Stora Enso

Moving Ahead

10 September 2008

Jouko Karvinen

Chief Executive Officer

Thank you, Keith. Ladies and gentlemen, thank you for joining us. We'll try to be brief so we'll have plenty of time for your questions and answers. You can go straight to page 3. On July 24, I promised that we will within the third quarter come out with a cost improvement, capacity-reduction plan in areas that are driven by profitability issues, not dependent on Russian duties. I also promised that during the fall we will come out with the plan to complete our intent of becoming independent of the Russian roundwood, if and when necessary.

The news today is we've done both of those statements today, and we'll walk you through them. We are cutting capacity in several areas to address poor profitability of individual assets in the mills. We are investing in parallel EUR135m into mills that we see a strong future with, to improve their cost position, to make them, for example, [inaudible] less dependent on the short-fibre, long-fibre mix. And we are completing the plans for the full Russian duty scenario, which obviously is becoming more and more probable.

I think we'll weave the specific details there into the Q&A. Hannu will discuss some of it. But the important thing here is, as we say, we're ready by Jan 1 if needs to be. If you go to page 4, the overview is the permanent capacity-reduction plans will affect 1,700 people. Today's news. 400 of that is directly driven by the Russian duty threat. We are significantly reducing our resources in the Russian wood supply organisation, about 400. The rest is effectively not driven by Russian duty threat; it is driven by unacceptable profitability situation.

Provisions and write-downs will total about EUR280m; half of that about [inaudible] is cash. And we see, once we're done with the programme of not only closing capacity but moving profitable customer volumes to our better assets, a net impact on operating profit of EUR140m.

Today we also announced something that, at least locally here is significant in Finland. After quite a few years of cooperation in the smaller scale with a company called ABB, we have signed now a letter of intent to effectively move all of our maintenance support operations into a joint venture in the beginning of next year, 61% owned by Stora Enso but managed by ABB.

With that, and to make sure you have time for questions, let me hand it over to Hannu. Please.

Hannu Ryöppönen

Deputy CEO

Thank you, Jouko. On slide 5, we have a headline, "Ready for [Full] Russian Duties," which Jouko already had talked about, [was] to remember what we've done so far in all of this, because so [much] [inaudible] a notion that that reduced effectively our cubic metres of wood use, i.e., also Russian wood, and our marginal cost structure in that respect.

I'll come back to a few aspects of what we have announced today and the plans from today. But also, just to mention here that further sort of safety valves that we have in relation to [if or not] duties and how much, and wood cost development, if the Sunila Pulp Mill in [inaudible]. [If you cost-cut] together with [inaudible] cost [inaudible] and also our own Enocell Mill, and in Enocell also the question of birch or long fibre pulp-making in that. So those can be curtailed. And development there depends very much on what's in store for us from Russia.

And then of course the [constant] one that's [inaudible] the Russian wood supply organisation, is going to be downsized substantially in anticipation of what's to come and what has already happened in terms of our dependency.

Remember, our strategic objective has already been, since spring of 2007, to become independent of Russian wood. That doesn't mean that we wouldn't buy it if it's cheap enough.

So if there are no duties, or they are reduced, that's fine with us. It doesn't matter. We can handle any of the scenarios, and maybe we can shed some more light on that as we go along.

Seeing some of the analysts comments today about the short-fibre issue in Finland, and hopefully we can clear up some of that [inaudible] anyway.

Then on page 6, just a list of the main issues, closures that we are planning – the Baienfurt Mill, [cutting] the entire production. In Baienfurt there will be a service centre left there, and that folding box board capacity [inaudible] 190,000 tonnes. Imatra BM-1 will be closed, having produced cupstock and liquid packaging, 170,000 tonnes. Here it will take us next year to get the closure completed. And why is that? Yes, because we are investing in the BM-4 in Imatra and moving certain volumes to that one, and possibly also to some of our other lines that produce these products. And that's the reason there for the slow – or the long time to closure. Kabel Mill, PM-3, an unprofitable [inaudible] line, coated magazine paper, 140,000 tonnes to be closed by the end of the year, subject to – obviously all these – to the union negotiations and so on. Corenso [Varkaus]’ coreboard machine, 100,000 tonnes, also to be closed as unprofitable.

And then the first step in something where there is probably more to come as we move into the autumn, in our wood products business, but the first closure of the Paikuse Sawmill that is clearly unprofitable, 170,000 cubic metres in Estonia, also to close at the end of the year.

So that’s all in all and the whole the programmes will then, as you’ll see on slide 7, have the impact. Sales down EUR440m; capital employed reduction, as such, EUR200m; write-downs and provisions of EUR280m, out of which about half is actually cash-driven redundancies and so on. The operating profit improvement of EUR140m we see as reaching that level at the end of 2009, but it is really a 2010 annualised number as such. And then the total personnel impact, 1,700, and then from the maintenance, which I will comment in a few minutes, impacted by that, 1,450 employees.

And the measures don’t quite stop here. On page 8, we have further measures, but one key here is the investment in primarily our consumer boards. And even there, mostly focused on Imatra, where we are first of all – and this is one of the key questions in this short-fibre issue – adding drying capacity to the pulp line so that we can also run the Imatra pulp line on the long fibre, i.e., producing that, selling that, and buying the short fibre. And that gives us also the tremendous flexibility in that respect, that’s a significant cubic metre of birch need that would go away in order to run the pulp line. And then we do other cost-improvement measures in some other mills, including Imatra, Varkaus, [Veitsiluoto], Maxau and Hylte. Here we also are discussing, with the exclusion of Imatra, some 200 or so employees impacted by this.

Which is mentioned here, focused administration for us means that we’re going to [inaudible] review all our functions in administration, purchasing and wood supply and so on, as to what and how can we run this more efficiently. What do we truly need in these? We see quite significant potential, but more about that later.
And then Kotka Mill will remain in the Group. If we’re not successful in divesting into the values we felt were reasonable and for us acceptable, so we’ve withdrawn and stopped the sales process, and are now focusing on also improving the efficiencies and the operations of the Kotka Mill.

Then I switch to the maintenance solution, the joint venture with ABB, where we today have announced the signing of a letter of intent to establish a joint venture to – for this company to run the maintenance for our Veitsiluoto, [inaudible], Oulu, Enocell, Varkaus, Heinola and Imatra mills. The company is meant to be up and running at the beginning of next year. It will be managed by ABB. We will maintain 51% ownership, but due to accounting rules and so on, because the management is with them, it will be – so it will not be consolidated in our numbers. It will be an associated company, from our reporting point of view.

So there is work to be done, but this is moving a significant cost reduction potential that we see from this. And as I said, 1,450 employees impacted by this. And then, I think I'll hand back to Jouko.

Jouko Karvinen

Thank you, Hannu. I want to spend one minute on a subject that we don't necessarily always talk to you about. It's the personnel responsibility. We obviously are responsible for our shareholders to secure the future and improve the future of the company. But I also want to highlight the fact that we feel responsible for the people affected by the programmes.

We have now experienced, I can tell you, after the restructuring programme of, oh – because we started in October '07. And what we're doing and how proactive we offer it now through the union representatives, so our people in the local meetings this morning, is we've helped them to find new employment. We obviously offered them employment at other Stora Enso [inaudible] where applicable and possible. And we think we have a very good relationship also with the labour – the local labour authorities – to find new jobs and training opportunities. It's not a question of significant or huge – material – amounts of money. It is a question of, for the sake of the remaining community also to show that we do care and we do need to help these people and their families [effect] to build a new future.

As the track record, the previous programme in operations only, impacted about 1,000 people in Finland and Sweden. Six months after the relatively fast closure of the first mill, we had about 800 solutions in those [cases], not a perfect match. There's still people unemployed and so forth, but we have more programmes and new entrepreneurs, new companies coming into our sites. And I happen to think that it is important for us to not only show that we do what we say, but it also, I think, should have built and should give us credibility in the society, when we will continue to proactively act and do difficult things, I think it will be supported a lot better.
The first news from our mills this morning is there is no industrial action. Obviously people are unhappy, but they – I hope – sincerely understand why we do these difficult things.

Page 11. While we're working on the difficult things to get through the perfect storm, as I tend to call it, we also work on our future. We have elected, and we'll continue to invest in growth markets. If you think about growth markets, China, Eastern Europe, Russia. Longer term – not in the next three quarters, longer term – we have a strong belief that fibre-based packaging is core and key to our future, and to the future of the planet, so to say, too. And we also believe that selectively, in a focused way, certain paper grades are battles we can win. And we also say, that at least on the scale of the – call it Northern European, North American battlefields – of [pulp] companies, we're early and we're successful in the plantation-based pulp that always gets – offers significant competitive opportunities.

You are welcome to ask any questions, but I want to tell you I will not go any further in trying to define this or that. You've seen us in action with North America and so forth. When we have specific news to tell, we'll tell them that day.

With that, I think – I hope we've been clear. We said we are ready for the Russian duties. It's important, because we want to spend more and more of the energy of the management and the people also on building our future. But we have a simple goal. It is perfect storm, but we're not guided by the winds of the storm. We will come out of this storm stronger than ever before.

Thank you.

Over to you, Keith.

Keith B. Russell

Senior Vice President, Investor Relations

Good. Okay. We're ready now to take questions, please, operator.

Question and Answer Session

Operator

[OPERATOR INSTRUCTIONS]. The first question is from Mathias Carlson of Deutsche Bank. Please go ahead with your questions.

Mathias Carlson, Deutsche Bank

Good afternoon, gentlemen. I've got a couple of questions. First, [you've published] your very extensive capacity-closure programme that you are announcing today, but I'm just a bit curious to understand why you're not touching the Finnish assets in a more extensive way. And maybe I'm pointing my fingers towards the Varkaus Mill and the Kotka Mill. Given the situation in Finland, with the high cost and obviously the Russian duty coming up, just to understand a little bit better there. Because from what I understand, those assets must be very, very close to a cash cost or below.

Jouko Karvinen

Okay. Thank you, Mathias. This is Jouko. I'll try to answer you to the best of my ability. First of all, as you well know, I don't look, and I can't look at Finnish-versus-Swedish or versus German. It is a very solid financial analysis and so forth. And that's how we make these decisions.

I would like to say that the comment about the Russian duty threat, let's do the simple, quick math. We used to be, when I started, the largest importer of Russian wood to Finland. In 2006, we important more than 7 million cubic metres from Russia. The fact that we took action early, right when I started, we added about 2.5 million cubic metres of domestic wood, replacing Russian wood already in '07. The relatively early actions on Kemijärvi, Summa, Anjala [Machine] and Norrsundet will reduce our uses – or almost have reduced our uses close to 3 million [cubic metres]. So that's – there goes 5.3 million. so you could say, "Well, okay. You've still got 1.5 million left." Right? Well, first of all, about 0.5 million up to – is going to be shipped from our sawmills, all right? so in rough terms, you've got 1 million left. Now, in the total picture of our 45 million cubes purchased a year, that’s not that big, and that’s where these valves, as Hannu called them, come into the picture.

And final comment on the total volume, okay, I believe – and I’m pushing like crazy every day, including today – the momentum of the tax breaks in Finland if we stop discussing and keep working, will give more domestic volume in Finland.

Now, on the fact that there is long and short fibre, true. But let’s be clear, we always kind of talked so much at all, there’s no birch in Finland. Well, let me tell you that we actually, in this year and next year, we buy north of – or say, 2.5 million cubic metres from Finland. We buy some from the Baltic. So we pretty much can cover the short fibre, remembering obviously our [inaudible] initiatives. We should not think that we’re trying to make fine paper out of pine.

And final comment, which may help you – all of you – to understand why we feel that we’re in a well-[equipped] position here. In total volume, we’re the second-largest pulp producer in the world, about 5 million tones. And what do you do when you’re tight on one and long on the other one? First, you invest like we’re doing to Imatra, and then you trade. So we have an overall long position, about 0.5 million tonnes, and we will, if necessary, then trade – sell long, buy short.

So all that long answer, Mathias, I’m saying, is pure math. And we think we’re – thanks to the early actions – very strongly positioned. And if something would finally happen with the Russian duties, you understand that. It’s only good news [inaudible] around these [inaudible] [stand-alone] [problem] is [red hot] and make money with them.

Mathias Carlson

[inaudible]. Definitely, yeah. I understand the pulp situation definitely a little bit better. But I was more thinking about on the papers side, with – you didn’t manage to sell Kotka, and that can be – [inaudible] mill would [very] much be very close to cash cost. And then also the other – I mean, a mill like Varkaus. Why those mills are not, let’s say, on top of the list in your, let’s say, planned permanent capacity reductions?

Jouko Karvinen

Mathias, for – and I apologise that I am dancing around a bit, because I cannot and will not give you mill-specific numbers. But the answer still is [because] they’re not on top of the list, in our thorough analysis of earnings capability, outlook, cost [inaudible] allotment, [inaudible] track record of the outlook. I have to say that, you trust me, I don’t have – I don’t like any paper type more or less. We do it on a very rational basis. And given the early action on the fibre side, we think that the list you saw today, with the foreseeable outlook we see, is the right list.

Mathias Carlson

Hm. Okay. And the last question here. On the pulp and the Sunila and Enocell, so I understand you correctly, if not a duty is coming to place – because there is still a big short that’s in Finland, I think. If I look at these ’07 numbers, which I have the statistics of, still a shortage of 19 million cubic metres. Will you then consider, then, closures permanent if you cannot source the wood at a decent price?

Jouko Karvinen

Okay. First of all, if I may, Mathias, the way I look at the numbers in Finland now is not like the media [in a sense], year-to-date we're significantly below year-to-date last year, which was a record year. But do I look at the speed in August versus the month before August, when the tax break came. And if that trend can continue, that shortages that you talked about is not even close there. And I've used a lot of my energy today to try to tell everybody, including the forest owners, that we better keep the speed up. So that's sort of comment one.

Comment two, again, our present capability and resources that we buy in Finland, you already heard. We are, of our total volume, you could say, we will be about 1 million cubes short of wood in the outlook. And that's what we would have to then deal with in the curtailment.

And then to answer your final question, if these – if I'm not getting done what I am planning and I'm promising – then obviously we can't have mills for years standing still totally. But right now we think, yes, there's going to be curtailment. It could well be significant curtailment early on, before we get the momentum on the Finnish wood. And we'll work with the employees to do it in a decent way. But from a shareholder point of view, I think this is a pretty decent plan, because just in case there is a compromise, which is still be rumoured about, or the duties come and go, well I think this is financially clearly the optimum plan. Either way. And you need to have that flexibility, because I cannot tell you exactly what's going to happen.

Mathias Carlson

Okay. Thank you very much.

Operator

[OPERATOR INSTRUCTIONS]. The next in the queue is Linus Larsson from SEB Enskilda in Stockholm. Please go ahead, sir.

Linus Larsson, SEB Enskilda

Yes, thank you very much. I wonder if you're equally determined to restore profitability in your various business lines, and particularly referring to fine paper. In understand what you're doing in magazines and consumer board is very significant. But I would like to understand what you're thinking around fine paper is, because your profitability is no better there. And I don't think the business outlook is any better there in your other lines. So if you could help me understand that, please.

Jouko Karvinen

Sure. I'll try at least. What we did – we did not announce capacity cuts and signed paper, and I was trying to describe to Mathias the financial logic on that. And maybe I should add, also, that there is also a consideration if and when you do capacity cuts, can I get a return to my shareholders on it. Because we can't do things for the good of the industry, so to say. But [particularly] we do today, we announced in Veitsiluoto, Varkaus, for example, the fact that we need to improve our costs, so we're taking costs out of those mills, not only from fine paper from others. We also said that we could not quantify the administration reduction programme.

And then I had one more thing. And I hopefully don't start a long discussion today about what's going to happen. Fine paper is probably the most fragmented area in the industry, in the market. And to get sustainable good profitability, that's one example where consolidation does need to happen. I cannot give you a date or a schedule, but that's in the [talk it to]. I think that's all I can say.

Linus Larsson

Okay. And the [inaudible] follow up, if I may, does that mean that you have specific plans also for your fine paper operations?

Jouko Karvinen

Well, the way it goes, the specific plans I have that I can disclose, I have announced today. But what I wanted to say is, you should not think that because we did not cut capacity today that by any means I would be satisfied with the earnings or my fine paper leader, [Aulis Ansaharju], would be satisfied with the earnings. We look[ed] at other means, but I cannot get more specific today.

Linus Larsson

Thank you very much.

Jouko Karvinen

Thank you.

Operator

The next question is from Myles Allsop of UBS in London. Myles, over to you.

Myles Allsop, UBS

Thanks. Just following up on that question. Is it right to interpret that that we could well see closures in fine paper alongside consolidation over the next 12 months? Is that the right interpretation?

Jouko Karvinen

Let's give Hannu a chance to try to answer you, because I thought I had it. But anyway.

Hannu Ryöppönen

Myles, it's Hannu here. What I would like to say, [inaudible], we all agree that fine paper has capacity issues in Europe. And how that has got to be resolved it would be nice to know. But I think we agree that it needs to be resolved. Do we have the [worst] assets in these particular qualities or not? That we can have a lot of opinions about, obviously.

Yes, it's an issue. I think that's what Jouko said. Consolidation needed. What form and shape it will take, I would like to know as much as you. But I think now when we can put the Russian duties to rest, we just have to focus on also these issues.

Jouko Karvinen

Okay. Let me just add to Hannu's good answer. I think it is important that we get the message through is, we don't want to talk about consolidation, because we all talked about it for eight years. But that doesn't mean that we will not be working very hard to find value-creating solutions, in several areas, not just the one that we happen to talk about now.

But in parallel, we are saying that isn't only up to us. And that's why we are doing, as fast as we can, solving the Russian duties, solving capacity issues, and doing things that are tough but also doing things that will give a financial return to our shareholders. We're not waiting.

Myles Allsop

Okay. And let me just quickly, with Hannu, it's a shame that you are leaving. Could you just give us a kind of a bit of background, sort of in terms of your thought processes? It would be nice, I guess, to see kind of a 13% return on capital before you leave. But obviously it's going to be a few more years yet.

Hannu Ryöppönen

That would be very nice to achieve that by next spring, but I think that will be a bit of hard work, as much as I think we all would like to see that. But I can see that we have now a platform where we can build on. We have paper lines that actually have pulp secured for them through these actions today. And I don't think too many would like to neither buy nor sell paper lines that don't have raw material. We have that today, so we can act based on that and find solutions.
And then we'll go from there to the 13% and beyond.

Myles Allsop

Okay. So then in terms of the rationale for leaving, are you looking at other opportunities? Or are you still [inaudible]?

Hannu Ryöppönen

[inaudible] myself?

Myles Allsop

Yeah.

Hannu Ryöppönen

I am – have a long-term plan [had] myself and I'll be personal here to this group. For about 10 years that I saw I could leave full-time executive job around this age that I am now, and I am very much looking forward to that date. Not because I don't like Stora Enso – I think Stora Enso's a great company, has a great management team. Super [inaudible], who gets things done, and that's good to see, and I will follow with keen interest [inaudible] next spring how we reach 13%.

Jouko Karvinen

And I know I'm taking time, but I have to jump in. I've said it before. Hannu's been a great teammate. It is going to be a great teammate. And I've promised to him that in the next six months, I'll get at least three years' worth of him done.

Hannu Ryöppönen

Yeah, you got 10 years in the last three. So –

Myles Allsop

Very good. Thank you.

Operator

The next question is from Johan Sjoberg from Carnegie in Stockholm. Please go ahead.

Johan Sjoberg, Carnegie Investment Bank

Yes, hello. Good afternoon. Can I start off with the operating profit improvement of EUR140m? Is that just the fixed-cost reduction here? Or was it talking about getting rid of loss-making results?

Jouko Karvinen

No, it is a combination. There are the fixed-cost reductions including the maintenance joint venture and so on in it. And also the effects and impact of the investment that we announced today, a part of that total. So it's a combination.

Johan Sjoberg

Do you include also there, [inaudible] like productivity gains, which you'll see, like operator rates increasing on the existing paper machines that you keep in the system?

Jouko Karvinen

To some extent that we announced today, the ones around Hylte, Maxau and so on. They would also be in there, yes.

Johan Sjoberg

And also looking at the external sales reduction of EUR440m, can you say something about which business area that will affect, [inaudible]? I mean, are you looking at the bulk of the capacity being closed will be in consumer packaging. Which – where do you see, like, volumes disappearing for you? And where can you keep volumes?

Jouko Karvinen

Well, I think it almost goes without saying that closing Baienfurt and BM-1 in Imatra in Finland, that will be the bulk of it all, [in your] consumer boards.

Johan Sjoberg

So you will keep the coated magazine paper sales there?

Jouko Karvinen

No. No. there will be – I mean, I took the bulk. I didn't say that was all of it. There are obviously other sales – we have some shifting of volumes in the total as well. But the magazine obviously, the [cover] or number 3, is a reduction, clearly.

Johan Sjoberg

Okay.

Jouko Karvinen

This is Jouko if I can add. It's the same game plan, or similar game plan, we had with Summa that worked very well. What did we do? We will move profitable customer volumes from these to-be-closed assets to our better assets, to replace less-profitable volumes. So we do say profitability first, not size. But that's how we do this.

Johan Sjoberg

Okay. And that is all included with the EUR140m?

Jouko Karvinen

Yes.

Johan Sjoberg

Okay. Yet a final question. Your competitor has also announced, saying today that they are going to write down goodwill due to a less optimistic view upon the newsprint market. How far have you come, when it comes to impairment tests of your own goodwill for this year? And also looking at the outlook for the other operations? I would assume newsprint has developed worse this year than you had expected last year, when you made an impairment test.

Jouko Karvinen

I'm not going to comment on any specific, but I think newsprint is not one of our headaches today, as such. So that's that. And then, in connection with Q2, we announced that we will publish our impairment results in connection with our Q4 or Q3 – during Q4. It for us made a lot of sense to move planning-wise, and so on, all of this to Q4 from Q3. So whatever other impact there will be will be announced at that time.

Johan Sjoberg

Okay. Great. Thank you very much.
Operator
The next question is from Henri Alexaline of BNP Paribas in London. Please go ahead.

Henri Alexaline, BNP Paribas

Yes. Good afternoon, gentlemen. Just a question firstly on the numbers you've put out, in particular sort of a write-down cost and the provision. Could you – you're putting a number of EUR280m. Could you give us some idea of what would be the –

maybe you mentioned that already – but the cash cost and what sort of timeframe we should expect for these costs to impact your [new] company?

Jouko Karvinen

Yes, you're right. I did mention it. It's about EUR140m, or half of the total is cash. And it will mostly materialise even late this year, but it will be the closures and redundancy costs and also during next year.

I'd like to add one thing to this, because somebody of you will ask, and if not I'll give it proactively to you. Even though these write-downs, we also see tax impacts from it. So our tax rate for this year is likely to be in the mid-teens, 16%, 17% or so. And there obviously we have a tax impact as well, so when you start to [cap at] net cash from all of this, it's maybe not as bad as you first think. Because also in the operating capital reductions, there's about EUR60m of working capital.

Henri Alexaline

[Well, that's] interesting. Thank you. Maybe if I could just get some flavour of how the [wood split] between in Finland that's sort of [inaudible] over the summer, you know, [making] the line. Also there is a change in legislation. And I've seen sort of [inaudible] statistics on that part. If you could just give me an idea of what you've seen yourself, and the attitude of forest owners.

Keith Russell

Yeah, this is Keith Russell here. I think that was difficult to hear on our end. But I think you were asking what's been happening with harvesting rates in Finland in recent months. Was that your question?

Henri Alexaline

Yes. That's right.

Jouko Karvinen

Okay. I don't have the exact numbers for you, but let me put it this way. The much-discussed, as always, tax break that the government has announced, did a super injection of fuel. Even though the year-to-date, the year-to-date comparison looks awful, the trend if September continues like August, looks very, very strong. And I have to say that I'm not totally convinced, because I had 30 seconds to look at that, but I think that I saw on the web [inaudible] joining this call, that the government is at least considering extending the tax break, which will be very good, again, for the motivation and momentum. I don't have the exact numbers, but again, the increased [inaudible] was dramatic.

Henri Alexaline

Okay. Thank you for that. Maybe just one final question. Could you remind me, please, within your capacity in publication paper, in graphic paper in general, if you have at the moment any idle capacity and more or less how much it represents of [way] different grades.

Jouko Karvinen

Okay. The question was whether we have idle capacity in magazines.

Henri Alexaline

Yes. And graphic paper.

Jouko Karvinen

And graphic paper. Do you mind, rather than trying to give you an unquantified question, let's move on. We'll get back to that question. We'll get someone to quantify that in a few minutes. All right?

Henri Alexaline

Okay. That's fine. Thank you.

Operator

Okay, in that case, the next question is from Nitin [Diaz] of JPMorgan. Please go ahead.

Jouko Karvinen

Before you start, I just got the answer. The idle capacity is zero. Sorry. Go ahead.

Nitin [Diaz], JPMorgan Chase & Co.

Yeah, good afternoon, gentlemen. One question if I may. In these capacity closures, have they been mainly intended to compensate for the Russian duties? Or have you taken into account a potential slowing down of demand on the graphic paper side, heading into [inaudible] of this year and probably '09, given weak economic condition in Europe?

Jouko Karvinen

This is Jouko. I'll give you the short answer. Again, the only directly Russian duty-driven capacity reduction or resource reduction area to the Russian wood sourcing organisation in Russia. The others are simply profitability-driven. [The history] but obviously a hopefully thorough analysis and a realistic view on by segment, by market, the market outlook that we have shared the short-term version with you. Vast majority of the action here in consumer boards and [inaudible], it is not driven by Russian duties. It is driven by the combination of poor profitability, including what we see in the present market outlook and economic outlook.

Nitin [Diaz]

That's [inaudible].

Hannu Ryöppönen

This is Hannu. If I could add one thing to this. As to the cyclical, this aspect of demand and supply, you would typically curtail [production unless] you see that a cyclical aspect. And that you do when and if you need it, as opposed to [a permanent shutdown].
[inaudible].

Operator

Sorry, that noise was on this end of the line, which I've just muted. Please do continue.

Jouko Karvinen

Did we address Nitin's questions?

Operator

I'm sorry. I think we lost a bit of your answer because of the background noise on Nitin's line, which I've just now muted. If you could just repeat the last like 10 seconds?

Hannu Ryöppönen

Okay. It's Hannu. I just said that in a cyclical situation like we may well be entering here now, with an economic downturn, you curtail production as and if you need to do it, as opposed to do , this aspect of demand and supply, you would typically curtail [unless] you see that a cyclical aspect. And that you do when and if you need it, as opposed to do permanent shutdowns if you [think it's clearly] it's a cyclical demand-supply development.

Operator

[inaudible], I just un-muted your line.

Nitin [Diaz]

That's [inaudible]. I'm done. Thank you very much.

Operator

Okay. We now go off to Jessica [Zimbaletti] of CTI Europe. Please go ahead.

Jessica [Zimbaletti], [CTI] Europe

Thank you. Can you tell me what you'll be doing with the machines that are being shuttered?

Jouko Karvinen

Okay. I can't tell you machine by machine, but I should maybe start with the fact that even though there will be humanly very understandable and have been already today, requests from people, especially on complete mill sites, "Please sell us." Our position, like before, is, "No, we do not sell our assets to competition, with almost zero value, because that's just going to destroy the market and destroy our other assets." The actual machines – I'd better not give you an answer. I know we've used [one/some] of our own in China, but I don't foresee too much of that happening. And I think the important message to all of you is we will not solve our problems by giving away our poor assets and destroying the rest of our business.

Jessica [Zimbaletti]

Okay. Thanks. Can you be any more specific about the Baienfurt machine, in particular the board machine?

Jouko Karvinen

With what respect, please?

Jessica [Zimbaletti]

Do you have a more specific plan for that? Either in terms of disassembling it or transferring any parts to other markets?

Jouko Karvinen

No, we do not. I know we have [Matthew Lunder] on the line, but if you accept, he could tell you more details than I can [inaudible] to the whole strategy, too. But right now, the important message is we shall close that mill, and whether or not we are able to use parts, sell parts, do something, we'll see. But that capacity, that machine, will go away.

Jessica [Zimbaletti]

Okay. Thanks very much.

Jouko Karvinen

Thank you.

Operator

Okay. We now go back to Myles Allsop of UBS, London, and while we do [OPERATOR INSTRUCTIONS]. Myles, back to you.

Myles Allsop

Just a few kind of follow-up questions. Could you [explain], in terms of the cost savings, EUR140m, what is the fixed-cost saving? And then I guess the rest being kind of production efficiencies and outsourcing and all the rest of it. But what's the pure kind of fixed-cost saving?

Hannu Ryöppönen

We don't give any specific [items] in this respect, as to where it comes from. You can probably do a reasonable estimate based on just the actions we are taking. But we don't break that down. It's like we don't give either unit-based total [of] development or our numbers as such.

Jouko Karvinen

Yeah, [inaudible] Jouko [inaudible]. I think the important message again here is that no, it's not only fixed-cost savings. It does include the customer profitability improvement. But everything is based on things that we manage. It's not based on dreams that the economy would get better or something like that. It's a pretty brutal, realistic view.

Myles Allsop

Okay. And in terms of the investments in the consumer board, the other consumer board mills, how much additional capacity do you expect to get out of those machines from the investments in that paperboard capacity?

Hannu Ryöppönen

It's Hannu here. There will be some increase at the BM-4 and [inaudible] may want to add to this. Some of this is still the effect – conclusions are still to be drawn. Because of the bulk of this actually will be the Imatra investments, both on BM-4, the switch of the pulp – not the switch, but rather the [drain] capacity for the pulp line at Imatra and so on. And then you have some in Fors and some in Ingerois that would also be part of the total, EUR130m or so.

Myles Allsop

Okay. And can [Matthew] give more information on that?

[Matthew Lunder]

It's not there [inaudible].

Unidentified Speaker

Hello?

Unidentified Speaker

Yes, we hear you.

[Matthew Lunder]

Good. Well, we are closing 360,000 tonnes and we are, over the next two to two and a half years, expanding with around 80,000 to 85,000 tonnes. That's [inaudible].

Jouko Karvinen

That's the [net thing].

Myles Allsop

Okay. That's helpful. And [inaudible], in terms of guidance for Q3, it's the same as you gave with Q2 I guess [inaudible] already had effectively a pretty cautious guidance. There's no change to that?

Jouko Karvinen

There is no news different from July 24 on the third quarter guidance.

Myles Allsop

Maybe one last question. [inaudible] the project to build a new [inaudible] machine in Poland. Could you give us a quick update? I assume that some subsidies have been granted now.

Jouko Karvinen

Well, you are correct. Some subsidies have been granted on that site, and we have, first of all, we have to be clear. The project is not only a board machine. It's a power plant and it's a board machine. We have no decision made, and it's like everything else. When the decisions are made, we will let you know. But we always guide, I can tell you that we're very considerate on making investments that will have a secure payback and time them right. And I think that's where I have to stop that answer.

Myles Allsop

Okay. Good. Thanks.

Operator

Okay. We go off to Mitch Resnick of Fortis Investments in London. Mitch, please go ahead.

Mitch Resnick, Fortis Investments

Thank you for taking my question. My question is related to your liquidity profile. I see that you've got some meaningful amortisations in front of you, and approximately EUR400m of cash [burn] due through the first half of the year. [I] would say about EUR500m of cash on the balance sheet against those amortisations and against, I would guess, a meaningful book. You've got [minority to] cash costs for this restructuring. So with all of that, can you discuss sort of [what] your resources are for cash, and your ability to roll over, for example, short-term paper?

Jouko Karvinen

I would be happy to. First of all, obviously our focus is to improve our operating cash flow. That goes without saying. And that is tough times. We have cash provisions that will also be materialising in the – from even previous programmes. So that is a feature in our cash flow right now.

I did mention that our tax rate will be low, so that's a good part of it. And that also will help. We have some working capital [relief/release] and so on that will be cash-positive and cash-generative.

The key, then, to the financing and the maturities and so on, we have to remember that we first of all have a standby credit to the tune of about EUR1.4b, which we put in place in the spring of 2007, i.e., before the credit crunch, at very good terms. That's one source of cash we have, and funding.

Secondly, I think as we mentioned in connection with our Q2, is we are looking to re-borrowing and in fact working on re-borrowing up to EUR800m of what we call pension money. It is pension contributions in Finland, which under a certain mechanism you can re-borrow it today. Very favourable rates. 10-year money.

Thirdly, the short-term market works very well for us, and we have also been buying back bonds with some of the cash we have and from the proceeds from our disposals. I feel very comfortable with our cash position and our liquidity and financial strength.

Mitch Resnick

Just to follow up on that. The EUR1.4b credit facility, obviously your gearing ratio looks pretty good. Can you just confirm that whatever covenants you have on that, you're – how are you positioned? I'd say, what's your comfort with where you're positioned?

Jouko Karvinen

Very comfortable. There's zero covenants on it.

Mitch Resnick

Okay. That's not a bad place to be. And then you said you were buying back bonds. Can I just see who you see you're buying back bonds in the market? Which bonds and to what degree? Can you provide any colour on that?

Jouko Karvinen

I don't think I want to destroy the market for us, first of all.

Mitch Resnick

[*laughter*].

Jouko Karvinen

And secondly, we are obviously following that carefully and seeing also [inaudible] our maturities and obviously the price. It's part of our overall management of our debt structure. It's not a key feature in itself.

Mitch Resnick

Okay. And then you said there was EUR60m working capital [release/relief]. And it looks like you've got some cost saves or cash saves on the CapEx going forward that you've outlined in this presentation. And on the taxes, is there any – can you provide any more precision on that?

Jouko Karvinen

I said that our tax rate for this year will be in the mid-teens. 16%, 17% or so for this year. So that's good news. And all these write-offs right now, we will have to give you more guidance on '09 and so on as we go forward, but it is also a good viewpoint from a cash flow aspect.

Mitch Resnick

Okay. And would you be prepared to comment on price increases that were set for September? I know that some of your peers were setting price increases for September. I'm not sure if you have as well. And just – have you got any feedback from how those are taking?

Jouko Karvinen

Well, I think to be appropriate I can't comment and I'll just say no new information since July 24. There will be a time, I'm sure, soon when we talk again, when we'll talk about it more. But I won't be able to make any specific comments today.

Mitch Resnick

Okay. Thank you very much.

Operator

The next question is from Ross Gilardi of Merrill Lynch in New York. Ross, please go ahead.

Ross Gilardi, Merrill Lynch

Yeah. Good afternoon. Thank you. Jouko, I just was curious. You commented that the initial response to the tax breaks for the Finnish landowners has been quite good, and you certainly had seen a step up in the [Finnish/finished] harvest. I'm just wondering, are there any structural impediments to continuing to see that trend, in terms of logger availability or machine availability or the ability to collect all of these logs? Is there anything holding you – the country – back from continuing to step up the harvest quite meaningfully for the balance of the year?

Jouko Karvinen

Well, I don't think I can answer it for the remainder of the year, where there's always challenges. And I'll tell you one that is typical of my life. It seems to bother me since I came. We need real winters. We've had two lousy winters, which cuts the harvesting period and so forth. We've gone through, we've [inaudible] through last winter because we took early action there. There's challenges in some respects, not with the machinery so much, but with getting people trained, which is why as a part of the early action in '07, we as a company participated in training programmes, contributing to training new young people to run harvesters. So we're very down-to-earth, very practical levels.

So there is issues, but I think we worked very diligently on trying to really come up with ways of solving those things. We even have, and just to mention an example again, on what we have done, Finland. I think a unique value proposition to forest owners where they can so to say keep the money that they get for the forest without [inaudible]. Then they get a very decent return on it, which builds loyalty to – between us and the forest owners. And at least the response based on the past 18 months I've been here.

So, it's like any market. You work your butt off and you build relationships with your suppliers and customers. And I must say – I'm going to stop talking about Russian duties. I'm going to put all of our energy now on making sure that we're the company they all love in Finland.

Hannu Ryöppönen

Could I just add on? The wood supply. If you look at our short-term position as far as our roundwood stock, in front of our mills here in Finland, that is very, very good. Great work by the wood supply people. We feel ready for even a warm winter, if needed, this year.

Ross Gilardi

Okay. Thank you.

Operator

Okay. The final question is from [Julian Denave] of Putnam Lovell in London. Over to you, sir.

[Julian Denave], Putnam Lovell

Thank you very much. Basically I've got two questions and just a confirmation. First of all, you did mention that you saw basically Stora Enso as a more focused company going forward. And you mentioned that you might not be present in all the paper segments. First of all, could you highlight for me which segment do you see yourself in in a couple of years' time? And what's the rationales behind that?

My second question is, if I read your press release, I understand that you think that basically you have a future in packaging. One thing to mention is that there's a lot of capacity being built around Europe right now. So are you afraid of this capacity coming on line at the same time that you're deploying yourselves?

And finally, my last question is just a [inaudible]. Did I understand correctly that roughly you are 1 million tonnes short in terms of [log blocks] from your Scandinavian operation for the remainder of the year?

Jouko Karvinen

Okay. Let me start from the end. No, I did not say 1 million tonnes. I said if you do the very simple math I did for the actions we have taken and executed, both positive and negative, we will be mathematically 1 million cubic metres short, if nothing would happen with the domestic market. On an annualised basis. And remember that's out of 45 million cubes, which is the total volume of the company. So that's important.

But I also said, remember, we do get up to 0.5 million cube [pack of rains] from [inaudible] also on this is [inaudible] and so forth. So my message was, on a run-rate basis, we're very close to not having an issue. And we have the curtailment valve, as we call it. So that was the first one.

The second one, are we afraid? Is Jouko or [inaudible] afraid of the packaging capacity built in Europe and so forth? We are not afraid, but we're very considerate. But without going into too many details, if you look at the bullets on my future chart, I specifically also talked about growth markets. So we try to very consistently figure out where can we be where we don't end up in a situation where we will build capacity that would destroy margins.

And, well, that's where I stop that. And there is many places in the world, without listing them here, where that's still possible.

And then going to your first question, the short answer is no, I'm sorry. I cannot give you which would be what. I would like to repeat, hopefully, my statement. Paper grades, the paper segments, many of them in different ways, do need consolidation to create sustainable returns. I said we will be a more focused company. Well, we didn't start that today. I mean, North America and the [inaudible] were the first actions there. We're 20% smaller now, and I see that path continuing. And if you talk about paper grades, I'd rather win and make good money in less grades than try to be everything to everybody. And I will not and cannot tell you which way it's going to be.

You should think maybe that all of the paper grades that we are in, we have to find a value-creating solution. Some of them inside Stora Enso, some may be outside. And that's all I can say.

[Julian Denave]

Okay.

Keith Russell

That's all we have time for now. So I'll just see if Jouko has any concluding remarks?

Jouko Karvinen

Well, I've talked a lot. I thank you for your interest, and I am sure you will follow up and see that we are true to our word. When we say, "This is what we're going to do," that we also do it. And I'm sure we all will follow with interest how Stora Enso becomes from the biggest importer of Russian wood to a company with no dependence on Russian wood. Thank you.