer end, which is what we call a business, which is then measured with these metrics.

If you go one page further, then, which is more the outcome of all this, it's a chart. It's called a path again, improvement path. There's no new financial data there but it's [technical difficulty] history and you may see it in this format from Stora Enso for the first time.

The dotted line, quarter by quarter, is the quarterly return on capital employ of the Group. And I think you'll agree with me, it's a path, not a runway. It goes up and down a bit; seasonality of the business and some other factors there. The solid line is the rolling four quarters' average, which I think is a good metric to be able to look at every quarter whether you are on an improvement path and take the seasonality mathematically away.

And if you look at the chart, then, you can see that from the -- pretty much the end of '05, this team, way ahead of my arrival, has started an improvement path, thanks to the critical efforts of profit 2007 after the performance review and so forth. So we, as a team, have got to learn the improvement path a.) and b.) if you look at the long line called 13% ROCE over the cycle, which means that we, in the good markets, have to get above it. There's still quite some distance to go, which is why we have to stay on the improvement path. And that's why we are doing the strategic work as well.

Let me move to the summary page, then, which is slide 20. I know I'm repeating myself, but it was a great start for 2007 and I guess I should say a great start for the new CEO to be - let's be honest, I was the CEO for one day of the quarter, so the credit goes to the team and my predecessor, Jukka. I'm very proud of the team, though. Balancing that, we have short-term challenges, several but, to highlight one, the criticality of managing well our wood supply.

The portfolio review is progressing well, but I hope I've been able to describe to you, it is not a single decision. We will not group decisions in a manner where we would say, "well, let's wait a quarter or two to be able to announce everything in one go." We have a priority list of what needs to get solved and decided first, second, third. And our goal, as I said before, is that we will, the minute we have made a decision and defined the actions we will communicate to you people also.

We are committed. I'm personally seriously committed to the 13% Group ROCE target. And I've been telling for almost four months now, every person I've met at Stora Enso, and I've met a few, that the earnings targets and ROCE targets for different businesses will be different. What's culminates, is that everybody improves, every line, every quarter, every year.

With that, I'm happy to see that the team, even with a new CEO coming on board in a challenging situation, has maintained the momentum in the first quarter. That's exactly what I've asked them to do going forward. Thank you.

Q&A Session

Myles Allsop – UBS

Thank you. With the portfolio review, you didn't mention closures within that. Is it possible that we could see further closures in Europe as well as part of the portfolio review?

Jouko Karvinen

Yes, this is -- thanks for the question. I apologise if I wasn't clear. I said all means are possible and, yes, one of the many alternatives is also capacity closures.

Myles Allsop – UBS

Okay, and with this priority list, number one, number two, number three, are you in a state of negotiation with other parties? Should we expect announcements this year or is it still very much on the drawing board?

Jouko Karvinen

Well, I can tell you, we don't have a drawing board. We are working hard but I cannot promise specifics on any negotiations. I think to give you an answer, though, and I hope it's satisfactory is, I've come here to work on this for years. We're talking in the range of several months to quarters, when you can see this part of the string of decisions and actions. That's all I can say. I'm sorry?

Myles Allsop – UBS

You say in the next few months or quarters we'll see --

Jouko Karvinen

I said the timing range to start being able to communicate specific decisions and actions is in the range of several months to quarters.

Myles Allsop – UBS

Okay. That's helpful. And then wood products -obviously it was a very strong quarter. How sustainable do you feel this level of profitability is? And just maybe a quick comment as to why in the fourth quarter there was so much improvement quarter on quarter.

Jouko Karvinen

Let me turn this over to Hannu, because I think he can give you a more specific answer.

Hannu Ryopponen

I think, Myles, if you look at wood products also during last year, quarter by quarter, you can see that there has been improvement and we had a very strong improvement in the first quarter compared to, certainly, first quarter last year. And they are in a very strong path right now. They have been able to roll over even higher log prices into product prices.

We are moving more towards a further refined product, value-added product like components and so on in our wood products, away from basic two-by-fours, i.e., essentially saw-milling raw products, to more value-adding products and, not least, the impact of the whole re-organisation and restructuring and savings work that Wood Products have done during last year is really also coming through this quarter with full effect as the work has been done last year. So, well done by Wood Products I would say, and a very positive development.

Then, your second question, how long will this last? Is there a structural change going on in Wood Products or not? I'm not... my crystal ball is not good enough to give you an exact answer on that. And we think that the questions as we move in the second half of this year getting more challenging to predict. We have to take it quarter by quarter. The cyclicality of this business has been such in the past. We can see some changes, wood becoming a more interesting product. In all the sustainability discussions, climate change and so on and so forth are impacting on the use of wood as such, and of course I'm talking about the construction industry and so on as a starting point. And there you have the impact obviously, also from the relative cost increase in steel and other raw materials that have impacted on wood being favoured to some extent.

Myles Allsop – UBS

Okay, that's helpful. And then maybe you can just, finally, on magazines prices you talked about there's still some erosion in spot prices. Some people have talked about hoping for price increases in the second half. I was just wondering whether you think that is in any way feasible. And I was wondering as well, with magazines being so weak, it's been asked many times before and we have the same answer but is there any chance that you'll bring forward any of the magazine closure at Reisholz?

Jouko Karvinen

Well, this is Jouko and I'll try to -- maybe I'll ask you in a way, backwards. The plan for Reisholz is what it is and it's very clear we're doing it as fast as we possibly can. As you know, there's some transfers of volumes too that we absolutely don't want to lose because that would be a shame. So that's the first answer. Maybe a related question is, I'm fairly sure that what we say we actually do if you look at the other one, Berghuizer we closed the first machine on April 16 and the other one is right on plan to go as we speak.

There is always the speed question, obviously, how fast can you do it? There's contractual requirements in terms of labour relations and so forth, but also it is critical that you're able to complete the planning terms of whatever volumes you have decided to move to your other mills to get the return on the factory. Then your first question, if I understood correctly, about somebody else saying that there's hope for price flattening out or even increasing towards the end of the year.

To be honest, I gave you the short-term outlook and, from an approach point of view, I've tried to be fairly clear with the team. That's speculative. I don't think we should plan our future with hopes of price increases. And if I'm wrong, I'll be the happiest man on earth, but that's the approach we've taken.

Myles Allsop – UBS

And just maybe following up there, achieving 13% return on capital employed over the cycle is not relying on price increases. It's relying more on restructuring. Is that the way we should look at it?

Jouko Karvinen

I'll try and I don't want to put words in your mouth but let me try to rephrase it in a specific way. The path to 13% over the cycle is not, and it better not be based, on hoping the world's the same or the prices to go up. I believe we've been very clear with the team. I think we have a track record because, I can assure you, the beginning of the path that we showed, or I showed to you on that one chart, that didn't happen automatically.

This team has gone through some very tough years with profit 2007 / APR. And I'm committed that that's the way we're going to play the game. So it's not only restructuring, though, like I said. It's based on making some strategic choices on where we win or not. And it can also include some restructuring, but it's not the only method. Alright?

Myles Allsop – UBS

That's very helpful. Thank you.

Jouko Karvinen

Thank you.

Lars Kjellberg – Crédit Suisse

Yes, just a follow up on the previous question. Does that mean you're not driving for higher prices?

Jouko Karvinen

Oh, thank you for that question. We're trying to improve price quality as much as we ever can. I would hope that our report on the first quarter on many, many areas, be it wood products or fine paper, office paper specifically, and some specific packaging segments also, is proof that we not only try, but we also are successful and price quality is obviously a key factor. But what I said is when you look quarters and years ahead, I would suggest, or our opinion is you can't plan the price increases to save your returns. Hannu wants to add something.

Hannu Ryopponen

I'd like to also add to this that customer profitability is also very much at the forefront of all of this, and here we can also enter the product mix question. So those are other parts of the equation. Not the price, we are pushing for price, obviously. That goes without saying almost. But that's focus. But how do we perform it with the various customers? How can we improve the mix in our total product mix so that we maximise the margin out of our product portfolio?

Lars Kjellberg – Crédit Suisse

On that measure, were there any meaningful changes to your customer mix and geography in the first quarter because, generally speaking, I think the market was very positively surprised about your achievements in Q1. And it's kind of different to -- difficult to get to the numbers, given what you're saying about prices, about costs and looking at your volumes, base rate mix, geography issue, customer issue, but moved in a positive direction in Q1?

Hannu Ryopponen

No. No major mix changes in that respect. I think what has been happening is that we have seen a gradual repatriation of export volumes to Europe which further, of course, has then put pressure on European price levels in some great steps. But what we try to achieve, because it's more profitable, obviously is sales closer to your mills and so on. But, otherwise, nothing really that's worth writing home about.

Lars Kjellberg – Crédit Suisse

I was a bit surprised that you said wood prices - wood costs haven't really had a significant cost impact in Q1. That's not what we heard from the others. Does that mean it's a lag effect in your system and you're going to get it later?

Hannu Ryopponen

Yes. That is correct. What happens is when price increase are announced, and before that actually comes through into the real cost - is a little bit of cost increase, there is anywhere from three to eight months' delay even in that - through the whole harvesting, the whole logistics, everything else, inventories and so on. So, that's the way it tends to work and, therefore, as you can see from our own chart you would expect a bigger negative on the variable costs than you see right now. And there are not too many positive numbers in that net. There are a few, but not too many.

Lars Kjellberg – Crédit Suisse

And looking at your cash flow for the quarter, it was comparatively weak and a substantial increase in your working capital, and mainly in receivables. Does that have any P&L impact in Q1 that you borrowed from the first quarter moving into the second -- sorry, borrowed from the second and getting profit in Q1?

Hannu Ryopponen

Not any substantial part, I would say. There might be some of that. Because, as you know, in seasonality and when you produce and when you actually then deliver the products, so that's one thing. When it comes to receivables, which obviously then was the main driver of working capital, we have had, for most of that, in fact all of it because if you look them at date of sales, we actually have a slight improvement.
So, it's all driven by the healthy business development and naturally you have also the price increase that always… not always, but a big part of it comes through during the first quarter. So, yes, we had an increase in working capital, but for pretty much good reasons I would say.

Lars Kjellberg – Crédit Suisse

Okay. Can you give us any guidance whatsoever what you expect for sequential cost increases in Q2 relating to wood supply issues and stoppages and maintenance etc?

Hannu Ryopponen

We don't give any specific guidance. I said at the press release, today, that as far as these, call them extra stoppages, due to the wood supply situation, we are not talking about dramatic numbers and we are in very low single-digit figures in millions counted.

Lars Kjellberg – Crédit Suisse

Okay. Thank you.

Thomas Brodin - Citigroup

Yes, I have a question related to paperboard. You have, like M-Real and Holmen, announced a price increase on paperboard. I wonder how much of your volumes are fixed for the rest of the year? So, in other words, if you're successful raising the paperboard price, how much volumes are we talking about that could impact the second half earnings of the year?

Hannu Ryopponen

I think we need to double check that. We'll come back to you, for sure, before we finish. So, let me not comment for the moment. I'd rather give you a more correct answer than some feeling that I have for it.

Thomas Brodin

Okay. Thank you.

Olof Grenmark - Handelsbanken

Yes, good afternoon. Returning to those excellent results in Wood Products, I just wonder if you could please give us some information about the price trend in North America for Wood Products, given what's happening right now?

Jouko Karvinen

Okay. This is Jouko Karvinen. I can't give you an exact number, but it's not that relevant because, to be honest, the North American Wood Products business for us is, by design and decision, very small.

Olof Grenmark - Handelsbanken

Yes. I know that, but just from your market point view?

Jouko Karvinen

The market, obviously, is driven by the construction market shrinking hasn't been favorable. Hannu, you want to give some numbers?

Hannu Ryopponen

Yes. There are some small signs, I think, of some improvement in prices, but these are inventory level adjustments and so on. We do not see, from what we can understand and from our own organisation over there, that there's anything that would indicate a trend upwards, which obviously in itself could be an early warning for the economic development in the U.S. But nothing really to comment about in any significant way.

Olof Grenmark - Handelsbanken

Okay. Thank you.

Richard Nilsson – SEB Enskilda

Congratulations on a good quarter. I just have initially some questions. First, a particular question on TRS. Could you please help us in how we should try to calculate the TRS effect going forward?

Hannu Ryopponen

Going forward. Well, the method of calculating all this has not changed from the past at all. What is confusing, maybe to some extent in the first quarter which was the same thing last quarter, in our hedging methodology and the way that it's done, we have to write the dividend for the shares that are underlying, the hedges. And that comes in as a fairly big positive, to the tune of some €10m, €12m, I think, in the first quarter, as the dividend is declared. And that is obviously a very seasonal, related to that.

In other respects there are not any real comments as such to the original way of operating. The valuation of the synthetic options are driven, on one side by share price, in one direction depending on if it goes up and down. And then the hedging, which is the idea of hedging, takes that the other way. And what we are making sure, over time here now, is that our hedging volumes are in line with our option programme so that they neutralise each other in the overall context. And having them in operating profit, both components of this also should eliminate or minimise anyway the volatility of this overall.

Richard Nilsson – SEB Enskilda

So, if the share price goes up, let's say, €1 [this year] there would be no big impact or meaningful impact on EBIT?

Hannu Ryopponen

That's correct. That's correct. That's --

Richard Nilsson – SEB Enskilda

Before it was just cost of net I think?

Hannu Ryopponen

That's correct. And that has to do with – it’s now a detail that we have reviewed the hedging requirements for our option programmes. And they were, indeed, a bit on the high side. And that's why the volatility, or the discrepancy of the numbers were so big.

Richard Nilsson – SEB Enskilda

Okay. Great. And, also, as I understand it, your guidance for Q2 EBIT would be below the 307 in Q1 and above the 118 in Q2?

Jouko Karvinen

Yes. This is Jouko Karvinen. What we said, specifically in the press release also, is that we see some challenges reducing impacts on the earnings because of the wood supply and so forth. But we did say that we expect to continue on the year-on-year improvement path.

Richard Nilsson – SEB Enskilda

Yes.

Jouko Karvinen

So, I think your math is correct in that sense.

Richard Nilsson – SEB Enskilda

And would you say you would be able to also result better EBIT year-on-year compared to the pre-classified numbers which will be 182?

Keith Russell

Richard, just to clarify. It's Keith here. If this is your question, are we guiding that we could exceed the second quarter 2006 before the re-classification?

Richard Nilsson – SEB Enskilda

Yes. Correct.

Hannu Ryopponen

We - I would really plea that we don't go in that discussion specifically, because we have decided we don't give earnings guidance on quarterly or a year level.
I know this won't help you a lot, but I always say that I've seen the team performances and I've told them in no unclear terms that I want the momentum to stay and I want to see significant improvements year on year, every quarter going forward, including this one. But that's, I'm sorry, all we can say.

Richard Nilsson – SEB Enskilda

Let me re-phrase it. If you look into Q2 then you have the effect of the stoppages, you have the scarcity. And if you look back, historically, the EBIT has come down, I think, about €70m over the last year. Will this be... given those factors that you're talking about, should we expect the decline in earnings to be more than seasonal?

Hannu Ryopponen

It's very difficult because, as we don't give exact numbers and we have the uncertainty of the wood supply situation which, I think, we are very cautious about it all. And with Jouko's comments about how well the wood supply team did during first quarter, we're hoping they will continue to do a good job. So, hopefully, we'll have a positive development in relation to our expectations.

Richard Nilsson – SEB Enskilda

Great. Then also two other questions just quickly on the weighted average of your return requirements. Could you talk about if you have different requirements for the different industries or different business segments? And could you be more specific on what they are?

Hannu Ryopponen

Well, first part is easy, yes. The objectives are different for different businesses and the logic is, obviously, that the businesses are somewhat different. If you look at our Company's historical performance, there is quite big differences and we look at it at quite a bit more detailed levels.

So, the first answer is, yes. The objectives are totally different. Because the difference in business A and B, because I fundamentally believe that all our businesses on that detailed level need to have one common method of success and that's improvement. So, we also look at the track record and the starting point. I'm not able to give you either a list of businesses and their return targets, which I think was your second part of the question.

Richard Nilsson – SEB Enskilda

Finally, a question on Russia. There are many rumours circulating about Russia and their decision to hike wood duties. Could you give us an update if you've heard any rumours or if you know if Russia will give out subsidies for producing paper and board or sawn timber within Russia?

Jouko Karvinen

Well, this is, again, Jouko. I've read many rumours more than heard. I've also heard some. This is not one specific one I've heard. What I know for a fact is that there is an ongoing dialogue between many parties, the Finnish Government, the European Union and the Russian Government.

I personally will be quite involved in the coming weeks and months in sitting down with our partners to try to, in specific detail, understand their needs on the future of this industry be it in foresting and other parts of the industry in Russia. But also trying to make sure that in a very clear and a very humble way, try to make our partners understand how critical this wood supply is for us and how it is the factor that will help us to be successful. And which I also think is critical for the Russian side, that we are a critical customer for them.

That's all I can say and I think that the positive thing to me is that, even though you read and hear different messages through even different Nordic country governments, the dialogue is on. I hear and see it's being positive and trying to solve the issues in a professional manner and trying to avoid any catastrophes. I do have to say, obviously, also that the first step of the duties which is July 1, 20%, that we'll put into our cost plans all the same. So, I'm not expecting miracles to happen until we see them. Alright? That's all I can say.

Richard Nilsson – SEB Enskilda

Great. Thank you very much.

Hannu Ryopponen

Can I come back? Operator, we'd like to come back and address the question that was post before by Thomas Brodin. On the price development in the packaging sector.

The quick answer is that, overall, we do not - we see fairly flat development for the rest of the year as far as prices are concerned. There are small variations where, I would say, that on the industrial packaging business area we see some more potential, but not dramatically so. Pretty much flat from where we are now with small variations, within a percent or so.

Mikael Jåfs – Chevreux Nordic

Yes. Hello. This is Mikael Jåfs from Cheuvreux in Stockholm. I have a question or actually, two questions that goes into raw materials. One is on recycled paper. Is there anything you can do to reduce the risks in the pricing of that raw material? And the second question is perhaps more future looking. You are doing this co-operation together with Neste Oil on biofuels. Could you please elaborate a bit on what you see as the benefit for Stora Enso from that co-operation?

Hannu Ryopponen

On the pricing of RCP, to some extent you can do some hedging in this. It is still challenging and so on. And it's difficult to predict prices as it is in any sort of material as such. But to otherwise reduce it is difficult in itself, there's no substitute or any thing like that that you can come up with. We certainly see that this is an area of concern. Generally raw material prices are going up, these tend to follow. There is a demand for it also. As we know, the Chinese practically produce all of theirs on recycled and so on. If it will lead towards the end of the year remains to be seen. But I will not make any real statement for the moment.

On the biodiesel front, then as you did see, we signed the Joint Venture with Neste Oil to develop this full-scale test plant next to our Varkaus Mill. I think the key drivers we see behind this going forward is, how can we add value to our sites by refining more of the raw materials that we have access to? And, in this case, we should note that we are using wood residue, either branches and stumpage, roots and so on from the forest rather than pulp wood, or certainly not timber logs anyway.

So, that's the thinking behind this as far as Varkaus is concerned. And that's also why we picked Varkaus in particular as an ideal logistical place with good fibre resources -- sorry forest and, thereby, also residue resources around it.

Mikael Jåfs – Chevreux Nordic

Okay. Thank you, and congratulations the very good results.

Hannu Ryopponen

Thank you very much.

Keith Russell

Operator, I'm afraid that's all we have time for today. I'd just like to highlight for the listeners that tomorrow we're hosting an Investor Briefing at lunchtime in Helsinki. And that, for example will also be webcast. So, those who'd like to listen in can do so, in English of course. Yes. I'll give just the final word to Jouko.

Jouko Karvinen

Well, thank you all for participating. It's been a good quarter and a good day for us as a team. And we'll go back to work to make many more. Thank you.