MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone, and welcome to today's Stora Enso Conference Call. As a reminder, this call is being recorded. At this time, I would like to hand the call over to your host, Mr. Keith Russell. Please go ahead, sir.

Keith Russell, Senior Vice President, Investor Relations

Thank you, welcome everyone. Welcome to this webcasting conference call regarding our first quarter 2004 results, which were released three hours ago. Before beginning the presentation can I remind those that are connected to the web cast that the slides to which we're about to refer can be seen on our web site in the investor section. I'm also obliged to draw your attention to slide number two, which has some important language concerning forward-looking statements. We'll now begin with Jukka Harmala, our CEO, providing comments on the results following which Bjorn Hägglund, our Deputy CEO, will elaborate on our market outlook, and then we'll open up for questions at which time our CFO, Esko Makelainen will also join us. I now turn the microphone over to Jukka Harmala.

Jukka Harmala, Chief Executive Officer, Director

Yes, good afternoon, everybody. And regard from Stora Enso international office in London. We had a heading for the first quarter release that profitability remained weak, outlook improving. And this pretty much highlights the current way of thinking, except for one very important area for the Company and that is the packaging. Packaging has been performing pretty well in-line at a good level of profitability as generally speaking before.

The first quarter can be divided, as far as the effects to the P&L is concerned, into few items. We had higher production, we had an improvement due to the mix changes between various segments, and then the seasonal improvement in the packaging boards area. Whereas a decrease was still coming from the decline in paper prices in the very early part of this year. And another item, a vital one, looking at the P&L, is the rather extensive rebuild of one of our machines in North America as part of the profit enhancements down there.

What I would also like to highlight here, coinciding with the first quarter as a separate item is the question of restructuring of the Swedish forestland ownership. We've been informing the markets earlier about all the details, and the only thing, I think which is vital to notice at this point of time, and this because, we are looking forward is what is in the short term, the net financial effect to the P&L of the total transaction, and that is a negative 40 million on an annual basis, on an annual basis. And this as long as we have not been investing the funds into something yielding higher.
Let me then go to the financial figures. I am not going to go through any details, you all received the numbers, but on the slide number six, where we have the summary of the financials. Total sales both decreasing vis-à-vis the fourth quarter of last year marginally by 1%, whereas the operating profit on a non-recurring basis was coming up to 103 million.

You may remember we had a fairly exceptional fourth quarter last year. This current 103, it’s about half of what we had during the first quarter of last year. What is worth noting is that the earnings per share was now $0.06 vis-à-vis zero for the fourth quarter and $0.10 for the first quarter of last year. The net profit or profit before taxes, on a non-recurring basis has declined less than what has happened for the operating profit, mainly due to the financial items I am coming back to. Also on the earnings per share basis, we do have an effect coming from the fact that the share buybacks have been continuing over the period. Cash earnings per share, we are coming back to close to the levels we had a year ago, now $0.41 and certainly our debt-equity ratio after the forest transaction is extremely strong, slightly below 0.40. Our return on capital is inadequate being now at the level of 3.7%.

Then I would pick up a few items characterizing the numbers. First, when you look at the financial items, I'm on slide seven, and now we have the net interest at 42 million representing the normal interest cost we would, generally speaking, have with the current structure of the balance sheet. This very quarter did enjoy for a change now, positive elements coming from foreign exchange profits, valuation of financial instruments and also the minor item, other financial items here, all this time being positive ending up with a total net financial items only minus 20 million. Looking at the P&L, certainly the forest, Swedish forestland transaction had a major impact and this is highlighted on the page number eight. I'm not going to run it through, only to realize that a good lot of the total profit comes from this very transaction, exactly the way that we described before.

Let me then go to an element coming from the markets and that's market-related curtailments, where for this very quarter, we had actually none in North America highlighting the improvement of demand picking up little by little, but to bear in mind when otherwise it comes to our volumes in North America this massive downtime because of the rebuild of the capacity.

All in all, the total market-related curtailments did end up with a figure of 120,000 tons, which is now considerably less than we have had in any quarters last year, showing exactly what I would mentioned about the North American markets as well.

Now I am changing to page 10 with the analysis on change in the EPS comparison made between the fourth quarter and the first quarter this year, fourth quarter last year. And the starting point as you may remember was a plain zero. Like I said before, even in the beginning part of the year, we had a decline of sales prices, almost I would say all our paper products, ending up with a total effect of negative $0.04 on an EPS basis. And offset now by higher volumes and mix by $0.02.

Energy minor negative 1 cent effect and then we have a major fixed cost, in a way, improvement. This is however related to the way of IFRS accounting methods, as we had a good lot of downtime because of this compulsory Christmas period, especially in Finland, you may remember there was a decline of $0.04 during fourth quarter of last year compared to the previous and now it is in a way corrected back to normal. You have seen this up and down over time in the past, exactly, as well. All in all, with these few items we are ending up with the $0.06 earnings per share for the quarter and this certainly on the basis of excluding non-recurring items.

Let me then pay attention to the return on capital employed. I already mentioned that we are down to 3.7% for the reporting period first quarter of this year, lower than the total of last year where we were ending up with 4.5%, the last quarter last year being as low at 2.6%. We are significantly below our return on capital employed target, still remain at 13% and even below the WACC, which currently is at 8.7% according to what the annual report is telling you. Only to make a comment on the packaging boards, they are making a healthy 13% and therefore the very easy conclusion is that the paper sector by and large is underperforming vis-à-vis our targets.

Our balance sheet, onto page 13, shows the strong history we have for it and now it's even stronger, as a result of the Swedish forest related transaction, bearing in mind our target is not to exceed 0.8 in the longer term and trying to maintain also from this point of view the rather good rating, debt rating we have for the company. I'm going further to CapEx and we still maintain the overall policy of CapEx not to exceed the level of depreciation, and in the depreciation figures we continue to have only the depreciation of the assets, not the amortization of goodwill. This year, or for our full calendar year, we are expecting certainly to follow this policy, in ending up however more or less to the level of that being 1.1 billion on an annual basis. Now, I guess the very important part of today's conference is to concentrate on the market outlook and as Keith was saying in the beginning I'm now giving the phone over to Bjorn.

Bjorn Hagglund, Deputy CEO, Director
Thank you Jukka. If I start with paper in Europe, then paper in US, packaging boards, and last timber. So, European papers, the year started actually with decreases of prices of 2%, 3%, 4%, something like that in most grades. During the quarter, the volumes have improved and prices has successfully started to stabilize. If we look at the difference rates, start with news print, the volumes have increased during the quarter and especially overseas. And I think, the remarkable and perhaps a little bit good thing with newsprint is that we have seen the pricing of overseas volumes improve quite significantly, between 10 and 15% on newsprint and of course, that drives that market but it's also a good sign in the long run. As you all know, I think, pricing in newsprint is contracted for a whole year. So nothing will happen with that, but volumes are improving and the utilization of the machines are becoming better and better.

SC, I mean the grade of SC, we are in SCA+. It's not much to say about that. It's a strong market, solid volume growth and we are running flat out. Prices are stable, but pricing in this segment of the market is very much influenced also by coated mechanical reels, or LWC, and the volumes there, that's where we have the downtime, the market-related downtime, more or less in this areas. We are coming up, and they, coming up rather well. So and we also expect further growth and that the pricing now is stable after a long, long period of falling prices here.

Moving over to fine papers in Europe, the market has improved somewhat during the last month here. We think that we can more or less sail through the weaker period ahead now rather nicely, and the price increases that were announced, they have partially come true. I don't think we can call this a breakthrough, but some sub-grades have enjoyed a little bit better pricing, etc. So, it looks rather okay actually, if we look far ahead.

In uncoated it is weaker. The volumes are rather okay and we believe that this price war finally has come to an end but I would say, if we talk about coated fine papers with some positive signs; uncoated, we think it has stabilized, but it is definitely more risky, should be kept up now by the pulp prices however.

Moving over to US then, and if we start with the coated fine sheet, it's actually coated fine paper it's actually a little bit two-sided. We actually lost demand in the first part of the year here, something like 8%, but on the other hand, imports went down. So the net effect for US producers, as we are in this grade, was more or less neutral. Towards the end of the quarter, the improved economy has started to come in. We see improvements of the demand now. And that, I think you can say for all our printing paper grades in US that volumes are coming on rather nicely. Price increases are announced in many grades. We have had some since before, newsprint, $50 1st of February. It has come on partially, probably not fully. SC, 1st of April and it comes through, as far as we can see, on new contracts, on spot deliveries etc., but of course, we have also longer deals here which stay where they are. However, we think that the prerequisites for the US markets are rather good, have a generally improving economy. In dollar terms of course, the development in pulp pricing is very strong, which should underpin this. We have a great deal of deliveries to US coming from Canada, and especially in SC and newsprint should also have positive effects, and also the very positive development in the Asian markets should actually keep Asian imports a little bit less active, which should be good for the American producers, so we think that it will develop in a positive direction, but of course from a very bad place. The starting position is really weak.

Moving over then to packaging, I think it's a not very thrilling statement, it is very stable. Over the whole spectrum of products more or less, what we report is that in some of the more sensitive segments in the dollar related markets, we get constant prices in dollar but we don't get compensation for the fact that it weakened. It looks a little bit different in the food service markets, where we seem perhaps to be able to gain back somewhat, and in the liquid packaging and it's, and the gable-top, where we are a little bit sensitive for this and where we seem to have to stick

with the situation. But all in all, the market has of course, is of course enjoying a good season this quarter and the beginning of number two, and it looks business-wise market prices are stable and then of course, we have the mid-summer and such things, but that we have every year.
And last timber, you can say two different pictures, one in building construction business, which worldwide is very okay, and especially in US and Japan, but also in Europe not too bad which keeps the white wood or the spruce timber demand up and rather stable pricing in that area.

On the other hand, joiner business, visible tree, visible wood, and that's mainly red wood or pine, these markets are rather weak due to oversupply, especially from Sweden, Finland and Russia, in combination with certain weakness of the important markets for these products in the Middle East and North Africa, for evident reasons, at least the Middle East. So there is a price pressure downwards on the joiners side. All in all, I think that our best judgment is that this stays more or less as it is, but there is one positive for us, the building, and one negative, which is the joiners.

So all in all, the picture I tried to transform to you is stabilizing price increases are hopefully coming in several grades, however, as we have emphasized a lot I mean, they will come through the P&L not Q2. It will take longer time and I think that is also important to note this.
Thank you.

Jukka Harmala, Chief Executive Officer, Director
Okay, thank you Bjorn, and really very shortly to summarize, our starting point for the operating profit being slightly over $100 million, is of course much too low, weak as they call it. Now looking forward, what Bjorn was highlighting here, an overall picture is that the demand is generally improving both in Europe and North America, and not the least in Asia, having the China influence. And good lots of price increases have been announced and time will show how well and in what timetable do they finally materialize.

I already mentioned in the early stage of this conference call a change in the composition of our operating profit, and that is the fact coming from the restructuring over the Swedish forest land, this 40 million through the net profit, net effect on an annual basis. For the second quarter, we have to pay attention also to some of the typical things, first one being the compulsory holiday season downtime especially having a negative effect to the packaging business in Finland, and to some of the major paper integrateds there as well. And then we are continuing with the North American profit enhancement plan which otherwise goes according to plan, now it's time to have a major rebuild on another machine, Kimberly and will definitely have a negative impact on the second quarter numbers. All in all, with a somewhat more positive mentality we have today, we have to keep in mind what Bjorn was saying here. Whatever happens even in the best positive case for the price increases in real terms on a P&L basis, the effect comes only during the latter half of the year. This is pretty much what we wanted to start with an introduction, ready for your potential questions.
Thank you.

Keith Russell, Senior Vice President, Investor Relations
Yeah operator, we are now prepared to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much, sir. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touchtone telephone. If you are using a phone with a mute function, please make sure your mute function is turned off to allow your signal to reach our equipment. We will proceed in the order you signal us and we will take as many questions as time permits. Once again, please press star one on your touchtone telephone to ask a question. If you find your question has been answered, you may remove yourself by pressing star two.

Our very first question comes from Denis Christie of Goldman Sachs. Please go ahead. Sorry that is Denis Christie of Goldman Sachs, please go ahead.

<Q – Denis Christie>: Thank you, yes, just a couple of questions, first of all, what grades do you think you might see price increases in the second quarter? And also if you could give just some color on you know the sort of operating rates you would need to, you know, to expect prices to go through, and whether we are close to those sort of levels?

<A – Jukka Harmala>: Yeah, okay, we have, as I said, some minor things have come in, in coated papers in Europe and coated fine in Europe, in newsprint and FC North America - step by step, but still very minor. I mean, it's actually very difficult to say when exactly these things will come through, but of course we hope that some of these things will come through during Q2. I don't think we can say much more or specify on this single announcement. We do the announcement because we believe that this will work and then of course there is another side of the markets who doesn't like it, and then it is kind of a rustling along. And so far you can say that the market is rather slow.

Comment on the volumes, I mean as you saw Denis, I mean we run North America without any downtime at all, and the only grade I think we can say that we have significant under-utilization and downtime that's coated mechanical reels. The rest, it's more or less run full, and I mean, so in one way you can say that the volumes are perhaps there but it is not only volume so far, then it is a matter of how long order book do you need and things like that.

<Q – Denis Christie>: Yeah, okay, and just on, I mean on the coated mechanical do you think that might hold back some of the other price increases that—

<A – Jukka Harmala>: Let's see here, I think so, even if I must say that – I shouldn't be astonished if we see some kind of re-stabilization in these grades also just looking backwards. I mean these grades are often sensitive to good times.

<Q – Denis Christie>: Yeah, okay. Then, this is my next question just on the wood products business, which you know seemed to show quite a good performance in the first quarter. So I want to know if there is you know what sort of benefits you got from cost reduction or efficiency improvements and what you would expect in the full year from that?

<A – Jukka Harmala>: In the wood products.

<Q – Denis Christie>: Yes, that's right, yeah.

<A – Jukka Harmala>: I don't know, I mean of course I mean we take synergies and so on from this Sylvester acquisition, we are working on integrating the wood purchasing and we are making things all over the place …

<Q – Denis Christie>: Yeah.

<A – Jukka Harmala>: … but to separate out, we have never calculated a total effect of that in the way you asked for.

<Q – Denis Christie>: Okay, all right, and then just lastly, just with all the changes in the forest assets and that, is it possible to get some idea of what do you expect or what we should expect the level of associates to be going forward.

<A – Jukka Harmala>: I don't, the level of?

<Q – Denis Christie>: Of associate income going forward, because it is obviously going to change with the forest asset sales.

<A – Jukka Harmala>: Well the total number, you know, what we have been, you know, we are setting aside, what, first of all for the CapEx side, I mean what is to be invested and when has an effect to the full net effect of the total. Now, this minus 40 million we had on an annual basis, I think, it's pretty well straight over the year on an even basis, doesn't really fluctuate too much.

<Q – Denis Christie>: Okay. That's great. Thank you very much for your help there.
Operator: Thank you very much for your question Mr. Christie. Our next question comes from Mr. Mattias Sjödin of Carnegie. Please go ahead sir.

<Q – Mattias Sjödin>: Yes. Hi good afternoon. Mattias Sjödin of Carnegie. Three questions. First, I read somewhere that the coated paper hikes you have announced in the US hits with immediate effect for orders placed already by this week, if you could confirm that, and how you see that being accepted by customers. Secondly, what's your view on pulp prices, will you follow this June hike? And thirdly pulpwood prices, I've heard talks about that coming up now back up, higher pulp prices, what's your thought on that and how is Bergvik going to move on pulpwood prices? Thank you.

<A – Jukka Harmala>: Okay. Bjorn, why don't you take this one for us all.

<A – Bjorn Hagglund>: Thank you. Well, I must say that, this coated paper, that direct effect of that was sure that it happens. I have not that information.

<Q – Mattias Sjödin>: There is nothing strange here.

<A – Bjorn Hagglund>: But, I am not got that information.

<A – Jukka Harmala>: Things don't happen ....

<A – Bjorn Hagglund>: I must say, it should astonish me tremendously in the normal business climate, if it comes out like that, but I have not that information. Pulp prices, yeah we are little bit followers there, I mean we are part neutral and we follow the markets, even if we are rather large producers we consume it all, so we don't run this in any way on our own. We see how it goes, you can, I suppose you have also observed as well as we have done that there is a new force in the market and that is China more or less, that means that the pattern, the mechanism is a little bit different from earlier times. The price comes at inventory level and at cycle shapes that it has not done before. Pulpwood prices, of course we would like to keep them down and that's our attitude to this issue. I mean, if we have to increase them, we will report that afterwards, but we will try to work with pulpwood for lowest cost.

<Q – Mattias Sjödin>: But is it fair to say that if Swedish Svea (Svea Skog) and others are raising pulpwood prices potentially Bergvik would be a bit lagging in that way and maybe keeping pulpwood prices a bit lower or do they need to follow the market price?

<A>: Esko has a view on this.

<A – Esko Makelainen>: Yeah actually part of the financing package we agreed to, we have threeyear fixed pricing for Bergvik pulp, the pulpwood.

<A – Jukka Harmala>: So that is part of the whole thing. But of course, I mean Bergvik is after all, it is 4 million cubic meters, out of the 40 we need, if you look all in all. So, its 10%. So we are actually affected of all these markets. For the Bergvik part, if you ask specifically, it's like that.

<Q – Mattias Sjödin>: Okay. Great. Thank you so much.
Operator: Thank you very much for your question sir. Our very next question will be coming from Mr. Harri Taittonen of UBS. Please go ahead.

<Q – Harri Taittonen>: Yes. Good afternoon. The, could you, one question is about fine paper prices, if I look at the calculated prices as implied from your statement, they only came down by 1%, and that seems to be clearly less than the market prices overall. Is that - is there any reason for that in the mix or what happened in the fine paper division?

<A>: Yeah. It is mix.

<Q – Harri Taittonen>: That means, more uncoated or what kind of change?

<A – Jukka Harmala>: Do we have the figures exactly, Esko?

<A – Esko Makelainen>: It's the geographical mix and product mix.

<A – Jukka Harmala>: I may - transforming what Esko says, and it's both geography and product.

<Q – Harri Taittonen>: Okay. That's good then could you split the valuation instruments, which are in the finances, the positive item of 13.6, because there, I gather the synthetic option related number would have been a negative number, so there must have been something fairly positive in that, to make the whole number being 13.6 positive.

<A – Esko Makelainen>: The impact comes from the IAS related valuation of financial instruments and this time it's related to our global bond loans, hedging, all that.

<Q – Harri Taittonen>: Sorry, I didn't hear, what, was it related to the loan?

<A – Esko Makelainen>: To the hedging of global bond loan.

<Q – Harri Taittonen>: Oh, okay.

<A – Esko Makelainen>: It's not incompletely, that's fully hedging and that's why we have to show it separated.

<Q – Harri Taittonen>: Oh, okay. So it sounds like it's a bit unusually large number because usually those have been smaller.

<A – Esko Makelainen>: Yeah it's larger than we have had in previous quarter, but that is volatility in this, following this IAS rule.

<Q – Harri Taittonen>: Okay, and then finally third question, could you give an indication of how much the other curtailments represented? You give the market related curtailments which were

125,000 tons, but to give a full picture, how much did the rebuild in the US and possibly other shutdowns take out of the volume?

<A>: Well it's in the range of say close to 100,000 tons.

<Q – Harri Taittonen>: Okay, thanks very much.
Operator: Thank you very much Mr. Taittonen. Our very, our next question, sorry, will be coming from Lars Kjellberg of Credit Suisse First Boston. Please go ahead sir.

<Q – Lars Kjellberg>: Yeah, hi, a question on the rebuild at Kimberly, you talked about a 20 million roughly cost for the Wisconsin Rapids rebuild, are you seeing a similar number now at Kimberly or lower or, bigger?

<A – Bjorn Hagglund>: I dare not to make any comment at this point of time, it's, the outcome is actually twofold, part is cost related, part is the missing volumes, and it depends certainly to some extent on the market. If we are otherwise running at full capacity as the case was now the total volume is then missing we are not able to produce. So, I don't have one single number for that even in my disposal, we don't calculate it this way in advance.

<Q – Lars Kjellberg>: Understood.

<A – Jukka Harmala>: Significant number anyhow.

<Q – Lars Kjellberg>: Right. Björn you mentioned, you talked about price increases in overseas newsprint around 10%, 15%, where are you seeing this?

<A – Bjorn Hagglund>: It is, so to say, direct information from people on the markets.

<A – Keith Russell>: But I think the question is where geographically.

<A>: Asia.

<A – Bjorn Hagglund >: Yeah, where, you mean, that's Asia.

<Q – Lars Kjellberg>: In Asia, okay, and that is already implemented.

<A>: Yeah, yeah, sure.

<Q – Lars Kjellberg>: Okay, another question on currency, I thought that was partially currency related. But how quickly will you now see the impact of the stronger dollar and the pound sterling coming into your P&L?

<A – Esko Makelainen>: Yeah, due to our low hedging rate, it should be visible in third and fourth quarter already.

<Q – Lars Kjellberg>: Okay, could you also, you've also mentioned in the previous quarter that you know your fears about repatriation of tonnage to Europe. That appears not to have happened. Have you, can you give us an update on that?

<A – Jukka Harmala>: Yeah, if you look upon the publication papers and newsprint exports from Europe out, it went down for awhile but it has come back up and it's rather strong and the repatriation seemed not to have taken up that strong speed as we were afraid it should do and probably what you were on, in your former question that the dollar has actually improved again has had some effect on this. Plus of course what I said about the newsprint pricing etc. And it seems that's what has happened in say North America is that the Asians have gone home, because it's better at home while the Europeans are staying on, because it's still rather difficult here.

<Q – Lars Kjellberg>: Understood. One question, when did you actually get the cash proceeds from the forest restructuring and why did the interest rates fall so much because I gather you got the money pretty late in the quarter.

<A – Esko Makelainen>: Yeah, that's correct, we got it, got the money in March, but really the ongoing interest cost per quarter is somewhat below 40 million at the moment.

<Q – Lars Kjellberg>: Okay, thank you.

Operator: Thank you very much Mr. Kjellberg. Our next question comes from Richard Nilsson of Enskilda Securities. Please go ahead, sir.

<Q – Richard Nilsson>: Just two questions, first on Bergvik Skog and its cash flow, where in the cash flow statements do we see proceeds from the sale coming up?

<A – Keith Russell>: Yeah, the question was where are the proceeds from Bergvik showing up in the cash flow statement.

<Q – Richard Nilsson>: The proceeds from sale of fixed assets reached 200, so I'm wondering if it's part of other items as well.

<A – Esko Makelainen>: Do you have our press release on page three, we have specification on what happened, acquisition and disposals.

<Q – Richard Nilsson>: If you look on the page number 12 there, with the cash flow statement.

<A – Esko Makelainen>: This is, yeah, this page 12 is done according to IAS rules and to, it's split in different lines there, that's why we decided to take on page 3, separate that column to show where it is, and how much it is.

<Q – Richard Nilsson>: Okay, great. And then also just finally, on fine paper, you and others have announced the price hike and these seem to have had some success with it. But could you allude to what kind of operating rate you have at the moment and I gathered that is below the level of uncoated fine paper. And I'm a bit puzzled why, for example, you aren't trying to hike prices in uncoated. Could you for example, elaborate on how much higher imports are now, compared to before, because looking at, as I said, the fine statistics, they don't seem to talk about much rising imports, but there's a lot of talk of rising imports.

<A – Jukka Harmala>: Yeah. But it's also how the market happens to work, I mean the order books are not that different, of course, uncoated is somewhat above the formal capacity of the European industry and coated is a little bit below, but they are both in the range of three weeks, a little bit less for coated - for uncoated, so that's it. But I mean, if you have that kind of price war situation that we run into, that, yeah, some producers are going into existing customer bases, with very much lower prices, then you get this effect and it does not matter how really how the order books and utilization rates look as long as it's in reasonable shape. So, I would say that this is a little bit out of the rule book, but it happens.

<Q – Richard Nilsson>: The aggressiveness is also from your fellow Europeans I guess.

<A – Jukka Harmala>: Yeah.

<Q – Richard Nilsson>: Not only non-Europeans.

<A – Jukka Harmala>: No. But this, I think we have explained this earlier that there was kind of a strong inroad from the East on these papers and that has happened and the landscape has, due to this war, changed a little and now we hope that it stabilizes and starts to improve if we look ahead. But still this is the weaker part in spite of the fact that the order books are a few days longer.

<Q – Richard Nilsson>: Could you shed some light on what kind of operating rates you would have today in coated fine in Europe?

<A – Esko Makelainen>: We don't publish the operating rate. We've only been for quite some time talking about the market related curtailments.

<Q – Richard Nilsson>: Okay, great, thank you.

Operator: Thank you very much, sir. Our next question is Mr. Thomas Brodin of Citigroup Smith Barney, please go ahead.

<Q – Thomas Brodin>: Yes, Thomas Brodin of Smith Barney here. Two questions, looking at the - or listening to what you have to say on the outlook, it sounds positive in a number of different regions now. If you should single out one region in the world that you feel the best about the outlook for the coming twelve months, which one would that be? Second question is, given now that the market is strong and volumes are up, and I would then assume that you are utilizing Langerbrugge at relatively high operating rates. And I'm just wondering, in terms of returns by any measure that you, by your choice, how is Langerbrugge stacking up within the group if you compare it to Hylte, Kvarnsveden, and Sachsen Papier, for instance. That specific machine.

<A>: Well starting from the latter one, we have certainly not been publishing any returns on a single machine basis and especially bearing in mind the division of labor to call it between various outlets we have, so it would not even be – it could be even misleading. Langerbrugge, as such, has started well; it's up to what have been planned so far and only after few years could we actually start speaking about the returns. I mean this is too short a period to say much further. Coming to your first question one single region in 12 months, I mean we probably don't disagree on saying that it definitely Asia, how does it have an influence to our operations in the long-term in Europe or in North America will be seen. In a more traditional way of putting it, I still do believe that North America eastern area where the upturn should start, and then be followed by Europe. And again, this time pretty much focusing on the overall activity in the economies.

<Q – Thomas Brodin>: Okay. Thank you.

Operator: Thank you very much, sir. Our next question comes from Mr. Olof Grenmark of Handelsbanken Capital Markets. Please go ahead.

<Q – Olof Grenmark>: Good afternoon, Olof Grenmark for Handelsbanken Capital Markets, a followup question regarding this Kimberly stoppage. Could you indicate if we could expect similar stoppages now in North America, now when you go through with this cost reduction program in North America, which should be completed by mid-2005. How many more stoppages should we expect?

<A – Jukka Harmala>: Brush up my memories now. These two are really the major ones, having a major impact, in other words to the numbers, and they are both also pretty demanding in the way that the products are, to come up to a level of quality. It always takes time, that has certainly been anticipated, but the others we still have on the line, we have – this bit on 26, and that is mostly – if I remember correctly the downtime, which has to be taken would go for the year 2005. I'm not 100% sure about this but that's my – what is in my memories now.

<Q – Olof Grenmark>: So if I understand you correctly, in the coming 5 quarters we shouldn't see any major effects beside just the effect in the second quarter?

<A – Jukka Harmala>: Well, the second quarter, I said this new rebuild is done, and before it is fully on stream up with the qualities, time will show how quickly it comes up.

<Q – Olof Grenmark>: Okay, thank you and a followup question to Mr. Hägglund's comments on the overall pulp cycle, you were referring to China and the Chinese effect on the pulp cycle. If we were to look at basic industry as a whole, we are currently seeing some weakness in the steel and metal area in terms of basic industry products. Do I understand you currently that you are not seeing anything like that in terms of pulp?

<A>: No, it's of course a little bit different, difficult to judge, what comes from where. But the, volume-wise firming up now all the global paper markets, which I think we can talk about of course has a positive impact on pulp sales, volume-wise.

<Q – Olof Grenmark>: Okay, thanks.

<A>: I mean it is a little bit wider move than when you talk about China and basic metals.

<Q – Olof Grenmark>: Yeah, okay thanks.

Operator: Thank you very much sir. Once again, if you would like to ask a question or if you have a followup question, please press star one to signal. As a reminder, if you are using a speakerphone with a mute function, please be sure your mute function is turned off to allow your signal to reach our equipment. Our next question comes from Mads Asprem of Merrill Lynch. Please go ahead.

<Q – Mads Asprem>: Thank you, on the possibility of your shipments or sale in North America, I wonder how your Oulu Mill stacks up compared to your Wisconsin Mill supplying coated wood free to the East Coast of America, that is my first question. Then on your minorities, you have 4 million of cost there, where do you have those, where are those minorities related to? On your associate and I guess that's your major associates assuming that they're a Veracel and Tornator and then you had $9 million loss there. Can you tell us where this loss is coming from and what we should be expecting going forward.

<A – Bjorn Hagglund>: Why don't we start with the first one, Bjorn here, vis-à-vis North America.

<A – Jukka Harmala>: But I would say that we don't answer that, I mean, it's rather deep in our secret box how different grades go within a sales portfolio like that and we never answer it.

<Q – Mads Asprem>: It has been important for us to try to know if it is profitable or more profitable for European companies to supply North America still than it is for the, should we say the indigenous US producers.

<A – Jukka Harmala>: And we still don't answer that specific question.

<Q – Mads Asprem>: Okay, thank you.

<A>: Have you picked up the answer for the latter one?

<A – Esko Makelainen>: Yeah, those minorities we have in our group companies, they are – those companies are Corenso and we have still some small minorities in Suzhou.

<A – Keith Russell>: Did that answer your questions, Mads.
Operator: Sir his line is disconnected and he's gone back into the queue. Sir if you do wish to speak to us again please press star one. Our next question comes from Mr. James Ravine of Barclays Capital. Please go ahead sir.

<Q – James Ravine>: Yes, following recent improvement in your financial profile, your gearing now looks pretty low on a historical basis. Does this mean that you are now preparing for some substantial increases in investments in the CapEx plans, or only in line with depreciation, does that therefore imply that some large acquisitions might be on your agenda?

<A>: Well, you are certainly correct in saying that the balance sheet is very strong today. We have not changed our CapEx policy in the first place. We still stick to the old one, CapEx not to exceed the level of depreciation, no changes. Then when it comes to the proceeds we have received from the restructuring of Swedish forest, the way we have been elaborating is that those funds can be used for new strategic openings in areas where we have not been traditionally working, emerging markets in a word from our point of view, and that doesn't include Europe or North America, rather going east, Russia or elsewhere there, South America, Asia and in very broad terms. We are certainly going to keep up a record on this and see how things are developing, over time we will see what happens. Then when it comes to M&As, we have been repeating our main policy as to the growth in the more traditional areas we operate in would be mainly based on M&As. And this policy has not been changed even though nothing has been materializing. And we are working in this field, but according to the financial rules we have been coming out with several times rather sharp one, on, on Asian front. So whether you may or may not anticipate something happening, if it happens it happens according to well published lines, I said before. Then there is one element to be added from the shareholder point of view and that is certainly that we do continue with the share buybacks and you are aware of the present legal limit we have, what we have done in the past and certainly this is an area where we can continue with, depending on what otherwise is happening in the world.

<Q – James Ravine>: Yes, thank you. Can I ask one further question on asset prices in the industry, it seems to me from your comments about outlook that most of your markets seem to have bottomed out. Do you think that asset prices in industry are now quite cheap?

<A – Jukka Harmal>: Extremely difficult to say. And what we have seen and especially in North America even at the low point of the cycle, the valuation of the companies have been higher than what we have in Europe, not justified to my mind as an opinion, but as a fact coming out of the markets. And certainly it reflects I would assume also the pricing of assets to some extent. But of course whatever happens, every single possibility or deal, whichever way it materializes, is a thing of itself.

<Q – James Ravine>: Thanks very much.

Operator: Thanks very much, sir. We have a follow-up question from Mr. Mads Asprem of Merrill Lynch. Please go ahead, sir.

<Q – Mads Asprem>: I thank you again. Then on this other items associates, could you tell us where you are incurring this largest associate losses, I think it was minus $9 million in the first quarter? And then to this M&A questions. Everybody in the industry is now, is making profits at the moment. I wonder if you have some guidance, with regards to EBIT-to-EBITDA, where you would like to make acquisitions and if you can share with us your thinking on that and on what type of criterias you would be using at the moment in making that decision. Obviously very few companies make much money at the moment.

<A>: Well, I can, if starting from the M&A related issue, I only repeat what have been said before, and perhaps starting from the EPS and cash earnings per share point of view, what we have said is still valid, it has to be accretive after one year. On the other hand, we have this general requirement or target for the return on capital employed being 13% over the cycle. Again, here what we have been emphasizing before is in the immediate future, we must reach the cost of our capital. So, with these guidelines or yardsticks we actually do evaluate possibilities.

<Q – Mads Asprem>: Have you considered reducing your 13% return on capital employed? That is extremely high in the current interest rate environment, with your long rate being almost 8% maybe below now, for sure?

<A>: Well we've certainly had a discussion from time to time on this and when it was established the interest rate level was definitely higher than what we have today. Last time - it was really - they made it topic for discussions we decided to remain it, mainly in view of our belief that especially when it comes to our European capacity, still even if we've had this difficult years, this 13% is achievable. But on the other hand, whether it should be tied, I'm now more on a philosophical basis, to the overall interest rate level might not be a bad idea, but we have not made changes at least up 'til now.

<Q – Mads Asprem>: Thank you.

<A>: It's today of course very demanding.

<A – Esko Makelainen>: And then this associated company result, it was 2.3 million euro loss and that comes from our Tornator company which makes profit on its normal operations but we have interest rate hedge in there which has to be valued according to IAS as well.

<Q – Mads Asprem>: On this hedge, talking about that, you had, where you had the loss of, I am sorry, a gain of more than 10 million. How does that hedge work with the interest rate presumably that's linked to the interest rate level from quarter-to-quarter, isn't it?

<A – Esko Makelainen>: Yeah it's interest rate hedge, yes that's correct.

<Q – Mads Asprem>: So you gain when the interest rate goes down, is that correct? And you will lose when interest rate goes up?

<A – Esko Makelainen>: Actually it's on the contrary. We are gaining even the interest rate goes up. Now when long-term interest rate is low as you value mark-to-market this gives this valuation difference.

<Q – Mads Asprem>: Oh okay.

<A – Esko Makelainen>: It's non-cash.

<Q – Mads Asprem>: Okay. Thank you.

Operator: Thank you very much sir. It appears that there are no further questions at this time. Mr. Harmala, I would like to turn the call over back to you for any additional or closing remarks.

Jukka Harmala, Chief Executive Officer

Well, thank you for joining us today. Normally trying to say something constructive or clever this time, I would ask everybody to join the future time for our time is up. Looking forward to really a turnaround in the cycle. Thank you.
Operator: This concludes today's conference. We thank you for your participation and wish you a good day.