

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call**

**Event Date/Time: Apr. 22, 2010 / 1:00PM GMT**



Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

## CORPORATE PARTICIPANTS

**Ulla Paajanen-Sainio**

*Stora Enso - Head, IR*

**Jouko Karvinen**

*Stora Enso - CEO*

**Markus Rauramo**

*Stora Enso - CFO*

## CONFERENCE CALL PARTICIPANTS

**Ross Gilardi**

*Merrill Lynch - Analyst*

**Johan Sjoberg**

*Carnegie - Analyst*

**Mathias Carlson**

*Deutsche Bank - Analyst*

**Miles Allsop**

*UBS - Analyst*

**Linus Larsson**

*SEB - Analyst*

**Lars Kjelberg**

*Credit Suisse - Analyst*

## PRESENTATION

**Operator**

Good day, and welcome to the Q1 2010 financial results conference call. Today's conference is being recorded. At this time I'd like to hand the conference over to Ulla Paajanen. Please go ahead, madam.

---

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

Hello, good afternoon, everybody, and welcome to Stora Enso's Q1 2010 conference call. And with me here today is our CEO, Jouko Karvinen, and CFO, Markus Rauramo. And I will hand this over now for Jouko to a brief introduction to our figures.

---

**Jouko Karvinen** - *Stora Enso - CEO*

Thank you, Ulla, and thank you, everybody, for joining our quarterly call. We'll try to be brief, so you have time for questions. I'll start with an overview, and then I'll hand it over to Markus to talk about the key financials as well as a bit of the market situation before I'll talk about the outlook.

The markets are recovering slowly. But as you'll see in a minute actually we are still in all product lines, and not we but the industry in all product lines on the demand side is clearly below the pre-crisis level, which I think we'll define as the 2007 level.

Why is it important to say? Because what we've achieved so far, what we plan to achieve is not based on a miracle recovery. We will continue on that path.



Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

Year-on-year earnings, excluding NRI and fair valuation went up EUR116m from nothing to EUR119m, or I guess EUR3m to EUR119m. Yes, it was a volume recovery from a very low level, as you may remember a year ago. It was active cost management.

And in all transparency it was also a pulp price increase, which we can talk about more. We are this year going to be in the order of 900,000 tonnes market pulp long, meaning net sales. About half of it in Magazine [BA], about 40% in Consumer Board, and that leaves it only a 10% is to Fine Paper.

But that has helped, partially driven by the Chilean tragedy. And you may know better than I do, but my view is very clearly that, that's not going to stay there for long, most of the capacity is either up or coming up again and so forth, but that is very helpful.

Overall, if you look at our portfolio, it's not shown on this slide, our packaging business which is about one-third of our total product revenue, now in the exceptionally difficult publication situation, was actually two-thirds of our earnings. Fine Paper with only a little boost from pulp was another 35%. So I guess the message is we are not only a European paper company, we are a packaging company, more in the future also a pulp company and a paper company.

Cash flow, as Markus will discuss in detail, EUR119m. Yes, recovering from the very low levels of volume the working capital is increasing, but when I look at the key ratios I am very confident we will continue to manage that well. Our cash position is strong.

I'll talk a lot more about the actions. We will stay on our path, continue the capacity and cost management. We've announced today two newsprint machine closures, a plant in Varkaus end of Q3. We have also announced the divestment of the Kotka integrate.

Let me then hand over to Markus to go quickly through the key financials, please.

---

**Markus Rauramo - Stora Enso - CFO**

Thanks, Jouko. If we move to page seven of our presentation I can say first of all that we are very happy what we achieved in the first quarter of 2010.

Sales, as Jouko said, increased by 8%, which in our business is a very good result. I think EBITDA went up by EUR100m comparing to last year's Q1, and operating profit, excluding nonrecurring items and fair valuation, up from EUR3m to EUR119m.

Despite the fact that our sales went up 8% the cash flow from operations was a strong EUR119m, and even positive after investing activities. And I'll discuss the operating working capital a little bit more in detail.

If we move to page eight, look at the quarterly performance for 2008. Comparing last year's Q4 to Q1 of this year the EBIT is down slightly, but Q4 in a normal year would be seasonally very strong. So we are quite happy with the performance for Q1.

Then when we look at the four quarter rolling average the direction definitely is right. But we are nowhere close to the levels where we want to be. So if we, for example, [put] on this chart our 13% return on capital employed equivalent EBIT, it wouldn't even fit on the page.

Then moving to the working capital there is a slight increase from Q4 to Q1, but with the 8% growth of sales we feel that that business has done tremendous work on balancing the growth and still having a high focus on working capital.

Like last year this year also one of our main focuses is on the cash flow. So we also incentivized our whole organization not only to generate EBITDA but also to watch the other cash flow items, and resulting in strong cash flow for the whole year.

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

Moving to page 10, our strong liquidity continues. At the end of Q1 we had cash of EUR860m. Debt maturities this year EUR850m, and on top of the cash we have the EUR1.4b facility fully undrawn without covenants, with 2012 maturity. And access to other long-term sources of funding up to EUR700m, and a good pipeline of funding transactions that we are working on.

If we then move to the markets part, page 12 gives a backdrop for the situation, which is still very challenging. Basically in all of the paper grades there is still too much capacity. If you compare the overcapacity compared to normal [like the] 4% operating rate, there's overcapacity between 10% and 17%, worse situation in newsprint, coated magazine and coated fine paper.

And looking back two years on slide 13 and 14, even though we see some economy recovery, some pick up in volumes as these charts show compared to levels of 2007/2008, we are starting this slight recovery after a very, very dramatic drop and low levels of demand.

Looking on the board side though the drop has been much less than on the paper side, and also then the recovery has started maybe slightly earlier, and with a good angle.

For the near term outlook I will hand over to Jouko.

---

**Jouko Karvinen** - *Stora Enso - CEO*

Good, thank you, Markus. And if I may just say this, the two curves on page 13 and 14, I haven't quite framed them on my wall but at least framed them in my mind.

We do not plan improving the earnings based on some miracle on the markets. And I would suggest that anybody saying that the markets are going to save them you are welcome to show these charts which are based on facts. We have to work very hard also in the future.

The interesting part is obviously if you look at the page 15, the second bullet Newsprint and Book Paper we said, or we say today that we have an -- we'll lose about 16% average on 2010 versus 2009 average, local currency. It is less than some of the other reports have suggested in the past few weeks. Why? Because we have obviously said we will not fight for market share. We've been selective. We are trying to be geographically selective. But also because it not Newsprint only it is improvements in Book Paper included, 16% is bad enough.

Not quite yet, but already by now a very significant part of the dramatic price drop has been compensated by the Newsprint, again if you look at the segment report. And once we get the Langerbrugge power plant up and running in the end of second quarter, I think we'll make happen. But we promised before with this -- we are going to take at least half of the [trauma] out.

Magazine Paper 7% to 8%, and there we specifically say that the first half performance -- sorry, outlook versus average 2009, given the contract short -- being shorter than in Newsprint, we are and will push for price increases or recoveries there also, which is important.

I think the third bullet on page 15 is maybe the more encouraging one on Fine Paper, Consumer Board, Industrial Packaging and Wood Products, which again is about 70% of our total revenue we now see that pricing would be trending upwards. We are pushing and fighting for it very clearly.

Arguments or reasonings are different, the Fine Paper side very much driven by the pulp price push, because it's a non-integrated base and so forth. I think on others like packaging and so forth it is also including demand driven. On Newsprint and Magazine we, like I said, don't see a great and even though we fight there.

Apr. 22, 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

Last bullet on page 15 same number than three months ago but the sign changed. Three months ago we said cost expectation before our own actions, deflation 1%. Now we are saying outlook 1% cost inflation before our own actions.

The good news is that because we started early with our own actions our goal is that even though the cost inflation has from a variable cost point of view, gotten more conservative than before, we expect to be on the deflation side after own actions. I won't give you the exact number, but that gives you a flavor of it. And obviously that's very important.

Okay, that was that. I'm sure we will talk about that more. Structural changes quickly then page 17. Two newsprint machines to be closed in the third quarter, [versus fiber base], traumatic overcapacity, this we believe needs to happen.

At the same time we are saying that the Fine Paper, Paper Machine and the Pulp Mill and the Sawmill will continue. Not a great strategic move or something sophisticated, it's simply when you can make good money why would you not run them. And there may be questions on this. We had a bit of a question -- discussion three months ago about why did we restart Sunila. Well, let me assure you that was a very good financial decision to restart Sunila as you can see.

So that's where we are with Varkaus, see page 18 and summarizes is the reasons. And the co-determination will start shortly.

Page 19 then, we discussed a long time, we finally have now agreed to divest the Kotka Integrate including the paper making and the sawmill. Why sell? And our thoughts and that has been basically our approach everywhere we've -- we are talking about assets that compete with our -- the rest of the business. Very simply other than the sawmill which is about 4% of our total sawing, sawmill capacity this doesn't really compete, the MFC paper doesn't really compete with the LWC.

So from a financial point of view, shareholder point of view and employee point of view I think this is a good thing. The new owners seem to be very dedicated and committed. They are planning to invest to improve the cost position of the company more. So we believe this is the right thing to do and we move on.

Last slide 21, same old same old, pricing quality over volume, we are not taking market share fight. Activity capacity management not only the permanent questions but also temporary if needs to be.

Cost focus will continue. It's not boring, it's something we have to wake every morning with. We do understand that the results that we see now in our P&L were planned and decided quite some time ago, so we are continuing on that path also in terms of further necessary things. And cash flow goes without saying.

Now my fierce and I'm almost a month has been mostly fixing things. The good thing is that I believe, and it's not on the slide, we are still fixing things, but we are also starting to build.

I was just last week in Uruguay and Brazil. I almost made it back to Europe, was above the Bay of Biscay when the Captain said we were going somewhere else. But the serious story is I think we have great growth options coming with sustainable competitive differentiation.

We own less land, quite a lot less land than we did many, many years ago, less than half of it. But the interesting part is that as we speak, our growth, our growth on trees growing now for us on plantations is bigger than they ever before. And I think that's a very good base to build our future.

Enough said, thank you for your attention, and now we hand it over to you for questions.



Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). We'll take the first question from Ross Gilardi from Merrill Lynch.

### Ross Gilardi - Merrill Lynch - Analyst

Hi, good afternoon, thank you. Can you hear me okay?

### Jouko Karvinen - Stora Enso - CEO

Yes, we can.

### Ross Gilardi - Merrill Lynch - Analyst

Yes, I've just got a few questions. First of all, what's happening in the European paper export markets? The industry data has suggested a lot of strength, and are you seeing this and if so where are you seeing it?

### Jouko Karvinen - Stora Enso - CEO

I'd say it's a little early to make big promises so to say in that, but yes, we are pushing on overseas market, we see strength there. And I will, to keep it as simple Asia is the name of the game rather than too many other questions.

### Ross Gilardi - Merrill Lynch - Analyst

Okay. And then what do you see happening in the Chinese pulp and paper markets? Are you and other paper producers able to fully pass through paper price increases to offset pulp at this point?

### Jouko Karvinen - Stora Enso - CEO

Well, there I think we have to be a little careful, because on relevant segment which is Fine Paper we are not that big. We've got Suzhou and so forth, and we use Veracel pulp, so it's not -- we are not dependant on pure market versus pulp.

It's healthy, but I would suggest that -- to make a claim that Fine Paper making in a pure market pulp price basis would be extremely profitable, I challenge that. But again it's not that big for us, I can't claim to be an expert.

### Ross Gilardi - Merrill Lynch - Analyst

Yes, I'm just trying to get a grasp more on the overall ability of the pulp pricing globally to increase, figuring a lot of that has got to be based on whether or not the Chinese producers can raise paper prices at this point, and I was just wondering what your experience was.

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Jouko Karvinen** - Stora Enso - CEO

Yes, well, let me continue a bit on that. If you look at the coated fine, which is really our segment that we experienced now both in demand and price, yes, is going up. But I would still challenge a bit whether that's going to be a long-term scenario for the three months that we talk about, we see that continue both on year-on-year demand and sequential pricing.

But the reason I'm a little hesitant here is that the Chilean tragedy with about, I guess, about 4m tonnes of chemical pulp in Chile I think it's going to turn out to be not that huge of a loss. Talk about 1m tonnes out of 50m, so I would not say that this is going to last forever necessarily. That's why I'm hesitant at least.

---

**Ross Gilardi** - Merrill Lynch - Analyst

Okay, got it. And then what level of support are you seeing, competitive support are you seeing for European magazine paper price increases?

---

**Jouko Karvinen** - Stora Enso - CEO

Well, first of all, obviously we've been very strict that we will not communicate through you or let alone media the price increases. But I can tell you that we have sent letters ourselves to customers, firm and friendly letters to say it's time to push it up. And then reading media I understand we are not alone but that's all I can say.

---

**Ross Gilardi** - Merrill Lynch - Analyst

Okay, thanks, Jouko. And then I just was wondering if you could talk about your cash flow priorities. You mentioned at the end there that you feel good that you're now able to start building again as well. And I'm wondering if you can rank your cash flow priorities in terms of Latin American pulp expansion, which you've talked about quite a bit, packaging expansion, which you've talk about quite a bit, and then that versus raising the dividend going forward. Obviously you've just paid it out, but over the next several years.

---

**Jouko Karvinen** - Stora Enso - CEO

Good, I'll try to be quick and I'll split the answer in two parts, I'm sure Markus will help me. If you look at the operational situation whenever we cut the CapEx a lot, and even if I may now use the priorities in the operational side so to say has been both number last year finance the CapEx spending through working capital improvements, we have a tremendous focus of working at those still. Incentives have been set, continue to be set on that.

And then the content of the CapEx, majority of it is actually improving our future. You know the power plants in Maxau or Langerbrugge and so forth. So I've been pretty tough on the team saying no, no, no, we are not spending the money just to keep pumps running or wheels running, focus it on making us stronger and better. And we are going to get some return on the next several months when the power plant starts.

So that's the operational side. Then when we look at strategic we've got, I could say three brilliant strategic options where the trees are growing. I've forgot the number, but I made a joke somewhere that is about three cubic meters per second that the plantations are growing up.

But the serious point is I have said that I will not put them in one, two, three order. The fiber base, if you look at Latin America the fiber base of Uruguay is clearly ahead of Bahia which has developed an expansion possibility. And then China is a little different game, but it is important to me -- actually every place I go, and I go to China pretty often I tell the government in those

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

locations and my partners, always that we want to do the best thing there. And I intentionally would not want to give a flavor that one is a choice over the other.

We have said from a financing capability point of view that obviously whereas we feel comfortable now with our balance sheet that if and when we in a relatively short timeframe of a few years would find the opportunity to make good high-return investments in multiple of them, then we'll have to look at the financing from a different angle if I leave it at that. Markus, do you want to add something?

---

**Markus Rauramo** - *Stora Enso - CFO*

Yes. Thanks, Jouko. The other thing I'd add is that it is very clear that we have an objective to have a level of cash flow that is enough to invest in maintenance, to invest in new profitable projects, and to pay a dividend. And what is more driving our dividend than the level of it is that we target to pay out half of the net profits over a cycle, and we want to increase that, that's clear

---

**Ross Gilardi** - *Merrill Lynch - Analyst*

Okay, thanks very much.

---

**Jouko Karvinen** - *Stora Enso - CEO*

Thank you.

---

**Operator**

Next question comes from Johan Sjoberg from Carnegie. Please go ahead.

---

**Johan Sjoberg** - *Carnegie - Analyst*

Hi there. Coming back to -- I just want to address the Magazine paper situation if I may. You've earlier said that Newsprint is by far the weakest segment, and I can agree -- I understand what you mean by that looking at how prices have been dropping here.

But if I look at your -- just from a quarterly point of view just Q1 here I see that the Magazine Paper I assume that you have a lot of market pulp which have boosted earnings in that segment, and still I see profitability not being materially different from that -- the one in Newsprint. Is this just after one quarter one-off as you see it or would you agree with me when it comes to Magazine paper being as weak as Newsprint?

---

**Jouko Karvinen** - *Stora Enso - CEO*

I wouldn't want to take a fight over that with you because both numbers are bad, and you're right. Like we often said that the market pulp is a significant booster there. And that will continue for some time at least.

I think that the better part of it, if I may say, is that Magazine both coated and uncoated we are relatively stronger in uncoated anyway, and I'm a little more hopeful there, and then the structure of the customer relationships where we are not stuck to this one-year annual agreement.

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

So I can assure you that my friends from publication, which includes both are -- have enough pressure from me to try to improve the pricing situation of Magazine.

**Johan Sjoberg** - *Carnegie - Analyst*

Sure. Could you actually say something about -- now in Q2 what type of -- could you quantify the magnitude of the price increases for SC and LWC? And how big a portion is the non-contractual business?

**Jouko Karvinen** - *Stora Enso - CEO*

I think on Magazine it's going to be marginal. I can't give you a number because it's going to take some time. I often said that we have communicated directly to our customers, but that doesn't quite yet do it. We are just pushing it, so in Q2, which is the only outlook we really give to you it's going to be marginal and that's the best I can tell you now.

**Johan Sjoberg** - *Carnegie - Analyst*

Also just from a strategic point of view here, when it comes to capacity closures in the industry and also for you yourself, your closing the newsprint capacity in Varkaus. Going forward -- but you are actually taking back the under threat to be closed capacity, the Fine Paper capacity. Now if we look going forward here for you and your company how do you view capacity closures?

And also when it comes to timing are you now more looking at other trying to -- just waiting for other people to do their fair share of capacity closures, or what is your take right now?

**Jouko Karvinen** - *Stora Enso - CEO*

If I start from your second question if it was your second question whether I would be waiting for others to do their share. Never, there will never be a day when I -- you would have to shoot me before I'd say that.

**Johan Sjoberg** - *Carnegie - Analyst*

I don't want to do that.

**Jouko Karvinen** - *Stora Enso - CEO*

No. I think that's one of the nicely put illnesses of the industry. We live in a market environment. My responsibility is to try to improve as fast as I humanly can more the asset base and the cost base of the company, including marginal costs on fiber and energy and all that. I will never say it's others turn. I can't speak for the rest of the industry. But let's be assured as long as I'm here we will not wait.

Now in the first part of your question let me argue a bit with you, we are not taking anything back. I very openly said to the media also today, when people said well what does this mean for Fine Paper and Pulp in Varkaus. How long, and is it months or quarters or years? And I said I don't really know. The only thing I know is that when they are making good money I'm going to let them run. It's not quite as huge change as Sunila.

We, more clearly than Varkaus Fine Paper we said in August we are going to shut the place down end of March 2010. And when we decided to restart it within three days the whole gang who had been on temporary leave for months and months was back

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

started the factory or the mill. And without getting too arrogant I think that was one of the better decisions I've made operationally in the few past years.

So the point is it's not a strategic decision, well, let's just change the strategy. It is that not to do silly things when we can make good money, like closing Varkaus Fine Paper and Pulp.

---

**Johan Sjoberg** - *Carnegie - Analyst*

Okay. And if I may ask you this in a slightly different way, looking at your asset part today and looking at the asset part by the end of 2010, do you think that you will see -- will we see another round of capacity closures announced by Stora Enso do you think this year?

---

**Jouko Karvinen** - *Stora Enso - CEO*

I know I shouldn't take time to think, but I want to think this. I cannot tell you, not because I don't know but because I cannot start communications through this channel.

---

**Johan Sjoberg** - *Carnegie - Analyst*

Okay, that's ---

---

**Jouko Karvinen** - *Stora Enso - CEO*

And let's just leave it at that. And let me assure all of you on the phone, I hope not me but we, as a team, have given you some demonstration that we're not waiting for anything or anybody. If we need to take capacity out, temporarily or permanently, we'll take it out.

---

**Johan Sjoberg** - *Carnegie - Analyst*

Great. Thank you very much.

---

**Operator**

Next question comes from Mathias Carlson from Deutsche Bank.

---

**Mathias Carlson** - *Deutsche Bank - Analyst*

Yes. Hi, gentlemen. I've got a couple of questions. First, I just wanted to know if you could give us some more color on what you see in your order books for the second quarter, in terms of volume pickups in magazine, fine paper and so on, and maybe newsprint as well, given that we hear positive signs from the publishers when they report here now recently Axel Springer. But I was just wondering if you see any signs of that pickup in order books.

---

**Jouko Karvinen** - *Stora Enso - CEO*

Hello, Mathias. Jouko. On newsprint magazine lineup, all products, we see a year-on-year improvement Q2 2010 to Q2 2009. Now I have to be a little careful on how that would look sequentially because the seasonality is a little different. But yes, there

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

is a recovery, year-on-year, on the volumes. And I'm happy to say that and it's very good because it's marginally adding volume with a significantly reduced cost base isn't bad. But I just want to remind -- and you know it better than I do, Mathias, that it's not the 2007 level we start from.

---

**Mathias Carlson** - *Deutsche Bank - Analyst*

No. Given that there are seasonal declines now in the first quarter compared to the fourth, I would assume that there should be some kind of sequential pickup as well.

---

**Jouko Karvinen** - *Stora Enso - CEO*

Yes, I wouldn't be able to argue with you on that.

---

**Mathias Carlson** - *Deutsche Bank - Analyst*

Okay. But it's not any strong pickup.

---

**Jouko Karvinen** - *Stora Enso - CEO*

No, I'm not dreaming the world to save us. We're going to make -- save ourselves. That's the whole story.

---

**Mathias Carlson** - *Deutsche Bank - Analyst*

And then on the price declines that you've announced here, how much of that is actually in the numbers in the first quarter? Do we going to see -- are we going to see a spillover effect into the second of any magnitude in newsprint and magazine? Obviously it depends on what kind of price increase you will get from magazine in the second quarter. But is there any spillover effects?

---

**Jouko Karvinen** - *Stora Enso - CEO*

No, Mathias. I think you can fundamentally take it -- we've had to eat up newsprint hits in Q1 already, fully. So it's not a spillover. On the other side, once we get to the second half here, once we get our brilliant power plants running, it will help us a little on the cost side further. But that's it. Magazine is more difficult because I don't know how well we're going to be successful on the cost.

---

**Mathias Carlson** - *Deutsche Bank - Analyst*

Okay. Finally, this ongoing question which we've been discussing, I guess, every single quarter for the last couple of years at least. Consolidation -- I mean you're now obviously taking more measures on your own. But given the situation in newsprint and magazine, the further deterioration here in pricing, is there anything that -- come anywhere closer or that there is any more indications that there could be something in, let's say, on the consolidation front in Europe. Or is there any need for that?

---

**Jouko Karvinen** - *Stora Enso - CEO*

There is need. But essentially the need to me - I know it sounds silly - is specifically to get capacity out. And why do I say that? It can happen through consolidation. It can happen like we've done quite a bit and I'm sure others have done and so forth too.

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

On the consolidation piece I'd say I'm going to be exceptionally careful with my big mouth because I think I've had to say too many times to you that I've failed on this part of the saga.

Our ears and minds are totally open. If we can find a solution that we can come back to our shareholders and say, "This makes sense to you." And it will accelerate the improvement of our business base, no problem. There is no special reason for the CEO or anybody else not to do it. But I just plea that don't ask me for a schedule because I've failed so many times on that. Sorry for the careful answer, Mathias.

---

**Mathias Carlson** - *Deutsche Bank - Analyst*

Okay, that's fine. Thank you very much, gentlemen.

---

**Jouko Karvinen** - *Stora Enso - CEO*

Thank you.

---

**Operator**

Next question comes from Miles Allsop from UBS London. Please go ahead.

---

**Miles Allsop** - *UBS - Analyst*

Yes, just following up on that question as well. With the closures, why do you think that it's so slow for the industry to address the oversupply? Obviously you announced the closures in August. But since then, there's been precious little additional capacity closed. And if anything, I guess today we've seen yourselves going back on the Varkaus uncoated fine for the time being. Why do you think it is so slow and what do you think needs to change to make it finally happen?

---

**Jouko Karvinen** - *Stora Enso - CEO*

Well, Miles, I'm not going back anywhere. I'm trying to keep a profitable mill making money. I'm not changing the strategy. And I just want to be ultra super clear on that, like we did with Sunila. Then why capacity close is too slow. In mills you have a textbook case on newsprint where already in a structural overcapacity situation in late 2008, when the overseas markets were supporting European pricing.

But anyway in an overcapacity situation, we were able to increase pricing, [Sorens] a little more than others. But anyway, if you look at the track record here, and I'm sure you've done that, there was a significant -- quite a significant capacity cut prior to that pricing round.

What changed in a year later? Yes, a little worse overcapacity, nothing materially different. But no capacity cuts and the overseas market wasn't supporting there. So I think -- I hope we've learned our lesson. And I hope others have too. But when you talk to all my colleagues in the industry, which I know you do, I can't tell them -- be able to tell them that this whole belief of well, it's others' turn is poison to the industry.

---

**Miles Allsop** - *UBS - Analyst*

Do you think we may be having the same conversation in 12 months' time about there being an oversupply and everyone being slow to close capacity?

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Jouko Karvinen** - *Stora Enso - CEO*

For the industry?

**Miles Allsop** - *UBS - Analyst*

Yes.

**Jouko Karvinen** - *Stora Enso - CEO*

Could be. For Stora Enso, no.

**Miles Allsop** - *UBS - Analyst*

And on the -- could you give us an update as to where we are on the cost savings? Has the EUR710m that have been coming through during last year and into this year, what's actually been realized during 2010 so far?

**Jouko Karvinen** - *Stora Enso - CEO*

Markus will answer that. Not that I'd give you a different answer, but he'll give you a little more color on it.

**Markus Rauramo** - *Stora Enso - CFO*

Okay. Thanks much. We are halfway through, so we have roughly EUR350m left of the savings to come. And all of the plans -- I think I've said it before as well -- all of the plans are being implemented and the organization is working very well. You can see it from the headcount numbers. I think that's good evidence that they continue to come down. It's tough for the organization. I can say that.

But on the other hand, someone asked me some time ago that have we now picked all the low-hanging fruits? I had to think for awhile and the answer is that actually, no, now we've done the hardest work because now our organization finally understands what the real situation is that we are in. And now that we have the managerial skills to do restructuring, do the changes, also reducing costs and restructuring gets easier. So we will have more speed and we will make the being more cost-efficient a more permanent part of our work.

**Miles Allsop** - *UBS - Analyst*

Okay. And the 50% -- the remaining 50%, is that going to be mostly seen in 2010, so another -- so EUR350m this year. Or is it going to be kind of half this year, half next year?

**Markus Rauramo** - *Stora Enso - CFO*

Largely 2010, partly in 2011. And of course, there's always variations in the plans, how they materialize because these are real -- we go through co-determinations and so on. These are real situations. And we also have to then do things right, in a good way that produces the best results.

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Miles Allsop** - UBS - Analyst

And thinking about the fine paper division as well, it was particularly strong this quarter. Is there anything -- obviously there's not much impact from pulp in that division. Is there anything that we should be aware of or is this EUR40m odd that was achieved in Q1 sustainable later in the year, especially with obviously fine paper prices picking up in April?

**Jouko Karvinen** - Stora Enso - CEO

Well, we won't give you a quarterly forecast for fine paper. I think that the positive side, going forward, is the pricing and the slow but anyway, recovery of the demand. The critical issue is now how the fiber cost will develop, specifically on the fiber that is not [paten] or super Veracel supply, which is old, so on and so forth.

So on the balance of it, I am carefully optimistic on fine paper. But don't get carried away. One quarter doesn't make a strategy.

**Miles Allsop** - UBS - Analyst

And just taking a step back, if and when pulp prices finally turn, do you think you'll be able to hold on to these price increases that have been achieved. Or do you think the worries you kind of flag around for the structural oversupply will come back and erode prices quickly?

**Jouko Karvinen** - Stora Enso - CEO

To be very honest, with my minimum three-year experience, it seems that the fine paper pricing, it's kind of very nice when it's on the way up because you don't have this annual agreement and all this stuff. But there's a payback the other way around. So you can -- I would want -- not want you to think that if it takes a hard fight to get it up that it will stay there. Interesting part still is that the pulp price development now I think will carry us for some time. Don't ask me for a schedule. But I think that will carry for some time.

**Miles Allsop** - UBS - Analyst

Okay, thank you.

**Jouko Karvinen** - Stora Enso - CEO

Thank you.

**Operator**

Next question comes from Linus Larsson from SEB. Please go ahead.

**Linus Larsson** - SEB - Analyst

Yes, good afternoon. Thank you very much. Maybe starting with what you say about fiber costs, that they were, if I understand you right, EUR24m higher in the first compared to the fourth quarter. I wonder whether you could break that down as regards wood costs and recycled fiber costs, and also if you could give us any sort of indication for the second quarter, please.



Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Jouko Karvinen** - *Stora Enso - CEO*

Okay. Let's just scale it a bit first. The RCP is a lot less than the virgin fiber. 2.5% of our total cost is RCP. And that obviously had for well understood reasons, China demand less, RCP in Europe gone up quite a bit. But again it's, thank God, a smaller portion.

Then the virgin fiber -- no, I should say that wood costs -- virgin wood cost -- I won't give you the exact number but it is our view that this year the bigger pressure is actually on the [solox] and it will only carry through if the pricing carries through. And then I would say the pulp with relative inflation outlook is actually nothing hugely significant. So that's the balance of it. I would not want to give you an exact number, to be honest.

**Linus Larsson** - *SEB - Analyst*

Okay. But looking at the first quarter, were wood costs higher -- in total higher or lower compared to the fourth quarter?

**Jouko Karvinen** - *Stora Enso - CEO*

Okay. We're scrambling papers here and I think Markus is faster than me, so he can tell you a bit. I think they were higher. Give us a second, just to make sure that we don't confuse ourselves.

**Markus Rauramo** - *Stora Enso - CFO*

Yes, Linus, we'll get back to that question.

**Linus Larsson** - *SEB - Analyst*

No problem. And then another maybe -- I don't mean to ask tricky questions -- but maybe just one on your long position in pulp. You used this 900,000 tonne figure. If you could just give us -- what kind of assumptions are you using, in terms of paper production when you give that figure? Is that based on a certain recovery rate in paper production? Or what kind of scenario is behind that 900,000 tonne long figure?

**Jouko Karvinen** - *Stora Enso - CEO*

Well, that's net. And it's based -- it's an estimate. We've said actually in our annual report that our market pulp -- dried market pulp sales, it comes from the capacity, sorry -- from [Stanlos] mills and some of the integrate mills, which is dried pulp. It's 1.2m tonnes, as in our annual report. And this is an estimate of the net long position, based on what we understand the manufacturing of board and paper and internal use to be, the purchase of market pulp, which we also do for a few hundred thousand, and then the sales.

**Linus Larsson** - *SEB - Analyst*

But is based pretty much on the status quo situation or is it based on some sort of a market recovery scenario in paper?

**Jouko Karvinen** - *Stora Enso - CEO*

I'm not sure how to answer that because it is based on our view on what's going to happen in paper and board manufacturing and so forth and so on.



Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

Listen, can I go back to the previous question? Year-on-year, Q1 Q1 2010, fiber costs were -- let me call it wood costs and RCP costs combined was pretty much flat, EUR7m up but it's just a small number. It means nothing. It was basically a zero. Sequentially, it was EUR24m. And that is wood and RCP combined, EUR24m, about half and half.

**Linus Larsson** - *SEB - Analyst*

Okay. So wood costs were actually up in the first quarter then, compared to the fourth quarter.

**Jouko Karvinen** - *Stora Enso - CEO*

Yes, very marginally. And again, the majority of that is old which is less of a problem than the other one.

**Linus Larsson** - *SEB - Analyst*

Right. And do you think now, looking into the second quarter, that we should see a pickup in the wood cost curve, that we will start to see some inflation there, going forward?

**Jouko Karvinen** - *Stora Enso - CEO*

Well, you saw that we revised our total inflation outlook anyway because of well known structural reasons, we are buying quite a bit of wood in Finland, more than ever I guess because we had to cut down the Russian wood so much. But let me also assure you that we are very conscious of the marginal wood costs and we're not going to buy wood at any cost. These locks are out. But I would say, yes, yes, that a part of the inflation revision is also our virgin fiber or wood costs.

**Linus Larsson** - *SEB - Analyst*

Okay, great. Thank you very much.

**Jouko Karvinen** - *Stora Enso - CEO*

Thank you.

**Operator**

Next question comes from Lars Kjelberg from Credit Suisse.

**Lars Kjelberg** - *Credit Suisse - Analyst*

Yes, hi, gentlemen. I just wanted to come back to, Jouko, (technical difficulty) the lesson have been learned, I guess, reference point (technical difficulty) the impact it had on newsprint.

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

Lars, we have a very bad line. We hardly can hear you.

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Jouko Karvinen** - *Stora Enso - CEO*

Can you repeat please, Lars?

**Lars Kjelberg** - *Credit Suisse - Analyst*

Okay, I'll pick up another phone. One moment. Can you hear me better now?

**Jouko Karvinen** - *Stora Enso - CEO*

Yes.

**Lars Kjelberg** - *Credit Suisse - Analyst*

If the reference point -- the reference you made to, "We've learned our lesson," I guess that referred to newsprint and the lack of closure capacity and the collapse in price. In the decision to -- I can appreciate why you continue with Varkaus if you're making money. That makes sense. One should be opportunistic for most opportunities. But is the lesson that you've learned is to be more swift-footed and how do you have more greater flexibility to be quick in shutting down capacity as and when you see fit, going forward? What is the actual lesson that you've learned?

**Jouko Karvinen** - *Stora Enso - CEO*

Well, lesson learned, I think for everybody, should be -- is that if you have 16% overcapacity, always these markets give you no support. You better not be surprised when this happens. And then, sequentially, if you think about -- and this is not a specific comment to Stora Enso or newsprint, but I guess conceptually, at least, isn't it a little crazy that first prices all get ruined and then you take capacity out?

**Lars Kjelberg** - *Credit Suisse - Analyst*

Yes.

**Jouko Karvinen** - *Stora Enso - CEO*

Isn't it backwards?

**Lars Kjelberg** - *Credit Suisse - Analyst*

That's what I think.

**Jouko Karvinen** - *Stora Enso - CEO*

That's what I meant. And I don't know whether -- how much further I can go on the discussion.



Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Lars Kjelberg** - *Credit Suisse - Analyst*

But at the same time, you say we have an uncoated fine paper excess capacity of size. And then you've obviously now taken the step to continue because the market at this moment is okay.

**Jouko Karvinen** - *Stora Enso - CEO*

Yes, Lars, because in the interest of my shareholders, I cannot do things for the good of the industry. And it is opportunistic, I admit that, in exactly the same way as Sunila was opportunistic. And I must say, I got some criticism for the restart of Sunila when we had said that the conceptual plan in all was to shut it down. I know it's not -- how do I say this -- it's not good for the industry, but I have to do things that are good for Stora Enso. And I hope, on the other side of the coin, that we've demonstrated and continue to demonstrate that we will take action when necessary, in terms of our own competitive base. But I would just leave that, hey, I can't fix the whole industry.

**Lars Kjelberg** - *Credit Suisse - Analyst*

No, I would 100% agree with that. If you're not making money, you've got to grab opportunities as they come. I agree with that. But I guess my question is sort of banging on the same thing. Or do you now have a strategy to be more flexible and quicker and remove capacity as opposed to -- there's been a track record for your Company to wait 9 to 12 months before the actual decisions have been implemented. So we don't get into the same scenario, assuming uncoated were to weaken tomorrow, could Varkaus go out at short notice or any other (multiple speakers)?

**Jouko Karvinen** - *Stora Enso - CEO*

Well, let me -- well, I won't challenge you quite. But I remember when -- and I won't talk for the entire 700-year history of the company. But if you look at what we did in 2007 when the -- from the day of announcing Sunila closure, I think it was 12 weeks when it was down and the bolts were off. And I don't think that's very slow. Now in this situation with Varkaus, I'll tell you very often, it was nothing about being slow. It's just the fact that this integrate and the city live and breathe together. We heat half of the city. We've got a very exciting technology demonstration there, and so forth and so on.

So I thought that it was a good thing to come out in August and say, "This looks bad," for the sake of the society and the Company and you guys. Very often I could have been quiet and say nothing and come up now and say, "We will take the newsprint capacity down in a few weeks." And remember, in the particular case of today, of the two newsprint machines, one is actually down. It's already being temporarily curtailed and the people are home. So we're not that slow. Come on.

**Lars Kjelberg** - *Credit Suisse - Analyst*

Fair enough. I have just a few concrete questions and I'll let you to philosophizing later, I guess. Three questions. Maintenance was obviously low activity in the first quarter. Should we expect any traditional midsummer maintenance stoppages in Q2?

I just wanted to clarify your net long position on the 900,000 you're talking about. What was that equivalent in '09?

And just for curiosity, you talk about fixed cost actually up EUR17m year-on-year. That doesn't really calibrate with the fixed-cost program you've had taking down fixed costs. If you just want to clarify what that is about.

And the final question, cost improvement relating to the power plants that you're starting up in -- towards the end of Q2, if you can give us any sort of hint what that is.



Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Markus Rauramo** - *Stora Enso - CFO*

Okay. I can talk about the summer stop. We don't have any special issues now that we would want to talk about, when it comes to the maintenance plan. The [online] pulp I'll come back to. Yes, fixed cost, that is a continuous discussion also in our end, how do we report these numbers?

The fixed cost includes, you could call, a variable part, which would be the personnel. So if we have more production, we work more hours. But the fixed cost per ton is going down. So I think that is the way we internally try to calibrate that number. I agree that it sounds a little bit odd that fixed cost goes up or down according to production, but that's the way it is. If we take downtime also, the personnel cost eventually comes up to payroll. And when we have production, it comes back. When it comes to the --

**Jouko Karvinen** - *Stora Enso - CEO*

Wait, wait. Sorry, Lars. I'm jumping in. In my long life, for 25 years, the one number I always chase is the number of people on the payroll. And if you look at the development throughout last year, but also in the first quarter, I think it gives you a pretty good flavor what the structural cost reduction is and will be, which is quite significant also in Q1. I think that's a good metric of what the structural cost changes in the Company. Sorry, Markus. Go ahead.

**Markus Rauramo** - *Stora Enso - CFO*

So on the power plant, we don't give exact number how much our power cost will go down, but what I can say, it's a real step change when in the case of Langerbrugge, we go from buying external heat and electricity to being practically self-sufficient with being paid to produce the energy. So we can get paid to take the fuel in Langerbrugge's case.

On the pulp question, we were somewhat less than 400,000 tonnes long in pulp in 2009. And this year, like Jouko said, 900,000 tonnes.

**Lars Kjelberg** - *Credit Suisse - Analyst*

Thank you.

**Jouko Karvinen** - *Stora Enso - CEO*

And now that I have found the number out of my head. Just to give you a flavor, you remember that we were about 30,000 people -- less than that, by actually 27,000. Now then the reduction in number of people on continuing operations total was 1,451, to be exact, in this quarter. That should give you a flavor of what the speed of the cost improvement is. All right?

**Lars Kjelberg** - *Credit Suisse - Analyst*

Thank you very much, gentlemen.

**Jouko Karvinen** - *Stora Enso - CEO*

Thank you.

Apr. 22. 2010 / 1:00PM, SEOAY.PK - Q1 2010 Stora Enso Earnings Conference Call

**Operator**

That will conclude today's question and answer session. I would like to hand the call back over to your hosts for any additional or closing remarks.

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

Okay. This is Ulla again. Thank you for everyone for attending this call. It was a very interesting discussion. And let's hear from you then next time in July after Jouko's final remarks.

**Jouko Karvinen** - *Stora Enso - CEO*

Well, I can only say thank you for your interest. And we will continue to work on fixing and starting to build things. And I promise not to even forget consolidation. Thank you very much for your attention.

**Operator**

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

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.