

STORA ENSO OYJ

Q4 2006 EARNINGS CONFERENCE CALL

7 FEBRUARY 2007

Jukka Härmälä

**Chief Executive Officer
Stora Enso Oyj**

Well, good afternoon everybody. Welcome to our conference call here in the Helsinki office, I have with me Hannu Ryöppönen, our CFO. What I am going to do is to run through some of the key messages here starting on a quarterly basis. I hope you have all received the material. It would be in front of you.

And let me pick up the page number 5. Some financial highlights over the quarter. First of all, we had some sales volume increases here, partly because of re-starting Port Hawkesbury, coming on stream during this very quarter. We had some price increases vis-à-vis the previous quarter, mainly in uncoated fine papers and sawn timber. Our operating profit on a non-recurring basis, was more or less at the same level as it was during the Q3. Our balance sheet has continued to strengthen, and what actually characterises the whole year on an annual basis where we have seen a good improvement of our numbers. It has been boosted by rather successful Profit 2007, and the APR programme which has been running ahead of the schedule, reaching the targets earlier than what was initially planned.

To pick up a couple of relevant numbers here, first of all, what has been variance between Q3 and 4, on an earnings-per-share basis, now page 6, and you will see that the, actually the biggest and negative changes have been occurring first of all in the fair valuation of financial items like they've been doing before, going up and down from time to time. The biggest single change being a negative change. And then some increase in fixed costs, which are pretty much season-related – maintenance and also running through the rather expensive Christmastime. Those have been the biggest elements.

Let me then go for the operating cash flow, and here also highlight a little bit longer time span, starting from '03. But what characterises this year '06 is typically the rather good performance of cash flow from operations, going up quarter by quarter, and especially when looking at the cash flow of the investing activities, after three rather low years, now we've been coming upwards.

This, together with disposal of some of our assets, has led our balance sheet to strengthen in the way that this debt/equity expect at the end of the period, end of the year is now at 0.54 vis-à-vis end of the previous year, where were up to 0.7.

Then a few comments on an annual basis, and if we first start with some of the numbers, on page 10, our total sales went up by close to 11%, whereas the deliveries on sales volume only about, say, 3%.

Now when we compare our numbers on an annual basis, I think it's a fair comment to say that the year 2005 was not very normal due to the labour market conflict, which idled our capacity in Finland for several weeks, as you may remember. All in all, on an annual basis, taking even this into account, the operating profit on a non-recurring basis was improving quite well.

On the other hand, we have to remember that even though our return on capital employed was coming up to 6.6%, it's far out and away from our target, which still is to be reconfirmed to be 13%. So if, even though a nice, good improvement, but a very long way forward do we have in front of us.

Some general comments about the full year highlights. Some structural changes did we have for the sales numbers. Especially what I would like to point out, was now the inclusion of our paper merchants newly acquired Schneidersöhne. And giving rather good balance to the sales numbers, and by definition, the margin is a low one. When comparing the numbers this should be taken into account.

And then, finally, like said, towards the end of the year only did we get Port Hawkesbury back into operation.

Then I would like to jump to earnings per share on page 13. And what you can realise from the numbers, we are now back to the level where we were for the year 2002.

And comparing then the years 2005 and 2006, on page 14, would have been actually the combination of the increase from previous years. You will see that from €0.28 per share, both sales, prices and volume did bring up the numbers by, each of them, by €0.21, whereas the year now a first full year with full energy increase affecting our operations to the extent of €0.12 downwards.

Also some addings to the financial course, did bring down the numbers by €0.08. All in all, we ended up the year with this mentioned €0.55 earnings per share.

Then going to CapEx, page 16, and [inaudible] [well]-planned in advance to have a year where hardly any new projects were to be started, and the overall CapEx money presumption for CapEx was to be low, even lower than what we initially were planning, ending up to something that was slightly below €600m.

The philosophy of the previous years, when we did construct good lots of new, various new items, was really trying to utilise all that, and take a gap year, which was the case.

And this certainly has also impact to what was said earlier about the free cash flow. Now, for the year 2007, we estimate our CapEx to come up to, let's call it a more normal level, €900, consisting mainly of some new items, the plantations, China,

Latin America. And then we have the construction of our [LC] machine in China, to be completed during the course of the year. And some upgrading of other machines. All in all, from the exceptionally low level, will we return somewhere to €900m or so. Our [inaudible] board customers, with the suggestion for the dividend to remain at that €0.45 per share, the same as it has been during the past five years. But now the [profit] did [come/comments] are pleased that they are very sure is now falling below €100, as it has been above three consecutive years before that. Let's then move on to Profit 2007, and related issues, APR ask Hannu to take over. Hannu, please.

Hannu Ryöppönen, CFO

**Chief Financial Officer
Stora Enso Oyj**

Thank you. Thank you, Jukka. A good afternoon. Before I go into the Profit 2007 programme as such, I would just like to comment on the two programmes we've been running, i.e., the Profit 2007 but also the APR programme, where we during last year successfully completed the programme in all the closures and divestments we had announced in October of last year. And also the final decisions that are on the scrutiny list, where then remaining for next year, as you know, we have the actual closures to be finalised for both Berghuysen and Reisholz. It was the second part and the end of the year. So two programmes been operating, run very well. And with the expected returns and results if not even beyond that.

And then on the Profit 2007, as you can see on page 21, we have now at the end of Q4 exceeded the original €300m target that was announced already, for the first time, in April of 2005. We are moving ahead of schedule. We had planned this for mid-2007. It's finished, and therefore we also feel that from an external reporting point of view, we will not continue to report on 2007 programme unless something specific that would deviate from plan would occur, and we feel we would have a need to come back to the market in relation to those.

And also, on the employee reduction plans, we are moving ahead of the original plan in a good way, from a timing perspective. The only somewhat negative, or not even somewhat, but negative aspect has been the outsourcing process in Finland, where we are somewhere just short of 200 persons at this point, and we would have liked to see ultimately 600 to 700 outsourced in Finland. This is a tough one, not only for us, but as you also know, for the entire industry here.

Having said all this, and concluding that these programmes have run very successfully, and the Profit 2007 also moving along very, very well and beyond its original targets, we have seen cost increases. Last year we said 2.5 to 3%. Again, energy that year driving the cost picture. This year we're guiding 2 to 2.5%, where again the [good] cost is clearly the most significant part of that, even more so than energy was last year.

And this, as Jukka said, means that our results are not anywhere in line where we would like to see them long-term. But more work and effort will be coming as we move forward to find the ways of reaching our performance targets. I think that's about it for now.

Jukka Härmälä

Okay, thank you, Hannu. Then I would go to the market outlook. And the first general comment is, for most of the grades, been enjoying a couple of good years as far as demand is concerned. And the big problem, as everybody understands, has been the pricing, which is pretty much a result of the oversupply, where we have not been able to go forward hand-in-hand with the increased cost side.

All in all, given the outlook for this year, generally speaking – I'm coming back to then to the exceptions at a later stage – the demand should continue to grow.

Now, going first to European markets, and starting with magazine papers being on page 24, the first thing to say at this point of time, and that covers also newsprint, we are not to comment on the exact pricing situation, as we are in the middle of the negotiations. Contracts are still by and large open for this year, a little bit more on, done on newsprint, but still lot open, and even less for magazine, is completed.

All in all, we can say that for newsprint, the general normal thing is to see a seasonal slowdown for the Q1, but as a whole, the market has a slight growth, to our understanding, for the year 2007. And we are positive about the pricing, once we enter the end of the negotiating period.

Supply-demand balance is good.

For the magazine grades, both for uncoated and coated, first quarter seasonally is somewhat slower. And here the oversupply, especially after seeing a good lot of repatriation of deliveries back to Europe, is hampering the situation.

Market is very competitive, very tough negotiations are we in now.

Then fine papers, where the trading pattern is different. For the uncoated, we have been implementing a price increase. And the outlook seems to be fairly healthy.

On the coated side, we have been announcing a price increase and are working on with it with a positive attitude to be able to get it through. Even here, demand is not looking bad. But on the other hand, as everybody knows, there is more overcapacity for the coated qualities.

In the packaging area, carton boards, things don't change too much; generally good demand, and the price levels would be for the first months more or less stable where we are as of today.

Wood products, which have been now enjoying a rather good increase both for the prices and demand for the year 2006, we still see some firming of the prices. Whether they are able to offset the increased solo prices is the big issue here.

Let's then go to North America, where the situation is a little bit more dull than what we have in Europe.

For the magazine grade, we have the seasonal weakness, as normal. And the markets are therefore somewhat soft. Some price pressure and erosion could be seen.

Newsprint, which is a small – small quality products, nothing new. Demand is declining, and prices are, and have been coming somewhat down. Fine papers, there

we see a little bit brighter outlook. Demand is expected to be improving somewhat, and currently the prices are to be unchanged.

Well, that's a summary for the whole story. Like [said], we are happy about the improvement for the year 2006. It has been taking the operating profit and the bottom line up. It's also true with all the segments. But on the other hand, as it has been said already a couple of times here, our target is definitely much higher than the return on capital employed, which was 6.6%

All in all, we do have a good lot of challenges, mainly on the cost side because of the increased wood costs, as Hannu was mentioning. And therefore all the possible measures to be taken to go forward even after this Profit 2007 and related programmes have been completed.

Well, now I think it's time for Q&As. Thank you for listening for this part.

Question and Answer Session

Operator

Thank you. [OPERATOR INSTRUCTIONS] Our first question today comes from Richard Nilsson from SEB Enskilda. Please go ahead.

Richard Nilsson, SEB Enskilda

I have two questions. First, on the issue of magazine paper, do you expect, I mean do you see a possibility to hike magazine paper prices in Europe in the second half of 2007? And if prices were not to increase in the second half of 2007, would Stora Enso be willing to close more capacity following such a price development?

Jukka Härmälä

Well, our market outlook, the way we have been presenting it, is colouring the few coming months only. What happens in the latter part of the year, I'm really not willing to start speculating about it. The issue of overcapacity is pretty crucial. Last year we did close down two machines in the coated area. That happened in France. And also we are in a process of closing down Reisholz during the quarter of this very year. And so currently I think we don't have any more new projects to be started. But time will show whether anything more [if] than needed from our part.

Richard Nilsson

Is your assessment if you look at your own closures and [the dosing/reducing] the whole market, then I guess there are still some closures to take effect in the whole market. That – those are enough, sort of get up to the quality of the operating rate to a decent level.

Jukka Härmälä

Well, like said, difficult to forecast [how] the demand is developing. This – out of Europe, the overseas exports, have been actually playing a major role in how the

European balance is creating. And we've seen the trade flows going up and down. And the reasons trade flow has been actually repatriating at values to Europe. That has been certainly having an impact to the current situation, which is pretty difficult.

Now, how do things develop next year? I'll leave it to the time when we have a new look at the issue, sometime later in the year.

Richard Nilsson

Okay. And also just a question – am I correct to understand that you did not ask for a buyback to – a mandate to buy back new shares in conjunction with the sort of notification for AGM. And if so, why is that?

Jukka Härmälä

You may remember that we did buy back a good lot of shares. And the last buybacks actually took place in the beginning of the year 2006. But the focus of previous years, we went more or less to the maximum as far as the liquid R shares.

All in all, returning something like €1.3 - €1.5 bn all together. Now for the year 2006, where we have seen a good improvement in the cash flow and overall financial status, i.e., the balance sheet of the company, that is something we've been pretty much concentrating on. And therefore did not really go for buybacks currently.

And as this has not been our plan, so our Board decided not to look for a permit from the forthcoming AGM.

That is the current situation.

Richard Nilsson

Great. Thank you very much.

Operator

Thank you. Our next question today comes from Myles Allsop from UBS. Please go ahead.

Myles Allsop, UBS

Yes. On the cost saving programme, you've already exceeded your target. I mean, how much more upside do you think there is? I know you're not kind of guiding, but to give us a sense of how much more savings you believe can be achieved.

Hannu Ryöppönen

Maybe I should take this question. If you look at the graph we are presenting, the curve is still pointing upwards, and obviously it will level off somewhere, also as the programme starts to come to its end. Somewhere during the first quarter of 2008, levelling off towards the end of next year. We don't give a number on this, but there is obviously still some steam in the project itself, or the programme itself, to go. But we have to keep in mind also where we are on our overall cost development.

Myles Allsop

Do you think in 2007 the cost savings will exceed the cost inflation of 2 to 2.5% on the line cost inflation?

Jukka Härmälä

That will be quite a challenge to achieve.

Myles Allsop

Okay. And also just on the merchanting division as a sort of a pickup in the profitability in this quarter, is that a sustainable improvement? Is that kind of sustainable, the synergies from the Schneidersöhne acquisition starting to come through finally?

Jukka Härmälä

Yes. Should be pretty sustainable. The integration process has been proceeding well. And pretty much according to our initial plans. So the plan should be continuing.

Hannu Ryöppönen

Yes. So that's – so the emphasis is on continuing. There is still work on the integration work to be done. So they're developing very well.

Myles Allsop

Okay. And also, on the magazine repatriation that you've been talking about. Has Stora Enso reduced the volume of exports in, sort of over the – in the second half of 2006, for example.

Jukka Härmälä

Well, we have a very special case, actually. Stora Enso specific. We had Port Hawkesbury, the uncoated magazine mill, the big machine being for uncoated magazine-qualities. They were down because of the labour market conflict all the way until almost the end of the year. And certainly we were serving our customers from Europe during that time. And now that the machine is running, so we've mostly cleared to Europe, from the European outlets.

So a good example of how this works. Yes, we are part of the story.

Myles Allsop

But it's not incremental repatriation; it's just kind of adjusting for the Port Hawkesbury volumes. Is that the way we should look at it for yourselves?

Jukka Härmälä

Well, it's a big machine. 400,000 tons. It is a good volume. If you take the whole, full capacity on an annual basis.

Myles Allsop

Okay. Thank you.

Jukka Härmälä

I'm not saying that our volume was exactly this, but just to give the magnitude what we are talking about.

Myles Allsop

Okay. That's helpful. Thank you.

Operator

Thank you. We'll now move to our next question, from Thomas Brodin from Citigroup. Please go ahead.

Thomas Brodin, Citigroup

You mentioned Port Hawkesbury. What is the experience of re-starting that mill? Have it met your expectations so far? And if you can give as well a little bit more colour on the recent drop in the SC paper price in the beginning of the year, and what's ultimately have caused that?

Jukka Härmälä

Well, typically, Port Hawkesbury had been actually starting fairly well. Bear in mind, it was really down for quite some time. And certainly to get it full out to the marketplace, it's not totally simple. So that has been a good fight we've been in for. But like said, the machine and machines now are running, and the cost basis which was really a killing thing, it – they've been easing up, but still the profitability of Port Hawkesbury being in Canada is not really the best you can think of. Some – this price element in Port Hawkesbury SC qualities, I think. If you want to be honest, are turning back to the market has had some impact. I would not overdo it, but certainly it's an element to be taken into account.

Thomas Brodin

Okay. Thank you.

Operator

Thank you. We now have a question, from Lars Kjellberg from Credit Suisse. Please go ahead.

Lars Kjellberg, Credit Suisse

Yeah, I'm coming back to the cost savings. You mentioned before that you've – this is obviously a continuous process. And with cost inflation continuing, what is the next step now, when you've pretty much finished the 2007 programme? What are looking at?

Jukka Härmälä

Well, first of all, I don't think we'll be waiting to finish this programme to see what more we need to do, quite simply to – to move towards our long-term targets. There are no plans, and I don't think we will establish a new programme, a la the Profit 2007. The work is going on to see what needs to be done. It is very clear to us that the markets will not help us to reach our 13%, given also where we are in the economic cycle and so on.

So internal work is going on. We are analysing our businesses, our operations, and we will in due course, when we are ready, obviously announce what will be happening. But don't expect that to happen next week.

Lars Kjellberg

In terms of cost savings, et cetera, cost efficiencies, I guess, Brazilian pulp does make a difference. You talked earlier that you were going to announce that during 2006. But that hasn't happened. What – what is going on there? Why is – why is there a delay?

Jukka Härmälä

Sorry. Delay with what?

Lars Kjellberg

Deciding for a second line of the asset.

Jukka Härmälä

There is no delay as far as we can see in deciding on that one. We don't have an absolute time plan on when we would decide, either. We can see that the preparatory work, there will be some permit processes starting in Brazil for the Veracel 2 project, both in relation to – for the land purchases as well as the actual mill operation, and so on.

When we – and remember, we have a joint venture partner in Aracruz together are ready to make a decision. It's difficult to forecast, but I have said – and I have to speak to my prediction that it is not excluded that such decision would be made during this year.

Lars Kjellberg

Okay. One final detail question. You had a recent significant increase in depreciation charges in Q4. Is that a temporary thing? Or is that something that we should be looking at for next year as well?

Jukka Härmälä

I think it is something in packaging you are referring to?

Lars Kjellberg

Yeah. And – yeah, that was a number of €6m. But I think all together it was about €17m on a sequential basis.

Jukka Härmälä

In the fourth quarter?

Lars Kjellberg

Yes.

Jukka Härmälä

We had a few additional issues, and also some of the provisions related to Berghuizer and Reisholz were adjusted, as we knew more about the situation. But there are one or two smaller also, extra in depreciation are write-downs, but in our minds, not part of normal operation. That it was put through in the fourth quarter.

Lars Kjellberg

So the €6m is the sustained increase. And the others are something different.

Jukka Härmälä

No. The €6m is also one of these – I would prefer it to call it a write-off type of depreciation rather than an ongoing depreciation.

Lars Kjellberg

So Q3 would be more representative. That's what you're saying.

Jukka Härmälä

That is correct.

Lars Kjellberg

Okay. Just one final question. You mentioned Berghuizer and obviously Reisholz. When do you expect to come up with dates when you're going to shut those machines down ?

Jukka Härmälä

I think we have actually come up with dates. And Reisholz is due at the end of the year, and Berghuizer are the two machines, third quarter and fourth quarter. That is the plan right now. The reason for this often-asked question is why can't we close quicker than this has to do with customer service, and transferring some qualities and volumes to Nymölla in the case of Berghuizer and Kvarnsveden in the case of Reisholz to make sure we can continue to serve our customers in an uninterrupted

way and in these two mills there are some additional investments that are to be put in place before they can produce the grades we would want to continue.

Lars Kjellberg

What is your target to transfer volumes? How much would you expect, or that you're targeting to actually transfer to Nymölla and Kvarnsveden?

Jukka Härmälä

We have not given up – up any volumes. But I would say that reasonably significant parts of the two. But not at all anywhere close to the full capacities of the two mills.

Lars Kjellberg

Okay. Thank you.

Operator

Thank you. We now have a question from Linus Larsson from ABN AMRO. Please go ahead.

Linus Larsson, ABN AMRO

Yes. Thank you. First one question on the costs. Then I wonder if you could say what the cost increase is that you expect for woods and that is in Euros in 2007, please?

Jukka Härmälä

That was a very precise question, Linus. But anyway. Of the 2 to 2.5% overall increase, about two-thirds relate to expected wood increases.

Linus Larsson

Okay. Would you rather put a percentage figure, what kind of percentage increase you expect in the wood price?

Jukka Härmälä

No. I think it is the guidance we give.

Linus Larsson

Okay. And then, also, on the working capital. Could you give an indication what you expect in the terms of working capital change in 2007?

Jukka Härmälä

No. We don't give any specific – we have a high focus, and we'll continue to have a high focus on efficient working capital management. But we do not give out any specific external targets. As you know, there are so many other items that can impact on working capital levels, and so on.

Linus Larsson

Sure. But it's – is it reasonable to think that it's part of your ongoing programmes? That this is still part of your effort, and that we could see a further improvement in 2007?

Jukka Härmälä

I would – I would say that it's certainly part of our focus right now. If we can improve, then I would more talk about days of outstanding working capital rather than actual amounts, because volumes to some extent also drive these issues.

Linus Larsson

Okay.

Jukka Härmälä

[To] get that further down, I believe so. How much we will succeed within 2007 remains to be seen.

Linus Larsson

Sure. And then, just finally if I may, on magazine paper. If you could say what kind of expected duration you would have on average for your magazine paper contracts that you sign, now in the beginning of 2007?

Jukka Härmälä

We don't give out any exact number, but we are still at the level which is less than a half. Which have been contracted. So the majority is still open.

Linus Larsson

Okay. And those which are signed at this stage, would you like to comment roughly what kind of time horizon they are on?

Jukka Härmälä

Well, like said, as long as the whole publication area is open, we don't comment on the figures. The overall statement which has been made, even here today, is that we are more positive in newsprint than for magazines both coated and uncoated.

Linus Larsson

Okay. Thank you.

Operator

Thank you. We now have a question from Dennis **Christie** from S&P Equities Research. Please go ahead.

Denis Christie, S&P Equities Research

Yes. Good afternoon. I was wondering if you could tell me – you know, we talked about wood costs a bit. Could you – I see the wood supply business was negative in the fourth quarter, and obviously that's got to do with the supplies there. But what do you expect to happen in the coming quarters?

Jukka Härmälä

I think we'll see further tightening of the wood [chip] [inaudible]. And this is especially something down in the – at the Central to Eastern European situation. The climate-related situation, or weather-related, we have in the Northern Hemisphere, seems to be [clearing] with temperatures around minus 20, in Helsinki, anyway today. So that works. But then we have another aspect that is difficult to totally predict. It's the storm effect. Sweden and also a few other parts of Europe.

Denis Christie, S&P Equities Research

Okay. But should we sort of be expecting that that should improve in the coming quarters, in terms of what contributes towards the P&L?

Jukka Härmälä

Well, in two aspects I think. There is one is the actual availability of wood, which is still very tight down in Europe. It has improved significantly in the Nordic and even in Russia. But the price development we see is still as tight. And yet we have to remember that we have the whole biomass issue as a new phenomenon that is here to stay in the overall demand for wood.

Hannu Ryöppönen

Yes, biofuel, as such, is an element very difficult it is with the forecast today, as it doesn't work necessarily at all according to the market mechanism. Especially in Central Europe, it looks to me that what the governments are willing to subsidise, whatever [inaudible] biofuel. And that makes actually the forecasting today very, very difficult, before the situation somehow settles down to something you could call normal. The hype is not going to be over soon.

Denis Christie, S&P Equities Research

Okay. And then just looking at the sawn timber side, you were mentioning that there could be a further price increase. Obviously you've got wood costs rising. Should we sort of be expecting more stable development in earnings in the early part of 2007 there?

Hannu Ryöppönen

I think so far what we have seen on the saw milling and the successful rolling over of the cost increases into prices out have been good and positive. How long this will remain, it's very, very difficult to say when we have such an unusual situation on the

inside. And especially as we move into the second half of the year, this is becoming very, very difficult to have an absolute view on. There's a good demand, anyway, for wood products in Europe today.

Denis Christie, S&P Equities Research

Okay. And then, last question. Just on the CapEx number, could you just firm up for 2007, was it €00m that we should be expecting?

Hannu Ryöppönen

Yes, €00m is what we are aiming for as the CapEx number for the year.

Denis Christie, S&P Equities Research

Okay. Thank you very much indeed.

Operator

[OPERATOR INSTRUCTIONS] We will take our next question from Mikael Doepel from [Mandatum] Securities. Please go ahead.

Mikael Doepel, [Mandatum] Securities

Yes, hi. Just to get a clarification. When you're talking about export volume, repatriation back to Europe, are you talking specifically about magazine paper grades? Or does this concern other grades as well, in your view?

Jukka Härmälä

This obviously is very typical for magazine, but also for coated fine.

Mikael Doepel, [inaudible] Securities

Okay. Good. Thanks.

Hannu Ryöppönen

Keep in mind also here that this is partly also driven by the dollar development.

Mikael Doepel, [inaudible] Securities

Okay. Good. I have nothing further.

Operator

Thank you. We will now move to our next question, from Olof Grenmark from Capital Markets. Please go ahead.

Olof Grenmark, Svenska Handelsbanken Capital Markets

Yes. Hello. Actually it's Olaf Grenmark. I'm fully aware that you don't report North American figures since [long]. But I wonder if you could give us a flavour for your

profitability in North America in the fourth quarter on a year-on year basis? And also if you could help us with the remaining book value of the assets you have on that continent, please.

Jukka Härmälä

Well, since we changed the organisation, and the business philosophy, in a way for this global division, we do not publish, and we will not comment on, any separate numbers for the time being. And when thinking of book values of the assets, the normal impairment that is made on an annual basis, and you see that nothing has happened there.

Hannu Ryöppönen

And on the other side of the coin, which is well-known, and we have commented on this on the market side, which is – it's a tough market, and that obviously has its own impact on results as such. But the operations are working well, in line with the conditions there.

Jukka Härmälä

There is one particular element I think that could actually be taken up. We do mention it here in our stock exchange release. And that is the newly made contract covering the labour in, I would call it the central Wisconsin area, where after two years of negotiations we actually ended up with a contract taking down the level of labour-related costs quite significantly. And as it includes the elements of retired people health care and elements, so provisions have been made over the years. And now during the first quarter we are going to release these provisions, up – the number would be about –

Hannu Ryöppönen

€30m, I think—

Jukka Härmälä

€50m, is it?

Hannu Ryöppönen

€30m, I think is the number.

Jukka Härmälä

Let us check the number.

Hannu Ryöppönen

We'll make a compromise. €40m.

Hannu Ryöppönen

Dollars.

Olof Grenmark

Okay. Thank you.

Operator

Thank you. We now have a question from Claes Rasmuson from Swedbank

Claes Rasmuson, Swedbank

Yes. Good afternoon. A further question there on North America, when you see prices being under pressure for most of your grades, but a bit longer term do you expect this to be sort of a longer-term pressure? Or can we expect prices to come back again within the sort of short to medium term, based on the fundamentals that you see?

Hannu Ryöppönen

Who would know? Very difficult to say. As such when you listen to the publishers, and look how many new titles are coming out on an annual basis. So that magazine side has been a very active. Now, as we are having the first quarter with seasonal [inaudible] one, I think we get a somewhat better view at the later point of the year.

Claes Rasmuson

Okay. And also on the market-related downtime. If you took any of that in the fourth quarter, and how much?

Jukka Härmälä

Well, for the whole year, 2006, we actually had a market-related downtime close to half a million tons. And a good lot of that actually, something like two-thirds, that were coming from the magazine side. Where we probably did choose a wrong policy in the beginning of the year, 2006. In other words, being really very sharp on prices, trying to get them up. And everybody knows what happened. So we lost our market share.

Claes Rasmuson

Okay. Thank you.

Operator

Thank you. We now have a follow-up question from Lars Kjellberg from Credit Suisse. Please go ahead.

Lars Kjellberg

I just wanted to follow up on this transfer on logistics costs and distribution, redistribution back to the division. Why did you do this? And number two, what should we be looking for further items? Is this the €20, €21m per quarter? Is that a normalised number?

Jukka Härmälä

First of all, that was an internal issue. It doesn't affect the operating profit of the group at all. But to have the comparable numbers for the divisions, and as we did reallocate certain logistics costs to the extent of this €20m, we wanted to give out the numbers, how they were affecting the various divisions. Publication papers, fine papers, and packaging. And so really to see on a quarterly basis what have been a comparable development, this is stated there.

Lars Kjellberg

I understand that, but that's the kind of run rate of those costs that we're talking about, €20m.

Jukka Härmälä

No. Normally we should be actually in a situation where this type of reallocation should not be done. And hopefully the numbers which are published now for the forthcoming quarters would follow the full cost logistics they have [in the past].

Hannu Ryöppönen

In other words, just to confirm that this was a one off allocation of logistics costs related to some of the changes we have done, especially our Northern European transport systems, in the last year to even year and a half. And hopefully we'll get back to a normal run rate here, and that's where we see it going right now.

Lars Kjellberg

If I understand that correctly, is Q4 now the base going forward? Or should it be resolved again?

Hannu Ryöppönen

No, no. No, no. The €20m that you see in the total, that's for the quarter specific. And reflecting a longer period of costs from development – developing the whole logistics system we have. And that's now taken care of, through this reallocation, so that it's reflected by the unit that actually used the service.

Jukka Härmälä

To have been totally correct, they should have actually been spreading it throughout the year.

Jukka Härmälä

And that's why we state it now, the way you can read it from the paper.

Lars Kjellberg

Okay. Thank you.

Operator

Thank you. We have a follow-up question also from [Dennis Christie] from SNP Equities Research. Please go ahead.

Denis Christie, S&P Equities Research

Yes, thank you. Just wanted to follow up on this provisions and that you're going to write back for the post-retirement costs in the U.S. Can we expect that to be reserve-accounted? Rather than go through P&L?

Jukka Härmälä

No. The U.S. pension adjustment that came out of the labour contract, that is a non-recurring item in the first quarter.

Denis Christie, S&P Equities Research

[inaudible]

Jukka Härmälä

€40m.

Denis Christie, S&P] Equities Research

Okay.

Jukka Härmälä

That's also noted as a subsequent event, I think, in the press release.

Operator

Thank you. Our final question today comes from [Brian Turquote] from [ExIm]. Please go ahead.

Brian Turquote Good afternoon. I wanted to come back to your comments earlier regarding the completion of your Profits 2007 programme. And I guess you're looking at the company in a more comprehensive way going forward, in order to close the gap between the current returns and your targeted longer-term level. Does that signal a fairly comprehensive review of all assets in the portfolio? Perhaps narrowing the focus or geography of the company's businesses? And what might be timing of that analysis look like in terms of some final determinations being made? Thank you.

Jukka Härmälä

That was a rather loaded question, I would say. But I think what the response is, that we already – I believe it was [at] the second quarter last year, said that we have initiated a business portfolio review of the entire company. That's been ongoing. The speed has been increasing.

And as I said, I think, earlier, the results of that will be then announced as they will impact on our business and its nature or structure or whatever. There is no such plans in existence today.

Brian Turquote [Brian]

Might some decisions be reached before the end of the current year?

Jukka Härmälä

That's – we'll not go into speculating in timing here. But it's clear to us that what we have done so far, and these type of measures, will not be sufficient to reach where we want to be and where we think we should be and where we can be.

Brian Turquote [Brian]

Right. Thank you.

Operator

Thank you. As we have no further questions, I'd now like to turn the call back over to you, Mr. Härmälä, for any additional or closing remarks.

Jukka Härmälä

Okay. I guess there is very little to add. It was a good improvement last year, but like said many times here, we are not at all where we want to be. So the work goes on in every single form. Thank you for joining us today.

[end of recording]