

# Stora Enso

## Q3 Results 2008

**Keith Russell**

**SVP IR**

Thank you. Thanks very much. Welcome everyone to this call, covering our third quarter and the first nine months of 2008. Before turning the call over to our CEO, Jouko Karvinen, just a few points I'd like to make. If you're not participating in the webcast and would like to view our slides, which we'll be referring to in a moment, those are available now on our corporate website in the investor section, as usual. And also, we hope that you've had a chance, or will do soon, to review the full text of our press release, which was issued about five hours ago.

And then finally, before turning over the call, I just need to bring your attention to slide number two of the presentation pack, which is our statement concerning forward-looking statements. And the format for the call will be a short presentation and then, as usual, we'll leave plenty of time for questions and answers after that. Jouko, please go ahead.

**Jouko Karvinen**

**CEO**

Thank you, Keith. Ladies and gentlemen, thank you so much for finding time to be with us today. If you go to slide three, that's the content of our short presentation today. I have today with me Markus Rauramo, our new CFO and also, Hannu Ryöppönen, my deputy. And what we're going to do, I'll start with the overview on one page. And then I'll hand it over to Hannu for a minute before Markus then will take you through the financial results and the critical cost developments. I'll come back on the market outlook and summary.

If I can then ask you to go to page five, please, that's the short version of third quarter 2008 Stora Enso. The operating earnings, excluding the non-recurring items, was better than expected, also better than we guided. It's a sequential improvement from the second quarter. We still say it's a poor result. Year-on-year, the earnings went down, solely because of the wood product situation. If you add up the paper and board earnings, that was actually flat year-on-year.

Cash flow was poor. We still say that the early actions on restructuring started a year ago and continue now this fall, as well as the strengthening of the balance sheet and

liquidity a year later have positioned us well to the next phase of the storm. What we saw in the third quarter is more from the mid of the quarter, the stronger United States dollar, but also the weaker Swedish krona did contribute to better than expected earnings, solely to reduce overhead costs back to the point of early action.

I must also say that in a not that bright and brilliant market of the third quarter, we were able to improve pricing in the majority of paper and board volumes. Not in all of them, but I think that was a result that I'm relatively happy with.

That's history now. We're right at almost a long ways into the fourth quarter. We think, because we're going to talk about the market outlook, that maintaining pricing discipline and pricing quality -- what do I mean? Both pushing prices up where possible, but also continuing an active customer and product mix margin [work], i.e., improve margins in the [BA], also where straight price improvements are not possible.

That being the first priority, the other priority is cash generation. We will have to take quite some actions now because we want to enter 2009 with low inventory levels. I'm sure you understand why. On the Capex, we ended third quarter with more than 20% down year-on-year. We started with a 900 budget. In April, we said 700 to 750. Today we are saying 650 to 700. And given the fact that there's two and a-half months left, I'm sure you can see the direction.

Having said that, we have also agreed that with the outlook we have of the world, we will actually, basically re-plan our capital investments for 2000 and beyond.

That's the short summary. If I can now hand it over to Hannu, my deputy, for a few minutes before Markus then takes you through the finances.

## **Hannu Ryöppönen**

### **Deputy CFO**

Thank you Jouko. And it's Hannu here. And it's a pleasure to participate. I think it will be my last quarterly call. And I would like to give a couple of reflections not related on the quarterly statements or results, but where we are today. I would like to emphasise what Jouko already said and I think what Markus even further will say. We have developed a strong liquidity and balance sheet statements, very much with the starting point of weak profitability to improve our cash flow, as well as the ability to do strategic moves in the industry.

The divestments we did obviously have been key contributors to the strong balance sheet we have today. And of course, we also saw that an economic downturn was inevitable, sooner or later, a couple of years ago. But we did not foresee a financial crisis in the world. It's quite understandable. But maybe that was the lucky part of it that we also, for that purpose, have the ability to stand up straight and work with our financials in a controlled manner by ourselves, and not reliant on the financial markets in any great way at all.

With those few words, I'd like to thank you all, ladies and gentlemen, for listening to me over the previous quarterly calls. And I will probably see some of you at the

Capital Markets Days here in early November. But I'd like to hand over to Markus, my successor as CFO, and who I know will take good care of the balance sheet and our cash flow, as we move forward.

## **Markus Mauramo**

### **CFO**

Thank you, Jouko. Thank you Hannu very much. I will actually go straight to slide number seven, the summary of financials. Operating profit was a disappointing EUR126 million, down 37% year-on-year. Then again, comparing with the previous quarter of this year, the operating profit went up by 34%. And although we are not satisfied by the absolute level, the result is clearly better than what we expected three months ago.

I will walk through the key drivers, both year-on-year and quarter-on-quarter in a short while.

The ROCE is at a low 5.4%. But we have done, as Hannu was saying, that we have done decisive cost and capacity cuts, and divestments to strengthen our balance sheet. And our debt-to-equity ratio is now at 0.43, compared with 0.57 a year ago.

Moving on to slide number eight, the year-on-year operating profit was actually down by over EUR70 million. And the result was impacted unfavourably by the foreign exchange rates, sales volume and energy costs. And these were partly offset by increased prices, reduction in personnel costs and other fixed costs.

Actually, year-on-year, the paper and board subs were stable, as was mentioned, but wood products result went down by EUR50 million.

If we move on to slide nine and look at the quarter-on-quarter, the operating profit was up by EUR30 million. And the result that turned out, we had better than we had expected. It was impacted positively by the sharply strengthened U.S. dollar and weakened Swedish krona, increased sales prices in magazine and newsprint and decreased personnel costs and other fixed costs. These positive items were partly offset by the decreased sales volume; increased energy, fibre and logistic costs.

If we then move over to slide 10 and look at the cash flow, as Jouko mentioned already, a key priority to us is to improve our weak operating cash flow. In Q3, the cash flow after investing activities was EUR40 million. And going forward, even more than before, we will focus on pricing quality, working capital and Capex.

In Q3, we reduced our capital investment by some 20% compared to a year earlier, to a level of 150 million. And we started the year with Capex [inaudible] at 900 million, revised it in April to 750 million. And now we're estimating that this year's Capex will be 650 million to 700 million. Further to that, we are reviewing our whole Capex program for the next one to two years, in light of the completely changed environment, both in the financial markets and the real economy. The aim is then to reduce the overall Capex level, while ensuring that the focus is on the strategically important projects and initiatives

Another priority is our working capital. And we will be focusing on the price quality, both the customer quality and the product mix quality of our products. And if needed, we will adjust production volumes to ensure that we do start year 2009 with appropriate inventory levels for the challenging year to come.

If we then move on to slide 11, to a maturity profile, the key highlight is that we have proactively worked to reduce the liquidity risk and our reliance on short-term borrowing. We've extended the maturity profile since mid-2007 when the first wave of the financial crisis hit the markets in the U.S.

At the end of this quarter, we had current borrowings of 585 million, and cash and cash equivalent of close to EUR400 million, compared to EUR1.2 billion of current borrowings and EUR180 million of cash at then end of Q3 '07, i.e., a net change of 900 million year-on-year. If we compare to Q2 '07, we had net debt of EUR4.4 billion and now the net debt level is at EUR3 billion.

On the financing side, this quarter we drew 200 million of 10-year Finnish pension loans. And on the statutory pension loan capacity, we have further potential to grow 600 million more. In addition to this, we have our 1.4 billion syndicated loans, fully un-drawn.

If we then move over to look at the key cost components and cost drivers, and on to page 13, where we talk about the wood cost and wood sourcing, we changed our wood procurement strategy dramatically 18 months ago. And since that, we have cut our wood consumption by 3 million cubes, added [a hundred] people in Finnish wood procurement, launched new products to incentivise selling wood, added over 2 million cubes of domestic sourcing in Finland, and thus we have dramatically changed our position from being the largest importer of Russian wood to being in a position of being independent of Russian imports.

In addition to that, we have significant further temporary closures under review in the wood products business area.

Then to slide 15 and the energy balance. Compared to previous quarters, we have continued to further improve our energy balance and our total energy self-sufficiency has increased to 65%, fuel self-sufficiency to 72% and the electricity self-sufficiency is remaining at 47%.

The sensitivity now to 10% change in oil prices is EUR18 million and electricity EUR6 million. And as the world's second largest pulp producer, we are very strong on the fuel-based self-sufficiency. And our total self-sufficiency is at the same level with the best companies.

Further to that, our product mix is less energy-intensive than some of our major competitors, with products like chemical pulp-based [fine] papers and consumer boards. And we continue to further increase the self-sufficiency by very profitable investments into power plants at Maxau, Langerbrugge and further in our associated companies in Olkiluoto, the three nuclear reactors.

If we move on to slide 16 and look at the quarters to come and the impact of the sharply decreased oil price. A large part of our open energy position is gas. And there is a time lag in the oil factor in our gas contracts. And the way that the formula works, as you can see from this graph, is that the gas price is tied through a formula to the preceding six-month average oil price. And thus, we will still have increased gas

cost in Q4, which will then come down in line with the drop in oil price, again, with a six-month delay.

Then we move over to the market outlook. And I'll hand over to Jouko.

## **Jouko Karvinen**

### **CEO**

Thank you, Markus. I'll try to be brief. Slide 18. One of the things we always do is we look at what did we say in July for the third quarter, in terms of demand development and price development. And to a very large extent, that was accurate. We'll see how good we're going to do the estimates this time.

Demand side, with the year-on-year comparison, without exception we see a weakening demand. That's the situation in wood products. We see now that with the construction getting even stronger. Obviously, weaker is the magnitude and it is different in different areas. If you look at newsprint, we see a weaker demand, but we also see a good balance in the market, given the announced and executed capacity cuts. We also see that happening in magazine, but still a good balance. Fine paper, we see a weaker demand. That's more true for the uncoated than the coated, in respect to supply and demand. Consumer board, same story, it's some specific, not the material factors.

The food safety issue in China will have a few quarters impact on the Chinese market in liquid packaging. In industrial packaging we also see clearly now that the demand is softening for most of the grades. And wood products, the construction industry, taking a dive in Europe. Obviously, it's not going to get any easier. The important message here is, this is how we plan. This is the future we plan for. It's not that we complain about it, but we have to be realistic.

Look at pricing then, which is again, a sequential analysis. We see a stable development in newsprint with even including the pricing changes of earlier this year, has actually had a very good pricing quality so far through mix changes and geographic mix changes. We have informed our customers that we intend to increase pricing in Europe early in 2009, which as a challenge, obviously, in a softening demand. But based on our track record, we believe that's still possible.

In magazine, where we've had two rounds of price increases, same story. We intend to try for a third on in early '09. We have informed our customers. Fine paper, we actually were successful on the coated side in late third quarter to increase pricing, which will come true now in the fourth quarter. And we're planning for another hike in early '09, making the uncoated side situation, on a pure price basis, more challenging.

Consumer board, we are going through the process. And the first price improvements are going to happen in Q4 as the announced and agreed price increases will be implemented. Industrial packaging, if anything we see a slight decrease. And the challenge in wood products will continue.

Point of the story is, I think it's good to plan for this challenging environment and get ready for that now.

Slide 20, the last slide, summary. We believe that the early actions of the past 18 months from wood sourcing, the balance sheet strengthened with cost and capacity cuts, thus far to show results. Yes, we're getting a little tailwind from the currencies on the energy side next year, but the critical factor is that we need to be strong in the deteriorating market outlook. We're not happy with the earnings of the third quarter, but would like to highlight again that if you take separately the wood products issue that we need to deal with rapidly now, the paper and board earnings were flat year-on-year, [I] consider in this cost explosion not to be a bad result.

Focus areas for fourth quarter and onwards, price and quality, i.e., simple price increases. And then in all areas, defend margins by product and customer mix. As an example, what did we do early year? We moved out of some of the European Union markets with weak currencies and moved to overseas markets with better pricing. And obviously, that has an amplified impact now, going forward, with the stronger U.S. dollar. And that's the type of action we need to continue actively.

We say here it could lead to curtailments to protect our earnings capability. It will. We will take curtailments, not only in sawmilling, but in many other areas. It will have a short-term limiting impact on our fourth quarter earnings, but we believe to get the inventories in all areas to a low level and protect our pricing policy, it's the right thing for the Company to do.

And in cash, it's already coming down, from the Capex point of view. We will re-plan our 2009 investments. And obviously, in the future we will discuss, once we're ready, in more detail to you, what does it mean in terms of the guidance for 2009? Not today, yet. But also, how do we strategically prioritise projects? What do we do with scheduling, and so forth? And we repeat here, we want inventories down already by January 1, for next year.

The theme of the Company -- it's not really a change -- is plan for the worst, and if the world is better than we think, well, then we adjust upwards.

Thank you.

**Keith Russell**

**SVP IR**

Good. Thanks very much. We are now ready to take questions.

## **Q&A Session**

**Pekka Mikkonen - Handelsbanken**

Aracruz, your Brazilian partner, has announced that they would temporarily postpone the Veracel II projects. What is your plan B, and are you actively looking for other options in the region?

Second question, on slide nine you mention EUR66 million favourable effect from other fixed costs, quarter-on-quarter. Now can you quantify what portion is due to a difference in downtime between quarters?

**Jouko Karvinen**

I can start with the Veracel question. We're actually on plan A. And the plan A, as we've just seen is Veracel is a standalone company owned by Aracruz and ourselves. We had in the press release, and I can repeat it here, Veracel I is, if not the lowest cost, one of the absolute lowest cost [partners] in the world. It worked like a dream, meeting its design targets and production cost, even environment. And if you think about how can you beat that profit level, well make a second line.

Point of my story, we think Veracel II is a very high strategic priority for us, also because plantation-based pulp is in the middle of our strategy. And the way it works, you can imagine, I have shared this thought with my counter-partner, Aracruz. And the decision-making is obviously enough, Stora Enso/Aracruz. It is the Board of Veracel who will discuss timings and so forth. So that's the plan, as we speak.

**Markus Rauramo**

I just checked that you were asking about the other fixed costs. The biggest item in that EUR22 million was activation of fixed-cost into the inventory, which has been inventory that will contribute to the cash flow in the fourth quarter. EUR6 million was less maintenance than previous quarter. And EUR15 million was administration savings, so actually, exactly the part that we have been working on, on the restructuring, and getting leaner administration.

**Johan Sjöberg - Carnegie**

Can I ask you about the cost inflation? First of all, this year, what the net cost inflation will be. And also, looking at your forecast, forward curves, the current exchange rates, the wood cost, etcetera, what is your best guess for '09? And how much earnings or savings effect will you also have in '09?

**Markus Rauramo**

The cost inflation guidance we have given for this year has been around 4%. And that will continue, so we're sticking to the same guidance. And as I mentioned previously, we will still be hit by higher energy costs in the fourth quarter because we do have the time lag in our gas contract. And when it comes to the inflation for 2009, it is premature to say. We are yet to do our budget. And this is not the point to comment that yet.

**Johan Sjöberg**

What about the cost savings in '09, because this year I think the net cost inflation should be somewhere between 1% and 1.5%. Is that correct? And how much savings will you have in '09?

**Markus Rauramo**

I'll answer the same way. It's too early to guide on the inflation on 2009.

**Jouko Karvinen**

I'm trying to help here. To be very specific on what the net cost savings are in [two] restructuring programs. And that's pretty much what we can say today. We'll get back to you in due time. It's obvious that the cost pressure that we talked about, not just me and us, but you guys in Q2 in July, I guess we all agree, the world has changed slightly in three months. And that [will ease] the pressure.

**Johan Sjöberg**

Could you also say, given the weaker demand for newsprint this year -- I think it's down by 3%, [inaudible] the printer. And also, the production cuts or the production shutdowns in the industry, what would you say that the supply/demand balance in newsprint will be by the end of this year, while you're talking to publishers for their '09 price negotiations?

**Jouko Karvinen**

Well we specifically, in our near-term market outlook -- and you know we're not going beyond three months -- are saying that, yes, the demand will go down. But we believe that the supply/demand balance is good, which would imply, I guess, that the production volumes versus the demand are in good balance.

**Johan Sjöberg**

And when you're talking about production curtailments, which areas are you specifically referring to?

**Jouko Karvinen**

Well timber is the first comment I'll make. We've curtailed heavily. It is obvious that we'll have to curtail more. We had a relatively small drop, sequentially, from second to third quarter. But the way this market is going, we will have to do quite a bit more there.

Other than that, actually I will not be able to give you the exact location and totals yet because we're taking the position that we will curtail as required. But you should expect that it's going to be a relatively wide range of paper grades, from fine paper to some of the publication papers. It all depends, what do we need to do to make sure that two things happen, that we can maintain our pricing quality on one side; and two, that we do not produce to inventory? But it's fairly wide. I can't give you the exact on it yet.

**Lars Kjellberg - Credit Suisse**

Coming back to the fixed cost, I guess you're talking about substantial downtime and maintenance works in the consumer board operations in Q4. So if you'd like to comment on what you expect in terms of fixed-cost increase in that division and if you can give any sort of guidance how fixed costs are going to move in Q4, versus Q3, total for the Group.

**Markus Rauramo**

Obviously these maintenance stops will continue to drive these maintenance-related fixed costs. So there will likely be an increase on that side in Q4.

**Lars Kjellberg**

I understand that. But if you can quantify, give us any sort of guidance what you're looking at.

**Markus Rauramo**

No, I wouldn't go that far, especially since we'll have to be rather fast-moving when it comes to the production curtailments. And maintenance work will be done during these stops. So I think it's too early to say at this point.

**Jouko Karvinen**

Since Markus is new, I'll take the blame. You've seen how brilliant we are in our exact forecasting anyway. So I hope you'll forgive us if we're trying to stay away from a very accurate estimate, given the fact that the changes in the external factors from currency to you name it are so steep that it's not very easy to give an exact outlook.

**Lars Kjellberg**

I appreciate that. When you're talking about your price ambitions that you have communicated to your customers, would you like to share it with us, what you're looking for in terms of newsprint and magazine paper price increases?

**Jouko Karvinen**

I hope, again, that you accept, unlike some of the other industry players, I will not publish percentages through you or the media. We have written to these customers. And the range is quite a bit, depending on country and currency and so forth. Let me suggest that especially in newsprint it's quite significant, even though in magazine, even if it's less so. But remember, this is, I guess, the third round fairly shortly. So I hope you can live with that answer.

**Lars Kjellberg**

Just one final question. You obviously mentioned on Reuter's, clearly there are various opportunities coming from the consolidation standpoint. I can see that. The issue is, where do you actually want to go? We've seen one big deal obviously in coated fine paper, [inaudible]. Directionally, where do you want to head?

**Jouko Karvinen**

Well we have said, about a month-plus ago, that what we know and can communicate about on strategic priorities is, fibre-based packaging is the future. We have good starting positions there, [fixing] the rest, so to say, in that area. So that's one leg of our strategy. Second leg is plantation-based pulp. We think we have good references there, good programs going on. And then we specifically said, on the paper side, that we see selected paper grades to stay, be a third leg of our strategy. We specifically

did not say which ones, which not. Only that it's going to be probably fewer than today. Now that's still true, and for that very reason that we need to find value-adding solutions in or outside Stora Enso for these grades.

I cannot start speculating and I obviously would not do that anyway for a specific deal or paper grade. I think generically, you can say two things more. Cash based deals in today's world, you understand it better than I do, are not very probable. On the other side, having a very strong balance sheet and a very strong liquidity does open the opportunity, if the situation occurs in a turmoil like this, to possibly make an attractive move. And we'll see.

### **Lars Kjellberg**

Okay, thank you. And good luck.

### **Mathias Carlson - Deutsche Bank**

Most of my questions have already been answered, but I was wondering if you could give us an update on the wood situation in Finland now, and what you see there now, given that we're coming very close to the full implementation of the Russian duty.

### **Jouko Karvinen**

Markus may need to help me. But let me say, it's very good for Stora Enso. Why? Because not me, but my wonderful Stora Enso forest team 18 months ago said, "We had better get ready for no Russian wood." And that's exactly where we're going to be on January 1, through the increases in Finland, through the tough capacity cuts already a year ago. Remember, we cut more than half-a-million tons of pulp, or 3 million cubes of wood usage.

We see the several following quarters, situation in Finland is very good. And the good news, I guess, on top of all that is even though we can live without the Russian wood January 1, if there would be a compromise, we can use that wood, as it becomes available, at a low cost to make money. Why? Because we are, even though we're a small market pulp player, we're the second largest in the world on chemical pulp. We've got a couple pretty interesting assets in Finland that can be either used or curtailed, depending on the wood availability. So we're happy if the compromise comes. We're also very okay if it doesn't come.

### **Mathias Carlson**

My second question, then, is about the production curtailments. Given the deterioration in demand here, this could get pretty severe, do you think it's enough to cut the capacity or to curtail capacity. And do you not foresee to have a need for permanent capacity closures in your system?

### **Jouko Karvinen**

I tell you today what I see today. We've done half a million tons of pulp a year ago, which has turned out a month ago 600,000 tons of paper and board. Now we're taking a very fast [rate] of curtailments, fairly aggressively and widely in use, to continue to protect our price and quality, and to make sure our cash flow improves. I will not and I could not start saying, what if it gets even worse, and so forth and so on. I do not

wish to threaten with unnamed and unspecified reasons. I cannot guarantee it. But we're telling you today what we see ahead.

**Ross Gilardi - Merrill Lynch**

I was wondering, just generally, if you're concerned at all that actually the weakening of the euro and other input costs lessens the industry's resolve at all towards further restructuring.

**Markus Rauramo**

If I may answer that, as I mentioned already in the beginning and I think Jouko made the same point, the results are disappointing. They're nowhere close to satisfactory. And we still have one of the strongest partnerships in the industry. So I don't think the weakening euro or weakening krona are any solution to this.

**Ross Gilardi**

I was just wondering if you could comment. I believe there was an announcement that the Finnish government was transferring their ownership of your shares or doing something to change the nature of the ownership. Can you explain what exactly that means and if there are any particular notable implications?

**Jouko Karvinen**

This is Jouko trying to answer that. First of all, I can't give you any specific details. You'd have to ask the Finnish government. The short version of the story is they're moving, I believe eight companies of the so-called non-strategic investments to a holding company with a specific name of [Feladium]. And it's not my subject to really discuss it in detail, but as far as I'm concerned, I see no change. The cooperation with the Finnish government in the old structure and in the new structure as a significant owner has been very good. If you look at the action we've been able to take and have taken, I think nothing but credit to them and our other owners for that matter, too. So I don't see any change.

**Ross Gilardi**

Okay. And then I just quickly want to ask you just if you could give an update on your Russian joint venture plans. You had initially announced you were going to a pre-feasibility study. And then I think you had said you were moving forward with that three to six months ago. Just wondering where that stands.

**Jouko Karvinen**

Well first of all, it's not a joint venture. It's a project at this stage in the middle of a feasibility study. The only update I can give you is, this became public, I guess, a day or two ago. Nizhny Novgorod region has now concluded that our project is definitely a priority project. And they are, as we speak, proposing to the federal government of Russia that we should get the federal priority status for Nizhny Novgorod. That, on its own, only means that one step of many, many steps has been achieved. The feasibility study will continue. And before we're done with that and we also see what the world is made of, at that time there is no capital decision. But at least we're moving.

**Linus Larsson - SEB Enskilda**

Two quick questions. Firstly, on Capex, if you could put a bit more colour on your expectations for 2009 and what your base load maintenance Capex is for your current structure. And then secondly, coming back to the wood costs in 2009, you sound fairly optimistic about your own situation. Is it likely that we are seeing lower unit wood costs for Stora Enso in 2009, compared to 2008? Those are my two questions.

**Markus Rauramo**

So you asked about the Capex for next year. I said, we have to review all of our Capex plans in light of the completely changed economic environment. And we will focus then the Capex on the strategically important projects and initiatives. The target for next year is to spend less Capex than this year, and be selective with it. And the base load maintenance to keep the machines running is about EUR250 million. Could you repeat the second question? I didn't fully get it.

**Linus Larsson**

My second question was relating to wood costs for Stora Enso, and whether Stora Enso's unit wood costs are likely to be lower in 2009 compared to 2008.

**Jouko Karvinen**

Okay, I can try and Markus will help. Let's get a little specific. It's been quite a range of cost developments. The most traumatic one is the solid wood. And specifically, in Finland, for after the huge heating in '07, there's been a significant reduction from the 70-plus levels to below 60, which sounds kind of good, except that's still way above the longer-term history of the low 50s. And as you know, the raw material cost of sawn timber is a very large part of the total cost. So the dilemma there really is when that happens against dramatically reduced market pricing with the capacity situation, then it's pretty tough.

Now if you talk about output, let me put it this way. If you don't mind, I won't give you a forecast next year. Let me say that 80% plus of the wood cost inflation of this year was in the first half, versus the second half. And that gives you a clear trend what we expect going forward in '09.

**Myles Allsop - UBS**

On the volumes, when you say you're preparing for the worst, what sort of scenario can we expect in terms of volumes for graphic paper being the worst-case scenario?

**Jouko Karvinen**

Well I can't give you a qualified answer by grade. What we've done is obviously watching, as much as we can, the early indicators, understanding our customers' inventories. We follow all the typical media spending numbers and so forth. And the only thing I can say is that grade by grade, business area by business area, I believe that our plan and even our outlook is intentionally -- I don't want to say conservative because that's a bad name, but at least I would suggest that if you look at the text in the outlook, it should be sufficiently conservative.

**Myles Allsop**

But do you think this downturn could be, I mean, should we kind of compare this to 2001 and look at a 5% demand decline, or should we assume that it could even be worse than that? What's your gut feel when you talk internally about demand outlook?

**Markus Rauramo**

Yes, well if you look at the financial economic environment, which you know even better than we do, it's extremely volatile. So the position we're taking is that we have to be dynamic and we have to be very quick in our responses. So it's practically impossible to say what it will look like. The key point is that the way we operate now, we can be very fast to respond to the changes in demand. And for us, key is the pricing quality and the price increases we have already announced to protect [them].

**Jouko Karvinen**

And I guess, just to give you a ballpark, we're not talking for the total paper and board tens of thousands of pounds. It's quite a bit more that we are ready to curtail as required.

**Myles Allsop**

Okay. And then just to one of your answers to another question about closures and could there be any permanent closures? I couldn't quite understand what you were saying. Are you saying that at this stage you've not made your mind up about any further permanent closures, or anything is possible?

**Jouko Karvinen**

What I tried to say is we're taking two programs. I would dare to say in the scope of the 18 months, pretty early the first one, now the second one. If anywhere we're late, I think it's the wood products area. And yes, in our scenario, which we will not publish, we look at different scenarios. But the way I've tried to take it is for many, many reasons, and I hope you understand, it's useless to speculate without specific names, locations, quantities and so forth. And therefore, as of today, we are executing what we've announced. In addition to that, we're taking curtailments. If the world gets even worse, then I'll get back to you. I mean, none of us knew how the world was going to be three months ago. So I'm sorry, but I can't give you a more specific answer.

**Myles Allsop**

That's perfect. And then, in terms of inventories, you're saying you have to take inventories down. Are inventories too high today, and how much too high are they? Or are you saying that you've got to get them to a very, very low level to get these prices up? Just give us a sense as to how much inventory has to be taken out.

**Jouko Karvinen**

Let me first answer in a qualified way, rather than quantified way. It varies. And don't ask me about BA by BA, but I can tell you, I'm very proud of my newsprint guys. I won't give you the number but they've been, since a year ago, very good in

managing inventories. And they're a showcase we will now, in all areas say, "We will not manufacture inventories." The way we see 2009, well no forecast, but I don't think you're going to ask me to tell that it's not going to be an easy year. Therefore, we think that it's very good that you have throughout the system, as low inventories as possible. And that will mean quite a big piece of the curtailment is to make those inventory levels down in all BAs beyond newsprint.

### **Markus Rauramo**

Then to answer your question about whether the levels are, in any way, extraordinary, the answer is no. But we feel that we are ready to take the downtime, as said, to protect the price increases and also go into the changed environment from a position of strength.

### **Jouko Karvinen**

And this is just a quick comment, then, philosophically. But we're trying, Markus and I, now to get the whole Company [inaudible] Capex for maintenance and other reasons is important and useful. But one positive way to earn it is get rid of your extra inventories, even if they're not extraordinary.

### **Myles Allsop**

Okay. Maybe one last question, and it always gets asked, is around the consolidation. And do you think we can expect anything more? Obviously you're a key potential partner within any consolidation move in this industry over the next 12 months. Do you think there has been any progress since the third quarter or in reality has today's world just deferred any other potential move because of the credit constraints?

### **Jouko Karvinen**

I'll start and Markus can join. It probably has closed doors in some respects because of what you call the credit crunch. Cash deals are not very easy for many people. On the other side, companies with a very strong balance sheet and liquidity could find deals that are very attractive in this turmoil because the values are pretty low. I think what we have to keep our heads straight with is that it is in line with our strategic planning. Don't make deals just because you get something cheap.

And then, two, and I have some 25 years experience of [in] most of the other people's acquisitions, the work actually starts after you send the check. So you have to be very brutally realistic on in what way can you get the cost synergies done and you can get them done fast. And there I think the final comment, then, from my side is, you also have to look at what kind of an economic environment you're going to be in when you're trying to get those cost synergies.

### **Markus Rauramo**

And if I may add, of course we will be conservative when looking at the opportunities, but we have a strong balance sheet and a strong liquidity and un-drawn facilities. They give us strategic flexibility. If there are assets companies that are available, we can look at the opportunities from an objective position.

**Myles Allsop**

Would you be interested in buying out the other half of Veracel if Aracruz needs the cash?

**Jouko Karvinen**

That is something that I would, with the greatest respect of my partner, Aracruz, but very important our great joint venture, Veracel, I would not like to make any comments on that.

**Claes Rasmuson**

I had a question regarding consumer board. I see that your deliveries are down in the third quarter, compared with previous quarters. Do you have a comment on that?

**Jouko Karvinen**

You said second quarter to third quarter. Why don't you ask your other question and we'll try to get you at least an answer on that one.

**Claes Rasmuson**

We learned from Korsnär today that Tetra Pak had problems due to the artificial milk scandal in China that affected their earnings. I'm wondering if you have the same sort of impact that they saw in the third quarter.

**Jouko Karvinen**

We actually mentioned that also in our release. And we see that very specifically, not only relating to Tetra Pak but it is the Chinese milk market, not milk packaging but milk market. The [Meleminas] caused a major scare factor, very dramatic Chinese milk consumption reductions. And we actually said it may be more important in third quarter. But we see it going now to fourth quarter and beyond that even, that the Chinese market for milk packaging will be slower and will have an impact on us. We would like to add to that though that liquid packaging is very important for us and so is China. But you should not think that that's a material impact on the total company level. We just wanted to be totally transparent there.

**Nitin Dias - JP Morgan**

I just want to understand, what is your priority between Capex and dividends. If you could comment on that, please. The second question was on the 2010 debt. You said you have an EUR600 million pension line, which you could probably use to pay down the 2009 debt. But have you ever given any thought about the pay down of the 2010 debt?

And the third one was, other than the pension lines at EUR600 million and the 2012 credit facility, do you have any other liquidity facilities that you could use?

**Jouko Karvinen**

If I start with the first one, if I heard the question correctly, first of all, it was relationship between Capex and dividends?

**Nitin Dias**

Yes, what is your priority between them?

**Jouko Karvinen**

Okay. Well I'll have to kind of answer in an interesting way. I do not want to make any comments on the dividend. That is absolutely going to be based on a proposal the Board will make later this year at the shareholder meeting. So sorry, I cannot give you a comment on that, which means that I can't really give you any ratios between Capex and dividend either. We said what we said about re-planning our total Capex program but that's pretty much what I can say.

Your second question, can you repeat that please?

**Nitin Dias**

Yes. If you look at year 2010, you have about EUR800m of debt maturing. Now in '09 you have about EUR600m, for which you could use the pension line of about EUR600m. Have you given thoughts of refinancing the 2010 debt, or if you can give any colour on what your thought process is about that one.

**Markus Rauramo**

Yes, so of course the starting point is that we use the annual cash flow to take care of the debt maturities. And we have a very even debt maturity profile so that we always can choose when we come to the market to raise new debt. What we have done for the debt maturity profile is we have been very proactively managing the maturity, so we have been doing exchanges and so on. We would go and finance these maturities proactively at good market windows. We do exchanges and all kinds of different instruments to take care of this in the ordinary course of business.

When it comes to our liquidity, well our net debt is only EUR3 billion, so I guess that EUR1.4 billion plus EUR600 million is quite a lot of actual liquidity capacity.

**Nitin Dias**

Okay. So you don't have any other bilateral or any other line for liquidity purposes, other than these two?

**Markus Rauramo**

We have bits and pieces, some hundreds, some millions from different facilities from the World Bank, the European Bank of Reconstruction & Development, and so on. But no large lines in addition to that. But anyway, it's over EUR2 billion of liquidity capacity.

**Mikael Jåfs**

A question on industrial packaging. Could you elaborate a little bit on that, given that we see a stop of a lot of economic activity right now? And you talk about slight decreases and weaker demand. But perhaps some more colour would be helpful there.

**Joukos Karvinen**

Okay, we'll try. The product lines of industrial packaging, as you know, are very much the coreboards, the container board, corrugated, and then what we call laminating papers. And I guess what we see is if you look at the laminating papers, we're pushing prices up. It's a bit of a construction-driven thing, so that causes worry. If you look at corrugated packaging then, it's interesting that development actually varies country-by-country. And we've seen a pretty stable situation in the Nordic area and Russia. But in Poland we've actually seen a weaker market.

In cores, we see a pretty stable development. And obviously we'll take now later on than [inaudible] core board machine. But also there the downtime we will be taking if required. The container board, SC fluting, we see a fairly flat development then. So I guess if you try to somehow summarise it, then it's more the corrugated side that we see which is driven by the packaging volumes, so it's obviously driven by manufacturing volumes.

**Mikael Jåfs**

Okay. And now you're talking about the situation as of end Q3. Is that correct?

**Joukos Karvinen**

Yes, the outlook for the fourth quarter more.

**Mikael Jåfs**

Okay. And then another, broader question on consumer boards. We know that one of your competitors in South America is in the process of ramping up one machine and has been doing so for some time. And I was wondering, do you see any impact on that when you compete with them?

**Jouko Karvinen**

Sure, not so much on the machines. The unnamed South American competitor is a very good competitor. And there is one benefit. When you have good competitors, you shape up faster yourself. We still think that we have very strong positions, very long-term customer relationships, some unique product lines that cannot be matched by competition. But it is obvious, also, that that and other good competitors keep us very busy on getting our costs improved and quality. It's not a drama. It's obviously interesting, but I don't see that as a major issue.

Listen. I've been told that we could probably spend a few more hours on the phone, which I really appreciate that you're interested in us, so thank you for that. But I've been also told by my colleagues that we have only time, sorry, for one more question.

**Kenneth Frey - Dwight Asset Management**

Thank you. My question has been answered.

**Mitchell Reznick - Fortis Investments**

A couple housekeeping questions. On the EUR200 million draw, the pension loan, can you tell me what the proceeds were? And also, what's the maturity from the draw on the pension loan?

**Markus Rauramo**

We used the 200 million to pay back short-term debt. And the maturity is 10 years.

**Mitchell Reznick**

Okay. And to pay back short-term debt, is that commercial paper? And if it's refinancing commercial paper, given the disruption in the short-term market, is that market closed off to Stora at the moment?

**Markus Raurano**

As I mentioned, since July 2007, so more than a year ago, we saw that there is a financial crisis building up. And now it's spilling to the real economy. So we have reduced our reliance on the short-term market. We do issue selectively. So on reverse inquiry, we get very good access to CP at low cost and long maturities actually. So we're very happy with how the CP market works for us. But we're not relying on that, as we used to do.

**Mitchell Reznick**

Just one further housekeeping question. You mentioned there's some EUR3 billion of net debt. I get approximately EUR3.5 billion. And I think perhaps the difference is that I'm including the debt number on the balance sheets. And they call it interest and liabilities. So I've got the EUR3.4 billion of non-current debt, the 94 of current portion of long-term debt and I'm including interest-bearing liabilities under the current liabilities. So just trying to figure out the difference between your net debt number and my net debt number.

**Markus Raurano**

Yes, well we can get back to you offline to go through this. But basically, you'll find the breakdown. You know our numbers. But if I work through the key issues, we've got EUR3.4 billion of long-term debt, EUR400 million of short-term borrowings, EUR100 million of current portion of long-term, EUR80 million of interest payable. And then on the interest-bearing asset side, cash EUR400 million, short-term investments receivables EUR200 million, receivable interest EUR50 million, long-term loan receivables EUR140 million and capital investment shares EUR174 million. So EUR4 billion minus 1 billion, that's EUR3 billion.

I hope that answered your question.

**Joukos Karvinen**

And if that's unclear, please get back to us and we can take it with time then.

**Mitchell Reznick**

Okay I'll do that because that's not clear to me, the numbers you're including in cash are not clear to me. So the short-term receivables, I'll just call and get some detail on that. Thank you.

**Joukos Karvinen**

We're overtime and therefore I'll be very crisp. First, I really want to thank you for your interest, being with us and the many very good questions. And I'll finish with the same words I finished my leadership forum with last week. This is the perfect storm. It has changed direction a bit, but we don't care. We're going to come out of it stronger than we went in. Thank you very much.

[End]