



TRANSCRIPT REPORT

Company	Stora Enso OYJ
Event Type	Q2 and H2 2004 Earnings Call
Ticker	SEO
Date	Jul. 28, 2004

Due to strong speaker accents this transcript may not meet the usual CallStreet quality standards

■ PARTICIPANTS

Jukka Harmala - CEO
Esko Makelainen - CFO
Bjorn Hagglund - Deputy CEO
Keith Russell - Head of Investor Relations

■ MANAGEMENT DISCUSSION SECTION

Keith Russell, Head of Investor Relations

Agenda

- The format for today's event will be for our CEO, Jukka Harmala to comment on the results highlights, using the slides as an outline
- Bjorn Hagglund, our Deputy CEO will then provide more comments concerning our market outlook
- You will then be given opportunity to ask questions by following the instructions provided by the operator and our CFO, Esko Makelainen is also on the line
- Finally, I just draw your attention to the slide number two, which is our forward-looking statement

Jukka Harmala, CEO

Highlights

- First of all, as a very general comment looking at the slide number three highlights of this very quarter
- What I can say is actually nothing unexpected in operations did happen during this quarter, everything went pretty well along the normal plans and expectations and it was a poor quarter as already expected in advance

Typical Characteristics

- What we are saying today is that this seems to be now finally the bottom of the cycle and the outlook for the future for the first time is definitely somewhat better than what we have had there for a good many quarters and even the years now in the recent past
- There are some characteristics for this very quarter:
 - Typically we had higher deliveries and lower productions than during the previous quarter
 - This quarter is a quarter for the mid summer, ordinary stoppages, which did increase our costs in the range of say 30mm euros
 - And we continued the rebuilds in our North American division, this time at the Kimberly Mill, I am coming later back to the North American issues on a separate basis

Change in the Rate of Taxation

- And then one thing on specific issue of a lot of change in the rate of taxation, had for this very period a 2 cents per share positive impact
- All in all, our cash EPS continued more or less in line with the previous quarter, fairly healthy bearing in mind the circumstances
 - And of course, our balance sheet is continuing to be strong



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- Then I would go to – I'm not going to do any number crunching, numbers have been pretty self evident today and I think as everybody has been able to analyze them already by this moment

Market-related Curtailments

- I am on page 8, Market-related Curtailments, and the same trend we already enjoyed during Q1 the year
 - Decline in the overall numbers and the curtailment mainly took place in the publication papers in Europe, some in fine papers and packaging boards as well, and nothing in North America, except the way it was already during Q1, bearing in mind, we have this rebuild taking good lot of capacity out of the operations

Changes in EPS

In Q1

- Then on page 9, the changes in EPS, even though this \$0.6 was exactly the one we came out with after Q1
 - You may see the minor elements at this time for the first time since a long period, no significant or meaningful effect coming from the pricing

In Q2

- So, for Q2, we continued with a very low level of pricing and whatever price increase announcements are coming they do as we already said last time, will have an effect only during H2
 - These fixed costs and other, some of these items mainly it's an effect of the seasonal mid summer related down time exactly the way it has been for the same period previously
 - And this tax effect I already made a comment

Share Buy-Back Program

- Then, I would actually go to page 13 with our share buybacks where the current statistics shows that we have been buying back about 25% of the total authorization we have and talking certainly about the R shares
 - Following more like the same policy we have had before, now we are calling 8.2mm shares with the average purchase price being 10.64
 - So our intention is by and large to continue with the buyback

CapEx and Depreciation

- A word about CapEx, page 14, we had – we have been continuing along the plans we had for the year now slightly below the depreciation for the 6 month period and as said before, the final figure for the total year will be somewhere at the level of depreciation, i.e., 1.1B once we come to the end of the year

North America Business Results

- And now one of the significant things is to talk about North America

EBITDA

- First, on page 16, the summary of business results and as you may see, figures, whether we talk about EBITDA or EBITA level, we were coming out with very poor numbers along what had been expected for the period
- Bearing in mind that during this first six months of the year, we had a rebuild of PM 16 at Wisconsin Rapids and during Q2 also, the PM 97 at Kimberly Mills
 - All in all, as a result of the rebuilds being part of the Profit Enhancement plan, we lost production of about say 60,000 tones, also with the rebuild PM 16, Wisconsin Rapids before getting our quality stabilized



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- It took quite some time and therefore the lower quality, variable quality, start up quantities, which we sell at lower price, out of the margin
- All in all, the total financial impact, of these measures were the range of say \$40mm US
- So excluding this item, EBITA and EBITDA continued more or less at the same level as we have during H2 2003 coming out of, running the machines more or less full, except for the rebuilds and prices being at this very low level
- There was no, or anticipated no markets left in down time

Profit Enhancement Program

- Now I will go for the profit enhancement program on the page 18
- We have been proceeding exactly as planned before and as you may remember from the past, this program has included upfront cost elements including the rebuilds and related things and the positive developments out of the total program with only stock materializing from this point onwards until we come to the end of the program mid next year when on an annual rate
 - The earnings estimated would improve by about \$145mm US
- All in all, the program has included:
 - Good lots of elements for reducing costs
 - Improving the assets
 - And especially now, as a result of the re-build, these product mix enhancements

Workforce Reduction Plans

- And the workforce reduction once we come to the end of the whole program, by mid-next year, we will end up with the total workforce headcount about say 5,000 people

Capacity Development and Headcount

- Just to illustrate, an element bringing up the effectiveness of the total story, or part of it is on page 19, where we are having figures for the headcount reduction until end of June this year and also on until the end of the program and at the same time
 - Even though, we have been closing down a few machines, old machines, permanently, the total capacity will increase to the level of 2.8mm tons
 - All in all, effect of these two elements we will learn finally result into a major improvement
- All in all, like we are saying now, at this point that our North American financial performance is forecast to improve significantly during H2 as a result of this program and also now finally supported by the more favorable market conditions
- Now we go to the very crucial element for market outlook and as Keith promised, it will be Bjorn who takes the word now

Bjorn Hagglund, Deputy CEO

Near-term Market Outlook

- Well, I will talk about the market and the order is that first I talk about paper Europe, then paper US and then finally, I talk board and timber all over the place

Europe

- So we start with paper again let me stress that our pricing is very low as you commented, lowest in this cycle, more or less everywhere
- Demand improves, deliveries are improving, the order books are strengthening and with a different pace for different geographies and different rates, pricing power is starting to return



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Magazine Papers

- If we then go to Europe and first talk about magazine papers, the dominating factors there are two
- One is that demand is improving, on the other hand according to our judgment, we still have oversupply in the coated mechanic areas, LWC
 - And it takes time before demand catches up with that
 - And that means that, still pricing is more or less flat in, primarily in coated mechanical reels but that also sticks over to SC even if SC is very stable at the moment
 - So, for these grades in Europe, in the near future, we think of increasing demand but still flat prices

Newsprint

- Going to the newsprint in Europe, we can see that demand is improving somewhat especially in the improved grades and also for standard grades especially in Southern Europe
- The overseas markets are improving rather strongly and also pricing come ups to that such an extent that some of them are actually rather competitive to the European deliveries and volumes are increasing overseas which strengthens the whole picture

Fine and Specialty Papers

- Then moving over to fine papers in Europe
- Here, also demand is improving and for coated fine papers there was one price increase announced and partially implemented earlier but the total effect of that one is rather modest
- We foresee competitive pricing towards sometime during this autumn that counts at least
- And more or less the same picture for uncoated fine papers in Europe, the market strengthens and we see price increases coming
 - For both of these two grades, the general order books are about 3 weeks in Europe, which is normally rewarded as rather good
 - And specialty papers, well, rather healthy order books, but not so much is happening to the prices

US

Papers

- Then turning to papers, US
- I think for our main grades, the magazine papers, the coated fine papers
- The picture is rather similar in one way
- We have results now from between 1st of June and 1st of July; we had implemented price increases of \$50 to \$60 US per metric ton and due to the rather improved market situation
 - We are about to announce new price increases for 1st of September, of about the same magnitude, \$50 to \$60 per ton
 - These new ones they will buy it mainly on fine papers and on the spot quantities of the magazine papers
 - The contract business on magazine is normally made up in June/July
 - So, the first price increase, the implemented one, it sticks to these grades, the second one will only stick to it in a more limited way
 - But anyway, draws a positive picture

Newsprint and Specialty Paper

- Looking at newsprint
- Demand in US is actually rather flat, pricing has come up as you know
- Actually if I try to count it, it's about \$100 since the bottom which was August 2002
 - And \$25, \$35 US up this year since February, and new price increases are actually announced
 - And then last, specialty papers, strong demand, price increases are implemented about 3%



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Packaging Boards

- Going then back to global scales packaging boards
- Well, the market outlook in Europe is rather firm and there are some smaller setting of pricing here and there but more mainly outside Europe there are moderate price increases in some grades, because in the dollar nominated countries, prices in dollar terms have come up

Timber

- Timber had a rather good quarter, the second one, quite a lot driven by good market positions in US
- US Housing was very strong, leading to good pricing for our whitewood exports to US
 - These prices have now come down somewhat, so we cannot expect the same good pricing in US next quarter
 - But anyway, the market looks rather robust there
- In Japan, the market is stable, it seems to be
- And in Europe, the whitewood balance is okay and that means that even if pricing is not to be regarded anyway, not that bad and the demand also is stable, it's in balance
- The problem is mainly the redwood or pine prices in Europe because field inventories are too big, supply is too heavy and these prices are under pressure and this will go on at least during Q3

Esko Makelainen, CFO

Summary

- Well, okay, somebody, of the whole story, once again to repeat the heading of our press release today
- We do believe that the bottom of the cycle has been reached during Q2 the year and the outlook shows good level of improvement
- The market especially in North America, driven by:
 - The good development of advertising and Europe with somewhat slower pace
 - And then the improvements we are looking forward to when it comes to our North American specific internal Profit Enhancement plans



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QUESTION AND ANSWER SECTION

Analyst: *Richard Nilsson - Enskilda Securities*

Question – Richard Nilsson: Had a couple of questions. First regarding the associate line, which was quite high in the quarter, were there any positive effects from this Finnish - changed Finnish tax rules for Tornator, for example then, and Sunila, and if so, how high were they?

Answer – Esko Makelainen: No, there was none of these things associate with company taxes.

Question – Richard Nilsson: Okay. And the improvement of about 8, 9mm euros sequentially for Tornator, is that – how do you explain that? Is that just a seasonal effect or is that something which we can expect going forward?

Answer – Esko Makelainen: It's a bit higher than normal. We are – we have to estimate something like one third or very weak to be the level of Tornator.

Question – Richard Nilsson: Okay, okay, thank you and also, on the US market, given that I assume that costs are roughly on par with those in Europe or somewhat higher if you look at wood and NG, and then you have of course, personnel cost being substantially higher including health benefits and so on. And what, you have done great things improving productivity and so on, but how do you envisage lowering personnel and health benefit costs in the future. I saw that Abitibi signed a new contract, and in my opinion it didn't look very much like costs are going down. Do you see any possibilities or will it just stay like this with much higher costs than in Europe for personnel?

Answer – Jukka Harmala: Well, this is certainly one of the big key issues there, and a good lot of our contracts they are coming to an end say late this year and beginning of next year and certainly these elements are part of the whole story and as you know, we are definitely not the only one in the boat in North America and we have seen what some of our colleagues have been able to do and therefore, we hope and we believe we are able to come up with something more reasonably but too early to say anything at this point of time before we really finally have these things on the dash. They are anyhow one of the big remaining items we have to tackle before we come to the end of the whole program.

Question – Richard Nilsson: Thank you and one final question on magazine papers. Should we interpret your statements as that your best judgment today is that you will not try to or announce a price hike on magazine paper for September?

Answer – Bjorn Hagglund: We don't comment specifically on what we do or not do but as I said, our opinion on magazine paper in Europe is that due to the oversupply in coated mechanical reels, I mean the Lapa mill has just started, the pricing power is perhaps not there and then you have seen the rest is rather evident.

Analyst: *Lars Kjellberg - Credit Suisse First Boston*

Question – Lars Kjellberg: Yeah, I just wanted to focus on the North American side of the business. I had a couple of questions, first of all, could you try to quantify price in kind, you will have, following the price increases in H2, second question is what does "significant positive impact" on the Profit Enhancement Program actually mean in terms of, again, hard dollars, and should we expect a full reversal of the \$40mm cost associated with the rebuilds in H1, in H2?

Answer – Jukka Harmala: Well, first of all, when we are talking about our Profit Enhancement plans as such and we have been calculating this 145mm on a going – annual rate once we are coming to the end of the program and that has definitely not been including the elements of what happens out in the marketplace and as I already pointed out, good lot of the CapEx related things have now been coming through and therefore, from the operational point of view, we are much more able to cope with the market and also take the advantage out of the improving market conditions. The cost reductions and related issues as we have seen already by now, they are coming in but rather towards the end of the program. Anyhow, when we are saying that there will be a significant improvement, I think that is the only thing we want to make a statement of, not come to any exact figures at this point of time. There are of course, good lot of uncertainties but this is a major change we are putting through and we will see all the effects now during H2. I am afraid, I am not able – it's not clever to come into any exact figures, but hopefully we are not going to let anybody down here.

Question – Lars Kjellberg: And what about the price impact in H2, should we expect you know, most of your sales should have a 5 to 8% price increase in the books from July 1st?

Answer – Jukka Harmala: Well, you know, of course that the magazine paper area that we have somewhat longer contract. So that whatever price increase is implemented it comes creeping in. So that means you can't anticipate all the increase to come in, in one go. The influence is more rapid in the fine paper sector. Anyhow nothing new, I mean, this is a very ordinary normal way of what will happen.



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Answer – Bjorn Hagglund: I think you can say that the first one, the one we have implemented now, it will probably bite rather well. Then it depends, of course we have made lots of rebuilds that would be start up qualities, if this is that you have the pulp pricing, you have lots of things coming in, but anyway it will bite rather well. The second one, first it's just an announcement so it's rather uncertain and second it comes in the middle of the season when most magazine contacts are locked.

Question – Lars Kjellberg: Could you quantify that, how big a share do you have on spots in that business?

Answer – Bjorn Hagglund: No. I mean, I don't know that straight off so to say. But it is a major part that is on contract.

Question – Lars Kjellberg: Alright. And the third question now, should we expect the full reverse for the 40mm that you had in incremental costs now that you have done those rebuilds would that imply that you can actually run those 60,000 tons.

Answer – Jukka Harmala: Yes, more or less.

Answer – Bjorn Hagglund: That's why when I was commenting on the performance between H2 last year and the one now this year and without this 40mm our figures have been pretty comparable and therefore you may anticipate this effect to come in later on.

Question – Lars Kjellberg: Understood. One final question, follow up on the associated line. Could you try to quantify for us the furthermore sustainable effect from Berkvig and Tornator going forward what should we expect? That should be fairly stable earnings, I guess?

Answer – Esko Makelainen: Yes, as we have said earlier Berkvig annual impact is some €20mm and Tornator is one third of that.

Analyst: Denis Christie - Goldman Sachs

Question – Denis Christie: If you could confirm on the North American operations included in the lot there, is there the \$40mm rebuild? I didn't understand what you said about that in H2 – in H1 that is?

Answer: Yes, it's...

Question – Denis Christie: It's included?

Answer: Yes.

Question – Denis Christie: Okay, second, I mean, secondly, if you could just tell us a little bit about the contract lengths for the coated magazine papers in North America just to give us some idea if the second price increase is effective, how long do you think it will take for that to come through?

Answer – Bjorn Hagglund: A very normal length of contract in North America on the magazine side is six months. And it's very often so that they start 1 June or 1 July and go to the year end.

Question – Denis Christie: Okay, and then, lastly if you could just tell us a little bit in Europe on the coated magazine side. At what sort of level of operation rates would you expect the industry to gain sort of pricing power, when you might think that might happen?

Answer – Jukka Harmala: I mean, we are, according to our opinion and so to say except the statistics, etc. the current operational rate is somewhere 87 to 90 and we think you need a little bit more than that.

Analyst: Mattias Sjodin - Carnegie

Question – Mattias Sjodin: A couple of questions, first on the packaging board side. What kind of price increases are you seeing in the offshore market and what percentage of the packaging board is offshore sales? I guess you would - bleachboard prices are up about \$50 during the summer here. Secondly, if you could say something, you seem to be running really flat out in North America and given the strength of the markets there, couldn't you increase your fine paper, magazine shipments even some orders to the US and maybe through that with some increase to monitor your facilitated price increases in magazines that you can't see right now? That's my questions.

Answer: why don't you start now with the packaging.

Answer: Yeah, on the first question to be honest, Mattias, I think we have to look a little bit in our books etc. it is a significant part that is offshore but how much of this moderate price increases that really are there, it's not something that we can answer straightforward.

Question – Mattias Sjodin: But you would define it as moderate? It's not like ...?

Answer: It's moderate, so I mean it's not any big swing in that so to say, it's more a sign that the general global market is strong and that you get some compensation for the dollar flow so to say. So that is one part, the second one about the magazine grades and why not exporting and so on, I mean if we look upon generally now, the



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magazine business and overseas, I'd say that in newsprint due to the low and long time, low price level it looks not so stupid to send it overseas. In magazine it's a little bit different.

Question – Mattias Sjodin: Okay.

Answer: It is clearly a better business to sell in Europe anyway.

Question – Mattias Sjodin: I agree that the operating rates seen from a CFP point of view to be lets say 87, 89, 90%, but the smaller producers, they are already running basically flat out, like SCA, Norske Skog, Magazine so it boils down to it's SCA and UPM that has the potential pricing power, from my perspective at least, if any companies choose to really, try to drive prices herein and you seem a bit more cautious than UPM, maybe for the right reasons. I just want to get the feel for what's going to happen here.

Answer: We stand for our view, and that is that the capacity of the European industry in this specific grade, coated mechanical reels is higher than the amount still and that the difference is a little bit too big just now to permit price increases. We charge for other reasons when motivated, and if other producers which we know they have a little bit more optimistic view upon it, there can be many factors behind that. But we are anxious even if we give a lot of positive picture of the market conditions we want to show you all aspects of it.

Analyst: *Thomas Brodin - Smith Barney*

Question – Thomas Brodin: First of all if you look at the North American market now when you are announcing price increases you are putting the coated papers together for every price increase. Do you see any difference between these grades in outlook in the coming two years? And the second question relates as well to North America; with UPM-Kymmene having at least started a feasibility study of building a new magazine paper machine in Blandin Paper, would that change the competitive landscape in North America so that maybe you or other players would consider to build a machine as well and maybe close down some old machines to be cost competitive.

Answer – Jukka Harmala: Well starting from the latter question, first of all time will show what new capacities will come on stream and we have been very much concentrating now on the Profit Enhancement plan including also the rebuilds in that program rather than starting to plan something totally new ourselves. And that's the one thing I can say at this point of time. Anyhow if somebody is coming out with new capacity then we are hoping about two plus years from this point on and it might be a again a different market, different cycle. So, I think it's not worth speculating about it at this point in time. Then the two grades, Bjorn would you like to comment on those.

Answer – Bjorn Hagglund: In a two year perspective I mean there are a number of fundamental uncertainties. I think that the demand side, given what is happening around – it doesn't look too bad. Magazine grades and coated fine grades, they are fast growing, they seem to have a good future, and many of the products where they are used are also rather fast growing. The problem to judge for instance, what will the impact of the Chinese, wood-free coated industry be? Will they consume this themselves? What will the Koreans do when the Chinese build their industry up? So, that's so to say the fundamental with pre-coated. Question mark. The magazine grades I mean I think there the strategy is less but of course what you have mentioned, Thomas, the Blandin machine, of course it has some impact on the market – especially on the industry's pricing power depending if something like that is realized or not. But I would say that the general answer to this is you look in an over perspective, I think it's mostly the supply side of the fine papers.

Analyst: *Harri Taittonen - UBS*

Question – Harri Taittonen: Just related to the price increase announcement, the second price increase announcement in the U.S. which you have just made, is there any sort of indication from – sort of feedback from the customers yet? And have you heard or seen if any other peers of yours have followed?

Answer: No, not yet. I mean, this came out yesterday.

Question – Harri Taittonen: And this was purely you informing without sort of first checking what the market sort of, is like?

Answer: No more comments. It came out yesterday.

Question – Harri Taittonen: Yes. After the first price increase, have you seen any changes in the order inflow in the U.S. or any signs of re-stocking which would have taken place before the first price increase?

Answer: I mean, our order book situation in the U.S. is basically very healthy.

Analyst: *Olof Grenmark - Handelsbanken*



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Question – Olof Grenmark: A general question, coming back to where you started saying that the bottom of the cycle seems to have been reached. If you were to pinpoint one reason, the main reason why you come to that confusion now, what would that be?

Answer: If you are first making a reference to some of the comments we made earlier, not probably directly, in the press release here, where I've had an opinion of similar kind earlier when there were some signs of improvement. And yet it never materialized on the contrary. Now, what is different today, first looking at North America, the ad spending has to be very strong. It's been coming up and all the forecasts do point this to continue as well and it's well in print media this time, which was still a little bit speculative development when we were speaking about the bottom of the cycle, more than say about a year and a half ago. And certainly the overall GNP forecast and the part short-term development has been encouraging. Europe, we are lagging behind timewise, even traditionally have been the case, but we have seen clearly the demand picking up even though the pricing element is still somewhat uncertain, as explained already here with some grades. I think that there are good reasons really to come to this conclusion early, touching this thing very, very briefly now.

Question – Olof Grenmark: Okay, thank you and second question, regarding pulp. As we speak, end of July 2004, would you say that the pressure is upwards or downwards on pulp prices right now, so to say.

Answer: I mean this is the wrong time to put the question Olof. I mean, this is summer time traditionally and everybody says that what way this goes will be decided when the real season starts after the summer.

Question – Olof Grenmark: Okay. But if you could just add any flavor to it, except for the normal seasonal effect, do you see something special in the markets let's say?

Answer: No, I mean – the general – and it has been there – there have been two ambients actually which have been driving the pulp price. One is China as with all raw materials, the other is that paper consumption has increased and of course that also now increases the pulp consumption. Then you come to limit when it's just the order books that get longer, but we are not there yet really with every grade at least.

Analyst: *Paul Griffith - Goldman Sachs*

Question – Paul Griffith: Your net debt declined pretty significantly in H1 and it wasn't from cash flow, it looks like it was rather from debt that was de-consolidated with the sales of presumably your timber assets and so my question is, with that sale, how much debt did you de-consolidate?

Answer: Actually, it was sold in such a way that we created a company which then bought shares from us. So, we didn't transfer debt from ourselves but we released all in all it was 1.2B.

Question – Paul Griffith: Okay, and now you continue to own, I think it's 43% of those timber assets and have long-term contracts there?

Answer: Yes, that's correct, yes.

Question – Paul Griffith: Okay. So I guess that technically you de-consolidated this 1.2B of debt, but how should we think of that? I mean have you, do you still support that debt, because of the share holding of these contracts?

Answer: No, it's created as an associated company and accordingly, we are taking share of the profit, of the company's profit into our books. So, it's equity accounting.

Question – Paul Griffith: Right. So is there 43% of that debt on your balance sheet still or is it completely off?

Answer: No, it's totally off. The only thing we have is the share of equity, book value equity now on our balance sheet.

Question – Paul Griffith: Okay. Okay and, I mean, not to push it too far but you still own a significant share of the timber lands and you do have these long-term contracts which I assume are important to you. So is it reasonable to assume that you would still be supportive of that debt even though it's not on your balance sheet anymore?

Answer: They have lots of assets so that they can take care of all those debts by themselves.

Question – Paul Griffith: Okay.

Answer: And there are of course no guarantees for the loans they have been taking up from the marketplace. It is pretty clear cut. Of course, we have agreements on buying wood from them and that's something we definitely do need.

Answer: And daily.

Question – Paul Griffith: Okay. Okay, and then last question is in your cash flow statement change in working capital was a pretty big number, you used 445mm of cash in working capital. Can you just clarify what was going, what's behind that?

Answer: Yeah, in the last quarter, our working capital increased partly due to increased receivables vs. – has been higher than earlier, partly due to the fact that we had some raw wood stocks and other raw material inventories. And then a small part of that increase was due to increased value of finished product inventories as well.



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Question – Paul Griffith: Okay. And do you think you'll be working – will that reverse in H2, do you think? Will you be able to make that cash up in H2?

Answer: That's possible that inventories might come down a bit from the level we have today when markets are improving further. And then our payables were lower than normal at the end of H1.

Analyst: *Charles Spencer - Morgan Stanley*

Question – Charles Spencer: Could I just ask you to recap what the second price increases in North America were for what grades please?

Answer: It was for an FCA plus coated mechanical reels all the grades we make there, subgrades and for coated woodfree or free sheets. Their magnitude is 50 to 60 dollars and it's from the 1st of September and was announced 27th of July. And it will bite, so to say, it will be relevant, to take a more neutral word, for the fine papers and for the rather minor spots part of the magazine grades.

Question – Charles Spencer: And have any other producers that you know of also announced a second price increase for September?

Answer: We don't know yet, that, I mean we have announced this yesterday and it's still not more than the morning in US.

Question – Charles Spencer: Right. With that in mind but even perhaps without those second price increases, would your call for a breakeven in North America by mid 2005 not appear quite conservative? Excluding the special costs in H1 you are running with the losses of about 50 euros per ton in North America, should we see you got to breakeven in H2 considering you have 50 to 60 per ton on June pricing?

Answer: Things don't change just overnight. So, on a half year basis, we say we do anticipate a significant improvement and does not include the element of coming to black. Whether we make it on a monthly basis later in the year, time will show.

Question – Charles Spencer: Can I ask a question just about your long-term strategy in Brazil? Do you view Brazil as just a source of low cost pulp, or could you envision a day when you are making paper and either exporting to Latin America – making it for the Latin-American market or exporting it?

Answer: I mean, our main aim in South America or Brazil at the moment is to now fulfill the Brazil project. But of course as we have presence there, as we see this is an interesting continent. We are carefully also looking are there any other possibilities long-term. So, you can't exclude it.

Question – Charles Spencer: Would that include any potential acquisitions in the region, do you see anything of interest there?

Answer: I mean, this is of course a strategic question. And perhaps more aimed for a longer and more targeted discussion, but in large if something suitable should come one day, sure.

Question – Charles Spencer: Yeah. Thank you. And finally your forestry de-consolidation, is it now complete? Should we assume that your forestry sales that we saw in this quarter is your sort of run rate going forward or should this come down with the de-consolidation?

Answer: Nothing major or similar than we have done. We have sold our forest assets and those are the main things.

Question – Charles Spencer: OK. Because I was expecting the revenue in Q2 in forestry to be a bit lower than it actually was, but your guidance is that it sort of continues at this run rate?

Answer: Yeah, we study these properties on running rate.

Analyst: *Ruy Lopez - Merrill Lynch*

Question – Ruy Lopez: Yes, hi. Going back to your volume growth, you show here your volume growth off about 8% in your paper division with compared to U.K. more and reel that are around 4% year-on-year volume growth. Does this mean that are taking a few more of recovering market shares that eventually had been lost over the past years with curtailments instead of stabilizing or increasing prices?

Answer: I think that, if we look upon us and the volumes, I mean part of it of course comes in Europe, but I don't think that – I think more on the contrary that we really tried to work on the price side, but in magazines, we have somewhat increased the export overseas and of course when we start up a big mill like Langerbrugge it means that we had to send significant amounts of newsprint overseas which makes this picture the way you talk about it. But we are not taking market share with prices, for sure.

Question – Ruy Lopez: Okay, so that has nothing to with the fact that you are not announcing yet magazine, or being more cautious on magazine paper price rises but it's nothing to do with that?



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Answer: Nope, not at all.

Question – Ruy Lopez: And second question, if you don't mind, in regards to your associates, I didn't really understand, you mentioned your full year estimates to be around \$20mm from Berkvig was one third of that from Tornator and just to Q2 we have associates of 70mm and so these 70mm just Q2 would need to come down if we are to get that full year contribution from associates of 26, 27. Do you believe that's correct?

Answer: Yes, those figures I gave are on a more constant basis, and we had some returns, which are more financial related in this, Tornator figure in Q2 but you could use this; 20 and 7 as a guideline for continuing operations.

Question – Ruy Lopez: That would be this year? Of course next year we have almost one more quarter of Berkvig contribution so these would go up from the 27, and next year should be even higher than that?

Answer: No, this is annual guidance.

Question: Annual guidance, okay, thank you.

Analyst: Morten Eismark - Danske Equities

Question – Morten Eismark: Thank you, my question has been answered already, but I still wanted to ask if you could give us a bit of guidance on the tax rate for the remainder of 2004 and next year following the reduction of the Finnish tax rate by 2005?

Answer: Yes, the guidance is that the tax rate is 31% for current year and it should remain 31% or 30% for the next year as well. Depends on the allocation of the properties. If we are getting more with the returns on North America where tax rate is higher then I can't promise that tax rates, total tax rates would come down from 31%.

Analyst: Linus Larsson - ABN AMRO

Question – Linus Larsson: My first question I'd would like to come back to the personnel costs in North America. Given the escalating costs of employee benefits that you mentioned and the Profit Enhancement Program, how do you see personnel costs in total in 2004 North America vs. 2003, higher or lower?

Answer: Well, on a more general basis what is happening in North America is that these benefits, especially, the health care related benefits, they have been coming up much more rapidly than the whatever normal the course you are talking about. This escalation has taken place already for quite some time. What we can say now about H1 if we compare it with H1 previous year 2003 and bearing in mind the rather heavy reduction in the workforce. Still we are talking about a positive development coming from the wages and salaries. So far earnings was up single digit of millions of US dollars whereas the negative impact of the benefits is offsetting this. We've not been coming out publicly with any real breakdown but, this is a good guidance out of it and therefore this benefit development is something that we are definitely thankful.

Question – Linus Larsson: And my next question relates to the mid-summer costs in Finland you have at least in some quarters in the past guided for what a normal quarter would be and I think you mentioned somewhere in the range between 20 and 30mm and could you give some kind of guidance of what the costs for the mid-summer shutdowns were in the past quarter?

Answer: It's in the range of 30mm.

Question – Linus Larsson: And also if you could, just a final question on the rebuild paper machines in North America. Would you say that in Q3 these two paper machines will be able to sell fully priced paper?

Answer: That's the current situation, yes.

Analyst: Myles Allsop - UBS

Question – Myles Allsop: Hi, this is on the fine paper price increase in Europe. I was just wondering first of all whether you'd approached customers yet?

Answer: I mean this is a continuous discussion, but of course customers are aware of the trend in the price here.

Question – Myles Allsop: And just looking at sort of earlier on this year that the price increases were attempted and they didn't really go through, particularly strongly. Are you seeing the market – particularly what's changed now? Is the market much stronger? Are order books that much longer now.

Answer: Yes, they are longer and I mean, through our merchants we have a certain insight in what's happening and it's relatively clear that the market has strengthened significantly.

Question – Myles Allsop: Okay, and then just, you mentioned producer inventories of publication paper in some grades that were high in Europe. I was just wondering which grades you were referring to there?



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Answer: Yeah regarding the publication papers, means magazine and newsprint.

Question – Myles Allsop: Is it particularly high in all grades or just uncoated magazine, coated magazine or ...?

Answer: That's the outcome of our total inventories. From the beginning of the year our inventories have been growing in those grades.

Question – Myles Allsop: Okay, and just finally to the merchandizing business you made a small acquisition. I just wondering whether you could remind us what your strategy is with that division?

Answer: We have a general trend, that the merchandizing business in Europe is consolidated. And with necessary carefulness etc. and if we see, as we have discussed at the merchant a good opportunity, we think it's wise to take part of that trend both because we want to have that foot out in the market and also to defend, support and enhance the value of all our merchandize.

Analyst: Richard Nilsson - Enskilda Securities

Question – Richard Nilsson: Could I have a follow-up question on the associate line? Going back in 2003 you reported in some quarters negative associates of about \$9mm and remembering one of the conference calls it was said that that 9 should be at least \$9mm negative per quarter and that was Bergvik, or sorry, Tornator was already in those numbers. Could you shed some light maybe there, what kind of a total associate number we should expect not only Bergvik and Tornator I guess they are only half of the, or some of the associates.

Answer: Actually they are, at the moment the main associated companies which we have and then there would be - there is already now Sunila and Veracel will be there when it's running. As long as Veracel is under construction phase the impact is minimal there.

Question – Richard Nilsson: So on the normalized year is it correct to say that we should expect a contribution of 27 or shall we take 27 minus.

Answer: 27 plus those pulp mills.

Question – Richard Nilsson: Okay, this will be a clear positive for you, I guess?

Answer: Yes.

Jukka Harmala, CEO

Closing Remarks

- I think that there is very little to be added on what has been discussed so far, hopefully this time the outlook, I think we'll be touching the correct view on it
- The only thing I can say
- We really concentrate on and it's best to leave the rather sensitive element specific to us is that we are successful in putting through the North America related issues, very demanding ongoing six months we have now

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