

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MRLBV.HE - Q4 2011 M-REAL OYJ
EARNINGS CONFERENCE CALL

EVENT DATE/TIME: FEBRUARY 09, 2012 / 1:00PM GMT



CORPORATE PARTICIPANTS

Mikko Helander *M-real Corporation - CEO*

Matti Morsky *M-real Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Jussi Uskola *Deutsche Bank - Analyst*

Johan Sjoberg *Carnegie - Analyst*

Addissi Khukani

Bogdon Koversi

Theodore Samos

Linus Larsson *SEB Enskilda - Analyst*

Lisa Barish - Analyst

Nitin Dias *JPMorgan - Analyst*

Asta Lindstrom

Karri Rinta *Handelsbanken - Analyst*

Henri Parkkinen *Pohjola - Analyst*

Roberto Pozzi *Societe Generale - Analyst*

Markku Jarvinen *Evli Bank - Analyst*

James Durrant *Morgan Stanley - Analyst*

Simon Matthews

PRESENTATION

Mikko Helander - *M-real Corporation - CEO*

Ladies and gentlemen, welcome to M-real's final results 2011 presentation. I'm Mikko Helander, the CEO of the Company. Our CFO, Marti Morsky, and our Head of Communications, Juha Laine, are also participating this webcast and conference call.

First, we review you the main events last year. In Cartonboard business, profitability continued strong, despite the weaker general economy. Especially first half of the year was very good.

In Paper and Pulp operations, the business environment weakened, and results decreased clearly.

Cost inflation accelerated materially in 2011.

Our strategic review proceeded. We complete divestments of Hallein Pulp Mill, Reflex Mill's Premium Paper business and our holding in Myllykoski Paper.

Paperboard investment program proceeded, and all measures were completed in Simpele, Kemi and Kyro, as planned. Capacity increase in Aankoski is scheduled for April.



Actions to eliminate the losses of the last remaining unprofitable paper businesses in Alizay, Gojrsmuehle, Reflex and Aaneikoski were started, and are proceeding as planned.

M-real's net sales was EUR2,485 million in 2011. Operating result, excluding non-recurring items, decreased from EUR173 million to EUR59 million, and result before taxes was on break even when it was EUR92 million in 2010.

Including one-time items, EBIT was minus EUR214 million, and result before taxes minus EUR281 million. M-real's Board of Directors is proposing to the Annual General Meeting that no dividend will be paid for the financial year 2011.

In fourth quarter, net sales was EUR524 million. Operating result, excluding non-recurring items, decreased from EUR6 million to minus EUR22 million, and result before taxes was minus EUR33 million, when it was minus EUR11 million in the previous quarter.

Alizay and Hallein Mills specialty paper operations and the Coated Paper business generated EBIT loss, excluding one-offs, EUR21 million in fourth quarter, and EUR110 million in full year 2011.

As part of our re-engineering, we have still material non-recurring cost provisions and write-offs in 2011. Planned closure of Alizay Mill minus EUR105 million in fourth quarter, and minus EUR113 million in full year.

Plan to discontinue unprofitable Specialty Paper operations minus EUR58 million in fourth quarter, and minus EUR86 million for whole year.

Restructuring of Coated Papers minus EUR26 million in fourth quarter and year 2011.

Items related to Hallein Pulp Mill divestment minus EUR5 million last quarter, and minus EUR54 million in year 2011.

Property sales in Finland plus EUR10 million in 2011, and from other different items minus EUR5 million in 2011.

All cost provisions and write-offs were minus EUR194 million in fourth quarter, and minus EUR274 million in 2011. Then we had also some write-offs and financial items related to associated companies, minus EUR3 million in fourth quarter, and minus EUR7 million in 2011.

We don't expect any material additional non-recurring items to be booked in 2012 related to measures in Alizay and Specialty Paper operations.

Consumer Packaging fourth quarter operating result was EUR15 million. Lower delivery volumes weakened the result from third quarter 2011, but end demand of cartonboard has remained normal. We can see some weakness in certain market segments, especially in Southern Europe, but overall, end demand in all main markets seems to be stable. Actually, cartonboard order inflows have improved in January, and we expect that positive development will continue.

As the market leader, we have succeeded to keep holding boxboard annual contract prices stable for 2012. Our long-term demand and profitability outlook for cartonboard continues strong, and as stated, we expect order inflows to improve in coming months.

According to our plan, Aaneikoski paper machine was closed in December, and its Coated Reels business we will move to Husum to improve the operating rates in our coated paper production.

In Office Papers, operating loss increased to EUR10 million due to difficult market situation. Profitability was weakened from third quarter 2011 due to lower delivery volumes. Also, Alizay's result continued very poor.

Husum Woodfree Uncoated operating rates were rather good. In Coated Papers, we expect improvements for market related reasons, as well as our own measures should improve operating rates.

Visibility in European paper markets is still very poor, but today we are less pessimistic than some months ago.



Our negotiations with the Works Council and civil servants are proceeding, and our plan to close Alizay Mill is expected to materialize in first quarter 2012.

As I already mentioned, we are implementing measures to increase Husum coated paper products and by transferring Aankoski's coated reel business to Sweden.

Specialty Papers reported operating loss EUR11 million in fourth quarter. Specialty Papers result was improved from third quarter by high average sales price related to better sales mix.

The result was weakened by lower deliveries and higher energy costs. The implementation of the plan to discontinue loss making specialty paper businesses was started in previous quarter.

We are now negotiating with the Works Council in (inaudible) about plans to discontinue Gohrsmuhle Mills both re uncoated and unprofitable specialty paper operations.

We have made also clear our strong commitment to continue Chromolux business and plans to establish a folding boxboard converting center. We believe the negotiations with the Works Council will be finalized by the end of first quarter.

I am pleased to confirm that the exit from the Reflex Mill is completed in early 2012. We have done a great job in close cooperation with the Works Council to divest best parts of the Mill and to save more than 250 jobs. This is also a very good benchmark when we will develop business park concept in Gohrsmuhle and work with re-industrialization in Alizay.

Market Pulp and Energy's operating loss was EUR7 million. Lower pulp price and delivery volume affected the business and weakened result from the previous quarter. It seems that worst is behind in pulp demand and pricing, but still visibility is weak in Pulp business. After implementation of the planned measures, our annual pulp surplus grew from 200,000 tons to about 500,000 tonnes.

To maximize our profitability in market pulp, we have extensive actions ongoing to increase the number of long-term contractual customers in Europe. Especially this is important forecast given the BCTMP plan, but we can see potential to improve sales mix of Husum chemical pulp capacity.

M-real's financial situation is stable. At year end, our net debts were EUR783 million. Net gearing was 106% and equity ratio 27.4%, indicating real headroom to the covenant levels. Operating net working capital decreased EUR95 million in last quarter and EUR110 million in 2011.

We have a good cash position, average interest rate is 6.1%, and refinancing negotiations with the financial institutions are going on as planned.

Short-term profitability outlook we can summarize by saying that M-real's operating result for the first quarter of 2012, excluding non-recurring items, is expected to improve from the last quarter of 2011, mainly due to higher paperboard and pulp delivery volumes. Furthermore, the losses of Alizay Mill and the Specialty Paper business are expected to somewhat reduce already in the first quarter of 2012.

As many times stated, we have in process heavy measures to reach best in class profitability in future. Planned elimination of the losses of Alizay and Specialty Papers will improve annual EBIT about EUR80 million versus 2011 reported result.

Restructuring of Coated Paper operations about EUR20 million, and divestment of Hallein Pulp Mill finalized in third quarter about EUR10 million. All in all, it is a question of EUR110 million annual profit improvement which will be materialized gradually in 2012.

Our EUR120 million paperboard investment program is proceeding as planned and will boost our profitability in the future. Annual folding boxboard capacity will increase by 150,000 tonnes, Simpele 80,000 tonnes and Kyro 40,000 tonnes investments are completed; Aankoski 30,000 tonnes capacity increase to be done in spring 2012.



Capacity increase measures will not increase our fixed costs. New capacity is needed to fulfill our customers growing demand of high quality and environmentally sound packaging materials. It is also important to remember that folding boxboard production is M-real's most profitable part.

We have also completed Kemi Mill investment in 2011. Our target is to gradually allocate all production to higher added value coated products.

Kyro bio-power plant project will have startup this year in autumn. Bio-energy will replace gas turbine and we are expecting annual cost savings EUR5 million.

Weakening of euro versus US dollar and British pound is good news for our Paperboard business.

As a consequence of the restructuring of the Company, we have changed our management structure, and the reporting structure will be changed from first quarter 2012 onwards. M-real's business has been divided to the two segments, Paperboard business area and Paper and Pulp business area, when in the previous structure we had four business segments, Consumer Packaging, Office Papers, Speciality Papers and Market Pulp and Energy.

At the same time, we have appointed Pasi Piparinen to Head of Paperboard business area starting from March 20, 2012. Pasi has worked since 1984 in different executive positions in Stora Enso, mainly in Packaging Board business.

You have seen that we have used new platform in our today's presentation. This is due to our Board of Directors' decision to propose to the Annual General Meeting a change of the Company's name to Metsa Board Corporation.

We believe that the timing is good. Our extensive restructuring that was started in 2006 is completed, and we are now much better prepared to see growth and new business opportunities in Paperboard business.

As you can see, our new identity reflects strong focus and dedication on our core business, the high quality paperboards. With the new name, we are also targeting better visibility in the marketplace as a part of the new Metsa Group's common identity. It is very important to be well recognized by all important stakeholders also in future.

The Annual General Meeting will be held on March 28, 2012, and the final decision of the change of the Company's new business name will be made there by the shareholders.

As a conclusion, we have listed management's focus areas in 2012. High priority issue is to materialize all plans to eliminate Paper business losses in Alizay, and Specialty Paper operations, as well as to complete successfully transfer Coated Reels business from Aaneouski to Husum.

Second top priority issue is the completion of cartonboard capacity expansion investments, and full utilization of the increased capacity. We have put also a lot of efforts to have more long-term contractual customers for market pulp, especially this is important for Kaskinen BCTMP plant.

And last, but not least, we are working to refinance the Company as planned.

Ladies and gentlemen, thank you for your attention. Now we are ready for your questions. Please.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions). Jussi Uskola.



Jussi Uskola - Deutsche Bank - Analyst

Just a general question on your guidance. You're highlighting that your profitability will improve in Q1, but should we assume flat numbers on EBIT line for Q1?

Mikko Helander - M-real Corporation - CEO

That we don't comment yet. I can just repeat and confirm that profitability will improve. How much, as I said, we are not yet ready to give exact numbers or figures.

Jussi Uskola - Deutsche Bank - Analyst

Okay, if we then try to split it up a bit. Looking at your Folding Boxboard business, what kind of volume growth one should be assuming now. And if we think about the recent improvement in the order intake, should we assume that this is stemming from your contract customers? Or is it something to the export markets, or [again] spot markets?

Mikko Helander - M-real Corporation - CEO

Both, but I can confirm that starting from year-end, order inflows have improved. And we can see also improving operating rate. But we have to be realistic and we don't yet expect in first quarter full operation and normal operating rates. But once again, I confirm that order inflows are improving. And in that respect, we are much more optimistic than we were some months ago.

Jussi Uskola - Deutsche Bank - Analyst

Okay, how about the inventory level in the channel right now?

Mikko Helander - M-real Corporation - CEO

Inventory levels are now very low in the supply chain, as well as our own inventories are at the normal level. Also in that respect, we are expecting improving order inflows because we don't have any sign that end demand of cartonboard would be decreased, not at all.

Jussi Uskola - Deutsche Bank - Analyst

Okay, and then finally with regards to the ongoing capacity closures and cost savings from there, can you --? You're highlighting that you're getting some savings through already in Q1, but can you elaborate the amount? And can you give us a better quarterly timeline on how these cost savings will develop in your view?

Mikko Helander - M-real Corporation - CEO

No, I'm not ready to give yet more detailed figures or information. I can just confirm that we are now in constructive negotiations, statutory negotiations with the unions in France as well as in Germany. And we are expecting and we are targeting that we can complete successfully those negotiations in the first quarter of this year.

Jussi Uskola - Deutsche Bank - Analyst

Okay, thanks.

Operator

Johan Sjoberg, Carnegie.

Johan Sjoberg - *Carnegie - Analyst*

Starting off with the board capacity right now, where are you in annual terms would you say, following the first investments that you've done? And following the completion, where will you be following the second stage?

Mikko Helander - *M-real Corporation - CEO*

All in all, paperboard capacity will be somewhere close to 1.3 million tonnes when we take folding boxboard and (inaudible) board.

Johan Sjoberg - *Carnegie - Analyst*

And where are you right now?

Mikko Helander - *M-real Corporation - CEO*

Sorry, you mean right now?

Johan Sjoberg - *Carnegie - Analyst*

Because there will be a second investment stage, won't there?

Mikko Helander - *M-real Corporation - CEO*

We have completed now Simpele, Kyroskoski, Kemi investments, and we will implement Aaneouski investment in April this year. But this Aaneouski's just 40,000 tonnes additional capacity. It means that at the moment, our annual capacity is already very close to 1.3 million tonnes.

Johan Sjoberg - *Carnegie - Analyst*

Okay. Looking at the Q4 results from Alizay and the Specialty Paper operations in Gohrsmuhle, how much did they contribute to the loss? Or could you split those just to get a feeling for it?

Mikko Helander - *M-real Corporation - CEO*

I don't split, but I can confirm that Alizay, our Specialty Paper operations, as well as Coated Papers, I mean all those operations which are now under restructuring generated more than EUR20 million operating loss in last quarter.

Johan Sjoberg - *Carnegie - Analyst*

And you are not going to finalize the negotiations during Q1. Should one assume that as of Q2 and onwards, the new M-real, or the new Metsa Board will be in shape so we don't have to include those units any more?

Mikko Helander - *M-real Corporation - CEO*

I think that we should still include those units and we should, of course, remember that, for example, Gohrmuhle will continue in Chromolux business. But anyhow, we are targeting that those heavy losses coming from those units will decrease already in first quarter, and even more in the second quarter of this year.

Johan Sjoberg - *Carnegie - Analyst*

All right. If you look at your remaining assets, or the assets that you will keep, were they all EBITDA positive in Q4?

Mikko Helander - *M-real Corporation - CEO*

We don't comment unit-specific numbers and figures. But I can confirm that when we will complete successfully those heavy measures in Alizay in Specialty Papers, as well as in Coated Papers, all remaining businesses are in good shape and are in good position to generate nice and positive EBITDA and EBIT in future.

Johan Sjoberg - *Carnegie - Analyst*

If you look at your CapEx for 2012, where do you see that land?

Mikko Helander - *M-real Corporation - CEO*

This should be in range between EUR60 million and EUR70 million.

Johan Sjoberg - *Carnegie - Analyst*

EUR60 million to EUR70 million. Looking into 2013, do you have any --? I fully appreciated your debt has come down, absolutely, but we've also seen equity coming down, and thereby you have a pretty high equity ratio, or net debt to equity. What are your priorities in terms of further investments or debt repayment? What do you look at?

Mikko Helander - *M-real Corporation - CEO*

We have very strong commitment to decrease our debts that we have stated many times. But of course, also investments are needed. But I can confirm that in the near future, we are not planning huge investments. Very well focused good investments further improve especially efficiency productivity and profitability of our cartonboard business.

Matti Morsky - *M-real Corporation - CFO*

Maybe to add to that as we have basically our cartonboard business and Husum left, and they are quite well invested over the last years also. So the investment requirements, even including certain development investments, are very modest in the years to come.

Johan Sjoberg - *Carnegie - Analyst*

Can you give a figure on what is the maintenance CapEx in Metsa Board here following all these things going on?



Mikko Helander - *M-real Corporation - CEO*

I don't remember exact figure, but as I said, we have [profited] from EUR60 million to EUR70 million investments, and maintenance should be somewhere in range of EUR25 million/EUR35 million.

Johan Sjoberg - *Carnegie - Analyst*

Right. And also, looking at your tax rate over the coming years, I guess you have a lot of losses which you can use going forward here. Just to get a feeling, where do you see the tax rate in 2012? I know about the statutory tax in Finland, but given the losses and everything that you have.

Matti Morsky - *M-real Corporation - CFO*

We of course, have losses both in France and in Germany, not so much in Finland and nothing in Sweden. And basically, if that is taken into account, and the fact that even if Chromolux business is profitable and will be, so in the future, the losses are of that magnitude in Germany that very little of that tax advantage is going to be generated of those losses.

In Finland, of course, we have the main business area and gradually, we will turn into a tax-paying situation. Maybe not this year or next year, but after that I think we are very much in a tax-paying position.

Johan Sjoberg - *Carnegie - Analyst*

So in 2012/2013 you don't expect to pay any tax basically?

Matti Morsky - *M-real Corporation - CFO*

No, I'm not saying that. I'm saying that, in Finland we are not maybe paying tax. But in Sweden, we are already in a situation that we pay taxes. And of course, in the overall structure there are these, for example, sales networks where we need to show [due to the] -- well, requirements on the transfer pricing certain profits which are taxable.

Johan Sjoberg - *Carnegie - Analyst*

Right, thank you very much.

Operator

[Addissi Khukani].

Addissi Khukani

My first question is regarding your refinancing. I wanted to ask you how actively are you pursuing the potential sale of [Studio] to facilitate the refinancing of your eurobonds during 2013?

Mikko Helander - *M-real Corporation - CEO*

Okay. Now on asset disposals we are, of course, not having anything special in mind at the moment. And what comes to a potential sale or repurchase redemption of the [bonds], they are the same because we are not actively pursuing such measures.

I think we are focusing on the overall refinancing package to be negotiated with our financial -- or with the financial institutions in the near future.

Addissi Khukani

Okay, so you don't see any potential asset divestitures or selling in the near future?

Mikko Helander - *M-real Corporation - CEO*

At the moment, we don't have those actions in process. But again, we should remember, and I can repeat what I have stated earlier, for example, we have pulp assets, we are now after restructuring 500,000 tonnes surplus in pulp in factories. But for example, we have space to decrease pulp capacity in the future if needed.

Addissi Khukani

All right. And my second question is regarding the working capital. In 2011, we saw a release of working capital, so how do we expect these levels to go ahead in 2012?

Matti Morsky - *M-real Corporation - CFO*

As the restructuring of Alizay Specialty Papers, to a certain extent also coated papers is still continuing, so there is potential for a further decrease in the net working capital.

And on the other hand, as explained during the presentation, we expect also the pulp volumes, board volumes to go up, and that is of course then a measure or a thing which increases the demand for net working capital. So quite well in balance I would say on a medium term.

Addissi Khukani

All right, thank you.

Operator

[Bogdon Koversi].

Bogdon Koversi

I have a couple of questions, the first one for model perspective. What would have been your sales pro forma for 2011 if you take all this restructuring what you have done?

Mikko Helander - *M-real Corporation - CEO*

The impact on the net sales number is estimated to be around [EUR350] million or say EUR400 million in total; about that level would be the impact. So we would be somewhat higher than EUR2 billion on a pro forma basis.

Matti Morsky - *M-real Corporation - CFO*

EUR2.1 billion maybe.

Bogdon Koversi

And in terms of EBITDA or EBIT?

Matti Morsky - *M-real Corporation - CFO*

The impact, as explained, is EUR110 million on an annual basis of the loss making units, as explained in the presentation also.

Bogdon Koversi

But if adjusted EBITDA of EUR180 million and I take the EUR110 million, it should be EUR290 million, the pro forma EBITDA?

Matti Morsky - *M-real Corporation - CFO*

EBIT; yes, EBIT impact.

Bogdon Koversi

Okay. And what was your cash restructuring for 2011?

Matti Morsky - *M-real Corporation - CFO*

Sorry, now I didn't catch you.

Bogdon Koversi

What did you spend as cash for the restructuring in 2011?

Matti Morsky - *M-real Corporation - CFO*

The cash outlay for the restructuring was not very heavy. I wouldn't have any number in my mind, but as explained also, the negotiations with the unions are still pending, and it means that the heaviest burden in terms of cash outlay -- outflow will be during the latter part of first quarter and mainly on the second quarter.



Bogdon Koversi

In 2012?

Matti Morsky - *M-real Corporation* - CFO

Yes.

Bogdon Koversi

And how big should it be?

Matti Morsky - *M-real Corporation* - CFO

We have only indicated that the overall impact on our cash flow is in net terms including also the release of net working capital about EUR50 million, and that number is still very valid.

Bogdon Koversi

I understand. And you want to conclude in the first quarter 2012 your refinancing?

Matti Morsky - *M-real Corporation* - CFO

I wouldn't say anything about that, the potential timetable, but of course the sooner is the plan.

Bogdon Koversi

Okay, thank you.

Operator

[Theodore Samos].

Theodore Samos

Just a quick one. Last Q1, last year, you received a pretty good dividend inflow from your parent company. I wonder if we can expect to see the same thing in 2012. And if so, how big do you expect it to be and what quarter do you expect it to be?

Mikko Helander - *M-real Corporation* - CEO

You mean Botnia?

Theodore Samos

Yes.



Mikko Helander - *M-real Corporation - CEO*

And we don't comment that yet. Later this year, all Botnia shareholder together will decide the dividend.

Theodore Samos

Okay, so we should see that as a recurring annual income?

Mikko Helander - *M-real Corporation - CEO*

I said later this year, actually very soon, Metsa-Botnia shareholders will decide the dividend. But the matter of the fact is that Botnia had a good year again. 2011 was very strong.

Theodore Samos

Okay. And on the EUR111 million cash that is Metsa Finance cash, is there any -- does that term have any term at all or is that something that you have to clean down, or do you have just continual access to that amount?

Matti Morsky - *M-real Corporation - CFO*

No, like I said, so we have the same burden in terms of indebtedness. Those are cash amounts deposited in Metsa Finance by other Metsa [leader] Group companies. Basically, we have short-term access in overall terms within all Group companies to access cash.

Theodore Samos

Yes, but can you give a little bit more clarity on what you mean by short-term access? Could you take all that today if you wanted to?

Matti Morsky - *M-real Corporation - CFO*

Yes, we could use it but there is no term. I mean that it is something which is kind of a cash pool.

Theodore Samos

Okay, and has it been in the same ballpark of low 100s for the last couple of years, or is this is a new pot that was created just in the last few quarters?

Matti Morsky - *M-real Corporation - CFO*

There has been a variation on the amount of these kind of deposits by the other Group companies. Sometimes it has been higher, say, up to EUR150 million, sometimes somewhat lower below EUR100 million. It is, of course, a matter of how much for example revolvers they have been using in any given point of time.

Theodore Samos

Okay, and then with your name change, should we --? Is that --? Should we take, read anything from that? Is that a signal you guys are trying to become a part of the Metsa bigger entity? Is there any form of activity we could see in that sense in the next couple of years, or is it just -- is it not that?

Mikko Helander - *M-real Corporation - CEO*

No, main reason is that with the new name, we want to give again clear and strong message that we are getting more and more paperboard, cartonboard company. Of course, we have still the Paper business. Husum is a very strong paper asset and we will definitely further develop Husum business. But anyhow, the fact is that M-real is today already a cartonboard/paperboard company, and this change of the name proves that this is our direction.

Theodore Samos

Okay, then back on the refinancing, this is my last question. Are you still intending to try to get a new revolver in tandem with some form of either term facility or bond, and do you have a preference between a term loan or an underwritten bond?

Matti Morsky - *M-real Corporation - CFO*

No, I don't -- wouldn't like to comment on the structure of the refinancing. Like said, we are actively discussing at the moment. And maybe to add that at the moment, of course, bond market as we all know, is not very much alive, at least as what comes to -- not at least what comes to eurobonds.

Theodore Samos

And these negotiations you've had, have they been with the same party for the last several months, or are you negotiating with lots of different guys, trying to get a different deal? How can you characterize what's happening?

Mikko Helander - *M-real Corporation - CEO*

We have plenty of good friends in financial institutions, but we don't comment more those refinancing negotiations.

Theodore Samos

Okay, thank you.

Operator

Linus Larsson.

Linus Larsson - *SEB Enskilda - Analyst*

First a question on Husum and the intended capacity increase from 285,000 tonnes to 340,000 tonnes on the coated side. Could you update us on the permit process and what's going on there and timing of this capacity increase, please?

Mikko Helander - *M-real Corporation - CEO*

Yes, first important to remember that it is question of minor investments, and all those actions are now in process, proceeding, as well as we are now moving Coated Reels business from Aankoski to Husum and customers have already accepted this quality coming from Husum production system.

In that respect, we are moving and proceeding as planned, and we are expecting that all those measures and actions will be successfully completed starting from the second quarter of this year.

Linus Larsson - *SEB Enskilda - Analyst*

Okay, and when it comes to the actual capacity increase on that site, are there any obstacles there in the process, or --?

Mikko Helander - *M-real Corporation - CEO*

No, not at all. It is just question how we'll develop coated magazine, coated fine, the market and, of course, in close corporation with Sappi, we are doing lot of efforts to sell this additional capacity successfully to the market.

Linus Larsson - *SEB Enskilda - Analyst*

All right. Good. And then detail on the Consumer Packaging division, the shipments that you disclosed I take it are including all the non-board grades. If we would be looking at the board grades, what's the year-on-year shipment decline in the fourth quarter?

Mikko Helander - *M-real Corporation - CEO*

Paperboard business, main problem was in fourth quarter, the fact that the all main customers decreased inventories, and we can say and we can confirm that in the supply chain, everybody released working capital. And due to that reason, all the inflows were quite low. That development started already in the third quarter and continued in the fourth quarter.

But as I said after year-end, we have seen a positive development and order inflows are now improving and are already on much better level than what we saw end of the last year.

Linus Larsson - *SEB Enskilda - Analyst*

If I just look at your segment reporting shipment after the Consumer Packaging business area, were 268,000 tonnes compared to 344,000 tonnes in the fourth quarter 2010. So that would be a decline of 22%. But I take it there is some distortion in terms of coated paper and other products than board grades. So do you have a year-on-year percentage figure for the board shipments decline?

Matti Morsky - *M-real Corporation - CFO*

Yes. I don't have an exact figure here but, of course, we should remember that we had also earlier Simpele Paper, and Simpele Paper was closed and that has also certain impact on figures.

Linus Larsson - *SEB Enskilda - Analyst*

All right. Thank you.



Operator

[Lisa Barish].

Lisa Barish -- Analyst

I was wondering if of the EUR110 million annual profit improvement, which I think you mentioned will improve results gradually over the year, if you could give me some color as to how much of that you expect to see in either the first quarter or the first half, and then incremental as we go through the year, please.

Mikko Helander - M-real Corporation - CEO

As I said, we are now in the middle of statutory negotiations in Germany and France, and we are targeting that those negotiations will be completed by first quarter 2012. But anyhow, we expect that some decrease in losses we will see already in the first quarter, more in the second quarter, and in larger scale in the second half of this year.

Lisa Barish -- Analyst

Okay, and you don't want to put any number or quantify that at all.

Mikko Helander - M-real Corporation - CEO

No.

Lisa Barish -- Analyst

Thank you.

Operator

(Inaudible).

Unidentified Participant

Just like a couple of questions on my side. You said that you plan to close Alizay and Gohrsmuhle in Q1, but at the same time during the Q&A, you say the Q2 -- we shouldn't expect Q2 to be a clean quarter. Can you explain why this is the case?

Mikko Helander - M-real Corporation - CEO

First, we should remember that we don't have intention to close Gohrsmuhle. We have plans to discontinue those loss making specialty paper and our coated fine.

Unidentified Participant

Yes, I was just referring to the part of Gohrsmuhle that is going to be closed.

Mikko Helander - *M-real Corporation - CEO*

Yes, and then we are in those negotiations, and if and when we will complete in the second quarter -- in the first quarter those negotiations, then based on that, we can make needed decisions and start in full scale implementation of those closing procedures.

But at the moment, I'm optimistic, we have good spirit and negotiations are proceeding.

Unidentified Participant

So if I understand correctly, you plan to complete the statutory discussions by Q1, but that will mean that the actual closure will take place in Q2?

Mikko Helander - *M-real Corporation - CEO*

Yes, something like that. But of course, it is important to remember when we announced our plans in October 2011, after that, for example, Alizay paper machine has not any more been in production. And also, customers have reacted in Specialty Paper business, meaning that the operating activities in those businesses are very low today.

Unidentified Participant

But for how long do you expect to have the employees on your payroll?

Mikko Helander - *M-real Corporation - CEO*

As I said, if and when we succeed to complete the statutory negotiations in the first quarter, immediately after that, we start the implementation.

Unidentified Participant

Okay. Do you see any reason that might slip the closure -- sorry, the conclusion of the statutory negotiations from Q1 to Q2? Do you see any reason that they may slip?

Mikko Helander - *M-real Corporation - CEO*

At the moment, I don't see those reasons but, of course, important to remember that we have not yet completed negotiations. But personally, even I have been very active and I have met regularly also those union leaders, and I can again confirm that all parties have good understanding why those measures are needed. And based on that, we are now negotiating, and I'm optimistic that we will complete as planned those negotiations.

Unidentified Participant

Okay. And my last question is about your Consumer Packaging business. We've seen a significant decline in volumes in folding boxboard, in consumer board in this [phase]. What gives you the confidence in that it's just a destocking across the chain and there's no -- it's not a sign of a weakening end demand?



Mikko Helander - *M-real Corporation - CEO*

No, it's based on very, very open and continuous discussions between us and our customers, as well as we have had a lot of open communication between M-real stock management and our sales force. And based on all that, we are very confident that the end demand of cartonboard has not decreased, not at all.

It is a question of inventory reductions. And again, we should remember that the order inflows are now improving, and that also proves that the customers are now coming back to normal. And in that respect, we are optimistic that the operating rates will improve in the first, as well as in the second quarter.

Unidentified Participant

And I know it's difficult to answer, but just to give a sense, when do think that this ongoing destocking effect will be over? Do you expect to see Q1 essentially as a destocking free quarter?

Mikko Helander - *M-real Corporation - CEO*

No. I see and I believe that we have seen now the worst and now we are -- now we experience already a recovery. But of course, it is very difficult to say how quickly order inflows will get back to normal but the last [week's] development is very encouraging and very positive.

Unidentified Participant

Okay, thanks very much.

Operator

Nitin Dias.

Nitin Dias - *JPMorgan - Analyst*

I had a few questions, first a couple of housekeeping. Can you give us a sense of what your cash taxes would be for this year?

Matti Morsky - *M-real Corporation - CFO*

Very, very difficult to predict. Like said, so we are in a tax paying position in Sweden only, and then some other countries where we have sales companies, for example; so not possible to predict.

Nitin Dias - *JPMorgan - Analyst*

Okay. And what will be your cash interest for this year, assuming that the bonds remain in place?

Matti Morsky - *M-real Corporation - CFO*

Cash? Sorry, I didn't --?



Nitin Dias - *JPMorgan - Analyst*

Cash interest.

Matti Morsky - *M-real Corporation - CFO*

Around EUR70 million to EUR80 million.

Nitin Dias - *JPMorgan - Analyst*

Okay, that's helpful. Thank you. Going on to the business, I guess my first question was, if I look at your consumer board deliveries, they seem to have dropped, at least from what you're saying, but your pricing in terms of the charts that you have in your presentation seems to have peaked.

And we saw a similar trend in 2009 where in first quarter 2009 where the volumes dropped but the prices peaked somewhere later that year. So I guess what gives you the confidence given that your costs are also declining, or have declined, that you can raise prices or keep prices flat on the consumer board side?

And a follow-up would be how much of your contracts are on an annual basis and what price changes have you negotiated on them?

Mikko Helander - *M-real Corporation - CEO*

First, it's really very important to remember that today already 60% of our sales is coming from annual contracts. And we have completed now all of those contract negotiations and we have succeeded to save prices, meaning that the price level should be more or less the same 2012 what we had 2011.

And I can confirm that we have worked very hard to save prices, and also due to that reason, we have accepted temporarily lower operating rates to avoid negative price development, and we have succeeded. I'm very happy and very proud that we have succeeded to save prices.

Nitin Dias - *JPMorgan - Analyst*

Understood. But what about the remaining 40% support? What are you seeing in the market right now? And do you see some downward pressure, because your costs are also fairly low right now because of lower pulp prices?

Mikko Helander - *M-real Corporation - CEO*

Yes, but at the same time, we should remember that we have seen huge cost inflation in the previous years, and we have communicated that fact very carefully with the customers; meaning that at the moment, we don't have the intention to decrease prices, not at all.

Nitin Dias - *JPMorgan - Analyst*

Okay, that's helpful. On the working capital side, excluding the impact from the capacity closures, can you give us a sense of what your working capital outflow would be for 2012, or even the first half, just to give us any sense? That would be very helpful.

Matti Morsky - *M-real Corporation - CFO*

As I already told you, so we are expecting to get further releases from the units which are now under restructuring. But on the other hand, having in mind the fact what Mikko just told, that there is an upward trend concerning the volumes on the cartonboard and pulp side. So that will of course then take its toll in terms of operating net working capital. All in all, I would say quite [near] to our development on a medium-term basis.

Nitin Dias - *JPMorgan - Analyst*

Okay. Let me rephrase the question. Assuming, if you ignore the working capital inflow from your capacity closures, what would your restructuring costs have been? You said EUR60 million after incorporating your working capital inflow, but if you discount that, what would it have been excluding the working capital inflow?

Matti Morsky - *M-real Corporation - CFO*

I think we are not giving that kind of detail. The EUR50 million net impact is the information we are basically releasing in that respect.

Nitin Dias - *JPMorgan - Analyst*

Okay. Two last questions, Stora Enso wrote down their stake in PVO in conjunction with the annual results because of lower pulp electricity price assumption. I'm just wanting to see if you guys have any thoughts on that direction?

Matti Morsky - *M-real Corporation - CFO*

No. Actually, our evaluation, based on normal procedure to evaluate PVO sales was somewhat higher for the last quarter than it was for the third quarter.

Nitin Dias - *JPMorgan - Analyst*

Okay. And the last question is on the refinancing. Do you have mental deadline in mind before which you want to conclude the refinancing? Because you said you're not evaluating asset disposals, and so is there some mental deadline in mind that you want to finish all refinancing by the date? And is there a plan in that respect?

Mikko Helander - *M-real Corporation - CEO*

No, we don't have any deadlines, not mental and not other deadlines. As we have said, we are now in negotiations with the financing institutions and we continue the process as planned. And immediately when we have something to tell, we will definitely inform you.

Nitin Dias - *JPMorgan - Analyst*

That's very helpful, gentlemen. Thank you very much.

Operator

[Asta Lindstrom].



Asta Lindstrom

I have a couple of questions on the Consumer Packaging side. First of all, how have the products coming up with Simpele and Kyro been received by customers? Is the quality consistent? And also, looking at your new volume expected from Aankoski during the middle of this year, have those volumes been placed with customers already, or how does that work?

Mikko Helander - *M-real Corporation - CEO*

First, I can confirm that the quality is very good and customers are happy and satisfied, and they have very warmly welcomed the new capacity coming from those mills. Also in that respect, we are now in very good shape to meet the growing demand of food packaging cartonboard.

And sorry, what was your second question?

Asta Lindstrom

The new volumes coming from Aankoski, have they been placed with customers already or are they more going to be towards the spot market?

Mikko Helander - *M-real Corporation - CEO*

No, not spot. I can confirm that all new capacity based on those needs and demands what our big -- especially our big brand customers have informed. And of course, also in annual contracts, we have agreed some additional volumes.

But we should remember that at the end of the day, those volumes always depend on market situation and demand of customers. But in that respect, we are optimistic and we are expecting that all new capacity is needed and we will supply successfully to the customers.

Asta Lindstrom

Okay, so you're not using the new volumes to break into new customers and new markets? (Multiple speakers).

Mikko Helander - *M-real Corporation - CEO*

No. That is very limited. Major part of new capacity goes due to the old, long-term contracts or customers.

Asta Lindstrom

Okay. Two other questions on the Consumer Packaging side, one a little bit about the improved order inflow in January, and I guess the first week of February here. What is the source and nature of this inflow? Can you tell a bit more about it? Is it domestic, i.e., European, or is it more export outside of Europe?

Mikko Helander - *M-real Corporation - CEO*

European; mainly our European customers, contractual customers, based on the fact that now they have very low inventory levels. And when end demand of our customers' products has not decreased, matter of the fact is that they need cartonboard.



Asta Lindstrom

And finally I guess, is a question more -- also relating to your proposed name change. You made these capacity increase investments. Can you tell us anything more about the strategy for your Consumer Packaging side going forward? And are you looking to continue to add capacity through similar types of investments to those you have done? Should we expect investments in new mills; I guess in joint ventures, acquisitions? Can you tell us anything about this?

Mikko Helander - *M-real Corporation - CEO*

Yes. No, I can confirm that definitely, our short-term target is to maximize profitability in Cartonboard business, and I believe strongly that this 150,000 tonnes new capacity what we will take out from the existing mills will improve our financial performance in Packaging Board business.

And in short term, we can see still some potential to improve productivity of the existing mills, and all that potential will be first fully utilized. And then in the second wave, we will definitely seek new capacity and different opportunities to grow further our business in Asia and outside of Europe. But once again, I stress that, firstly, we'll fully utilize potential of the existing mills.

Asta Lindstrom

Is there a lot of further capacity potential beyond the 150,000 tonnes which you've been able to [do here]?

Mikko Helander - *M-real Corporation - CEO*

We have still some, and the positive news is that then it is question of quite minor investments. And that is also very important when we remember that our target is to maximize profitability in packaging board, and at the same time, further decrease our net debt.

Asta Lindstrom

Just finally, when you say some potential, is that --? Are we talking about another 150,000 tonnes or 20,000 tonnes? Where on the spectrum of capacity increases are we talking about?

Mikko Helander - *M-real Corporation - CEO*

I'm not ready to give the exact figure, but we have still some nice potential. The exact figure I'm not ready to give for you.

Matti Morsky - *M-real Corporation - CFO*

(Inaudible), our engineer, seems to have unlimited imagination what comes to the capacity increases with very low investment.

Asta Lindstrom

Okay, thank you very much.

Operator

Karri Rinta.



Karri Rinta - *Handelsbanken - Analyst*

A few questions on the guidance, and more on maybe the cost trends that you're seeing. Firstly, in the fourth quarter in the other operations, you had a quite sizeable loss of EUR9 million. How should we look at 2012 and what kind of numbers would you put there on a quarterly basis? Or what's behind the EUR9 million number?

Matti Morsky - *M-real Corporation - CFO*

Of course, the most material moving part in that EUR9 million always is our hedge accounting result, and that was, if I now remember correctly, also the reason why we during the last two quarters, showed quite bit minus in terms of other operations.

But of course, there is a bunch of other operations also under that heading, like our sales network and logistic companies and arrangements, as well as head office.

So very, very difficult to say any firm predictions in that respect. It's accounting result is the most decisive, and as we all know, so pretty impossible to predict.

Karri Rinta - *Handelsbanken - Analyst*

All right, thanks. Then in terms of maintenance costs, fourth quarter versus the first quarter, do you expect that you made or that you had more maintenance in the fourth quarter than what you will have now in the first quarter?

Mikko Helander - *M-real Corporation - CEO*

Yes, I think so, because always in year-end, we have more of those maintenance-related actions than in the first quarter.

Of course, based on expectations that we will not have any negative technical breaks and surprises, but that is quite right what you said.

Karri Rinta - *Handelsbanken - Analyst*

Okay, thanks. Then finally, input costs; overall, I think the trend is downwards also in the first quarter, and you have previously given some sort of full-year indications of what's [in place] since last inflation. Are you willing to at this point give some indications on a full-year basis for 2012?

Matti Morsky - *M-real Corporation - CFO*

No, not yet, but I can just confirm that last year in that respect was very difficult. Inflation was somewhere close 5% in 2011, and at the moment, we are expecting that 2012 in that respect will be better. But it is very difficult to give a set figure at this stage.

Karri Rinta - *Handelsbanken - Analyst*

But also, the first quarter trend should be lower than in the fourth quarter?

Matti Morsky - *M-real Corporation - CFO*

Yes; absolutely, absolutely.

Karri Rinta - *Handelsbanken - Analyst*

All right, thanks. That was all.

Operator

Henri Parkkinen.

Henri Parkkinen - *Pohjola - Analyst*

I have one question related to Husum. A couple of times during this conference call, you have mentioned that Husum is very strong paper asset, and when going back to your Capital Markets Day last September, you mentioned that you see that Husum could be interesting part of in some possible European wider paper industry consolidation.

How was Husum performing last year? Because I remember that in Capital Markets Day, you showed us some figures that 2010, the operating profit in Husum was, well, roughly SEK600 million. I wonder if you can give us some figure from last year.

And then when you have completed this transfer of some Aanekoski volume to Husum, do you see that Husum could be in better position to take part in this mentioned European-wide paper industry consolidation?

Thank you very much.

Mikko Helander - *M-real Corporation - CEO*

Yes. The first, I'm not prepared to give exact figures from last year, but when we look at Husum integrate, including the 750,000 tonnes pulp mill, and all our paper-making assets, I can confirm that the first half of 2011 was very strong in -- on Husum integrate.

Second half, due to negative price development in pulp was already much more challenging. But I'm very confident that Husum has to integrate, especially when we will complete all those measures related to the Coated Paper business, will be very valuable and a great asset when second round or next round in the restructuring of European paper industry will be done.

Henri Parkkinen - *Pohjola - Analyst*

Okay, thank you very much. Thank you.

Operator

Roberto Pozzi.

Roberto Pozzi - *Societe Generale - Analyst*

I would like to understand better what you have in mind in terms of Group reshuffling, and especially in relation to the deeper integration within the Metsa Group. Do you have anything more detailed that you could share?



Mikko Helander - *M-real Corporation - CEO*

First I would like to correct. We don't have any intention to have a deeper integration with the Metsa Group. We have already today good and close cooperation with the Metsa Group companies where we can see good synergies and we fully utilize those synergies. But the planned change of the M-real's name does not mean that we have some plans to increase this integration to Metsa Group.

We see that this change is very important to have more visibility, especially globally. And when Metsaliitoo and M-real are working and using same visibility and image, that should help us to be better recognized in Finland, as well as outside of Finland. And that is, of course, important for M-real's value and M-real's shareholders.

Roberto Pozzi - *Societe Generale - Analyst*

And may I ask you also, I realize that -- I understand that you don't want to anticipate too much about your future refinancing plans, but is anyway the -- is the --? Are you considering to potentially reissue a bond of the same size as the one that [you're outstanding] or is that something that we can rule out?

Mikko Helander - *M-real Corporation - CEO*

No, I said -- as Matti stated, we have different options. We are now in negotiations with the financing institutions, but at the moment, we don't comment those different options what we have in the process.

Roberto Pozzi - *Societe Generale - Analyst*

And how do you see --? If I may ask something. How do you see the current conditions of the bond markets?

Mikko Helander - *M-real Corporation - CEO*

Well, I don't think it is something which you wouldn't know as good as we -- at the moment, bond market is pretty much closed for our type of companies.

Roberto Pozzi - *Societe Generale - Analyst*

Okay, fair enough. Thank you.

Operator

[Marko Markku].

Markku Jarvinen - *Evli Bank - Analyst*

Markku Jarvinen, Evli. I just had a couple of clarifications here. I think you said you had sales of EUR94 million and EBIT of minus EUR16 million from these operations that you plan to discontinue. With Alizay now shut and Aankoski also closed, should we expect any sales from these operations in Q1?

Mikko Helander - *M-real Corporation - CEO*

Yes. We still have inventories in both places which we are, of course, planning to sell to the market.

Markku Jarvinen - *Evli Bank - Analyst*

And do you expect to sell all of this inventory at full price, or what's the --?

Mikko Helander - *M-real Corporation - CEO*

Major part, definitely. But again, I stress that for example in Alizay, we have not made any more paper since end of October; and also in Gohrsmuhle, uncoated fine and coated specialty grade production we have stopped already one month ago.

Markku Jarvinen - *Evli Bank - Analyst*

And while the production has stopped, the personnel are still there. So will those costs remain recurring until they leave, or what should you think?

Mikko Helander - *M-real Corporation - CEO*

Now we should remember that according to French law, according to German law, we have to complete statutory negotiations. But I see that for those processes, it is very positive that production has been stopped already many months ago. And now we will complete statutory negotiations and then we will also release those employees. And in that respect, we will continue the process, process which was started already last autumn.

Markku Jarvinen - *Evli Bank - Analyst*

But in terms of what we should estimate in terms of earnings, excluding non-recurring costs, those costs should be included in that number, or you can't comment at this stage?

Mikko Helander - *M-real Corporation - CEO*

Yes, we made those provisions which we have reported. And as we have stated, we are expecting that in the first quarter, we will see already some savings coming from those measures, and even more in the second quarter of this year.

Markku Jarvinen - *Evli Bank - Analyst*

Okay. Okay. Then about your Paper business, it seems that if the discontinued operations made a loss of EUR16 million in Q4, also that other paper operations made a loss. Is this the right thinking or --?

Mikko Helander - *M-real Corporation - CEO*

Yes, our Office Paper reported minus EUR10 million operating loss, including Alizay. And I can confirm that Husum uncoated fine production has been much healthier and relatively good business. But in Husum coated papers, we have had those difficulties. But again, we hope and we believe that those measures what we have now in pipeline will improve also coated paper profitability at Husum mill.

Markku Jarvinen - *Evli Bank - Analyst*

Okay. And how do you see now prices moving in Q1 compared to Q4 in especially uncoated woodfree?

Mikko Helander - *M-real Corporation - CEO*

We have seen and we will see some negative price development. Prices in uncoated fine in first quarter will be a little bit lower than in the fourth quarter. But at the same time, we are expecting that volumes are improving.

But as I said, in Pulp and Paper business, visibility is still very poor. In Paperboard, visibility is a little bit better.

Markku Jarvinen - *Evli Bank - Analyst*

Okay. And Pulp business also made a loss in Q4. Have the market prices fully flowed through or is the price still decreasing in Q1?

Mikko Helander - *M-real Corporation - CEO*

It seems that now prices are quite stable, and I note that our sales forces are doing utmost now to turn price development. But we have to be realistic. At the moment, we don't expect major change in pulp price in the first quarter, but delivery volumes should increase in the first quarter.

Markku Jarvinen - *Evli Bank - Analyst*

Okay, and just the last question. These investments in folding boxboard, did the investment [shuts] have any significant impact on earnings in Q4 and should we anticipate something in Q2?

Mikko Helander - *M-real Corporation - CEO*

Yes, not huge impact but, of course, some impact, negative impact. We had part of this Kemi investment shutdown was in the fourth quarter, and the Kyroskoski investment shutdown was in November, and of course, those measures had some negative impact. But major issue was these inventory reductions in the supply chain and low operating rates.

Markku Jarvinen - *Evli Bank - Analyst*

Okay. Thank you.

Operator

[James Durrant].

James Durrant - *Morgan Stanley - Analyst*

A question on your capital structure. I notice that the program size of the pension loans and the bilateral loans has shrunk in the final quarter compared to September. Is that because you've had any difficulty rolling these lines, or have you just allowed them to expire?

Mikko Helander - *M-real Corporation - CEO*

Well, pension loans, as you know, are a (inaudible) system and we are now in a situation that we gradually start to rebate those, so it is, well, quite natural part of our maturity profile.

James Durrant - *Morgan Stanley - Analyst*

Okay, and have you had --?

Mikko Helander - *M-real Corporation - CEO*

And we can roll them over, so to say, but it doesn't really make sense to start it to -- without having a bit more material amount available.

James Durrant - *Morgan Stanley - Analyst*

Sorry, I missed that second part.

Mikko Helander - *M-real Corporation - CEO*

Yes, well, we have repaid only very marginal part of the pension loans.

James Durrant - *Morgan Stanley - Analyst*

Okay. And would you expect to retain pension loans as a major source of borrowing?

Mikko Helander - *M-real Corporation - CEO*

No. Those are very long-term loans as such, anything between seven and 10 years. But they are, of course, then repaid gradually after two/three-year grace period.

James Durrant - *Morgan Stanley - Analyst*

Right. And would you expect to roll the ones that do mature with new long-term loans, or do you expect them to --?

Mikko Helander - *M-real Corporation - CEO*

Yes, that is one of the instruments we are definitely considering, yes.

James Durrant - *Morgan Stanley - Analyst*

Fine, thank you. Which is the first material debt maturity this year? Is it the US dollar private notes in June?

Mikko Helander - *M-real Corporation - CEO*

Yes, I would say so. Yes.

James Durrant - Morgan Stanley - Analyst

Right. And a final question which maybe I missed earlier. Of the 13% sequential decline in Packaging volumes, how much of that is Southern Europe?

Mikko Helander - M-real Corporation - CEO

I don't have here an exact figure, but definitely part is coming from Southern Europe. But the main issue is that those big contractual customers decreased inventories, and due to that reason, order inflows were much lower than originally expected and agreed in the annual contracts. But now, it seems that that business is getting slowly back to normal.

James Durrant - Morgan Stanley - Analyst

Thank you.

Operator

[Simon Matthews].

Simon Matthews

Just one question from me, please. I notice around 22% of your cartonboard deliveries are to Asia, and I think some of that's to Japan and also to China. How would you judge the level of competition from local producers in Asia, and how do you expect that to evolve? And particularly, are there any new capacity additions in that region that could have an impact on your business there?

Thank you.

Mikko Helander - M-real Corporation - CEO

Yes, as you know, especially in China, they have installed a lot of new capacity. But this new capacity is not so much competing against M-real, because a major part of our Asian business is cigarette cartonboard business. And maybe you know that the most demanding customers and most demanding quality requirements in cartonboard business we have in cigarette segment.

And in that business, we don't have too much local competition, not at all, and our business, for example at the moment, is developing very well in cigarette segment. Order inflows have been very strong in last weeks in the cigarette business, including European customers as well as Asian customers.

Simon Matthews

Okay, so there is new capacity folding boxboard, but it's not really the segment that you're operating in over there. So actually, the outlook continues to be fairly positive in that region I think is what you're saying?

Mikko Helander - M-real Corporation - CEO

Yes, exactly. That was right conclusion.

Simon Matthews

Okay, thank you.

Operator

(Inaudible).

Unidentified Participant

Still about your cartonboard business. In the past, one of the main drivers for demand growth was the substitution from recycle fiber base -- folding boxboard into a [emerging] fiber base folding boxboard.

Are you seeing a reversal of that trend and that might partially explain your volume performance? Or is that driver still an important driver for your business?

Mikko Helander - *M-real Corporation - CEO*

It is, yes. In food segment definitely it is, and also in that respect, we don't need to change our future expectations.

Again, I can confirm that based on discussions with our contractual customers, based on discussions with converters as well as very, very extensive conversations with our sales force, we can today again confirm that it seems that it is just more question of inventory level reductions in the supply chain.

Some demand decline we have seen in the southern part of Europe, but that does not have major impact on our business.

Unidentified Participant

Okay, thanks.

Operator

We have no further questions, sir, so I'll hand the conference back to you.

Mikko Helander - *M-real Corporation - CEO*

Okay, thank you very much, ladies and gentlemen. Thank you for your active participation, and especially thank you very much for your questions.

And together with Matti and Juha, I wish very nice and pleasant evening for you.



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.

©2012, Thomson Reuters. All Rights Reserved.

