



Q2 2022 Earnings Conference Call

Friday, 22nd July 2022

Financial Results Q2 2022

Annica Bresky

President and Chief Executive Officer, Stora Enso

Introduction

Driving the sustainability transformation

Thank you very much and welcome to our Q2 report for Stora Enso. Driving the sustainability transformation of our societies has never been more relevant than now, we are actively doing that through our purpose, being a responsible business to do good for people and the planet and enabling the transition towards a renewable society based on the product portfolio that we provide. And I'm very happy to say that we have once again had continued strong execution underpinned by outstanding performance for this quarter.

Strong execution underpins outstanding performance

This is the highest quarterly operational EBIT since the beginning of the millennium. We have been able to successfully mitigate higher variable costs and inflationary pressures, and we have been able also to secure access to key input materials. Our partnering with Northvolt is very exciting of course, it is a significant milestone for the development towards the world's greenest battery made out of our product Lignode, and also ensuring European local supply for this strategic transition in electrification.

And we've also raised our full year operational EBIT guidance to be higher than the full year of 2021; then we landed at a result of just above €1.5 billion and we see that we can reiterate that we will be better than that with confidence for the full year of 2022.

So, as you can see, we had a strong sales execution. We have been able to increase our sales and grow by 18% year-on-year and excluding our paper business by 21% year-on-year, which is a very strong indication that the demand has been solid for most of our products during the quarter. Operational EBIT landed at €505 million which is almost a 40% improvement compared to last year. And we are significantly higher above our long-term target for an operational return on capital employed excluding Forest,. we delivered almost 23%, which is above our target of 13%.

So all-in-all, I am very satisfied that we have been able through quite turbulent and turmoil times to deliver such as strong quarter.

Growth strategy

Investing in biomaterials innovations

We continue with our growth strategy, investing in biomaterials innovations. We are all very excited that we have launched a joint development collaboration with Northvolt, one of the leading battery producers, to take part in a joint effort now to commercialise our green battery, based on Lignode grown in our Nordic forest. We are able to secure a European supply of fossil-free anode material. That enables us now to customise the product according to Northvolt needs for that and jointly make sure that we take to market a battery with low carbon footprint, a sustainable green battery.

We have a feasibility study ongoing for the first industrial production facility for Lignode and it's proceeding according to plan. We will have a decision during the end of the second half of this year. Partnering out gives us the power to drive commercialisation.

Investing in renewable packaging

If we look into investing in renewable materials and packaging more specifically, we are also meeting the demand for recycled packaging board by initiating a feasibility study for a conversion of the newsprint machine that we have on one of our paper sites in Langerbrugge to containerboard. This is a fast growing end-use. The site is very cost efficient and has good accessibility to energy solution, deep harbour and good logistical setup, and the targeting end-use is that we look at our industrials, e-commerce, furniture packaging and electronics as well as within the agricultural and food packaging.

Projecting potential sales of €350 million, it is another step that's possible in the growth strategy of our Packaging Materials division and it would be a supersized machine of 700,000 tonnes of testliner and recycled fluting.

We will conclude this feasibility study in the first half of next year and if we have a positive decision, the production can start in 2025. The estimated Capex for such conversion is approximately €400 million. So, this is another significant step in growing our renewable packaging business.

Advancing circular solutions

We are also continuing our partnering with our customers to enable them to become 100% circular and improve the resource efficiency in Europe. Together with Tetra Pak we are taking the second steps to see if a recycling solution is possible at the same site that I talked about before, in Langerbrugge in Belgium.

Investing in beverage carton recycling facility

This is targeting the recycling needs of beverage cartons for the Western Europe in Benelux and surrounding regions, and we forecast here that we would have a capacity to process about 50,000 tonnes of recycled cartons per year.

So, this is the second step, and we took the learnings from our first collaboration and joint development project in Poland, where we set up the same framework for 75,000 tonnes of beverage cartons, and that enables recycling in the Eastern Europe. So, these are really proof points of how we together with partnering in the supply chain can make sure that we drive the development of circular economy in our markets where we are active.

Update on strategic initiatives, partnerships, and collaborations

Moving now to other updates for value creation on some of the strategic initiatives that we have completed during this year or this quarter, we continue with the feasibility study at our Oulu site. And just a reminder, here we explore the expansion of renewable packaging board for consumer board applications, the decision here is due by the end of second half of this year. And we have launched a new product that's fully plastic-free packaging based on 100% virgin kraftliner called AvantForte WhiteTop for white top, the target is demanding premium segments. This is the product that is very sought of on the market and where we can get a premium position for our production.

We've also taken significant steps in strengthening our presence in the French wood products market. France is one of the big drivers for construction based on engineered wood and this is benefiting our Building Solutions business, but also our classic sawn business.

So, we have become a 35% shareholder of the French wood processing company, ACDF Industrie SAS, and we have also signed a business partnership with Bouygues securing a stable delivery of CLT to their building projects. And this is really an important step for us in gaining more presence in France which is a growth market for wooden construction.

Last but not least, we constantly want to challenge ourselves on what we can accomplish, what the tree can do actually. So, we have partnered up with Modvion, a Swedish company that's targeting to build 100 plus meters high wind turbine towers made out of wood. This is a fantastic win-win situation, renewable energy using renewable materials for the construction. This is an area where we are very excited to see how far we can push. The wind towers are replacing steel, as such they have the same durability and are more cost-efficient and quicker to construct.

Strategic initiatives

Divestments

Moving on, a few updates on the divestments. We are proceeding with the divestment of four of our five paper production sites to be able to focus on growth. And this will also give us funds to be able to fund the continuous growth within renewable packaging, building solutions and biomaterials innovation and the sales is proceeding according to plan. We are having a lot of potential buyers visiting our mills, so we are in the middle of that process right now.

And the Russian operations, from a divestment perspective; we have divested the industrial sites, the three corrugated packaging sites, and the two sawmill sites to the local Russian management, and that has been completed. There are minor formalities left for the Russian legal entities in the wood supply operations and they are expected to be completed during the second half of this year. So, I'm very happy that we are now not anymore significantly exposed to the Russian market, and that we have been able to do that in a good way, also for our former Stora Enso employees in Russia.

Resilient to energy price fluctuations

Looking now at our resilience, I believe that we are very well positioned, especially in the energy price environment that we see. Our business is resilient because we have a high self-sufficiency. If you look at the slide here, you will see that we have 70% self-sufficiency in electricity and 70% also in fuels, and if we look at the fuel split, 84% is biomass and only 4% for us is gas.

We are pushing forward investments also to get even less exposure of gas. But so far, we're using LNG gas outside of Russia for the facilities that need that. When we divest paper and we complete that, our total energy self-sufficiency will be 78%, which is a very good position to be in, especially as we see what's happening in our surrounding world.

If we look at a 10% sensitivity analysis, for us it would mean about €20 million of impact if the electricity market price changes 10% or if fossil fuel price changes by the same amount. The hedging is high, we have 80% hedged for this year and next year we are 70% hedged.

So, I believe that we are in a very good position and have a competitive advantage compared to central European players in the field.

Mitigating pressures from increased inflation

Moving on to the bridge to explain what the moves are within the quarter. We can see that we have clearly been able to mitigate the pressures from increased inflation in energy, logistics, chemicals, and so on by sales price increases and mix improvements. So here we have a positive impact for the quarter of €476 million. We see a negative impact on volume of €39 million, and that has to do with a few factors. First of all, biomaterials have the biggest impact in this area by €31 million volume impact.

The reason for that is that we have seen continued turmoil in the logistical area. So, we get continuous delayed vessels and ships, lack of containers, and so on making it very difficult to transport our produced pulp from the mills that we have for instance in Latin America towards China. So, the logistical turmoil impacts between one quarter to the other. If a vessel is delayed by the end of the last month in the quarter, we will not get the volumes in during the quarter. So, this is what happened for biomaterial. Also, biomaterials had two maintenance shuts in Montes del Plata and Enocell that impacted negatively on the volume for the quarter.

The Russian exit was negative

The Russian exit from wood products and packaging solutions had a total impact of roughly €20 million, so a negative volume impact for stepping out of Russia. And then of course we had a positive impact, from Packaging Materials, the Forest Division, and Paper, but all-in-all, we ended up with minus €39 million volume impact for the quarter.

Variable and fixed costs on fibre

And for the variable costs on fiber and other variable costs and fixed costs, the major impact we see is that fiber costs are moving up. It has primarily influenced pulpwood whilst the sawn logs have stayed more stable.

For energy, higher prices impacted by €90 million, logistics by €75 million, and chemical and fillers by €65 million for the quarter compared to last year. But having said that, we have been proactive and been able to mitigate these increases by price increases and mix improvements.

Forest assets continued appreciation

Our forest assets have continued to appreciate. On closing this quarter, the value was €8.2 billion which is equivalent to €10.40 per share, an improvement from €8 billion last year. The reason for that is that fair value increased by €196 million due to higher market transaction prices in Sweden and then there are minor FX related changes in plantations and some land acquisitions in the Tornator holding.

We are 30% self-sufficient of wood supply and in Sweden 52%, we have good wood supply agreements through our holdings in the Baltics and in the rest of the Nordics. Therefore, we have also been able to mitigate effects from the Russian wood not being available on the market anymore. So all-in-all, our forests are a great asset to have, and we can see the synergy effects of this holding in our performance.

Exceeding all long-term Group level financial targets

To summarise where we stand before I hand over to Seppo to take you through each division. If we look at the long-term group financial targets, it's mostly green. We have improved, continued growing with a strong growth. Our net debt to operation EBITDA is for the first time at 1time and our target is to be below 2. And this enables us and gives us headroom for continuing our growth actions, both in terms of having growth within our own operations but also possibilities for M&A should attractive targets arise.

Our net debt to equity is 21% and as previously said, our return on capital employed, excluding forests, reached almost 23%, a significant improvement compared to last year.

Packaging materials, Biomaterials and Wood Products

And for the different divisions, we see overall strong performance in our packaging materials, biomaterials and wood products, all exceeding the long-term targets in operational ROOC.

Packaging solutions and Paper

And if we look at Packaging Solutions, the main impact there has been the loss of the Russian operations. Paper has been turned around and shows improvement, the retained assets are very competitive, and we are very positive on the prospects of completing the divestment process.

And with that, I hand over to you Seppo to take us through the different divisions' performances.

Divisional Performances

Seppo Parvi

Chief Financial Officer, Deputy CEO, Country Manager Finland, Stora Enso

Packaging Materials

Thank you, Annica. And I'll start with Packaging Materials, where strong financial performance continued. Sales were 24% reaching €1,222 billion and is an all-time high. Sales was driven by higher sales prices and deliveries and supported by the new containerboard site ramping up here at Oulu in Finland. Operational EBIT was up 31% year-on-year driven especially by containerboard performance. We had higher sales prices and volumes that more than offset higher variable costs that the division was faced. An operational return on capital at 22% above the long-term target of 20%.

Packaging Solutions

In Packaging Solutions, our profitability was impacted by divested Russian operations and investments in the new businesses. Sales were up 11% year-on-year reaching €189 million. That is a reflection of higher prices in the European corrugated packaging business, as well as the growth in the new businesses.

Operational EBIT was down by €5 million year-on-year, to a negative €3 million. This is affected by exit from Russia as well as high ramp-up cost in the new businesses, partly compensated by improved corrugated packaging prices. Operational return on capital was negative at 4.7%.

Biomaterials

In the Biomaterials division, sales were up 15% year-on-year due to higher sales prices. This was a record-high second quarter at €522 million. We had strong pulp prices in Europe and China supported by good performance in by-product sales as well. Operations and market pulp deliveries continued to be negatively impacted, especially by logistical constraints as Annica already mentioned and wood availability.

Operational EBIT was down by 15% year-on-year at €123 million. Higher sales price of pulp did not fully offset higher variable and annual maintenance costs and lower volumes. Return on capital was at 18.4% which is above the long-term target of 15%.

Wood Products

Then moving to Wood Products where we have all-time high quarter, both for sales and profitability and also historically high price levels. Sales were up by 32% year-on-year, this was an all-time high quarter at €631 million, as mentioned driven by higher sales prices. Operational EBIT was up by 35% year-on-year, it is an all-time high and record quarter. High profitability continued to be driven by prices and that more than offset higher cost, especially for raw materials for the division. Operational return on capital was at an excellent level of 74.9, clearly above the long-term target of 20%.

Forest Division

In the Forest Division, stable financial results continued because of strong demand for sawlogs and pulpwood. Sales were up by 11% leading to €649 million, higher wood prices were driven by a tight wood market. Wood availability was impacted by the discontinued Russian wood imports. Operational EBIT continued at a stable level and return on capital was at 3.4%, slightly below the long-term target of 3.5%.

Paper

Then Paper, strong demand continued with tight markets and our orderbooks are full. Sales were up by 4% year-on-year. Higher sales prices from the retained business after the closure of the Veitsiluoto and Kvarnsveden paper sites in Q3 were reflected in the sales. and markets are very tight at the moment.

Sales from the retained business increased by 62%. Operational EBIT increased by €100 million year-on-year and reached €51 million. The significant higher prices were partly offset by higher variable costs.

There were also structural changes that reduced fixed costs and volumes relating to the capacity closures done last year. Cash flow to sales for the retained business was 3.7%, the still below the long-term target of 7%, but as the profitability has been improving, we are confident that we will be back on track going forward.

Capex estimate for 2022 increased to €700–750m

Then shortly on capex, before handing over back to Annica, we have updated our capex estimate for the year and increased it to €700 million to €750 million from the previous range from €640 to €680. This is a reflection of cost inflation and some additional investments that we are doing to mitigate the impacts of the war in Ukraine, also relating to energy solutions and some other items.

And then back to you Annica and the annual guidance.

Annual Guidance Reiterated for the Full Year 2022

Annica Bresky

President and Chief Executive Officer, Stora Enso

Outlook

Yes, and if we look at the annual guidance, we updated that on the 13th of June, so we are stating with confidence that our full year for 2022 will be better than our record year in operationally EBIT that we had last year. Last year, we ended up at roughly €1.5 billion. And we see that there are still uncertainties due to geopolitics and changing macroeconomic environment, inflationary pressures, and continued logistical turmoil. But we have been able to mitigate for those and overall, we see a solid demand for Stora Enso's products.

Consumer board demand remains strong, both for liquid packaging board and folding box board and other qualities and the demand for corrugated packaging in Europe is expected to stay stable. Strong demand in pulp is expected to continue both in Europe and China. We see now a normalisation happening in containerboard and traditional sawn goods, but it is from very high peak levels that we experienced during the pandemic.

For containerboard, for instance, it is the end-use of e-commerce that is reducing from very, very high levels during the pandemic and for sawn goods, it is the slowdown in the construction industry that we can see reducing the need for sawn goods. However, both of those have come down from extreme levels. So, it's more about the normalisation than anything else. And this gives us, as I said, confidence that we can reiterate a strong year going forward.

Creating a company positioned for growth, agility, and resilience

And as a company, I see that we have taken significantly important steps to position ourselves for growth, agility, and resilience and all these things I think are crucially important in the environment that we operate in now. We have a competitive advantage. We have flexibility and security with high self-sufficiency of energy, fiber, and internal pulp integration. This gives us a competitive edge compared to many other players.

Decentralisation of operating model

We have decentralised our operating model which drives market and customer centricity. Our people are enabled and empowered to drive operational excellence and cost savings and to stay close to the changing market environment. This means that we are quicker in decision making and implementation of action.

And we are accelerating our growth and innovation agenda by reducing cyclicity and risk. We have seen that we have been able to very quickly successfully divest the main parts of our business in Russia, and therefore we can put management focus and attention on other topics than that business environment. That's very challenging.

Divesting the paper business

We are on the way to divest our Paper business, freeing up funds and management focus. And after the completion, the growth businesses will represent almost 75% of sales and 65% of our EBIT. This is showing clearly also that we mean business, we say what we're going to do and we do what we say.

We have reduced unintegrated pulp exposure. As we are growing our renewable packaging materials business, we make sure that we integrate our pulp mix and therefore also reduce cyclicity. And if we can make positive decisions on our two feasibility studies, this will further enhance that.

Driving partnerships and collaborations

We are actively engaging and driving partnerships and collaborations in our value chain to improve and drive commercialisation of new, innovative materials that are bio-based and renewable, and being a solution provider to the many sustainability challenges that are an opportunity for us as a company. And by a reduced net debt, we gain headroom for investing and continued investing in our growth businesses, be it through conversions or M&A.

Summary

So, with that, I would like to just summarise that I'm very happy with our performance during quite challenging circumstances. We are actively taking the strategic initiatives we need for long-term growth in our key strategic areas.

The partnership with Northvolt is an important milestone for the development of the world's first green battery made out of Lignode. And we are positioning ourselves to accelerate growth in renewable materials and answering to all the important transformation needs of our societies towards better sustainability.

And with that, I hand over to you for the Q&A.

Q&A

Operator: Thank you. If you wish to ask a question, please press zero one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing zero two to cancel. And kindly limit yourselves to two questions per person and then re-join the queue. Our first question comes from the line of Linus Larsson from SEB. Please go ahead.

Linus Larsson (SEB): Thank you very much, and a good day to everyone. I'd like to start off with the announced cooperation with Northvolt that you announced today. What does that mean practically? And also, overall, if you could update us on the timing of the Lignode project capex and what is really the format of this cooperation with Northvolt? Previously, you have been talking about co-ownership. Is that still the plan? Are you still looking for additional partners? So, an update here would be appreciated. Thank you.

Annica Bresky: Thank you for that question. If we look at the collaboration, what it practically means is that it is the first step that we take together now to actively commit resources to put our material in Northvolt's qualification process to do common research together to customise our product to fit the needs of Northvolt. And what that means is that we develop now together a pathway to be able to commercialise a local supply of the Lignode

material. And we will come back as we progress, but this is a very important milestone in terms of showing the commitment together with an important partner such as Northvolt.

That doesn't mean that this is the only partner we are discussing with, we have more than 50 other partners that we discuss different types of partnerships with, take-off agreements or collaborations like the one with Northvolt. Joint venture or any other kind of setup is more to make sure that we can finance full scale up. But for the first phase that we have announced, the feasibility study for the first industrial site, that we can fully finance by ourselves. So, we do not need a JV to do that. And of course, the partnership and collaboration with Northvolt gives us more security to be able to move forward when we assess the feasibility study. And that is, of course, going to be completed by the end of this year and then we will come back to capex needs and so on and we can disclose that once we are done. So unfortunately, I cannot open up for that right now.

Linus Larsson: Okay. I think previously, you've talked about, if I remember right, the €1 billion in 2025. Has that now been delayed in any way or is that still valid?

Annica Bresky: Well, look, as we've said also, when we brought that up, it was a totally different reality than what we are living in today with the Russian war or pandemic and so on, so a lot of things have happened. But what we can see now with this partnership, this is the first step in commercialisation in the electrical vehicles area. There are many other products as well, it's not only about cars. It's also about energy storage systems and any tool or type of equipment that has a battery has the potential to use Lignode, but the longest qualification times are, of course, for the automotive industry.

So, we continue and as we progress with partnerships, we will also be able to come back with more specific timelines. But so far, the things that we have in our control are proceeding according to plan. And if we can make a positive decision for the industrial scale up, that is, I think the first milestone in achieving the €1 billion sales and being able to set up a business of its own.

And as we can see in Europe, I think the growth of electrification of mobility is just accelerating. We can also see that the impact of geopolitical factors that make it even more pressing to have a local supply of some of the crucial materials for these batteries that today are sourced mainly from China, especially the anode materials. This brings it to the centre in a way that was not present before when we announced our ambition for sustainable batteries. So that is what we can disclose right now. We are staying fully committed to drive this scale up.

Linus Larsson: Great, great. Thank you very much. My second question would be more on relating to your various guidance statements. You talk about normalising of demand for, I think you mentioned containerboard and sawn wood going into the third quarter. If you could just add some colour on that? Are you seeing declining prices in these segments and if so in which subcategories And also, you obviously reiterated your full year guidance that operational EBIT should be up year-on-year. Is that also valid for the second half? Do you expect operational EBIT to increase H2 on H2 of last year? Thank you.

Annica Bresky: So, if I comment on containerboard and the end-uses mainly where we see a normalisation, as I said, e-commerce is one of these areas where we see that it was a very, very high demand during the pandemic, and now it's coming down. Other end-uses such as

industrial and for instance, agricultural purposes for food packaging ie the fruit trays and so on, are more stable, so there we have not seen that effect yet. So, I think that on pricing, we do not comment. Of course, from a demand perspective, we do expect a normalisation and a little bit slower and not so overheated containerboard market and the prices at the end of Q2 are strong going into Q3.

Kraftliner demand is expected to remain on par with the previous year and also testliner demand is expected to be stable overall year-on-year. And then your second question was if the second half of the year is projected to be better than first half. We give a full year guidance, so I will not be able to disclose that.

Linus Larsson: Thank you very much.

Operator: And the next question comes from the line of Justin Jordan from BNP Paribas. Please go ahead.

Justin Jordan (BNP): Thank you and good afternoon, everyone. Just following up on Linus' question, I guess, specifically on packaging materials, just specifically in your spage 9 of your result statement, you talk about slightly weaker recycled fiber-based containerboard demand in Q2 sequentially on Q1. So, I just want to check that we should infer that means volumes in Q2 were down sequentially in Q1, is that factually correct?

Annica Bresky: Yes, minor volume.

Justin Jordan: Yes, okay, thank you for that.

Annica Bresky: That is why we would say that going into Q3 we see that there is a normalisation in containerboard.

Justin Jordan: Yes. As you've outlined in e-commerce and consumer durables and the rest, industrial. Yes, okay thank you for that. And then just one quick, I guess, really a question for Seppo, thank you so much for the disclosure you've given on slide 10 regarding energy. And clearly, there were a lot of nervous investors and analysts out there in terms of gas availability and reliability and security of supply in the second six months of this year. Can you help us understand what contingency plan Stora Enso have in place if gas availability becomes slightly challenged, shall we say, in the second half of this year? I appreciate you are relatively well positioned relative to many peers, but I'd just be curious to know what plans you have in place?

Seppo Parvi: Yes, sure. First of all, like I mentioned earlier, already since March we have been bringing LNG for our needs for instance in Finland, and that has worked well, and we have good supply channels opened there. Also, we have done, and we continue to do some investments in our energy setup in order to make sure that we have different alternatives available in case there would be tighter markets when it comes to availability of LNG as an example or other fuels that we are using, that we are more able to use biomaterials also in those sites that have not been able to do that earlier. Also, it will help us going forward when, in Finland, Olkiluoto 3 starts, and that will improve our sales sufficiency even further going forward.

And then just to remind you that in Central Europe we are not very dependent on gas. For instance, our Maxau mill in Germany is using biofuel. So in that sense, if there would be a cut of energy supply to Central Europe, that will not really affect us directly. Obviously, it can

affect demand for our products or demand of our customers' customers and depending on dependency of our customers in their process when it comes to natural gas.

Justin Jordan: Thank you, Seppo.

Operator: And the next question comes from the line of Cole Hathorn from Jefferies. Please go ahead.

Cole Hathorn (Jefferies): Good afternoon. Thanks for taking my question. Just one on the wider pulp markets, you mentioned operational and some logistics challenges, I just wanted to understand, does this mean that there's potentially some pulp shipments in transits potentially that will benefit the third quarter? And I'm just wanting to also understand if the logistics impact is also to your mills to kind of getting pulpwood, et cetera, out of the forest is the first question.

And then the second one, following on the wood products market, you've called out opportunities in France, you've called out some opportunities in replacing turbine towers with wood. I'm just wondering how big could those potential opportunities be taking the wind turbines as an example? Thank you.

Annica Bresky: If we look at biomaterials, as I said, the strong demand continues in both Europe and China. And that means that we transport, and pulp is a global business, as you're well aware, so we are dependent on the big ships arriving to the ports in Latin America, loading the pulp and then unloading in, for instance, the Port of Shanghai and getting it to the customers. And this is the kind of logistical turmoil that we have lived with ever since the pandemic has started, really, so it's nothing new. It's just that this month, if a ship comes at the end of the month, and it doesn't get in during this quarter, it's delayed, and you get it the next quarter.

But the logistical turmoil as such and dependability on getting trucks, getting the right things in at the right time has been one of the things that we have constantly worked with ever since the pandemic started. And we have been really good at handling this, so I see that we just need to continue to be flexible. Since the war in Russia started, we got an additional complexity with wood not anymore entering Europe and then having to relocate wood from one site to the other and cutting out for instance, the birch that used to be a big export species from Russia to the European market. And once again, you need to, very quickly, be able to get the wood from one site to the other and adjust product mix.

So, in our biomaterial operations for instance, we have changed products reducing the use of birch and increasing the use of other species. But that takes some time until it stabilises, and it becomes more in balance. And that has affected biomaterials operations as such when we do these product mixes and transports, and also packaging materials for that sake, but it's not visible in the numbers.

Seppo Parvi: There was also a shortage of train wagons before the summer because of the increased transportation domestically in Finland and now that situation is improving as the rules and regulations were changed so that foreign wagons are also allowed to be used for domestic transportation. So that is going to help a bit during the second half.

Annica Bresky: As Seppo said, containers are in the wrong places, so this is something that we have been living with for two years now. And if we then look at the wood products, I

wouldn't draw too kind of high expectations on collaborations such as Modvion. It is a pilot project, but it still shows the potential of where you can use wood for very challenging construction opportunities because constructing 100-plus meters of a wind turbine that has to withstand kind of the material or the surrounding environment impact is significant, and we have seen that we can construct already 50-plus meters. So, taking it to this level also will enable us to find new areas of growth. But it is too early to say anything significant about that.

On the other hand, if we look at Building Solutions and expansion in France, that is a significant opportunity as that market is very much driven by changed policy in France to enable more than 45% of all public and governmental buildings to be constructed out of wood.

And if we look now how the market is changing, the easiest applications such as sawn timber or sawn wood, that is normalising from peak levels. But the engineered products, they are often longer projects and there we have not seen a decline and building solutions is where we want to grow. We also want to grow with sawn wood, but in engineering wood, that is contracyclical compared to wood products, normal sawn that is more cyclical and spot price driven.

So, this is an opportunity for us to leverage on the French market, which is the biggest one in Europe and actively driving wood construction. And in Europe, we see this market growing by 10% to 15%, and wood is still such a small part of the total amount of construction materials that are used. So therefore, we do believe that we can take market share from other materials.

Cole Hathorn: Thank you.

Operator: And the next question comes from the line of Robin Santavirta from Carnegie. Please go ahead.

Robin Santavirta (Carnegie): Thank you very much, and hello to everybody. Now two questions. First of all, if I look at Q2, your cost per tonne, and I guess all divisions are up by double-digit q-on-q, and I was wondering, I can understand the pressure in the input cost, but what is the outlook for Q3? Do you still see some upward pressure when it comes to energy, logistics, chemicals, and pulpwood going into Q3?

And the other question I have is related to the supply chain problematics, and I can understand essentially your deliveries might be a bit delayed. Do you see, I mean, everybody is facing the same situation, and I can assume the buyers are trying to make sure that they have something to produce or sell, do you see a risk that once this surely normalise at some stage, the customers in fact will be oversupplied when it comes to pulp or containerboard or consumer board? Thanks.

Annica Bresky: I will start with the second question and then let the first one, Seppo take. But if we look at the inventory levels, we follow of course, very closely our customers' inventory levels, and we do not see heightened inventory levels for the products that we do. If we look at pulp for instance, we are in the region of normal compared to the five-year average, So I wouldn't say that is the case. And also, it takes a while before such a turmoil that we have logistically actually normalises. It's not going to be from one day to the other, if

we come back, and many expect that this is going to continue for another year minimum before everything is in balance if nothing more kind of unexpected happens now.

So, I do not see that that the inventory levels are high. And then managing kind of the inventories is something that we constantly do with our customers and follow up where we have our products and how we support them through special arrangements with inventories and so on. And here, I'm very happy to say that our operating working capital to sales is on the level of 11%, which shows that we also have good control of our working capital, even though it's increased. It's still on good levels compared to sales for our type of business, so, we are managing that in a good way as well despite this turmoil.

Seppo Parvi: And when it comes to cost pressures that you are asking, Robin, I think it's fair to say that the biggest pressure in most of the cases seems to ease. It's not coming down but getting more stable. There is still probably some pressure depending a bit how market situation develop on recycled paper and wood, so fiber prices some additional pressure, but other than that rather stable.

Robin Santavirta: Thank you, Seppo and Annica.

Operator: And the next question comes from the line of Lars Kjellberg from Credit Suisse. Please go ahead.

Lars Kjellberg (Credit Suisse): Thank you. I just wanted to come back a bit to the volume outlook. You're exiting the quarter with somewhat slowing demand trends it appears in parts of the cyclical business and the, I guess, second quarter volumes weren't quite as good as potentially one would have expected. So, I just wanted to hear about your order book situation. You mentioned, of course in consumer board you're fully booked sold out for the year. What about the balance of the business? How is it looking now if you compared to where you stood when we spoke after Q1?

Annica Bresky: So, we are fully sold out for pulp, we're fully sold out for consumer board, we have a good balance there. As I said, we see some weakening in demand for wood products, but we still have strong order book. So yes, I think that what we see is that we have a solid pipeline of orders and then we do inventory management as we see fit if the situation changes. So that is what I think we can comment on that. I don't know if you can give more insights Seppo, if you have any other perspective?

Seppo Parvi: Well, in general, I would say that underlying market sentiment is still quite good and positive. But we don't give guidance on volumes, but there is some more maintenance in Q3.

Annica Bresky: Quarter three and quarter four are normally the time of the year when we do the annual shutdowns of many of our mills. They are more maintenance heavy compared to other periods of the year.

Operator: And we have one more question from the line of Brian Morgan from Morgan Stanley. Please go ahead.

Brian Morgan (Morgan Stanley): Hi, thanks very much for the time. I've just got a question, perhaps it's a long shot to ask it, but talking about the logistics issues and the constraints and all of that, in biomaterials, in particular, would you have an idea perhaps an order of magnitude idea of how much was that on the table in, say, millions of euros as a

result of the logistics issues, either through volumes or through additional costs that you had to absorb? Just trying to get an idea of what that business would be able to earn under normal circumstances?

Annica Bresky: We do not disclose any kind of breakdowns like that. But for the full volume effect that including the operational challenges from the maintenance shuts and the logistical impact for biomaterials, it was €31 million.

Seppo Parvi: But in general, you could say that in Biomaterials or any of our business, when it comes to logistic constraints, it doesn't mean that it would necessarily miss sales, it's that the deliveries are delayed and, in some cases, might move from one quarter to another if there are some quarter-end deliveries. So, it's more a logistics cost issue how that is then affecting the business input costs, so to speak.

Brian Morgan: Okay, cool. Thank you.

Operator: And as there are no further questions, I'll hand it back to the speakers.

Annica Bresky: Thank you very much for all the questions and I still believe that we made a very good quarter, a strong quarter with 40% improvement compared to last year on operational EBIT level almost and continued strong growth.

And I would like to thank you all for all the questions and welcome you back on our virtual Capital Markets Day, which we will have on the 13th of September, where we will go through in more detail, and you get to meet the businesspeople behind our growing business of packaging materials and wood products and also in biomaterials.

So, see you all back then, and I wish you a good summer.

[END OF TRANSCRIPT]