

Stora Enso

Second Quarter 2007 Results

Keith Russell

Senior Vice President, Investor Relations

Thank you very much. Welcome everyone to this call covering the second quarter and first half of 2007. This event is being webcast live and you should have received already our press release and also the materials which are available on our website. The PowerPoint material that we will be following through if you are actually on the dial-in call.

Before we begin, I just wanted to explain and apologise for the situation earlier today. I'm sure a number of you noticed that our shares were actually suspended temporarily on the Helsinki Stock Exchange for about fifteen minutes. I just want to clarify that that situation was entirely due to human error on the part of our press agency who actually started to release our earnings press release early. When this mistake was discovered, we had no choice but to have the shares suspended temporarily until, of course the full release could be issued to the entire market on time. To compound that situation we then learned that unfortunately the Stockholm Stock Exchange did not suspend us at the same time which they should have. But in any case, I just wanted to clarify that had nothing to do with us. That was the mistake of our agency. We are investigating it, obviously to ensure it won't happen again. So, apologies again from our side.

Today, the format of the call we will begin with Jouko Karvinen, our CEO who will give some highlights from the second quarter results. Then Hannu Ryöppönen our Deputy CEO and CFO will go through some of the financial figures. Then Jouko will cover some points about market conditions and then summarise with some concluding remarks. And then, of course in the usual way, we will open it up to questions and answers which will be controlled by the operator.

I would just ask, as a courtesy to the other participants, if you could try to limit your questions to two questions, in fact at one time so as to allow enough time for everybody to participate. And just finally, I would note the usual cautionary statement. This is slide number two which is our usual language regarding forward looking statements. So with that introduction, I turn the microphone over to Jouko Karvinen.

Jouko Karvinen

Chief Executive Officer

Thank you Keith. Ladies and gentlemen, good afternoon and thank you for joining us. I'll try to be very brief as I understand you will have read the release because we want to leave as much time as possible for the questions and answers.

The starting point for year-on-year earnings improvement being continued in the second quarter and indeed continue under rather challenging cost conditions to be exact. We have now revised our inflation estimate from 2% to 2.5% into 3.5%. Before we go any further, I do want to clarify. We can talk it about it later. That is not the true picture. That's the gross cost inflation. In Wood Products or Timber, we have been able to transfer (unlike the Paper Products and Board Products) more than well, the wood costing freeze to the market and therefore the estimated net inflation (i.e. the impact on our margins) is slightly above 2%. Just for clarification.

In a very short format then the different businesses; Publication, Paper Division - earnings reduced year-on-year due to magazine paper. Clearly disappointing. A combination of challenging markets conditions continuing and the raw material cost issues; whether it's wood or recycled fibre or chemicals. Nevertheless, this is an issue that we must address. I do not believe that we should or we can wait for further improving markets. I'll talk about the markets in a minute.

Fine Paper has reported also somewhat lower. But on an underlying like-for-like basis, if we take out the impact of the pulp mill divested a year ago, ongoing operations more than at 20% earnings improvement. Given the difficult wood cost situation, I think a pretty good performance.

Packaging – lower as reported. There's a very clear and simple reason. As we warned and reported, we have at the stand-alone Enocell Pulp Mill had about a five week standstill in the second quarter. And that on its own took all the improvement out of Packaging. So the underlying customer business I'm not too unhappy about. And yes, with the exceptionally good market situation, I must say the Wood Products second quarter performance overview was very good.

In a minute Hannu Ryöppönen and my colleagues will get very specific on some of the items of less operational issue, but also the transparency we gave in the Publication Division (tax and so forth) so I will leave that to Hannu so we are all on the same page there.

In summary, overall yes an improvement in difficult cost situations. I was not happy with the magazine performance. The good thing to me is that we have been able to keep all of our paper and board machines up and running and serve our customers so we have not had issues in lost customer relationships. You can read the numbers on the page - 5% revenue growth, about 100m improvement. We will go through the details in that. Return on capital – 7.5%. If I can ask you to go page five then.

With the improvement path, the return on capital employed, we started to show in the April timeframe, showing both the quarterly and four quarters rolling. A very short message. Yes, it was a step forward in this challenging cost situation. And yes, it's still a very long way to get to our target of 13%. It is the path, as you can see from the quarters, but our target is our target and we will have to find ways to continue on that path. I would now like to turn over to Hannu to discuss a bit more of the financial performance. Thank you.

Hannu Ryöppönen

Deputy Chief Executive Officer and Chief Financial Officer

Thank you Jouko. I'm turning to page seven which is the financial results for Q2. I just wanted to highlight a few things here and maybe some clarification. First of all, as you do know, we had a very strong first quarter. It's also a longer quarter, but also we had far more challenges in the second one and the improvement of close to 100 million that you can see from an operating profit from Q206 to Q207. They are somewhere around two-thirds of that when you look for the like-for-like is in fact an impact from what we called in the press release, non-operational items.

Partly in Q2 last year and partly in Q2 this year. These all relate to the options and related hedges and TRS's and drive this difference. Of that, in the current quarter, some 22 million is actually a real profit from sale of hedges. We have, over the last couple of quarters, especially now (it was in fact June) focused on bringing our hedging levels in line with the option volumes we have and that is where the 22 million comes from. This will further minimise the volatility of this item going forward and that we now have it starting from Q1 this year as focally an EBIT. I don't expect any other big items of the 22 million nature going forward. The hedge levels are now in line with the option volumes. But, taking that into account, there is still a clear improvement from the 118 to 216 in the year-on-year comparison between the two quarters.

Turning then to page eight - the operating profit by division. A couple of highlights here as well. On Publication Paper, this has, I understand, already created some discussion today and I will try to clarify this. We have a Q207 result report at 35.9. And as we have explained in our press release, there are two items in that one that we feel are of non-operational nature. One is the so-called energy tax refund which was booked as a 15 million refund in second quarter. In the press release we say that was cumulative for the first half of the year. That means that it's 7.5 million in Q2 and 7.5 million in Q1 that is the impact (i.e. obviously a positive impact from those two items). That will make the numbers comparable also with last year where this refund existed and it was reinstated towards the end of June through an EU decision and thereby we had to book the total impact of that in Q2.

The other item there is the write-offs. 9 million release of provisions which, after review, out of the provisions we made in the second quarter, came to the conclusion that the 9 million can be released from the total provision that was made back in fact in the Autumn of 2005 if I remember correctly when we launched the APR programme. So in other words, Q2 impact 7.5 plus 9 is the number that should be used for adjusting for comparability and 7.5 into the first quarter.

And a tax credit issue – this is obviously a nationwide German issue and a tax refund related to capital-intensive industry such as the pulp and paper industry. In other words, we are all right now kind of benefiting again from this refund.

A comment I would like to make here is related to Fine Paper and Jouko might have mentioned this in his introduction. That if you compare Q206 with Q207 and in fact the Celbi profit where they were in Q2 last year, we sold that, divested that later that year. So for comparability, about 13.5 million (which is the number I think we have also communicated earlier) would then show that in fact on a more like-for-like basis, Fine Paper has also improved on a year-on-year basis.

Two more comments. One was on Packaging Board which Jouko touched upon about the stoppages to the tune of some 10 million that has impacted that due to wood shortage at the Enocell Pulp Mill. One more comment on cost. As far as annual cost is concerned and the wood costs that clearly drives this year's cost development that is an escalating cost towards the end of the year. And why is that? I think we have talked about this also before. The fact that when you agree on a contract to buy forests or wood timber or pulp wood, it takes anywhere between five/six months to eight/nine months before that actually shows up in the numbers as real costs. In this case, we can see the increases, but in terms of their appearance in the books and the results, this will be escalating towards the end of this year.

Moving onto the change in earnings per share (i.e. page nine) the movement from Q206 to Q207 from 06 to 16 cents, the sales and price mix comes almost exclusively from Wood Products. And in fact, if anything, there's a negative from for instance, magazine paper but it's really driven by Wood Products and the development there.

The sales volume; one of the big items there is the fact that Port Hawkesbury was actually closed due to the lock-out last year and we did not have Arapoti at that point. It was acquired later in 2006.

As far as variable costs are concerned, wood costs by far almost the only driver. RCP also another cost increase there.

Just to try to find some positive news here as well, our energy bill through the second quarter I suspect was somewhat positive. But the big drivers have been minus 8 cents is the wood costs. Fixed costs; a smaller item primarily driven by the high maintenance levels in the second quarter. And then we have the options and the hedges that I already mentioned here. And that is that 7 cents very much a result of the 22 million one-off gain that we got from the sale of the hedges at a good stock price essentially. The other ones are smaller from the purpose of this and not really worth any specific comment than such. We may come back to foreign exchange. The dollar decline and so on. So it's a general comment in terms of just the business environment.

Then just a couple of comments on the capital expenditure. I think that this is page nine. We had below 300 million CAPEX during the first half of the year and that is on the low side. We have lowered our target from the 900 to 800 to 850. We feel more comfortable with that range given some uncertainties in some of the projects and primarily the plantations that we are buying land and so on. And also, some delays that that will occur on an accumulated basis. Nothing really major, but just somewhat lower overall than we had thought.

And I think that was it about the financials for the time being and I will hand back to Jouko for some outlook vis-a-vie the future.

Jouko Karvinen
Chief Executive Officer

Very good. Thank you Hannu. Ladies and gentlemen I will try to be brief so we have enough time for questions and answers. Maybe just one comment that I saw myself on the newswire. I made earlier today in a conference call a comment that on the cost inflation, we've been able to more than transfer the cost inflation to the market prices on Wood Products, but our experience has been that that hasn't generically worked on the paper side. That does not mean that I would think prices will not change or could not increase.

In fact, if we start with the European market, the bottom line is it's a solid market. We see on the demand side pretty much all the paper and board, a healthy good demand. Newsprint we see stable. If you look at the pricing, newsprint - stable. We see also that magazine prices have been under pressure. We hope and expect that it was stabilised. Whereas in Fine Paper we see continued bright improvements. We have announced some of them already and obviously are negotiating specific customer deals in both coated and uncoated side.

In Packaging, it's more a stable situation even though we see some slight improvements in certain segments. In Wood Products where we had an exceptional first half, we see a more moderating mood where we think it's going to be on a good level but not necessarily stay on the exceptional levels both on demand and price.

North America; a different story. We repeat what we said. At least in April the outlook for demand for newsprint we see continuing negative. And we repeat basically that the magazine coated and uncoated demand we see as uncertain.

In the pricing, newsprint we see negative. Whereas on the magazine side and specifically also on quality Fine Papers side we're cautiously positive because of the supply and demand balance chain thing, but also because we announced freight policy (i.e. duty issues). So there we see possible improvement.

I would suggest I leave it at this and then we will talk about it more in the Q&A. And then I will give you more one slide (the summary slide which is number 14 I believe). Year-on-year improvements we've struggled through a difficult wood availability and cost situation. I do want to report to you that from a customer point-of-view and customer relationship point-of-view we've been successful. We have not had any stops at the [indiscernible] producing paper and board. But I can assure you also that we've done everything and anything possible. We're using eucalyptus from Brazil in quite a few more plants than we traditionally do. We have purchased eucalyptus pulp. But I hope you agree with me it is critical.

So the primary problem, having been the availability in the second quarter, I am cautiously optimistic that nothing too dramatic should happen going forward short-term even though I can't guarantee it. Now, my primary concern is that the cost of wood in Finland and in the Nordic area is too high caused by the fact of rapid increase in demand because of the Russian flow going down, because of the winter and some of the duty issues. So it was a tough quarter. We managed to improve year-on-year but we've got a lot to do going forward.

Like-for-like basis; Wood Products, very strong. Fine Paper and Packaging; I think also an improvement. Magazine; disappointment. Clearly we cannot wait and I don't think anybody can wait for the markets to get better. I told you the European market is actually pretty good but we have to find the best possible corrective actions.

My final comment. We've said all along we will not launch a grand strategy, but I do want to repeat, portfolio analysis is right on schedule. We will do the announcements after we make the decisions. Today we make the decisions and I repeat my promise, because you will ask me anyway. You should expect the first of several decisions in the next several months and quarters. That's all I can say about the schedule.

Thank you for your attention. I would suggest we turn it into questions and answers please. Keith.

Keith Russell

Senior Vice President, Investor Relations

Operator, we are now ready to take questions please.

Question and Answer Session

Operator

Thank you Sir. The question and answer section will be conducted electronically. If you would like to ask a question, please press star one on your telephone keypad now. 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 star two. Again, please press star one to ask a question. We will pause for a moment to allow everyone to ask questions.

We will now take our first question from Myles Allsop from UBS. Please go ahead Sir.

Myles Allsop, UBS

The first question. On your cost inflation guidance, I just want to be clear here. You're saying net of the benefit from higher wood costs, you are still expecting a 2% cost inflation. So, for the overall, there's really no change in cost inflation. Is that the way we should really read that?

Hannu Ryöppönen

Myles, no. I don't think that is the case. When we reported at the beginning that 2% to 2.5% that was the same gross number as we are now increasing that to 3.5%. So yes, there is an increase and that is exclusively driven by wood costs.

Myles Allsop, UBS

What was your expectation then, just to follow up on that, in terms of the net cost inflation originally when you are saying 2% - 2.5%, just so that we can get a sense of how much we should sort of change forecasts.

Hannu Ryöppönen

At the time I think I communicated even publicly about 1.75 or thereabouts as the net effect to the capability of rolling over the cost into the timber products.

Myles Allsop, UBS

Okay. So we should see some downgrades on that. The other thing, just on your comments on magazine paper and the need to see change there, could you give us a sense as to what sort of actions you are thinking about? You mentioned something about closures. Can you give us any kind of timing or kind of indications?

Jouko Karvinen

Okay. This is Jouko. Thanks for the question. Obviously I cannot get very, very specific for reasons that if this capacity closes or restructuring, then we have to do that in a different order. But let me just tell you that based on the most recent several quarters trend, it is obvious that we will and we cannot just wait for better markets. The tools or the alternatives for being able to correct the situation at this point I don't want to exclude anything. I mean obviously I have been very vocal today also (even in the Finnish media) that we, on top of the great increasing wood availability in Finland, we have to get the cost right after this tremendous increase. So all the input costs is one factor.

Second, is permanent capacity closures. I cannot exclude that because we cannot continue with these trends. And third, which is more a part of the portfolio review, obviously we will look at whether there is combination consolidation possibilities but I hope you will accept that I won't go in any detail there.

Operator

We will now take our next question from Denis Christie from S&P Equity Research. Please go ahead Sir.

Denis Christie, S&P Equity Research

Good afternoon. I just want to ask a question on the pulp side. What sort of impact was there from a loss in market pulp sales in this second quarter? To what extent did it increase the costs of your pulp costs?

Jouko Karvinen

This is Jouko. Thanks for the question. The simple answer I can give to you, I mean if you look at our overall pulp balance, we are normally fairly neutral. We are not a huge net seller. So the impact that really we have is that our stand-alone Enocell Pulp Mill went down five weeks. And then what that physically means is that we have purchased that pulp from the outside and we used both eucalyptus pulp opportunities and so forth. That's where we said that the impact on our Packaging Division results because the Enocell Pulp had to be reported there is that 10 million. So that's the best number I can give you. Okay?

Denis Christie, S&P Equity Research

Okay. That's great. Now do you think that sort of impact is going to reoccur in the third and fourth quarters this year?

Jouko Karvinen

The best guidance I can give you is that on my frequent reports that I get from our wood supply people, I see now and I cannot give any guarantees because we are still struggling through the change in the Russian duty and so forth, but the situation should absolutely not get worse in terms of availability. To be honest, I am hopeful it will get a little better going towards the second half of the year. I cannot give you an exact percentage or weeks or days. But that, I think, is the positive. The way I am obviously now I am after my people and saying yes. But now I need to get the costs down because we cannot bear this tremendous cost increase. So that's the best I can tell you.

Denis Christie, S&P Equity Research

Okay. And then my second question just on the wood shortages. Do you think there could be a domestic solution to overcoming these wood shortages by, for example, increased tax incentives to raise harvesting?

Jouko Karvinen

Short-term, I mean tax incentives and all those things I don't think they are necessarily really short-term issues. You will remember the primary issue is the one that I can't control which was the non-existing winter. So, on short-term actually I must give ... from an availability point-of-view, you can give credit to our organisation as well as to Finnish forest owners, we are planning to actually increase 4 million cubic metres of harvesting in Finland. It's a dramatic increase to compensate for the decrease from the Russian situation. The problem is that as the industry goes up in demand in Finland, well there goes the price – our costs.

So longer-term the issue then is that yes, I understand from the experts that on the long fibre side, and when we get the price levels right, the Nordic and Finland can replace even the Russian imports. That does not answer the question on birch. So on the short fibre side, there is not enough birch in Finland to be exact. And that is why we are fairly vocal pushing that there has to be a fairly quick solution on these Finnish duties.

Denis Christie, S&P Equity Research

Okay. Thanks very much.

Operator

We will now take our next question from Linus Larsson from ABN AMRO. Please go ahead Sir.

Linus Larsson, ABN AMRO

Thank you very much. Coming back to wood costs. I wonder whether you would dare to give some full year guidance in terms of million in increase this year versus last year. And also if you could maybe give some colour on how much you expect wood costs to increase in the second half of this year compared to the first half? Thank you.

Hannu Ryöppönen

I think on the overall sort of phasing of the quarter over the year, I would not go any further other than to say that it is clearly escalating towards the end of the year. But it is fair to say that the increases we see are well into the middle teens as far as percentage is concerned. And that just shows the severity of the issue overall where we are and how that drives ... but also alluding to in terms of the cost competitiveness quite simply over the industry up here. It is a concern I think for all of us here of how we can help with that. And to take my comment about the mid-teens you were talking about two margin points.

Linus Larsson, ABN AMRO

Sorry the mid-teens would be?

Hannu Ryöppönen

Equal to about two margin points.

Linus Larsson, ABN AMRO

And the mid-teens would be a price increase?

Hannu Ryöppönen

Price.

Linus Larsson, ABN AMRO

Measuring when compared to when? Sorry if I didn't ...

Hannu Ryöppönen

That is more on an annual basis. I'm not saying if it's in January or in December but averaging throughout the year.

Linus Larsson, ABN AMRO

Just also on Veracell (a possible second line in Veracell) could you please update us what the situation is there? When we should expect to hear more about that? What's the wood availability situation there? If you could just give any kind of help there. Thank you.

Hannu Ryöppönen

Well there were in preparation in fact land acquisitions are going on as we speak in preparing for the second line. Some of the permit work locally in Brazil and then with the local area and so on are under way to get all of that moving. When we are prepared with other groups to make a formal decision on investing into the second line, it's hard to say exactly when it happened. But I would

not say it is very far away as such to come to that conclusion. Assuming everything goes well, I think it's something that we will present to our Board for decision from our side. The joint venture is certainly working very well so I think we have no issues with our partner in that respect. What you quite rightly pointed out, the key question here is the wood availability or the plantation growth. So that will limit when the pulp mill can actually be both built and then obviously produce pulp because we wouldn't build it before we know we have enough wood for the production.

Linus Larsson, ABN AMRO

And in your view, has there been a delay? As far as you were concerned if you compare the situation today with what you expected one or two years ago?

Hannu Ryöppönen

No. I mean where we are in terms of planning and so on there are no delays that would be significant. You always have difficulty estimating dealings with authorities and so on and how you can get fairly major issues sorted out here. The key here is that we have become a major driver of employment in the area and that's certainly very, very helpful for our case.

Linus Larsson, ABN AMRO

And then just finally, on Wood Products you are talking about moderation. Would it be a fair guess that the second half profitability is in line with the first half profitability on the Wood Products Division?

Hannu Ryöppönen

I don't think we would give you a comment of that nature. What we are saying is that we can see that we are coming off some sort of a very significant peak, partly driven by additional supply down in Europe as a driver to that. And how that will develop over the autumn and how the demand will develop, my crystal ball is not good enough to really give you a very intelligent answer on that one.

We may have the best behind us as far as further improvement. But remember, this Wood Products Division has continued to improve strongly and surprise all of us almost with its strong development. So that's one thing that may not continue. The second one is that we have lifted the profitability of this division overall, also to internal measures. So it is at a different starting point or a point of operational efficiency than it was at only even 12 months ago.

Linus Larsson, ABN AMRO

Sure. Excellent. Thank you very much.

Operator

We will now take our next question from Nitin Dias from JP Morgan. Please go ahead Sir.

Nitin Dias, JP Morgan

Good afternoon gentlemen. I have one question. Through this whole portfolio delivery process and going forward, what's your view on the investment grade rating? Are you committed to an investment grade rating or are you ready to take the short-term pain to go into some innocent grade in order to achieve this 13% reduction capital employ which is the objective of your portfolio review?

Hannu Ryöppönen

I think the key ingredients in our whole work in the portfolio analysis and then the actions we will be hopefully taking in that, is to maintain investment grade as a key strategic factor in our overall financial strength. It's today a challenging task with current performance of the industry as such. But the steps we are looking to take is to safeguard that as opposed to maybe pushing us further down.

Operator

We will now take our next question from Johan Swan from Morgan Stanley. Please go ahead Sir.

Johan Swahn, Morgan Stanley

Thank you and good afternoon. Sorry about this, but another question on the wood prices. You are saying that there is always a lag in pricings before the costs are realised in the numbers. I'm just thinking about the severity of this. Is there going to be further increases that you are seeing now that will hit your numbers, I guess, than at the beginning of next year? Or is the cost increases now fading off?

Jouko Karvinen

This is Jouko. I think to be clear what we discussed is how the impact on the P&L on an increasing wood cost is where we said, without getting too specific, that the first half impact has been less than it will be in the second half. And to answer your real question about 2008 and onwards, as I mentioned the crystal ball. The best I can say is that I have been not only today but also in prior moments, been very clear in telling that the short-term significant increases that have been caused by a very rapid increase in demand in Finland. Remember, no winter and Russian situation better get corrected because that would threaten the Finnish forest industries. So rather than waiting and forecasting to you, I'm trying to tell everybody that this understandable [pun] better not continue.

Hannu Ryöppönen

If I may just add to Jouko's comments. It's Hannu here. I think one could even broaden this to a European issue and then we have to bring on in the biomass and bio-energy questions into this. In other words when we go into 2008, it is a fairly safe bet to say that they are not going to drop from current levels anyway. So, in other words, we have another starting point if one now looks a calendar year as an event as such, then we had and what we, I think as an industry even foresaw about this time last year or maybe even last autumn. The changes are quite dramatic and we only need to open a newspaper to even follow that debate.

Johan Swahn, Morgan Stanley

Okay. Then on the lumbar or the sawmilling operations then. Your comments on moderation areas. It sounds almost like it's an expectation based on some sort of mean reversion, or are you actually seeing some signs in the market that the market is softening?

Hannu Ryöppönen

No. This is very much driven by the storm effects down in Europe. You know, huge storms. We had one in Sweden a year and a half ago or something like that. They create a tremendous supply that has to come out of the market because it's also a question of freshness of the wood that drives this and then this impact we can see now coming in Europe. And that's one of the reasons for the use of using the word moderation which to me is still a fairly mild term.

Johan Swahn, Morgan Stanley

And then maybe just finally, on your comment on US newsprint. I know you are not large over there but there is a price increase from what I understand that has been announced for newsprint but still you are saying that the outlook is negative. The Canadian dollar is very weak etc. Can you just give some colour on why you think price outlook is negative in the US?

Jouko Karvinen

Well I think, in a simplistic format, it's more driven on the longer-term trend of demand reduction. And I don't know if Hannu wants to add to that? Maybe the one thing that I would like to add is that newsprint on its own is not a very large segment for us. It is more a market commerce should be than a future [indiscernible].

Hannu Ryöppönen

Well I think I can maybe add to that. Obviously the industry has seen historically is the product flow as you will do with a declining dollar. That is another aspect to this apart from the pure North American development as such.

Johan Swahn, Morgan Stanley

Thank you so much for that.

Operator

We will now take our next question from Johan Sjöberg from Carnegie. Please go ahead Sir.

Johan Sjöberg, Carnegie

Good afternoon gentlemen. My first question has to do with the US dollar. Can you say something about ... I guess that during the first quarter you didn't see any significant impact from the weaker US dollar. I guess you're seeing that now during the second quarter. Given your hedges and we are today, where would you see that your average US dollar exchange rates would be for the third quarter?

Hannu Ryöppönen

I don't think (Hannu here) I can quote you or give you any specific average dollar rate as such in relation to our hedges. I think what one can say is that our hedge levels on our flows is somewhere in the 40% range for the moment. And then we can all calculate the impact from that. But we are into a some 30 million - 40 million sort of impact on a year-on-year basis if you look at that.

Johan Sjöberg, Carnegie

My second question has to do with repatriation of volumes back through European Mortgage. Can you say something about how big these flows have been during the second quarter? Would you say that the bulk of it would have already taken place or should we expect to see further repatriation during the third quarter given the dollar weakness here?

Hannu Ryöppönen

That is, I think a very, very difficult question to answer. If it has been happening as I think I alluded to Newsprint, also we can see the flows moving across the Atlantic maybe changing direction and so on given the dollar continuation. I would just like to correct myself actually on the 30 to 40. That's the six months figure and not a full year figure.

Jouko Karvinen

I may add. This is Jouko. I won't be able to even give you exact rate flow numbers. We obviously watch them but I don't have them with me here. Just having, with customers and so forth, yes the percentage increases in imports in Europe look pretty big. But in total amounts I don't think they really are that significant. They do put pressure obviously into the pricing and creates opportunities in Europe because the growth supply to Europe is an increase even if capacity is cut down. That's what we call the interactive of the weak dollar, but I cannot give you the exact price flows.

Johan Sjöberg, Carnegie

That's fine. Final question. Tax rate for full year - what do you expect?

Hannu Ryöppönen

In the sort of 28% range where we don't see any changes in any direction there as we have guided before.

Operator

We will now take our next question from Henri Alexaline from BNP Paribas. Please go ahead Sir.

Henri Alexaline, BNP Paribas

Good afternoon gentlemen. Just two quick questions. I mean we've seen some consolidation in the distribution business with M-Real selling its American business to Antalis. Just wanted to have your comments on that. Whether that makes any difference for your American business and your pricing power and your debtor raising in the future and if you see that as a positive development. And Sir, my second question comes back to an earlier question on your credit rating. But what I would like to have your comment on is the fact that we've seen some surge in risk aversion on the credit market and clearly should that be sustainable? There will clearly be a difference in funding costs between being a DD credit or DDD credit. I don't have the feeling that you need to make too much of an effort to manage to keep an investment credit rating with Moodys. So, is there any way you can tell us whether you would be ready to take some tangible measures to maintain your rating?

Jouko Karvinen

This is Jouko. Obviously with have followed with interest the Antalis situation and the fact that they also are one of the several mergers that in one of our papers, as several of our competitors are selling through our merchant Papyrus. We are actually quite happy with the performance from an overall point-of-view of Papyrus. Right now that's not a worry or issue. We are not, so to say, too concerned about the Antalis. Strategically obviously, it's an interesting question whether the future is going to be a more consolidated future on the merger side. We think about that very carefully. Let me just stop there.

Hannu Ryöppönen

Yes I can comment on the trend markets. Having seen a few credit market turmoils in my career, I am not overly nervous about this one. From our perspective, as we do know, it is hitting all the private equity deals for the moment and it will obviously have follow-on consequences. What that exactly will mean for all the individual ratings and so on as the whole market kind of moves and depending on how it moves, it's extremely difficult to predict. The good news I think from our perspective right now is that it's sad that even if we would be downgraded, we do not have any dramatic funding needs for the moment and we have a very good and solid bond portfolio backing

us up. So the turmoil which normally settles eventually and in the meantime, we are certainly determined to drive our own case forward as far as our restructuring portfolio work to secure our strong point on national standing.

Keith Russell

Operator, I think we have time for just one more question please if there is one.

Operator

We will now take the last question from Richard Nilsson from SEB Enskilda. Please go ahead Sir.

Richard Nilsson, SEB Enskilda

Two questions. First on your cost per ton. Obviously you are guiding on the gross cost developments for the company for the whole company and I guess your cost mix differs dramatically from business to business. But if you look at your Paper and Paper Board operations (Publication Paper, Fine Paper and Paper Board) I think your cost per ton during the first half of the year is down 1.2% if you include also depreciation in that. What would be your guidance for the second half of the year? Or how should it relate to 3.5 to sort of more Paper/Paper Board operations on I guess a more net basis than a gross basis. Difficult question but I'll ask anyway.

Hannu Ryöppönen

You often come up with the good ones as many other ones as well. We don't really, from an internal operational point-of-view follow this development at that sort of level or detail. Also guiding for anything it's difficult. But there is one factor of course in this is that even if costs may be going up, we can have productivity improvements. And I would also here like to comment, even if we ever not comment anymore on this, that our Profit 2007 programme where part of that is productivity improvement issues is still working and contributing to our overall performance.

Richard Nilsson, SEB Enskilda

Great. And then also on your Packaging Board operations. Your realised prices were somewhat down in Q2 and I guess probably this may have been secured by various production downtime. But could you say something about your expectations for the announced paper board price increase. What you expect to have success in. What we should expect price realised to go up now sequentially in the third quarter on the back of that price increase.

Hannu Ryöppönen

I guess the best I can say on the pricing side is that gradually actually beginning from the June timeframe, we are pushing prices up on some carton boards and we are talking mid-single digit types of increases to realise which obviously we need to negotiate through and so forth. So that's the price projection we see going forward.

Richard Nilsson, SEB Enskilda

And that wasn't really in Q2. That will now be in more Q3 I guess.

Hannu Ryöppönen

Exactly. It's happening again like gradually.

Keith Russell

Operator, I think that's all we have time for now in terms of Q&A. Jouko, would you like to make a concluding remark?

Jouko Karvinen

Well, the only comment I make is the challenges have been there, including no winter and a few other things but nothing has changed in our strategy. If anything, the urgency with some of the struggles in magazine have increased and we will get back to as soon as we ever can to tell you about more of the structural improvements and portfolio choices we have made. Thank you for your attention.

[end]