

FINAL TRANSCRIPT

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PRESENTATION

Operator

Okay and welcome to the Stora Enso Q2 2010 financial results conference call. (Operator instructions). At this time I would like to turn the conference over to Ms. Ulla Paajanen-Sainio, Head of Investor Relations. Please go ahead, madam.

Ulla Paajanen-Sainio - *Stora Enso - Head, IR*

Good afternoon, everyone, and welcome to our Q2 results conference call. With me here today is our, CEO, Jouko Karvinen, and our CFO, Markus Rauramo, who will be presenting you the results. So, please go ahead, Jouko.

Jouko Karvinen - *Stora Enso - CEO*

Thank you, Ulla, and thank you everybody for joining us today. A sunny day in Helsinki and a sunny day for Stora Enso. I think our second quarter performance, for many reasons that I will discuss, was very strong.

If you go to page five, the operating earnings at EUR213m is, under the circumstances, I think a strong result. And to give you a reflection, it's the best earnings; we remember what the economy, our markets were three years ago. We were able to produce

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the same earnings in absolute terms. I think it is a strong testimony for the work that the Company has done. On the shorter knowledge, our sales grew 23%, the average headcount was down 3%/4%. So, that tells you also something about what we can get out of this team per term.

We were able to sequentially increase prices. I'm sure we'll talk about that a little more in a minute, very important, and it's not only prices; it's the customer mix. An example, we decided that we're not going to stay in Europe only to fight for market shares in a market that's very difficult. We took a strong position in the overseas market and as bad as the result in newsprint was, I think that was the right decision.

And the truth of the matter is that the structural overcapacity will remain. I hope you've seen that we're taking action, very firm action. As I said today, if that's not enough we will take more.

Our cash position at EUR856m is strong, as is the cash flow. Even though the volumes grew rapidly, or sequentially, we were able to still further improve the relative working capital position, which I think is another proof point that the team knows what they're doing.

So, the actions have started to pay off. One quarter doesn't make even a year, but I think it's a good trend that you'll see in minute. And yes, we need to be very transparent like we always are, external factors, the weak euro, worth about EUR48m in the quarter net benefit after hedging and pulp. And I think it's important to mention the number because you can't just take the price delta times the sales volume. It was EUR26m. So, all in all, I think we're fairly well balanced there.

I'll get back to the market situation, the outlook, the action we have taken, as we disclosed today, about increasing prices further in a minute, as well as discussing the cost inflation. But, I will turn it over now to Markus, our CFO, to talk about the financial results. Thank you. Markus.

Markus Rauramo - *Stora Enso - CFO*

Okay, thanks, Jouko. Going to page eight, our Q2 result was EUR213m, up over EUR90m from Q1 and over EUR160m more than compared to a year ago.

Sales increased 23% year on year, 17% from Q1; very strong performance.

EBIT margin rose to 8% and consequently, return on capital employed to 10.5%.

EPS was at a good level, EUR0.23 per share.

Cash flow was strong, EUR305m from operations, and EUR229m after CapEx.

Net debt decreased over EUR100m from Q1, despite the capital repayment of EUR158m and weaker euro.

And gearing improved by 5 points to a level of 0.49.

Go on to page nine, you see the graph with quarterly EBIT and four quarter rolling average EBIT margin. EBIT is improving. As we can see from the chart, the trend looks very nice, but there is still lots of work to do.

The four quarter rolling average EBIT margin is now around 6% and in order to meet the 13% gross, the EBIT margin should be at 10%, which doesn't actually fit on the graph yet. And we have been successful in reducing cost, improving profitability, but we feel that we are still in the beginning of the learning curve and the potential to improve the operations is significant.



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Turn to page 10 and working capital. We have put our focus on financial incentives, on EBITDA and working capital, relative to sales and the objective is to reduce the average working capital to sales. I'm happy to say that we had and we have had very good working capital discipline despite increase in business volumes.

Operating working capital to sales is now at about 17% compared with 22% a year ago and also on this side, there is lots of room to improve. But, even inside our Company the working capital ratios vary between 10% and 20%.

Then to the waterfall on page 11. Our operating profit increased from a level of EUR50m to EUR213m and the main positive drivers were sales prices, volumes and FX. Energy did have a positive impact on our results thanks to large power investments are starting to come on stream. The total investment in three power plants in Belgium, Germany and Poland have been EUR400m and the cost improvement impact is EUR80m per year.

On the negative side, fiber costs increased by EUR72m when we include the purchased pulp. Other variable costs like transport and chemicals increased by EUR53m and fixed costs by EUR23m.

We expect cost inflation to increase up 2% for the full year driven by water, transport and chemical costs. This, however, includes the purchased pulp and if we would net the whole pulp position, our cost inflation would be close to zero.

Then moving to page 12 and transaction risk and hedges. Our main foreign invoicing currencies moved in our favor in Q2 and in this situation we increased our US dollar hedging levels when the US dollar was below \$1.25 and we also extended the hedges beyond 12 months. In US dollar we are now 61% hedged for the next 12 months and 52% in sterling.

Also, the net loss has increased as our overseas volumes and prices have increased.

In dollar and sterling we hedged ourselves with collar options and in Swedish kroner with forwards. So, if the dollar and sterling strengthen, we have some upside. On the other hand, in Swedish kroner, we hedged it forwards up to 18 months and our hedging levels are above EUR10.

One thing to notice for Q3; a remark, Jouko will talk about the maintenance later; is that there will be an impact between the equity accounted investments between Veracel and fine paper. As the transfer price for pulp is increasing some parts of the results will shift from fine paper to the associated line.

Finally, my final remark would be that our liquidity situation is excellent. We have EUR855m of cash even after the repayment of the EUR500m bond in June. In addition to the cash position, we have EUR1.4b revolver fully undrawn and EUR750m of other funding sources available.

Back to you, Jouko.

Jouko Karvinen - Stora Enso - CEO

Thank you. Alright, let's talk about markets. Papers, you have seen before the [updated] if you go to page 14, the 100 level is the good old days. You know the year when I happily joined the industry in 2007. When you look at today, including the second quarter, I guess we are not in the good old days and if you look at it more accurately, you can see that we're clearly structurally below the demand situation in Europe in all paper grades. Growing a bit, but, that's true.

Slight improvement since the early part of the year. Yes, it's helped. It has already helped in pushing some of the pricing up. It will help. But, even though this is the market side, my message is that's okay, we were able to produce the earnings in Q2 with this market with the help of currencies. But, as you heard, that wasn't the whole story.

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If we go to page 15, basically a similar curve. A couple of examples on the carton board side, but clearly closer to the pre-crisis levels and so forth. I think it's important that we keep saying this; we're not planning for the good old days. We're planning to continue to make good money in the new days, which is the reality we live in.

Near term outlook then on page 16 with this fiber based package for food, I think. The market demand is improving. It's clearly structurally below the pre-crisis level. If you look at the trend, it will take years to recover. Some grades may never recover, which is strategic importance of us having reduced the cost base of the Company to be able to be profitable in the new reality.

We expect prices to increase from lowering grades also sequentially versus Q2 and Q3. And it's not that we're telling you and the media today; we have obviously been for a while already in significant negotiations with our key customers. And a good part of these changes we know will happen in this quarter.

Cost inflation, we revised it up the full year level from the one in end of first quarter now to mid year. But, I think also what Markus said before, if you take the -- because this number excludes the -- I'm sorry includes then the impact of the purchased pulp costs, given our pretty good balance on chemical pulp now, if you net that out, we are pretty much at zero. And the second point that is before our own actions which will help us further.

Again, the point of the story, we'll get through this with the already done actions and the benefits of the actions done before that will come through I think pretty well.

Final point, which is a very short term comment, you may like it as little as I do, but these experts of mine say that they once in while have to do an annual maintenance op. In this year it's going to be the third quarter and don't worry I already told them that's it because then we will not do it in the fourth quarter.

In different places, yes, but the point and the reason we mention it so clearly is that the timing of individual asset maintenance actually changes year on year. Sometimes it's in the fourth and here it's in the third as detailed in the release.

Quick update then on page 18. China projects, the trees are growing. I can almost hear it in Helsinki. The fiber is growing and we're continuing the preparations for our projects.

The same is true with Fibria. I think in a very constructive environment we're looking at when and how should we double by far the lowest cost pulp in the world.

And then on page 19 there's the status report. Uruguay on plan. Obviously a very tight schedule, but brilliant support from the Uruguayan government; all the officials there, and the authorities. So, the permits, all the specific details, on plan and that's obviously pretty exciting because the investment decision will be then considered after we've completed the study and that we have said happens in the fifth year.

I believe the last slide is going to be page 20. I know I sound like a broken record but that's intentional. Pricing is more important, price and quality, than volume. We will take curtailments. You have heard that we're negotiating now to be able to take downtime on our sawmills in Finland if the wood cost doesn't behave in a reasonable manner.

I have also repeated today on the media that as bad as it always is for the good people in Varkaus, we will take permanently out two newsprint machines in the third quarter. In the fifth quarter, to be exact. One is already down temporarily. If that's what it takes, we will, and I will not hesitate to do more. I do not believe that waiting is going to be any good for anybody and that's not what we're planning to do.

Focus on costs will continue I hope and push more and more. That it will not be necessarily new corporate programs, but it becomes the DNA of the Company and every business area and business every day has to be better than yesterday.



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Cash flow, obviously said, and that should all form the foundation for the Company and hopefully the credibility also with you people to support building something new for this Company. Growth markets, fiber based packaging, plantation based pulp.

Thank you. Over to you.

Ulla Paajanen-Sainio - *Stora Enso - Head, IR*

Okay. We will start now the q and a session.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). We will take our first question today from Ross Gilardi from Merrill Lynch. Please go ahead, sir.

Ross Gilardi - *Merrill Lynch - Analyst*

Yes, good afternoon. I just had a few questions. First, I was just curious on the consumer board division. Operating profits look strong, but the sequential comparison, it doesn't seem like your earnings are up all that much from Q1 to Q2 even though the pulp price is up pretty substantially. So, could you elaborate on what's happening there and are you having any pricing power in that business right now?

Jouko Karvinen - *Stora Enso - CEO*

Let me say a few things. I'm trying to find the right paper now to look at the exact correct numbers. I think, number one, I guess we have to say that if you look at the overall performance levels, I understand that the earnings improvement wasn't that big. But I think you'd agree with me that the return on operating capital level at 24%, 25% is a pretty decent starting point.

The pulp isn't that huge because the market pulp impact of EUR26m to the Group, yes, it's in consumer board, magazine and very, very little in fine. But, in totality, it's not that big. And then when you ask about pricing power, if I look at the statement we made in table format this time on the historical development in Q2, I think the business being quite different if you look at the -- let's look at pricing power sequential to Q1 and Q2, in consumer board, we said slightly higher pricing already in Q2 and I think we see a similar behavior on Q3.

Now, consumer board is a very large basket of businesses from very long term contracts in liquid packaging and so forth to shorter term contracts and so forth. So, the answer is yes, we see pricing power and we see also an improved product mix, which is, I think, just as important. That's all I can tell.

Ross Gilardi - *Merrill Lynch - Analyst*

And how does this supply demand outlook look in that segment for your key products? Have there been some new machines recently that have been announced? Would you be able to elaborate a little bit more on your international exposure in that business?

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Jouko Karvinen - *Stora Enso - CEO*

I am worried about many things, but this is not one that I'm really worried about to be honest. The consumer board specifically also in -- let me leave the liquid packaging we said is on strong demand any way. But, I think if anything I'm pretty positive on the other carton board grades in many of the applications with cigarettes or the others. Markus, can you add maybe something, if you can?

Markus Rauramo - *Stora Enso - CFO*

So well in our core area for the other consumer boards, in Europe, of course, we haven't seen new announcements. In China, there are some new machines announced, but there really our key product is the liquid packaging board and the lead times to get products approved would be very long. So, that remains to be seen how these announcements would impact, if at all, us. I wouldn't speculate on that.

Coming, Ross, back to your earlier question about the earnings, yes, indeed, the fundamentals were supportive. At the same time, as we pointed out, costs have increased, so the bulk impact is positive for consumer board and overall demand and pricing has been positive. But, like Jouko said, these are long term contracts with not so volatile pricing. So, exactly that lack of volatility and slow movements we like and we like the level of our competitiveness.

Jouko Karvinen - *Stora Enso - CEO*

And just to finish off, to be clear, for the contractual part of the business, we see pricing power also in the ongoing quarter.

Ross Gilardi - *Merrill Lynch - Analyst*

Okay, thank you. And then could you just talk a little bit about your refinancings for 2011 and 2012? When you might take action on those and just tie that into your overall thoughts on your capacity expansion possibilities in China and Brazil and Uruguay?

Markus Rauramo - *Stora Enso - CFO*

Sure. So as we saw at the starting point I guess is our cash position of EUR855m and the repayment of the EUR500m bond. So, in the last quarter we did several transactions.

You need to do more work nowadays than a few years ago, so the markets are not at all in the shape they used to be in. But we have worked hard for many years to make sure that we have multiple avenues open, so we can do transactions with multilaterals, the DIBs, CRBDs and others. We have a good financing pipeline with those. We do private placements. We can do bonds in different markets, and also the short term market is working for us. So, we will refinance the 2011 maturities as we go on.

We will probably continue to have fairly high cash balances to make sure that we don't have a refinancing risk. So, we do need to work more than we used to, but the refinancing is definitely not a worry for us.

When it comes then to financing our expansion, I think the same applies there. And in comparative or relative terms, the attraction of the new projects compared to the past is actually higher now. So there's a lot of special money from moderator lenders and other institutions that is looking for places to invest in. So, we see that if we would go ahead with any of these projects in Brazil, China, Uruguay, this would be very, very nice to finance, easy to get financing for.



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Ross Gilardi - Merrill Lynch - Analyst

Okay. And then, sorry just lastly, if you could just talk about the export markets, the industry data continues to show very, very strong exports from Europe. Where are you sending your exports these days? And then I noticed in your release you commented on the Chinese market and the supply/demand balance in coated fine paper and the new machines and so forth. Do you expect a more competitive export market in the second half of the year?

Jouko Karvinen - Stora Enso - CEO

Okay, this is Jouko. If I may say Asia is a significant part of the overseas market, as we call it. And we've taken a practical position earlier this year with the European market situation the way it is in newsprint. That we said we're not going to fight let alone, try to increase our market shares in Europe. But where we see clearly for a short term financial benefit on selling to overseas, as an example, newsprint, we've taken quite some positions there. So, that wasn't an accident and I think it's going to have a significant impact in the difficult situation.

The coated fine paper has to build up. We all know that it is significant in China. It's very, very large. But, I would say two things. One, I'm not too concerned right now about the second half of the year in that respect because I happen to know that some of the bigger people are actually going to practice quite a long time before they get up and running.

There is a clear raw material cost issue obviously also because coated fine paper is depending on soft fiber type of pulp, which may be difficult for non-integrated players with any machines to compete with. And then, third, I think the clear export impact of those Chinese assets is going to be, at least in the shorter term, I don't think it's going to be so much in Europe, it may be closer markets. In the longer term it will be an issue.

Ross Gilardi - Merrill Lynch - Analyst

Okay. Thank you very much.

Operator

We will take our next question today from Myles Allsop from UBS. Please go ahead, sir.

Myles Allsop - UBS - Analyst

What is your view on the pulp market? We're seeing prices coming under pressure in China and some announcements in North America now. How quickly do you think pulp prices are going to fall?

And then I'd be interested to get your view as to how you think that will impact the fine paper and magazine price dynamic in Europe? That's the first question.

Jouko Karvinen - Stora Enso - CEO

Well, thank you, those are difficult enough questions, Myles. I will not give you a forecast because I read the same reports as you do. Let me just say this, as you've seen, when you do and that's why we're so transparent, when you net really the pulp pricing back in Q2, for example, the EUR26m, the direct impact on us is limited. Yes, it was positive at these levels. Yes, it was a discount of \$50 per ton. Well, that \$50 has gone, but it's not traumatic in that sense for us.

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I think the bigger question then is how rapidly would it impact fine paper pricing maybe more than magazine paper pricing. If it would be the only variable I think it would and could and that's fine paper marketing relatively short term market. But, I think what's going to push back there is that the demand situation as slow as it is seems to be relatively reasonable and so forth. So, short term, I'm not too worried about that.

But don't ask us the next question Myles what's going to happen in 2011 and 2012. I can't answer that.

Myles Allsop - UBS - Analyst

Okay. And the other thing that seemed quite surprising is how strong demand is for graphic paper this year. Looking at your numbers, the double digit growth quarter on quarter even. To what degree do you think that is restocking, because when you look around, obviously this is a pretty scary world still? And you'd think that paper demand is quite vulnerable in the weak economic environment. And what is your take on the underlying picture for demand? And why do you think demand has been so strong for paper this year?

Jouko Karvinen - Stora Enso - CEO

Well I'm trying to quantify and qualify my response, Myles. Remember the curves I just showed? Yes, they're stronger than -- clearly stronger than they were a year ago. But remember, we were in a deep hole all of us a year ago. I think that's one factor.

Two, like I said, and I can't speak for all of the grades; I don't know that exactly. But in some of our printing grades, like I said, we said that European market share pricing in this market is not our game. So we took some of our volumes overseas, which means that our sales development has been stronger than the European demand development. So I'm suggesting that our revenues isn't the picture of the European demand, necessarily, some [of the grades].

Myles Allsop - UBS - Analyst

Okay. And --

Markus Rauramo - Stora Enso - CFO

And Myles, if I may just add to that? We see, across the board, that the underlying advertising spend is strong. And that applies obviously to printed. But I think that at least supports the assumption that this is not at least only a question of restocking. But that is difficult to estimate.

Myles Allsop - UBS - Analyst

Yes, that's a bit bolt on. We had a couple of September fine paper price increases announced by Sappi and Mondi for Europe. Have you -- are you supporting those increases, or how should we think about that?

Jouko Karvinen - Stora Enso - CEO

Well we never support competitors. But we have done our own action already with customers and so forth. So yes, we see a sequence of price increases there also.

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Myles Allsop - UBS - Analyst

So sequential, as in Q4 to Q3, or is it just sort of Q3 to Q2 where you have confidence as we see it?

Jouko Karvinen - Stora Enso - CEO

Oh, I'm sorry, I'm only talking Q2 to Q3, as we always do. Maybe I wasn't -- did I misunderstand your question?

Myles Allsop - UBS - Analyst

Well there's a September price increase, a third fine paper increase that's been announced. So I was just wondering whether -- what your view is on that. It's more (multiple speakers).

Jouko Karvinen - Stora Enso - CEO

Oh, sorry. I misunderstood. Well, we did what we did in the second quarter. We told you today what we are doing and have done for the third quarter and obviously, if it all works out, price and quality over volume, that's all I can say because we don't give you a fourth quarter outlook anyway. But I think you've estimated this.

Myles Allsop - UBS - Analyst

And could you give us a sense as to how large the maintenance cost will be in the third quarter?

Jouko Karvinen - Stora Enso - CEO

Sure. Let me -- not that I'm the expert, but I think the impact not to beat around the bush is going to be in the order of say EUR25m on the earnings.

Myles Allsop - UBS - Analyst

And that's spread across the three divisions?

Jouko Karvinen - Stora Enso - CEO

Yes. And I can't give you the split exactly, but that's about it.

Myles Allsop - UBS - Analyst

Okay, that's helpful. Maybe just one last thing I wanted to clarify. On the cost side, you're saying 2% cost inflation, zero if you net off pulp. Do you mean by that you include the revenue, the net revenue for pulp, that you get to zero, or are you just saying that if you exclude pulp completely, you get to zero?

Jouko Karvinen - Stora Enso - CEO

No, no. If we net the pulp impact, then it's zero.

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Myles Allsop - UBS - Analyst

Okay. That's including your net revenue from pulp. It would be at zero.

Jouko Karvinen - Stora Enso - CEO

That's how we do the math, before our own actions.

Markus Rauramo - Stora Enso - CFO

Yes Miles, it's important here to say before our own actions, so it doesn't include our own cost reduction actions.

Myles Allsop - UBS - Analyst

Okay. And how many -- how much more do we have to look out for on your own cost-saving actions?

Markus Rauramo - Stora Enso - CFO

Around EUR200m, EUR250m. And one thing I can say is that what we are very happy about, that the cost saving and profit improvement actions we have taken in many different steps, they have materialized exactly as planned. And the impact -- and that is on a run-rate basis, so looking at kind of the last days of the quarter that just closed.

But there were costs relating to those that are still burning the results. And also, because of the timing of these savings, we will then see the full impact of even the realized steps now in the coming quarters. So there will be not just benefit from steps that we will still take, but also benefit from the already taken actions that will materialize in the coming quarters.

Jouko Karvinen - Stora Enso - CEO

And just to finish off that part that Markus said with the EUR200m, EUR250m means of the announced specific programs. I'm trying to tell that the crew here understands that the answer is it will have to continue forever and ever. Less so in corporate programs and more in terms of every year before improving. So you should not think that once we get that EUR200m, EUR250m through then we're done. We're just getting to speed now.

Myles Allsop - UBS - Analyst

Okay, that's helpful. Thank you.

Operator

We will take our next question today from Lars Kjelberg from Credit Suisse. Please go ahead, sir.

Lars Kjelberg - Credit Suisse - Analyst

Yes, it's Lars Kjelberg. Just a couple of further questions on the cost side. You very clearly state that you're somewhat concerned about escalating wood costs. What are we seeing sequentially on that, because you obviously say it's going to have a materially bigger impact in Q3 than Q2? If you'd like to quantify that for us, please.

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Markus Rauramo - *Stora Enso - CFO*

Well I think materially it may be a hard word on that, but the magnitude, magnitude has been some tens of millions. But of course, as we've said about the sensitivity, the leverage is huge on wood being a very big cost component. So a 10% price move on wood would, if everything else stays the same, would have a huge impact. And that is exactly why we have, in order to avoid repetition of 2007, we have announced the plans for core determination in our Finnish sawmills to be able then to respond quickly if the prices really start to increase too much.

Lars Kjelberg - *Credit Suisse - Analyst*

Is this for you primarily a Finnish issue, or is it more of a global sourcing issue for you?

Markus Rauramo - *Stora Enso - CFO*

Finland and Sweden are the key wood procurement areas for us.

Lars Kjelberg - *Credit Suisse - Analyst*

And are you seeing something similar in Sweden and the stuff you procure in Germany?

Markus Rauramo - *Stora Enso - CFO*

We see pressures, both in Finland and Sweden.

Lars Kjelberg - *Credit Suisse - Analyst*

Okay. You talked about the shift in accounting, I guess, from fine paper to associates when it comes to Veracel. Can you please elaborate what that means?

Markus Rauramo - *Stora Enso - CFO*

Yes, meaning that when we sell pulp from Veracel, our share of the Veracel production to our fine paper business, we sell this pulp at the transfer price and we will increase the transfer price from Veracel to the fine paper business. So with that, this will be kind of a technical movement between these two. So that will not have, on a Group level, any impact, but some results will move from fine paper to the associated side.

Lars Kjelberg - *Credit Suisse - Analyst*

When you're talking about newsprint price increases, I guess you've contract bound in most areas, but there's been some signs of newsprint prices moving up in the UK, closer to European averages, I guess. Are you seeing any other possibility in any other geographical markets to shift newsprint prices upward?

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Jouko Karvinen - *Stora Enso - CEO*

The short answer is yes. I will not qualify that with concrete level on customers. I've met some of them. We have -- obviously pushing very much on the overseas non-contractual basis, but we also have started to renegotiate some annual contracts in Europe.

Lars Kjelberg - *Credit Suisse - Analyst*

Understood. Tax rate; you've been looking at very low tax rates over the first half. What should we be looking at for the full year and going forward?

Markus Rauramo - *Stora Enso - CFO*

Yes, the tax rate -- hold on for one second. For the full year, the statutory rate let's say would be somewhere around 23%, 24%, plus/minus something. The effective rate somewhere around 13%, 14%, plus/minus.

Lars Kjelberg - *Credit Suisse - Analyst*

Okay. Final question, and which is the most difficult one. Trying to decipher your outlook statement for the third quarter, there's a bunch of positives on pricing and there's some seasonal variation on the demand side, but generally positive. Some cost concerns, but you quantify that in terms of millions and then you have the -- for the maintenance, EUR25m. What are you seeing in underlying earnings trend? Is this a positive quarter or a negative quarter? How should we interpret this?

Jouko Karvinen - *Stora Enso - CEO*

I actually understand the question. But the point being that, right or wrong, we have decided that we won't give you a direct earnings guidance. And the only thing I can say, how I read my own release, there is, yes, cost concerns, but already prepared to take action on an immediate notice if, for example, the saw log costs would start spiraling out of control and very good momentum on our cost production programs. Finally, some pricing power. And then that's where I have to leave it. You have to make the conclusions because otherwise I'm giving you earnings guidance and I won't. Sorry. But that will be kind of the [triple], that summary of what we tried to say in the third quarter guidance.

Lars Kjelberg - *Credit Suisse - Analyst*

Okay, thank you.

Operator

We will take our next question today from Markus Almerud from Morgan Stanley. Please go ahead, sir.

Markus Almerud - *Morgan Stanley - Analyst*

Hi. Markus Almerud from Morgan Stanley. Coming back to Lars' questions, firstly, about the wood cost, can you just explain a little bit about the dynamics and how it works, because wood cost or wood prices seem to be flattish going into the year in the first quarter? And if I understand correctly, there is about a half year lag and then cost seems to be going up in Q3.

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And then also, I know that one of your competitors, FCA, was saying that we saw flat prices at the end of the year -- towards the end of the year in logs in Northern Sweden. So what is the visibility in wood costs? And also, is both logs and pulp wood going up, or is it just one of the two?

Markus Rauramo - *Stora Enso - CFO*

Yes, I think you're very right in that. Of course we have visibility for this, for the coming quarter, and wood cost is going up because we buy it in advance. So that we have quite a good grip on. And our remedy, the part that we can influence more, it's then when we go towards the end of the year. And now we have prices shortened, exactly because what you said, because of the normally happier lag. We have tried to shorten this cycle so that we don't end up in a situation where we buy wood that we might not actually need if we have to take down time in the latter part of the year because of few high prices and few low end product prices.

But that's a risk we have to take now, that we shorten the cycle and decrease the certainty of the wood pricing. But also then we have the possibility to not -- to have too much wood at too high cost. And really, it's very difficult to start speculating or forecasting what is the wood price going to be in the end of this year. But we see pressure both in pulp wood and saw logs. And in saw logs, the price pressure has materialized quite heavily. On the pulp wood side, the increases have been much more modest so far.

Markus Almerud - *Morgan Stanley - Analyst*

And secondly, what was the -- you said it was EUR26m contribution from pulp in the second quarter. What was it for the first half?

Markus Rauramo - *Stora Enso - CFO*

I'm sorry. Can you -- I couldn't follow it.

Jouko Karvinen - *Stora Enso - CEO*

The impact of pulp.

Markus Almerud - *Morgan Stanley - Analyst*

Yes, the impact of pulp.

Markus Rauramo - *Stora Enso - CFO*

For the first half.

Markus Almerud - *Morgan Stanley - Analyst*

Yes, the EUR26m you talked about.

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Markus Rauramo - *Stora Enso - CFO*

We haven't quantified the Q1 impact. So we wanted to just clarify the Q2. So I think we'll leave it at that that we'll talk about the Q2 impact.

Markus Almerud - *Morgan Stanley - Analyst*

Okay.

Markus Rauramo - *Stora Enso - CFO*

We try to be helpful.

Markus Almerud - *Morgan Stanley - Analyst*

Okay, and then a housekeeping question, if I can. How much pulp do you purchase externally? And also, when I'm looking at the cost base, at the fiber cost that you have, the 31% roughly, of the cost base, is that including that pulp that you purchased externally or is it netted out in that?

Markus Rauramo - *Stora Enso - CFO*

No. Maybe I missed the latter part. But the answer to your question, we buy about 300,000 tonnes of pulp. So the net position of 900,000 takes that into account. And were you asking about the fiber cost?

Markus Almerud - *Morgan Stanley - Analyst*

Yes, so the cost -- exactly. The cost that you present in your annual report, for instance, does that -- is it netted out, or is it -- is the 300,000 tonnes that you buy externally, is that included in that cost, as part of the fiber cost?

Markus Rauramo - *Stora Enso - CFO*

Yes, exactly. And also now in this waterfall comparison, the purchase cost impact is on that, as well.

Markus Almerud - *Morgan Stanley - Analyst*

Okay, perfect. Thank you very much.

Operator

We will take our next question today from Johan Sjoberg from Carnegie. Please go ahead.

Johan Sjoberg - *Carnegie - Analyst*

Sorry. Yes. Could you come back a bit upon the capacity closure side also? Is it newsprint that you're especially looking at or what is -- within magazine paper, what do you see there?

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Jouko Karvinen - *Stora Enso - CEO*

Well this is obviously quite sensitive. We've done what we've done. And what I was trying to say today is I look at everything, every sawmill, every paper mill, every board mill. I don't have particularly a preference. It is clear, longer term, that markets in say printing paper will behave differently than most of the others. But there is no specific notice on newsprint.

The fact that the most recent closure decision, a few weeks back, which is going to be realized in the next, I guess, 9, 10 weeks is to newsprint machines. But I don't have any preference it's negative or positive. So we'll look at all the grades. And there is overcapacity in more than newsprint, obviously. We look everywhere.

Johan Sjoberg - *Carnegie - Analyst*

Okay, thank you.

Operator

We will take our next question today from Linus Larsson. Please go ahead.

Linus Larsson - *Enskilda Securities - Analyst*

Coming back quickly on your maintenance cost guidance for the third quarter, you're saying that there was an increase of some EUR25m, compared to the second quarter. Just so that I understand you correctly, for the fourth quarter, are we then back at the second quarter level that the increase is fully reversed?

Jouko Karvinen - *Stora Enso - CEO*

Let me understand. So I said that the EUR25m is the negative impact on earnings in Q3.

Linus Larsson - *Enskilda Securities - Analyst*

Right, yes. And my question is (multiple speakers).

Jouko Karvinen - *Stora Enso - CEO*

And your question was then what about fourth quarter?

Linus Larsson - *Enskilda Securities - Analyst*

Exactly, yes.

Jouko Karvinen - *Stora Enso - CEO*

We are -- I don't have a number for you, or a guidance for you right now, other than just saying that obviously we will not do the same assets in Q4 that we're doing in Q3. Give me one second. There will be also a couple of stops in Q4, but I can't give you the number right now.

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Linus Larsson - *Enskilda Securities - Analyst*

But you would dare to say that it's some kind of moderation or less of a cost burden than -- that we're seeing in the third quarter.

Jouko Karvinen - *Stora Enso - CEO*

Yes, I dare to say that.

Linus Larsson - *Enskilda Securities - Analyst*

Excellent. And then --

Jouko Karvinen - *Stora Enso - CEO*

Very much so.

Linus Larsson - *Enskilda Securities - Analyst*

That's fine. And then, coming back to the discussion about fine paper price increases later during the year, would you say that fine paper price increases from these levels could be warranted on the basis of sufficiently high operating rates alone, or would we still rely on a cost push element here?

Jouko Karvinen - *Stora Enso - CEO*

I want to just be very careful. My view actually is that -- I think I said it in a different way, or tried, at least, to say it before. We need this relatively solid demand, definitely for the further price improvement. But I'd say it will get more difficult at the cost position there, let's put it this way.

Linus Larsson - *Enskilda Securities - Analyst*

All right. Okay. And then just finally, I appreciate the guidance of still some EUR200m to EUR250m of cost savings to come. Does that include this potential Sunila closure? And also relating to that, could you say something about your plans for Sunila in a scenario where pulp prices are coming down, as we seem to expect here?

Markus Rauramo - *Stora Enso - CFO*

Yes, that includes Sunila. So that is part of the announcement that we have done of the cost of these different programs. Of course no definite decision exists there. And then, sorry, the latter part of your question was -- yes, we don't have any further plans for that yet.

Jouko Karvinen - *Stora Enso - CEO*

Let's answer it this way. Just remind you what we said when -- after August 2009 when we said we're going to shut -- permanently move Sunila end of Q1, then we changed our minds and restarted the mill. And as you can well imagine, that was a very profitable decision. And we also said this doesn't change the longer-term outlook for Sunila. And we need to operate profitably. But that's exactly where we are also with our employees and so forth and that's why we can't really go any further in the comments here.

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Linus Larsson - *Enskilda Securities - Analyst*

Understood.

Jouko Karvinen - *Stora Enso - CEO*

We need to operate profitably.

Linus Larsson - *Enskilda Securities - Analyst*

Excellent. Thank you very much.

Operator

We will take our next question today from Mikael Jafs from Cheuvreux. Please go ahead.

Mikael Jafs - *Cheuvreux - Analyst*

Yes, hello, Mikael Jafs here. First of all, congratulations to a very good result. And then I would like to continue on the last question there. What type of pricing scenario will we have to see before you sort of start changing your mind and going back to the long-term outlook then on Sunila and Enocell. Would that happen if prices drop down to the trough levels we saw in 2009? Is that what we should expect?

Jouko Karvinen - *Stora Enso - CEO*

First of all, thank you very much. The congratulations was -- for the results belongs to the team. And I've said many times today, try and understand, one quarter doesn't make a life. But we'll work hard to make many more to come, so you can congratulate us often.

On a serious note then, your question. The balance of it is obviously where would the pulp price have to really go? Will it have to go all the way to where it was, which was nothing balanced then with what the fiber cost situation is and so forth. And if you remember, Sunila may be an easier example, but as well as Enocell. We obviously carried quite some cost to keep them temporarily shut down. But because of the structure we have there on both two standalone mills, including the issues we had last year, I think -- I already know that it is was a very, very good decision not to dismantle them then, but restart them. I think the cumulative earnings of that exercise is very positive. And that only means then that there's a timeline here, depending on how does the pulp price versus fiber wood price look at? We will have to then take it carefully about again, temporary curtailments versus something else. That's all I can say.

Mikael Jafs - *Cheuvreux - Analyst*

Okay. Thank you for that. And then my last question, at the Capital Markets Day recently, you discussed and talked a bit about this potential investment in transportation fuel plant. Can you please just give us a short update on what's happening there?



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Jouko Karvinen - *Stora Enso - CEO*

Yes. The very short update is, number one, we believe, together with our partner [investor] that we're -- well I'd say we're number one in the world in terms of the actual experience and knowledge in the particular process because we have, on a continuous process level, in the demo plan, rather than in the last batch type of exercise, proven a lot. We still have about six to eight months to complete the demonstration tests. So technology, I feel that's something we do very strong as partners.

Two, be -- I've said that publicly also -- that to be financially viable, this early technology with a significant investment will not be workable without strong investment support from European Union and national governments. And it needs to be so significant that they cannot split it in cases either because otherwise nothing is going to happen.

And third, let me assure you that both the CEO and the Board will look very pragmatically on making significant investments with the prerequisite that there has to be a financial return.

Mikael Jafs - *Cheuvreux - Analyst*

Okay.

Jouko Karvinen - *Stora Enso - CEO*

And the time to talk about that is 2011, not 2010.

Mikael Jafs - *Cheuvreux - Analyst*

Alright. Many thanks.

Jouko Karvinen - *Stora Enso - CEO*

Thank you.

Operator

We'll take our next question today from Oskar Lindstrom from Erik Penser Bank. Please go ahead.

Oskar Lindstrom - *Erik Penser Bankaktiebolag - Analyst*

Yes, hello. A couple of questions, starting off with some of the price increases. Now, some of these competitors have talked about price increase ambitions on magazine paper. Is there anything that you can share with us what your ambitions are there?

Jouko Karvinen - *Stora Enso - CEO*

We are -- our ambition is to increase slightly or increase more than slightly, to use the exact term. So we're pushing that further also now. That's a sequential comparison, versus what we already said in the release, in terms of development in Q2. I won't give you an exact number.

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Oskar Lindstrom - Erik Penser Bankaktiebolag - Analyst

Okay. And regarding your tactics for moving prices up in this segment in magazine paper, I mean, clearly a small price increase will not compensate for the higher costs, raw material cost that we've seen in our -- continue to see. Do you see a continuous number of price increases ahead of, or beyond, what you're planning for Q3?

Jouko Karvinen - Stora Enso - CEO

Number one, we're not planning for Q3, we're doing Q3. We're in the moment in the middle of Q3.

And two, I wouldn't want to go that far. Well I will want to comment that before I see how well we realize these increases, number one. And then again, I want to go through starting to talk about the fourth quarter now. That's going to be in three months. And the final comment I'll make, we'll do as much as we humanly can on the pricing, on the customer mix and all those things. But whatever we get done there, we're going also have to work very, very hard on getting our costs improved and cost inflation and raw materials under control. (Inaudible) obviously also and magazine are very limited, to say the least.

Oskar Lindstrom - Erik Penser Bankaktiebolag - Analyst

In newsprint, you talk about price increases from the third quarter. Is that in the UK then that you're talking about here or has it already -- have you already agreed on price increases outside of the UK but in Continental Europe.

Jouko Karvinen - Stora Enso - CEO

Well I'll say this and then I will say more. It's also outside UK, my understanding is.

Oskar Lindstrom - Erik Penser Bankaktiebolag - Analyst

I suppose that means that you're renegotiating the annual contracts or adjusting them, anyway. Is that a trend that you foresee, moving into 2011 as well, that you'll be moving from full year contracts to a shorter time period contract in newsprint?

Jouko Karvinen - Stora Enso - CEO

No, I would -- do me a favor, ask the second question in -- maybe in six months because I think it's a little early to go there. But I guess, if you remember what happened this winter, we all agree that there needs to be a correction. This isn't acceptable, so that's all I can say.

Oskar Lindstrom - Erik Penser Bankaktiebolag - Analyst

Okay. And just two more sort of technical questions. The pulp effect of EUR26m, that was quarter on quarter, sequentially.

Jouko Karvinen - Stora Enso - CEO

No. The EUR26m EBIT improvement impact was year on year.

Oskar Lindstrom - Erik Penser Bankaktiebolag - Analyst

Year on year. Alright. Okay. Well those are all my questions. Thank you.

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Jouko Karvinen - *Stora Enso - CEO*

Thank you so much.

Ulla Paajanen-Sainio - *Stora Enso - Head, IR*

Okay. Thanks everyone for taking part in our conference call here and I will still turn it to Jouko for final comments.

Jouko Karvinen - *Stora Enso - CEO*

Thank you. Thank you everybody. Like I said, I am very proud of what the team has done in Q2. You have my commitment and the team's commitment to do many more Q2s in the future, without giving you any guidance on specific quarters. And I think, on a serious note, pretty positive on short-term markets, as you can see from the guidance. Not only concerned, but taking already actions on controlling our cost inflation with our earlier announced actions, but also with the ability to very rapidly cut volumes and so on and so forth.

And then final comment is remember what I did in the beginning. We made, in the last three months, as much money as we did in the good old days before the markets crashed and I think that's a good testimony for the future. Thank you, everybody, for participating.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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