Stora Enso
Q2 2008 Results Conference Call

Keith Russell

Senior Vice President, Investor Relations

Thank you, hello and welcome everyone, welcome to this call and we appreciate your time today, especially as we know it's been particularly busy for anyone looking at the forest product sector with an unusual number of companies reporting all today. I guess it proves the point that we don't speak to our competitors but at least we'll try to make this as efficient and useful for you as possible today.

In terms of the format, we'll follow our usual procedure and just to remind those that have dialled in on to the call that you can access our slides just now on the investor section of our website so you can follow along as well that goes on the webcast itself.

I'd like to introduce our speaks today. Our CEO, Jouko Karvinen and also with us Deputy CEO and CFO, Hannu Ryopponen. I know Jouko and Hannu would like to just hit some of the highlights of our announcement today before we turn over to questions. So with that, I'll turn the microphone over to Jouko.

Jouko Karvinen

Chief Financial Officer

Thank you Keith. Ladies and gentlemen, thank you for being with us today. I'll try to be brief so we'll have plenty of time for your questions.

Straight to the point, another disappointing quarter to both you and us. It's the third consecutive quarter of reducing our earnings and, like we said today, very much primarily driven by a rapid cost inflation.

We talked so much about the wood situation. I will address it a bit later on but now also the fuel and electricity cost hit our earnings.

Separately, I must say, our wood products, which is a relatively small part of the business was obviously hit, the majority of our earnings drop which is very much a problem.

We have taken actions before. I hope we start to have a track record where we not only have plans and announcements but we also execute on those plans. I sincerely believe that the fact that we not only [diversed] in North America and with that, we put our balance sheet and our pulp balance, by the way, but also [indiscernible] and then increase, early increase on the domestic sources of wood as well as the restructuring programme last fall that we executed rapidly.

I should make the point that even in this perfect storm, if I may call it that, we will not only plan but we will take action to get through this situation.

We are pushing pricing up fairly aggressively, have announced it to our customers first obviously and we will do that with the full understanding that it will be pretty tough in some situations given the [questions on] demand. We are determined that we will need to be very firm there given the dramatic cost inflation.

We did not [threaten] today. We said within the next few weeks, within the third quarter, which stops on September 30th, we will come out with one set of capacity cuts and cost plans. I will not list the countries of product lines today. I believe [indiscernible] a few weeks, you also will have to wait for the specific plans. We'll be well paid back by a dividend execution and return on those plans.

If you accept, I'll leave it at that. I'll come back at the end obviously. I would add, Hannu will very quickly go through the key financial numbers and then if you accept, I'll talk a little more about pulp and energy and so forth. Hannu.

Hannu Ryopponen

Deputy Chief Economic Office and Chief Financial Officer

Thank you and hello everybody. I'm not going to go through the slides seven through 11 in detail but those are [always] the underlying facts summarised here.

All what I'm saying, well as you have seen, wood cost, foreign exchange, the cost escalation not least in the energy component of our input costs have driven our result development to the territory where we are today and of the BA wood products is obviously the biggest negative from a strong quarter last year, that has to be remember, but certainly struggling today with both of the input and the output and the demand questions and so on.

Going on from there and may be just commenting on slide nine where we have these main changes and you can see them here. The foreign exchange, the output energy, that's a big one. There's also a big other red which is the fair valuations which [indiscernible] our employee option teams where we have a hedging programme in place to take care of this and that one moves in relation to our share price.

Through the second quarter, we have a significant drop to about 1.40 or so in our share price during the second quarter and if I simplify this, I would say that one euro change of our share price is between 7m to 9m and a positive or negative depending on the movement change in the valuation.

The thing that is often [indiscernible] in our method has to do with the hedging and the mechanism and valuations of those but that's the range I would like to give you in for the impact of that.

The other thing I would like to highlight from this particular slide nine is the fixed costs where you can see there's a fairly small increase or improvement but in fact it's a net of about 30m of fixed costs coming from our overall programme that we have implemented and then also the restructuring costs themselves have then created a negative of 16 so the net of 14 but we can see that the programmes are starting to impact.

Depreciation obviously is an improvement due to the impairments from last year if nothing else.

Going onto may be my main subject here which is cash flow.

We had a fairly good cash flow operation during the second quarter. However, as we know, it's not [EBITDA] driven improvement but all of our working capital showed a significant improvement for the quarter.

I have to say that I have not detected any clear trends that we would have an improvement that would be more of a permanent nature, yet anyway. We are refocusing on working capital, inventory management and so on. So that's coming and then we hopefully get some true output from that.

So cash flow is good for the quarter. Obviously a deteriorating result. It's a challenge for the cash flow overall for the year from operations.

However, from page 11, debt to equity, good news driven very much by our disposals, both last year in North America and this year, of papyrus to a, what I would describe as a very strong balance sheet in the industry giving us the freedom to operate that, As you all know, in situations of restructurings and other possible activities of the consolidations and so on in the industry.

Capex, the last page, and briefly about that. We have guided for 750 this year which we believe will be where we come out. Slightly above the depreciation level. We will, however, given the cash flow development, focus very strongly on our capex for next year, ie looking at a reduction as we would get [alpha] clearly below depreciation as far as our operations are concerned. And I think I'll stop there right now.

Jouko Karvinen

Chief Financial Officer

Very good. Ladies and gentlemen, I'll take you through the wood and so forth stories in a minute.

I do want to highlight that there is a typo on page seven where the operating profit excluding non-recurring items and fair valuations, that line starting with 223 140. The two numbers are mixed between first quarter '08 and second quarter '07. I apologise for that but I thought I should let you know now.

Okay, the wood cost has been the hot item in this industry, as least in the Nordic part, for very long. If you go to page 14, that basically shows mostly what we have already done since April '07.

We used to, in a few years back, Stora Enso used to buy about half of the Russian wood. Right now, we're running at about 30% of total imports to Finland. Why and how?

We first, very early on when the wood markets were working, increased our sourcing by 20% in '07. Then we did cut our pulp capacity which is, by the way, also more possible given the fact that we [diversed] in North America because we used to ship about a half a million tonnes to North America before.

And then we have reached now the estimate of 3.7m cubic metres and there was a [run rate] of reducing because [indiscernible] has been shut down [indiscernible] about, I guess, 90 days after the announcement and then [indiscernible] is down and also that we'll start reducing, it will be closing towards the end of the year. So the run at the year end is already significantly lower and, as the last part shows, we are finalising plans to be able to get through this storm by less than a million which is effectively only [chips amount formally]. That's plan A if you want to call it.

I'm sure you're all aware of the fact that the Finnish government did, in my opinion, a great move yesterday by launching a significant tax break for forest owners. [indiscernible] today that I really respect and I'm grateful for that but we cannot make pulp out of tax breaks.

We need to work now. The industry and the forest owners starting tomorrow morning to get the wood volumes up in Finland. We're running about 50% of the volume the year before in the overall domestic wood sourcing in Finland and that, on its own part, has changed our view a bit from a quarter ago. A quarter ago was that exactly that the wood costs, fibre wood costs, that it should saturate by mid year. Now we still see, especially in the fibre wood end, an increase in the third quarter. So until yesterday, this was very much a concern. Now we need to get the benefits of this tax break.

It does not remove the fact that we all saw the industry needs, both in Finland and somewhat in Sweden, we need to have he European Union to be successful with the Russians because this tax break in Finland will not remove the damages of the Russian duty. It can reduce them but it will not remove them. So we're keeping that pressure going on.

I think the positive thing to say there is I would hope that you agree that if I would be sitting here today with 7.3m cubic metres from Russia, I would have a lot bigger [problem is possible].

Energy next, page 16 and this is intentionally a bit detailed. There's been a lot of discussion about historical decisions on pulp generation, owning and selling and [indiscernible]. Also specifically, I think confusion between electricity, self-sufficiency and energy self-sufficiency with are totally two different things.

So we call it here electricity and fuels. Our self-sufficiency in the electricity generated energy is about half which is not the best in the [indiscernible]. However, on the fuel side, our self-sufficiency is 70% which is actually very good and if you [indiscernible] round them up, basically the 64% in the box based on public information obviously either to say that is at par with the best in the industry.

What does it really mean and why?

We are a very large pulp producer of chemical pulp, probably the second largest in the world with about 5m tonnes, I'll talk about it in a minute. A significant part [indiscernible] that is integrated pulp where the energy balance is even better because you don't use the energy to dry it. Therefore the sensitivity of Stora Enso [indiscernible] and the write up on page 16 basically says that in the present situation of electricity, a 10% change in electricity market price. That's a relatively small impact on our earnings per annum and I won't be able to give you the exact number but if you look at five years trade and let's say we're over the hedge again but even if you multiply that number by three, how do I say, that's my biggest headache.

The bigger headache is oil and with that, gas where [indiscernible] six months delay and this is not unique to Stora Enso so the good thing here is again that the self-sufficiency is 70%. But even with the 30% expose was there, the gas price that follows the oil price obviously has a significant impact on our earnings.

So that's one of our challenges. I do believe that relatively in the industry we are actually fairly well positioned.

If I can ask you to move to page 18 [indiscernible] pulp. This is related obviously to the energy oils but some [indiscernible] our freedom to act on capacity situations. [indiscernible] right pulp is 2.2m so you can see that 3.1m tonnes is fully integrated pulp which was cost efficient but also very energy efficient. We use internally about 1.2m of it, we sell a million and buy 330,000 and this is [indiscernible] North America investments. So about balance before 2008 is 700,000 tonnes [indiscernible] with the already planned and executed plans of [indiscernible] and [indiscernible] will be 400,000 tonnes long.

Well first of all, the stocks in chemical pulp can improve our self-sufficient in fuel energy but also very important, being long on pulp right now is good. It gives us freedom to do temporary market curtailments which we probably do if there is an issue on wood costs and availability which we've done and may do more. We can do it without damaging customer relationships in paper and [indiscernible]. The point being we can go in and out of the pulp market relatively pretty easy but you cannot go in and out of a liquid packing board market. If you go out, you're out. So that has given us freedom to act and it also does mean that from a restructuring point of view and permanent [indiscernible] point of view, it's relatively easy. No as dramatic and it is lower cost to also deal with the long pulp than I would be with some integrated paper [indiscernible] price.

Market outlook, I'll be quick. On page 20. We said for two quarters in a row now, we think we've been fairly positive. Many people said that we're more negative than our competitors. I've left that for you to judge but if you look at the rear view mirror, I would dare to suggest that we may have been more realistic than the others.

Today, we're saying we see the first signals of a softening market and I only pick from here that fine paper, specifically [indiscernible] one of the signals where we see demand weakening and specifically I would pick RCB container board as a bit of a signal in the paper board area.

The fact that the wood product has had a disaster as market situation or [indiscernible] situation continues to have that, I think is a separate issue.

On pricing, I am sure you rightfully will ask well what do we mean when we say that the weakening in demand, for example, in fine paper, we have a [indiscernible] price increase. Well there's two factors. First, in specific rates, there's been capacity cuts and there's a demand/supply situation where we see a possibility and the second reason is very simple with the fact that cost inflation in the industry for 10 years, we will have to get pricing up and if we will have to short term, [indiscernible] has released volumes so be it but we're very determined be it fine paper or consumer board and so forth. In news print, we see a stability sequentially in pricing and in magazine paper who obviously have been trending up, we'll continue to push the pricing up.

Last slide, page 22. Repeating myself. Inflation, cost, both are the key issues. Not for us only but for the industry.

As tough as it may have been for the past 15 months, I am happy we've done the things we've done. [It would be decided] point of April ’07 now, it won't be the problem.

We’re still suggesting a 4% annual inflation but it is evident based on the data from specifically the energy side and before we see the impact of the tax breaks that there is a risk that would increase. And we also guide now on a fairly specific analysis. It's only quarter three, there’s so many variables now that we’re not giving a guidance in Q4 or a rapid change in the variables but we see that we would be sequentially somewhat lower.

Cash, I’ve already mentioned. We’re taking a squeeze from capex this year and I will not give a guidance for ’09 but I'm sure you understand that cash preservation and being very diligent there is high on our agenda.

A final word before I turn it to you. May be for me as the newcomer in the industry, it does feel like a perfect storm but we will not wait. We will take whatever actions, we will continue to take actions to get through the storm and I expect that we'll get out of the storm stronger than ever.

Thank you.

[Operator instructions]

Question and Answer Session

Marshall Ugg, Credit Suisse

Yes, I had a couple of questions. Starting with your sequential guidance, Q3 is normally a operationally stronger quarter for you. You have higher magazine paper. Prices most likely in the store. Can you bring us through the mechanics of how the numbers are going to go down? What is the cost factor that is making this happen?

Jouko Karvinen

Okay. I’ll start and I'm sure Hannu will help me out if needs to be.

Two drivers basically. First of all, like I already said, we’re changing our guidance on the wood costs that are supposed to saturate. The fact is 50% of volume in the domestic sourcing in Finland, if and when, even if the tax break works as was announced yesterday will not really have an impact in the, whatever, 8 to 10 weeks we have left for us. So we see that increasing the free from energy meaning fuel-based energies specifically is having a direct negative impact on energy costs even though we have the self-sufficiency and it will start to have an impact on logistics costs.

On the other side, we say that the Q4, which we will not give a guidance for, if the tax break works on the wood side, there's the possibility to turn that unfortunate trend and obviously we're fighting really hard to make those price increase announcements we have made through the summer to start to have an impact in Q4 even though in many grades, the consumer board, the majority of the impact, when it works, would be in early '09. Alright?

Hannu Ryopponen

May be one additional comment that is also referred to magazine paper and you may well be correct with what you're concluding there but remember, it's a relative size of our business as well, that it's not [indiscernible] alone the that can either kill us or save us so to speak so that's important [indiscernible].

Jouko Karvinen

And we should be more clear on that too. I should apologise.

The trauma we have in wood products that we can say like we did that last year was so good but they've lost money now for three quarters and we understand we have to stop the bleeding but it will take a little more than to the end of the quarter. Remember in the second quarter, there were the majority of the reduction of the earnings so that's one more factor that's burdening us very short term.

Marshall Ugg

Okay, and you obviously will talk us through some sort of restructuring measures for capacity closures I guess within the term of this quarter which is fine. When you're looking at the bigger picture, obviously you do in capacity closure so that's necessary but the bigger picture of the industry restructuring, new units, etc. Where do we stand on that now, if anywhere?

Jouko Karvinen

Okay. I'm having some difficulty hearing you, Marshall so if I answer the wrong question, please correct me but basically, our school of thought is this.

Strategy is great but if you [indiscernible], you don't need strategy. The point being we are working and we have worked hopefully very efficiently on fixing costs, reducing capacity and so forth and so on, improving the cost position and product positioning of our company. I don't think that's a contradiction to working on strategic priorities and sensible consolidation opportunities. In fact, I tell my own team the better we make ourselves, the more attractive [indiscernible] partner can we be in industry consolidation.

I will not be able to tell you a schedule. I said before it is necessary as one mean of getting things right on the earnings level but I also say we will not sit back and wait and think that that's going to save our future. I see them as two parallel pasts and finally, yes, we're still actively, still [indiscernible] we're working actively to find [indiscernible] consolidation opportunities.

Marshall Ugg

And final question. You obviously need to push pricing up to compensate for costs as you've rightly pointed out.

So how is this different compared to what you've been trying to do in the past two years and you as a top management team, what's the marching order you're giving your sales force now and how are you going to make sure this works? How much pain are you willing to take?

Jouko Karvinen

The [indiscernible], if you want to call it that, the agreement in the group executive is that we will take curtailments if that's what it takes. Costs inflation, well you can talk about the 4% this year but remember add the last two and half years together but in this position where I can work 7/24 with my team and we can't cut costs because of external factors fast enough. So that's one more mean. We're determined to be [indiscernible] that and I can guarantee it? No but, like I said, we will be willing to take curtailments if that's what it takes to get the price levels.

Marshall Ugg

And I guess you must budget with and that's going to have to happen because the pound is weakening. Is that not right?

Jouko Karvinen

Well if I may, again, it's more [indiscernible]. It's varies by grade and the primary driver I see there to be honest is it is demand/supply balance. So in magazine, I'm very opportunistic as we keep pushing, the fine paper is going to be more difficult in probably than magazine but there, I think what's going to support it is that there's been capacity cuts and again, you can explain it better than me. It is a demand/supply balance. It gives me motivation to try to do the best also on that line.

Marshall Ugg

Okay. Thank you.

Marthias Carlson, Deutsche Bank

Thank you, hi gentlemen. I got a question regarding the consolidation and the restructuring. I was just wondering, in order to turn this around, I mean do you believe that Stora Enso, on its own, can get back into profitability with your own measures or do you think that there is need for further consolidation and a big consolidation in order to take the necessary costs and so on to get this deteriorating industry back on track?

Jouko Karvinen

Thanks Marthias, this is your call. The answer is, well first of all, we are profitable, on a lousy low level, I admit and the answer is yes, we can improve our profitability on our own and that's exactly what we're doing.

But the answer is also to get to return levels where we would have happy calls with people like you, it will also take consolidation.

But the point I'm trying to make is I don't see them as alternatives and I can't wait.

Marthias Carlson

And do you think, I mean well now given what's happening in the industry and so on, I mean we talked about consolidation for quite some time now and are we, let's say, are the industry working in the right direction in order to do big restructuring or are we still standing at the same place as we did a year ago?

Jouko Karvinen

I say two things. We are working also on that, not just restructuring cutting. Actively and as fast as we can without doing stupid things. My perception, and remember, you know, somebody said that the industry has been talking about it for eight years, well I've been talking about 15 months which is too long already anyway.

But my perception is that everybody understands how deadly serious this is. It's not a linear [indiscernible] I mean. [indiscernible] price we're beaten up today, [I read the web], everybody is getting beaten up. It is an industry problem so it's not that somebody says they don't have a problem.

Marthias Carlson

But do you think that even the say the low cost producer are realising that it's not the last man standing strategy which is the right way forward to create shareholder value or do you think that they are thinking in a way that they also, I mean are more visionary and thinking about creating shareholder value by let's say taking very, very tough decisions?

Jouko Karvinen

That first with a bit of smile say well you should ask those visionaries because I don't exactly know who you mean but the low cost producers. I think the reality of the world with my experience is first of all, this is not a global business. The product doesn't travel too many rounds the world very efficiently and therefore it is very much a regional issue and so forth and my perception reading public data and obviously in our diligence work on the consolidation is today on 24th July, I'd be very surprised if anybody would say life is good, we don't need any consolidation and that's all I can say, Marthias.

Marthias Carlson

Okay. Final question on the Russian export duties. First of all, are you working on the assumption that actually these duties will take place on 1st January and secondly, on your wood supply, you say that you're going to decrease that from 3.7 to .6 [cubic metres] which obviously means in pulp terms around 650,00 to 700,000 tonnes of pulp.

Should we look at that say a reduction in a way that you're actually going to close that capacity down?

Jouko Karvinen

Yes, okay. The first point is that we have not planned but worked for the possibility of full duty, I dare to say since April '07, that's where we've taken the [indiscernible] increase. [indiscernible] and we have a plan of the 600,000 cubes so I don't hope any more or I don't estimate, I keep telling everybody in the European Union, I want them to get the compromise because it would improve the situation of the company, that we have a plan that we're finalising and I said today that in addition to the third quarter restructuring capacity plan, we have and we'll launch a plan if the duty comes. Then afterwards, towards the closer to the actual happening, then your maths is obviously correct in terms of the cubic metres and the tonnes on pulp.

Well the first thing is remember we're at 700,000 tonnes long now in '08 and when we take North [indiscernible] out, we're still 400,000 long. But your maths was also from this year's number to .6 so from a pure maths point of view, if that otherwise makes sense, we would not have to lose paper board capacity or start buying market pulp. We have that long position now to get to that and if you accept I will not want to talk about locations or specifics but the maths works.

Hannu Ryopponen

If I could just add one comment to this. As we also said in our release that our impairment testing and the results of those will not come before in the fourth quarter, now we're [indiscernible] come out in Q3. The primary driver behind that is that the export duty issue if there would be a positive resolution or none at all could have significant impact on how the impairment would come out.

Marthias Carlson

Okay. And just one follow up on the last answer here. Did I understand correctly that you said that the impact on the Russian perspective, not the cost or other costs, but the impact on the Russian side that you actually do not need to close any paper and board capacity when you close down potential pulp capacity?

Jouko Karvinen

It's good that you follow up, that was not the intention. I just said that your maths is correct. If other factors including earnings capability and margin capability in our board and paper business is sufficient, we do not have to close that because we have a 700,000 tonne long position in pulp, significantly because we did diverse North America which we supplied about half a million tonnes there. So that freedom is there but please do not read that that would be a conclusion on our restructuring programme related to the Russian duty towards the year end. That's a little too far too early. But that freedom exists.

Marthias Carlson

Okay. Thank you very much.

Ross Gilardi, Merrill Lynch

Yes, thank you. I just have a couple of questions. Could you tell me a little bit more about what you're seeing in magazine paper? It seemed like that's the one grade where the industry actually had some real pricing power going into the quarter so I was really surprised to see profits erode sequentially.

Jouko Karvinen

Okay, this is Jouko. The short version of the story is which is actually in our second report that the one essential negative there was that [indiscernible] pulp mill does a lot of our magazine reports and on a year on year basis, their earnings went down 16m and one sixth which is I think very significant. That's no excuse but on a trend basis, it was a significant hit on the magazine side and it was not an accident, it was a pure operational issue of scheduled [indiscernible] of going very long. So you should take that into account. It's explained in the report when you do your [indiscernible].

Ross Gilardi

I see, okay. And could you just explain, are you seeing any signs of paper demand slowing in Eastern Europe at this point or is most of the slowing that you've alluded to mostly in Western Europe?

Jouko Karvinen

I don't think I can really give you a regional answer. I think the one comment we have made in our release is that one of the concerns we have is the primary demand on advertising spending overall. [indiscernible] obviously will have an impact on the print papers and so forth but I think that's as far as I can go.

Ross Gilardi

Okay, thank you.

Myles Allsop, UBS, London

Yes, just a couple of questions I guess. On the demand side, could you give us a sense as to how material the decline in demand is coming through and what your expectations are for the rest of the year because certainly, some of the feedback we're getting from the publishers is pretty scary and I'm just wondering what your sense is for demand and if you talked through the different grades, that'd be very [indiscernible].

Jouko Karvinen

Okay. I again have struggled to hear you but I think if I heard you correctly, you said about the comment I made before about the concern on the primary demand from [indiscernible] and so forth.

I think overall, it's a bit early to say first of all because it's not so clear yet and I think it's a bit of an linear chain.

We see that in Western Europe and North America, that's what we say in the [indiscernible] if the print advertising expenditure is forecast to stagnate. Probably the numbers are that if you look at for example, North America, the first six months numbers are not, if you exclude newsprint, they're not that dramatic but the May and June numbers in [indiscernible] are very dramatic and we care less about that.

But my point is I think we share your concern. We stick to the stagnate forecast in the Western Europe and North American situation but I'm worried because at least in the North American data now shows that the late second quarter, the curve turned, and I have to end with a positive. In Central and Eastern Europe and Asia, we do not see that happening.

Myles Allsop

So are you looking for kind of minus 2-3% demand trends in the second half, is that kind of the magnitude of the decline that looks likely at this stage?

Jouko Karvinen

I think you're in the right range.

Myles Allsop

Okay. Now may be just could you give us a few more, a bit of an update on [Verasel] and the legal situation there because my understanding is that's over half the plantations may have to be replanted with local trees under the current ruling. Clearly, that would be a big impact on the profitability of the mill?

Jouko Karvinen

Yes. Well let me take the specific case where the Judge of [indiscernible] was initiated in 1993 based on I guess 60 some hectares of wood, 64 hectares. We, meaning Stora Enso, [indiscernible] and Verasel, the three parties have taken a very firm position.

One, we have fulfilled every law in Brazil. We've done an extensive environmental impact study, as a part of the legal permit requirements, and we have now pretty aggressively done what's called a core clarification of the judgment, trying to get rapidly a suspension of the [indiscernible] and we're also going through an active appeal process.

To demonstrate our firm and confident, if I may say, we are that this judgment was based on incorrect information. The planning process of Verasel two is continuing as before.

Hannu Ryopponen

It's Hannu here. Add one thing to that. The NGO who was in fact sort of behind it, trying to get this judgment, has himself commented, it is public knowledge that they don't fully understand either these kind of draconian decisions that this Judge has concluded.

Myles Allsop

When do you expect the kind of [indiscernible] ruling to be overturned then?

Hannu Ryopponen

I'm sorry. The first thing is we need to get and I apologise, I'm not an expert on this, but my understanding is the first fast thing we need to get done again absolutely in full agreement and support of [indiscernible] is the suspension of the decision so that no action needs to be taken and the penalties are not asked for and so forth.

Because that then gives us more time to get the, I guess, the next Court level ruling out done and so forth but let me just say, we'll do it as fast as we possibly can mostly because right now, this is not an issue for us but obviously over time, it becomes an issue so immediately is the answer of that I think.

Myles Allsop

Okay, thanks.

Mikael Jafs, Cheuvreux Nordic

Yes, hello. This is Mikael from [indiscernible] Stockholm. I've a question on your consumer board division. You used to run at quite good margins there but since a few quarters back, we've seen lower margins and now in Q1, you've talked about cost increases, etc holding back their earnings.

Going forward, what do you think about the potential of you raising prices. I noticed that in your price development expectations [statement], you talked about some improvement towards the end of the year. Some of your competitors have been more aggressive on their pricing statements than that. Could you please shed some light?

Jouko Karvinen

Okay, this is Jouko again. Basically, well first of all you're right. The consumer board has been hit pretty heavy, relatively heavier than others by the fibre cost situation.

If I understand correctly, the demand of fibre per tonne of board is very high in consumer board and also because of our significant asset in [indiscernible] and its location has been hit bad because it strategically always has been that [indiscernible] operationally, one of our ground rules and that’s how we plan to keep it, by the way. But that means we have to get our costs right and this is one area where we talked about that we need some investments also and so forth to improve their costs position and it's very much now the detail’s driven by what’s going to happen with the Russian duty.

The second part of price increases. I try or we try to be very, how will I say, very firmly firmed a practice that we will not talk to the media or even you about planned price increase stories but we only tell you what we've actually told our customers. If you look at the consumer board area, we have actually launched significant price increases to [indiscernible] fibre based card and board in Europe and certain dollar markets.

The fact of the matter in the liquid packaging area specifically is that about two thirds of the volume is contracted through the end of ’08 meaning that the impacts are of January ’09. One third could have some impact on the latter part of the year.

We have also on the card and board grades informed our European customers of quite a sign increase from September onwards and then we’re working on some other increase. They won't get specifics to outside Europe.

Mikael Jafs

Okay, thank you very much.

Michael Doppel, Landesbanke, Helsinki

Yes. Just a couple of questions. Firstly on demand, when you look a fine papers and then you look at magazine papers, there’s quite a difference in the demand, especially when comparing quoted fine and quoted magazine. What do you think is the reason for this?

Jouko Karvinen

I am not sure I will be totally able to answer that but if I heard you correctly, you said why is the demand better in quoted magazine versus quoted fine. My understanding of the application is slightly different so that probably is one reason.

Then from our growth, expectations meaning our delivery growth, that I think is more a demand/supply situation in magazine. There’s been more significant supply cuts on that side than in the quoted fine, so far.

Michael Doppel

Okay. And then secondly regarding magazine paper pricing, do you see any chances for additional pricing in this year or do you think this is what we’re going to see, what we are right now?

Jouko Karvinen

We have already announced say lower mid single digit increases in Europe and more for non-Euro Zone markets, incrementally effective July. So I'm not only thinking we're pushing already since a few weeks.

Michael Doppel

Okay, thank you.

Linus Larsson, SEB Enskilda

Thank you. May be a couple of more questions on consolidation if I may.

I wonder whether you're perception of how consolidation will take place has changed over the last year and whether it will be cash, whether it will be paper bids or in other aspects. Has your perception changed in that respect? That's my first question.

Jouko Karvinen

Yes, I guess I can delegate this to Hannu because he's been longer than I have. But seriously, yes it has, I'll be very honest. As much as I try to study and understand and I used to serve this industry, I hope in the first quarter of '07, I was a [indiscernible] trainee here, I learned what drives the cost in terms of marginal cost and competitive position from fibre to energy to logistics to you name it. That became early clear to me that the traditional talks about who's got the best paper machine, the fastest, the lightest is of less relevance today. It's very much the customer geographical print. You're asset footprint and you're fibre footprint and your energy balance always.

The point of the story is, and you're not going to like this, I learnt pretty quickly that this is more complex than may be simple me would have liked.

The second answer I'd like to give to you is that the good trend that we talked about is, I know it's been talked about for eight years but look at the news today. I think there's more parties now who say we have to do something different so that gives me serious hope that we can actually get finally something done.

Then from a mechanical, how do I say this now? From the technical side of the transactions, I don't see necessarily that the favourites would be cash, acquisitions for cash disposals, half [indiscernible] is a neat term but it becomes a complex puzzle because you have to find partners who hate the things you love and vice versa, so they say.

But there's other methods. [indiscernible] spin offs, mergers, even joint ventures to start with and so forth. So I guess my take would be and Nannu's welcome comment is that it will be more than a non-cash side in the range from, if they're smaller joint ventures type of things, to a full merger.

Linus Larsson

[indiscernible] and then may be also one statement that you've made on I think more than one occasion in the past has been that you expect Stora Enso will have to become a smaller company before it can grow bigger again. Is that still a relevant statement from your side?

Hannu Ryopponen

Hannu Ryopponen here. If I may comment. We are already smaller, about 21%.

Linus Larsson

Absolutely. If you were to [indiscernible] in that statement on that point …

Hannu Ryopponen

Yes and where we go from here, of course, the next steps will drive that but I will also like to add to this that if we focus too much on Europe alone in all of the thinking, we may also be missing the boat.

Linus Larsson

Right.

Jouko Karvinen

Now let me follow up on that now that we're on the subject. It's not only the size and I always make the joke that I don't wake up in the morning thinking how many tonnes do we produce but I also need to say that even though we have had to do tough things and, as I've told you today, we're going to have to do more tough things.

Even though the company is 20% smaller since I started, I didn't come for five years to shrink 20% a year either only and I think Hannu's point is well made. We have an issue because we're in the wrong place from a growth cost base point of view so in that whole strategic work and priority setting, we need to also work on that change and I guess we've finished off by saying do we get a little smaller before we get bigger? Could be or we'd better get to a point where after we get smaller, we also have a growth opportunity with margins that are different that the ones we talked today.

Hannu Ryopponen

Let me just add one thing to that although it's evident and that is that we have, thanks to the disposals that we have done very intentionally for many reasons, also a very strong financial position, despite a weak operating performance and this is key, we believe, to reshape and shape Stora Enso for the future.

Linus Larsson

Great. Thank you very much.

Myles Allsop, UBS

Yes, I just wanted to follow up on the energy side as well. I mean I think the total cost is around a billion euros. Could you split that between the oil and electricity first of all?

Jouko Karvinen

If fuel versus electricity, if we can call it because there's majority and oil, about 50/50.

Hannu Ryopponen

And if I may, sorry, to add a couple of things.

Because I should've said before, this is another area where I don't want to come across and say oh my God, the oil price is up because it's just not good enough and the gas price. We've done things. It's not that I've come in that we're going to do something about it. To remember the [indiscernible] multi fuel investments we made which are reasons that I happen to know. Those two own their own will reduce our gas exposure with about one fifth and we've done others before that. I can't explain to now every detail.

So the point of the story again is we're not here to report how the world is treating us. We're here to tell the truth and the fact and tell you also that we are not only starting actions now. We have already taken actions and we'll do more. Sorry.

Myles Allsop

And on the electricity side, could you give us a sense as to when the financial hedges roll off or at least when the cost of the electricity under the hedging starts to move up materially?

Jouko Karvinen

Yes. I didn't quite hear your second part but I'll answer the first one.

Our electricity hedging runs at current level for about three years forward or I've round up the numbers because 90% or so of our total consumption, what happens with these hedges is that they are obviously rolled as we see opportunities into the future. This is something that is constantly worked on on a practically daily basis to secure when we see opportunities, good and are at the levels obviously moving with the market. We can avoid that totally but we feel fairly confident that this management, we can continue to do.

The second part, sorry.

Myles Allsop

It's more about the pricing. Is it basically fixed at today's levels for the next three years, is that as we should understand it?

Jouko Karvinen

No, some of those have been fixed already quite some time ago.

Myles Allsop

Okay, but at the rate that you're paying under the hedges in 2008 so we're not going to see any delta for the next three years?

Jouko Karvinen

That is more or less the case. I'm hesitating a little bit to give you an absolute definite answer but the picture is there. If anything, the current hedges would be may be even somewhat below current levels, ie there would be a market value to those hedges currently.

Hannu Ryopponen

Yes, if I could try to help not because I know it better but because the slide 16. Basically what we said there, with our present hedging levels in the next two to three years, electricity [indiscernible] goes up 10%, that's 8m euros per annum for the group. Okay? That's give you I think the flavour on the protection of the hedges obviously over the next three years.

Myles Allsop

Yes, that's helpful and on the consolidation, just going back to that, do you think we'll see some event in Europe over the next 12 months?

Jouko Karvinen

Don't be angry with me. That's a no win question for me because it such a broad term the consolidation and you always need more than one party. For the good of the industry, I hope there's going to be action and I will do what I can on my own part to support that trend. Can I guarantee to promise it? No but we'll do our part. If it makes sense to [indiscernible] shareholders. Sorry, I hope you can live with that answer.

Myles Allsop

Okay, no, that's fair enough. Well may be one last question. With regard to your cash flow priorities and clearly cash flow is weakening as earnings are weakening and dividend cover is non-existence, and the balance sheet is clearly strong but can we remain reassured that the dividend is safe or should we now start thinking that the dividend has to be cut on a sustainable basis?

Jouko Karvinen

Before I think the direct comment on that one, just on our cash flow and our also debt maturities we have over the next year and a half, this year and next year, we have sufficient liquidity to deal with those in our existing facilities plus other access we have through the pension fund reborrowing in Finland and so on to the tune of more than 2b, well more than 2b in the total but facilities under this availability so there's no issue from a pure liquidity point of view and you could even through the dividend into that aspect but that's a different story altogether. I'll have to assess the dividend when we come later in this year and it's also very much the board that will take care a view on that one.

Myles Allsop

Okay, thanks.

Operator

No more questions. Now for closing comments.

Jouko Karvinen

Good. I will keep you for about 30 seconds. I will not try to finish the story by explaining and say something particularly positive about our results today. I can only say that I hope we've shown that we're here to take action and not wait for better times and I can only ask for your patience to show the results of [indiscernible]. It will not happen, the results will not happen in a few weeks. But sooner we actually take the action, the sooner the results will come. [indiscernible] simple. I think it's a perfect storm for the industry. [I always thought after we have] come out of this storm stronger than ever before.

Thanks for your time.