



TRANSCRIPT SERVICE

Company	Stora Enso OYJ
Event Type	Q3 and H2 2004 Earnings Call
Ticker	SEO
Date	Oct. 27, 2004

Stora Enso

Moderator: Keith Russell
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3:00 pm CT

Operator: Welcome to the Stora Enso Q3 2004 results call. Today I'm pleased to present Keith Russell, Senior Vice-President of Investor Relations. For the first part of this call all participants will be in listen only mode and afterwards there will be a question and answer session. Mr. Russell, please begin.

Keith Russell: Thank you. Hello everyone. Welcome to this conference call and webcast. Today we're broadcasting live from Stockholm. I hope all of you have had a chance to look at our results which were published three hours ago. For those of you who are not listening to the webcast you can access the slide presentation via our company website in the investor section, where I will also draw your attention to slide number 2, which is our forward-looking statement.

Today will follow our usual format. Jukka Härmälä, Group CEO, will review the slides, turning over to Björn Hägglund, our Deputy CEO, who will talk about the market outlook in some detail and also joining on the call is Esko Mäkeläinen, Group CFO.

So, with that short introduction I'll turn it over to Jukka Härmälä.

Jukka Härmälä: Okay. Good afternoon, everybody and welcome to listen to our story of today. We have the heading 'Sharing profitability improves due to increasing demand' and then, second, 'What is the impact from the North American profit enhancement program?' the element we already highlighted on when coming out with our six month report. So, the slight optimism of the market we emphasized three months ago has actually become stronger, especially when looking forward. We are coming back to the market outlook on a separate basis.



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I would start with the highlight slide, number 3, where we have a summary of the story and, as you see, out of the three quarters of this very year, 2004, operating profit was our highest, emphasizing really the improvements mainly in North America and also the production volumes as already mentioned. Earnings per share based on the outstanding shares of today is 10 cents.

We have some - I would not call them very major events but really to repeat what had happened during the quarter. First the acquisition adding to our merchanting operations in Holland and then we had an arrangement for the wallpaper base production for our German Wolfscheck mill.

However, after the period there has been - on page 5 now - some elements of higher importance. First, we finally came to the conclusion, as you have seen from our previous announcements, to dispose of our Indonesian re-forestation program, named Finnantara, which was sold some time ago, concentrating now more on the Chinese and South American programs. Then very recently - again taking one step forward in our logistics development - something which is going to make a good lot of savings but only in the years to come.

And, last but not least, the announcement we are coming out with today for the modification of our newsprint machine in Langerbrugge where we had some dusting problems all throughout, even though the paper machine itself has been running more than well, exceeding even the expectations put forward in the earlier days. The press section where we have to do some major modification jobs conducted by the machine supplier on our behalf and, once this is done and the machine is out of production early next year, some 40,000 tonnes will be lost. We have calculated that the loss of this very thing on our side will be in the range of, say, between 5 million to 10 million, depending on the final way it's put through - an element to be taken into account for the future.

Then I'm coming back to the final figures and this rather extensive table, page 7, not going through all the numbers. You've most probably been analyzing them. I already emphasized that on the operating profit level this was the best quarter of this year. And making a comparison between the same quarter, the third quarter, of last year where we were coming out with 137 million, only to pinpoint it's not comparable as we



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still had the direct ownership of our ((inaudible)) forest land being incorporated, a very big thing. And the improving influence we had then was about, say, 20 million to 25 million. So, even from this point of view, you can see the improvement to the period a year ago.

On a production basis, something which is not mentioned here, I would like only to say that, compared to a situation we had a year ago, our delivery is up by 5.1% and our production even 6.4%. So, the demand we are referring to is seen in this development very clearly as well.

Then I will go to the market-related curtailments, page 9, and the development which has already started. These numbers coming down quarter by quarter have continued in the way that, once again, the only market-related curtailments we have had for the quarter did take place in Europe, whereas North America were running full.

Then I will go for still an analysis between the first nine months of this year vis-à-vis a year ago on page 10 and, as the picture shows very clearly, the long-lasting decline of prices has been the main difference, again comparing these to nine month periods, all set only, to some extent, by now the increasing sales volumes - all the other elements, after all, being of somewhat minor influence.

Now, the trend of sales prices of sliding down has come to an end and the outlook - something we will in a moment concentrate on - would hopefully be now upwards.

There is very little to be mentioned about other things. Probably I'd pick up the return on capital employed, on page 12, where now we are coming up, to some extent, reaching for this very quarter close to 5%, still far below from our WACC 8.7% and definitely even further away from our target on a long-term basis of 13%. Anyhow, a better quarter than what we've been experiencing since the first quarter of 2003.

We continue with this strong balance sheet. And now a word on CapEx on page 14 and mainly my message is that for the whole year the CapEx would be in the range of, say, 1.1 million, more or less at the level of depreciation for this year.



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Share buy-back, page 15, now we are up to about 40% out of the R shares, the liquid shares, and the same policy will be applied for the buy-backs for the rest of the period, coming to an end next March once we have our AGM.

Now, I would like to give the work over to Björn Hägglund who is going to elaborate on the market outlook, I think the most important issue of today.

Björn Hägglund: Okay. Thank you very much, Jukka, and as you can see by a quick glance on slide 17 and 18, the theme of the day is perhaps 'recovery'. If we start with publication papers - and that's magazine and newsprint in Europe - the basic drivers behind these markets for us are advertisement and also corporate spending on marketing. They are strengthening. And that has led to that as-expected recovery has taken off and at the moment the whole European publication paper market business is running more or less full. So far, prices have not moved in any meaningful way but we believe that the basic market strength now will open for price increases to start to appear with the beginning of next year. And even if, so to say, the current strength with one party seasonal, the underlying trend is very clearly upwards.

We then go to the different sub-rates, the coated mechanical reels or LWC, if you are stuck with that. The European market is up about 5% so far this year. There are strong order books. They are so strong that bad orders can be turned down and that means in one merely a little price increase if you just look mathematically on there. The supply-demand ratio will and is clearly increasing and the industry's pricing power is also increasing.

On FP papers the demand-supply has been rather strong for quite a while. It can't improve much more as far as you look at volumes. And pricing it will come when it comes for LWC and in a similar way.

Moving to newsprint, the European market is up 4% this year and if we look at the export it is up 7%. Standard news has improved 2% to 3% while the improved grades have improved quite a lot, double digit percentages. So, the operating rates are increasing and the stocks are decreasing and we also get



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significant double digit price increases on overseas markets now. So, we think that the industry's pricing power in newsprint is increasing.

Moving then to the European fine papers, over the year demand is good and strengthening. However, the supply side is perhaps not a little bit more excessive than in the publication papers and this is especially then the case for uncoated sheets. So, the picture is good but not fully as clear.

Looking first at the coated woodfrees, demand is up 7% on last year and we also have some growth in demand from overseas. Some part of the volume we expect to get price increases on during the rest of this year and the rest will follow later. And you can say that the best part is that that is closest to the publication papers, the coated reels.

If we look at the uncoated woodfrees, the demand there is also good, 6% up this year. But here we have some rather strong competition, especially in office paper sheets and competing with the imports from Russia, Asia, South America. So, we will get some price increases in reels in the uncoated woodfree but all this will take some more time.

Then packaging woods, I think the leading word there is 'stable'. Carton boards in Europe, carton box board - SBS - is somewhat better than last year. There are some moderate price increases that have come through in the recovery rates ((inaudible)). We can see some minor effects from the dollar, which go two ways. On one side the dollar weakens. On the other hand, prices come up in many dollar-nominated countries. And the whole total effect of this, I think, is that we don't have to fear competition from outside to any extent in Europe and then probably be forced to some moderate price increases. However, at the same time we have to expect some price increases on, say, those plastic components that are part of our products here. So, all in all, a very stable market and that also goes for the corrugated and cardboard parts.

Timber next. Well, in Europe we have two grades. You can say whitewood or spruce, which is mainly used for building construction purposes, and redwood or pine, which is mainly used for ((inaudible)) products,



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especially joinery. And the whitewood, that market strengthens, and we even think that some minor price increases come through. Redwood has been a problem for quite a while now due to oversupply. Prices had been sinking but the markets are improving somewhat now and we say a stabilization, although on a rather low level. The US markets for whitewood timber, especially US housing markets, are still very strong and they absorb a lot of whitewood timber from Europe and, of course, contributes to the good balance here. Now, as always during the late autumn, prices are weakening in the US but still, so far at least, the export from Europe prevails. The Japanese market is, as always, strong even if the weak yen makes the pricing a little bit weaker.

If we then go to the US where we are in paper only you can say that the markets are strong. The ad markets are improving and especially in the magazine grades and also catalog is very good. It's actually now an all-time high level and the market is strong, as I say.

In the LWC, coated mechanical reels, demand is up 8% so far this year. On 1 July we got a 50% price increase over the whole market, all contracts for the US markets. Some smaller spot quantities have then enjoyed further US\$50 on 1 October and we also expect that this kind of price increase will come to all the contract business also from 1 January next year. For the SC magazine, ESCA grades where we are, we believe in a similar development as for LWC.

The news market, it's a little bit different. Ad is up somewhat but publishers are really trying to save money here by shrinking the format of the newspapers etc so demand on newsprint, as such, is down slightly. But, in spite of this, it looks as if the producers, partially at least, can get a US\$50 price increase through by simply being very disciplined on capacity.

And, last, fine papers in US quoted rates where we are; strong order books for the utilization of the machines and we think that the reels part will follow that of the publication papers that means further price increases. However, sheets, it is a little bit slower, same reason as in Europe, due to Asian competition. But also there we expect price increases coming through, however, somewhat slower. So, that is what I intended to say.



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Esko Mäkeläinen: Okay. Thank you, Björn. Now, it's time to summarize our presentation very briefly on page 19, I think. We don't have to go back to the markets only to say that, as far as Europe is concerned, the price increase element would mainly come in only at the beginning of next year, whereas in US it is already started to materialize and hopefully continue.

What we are happy to say, even though we don't publish any numbers on a three month basis, only after the end of the year, is that the North American profit enhancement program has started really to have an effect. Last time we said that it would start improving the result considerably.

Then. I think a more general remark on the weakening dollar and, on the other hand, increasing oil prices not really making a difference, only to the last quarter of the year, rather a more general thing whether on a longer term they would, on one hand, have an influence to the trade close and, on the other hand, for the overall economic development to the energy prices. In the short term, not very much of an impact on us.

Finally, I think the usual remark we have for the end of the fourth quarter when the compulsory shutdowns, mainly in Finland, will occur, again having a negative impact is something we are going to have to bear in mind.

Okay. Thank you for your attendance. Now we are ready for your potential questions, please.

Operator: We will now begin the question and answer portion of this call. If you have a question for any of today's speakers, could I please ask you to press 01 on your keypad now and you'll enter a Q. And then after you are asked, just say your question. So, we're just gathering the questions at the moment.

I can see that the first question is from Mr. Lotus of Merrill Lynch. Please go ahead with your question.

Mr. Lotus: Hi. On your North American profitability you previously indicated a break-even by mid-next year.

Do you see any chance of that coming further back and actually getting break-even sooner than previously



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indicated? Also I understand you are revising your employee benefit programs for next year. So, do you have any update on that? And, finally, what is the impact of your higher energy costs in 2005, a cost basis? Thanks.

Esko Mäkeläinen: Well, this North American profitability, like I said, we don't give out any figures now. We do it only on a six month basis. But we are following the program that was introduced initially quite some time ago. And the program was designed in a way that it was not really market-related. It was consisting of various internal measures and what we definitely said was that, of course, it needs that various demand which is now the case. The price element is then a different story on top of this program. So, we will continue with the program and, as you may remember from the past, it's decided to come to an end summer 2005, end of August.

Then the employee benefit thing, it's actually a manifold issue in the way that we have borne(?) it for the employees, the ones who are on the payroll, and they are dependent on the various agreements. And some of them are only expiring now at the end of this year and beginning of next year when the re-negotiation of what is to come next is coming up, including also the element of benefit. For those it's a little bit early to make any kind of a comment but certain changes are planned to take place. You may remember that we actually introduced, not too long a time ago, something which was the retiree healthcare-related program and you'll see the numbers affecting this one-time element in the third quarter result. A similar type of approach we have already been applying to some of the employee agreements but too many are still pending. Let's see what happens.

Then you had this energy cost for 2005. Very generally speaking, in the first place what I would say is that we are not very sensitive to the short-term changes in the crude oil prices and a good lot of our energy is actually based on longer term agreements. Especially in North America I would say it has a little bit more impact. And we have not really been analyzing the situation for the whole year of 2005 as of today. But certainly some increase is not only because of the oil but also some of the electricity-related issues are coming up. Anyhow, we don't anticipate a major change here - an increase, but not anything significant.



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Mr. Lotus: Thank you.

Operator: The next question is from Charles Spencer of Morgan Stanley. Mr. Spencer, please go ahead with your question.

Charles Spencer: Yes, good afternoon. I have three questions. Björn, you mentioned in your market outlook that newsprint pricing has seen double digit increases abroad. Does that give you any confidence of prices when you're looking at European newsprint pricing in 2005?

Björn Hägglund: Yes, of course it helps but, after all, the price negotiations are still to be made. But, as I said, the pricing power of the industry has increased quite significantly during the last months and to that contributes both the increased European demand and the rather hot, you can say, overseas markets for newsprint, especially Asia.

Charles Spencer: And, just to follow on on that first question, when you look at the double digit increases, is that in euros or in dollar terms?

Björn Hägglund: In dollar terms, I would say. Yes.

Charles Spencer: Okay. Secondly, you mention in your press release higher inventories consistent with seasonal patterns. Is there any way you can quantify that into days of supply or a number we can just identify with?

Björn Hägglund: In thousands of tonnes from beginning of the year we have some 200,000 tonnes more than we had at the beginning of the year so that's the impact though through all these three quarters. And normally December is the month when we will reduce inventories because we then take downtime in our mills and still deliveries are continuing.



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Charles Spencer: Okay, thank you. And a final question is on the share buy-back. If I calculated it correctly, you bought back nearly 5 million shares in the quarter. It seems to be a slight acceleration from the pace of share buy-backs you were doing for the first two quarters. Given that your earnings and cash flow appear to be recovering here, is there a strategy maybe to accelerate the program and could that be part of your thoughts in the near term?

Jukka Härmälä: We would more or less follow the same policy. It depends entirely on the overall developments of the markets. We have not planned any major change to the policy.

Charles Spencer: Okay. Thank you very much.

Operator: The next question is from Mott Softren of Merrill Lynch. Please go ahead for your question.

Mott Softren: It's Mott Softren. There's been lots of focus on what's happening towards the end of the year and the market tends to be nervous about that. And I wonder if you can talk to us about how you see costs changing and, in particular, unit costs changing in the fourth quarter and if that would be additional to the normal seasonal cost increases that we always see from your side?

Jukka Härmälä: No, we don't anticipate anything major to take place.

Mott Softren: Thank you. And then on the coated reels you say that you see some improvement for the second time in North America in the spot market for LWC. What about Europe? Is there any increase in the spot deliveries in Europe price-wise? I appreciate that's a very small part of your business but what is the development there?

Jukka Härmälä As I said, we have some limited price increases which will hit perhaps one-third of the volume which we get looking forwards to during the rest of the year. And what happens after that is a little bit more open and will be depending how the market looks but, of course, as the market looks as strong in the publication paper grades at the moment and the coated reels are rather close to that, it's not a completely



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unfounded assumption that there will be some spillover normally so that MWC and the coated reels are not so far from each other.

Mott Softren: Thank you. And finally, how much do you think prices should have to rise by in order to meet your return on capital employed target, everything else being equal?

Jukka Härmälä: It's a very mathematical question, this calculation on the averages. We have not done it now but let us have a quick look.

Esko Mäkeläinen(?): Our typical turnover is roughly 1 so you can easily calculate if we make 9%(?). If nothing else happens the problem is that it is very difficult for us to assume that price increases are a completely isolated thing.

Mott Softren: But basically you need 8%-9% price rises?

Esko Mäkeläinen: If nothing else happens in between.

Mott Softren: Do you hope reaching that level within a couple of years? It's quite an important timeframe, isn't it?

Jukka Härmälä: Well, we've been elaborating on this 13% target now we are still below our WACC and definitely WACC should be reached and, I guess, in view of what has been said about the market outlook it should be something realistic during the course of next year. When to reach 13%, of course, highly depends on the market. We've done lots of internal things, not the least the North American profit enhancement plan, all supporting that direction. But, like we've said, 13% we still think it's realistic for the European part of our business and we have not changed our mind.

Mott Softren: Thank you and good luck.

Jukka Härmälä: Thank you



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Esko Mäkeläinen: Thank you. We need it.

Operator: The next question is from Dennis Christie of Goldman Sachs. Please go ahead with your question.

Dennis Christie: Yes, good afternoon. I'm just trying to understand the extent of the increases in the US magazine prices that have been achieved so far. The first price increase, am I correct in saying the first \$50 has gone completely through and you've seen that in the third quarter? And the second price increase you basically will only see coming through in contracts in the first quarter of next year?

Jukka Härmälä: If we take the magazine paper grade you can say that on all business we got \$50 at 1 July and I mean a completely dominating part of that business is contracted until the last of December. Then you have some small spot quantities but they are so small that it's not much to count on if you should make profitability calculations. But, of course, they are very important as trend sectors and on these we have \$50 more on 1 October. And that simply indicates that it shall be possible to get \$50 more all over it from 1 January, which means that if we compare the last of June 2004 with the 1 or 2 January 2005, the difference should be \$100 all over. That is still to say the hypothesis, more or less rough. After all, we talked about living business so things can happen but, as business ((inaudible)) sentiment in the market and so far it does exactly follow the track(?). That's how it looks.

Dennis Christie: Okay. So, in other words, you basically haven't really seen any benefit from those price increases in the magazine numbers at all yet?

Jukka Härmälä: Yes, but of course the first ((inaudible)).

Dennis Christie: Okay. In all the contracts?

Jukka Härmälä: Yes. In the contracts we have for US, yes. Foreign contract, FC and coated mechanical reels and, by the way, those fine paper parts also.



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Dennis Christie: Yes, exactly. And then just in the packaging boards I notice that there was actually an increase in market-related downtime in the third quarter versus the second quarter and I think the third quarter is normally quite a strong quarter. Is there any particular reason for that? I mean, were you sort of putting off contracts which you weren't getting decent prices? Is that the sort of thing that we could expect?

Jukka Härmälä: Well, I would say that it's simply these small quantities in a business with several million tonnes look upon it that small misfits between order book and production and that production actually went down good and you drive a little bit over the order and then you have to wait until the order book is there. Because this is, after all, long term contractual business we are talking about all the time.

Dennis Christie: Okay. And then just my last question is more on the numbers. The associates, they seem to see a decline in the third quarter. Is that because of seasonal effect more than anything else and should we be expecting a strong number in the final quarter?

Jukka Härmälä: Yes, you are right. There are some not seasonal that affect ((inaudible)) valuation things because we are hedging our interest risk in ((inaudible)) and now the value hedges went down a bit in the last quarter and it can go up again.

Dennis Christie: Okay. No, that's great. Thanks very much indeed.

Jukka Härmälä: Thank you.

Operator: The next question is from Thomas Brodin of Smith Barney. Please go ahead with your question.

Thomas Brodin: Yes, two questions. One on the re-build of the Langerbrugge machine. When there is a problem with the machine, typically it would be some kind of insurance or the machine supplier standing for that. Will this be an economic loss for you of 5 million to 10 million or will Metso be forced to come in and cover some of this or you have any insurance for it?



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And the second question is more on the LWC side or magazine papers. It was only three months ago you said that the market wasn't strong enough for supporting a price increase in LWC and, quite shortly after that statement, the market became very tight with very strong demand. Do you think now, in hindsight, that it would have been possible to raise the pricing in LWC or do you see any of your spot prices going up before the end of the year or if everything is in contract?

Jukka Härmälä: If we start now with the Langerbrugge. Like I said, the machine, the big part of the story has been running more than well. Where we've had the problem is in the press section in the way that, as I said, the production of the paper itself, once it printed in big volumes, there appears some dust, which is of course harmful for the printing quality. And that is something that obviously and finally is not possible to eliminate without making these major changes to that part of the machine. And that is in the responsibility of the machine supplier. Whereas we do stand for the potential losses from production, this 40,000 that we do anticipate as the final figure would end up with a loss of, say, between 5 million to 10 million for that very volume, depending exactly how it finally goes. And that we are responsible for.

Talking then about the markets and our view, I think during the conference call last time of Q2, we were asked very concretely if we believed that price increases during September were possible and we said no because we felt that the market was not strong enough with our information. And, for us, I mean we have said that the prices are not the same now as then, so not so much had changed. But at the same time we also said that the market is strengthening and it has slowed down. And then it's, of course, a typical thing when timing is enough and we now think that the time has come that the market has changed rather quickly, as it often does in LWC, and that we have a rather good situation when we look towards next year.

If we talk about what we have achieved so far, I would say, as I said, that there are no meaningful numbers to report. You can, of course, see some small positive effects that we now are able to scrap those orders with the lowest prices and that gives mathematically some effect on average. But for our, so to say, order book and our distribution between ((inaudible)) and offset allows some grace, it's not meaningful to talk about it. But we look forward to next year.



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Thomas Brodin: Okay, thank you. And just as a follow-up, if you could just explain the newsprint machine that you're taking down early next year, is that because you have already committed that kind of volume throughout this year so you have to deliver that? Wouldn't it otherwise be easier to take it down now as soon as possible?

Jukka Härmälä: Well, you can play a lot of theories. In practice it's possible to do it only starting beginning of next year. And there was no way of speeding it up because of various technical aspects of the story. When it comes to the end of the markets and, as we know well in advance now, certainly we can play the game in a way that the losses finally would be as minimal as you can imagine. It's actually a 40,000 out of the marketplace when the market is getting tighter and tighter so not necessarily the only negative factor, thinking a little bit longer term.

Thomas Brodin: No. Okay. Thank you.

Operator: The next question is from Richard Nilsson of Enskilda Securities. Please go ahead with your question.

Richard Nilsson: The Veracel project is obviously a great project and I was wondering if you look over the coming five years, what else could you do - it may be in Russia or South America - to lower your cost base of fiber further. Are there any opportunities you see out there?

Jukka Härmälä: Of course, we are exploring possibilities, no question about it. Now, we concentrate on completing this very project. What you said earlier, exploring possibilities, whether you talk about it's better to sell two one day or something more long term. But, generally speaking, a company like ours we are exploring the expansion possibilities all over the places where we operate, including South America. But nothing more specific to say as of today. But you can say also that we are exploring, of course, both possibilities of the Veracel kind which means very low cost production for export and we can say, especially in China, a similar thing, also local production for local markets. There are different possibilities.



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Russia, you mentioned, seems to be more complicated an issue. As you know, we are there with some minor footsteps with the idea to expand our operations but I, at least currently, don't see any very quick development here when it comes to anything major.

Richard Nilsson: Thank you. Can I also ask you to clarify on fine paper the price developments there? To clarify a bit on coated versus uncoated, what's happening there? You seem to be a bit cautious on the A4 side, I assume?

Jukka Härmälä: Yes, that's true. I mean, if we talk Europe now the competitive situation is ((inaudible)) on the uncoated sheets office paper part of the fine paper and we have here imports from outside Europe that clearly increase supply and which means that the demand-supply relation and the pricing environment is not as favorable as in the other grades. And I don't think I can be more specific than that. The market - there is such demand ((inaudible)) is fine but we have - not unusual for this industry - a supply balance problem.

Richard Nilsson: Yes. So, basically you would expect coated fine paper and the reels in uncoated size to be moving up in November and therefore to take a bit of a breather short-term?

Jukka Härmälä: That is part of it. I mean, this market, as you know, it's longer-value chain. You have merchants ((inaudible)).

Richard Nilsson: Of course.

Jukka Härmälä: Let's consolidate it. It's actually a little bit more difficult to look through.

Richard Nilsson: Could you shed some light on the magnitude of those price hikes in November for fine paper?



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Jukka Härmälä: No. The only thing we have said is that we think that about one-third of the market is what can come in question, plus/minus something, and the magnitude is something that we will see afterwards to discuss it with the different parties.

Richard Nilsson: Yes. Then also just a follow-up question on the magazine paper. There has been various sort of comments on whether price hikes or some users came to have hiked prices for, the non-contractual volumes and so on, in the fourth quarter for magazine paper. And you seem to be a bit more cautious. Is this a reflection of uncertainty in the market or was it just a question of your timing on price hikes or how should one view that? I mean, because it wasn't many months ago, or basically right now, that you think basically non-contractual volumes were not able to go up. Is that something to be worried about or was it just a question of the timing of trying to hike those prices?

Jukka Härmälä: I mean, first of all when we've talked about non-contractual volumes in the magazine paper when we are ((inaudible)) we talk about rather tiny volumes and we talk about rather tiny price increases. And we can, so to say, only talk for ourselves. And at the moment we are able, as I said, to turn the bad offers down and that, of course, means a price increase. But on the whole, which in the case of the sale price is not very high and you see we have to wait until after the ((inaudible)) before we really see if the increased pricing power now comes through as we think.

Then if you look upon different ((inaudible)), because there has been a lot of writing about that first, I think the differences are highly exaggerated. And second, of course, we are different. There are different order books. There are different customers. The products differ a little bit and there can be differences when we talk about as tiny things as we are doing right now.

Richard Nilsson: And just one final question on price hike ambitions. We're all a bit in the dark, I guess, about what kind of ambitions paper producers have right now and there's been some talk about substantial price hikes or prices going up, etc. How would you sort of perceive the price hike cycle? Would you think that your price hike ambitions are roughly in line with previous price hike attempts? Or do you think that you



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now really need to be very aggressive? Or are you afraid that if you are very aggressive on price that this could backfire later on, maybe in sort of 2006?

Jukka Härmälä: Let's come back next time. Do you really think that we'd discuss this with you before we talk to the ((inaudible))?

Richard Nilsson: We'll just ((inaudible)) already. Thank you very much. Thanks.

Operator: The next question is from Lars Kjellberg from CSFB. Please go ahead with your question.

Lars Kjellberg: Yes. Most of my questions have been answered already. I've just one question. In terms of price realizations in the third quarter related to the second, how much did you actually realize and what was the impact of EPS? And also with what you see now in terms of Q4, what kind of impacts do you expect to see from higher prices in EPS?

Jukka Härmälä: In Europe we had rather stable prices all in all, even somewhat lower in some grades. But in North American dollar prices we're clearly higher in the third quarter compared to the second one and in dollar terms close to 10%. But in Europe they are, of course, less.

Lars Kjellberg: Right. And in your normal sort of kind of graph where you have the sequential change between the quarters, how would that be shown then in EPS terms?

Jukka Härmälä: Between 1% and 2%, bit more than 1%.

Lars Kjellberg: And if you look into the Q4 numbers what do you expect? What kind of pricing effect do you expect to see there, if any?

Jukka Härmälä: Not very much, if any.



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Lars Kjellberg: Okay. That was my question. Thank you.

Operator: The next question is from Miles Allsop of UBS. Please go ahead with your question.

Miles Allsop: Hi, it's Miles Allsop. I just wanted to follow up on the inventory question and I was just looking at the sort of first three quarters of this year and the difference between production and deliveries. And I see this year production has exceeded deliveries by 340,000 tonnes compared to 176,000 tonnes last year. I just wanted to understand why we're seeing sort of higher production relative to deliveries this year compared to last year in the first three quarters of the year?

Jukka Härmälä: Let's look at the numbers a little bit. All in all, what we are saying here is nothing particularly unusual has taken place. Could you hold on a moment, bringing up some data here? Okay. Quarter by quarter our deliveries were a bit lower than production and really in the third quarter we had a bit more than 150,000 tonnes increase after the summer holiday season where production and deliveries were on the same magnitude. So, in a way, cyclical rather than anything structural in there.

Miles Allsop: So, your inventories are at normal sort of levels for this time of year? Is that sort of what we should assume from that, even though it looks as though you've been producing more than you've been delivering?

Jukka Härmälä: Yes, we have slightly more paper in some publications paper grades but we are producing against orders so it shouldn't be anything to worry about.

Miles Allsop: Okay. And on the sort of customer side, what's your feel for customer inventories at the moment? Are they sort of higher than they should be or sort of normal levels?

Jukka Härmälä: Björn, are you able to comment on this?



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Björn Hägglund: Yes, I've seen it somewhere. I just wonder where I saw it. I'll come back in a while, if you go on. I know I have seen it.

Miles Allsop: But that was just sort of my question for the time being.

Jukka Härmälä: As I say, this is not a big worry. Not very much attention has been paid to it.

Miles Allsop: That's good.

Keith Russell: We'll come back to you, Miles, with a bit more detail after the call.

Miles Allsop: Okay, thanks.

Operator: Okay. In that case the next question is from Morten Eismark of Danska Equities. Please go ahead with your question.

Morten Eismark: Thank you. Just another follow-up question on the inventories. You state that your inventories increased in line with seasonal patterns and the capacity utilization will remain high in Q4 at the same time. However, the full inventory build-up is very high overall and especially within fine papers, looking at 67,000 tonnes as far as I can see. What do you expect from divisional operating rates in Q4, assuming operating rates within paper division is of 94%-95% in Q3?

Jukka Härmälä: Yes, we have this seasonal Christmas stoppage in there and that is cutting our production in a rather natural way. So far, we are expecting rather full run until Christmas. But we will lose to risk(?) and volume, especially in fine papers and packaging.

Morten Eismark: Right. So, it's affecting just 1% or 2% compared to this quarter's operating rates even within fine paper would be a fair assumption?



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Jukka Härmälä: Yes. We are losing some four to five days production.

Morten Eismark: Uh huh. All right. Thank you.

Operator: The final question at the moment is from Tom Williams of ING. Please go ahead with your question.

Tom Williams: Well, all questions were answered by now so there is no final question on my side. Thank you.

Operator: Okay. In that case I will be passing it back to yourself for anything else.

Jukka Härmälä: Well, I want to thank you for joining us today. We hope that our trend forecast is the correct one. I think already last time we were showing some of the positive elements up in the air and, like I said in the beginning, a reinforcement of this feeling is the current thinking. We'll see how things do perform. Thank you.

Keith Russell: Operator, we have an answer to the earlier question.

Björn Hägglund: I found the answer to your question. So, in Europe in coated mechanical reel sector the reel stocks decreased in September - the last month - but they are still high, whereas customer stocks have not increased so far and they are on a normal level. And if you take SC magazine the new stocks decreased in September and they decreased more than in coated. So, all in all, I mean the tendencies are very okay.

Jukka Härmälä: Okay. Once again, thank you for joining us today.

Operator: This now concludes our conference call. Thank you all very much for attending.

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