



TRANSCRIPT SERVICE

Company	Stora Enso OYJ
Event Type	Q4 2004 Financial Results Call
Ticker	SEO
Date	3 February 2005

Introduction

Keith Russell

Senior Vice President, Investor Relations

Welcome, everyone, to our conference call and webcast for our financial results for the fourth quarter and for the full year 2004. The press release covering the results was issued about three hours ago, and we trust that most of you have had the opportunity to review it. For those of you who are not listening via the webcast, the slides can be accessed on the investor page of our corporate website. However, please note that this set of slides replaced an earlier set that was used for a press conference about 45 minutes ago. On the cover page of the set that we will refer to now in the webcast, our three colleagues who will be presenting today are listed: Jukka Härmälä, our CEO; Björn Häggglund, deputy CEO; and Esko Mäkeläinen, CFO.

Following a brief presentation of the highlights of the results, we will have our usual Q&A session. Finally, I need to draw your attention to the notice regarding forward-looking statements. With that introduction, I will now hand over to Jukka Härmälä.

Summary of Q4 and 2004

Jukka Härmälä

Chief Executive Officer, Stora Enso

I. Overview

Hello and welcome to our conference call. We are actually speaking from two locations – Björn is in Stockholm, and Esko and I are here in Helsinki. According to our normal practice, you have received a set of slides. I am not going to run through every single one, but will pick up on some of the most important ones. I will cover the fourth quarter first, the full year – especially North America, and finally the forward-looking items, market outlook, and our final conclusions.

II. Q4 2004

1. Highlights

Typically for the fourth quarter, our results are falling, as they have done every fourth quarter in particular. Compared to last year it is a similar quarter, bearing in mind that there is a structural change in the numbers in our Swedish forest ownership at Bergvik Skog, which comprises about €25 million of the total. In other words, we had a very similar quarter to the year before. All in all, earnings per share was a meagre three cents, making a cash earnings per share of 38 cents. Typically for this quarter, volumes were on their way up. On a quarter-to-quarter basis, this was about 5.5% but, compared to a year ago, it has risen by as much as 8.4%. The respective sales changes were 6.9% and 7%, describing how volume-driven we have been.

We saw a few effects on top of the compulsory stoppages and the financial effects of those. Typically this time, the harvesting conditions in the Nordic region, including Sweden, Finland, Russia and the Baltics, have had rather bad weather conditions. This has resulted in somewhat increased total wood costs. We shall not run away without saying that – particularly towards the end of the year, when the dollar was falling – it had a mathematical and also some indirect impact on overall development, the effects of which have already been quantified.



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2. Transaction Risks and Hedges

I would like to comment on the way that our transaction risks and hedges are running now. First of all, the net operating cash flow, in dollars, has been increasing fairly significantly, and is now in the range of \$1.5 billion. You will see that our hedging percentages are fairly low; they are expressed on an annualised basis, however, and our present practice is not to change the policy itself, but to have about 40% coverage, but only for a duration of three to four months. Therefore, the numbers are somewhat lower.

3. Change in EPS: Third Quarter v Fourth Quarter

Continuing the comparison of the third and fourth quarters on an earnings per share basis, we can confirm that the sales volume brings in some four cents, which also includes the mix; whereas, over this period, prices had no direct effect at all. Wood costs are taking it down, energy being one of the somewhat increased cost elements. By the way, energy is not really electricity; it is oil-related, either directly or due to some freight-related additional costs because of higher oil prices. Again, for the last quarter of the year, the fixed costs number is high at six cents. This will be corrected back to so-called normal when we are running full again, next quarter. That is how we have come from 10 cents down to three cents, for the last quarter of the year, making a very low return.

III. Summary for 2004

1. Key Figures

In terms of key figures for the three consecutive years 2002-04, volumes went by as much as 6.3% over the previous year, whereas the sales figure only increased by less than 2%, highlighting how the price basis was developing over the year – no news, as such.

I would like to comment on the operating profit to remind you of the structural change. We had a decline of about €190 million, out of which about €80 million comes from the Bergvik Skog Swedish forest ownership structure change, which should be kept in mind when comparing these two years. All in all, on a full-year basis, we ended up with 25 cents earnings per share, one cent up from the previous year. As we have indicated earlier, a lot of non-recurring items fell within the calendar year, increasing the total earnings per share to 89 cents.

We still finished the year with a strong balance sheet: a debt-to-equity ratio of 0.38 and a return on capital employed (ROCE) as low as 3%.

2. Change in EPS: 2003 v 2004

Sales prices over a calendar year period have declined by as much as 29 cents. Even if the price level was stabilising towards the end of the year, it was still playing a major role in the game. This is offset by volumes to the extent of 60 cents.

3. Market-Related Annual Curtailments

On an annual basis, based at the end of the year, the balance of market-related production curtailments was about half of what we had in the previous year. This is coming closer to a point of running rather full.

IV. North America

1. Summary of North American Business Results

This is reported on a half-year basis, as we have done before. At the half year, we said that a significant improvement was going to take place in the latter half of the year. On a EBITA basis, from a position of -\$130 million in the first half, we are now close to zero, our final figure now being -\$10 million. This also includes the Canadian operation's currency effect of exactly \$7 million. All in all, we are on our way up. We have now had a six-month period when no rebuilds, or anything of that type, occurred. Little by little, prices are also driving the business up. What is notable here, too, is that cash flow after capex showed a positive figure of \$39 million.



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2. Profit Enhancement Programme

The profit enhancement programme is running according to plan. To summarise what has happened so far: we have closed down three paper machines; four have been modernised and we still have two machines on the way forward. Biron Mill has actually just been rebuilt at the beginning of this year, and should come on-stream one of these days. We have decided to postpone the rebuild on the other one until sometime in 2006 due to market reasons. Overall, we are well on track in terms of a reduction of the workforce from 7,300 down to 5,000 by the end of August this year. Things are running exactly according to our earlier plans.

V. Shareholder Information

The board decided yesterday to propose a dividend of 45 cents per share – exactly the same as we had a year ago. We are now buying back shares up to about 50% of the preference limit, and will continue until the AGM. We are looking for a renewal of the limit, but if Finnish legislation is to change, the maximum would actually be increased to 10, instead of preference five, leaving more room for operating if we so wish. Now, let us finish with the past and turn to the future, with a market outlook from Björn.

Market Outlook

Björn Hägglund

Deputy Chief Executive Officer

I. Comparing Markets

First, a few general words, and then the different markets. The overall demand situation for most of our products is rather strong in terms of volumes, and it is still improving. Stocking[?] paper advertisements are increasing in the US, as well as in Europe, and US catalogue circulation is at an all-time high. In the US, the industry has regained pricing power, while pricing in Europe is improving in publication papers, but is still lacking in fine papers. The difference in developments between the continents is, of course, due to the quick fall of the dollar, which very swiftly changed, for instance, the economic terms of European paper exports. Prices at the year end were rather similar in the US and Europe, measured at the currency rate of about 1.3.

II. Different Markets

1. Magazine Paper

Magazine paper in Europe shows a continuously good demand, and is stronger in LWC compared to SC. The European industry now runs at utilisation rates of about 93%, which means that the overcapacity created from 2001 and 2002 is now started to be balanced against that demand. Inventory decreased towards the end of the year, and prices will increase during the first quarter of the year, but it is still too early to report on the outcome of negotiations.

The US magazine paper situation has really strengthened and is now tight. Two price increases, together worth something like \$70-90 million, have been implemented. The market also looks rather promising going forward.

2. Newsprint

Newsprint has also shown a strengthening trend in Europe, and improved newsprint increased impressively, by more than 20% year-on-year in the fourth quarter. In total, the increase for newsprint was about 7%, measured in terms of deliveries from Western Europe, a figure which experts have to lift by about 2%. The standard news utilisation rate is now up to about 96% – we cannot increase by much more, but some further increases are to be expected. Inventories are falling, and prices will increase during the first quarter of 2005, but negotiations are still ongoing.



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In the US, on the contrary, newsprint demand is slowly decreasing. Canadian producers, mainly, are slowly able to increase prices by decreasing production, but the situation is structurally difficult. It is worth noting that the US is an area where we do not have much tonnage.

3. Fine Paper

Woodfree, uncoated office paper had a good demand development in Europe, but supplies are still on the high side, driven by several factors such as the weak US dollar. This means that prices – in spite of the current low price levels and increasing demand – are still under pressure. At best, we expect them to stay flat for the near future.

In Europe, woodfree coated showed a good growth of about 6% last year and the strong demand seems to continue. The good demand is partially driven by exports and the currency situation, therefore, makes price increases difficult so far. High-producing inventories add to this problem. We see the overall price situation in coated woodfree in Europe as stable for the near future. As we talk about prices generally, they are on their lowest level in this cycle, and the European fine paper situation is [expressed as broadly unsatisfactory?].

In the US, the woodfree coated situation is generally better. Demand is strong and the current tightness in LWCs is spilling over onto woodfree coated reels, creating a strong order situation. Two price increases have also been implemented here, and spot prices for reels indicate that more can come. Asian imports to the US are almost 100% sheets. The situation is stronger in reels than in sheet, but still not bad in sheets either.

4. Packaging Boards

The situation in Europe is very stable in our main products: folding boxboard, liquid packaging and cigarette boards. Some price increases have been implemented in folding boxboard, but on the other side, we are losing on the dollar, making the overall situation flat. On the industrial side – container boards, laminated products and corrugated products – the situation is stable. Coreboard and tubes enjoy good market conditions and prices are gradually increasing.

5. Sawn Timber

Finally, sawn timber looks rather difficult for the near future. Demand for construction wood is generally rather good, but the weak US dollar and Japanese yen have exposed the European oversupply situation, with a lot of sawn wood supply pressing, especially from Germany and Russia. In the UK, Germany and the Netherlands, markets are weaker than the rest of Europe.

US markets were extremely strong – the strongest ever, I think - in mid-2004. They fell in the second half of the year, but have now stabilised on a level that is still rather good locally. Also, Japan is somewhat weaker. There is a slight shift in the European picture, as the redwood markets are improving a little, and at the same time, a lot of whitewood supply will result from the storm in southern Sweden, Latvia and Denmark. Overall, sawn timber looks rather difficult, it must be said. That is all from the markets, at the moment.

Conclusions for 2004

Jukka Härmälä

1. Financial Summary

Thank you, Björn. Let me finalise our introduction to this conference with a summary. All in all, we expect the full-year results to be up on the previous year's levels, driven by the markets. As you heard, the demand picture is positive, generally speaking. We will have some good price increases during the first quarter, as Björn was describing. However, at the same time, I have to remind everybody that we do have a number of rebuilds underway, especially falling in the first quarter of the year: Langerbrugge, Summa, Corbehem, and Biron in the US. Quite a number of machines will be out of operation for quite some time. Then, we will certainly continue with whatever the dollar value might be. There is a slight increase in some of the cost element, mainly in the area of oil-related energy and some chemicals – nothing very significant but this should be remembered.

Finally, there is the unknown element that Björn already mentioned: the final economic impact of the Scandinavian-Baltic storm that recently took place. As of now, we cannot estimate its effects.



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II. Improving Profitability

Although we still have very low profitability, even though it is improving, I would like to mention some elements that are underway, in view of regaining profitability, both in the short-term, but especially in the long-term.

In the magazine, or publication, grades especially, we have to remember that there are quite a few rebuilds and restructuring of capacity that have taken or are still taking place, together with some good moves in the fine paper area as well. Now it is time to harvest. Some of these will only be completed at the end of the year but, little by little, we should see their effects creeping in.

At the same time, we have realised that the cost basis is still a further driving force for the improvement of profitability on a longer-term basis. We have decided to intensify our efforts, especially in the short fibre area, but also, to some extent, in the long fibre area, in terms of what to do next with Veracel and so forth. The business in which the profitability outlook was rather bleak is the sawn timber area, and we are currently exploring other ways to really tackle the profitability issues to improve the business.

Following what Björn was saying, especially in view of the effect of the US dollar, a new world in fine papers does exist, to some extent. In the longer term, we have to find a solution as to how to be competitive, especially in the uncoated fine sector.

As I have already mentioned, we need to continue share buybacks in order to see an improvement in earnings per share. This is more of a short-term political element. With this comment, I would like to finish the introduction and we are now ready for your questions.

Questions and Answers

Denis Christie, Goldman Sachs

I would like to ask a question about the coated fine paper price: is it solely due to export repatriation that you are now not as positive as you were a couple of months ago?

Björn Hägglund

I would say that the main reason depends a little on what you mean by repatriation. If you mean that the conditions for woodfree coated paper exports from Europe have deteriorated due to falling dollar-related currencies, I think that the answer is very much 'yes'. There is an indirect effect from this that is, for instance, that the inventories have increased a little too high.

Denis Christie

Did you get any increase at all in coated fine papers in late 2004? You were trying to achieve something in the end of the fourth quarter.

Björn Hägglund

It was somewhat of a mixed bag; we had some smaller increases but we also lost some prices. Without knowing all the details, I would say that the net effect was zero. We achieved the small gains that we talked about, but some were unexpected. We also lost some small prices here and there, so the net effect was zero.

Denis Christie

Are you saying that you expect there to be some price decreases on uncoated fine in 2005?

Björn Hägglund

To be honest, we are a little bit doubtful. After very detailed discussions with everybody, our best guess is that prices will, more or less, hold, but there is risk and pressure in this situation. To this extent, there are some special elements that add to the pressure, in terms of low-cost producers in Russia and Eastern Europe which entered the market in a more aggressive way than in the last half year. Our best guess is that it will hold and it is also, perhaps, looking a little better over the last few days.



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Denis Christie

On the energy and wood cost increases that you are talking about, how do you see that going forward in 2005? What do you expect to happen to cost per tonne for the major paper businesses in Europe?

Jukka Härmälä

Referring to our annual costs and the ones that you were referring to, we estimate about 4% on an annual basis. The question for the last quarter was clearly: when did they come up and to what extent? It is not very dramatic, of course, on an annual basis.

Denis Christie

Would that translate into a cost per tonne increase of a couple of percentage points, in terms of overall cost?

Björn Hägglund

No, not that much; I would say less than that.

Mattias Sjödin, Carnegie

First, I would like to follow up on Denis' question on uncoated woodfree. I tried to find increased imports from all kinds of sources, so maybe you could add some flavour on that. Are we really seeing a clear increase in imports of uncoated woodfree to Europe, or is it more of some kind of structural change?

Also, a follow-up on fine paper: Sappi and UPM claimed that they expected to implement higher prices for coated woodfree later in the quarter, if I understood them correctly. Would you say that you disagree on that? Finally, on fine paper, could you update us on your order books for fine paper, both in Europe and the US, as of today? Thank you.

Björn Hägglund

In response to your first question, as I said, it is not so much to do with direct imports; there is some confusion of definitions here. If you look at Europe in terms of from the Urals to the Atlantic coast, it is merely things that happen within Europe. For uncoated, there are fewer exports and more low-cost production from the eastern regions, I would say. When you are talking about repatriation, it is not that things are physically turned around on the Atlantic; it is more that they are never sent away. Asian imports are much more significant in the US that they can have indirectly.

We said the coated woodfree were more stable than the uncoated; we are talking about the near future. Personally, I do not want to have any firm opinion on what will happen towards the end of the quarter – it depends on a number of external factors that we do not know much about yet.

Jukka Härmälä

However, we can probably say that we are more optimistic about coated woodfree. Here, we are referring to the fact that the first quarter has pretty much finished.

Björn Hägglund

However, it is more stable. In terms of the order books, two to two and a half weeks is the general figure in Europe. I will not refer to our specific ones. We have good order books in the US.

Mattias Sjödin

Is 'good' four or five weeks?

Björn Hägglund

I will not be more specific than that, but good enough.



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Lars Kjellberg, CSFB

I am trying to come back on coated fine paper, because you seem to have a different opinion on that. Exports continued to move up as far as December. You are presently in a situation where prices and export markets are in better shape than they were in June. Have you seen anything specific now that has worsened again and that would lead you to form a different opinion to the other two companies that were mentioned by Mattias?

Björn Hägglund

The dollar has come down; we have seen [inaudible], which has led to oversupply; and prices, at present, are stable. What then happens depends, a little, on the time perspective we have. As Jukka said, we are now in February; there are less than two months left to the first quarter, and we normally say that we see from one to one and a half months ahead, or something like that.

Lars Kjellberg

At present, then, are you not supporting the initiatives to raise prices?

Björn Hägglund

As soon as the initiatives are realistic, of course we will support them.

Lars Kjellberg

Is there any risk that you are misinterpreting your current situation, as you did with magazine paper in the autumn, when you said that you did not think there is room for magazine? Later in the quarter, you revised your view on that.

Björn Hägglund

No, I do not think so. Our opinions were a little different, but if you look at the total outcome I think it is correct.

Lars Kjellberg

That is a fair comment; if a major player does not support it, it is not going to happen. Can you give us a rough estimate for the costs that you will incur for the first quarter rebuilds?

Esko Mäkeläinen, Chief Financial Officer, Stora Enso

We have indicated how many tonnes we are losing in all of those rebuilds. The guidelines are given in tonnes, so you can estimate what the loss roughly means using average margins. This will be for magazine papers during the first quarter of the year.

Lars Kjellberg

The question is that magazine paper tends to be weak over the first quarter: could you actually produce these tonnes otherwise? I am trying to establish if it is a net loss, because you cannot run other machines fully when you have taken these out.

Esko Mäkeläinen

Our inventory level fell substantially in the last quarter of 2004 so, from that perspective, we could have produced quite a big part of that, in any case.

Jukka Härmälä

Then we have the question related to these rebuilds, and that is: how well do they start up after the rebuilds? We are somewhat more cautious about this, because it involves an element that you cannot estimate in advance. You should remember that Langerbrugge is a major change and will only come on-stream around the beginning of March. We hope that they will start well and run well; if they do not, that is another story.



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Lars Kjellberg

Would €50 million be a reasonable number to look at?

Jukka Härmälä

Let us not speak about any exact numbers, but rather that this has been pointed out as an element to be watched.

Lars Kjellberg

We have been picking up signals that electricity prices in the Nordic region are falling again; will that have any impact on your energy costs for 2005?

Esko Mäkeläinen

Very marginally, because we have long contracts covering Sweden and Finland. We do not suffer much when prices increase, but we do not gain much when they decrease.

Jukka Härmälä

When I spoke about energy prices, I took care to emphasise that they were oil-related. Electricity has been quite steady and, for reasons that Esko mentioned, they will continue to be steady. We do not suffer a sharp increase and, conversely, the short-term consequences have little effect on us either.

Lars Kjellberg

When do you expect to close contracts for the magazine and newsprint grades?

Jukka Härmälä

Had you asked this at the beginning of December, I would have said before the end of the month. The closure of these contracts is definitely later than what we expected initially, although it shows, in one way, that we have not given up and are really trying hard.

Thomas Brodin, Smith Barney Citigroup

My first question is on the ongoing restructuring: is this not a large part of this year's normal business for a large group such as yours, or do you foresee, over the coming few years, any year where there will not be many rebuilds? Second, on share buybacks, while I know that nobody really wants to tender their A shares, but do you expect to have bought back the full authorisation of R shares before the AGM? Is it realistic to think that, if you obtain the 10% authorisation overall, you will utilise the whole authorisation of R shares over the coming year within such an authorisation?

Jukka Härmälä

In terms of rebuilds, we spoke earlier about a restructuring programme which includes various elements: closing down capacity, constructing some new chains in business lines, and so on. I would not describe it as particularly normal. We made a change our traditional way of thinking, whereby we tended to upgrade and repair machines on a mill basis; now it is pretty much a thorough look. This applies to European magazines and is something which is still underway. We made a similar repositioning in much of the fine paper business, which tends to have a good effect, even in recent market conditions. The best machines are in very good shape today. In North America, repositioning of production is almost complete. I would not describe these as 'normal' issues. Other than what is already underway, we have no new plans, so the floor is somewhat emptier, from that point of view.

With regard to buybacks, we have reached 50% of the present limit. We are being cautious in terms of how much we might buy before the AGM, and the market is, in a way, the yardstick. The intention is to go forward, but I am unable to advise you as to what extent. Next year, after the AGM, if we obtain the new limit and the legislation is changed accordingly, we will be given greater room to operate more aggressively, if we so wish, but it is something that, as of today, we have not taken a decision on.

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Thomas Brodin

What would be your best feeling? Do you see this as being the best investment you can make in this environment, in terms of M&A possibilities or other options that you have within the group

Jukka Härmälä

We have a strong balance sheet and good financial leeway. The basic idea – especially now – is to explore the possibilities what could be done profitably in emerging markets, since there is little attraction available elsewhere. This is still our basic line of thinking. On the other hand, we see buybacks as a fair way of returning some money to shareholders and, as I said, we have to consider whether we want to be more aggressive.

Charles Spencer, Morgan Stanley

Could you expand on what you said in terms of high producer inventories in fine paper? Where are the inventories today versus a year ago?

Björn Hägglund

They are higher in the coated for the market generally, but I cannot be more specific than that.

Charles Spencer

Could you describe it in terms of weeks of supply?

Björn Hägglund

No – this is a level of information that we do not make public.

Charles Spencer

Your working capital outflow in 2004 was rather significant, but your summary balance sheet does not show any breakdown. Is this mostly due to inventory, or are there other items?

Esko Mäkeläinen

The main change in the last quarter was in payables. The IAS rule is rather strange; when we released the provision on our pension side, it had to be deducted from payables.

Jukka Härmälä

How much was it?

Esko Mäkeläinen

€180 million.

Charles Spencer

Could you give us some guidance for 2005 in terms of working capital?

Esko Mäkeläinen

If volumes return after these rebuilds, it might mean that some of the receivable amounts will grow due to higher sales.

Charles Spencer

Do you see payables as something you can regain control of, or inventories being reduced?



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Esko Mäkeläinen

The payables element is a one-time correction and will remain as corrected from that point onwards. It was related to the TEL pension system provision that was released.

Jukka Härmälä

I only became aware of this today and this is definitely not a normal payable working capital item. IAS highlights it and I think we have to take it as a given item.

Mads Asprem, Merrill Lynch

In terms of capex, it looks like your restructuring programme will come to an end next year; can we expect a sharp drop in your capex next year, or should we expect the announcement of some big investments for the remainder of this year? Second, your volume rose significantly; do you think there is a need to produce as such high levels when profitability is so low? Why do you not cut back on construction?

Jukka Härmälä

On capex, last year we ended up with a 90% measure from depreciation. In fact, we have not changed our general capex policy; this year, based on the ongoing projects, we are going to be somewhere around the level of depreciation, and what will follow is still undecided. We have certain sizeable amounts being spent [this quarter?] and on related items, which may still occur at the beginning of 2006. As I said, the picture is unclear in terms what might come during that year, but the main policy remains as it has been.

Mads Asprem

What are your thoughts on continuing to produce versus walking away from contracts or offers when prices are as low as they are at the moment?

Björn Hägglund

I still think that, in the current situation, with such a long period of profitability, it is very difficult to take that road alone, particularly with the relatively good assets that we have, many of which we only recently invested in. It is simply not doable to run it alone, and for it to work it must be a sense that is shared by the whole industry. The only effect, in the current situation, is that somebody else would take the orders. The whole market has deteriorated to a level where we have to pull ourselves up in all respects; it is very different to having to maintain a good level.

Mads Asprem

It seems that your volume has increased more, year on year, than Norske Skog, for example. You may have been more aggressive than them in terms of volume.

Jukka Härmälä

I do not agree; we do not really follow what other players are doing. In terms of our market share with our customers, we do not feel that there has been any significant change.

Björn Hägglund

I agree; nobody is really deviating from the plan.

Harri Taittonen, UBS

Once the issues you announced are tackled in the first half, what rebuilds and other activities will be taking place in the second half of the year as part of the restructuring programme?



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Jukka Härmälä

The first quarter activities were mentioned earlier today, and are at Langerbrugge, Summa, Corbehem and Biron. Activities are also underway at Kvarnsveden, which will be under construction throughout the year and will be coming on-stream at the end of the year. We currently have no major plans for the latter half of the year other than what has been mentioned and already underway.

Harri Taittonen

In terms of your North America operations, given the current price levels following the implementation of price increases announced last year, how higher are prices now, on average, than they were in the fourth quarter?

Jukka Härmälä

At the end of last year, prices in normal long-term contract deliveries were not much higher.

Björn Hägglund

The first price increase happened in the fourth quarter, but the second one came in October and took its effect on fine paper after some time, so that would also come in during the fourth quarter. The increase in the contract magazine business did not come into effect until 1 January. It will be half of the second, which will be the average difference if nothing else happens. It will increase if most of the magazine grades – if not all – and all of the fine paper come in rather early during the fourth quarter.

Harri Taittonen

Are you pushing for fine paper increases now, even given mixed messages from your peers related to first quarter increases?

Björn Hägglund

We think that the market, especially for coated reels in US fine paper, looks good, and that there are positive signs in spot pricing, so we will not exclude the possibility of something happening. However, this is a discussion between our customers and us.

Harri Taittonen

My final question relates to the results for forest products and wood supply, which were quite dissimilar to your estimates. Is this partly structural and related to the oversupply on the sawmilling side, or is related to weather and harvesting conditions? To what extent should we take this shortfall into account when looking at this year's earnings for those operations?

Björn Hägglund

The primary drivers of the cost increases that we suffered on the wood supply side were largely transportation conditions in southern Scandinavia, the Baltic and large areas of Finland, which meant that the supply side dried out, due to the rain. In the Baltic in particular, spot prices began to rise very quickly, which spilled into parts of the Swedish and Finnish supply. Looking ahead, that effect will disappear. Following the storms, supply was badly affected. As many of the short fibre suppliers in southern Sweden as possible will try to supply long fibres, but I think that what happened can be described as a one-off event. The situation is different now and very difficult to judge, since it could go either way. However, it is of little relevance for the coming quarters.

Harri Taittonen

That covers the wood supply part, but what about wood products and sawmilling?



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Björn Hägglund

In terms of sawmilling, I had a slightly negative outlook for the first quarter. We have a rather typical oversupply situation and the storm has already had effects, especially on the lower-quality end of the assortment. The coming months will be difficult, due to oversupply for a number of reasons, but the storm adds to it.

Richard Nilsson, Enskilda Securities

With regard to the \$145 million in the US profit improvement programme, has any of it impacted 2004 at all, or should it all come in 2005?

Jukka Härmälä

In the early part, it had very little effect. However, following several rebuilds during the first half of last year, we had well-utilised capacity for the second half, so the effect was definitely being felt. As I said earlier, the full effects will be seen once the programme comes to an end at the end of the summer this year. There is one exception, which probably has no significant impact, which is the postponement of one rebuild, apart from which we are seeing the effects on a constant basis.

Richard Nilsson

Is it fair to assume, therefore, that the incremental increase in 2005 will be around \$100 million?

Jukka Härmälä

I do not normally give any numbers, but this \$145 million will start to come into full effect at the end of August on an annualised basis.

Richard Nilsson

You said that you need to address the long-term competitiveness of fine paper; could you elaborate on this? Do you think that, over the long term, you could completely exit that business, or is it a vital part of your product offering?

Jukka Härmälä

It is a very complex area but one where increased competition is hampering the business, particularly in uncoated paper. Therefore, we have to be very good at what we are doing, and we have a wonderful mill for this product at Nymölla. We would have to consider what kind of structural changes might be needed, since the industry has many small units all over Europe. Any restructuring would not be down to a single company. We are not on an exit route when it comes to fine paper and we will see what kind of solutions can be found to make it profitable.

Richard Nilsson

You also spoke about intensifying your efforts to lower the fibre costs in pulp; Aracruz has mentioned that it is considering further expanding their pulp capacity. Do you think that could happen within the Veracel framework, or is it too early to talk about capacity expansion there?

Jukka Härmälä

It is not necessarily too early, since our partner – Aracruz – has been speaking about it. We have been considering whether to take a joint step forward, which would be a very natural way of doing it. However, questions remain around whether it is enough, and what other aspects we should explore.

Richard Nilsson

What could we expect to see in terms of a tax rate for 2005?



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Esko Mäkeläinen

The rate for 2004 was 29%; we have a somewhat higher tax rate structurally in North America but, from 2005, we are not making any goodwill depreciation, so the tax rate will decrease. Our best guidance is 28% for the current year.

Closing Comments

Jukka Härmälä

Thank you for joining us today. We are on our way up and we hope to see even further increases.

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