



storaenso

Financial results Q2 2023

Accelerating restructuring in challenging markets

President and CEO Annica Bresky
CFO Seppo Parvi
21 July 2023

THE RENEWABLE MATERIALS COMPANY

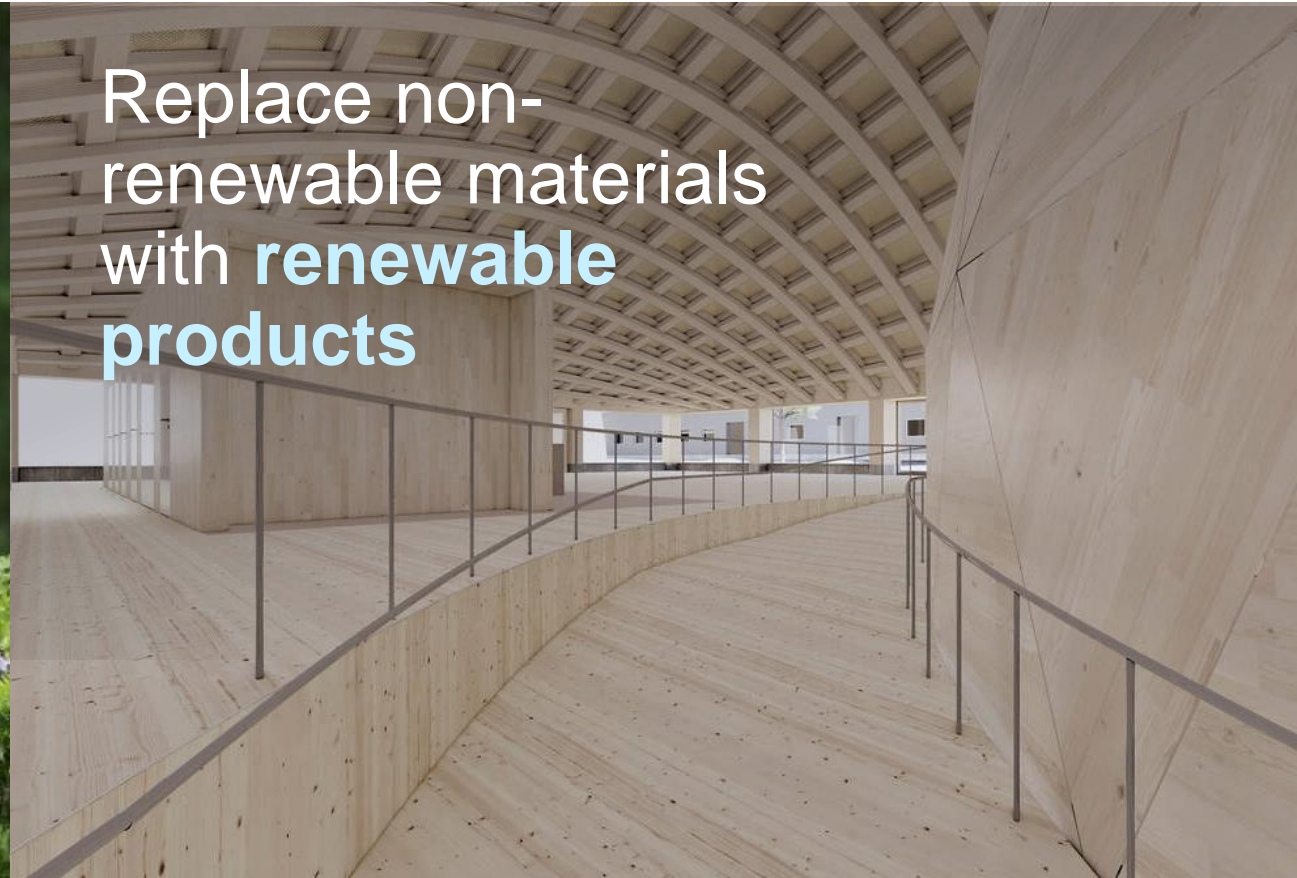
Our purpose



Do good for
people and the
planet



Replace non-
renewable materials
with **renewable
products**



Market dynamics and development

Persisting challenging markets



Structural tailwinds

- “Sustainability” megatrends and climate challenge
- Regulation supportive of our forest assets and products
- Brand and consumer demand for eco-friendly products

Current headwinds

- Macroeconomic uncertainty with high inflation
- Cost-of living crisis and high interest rates reducing consumption and construction
- Declining pulp prices and high wood cost
- Continuing customer destocking in board

Weak financial performance, delivering on our strategic roadmap



Key events

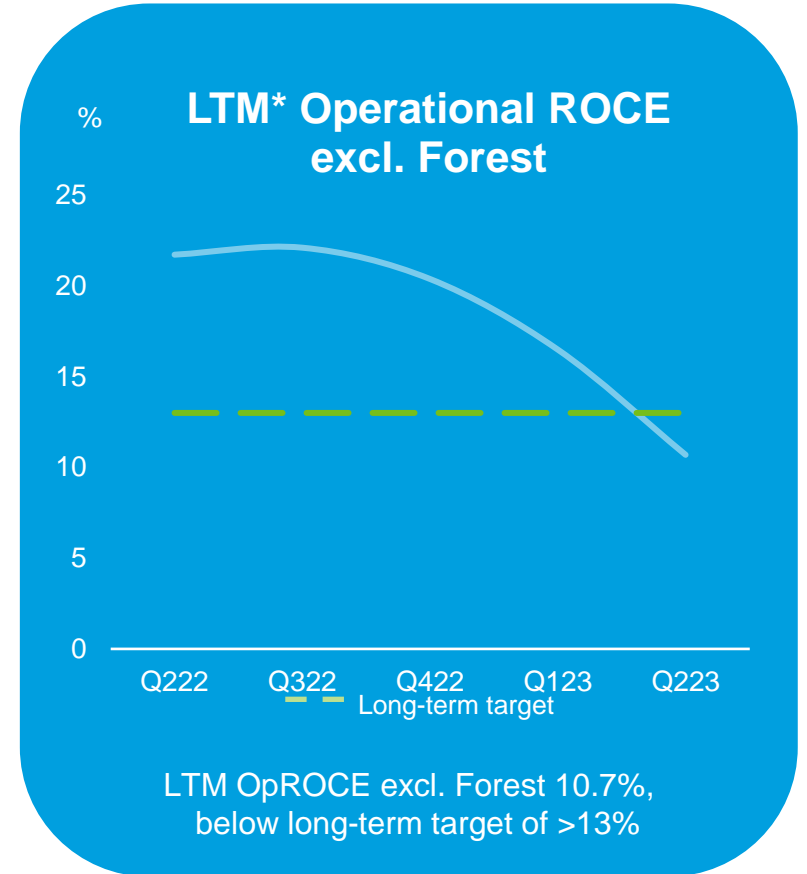
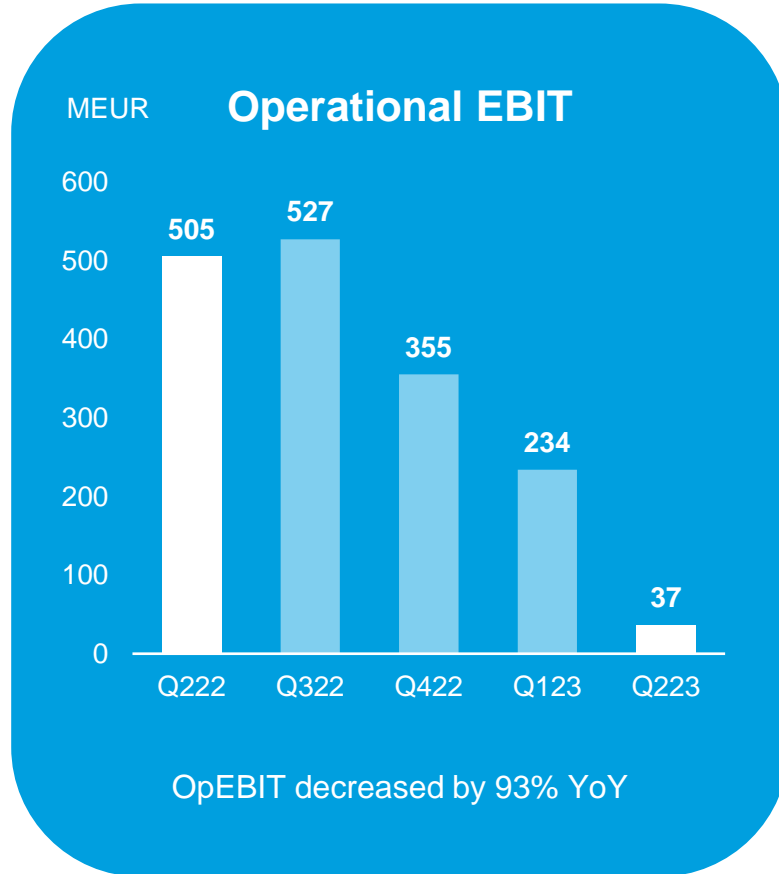
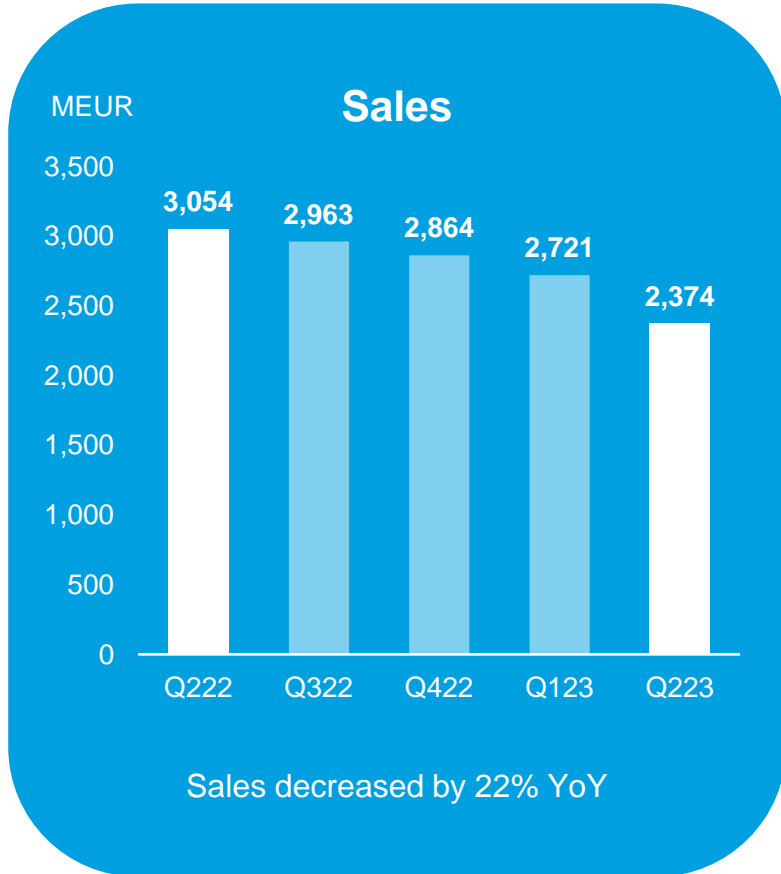
Restructuring plans to improve long-term competitiveness and profitability are expected to increase op.EBIT by ~€110m per year

Ramp-up of Europe's largest and most modern corrugated packaging unit in the Netherlands

Launched a new framework for green and sustainability-linked financing, €1bn of green bonds issued and raised €550m in bilateral loans

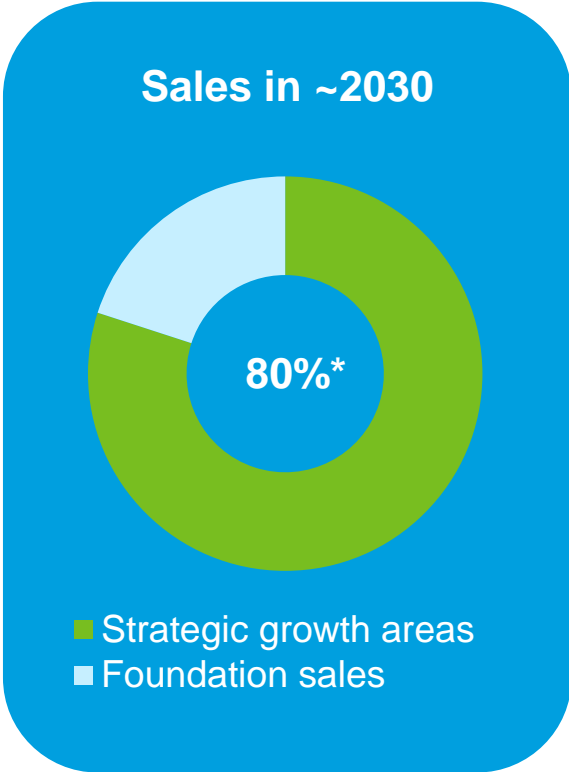
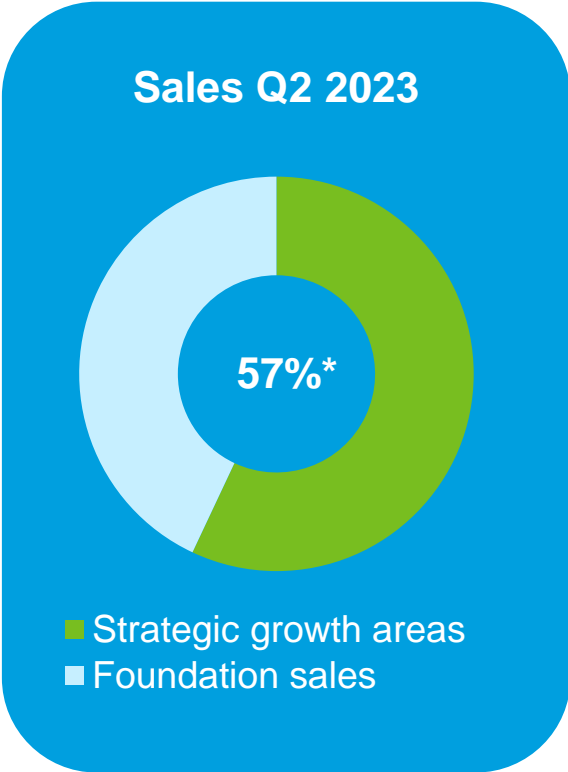


High input costs, lower volumes and prices reduced margins



*LTM = Last Twelve Months

Strategic growth areas represented 57% of sales in Q2/2023



*Strategic growth areas include Packaging Materials, Packaging Solutions, Biomaterials Innovations (part of Biomaterials), Building Solutions (part of Wood Products) and New business (part of Segment Other)
**Foundation businesses include Pulp in Biomaterials, Traditional Wood Products in Wood Products, Forest and Paper

Allocating capital to strategic growth areas



Strategic investments and integration

- De Jong integration moving ahead
- Expansion of a second high-tech packaging unit in the Netherlands

Focused capital allocation for growth

- Growing in renewable consumer board packaging at the Oulu site, production expected to start in 2025
- Proceeding with the plan to divest the Beihai site

Continue developing Biomaterials Innovation

- Competitive locations for commercial scale up of hard carbon, Lignode, production are being investigated
- The pilot plant for Lignode continues operations at the Sunila site
- External sourcing for lignin is being explored

Roadmap and action plan for our value-creation opportunities

Key priorities to improve competitiveness and profitability



Short to medium term

- Planned closures and divestments of non-competitive assets
- Restructuring the organisation, planned headcount reduction of ~1,150
- Increasingly independent divisions and leaner Group functions
- Improving op.EBIT by ~€110m annually
- Selective curtailments to manage inventories and pricing
- Sourcing activities to improve cost and safeguard liquidity

Long term

- Building on strong market positions and driving innovation
- Focusing capital allocation in strategic growth markets
- Developing cost-competitive assets and cutting-edge products



Development of long-term Group financial targets

Weak second quarter compared to a very strong last year



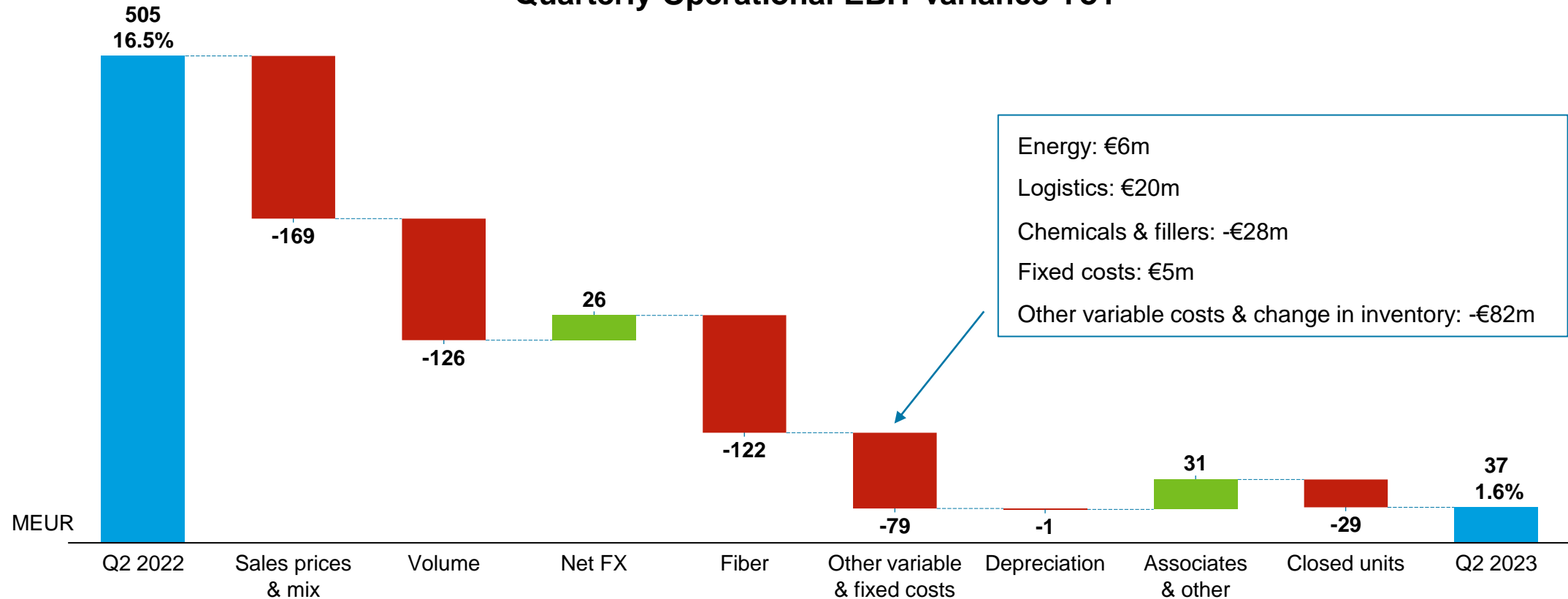
Group long-term financial targets		Q2/22	Q2/23		2022	
Dividend (annual)	To distribute 50% of EPS excluding fair valuation over the cycle	N/A	N/A		0.60	●
Growth YoY	> 5%	18%	-22%	●	17%	●
Net debt to operational EBITDA	< 2.0x	1.0	1.7	●	0.7	●
Net debt to equity	< 60%	21%	27%	●	15%	●
LTM* Operational ROCE excl. Forest	> 13%	21.7%	10.7%	●	20.4%	●

Divisional long-term financial targets		Q2/22	Q2/23		2022	
Packaging Materials	LTM Operational ROOC > 20%	20.3%	7.3%	●	18.6%	●
Packaging Solutions	LTM Operational ROOC > 15%	18.0%	5.9%	●	7.9%	●
Biomaterials	LTM Operational ROOC > 15%	20.7%	19.1%	●	25.3%	●
Wood Products	LTM Operational ROOC > 20%	68.3%	5.6%	●	43.2%	●
Forest	LTM Operational ROCE > 3.5%	3.6%	4.1%	●	3.7%	●

Lower sales prices and volumes together with high input costs significantly reduced profitability

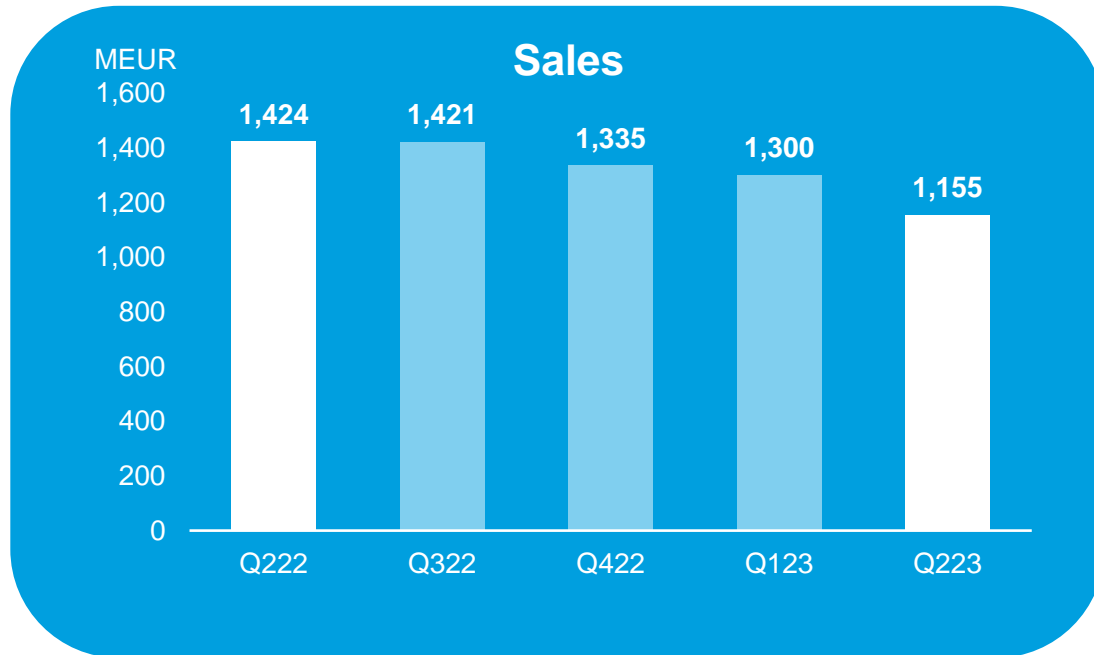


Quarterly Operational EBIT variance YoY

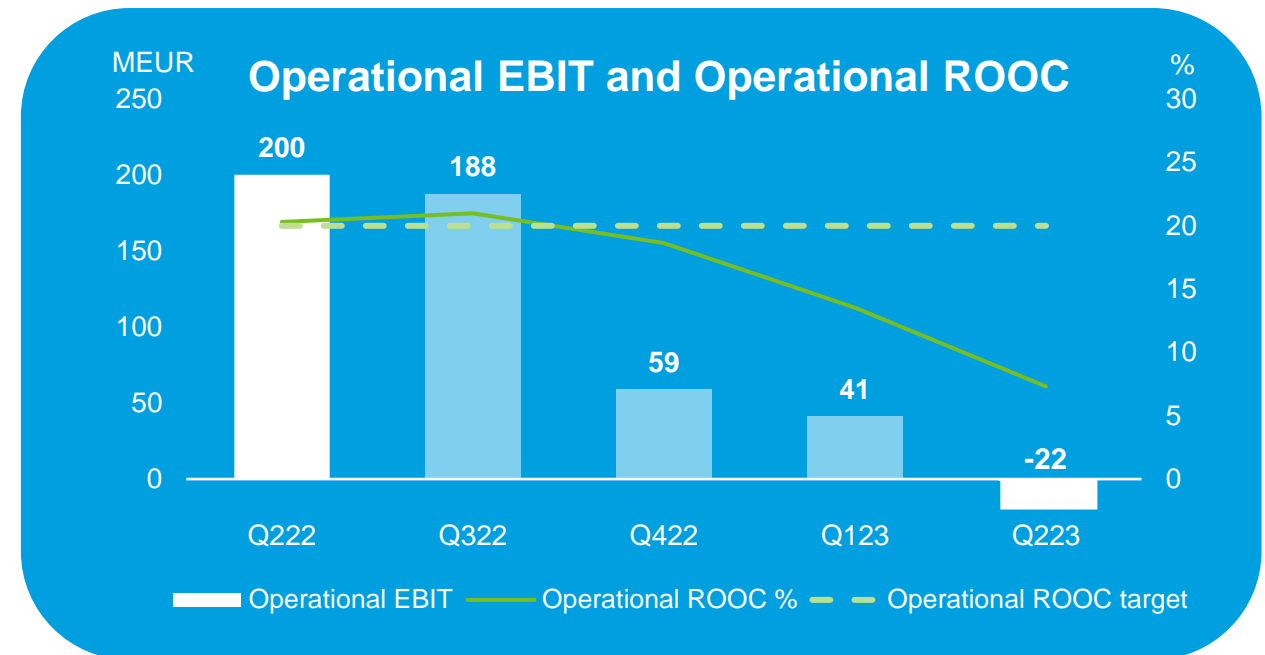


Packaging Materials

Destocking in the supply chain continues

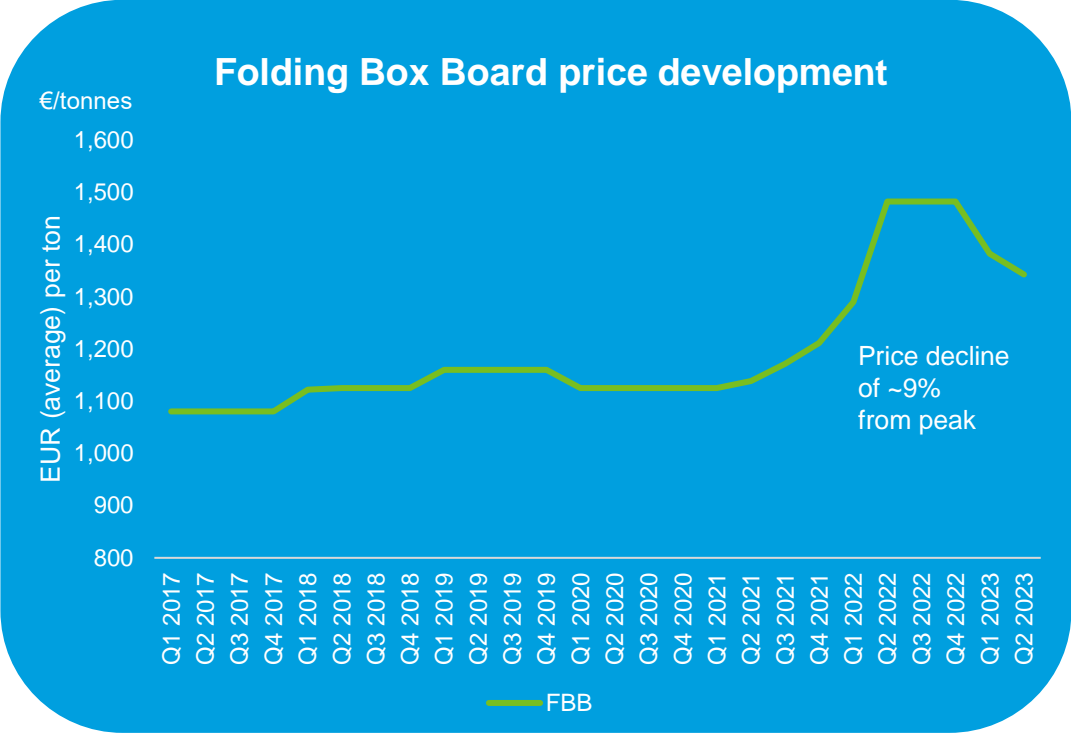
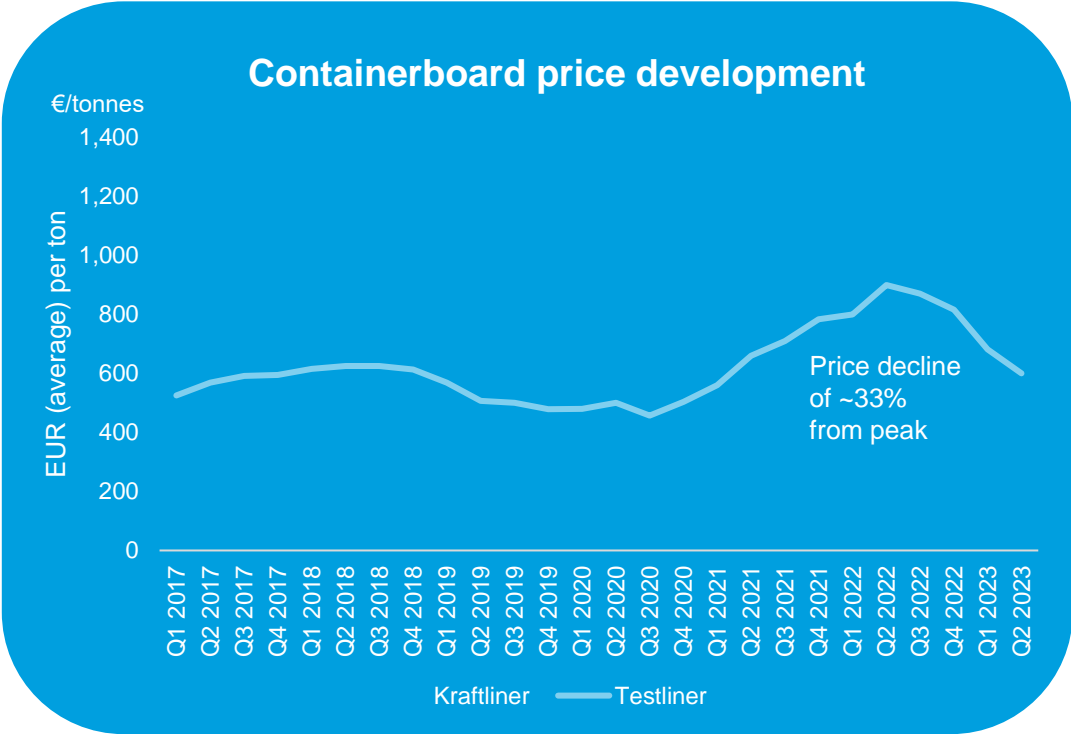


- Sales decreased by 19%, or €269 million
- Lower containerboard prices and lower volumes for consumer board
- Partly offset by higher consumer board prices



- Operational EBIT decreased by €222 million
- Higher consumer board prices offset by lower containerboard prices, lower volumes and higher wood costs
- LTM OpROOC at 7.3%, long-term target >20%

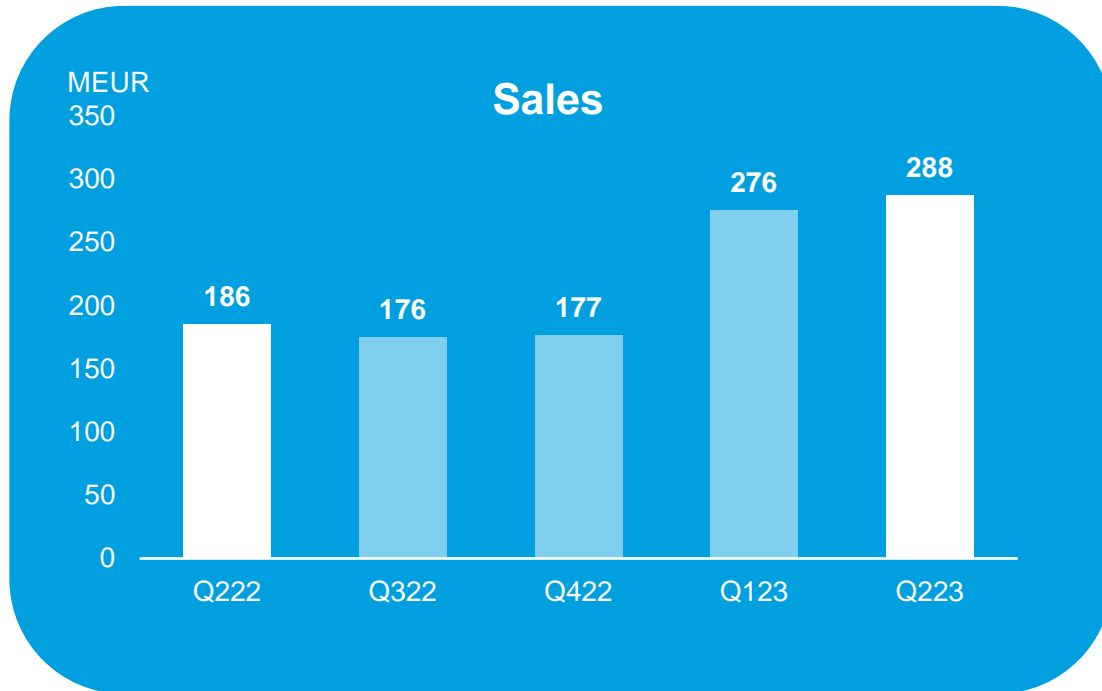
Weak packaging demand reduced prices for containerboard and Folding Box Board



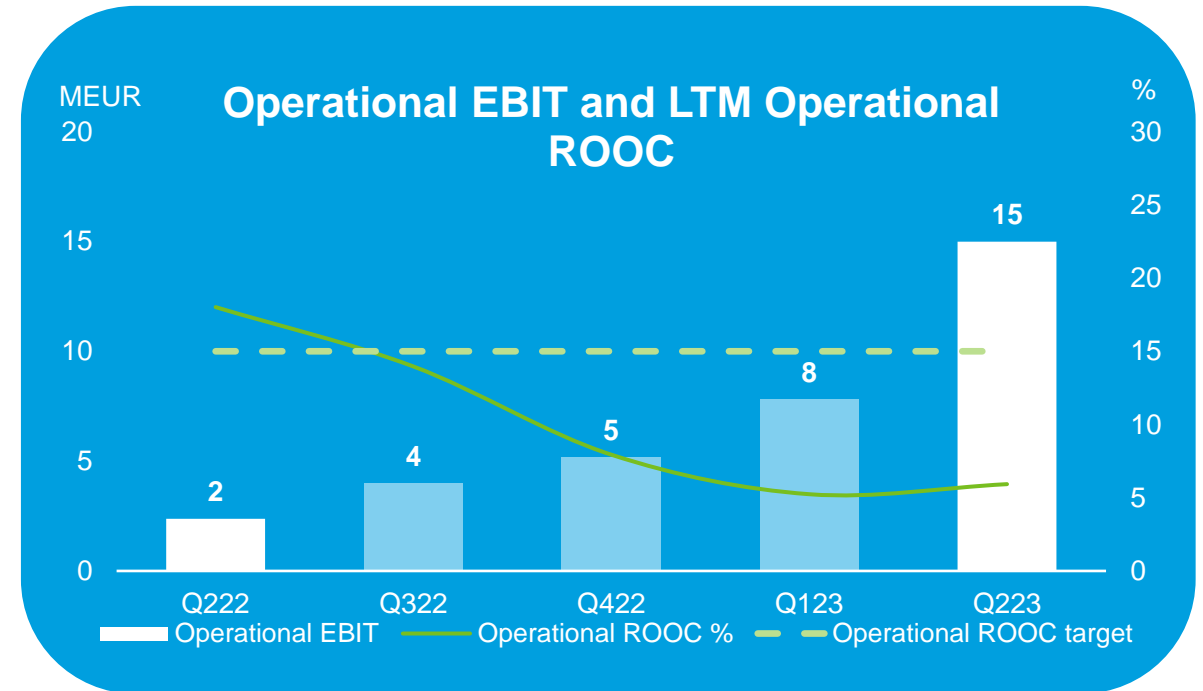
Source: Euwid

Packaging Solutions

Solid result development



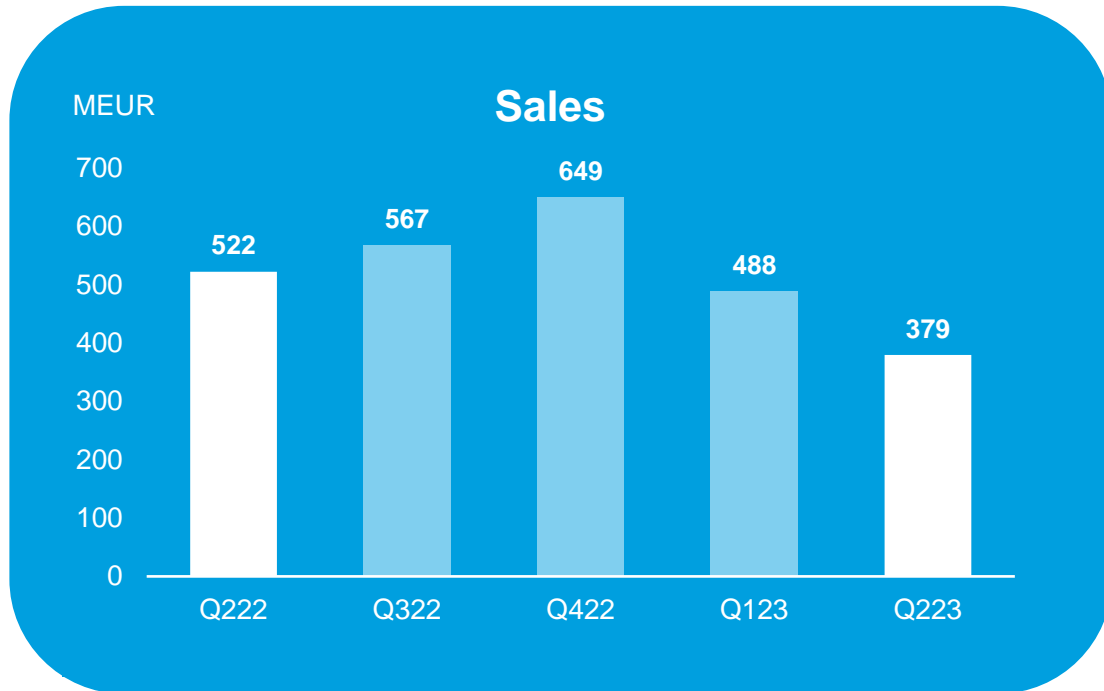
- Sales increased by 55% or €102 million
- The acquired De Jong Packaging Group more than offset the impact of the divestment of the Russian operations in Q2/2022
- Sales prices in corrugated packaging were lower as a consequence of lower raw material prices in containerboard



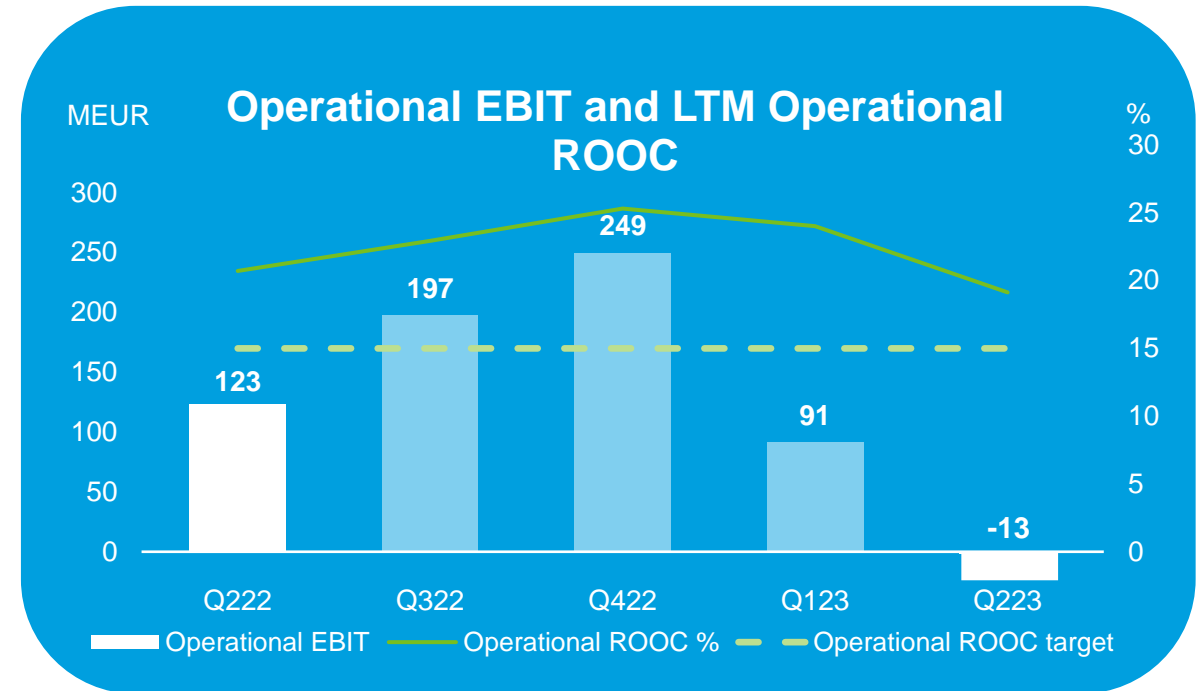
- Operational EBIT increased by €13 million
- The acquired De Jong Packaging Group and actions to reduce costs and improve businesses performance, mitigated the impact of the soft market
- LTM OpROOC at 5.9%, long-term target >15%

Biomaterials

Very challenging market conditions



- Sales decreased by 27%, or €143 million
- Record decline in market pulp prices, global pulp inventories higher than 5-year average
- Curtailments and production losses due to maintenance negatively impacted sales volumes

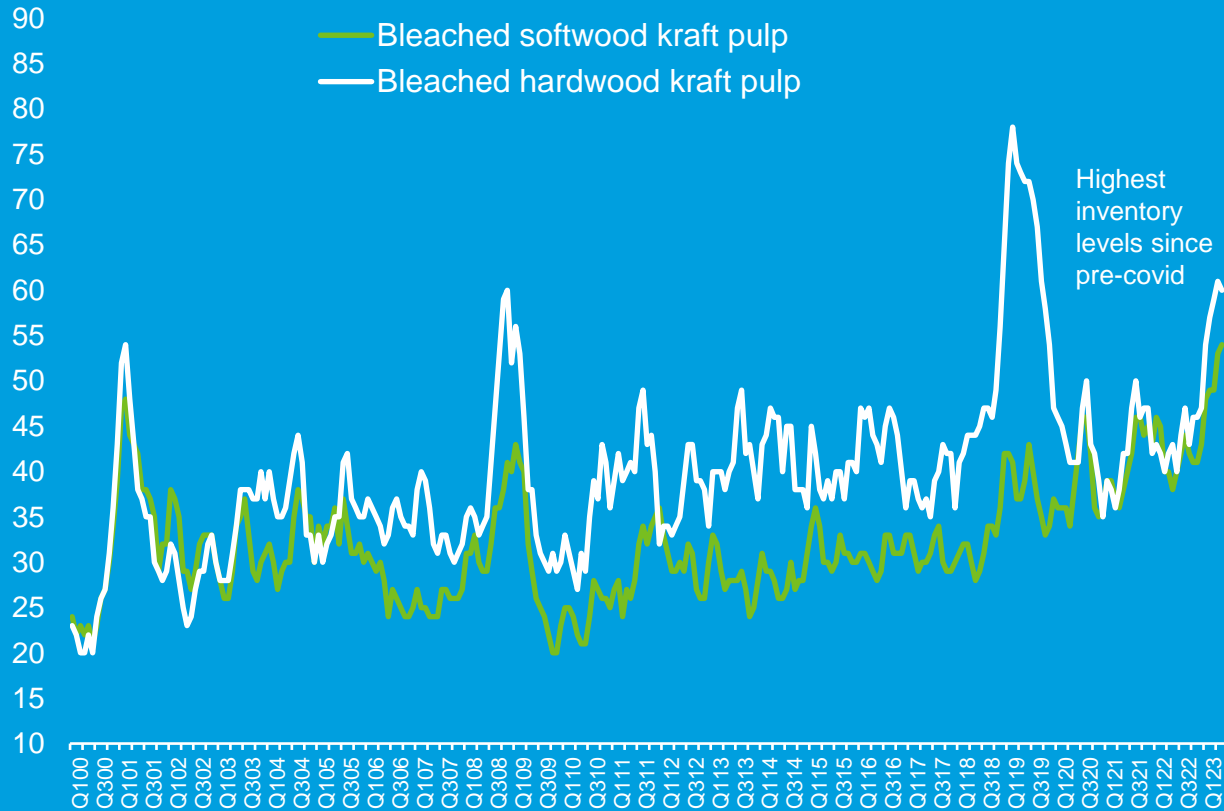


- Operational EBIT decreased by €136 million
- Profitability impacted by lower sales prices and volumes as well as higher maintenance costs
- LTM OpROOC at 19.1%, long-term target >15%

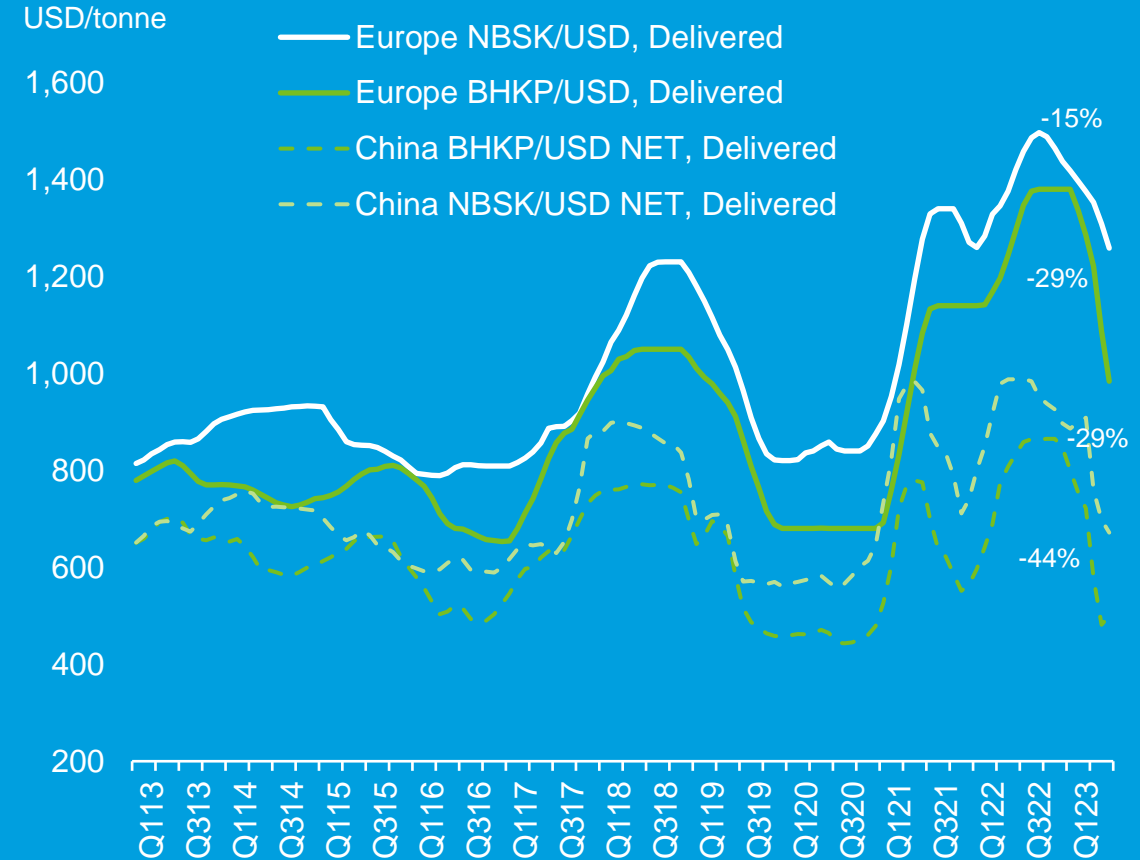
Weak demand and large amount of additional capacity entering the market reduce pulp prices and increase inventories



Inventory levels



Price development

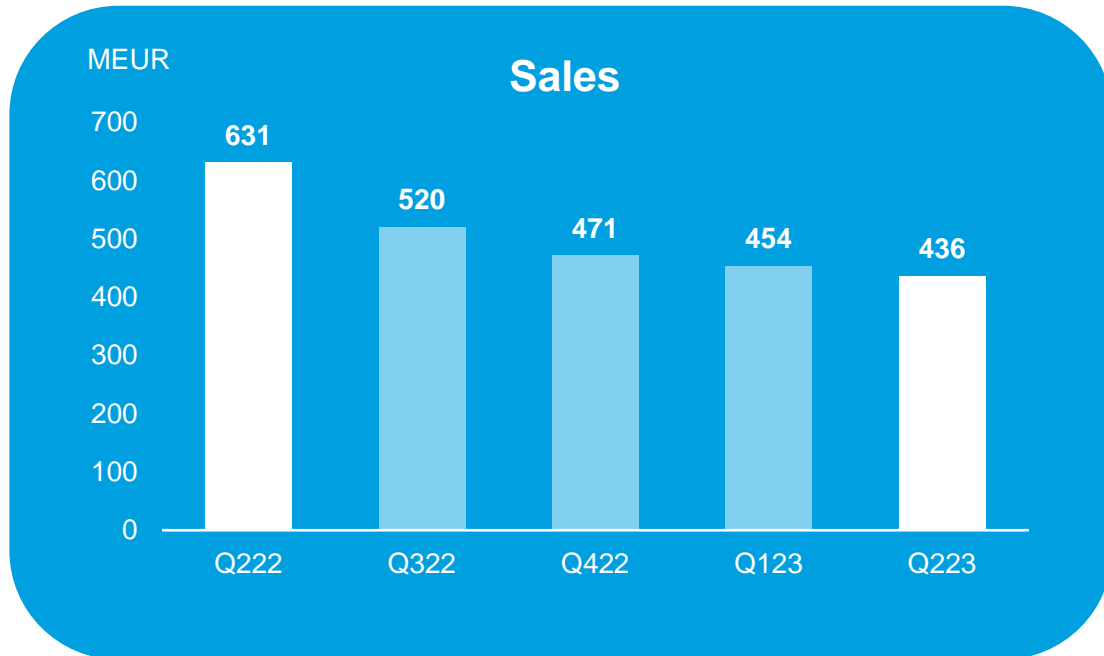


Source: Fastmarkets FOEX

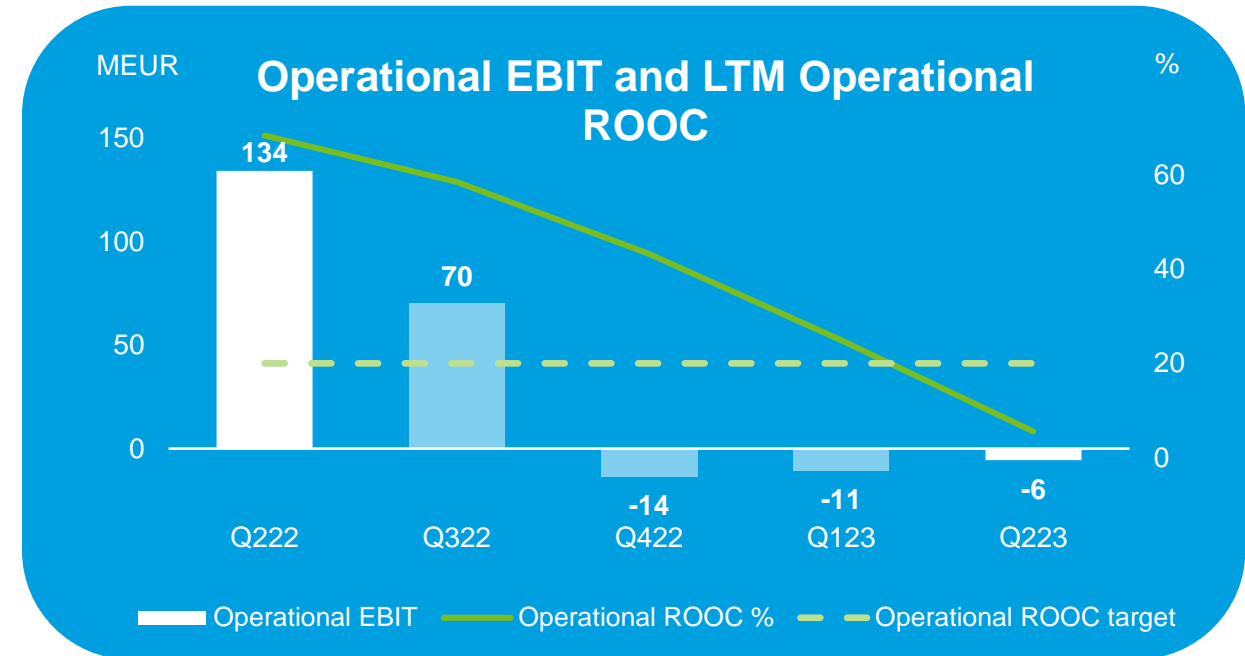
NBSK = Northern bleached softwood kraft
 BHKP = Bleached Hardwood Kraft Pulp

Wood Products

Significantly weaker demand, construction industry put on hold



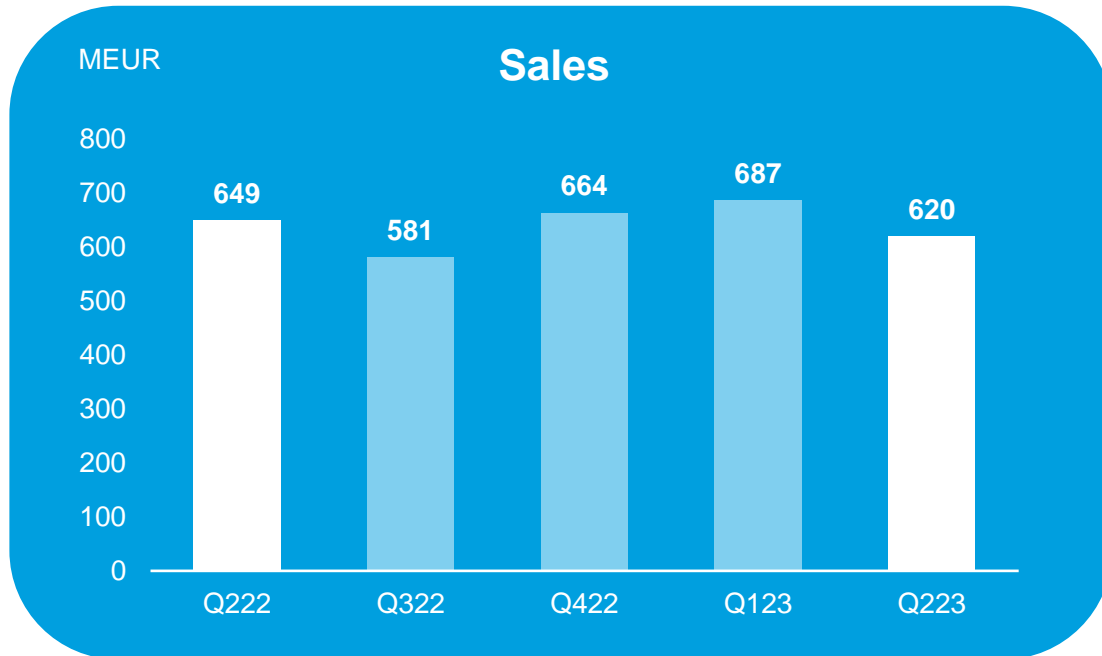
- Sales decreased by 31%, or €195 million
- The construction market impacted by fewer building permits and projects
- Sales was mainly impacted by lower sales prices and volumes, especially for sawn wood



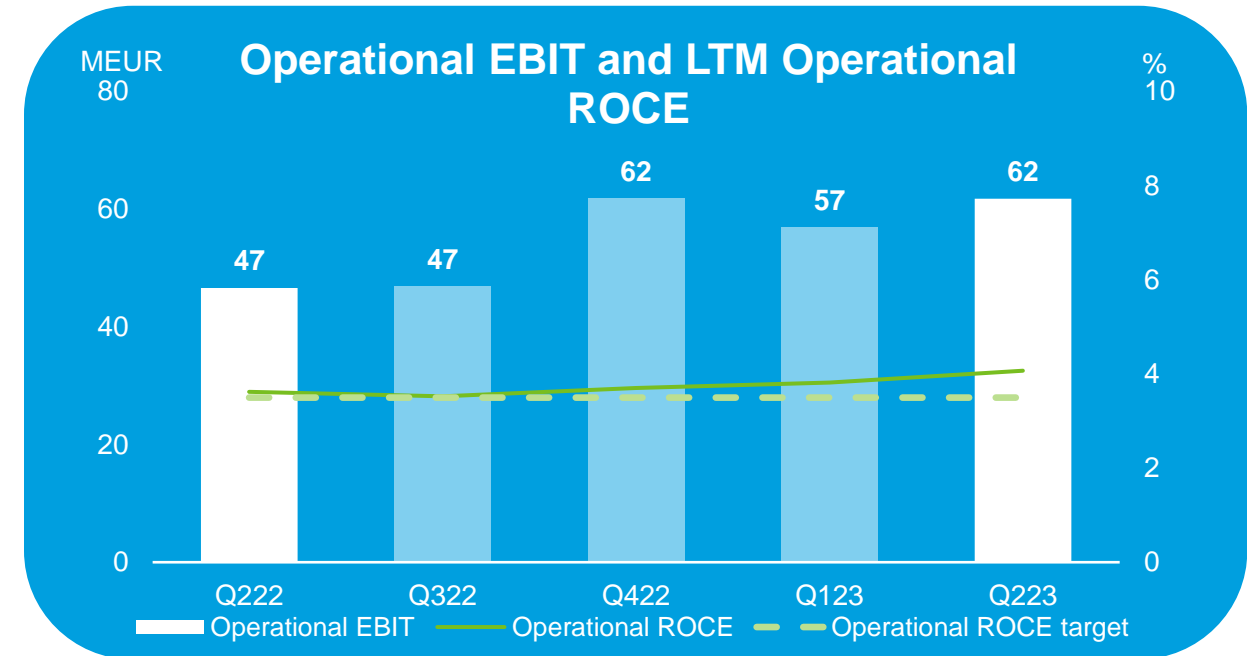
- Operational EBIT decreased by €140 million
- The result was affected by lower prices and volumes
- LTM OpROOC at 5.6%, long-term target >20%

Forest

Stable and strong performance continues

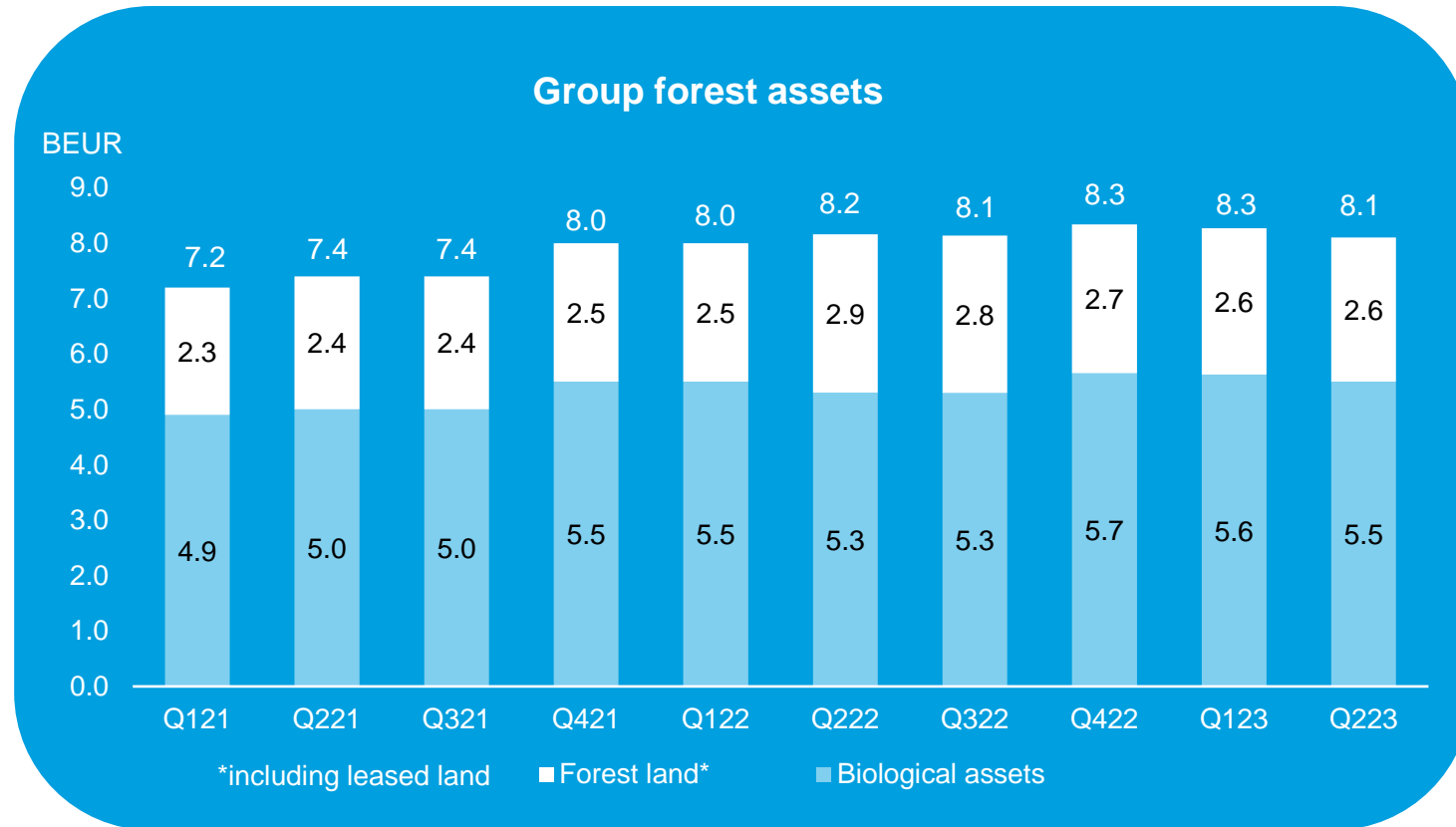


- Sales decreased by 4%, or €29 million
- The decrease was caused by lower demand
- Wood prices remained high due to tight wood markets



- OpEBIT increased by 33%, or €15 million
- The result was driven by a stable and strong operational performance in the Group's own forest assets and in the wood supply operations
- LTM OpROCE at 4.1%, long-term target >3.5%

Forest valuation shows strong resilience in a high interest rate environment



- Fair value* of €8.1 billion equivalent to €10.23 per share
- €266 million lower valuation QoQ mainly due to weaker SEK

*Market transaction-based forest property prices in Finland and Sweden updated in the Q2 and Q4 reporting

Q3/2023 will be another challenging quarter due to sequentially deteriorating market conditions for many segments



Market demand outlook Q2/2023 to Q3/2023



Packaging Materials

- Demand for consumer board is expected to be weaker
- Demand for containerboard is expected to stabilise at low levels
- Destocking continues



Packaging Solutions

- Demand for corrugated packaging is expected to be stronger
- But lower than the normal seasonal peak



Biomaterials

- Pulp demand is expected to be weaker
- High inventory levels expected to continue
- New capacity entering the market



Wood Products

- Weaker demand for both sawn wood and building solutions
- The building activity in the construction industry continues to be slow



Forest

- Sawlog demand expected to remain stable due to tight wood market
- Pulpwood demand expected to decline
- Demand for pulpwood for energy use remains strong

Key takeaways

Financial performance

- Market-related lower demand in combination with high input costs for most of our businesses
- Restructuring plans to improve long-term competitiveness and profitability
- Expected to improve operational EBIT by ~€110 million annually
- Reiterated FY 2023 operational EBIT to be significantly lower than for the full-year 2022 (€1.9 billion)

Strategic initiatives

- Focusing capital allocation on long-term value creation in key growth areas
- Launched a new framework for green and sustainability-linked financing raising €1 billion from the bond markets, along with €550 million in bilateral loan agreements
- Positioning for growth and combining financial performance with lowered environmental impact



Disclaimer



It should be noted that Stora Enso and its business are exposed to various risks and uncertainties and certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by “believes”, “expects”, “anticipates”, “foresees”, or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by the group’s targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the group’s patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the group’s products and the pricing pressures thereto, price fluctuations in raw materials, financial condition of the customers and the competitors of the group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the group’s principal geographic markets or fluctuations in exchange and interest rates. All statements are based on management’s best assumptions and beliefs in light of the information currently available to it and Stora Enso assumes no obligation to publicly update or revise any forward-looking statement except to the extent legally required.

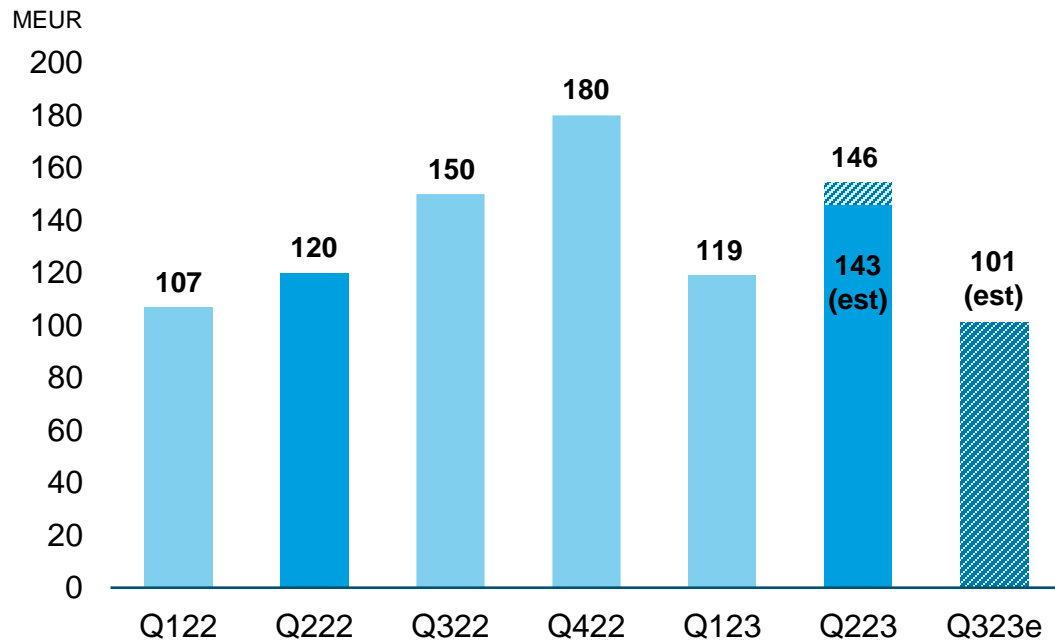


THE RENEWABLE MATERIALS COMPANY

Maintenance shutdowns impacting quarterly results



Group total maintenance impact on operational EBIT



Major maintenance shutdowns in 2023

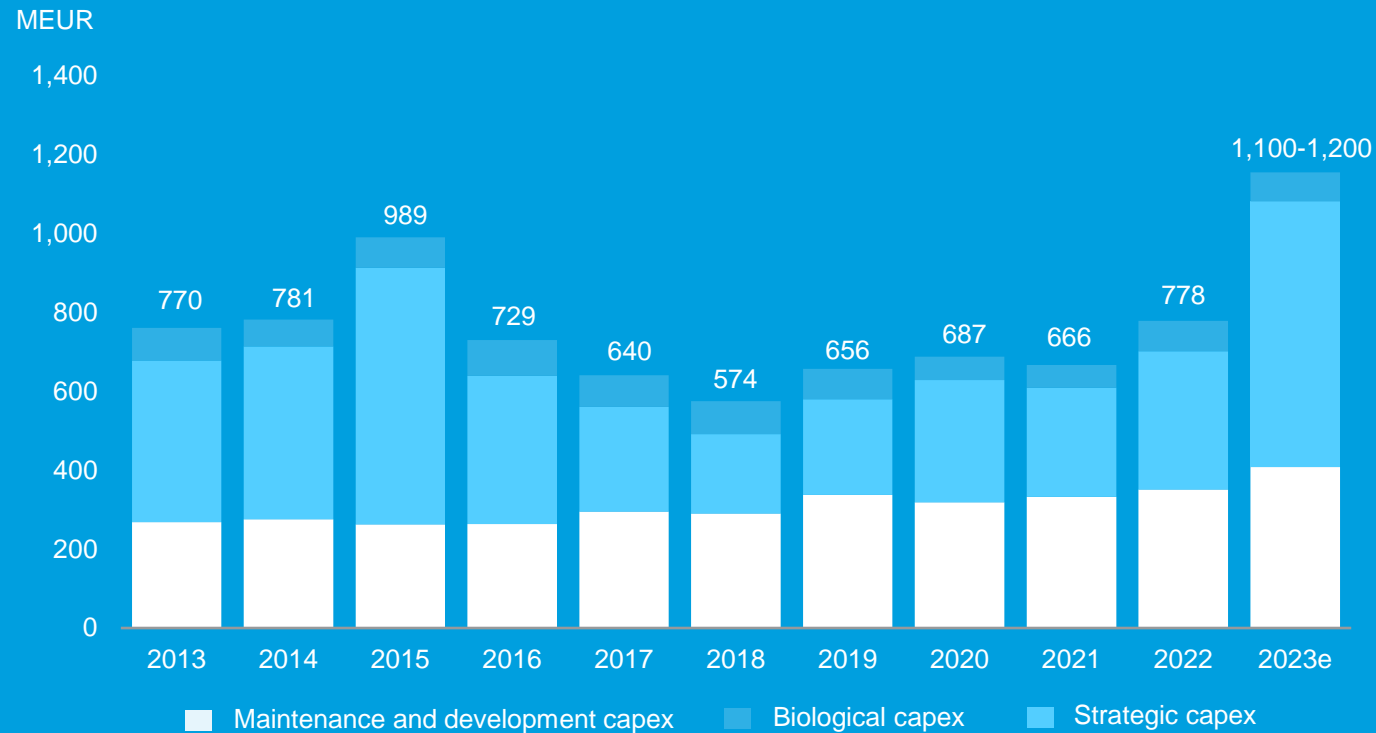
Packaging Materials

- Q1: -
- Q2: Beihai, Ostroleka, Langerbrugge
- Q3: Anjala, Heinola, Ostroleka, Oulu, Varkaus, Ingerois
- Q4: Fors, Imatra, De Hoop, Skoghall

Biomaterials

- Q1: Veracel
- Q2: Montes Del Plata, Skutskär
- Q3: Sunila
- Q4: Enocell

Higher capex estimate mainly due to growth investments in consumer board



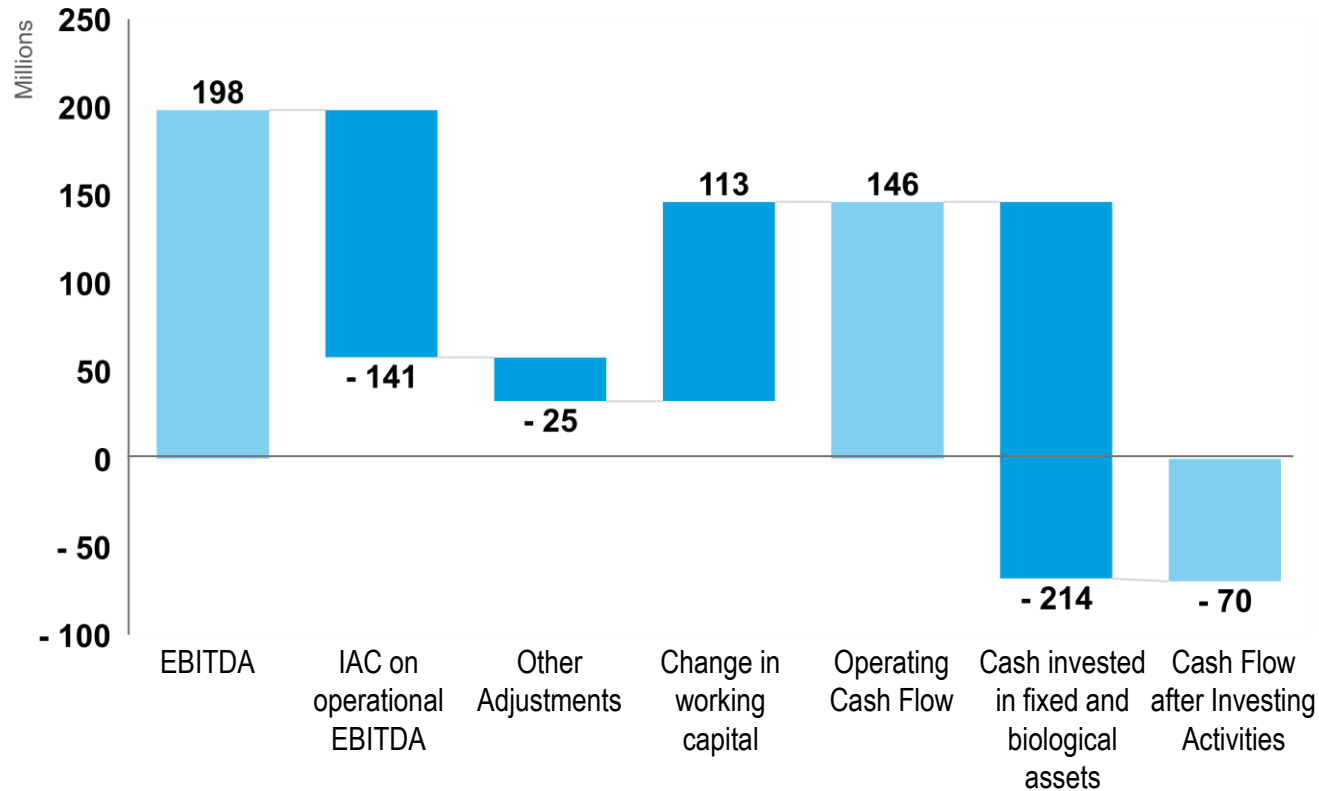
Capex includes the capitalised leasing contracts according to IFRS 16 Leases standard from 2019 onwards

Average capex split for 2013–2023

Depending on investment decisions



Cash flow impacted by working capital development and high capex - focus on improving cash flow



- Cash flow after investing activities was €-70 (1) million.
- Working capital decreased by €113 million, mainly due to lower trade receivables and inventories, and was partly offset by lower trade payables.
- Cash spent on fixed and biological assets was €214 million, of which the majority related to strategic investments
- Payments related to the previously announced provisions amounted to €12 million.

Development of long term targets



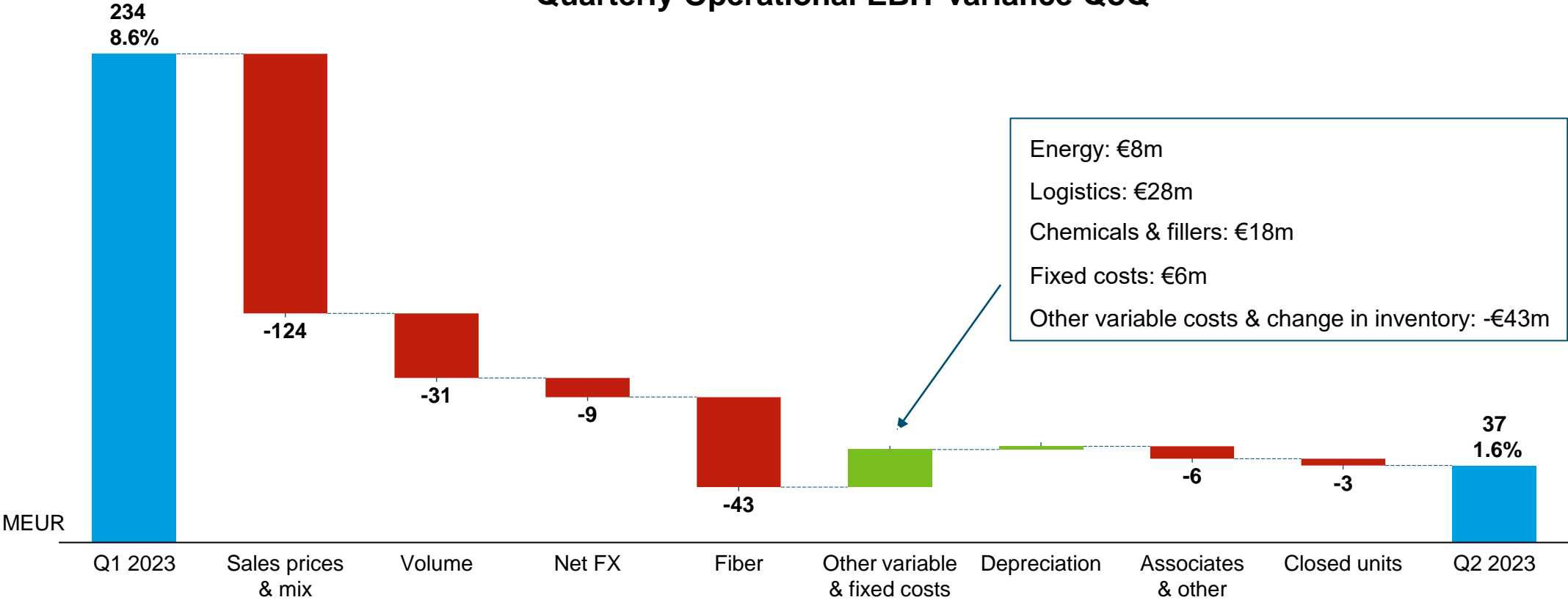
Financial performance		Q2/2022	Q2/2023
Growth YoY	> 5%	18%	-22%
Net debt to operational EBITDA	< 2.0x	1.0	1.7
Net debt to equity	< 60%	21%	27%
Operational ROCE excl. Forest	> 13%	22%	11%
Dividend per share (EUR)	To distribute 50% of EPS excluding fair valuation over the cycle	N/A	N/A

Sustainability performance		FY/2021	FY/2022
Climate: Reduction of fossil CO ₂ e emissions (scope 1 and 2)	-50% by the end of 2030 from 2019	-14%	-27% ↑
Climate: Reduction of fossil CO ₂ e emissions (scope 3)	-50% by the end of 2030 from 2019	-4%	-27% ↑
Circularity	100% by 2030	94%	94%
Biodiversity: Forest certification coverage	≥ 96%	99%	99%

Continued low market demand and destocking drove sales prices down



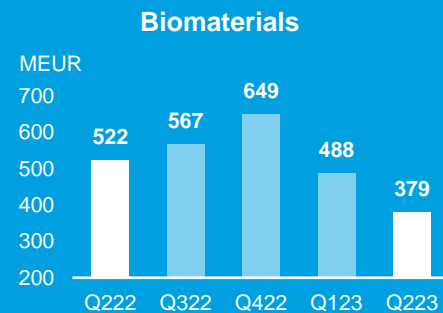
Quarterly Operational EBIT variance QoQ



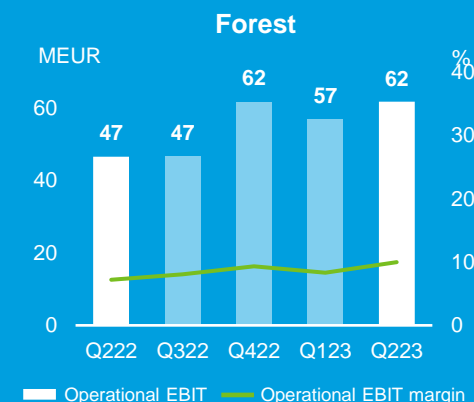
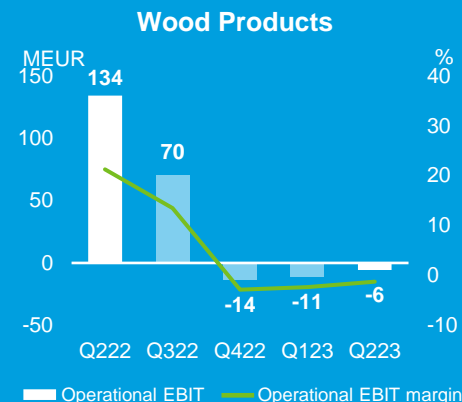
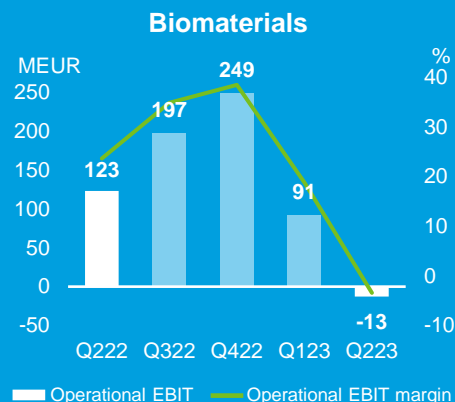
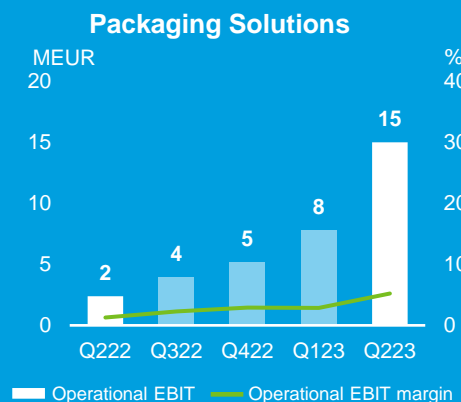
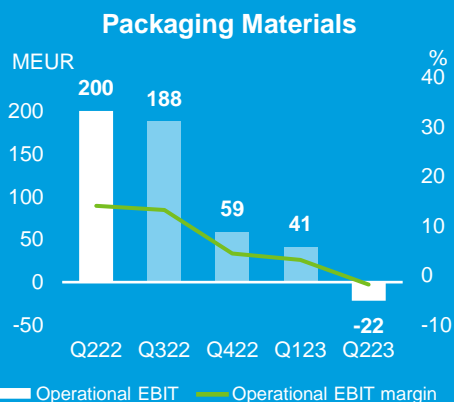
Division overview (sales, opEBIT and opEBIT margin)



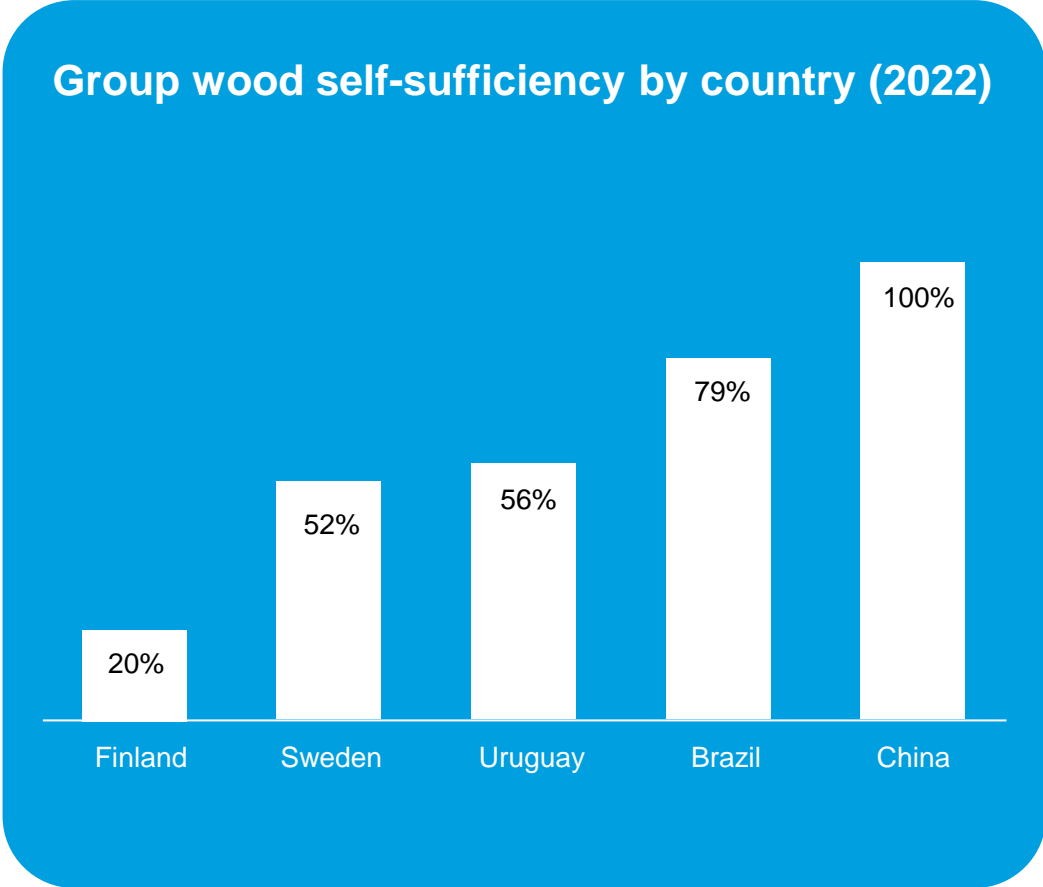
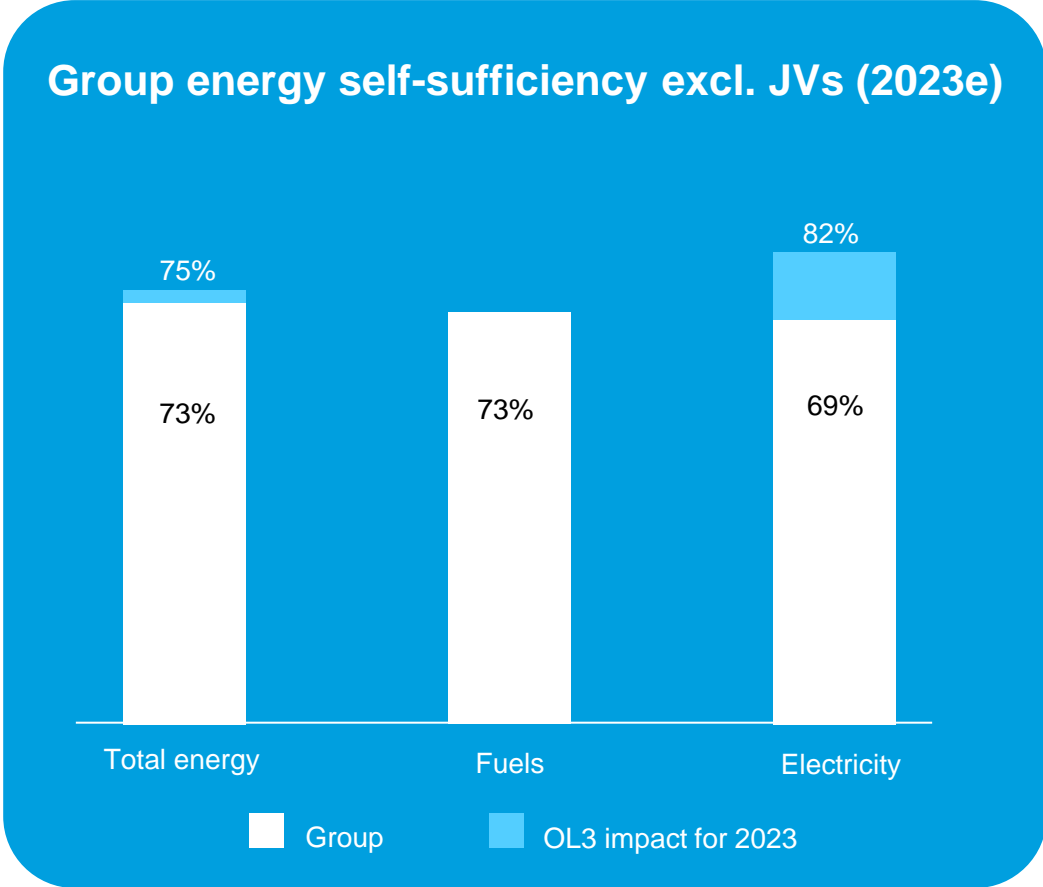
Sales



Operational EBIT and Operational EBIT Margin



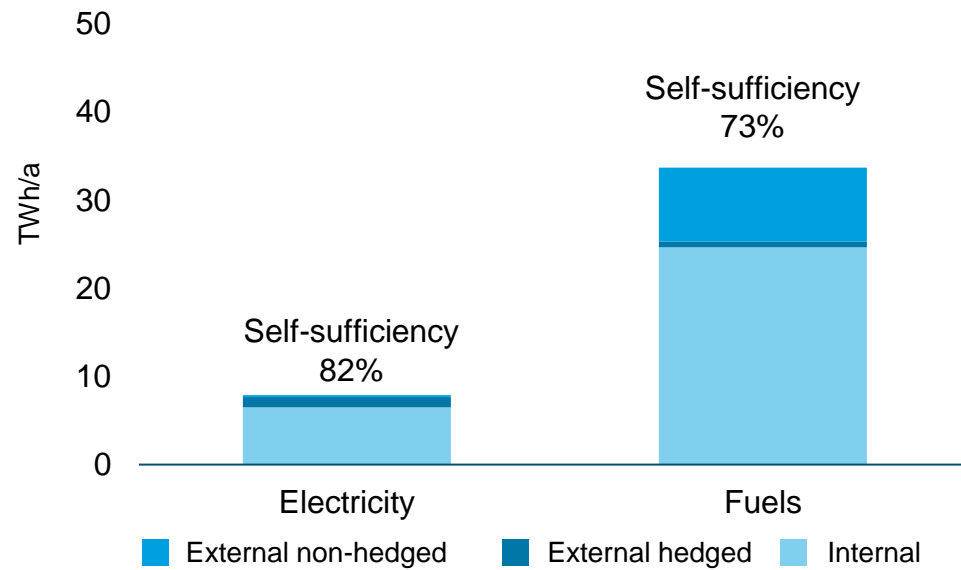
The Olkiluoto 3 nuclear power plant increases Group's energy self-sufficiency to 75%



Energy balance in detail



Group energy balance estimate excl. JVs (2023e)

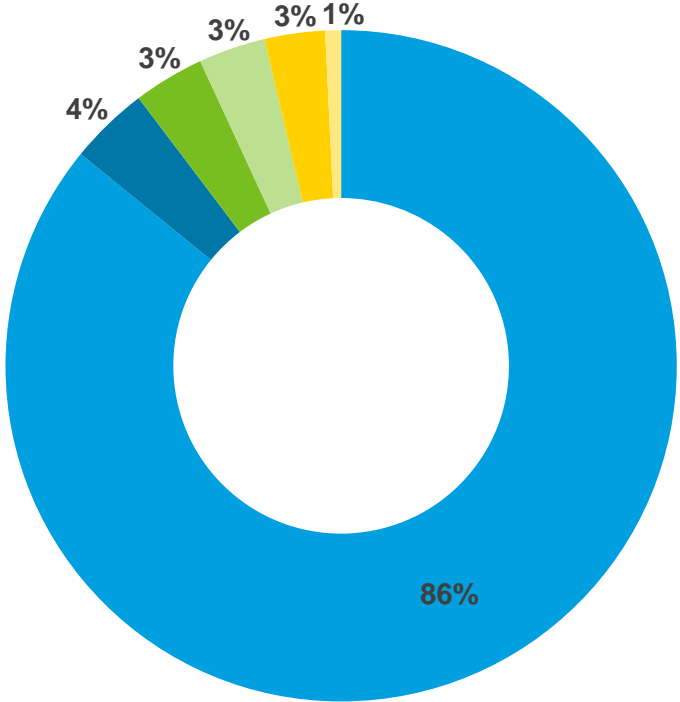


Impact on non-hedged volume on operating profit from 10% change for the next 12 months in:	EUR million p.a.
Electricity market price	~3.1
Fossil fuel price	~11.5

Energy hedging in 2023	~80%
Energy costs of total costs in 2021	~9%

Mainly biomass used as fuel

Group fuel consumption Q2/2023

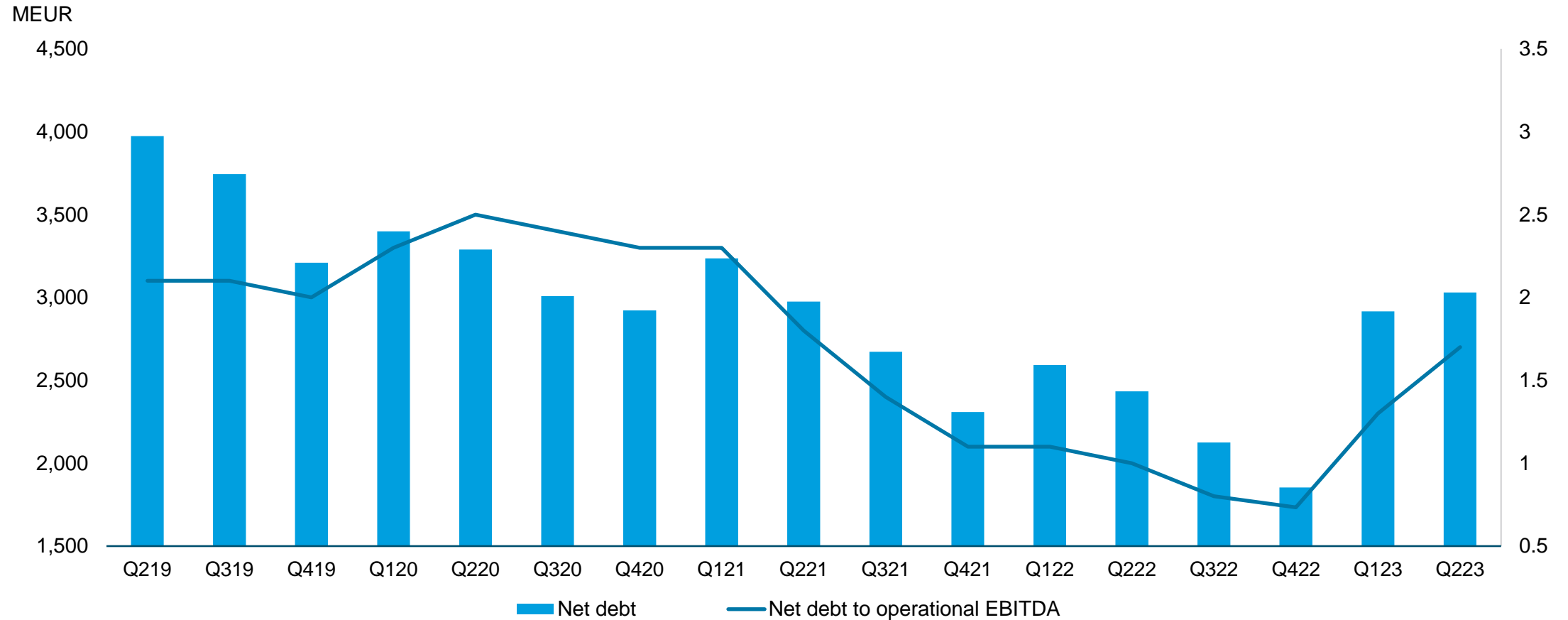


■ Biomass ■ Coal ■ Gas ■ Other Fossil ■ Fuel Oil ■ Peat

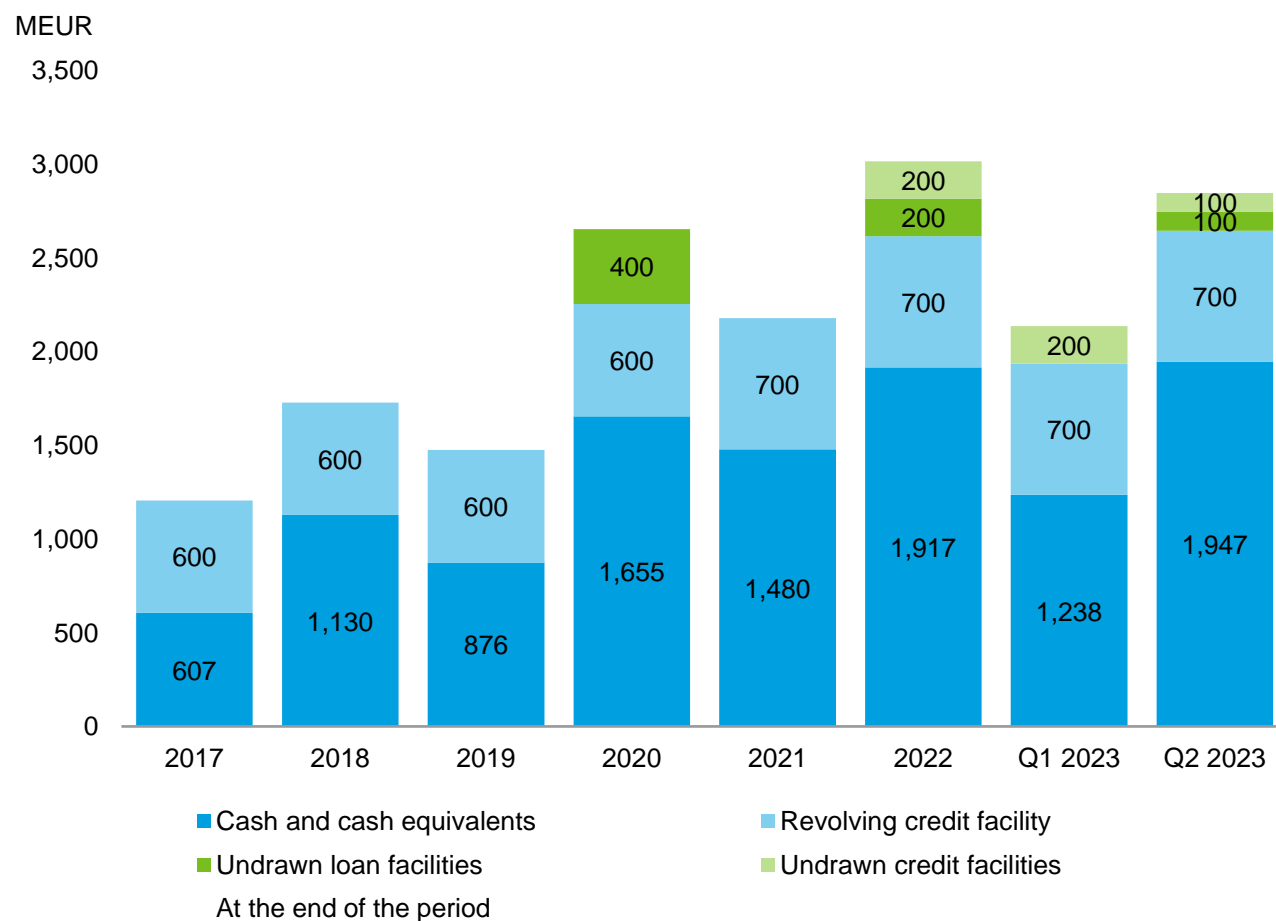
Group fuel consumption was 6.8 TWh in Q2/2023



Year-on-year net debt/Operational EBITDA



Solid liquidity position



- Liquidity at the end of Q2/2023:
 - €1,947m cash and cash equivalents
 - €700m committed revolving credit facility fully undrawn
 - €100m committed credit facility fully undrawn
 - €100m committed loan facility undrawn (drawdown 07/2023)
 - €1,100m statutory pension premium loans available
- No financial covenants on Stora Enso Oyj's debt
- Net debt to operational EBITDA for the last 12 months at 1.7 x and gearing at 27%

Net Financial Items

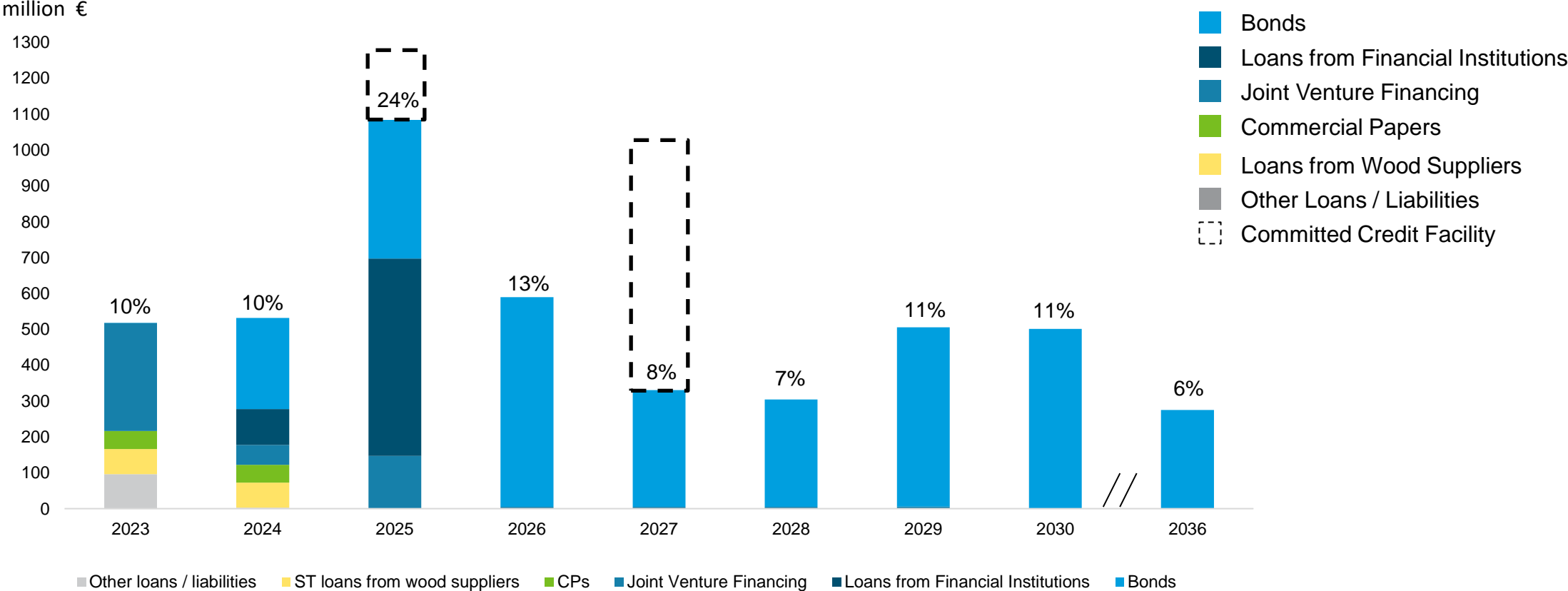


MEUR	Q2/23	Q2/22	Change MEUR Q223/ Q222	Q1/23	Change MEUR Q223/ Q123
Net interest expense	-28	-28	-1	-25	-3
Average interest rate*	3.5%	3.3%		3.5%	
Foreign exchange gains and losses	-22	0	-22	-2	-19
Other financial items, of which	-1	-2	0	-2	0
Pension costs (IAS 19R)	-1	-1	-1	-1	0
Other items	0	-1	1	-1	0
Total net financial items	-51	-29	-22	-29	-22

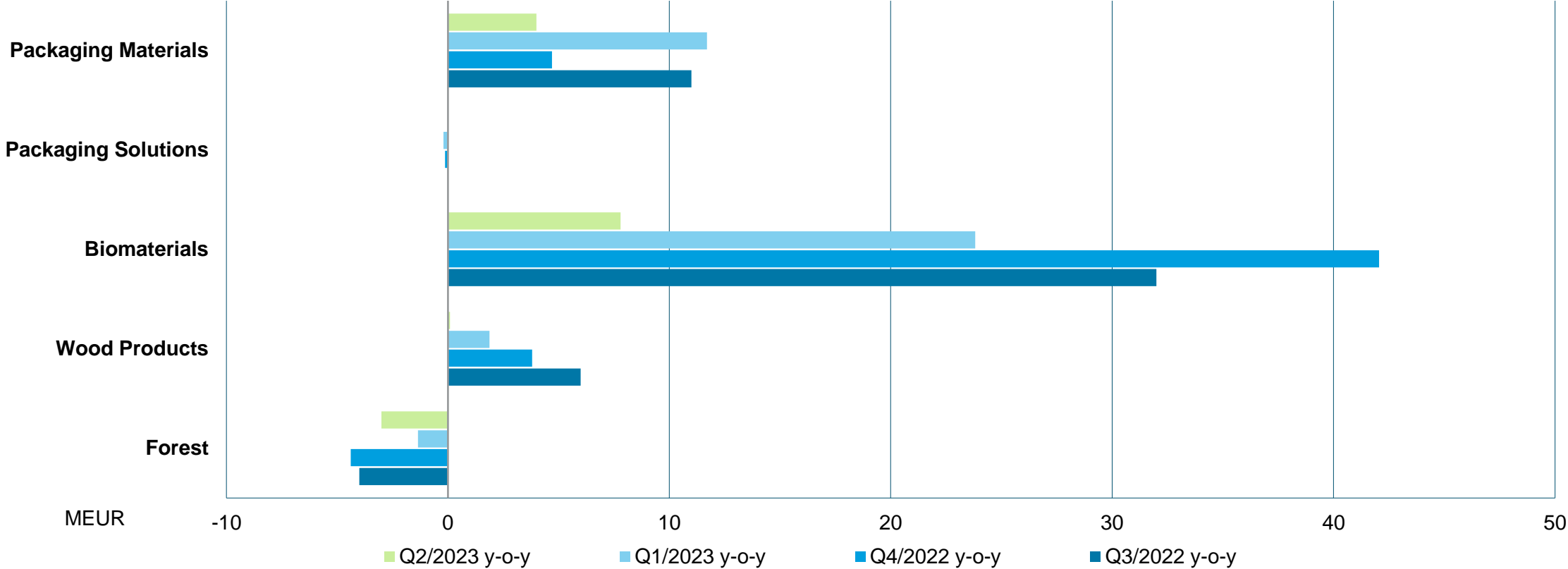
*Quarterly gross interest expense divided by average gross debt

Maturity profile 2023

June 2023



Net FX by division

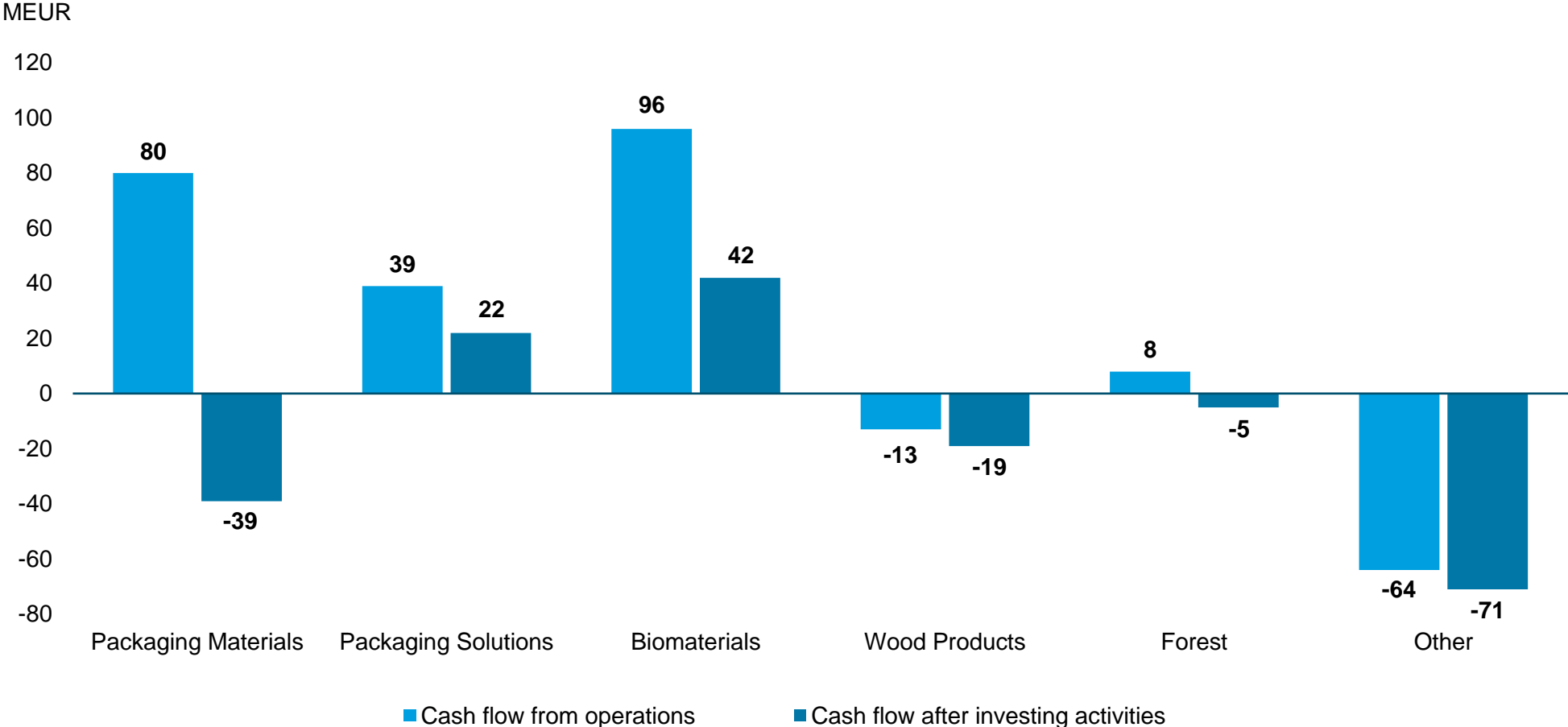


Operational EBIT by segments

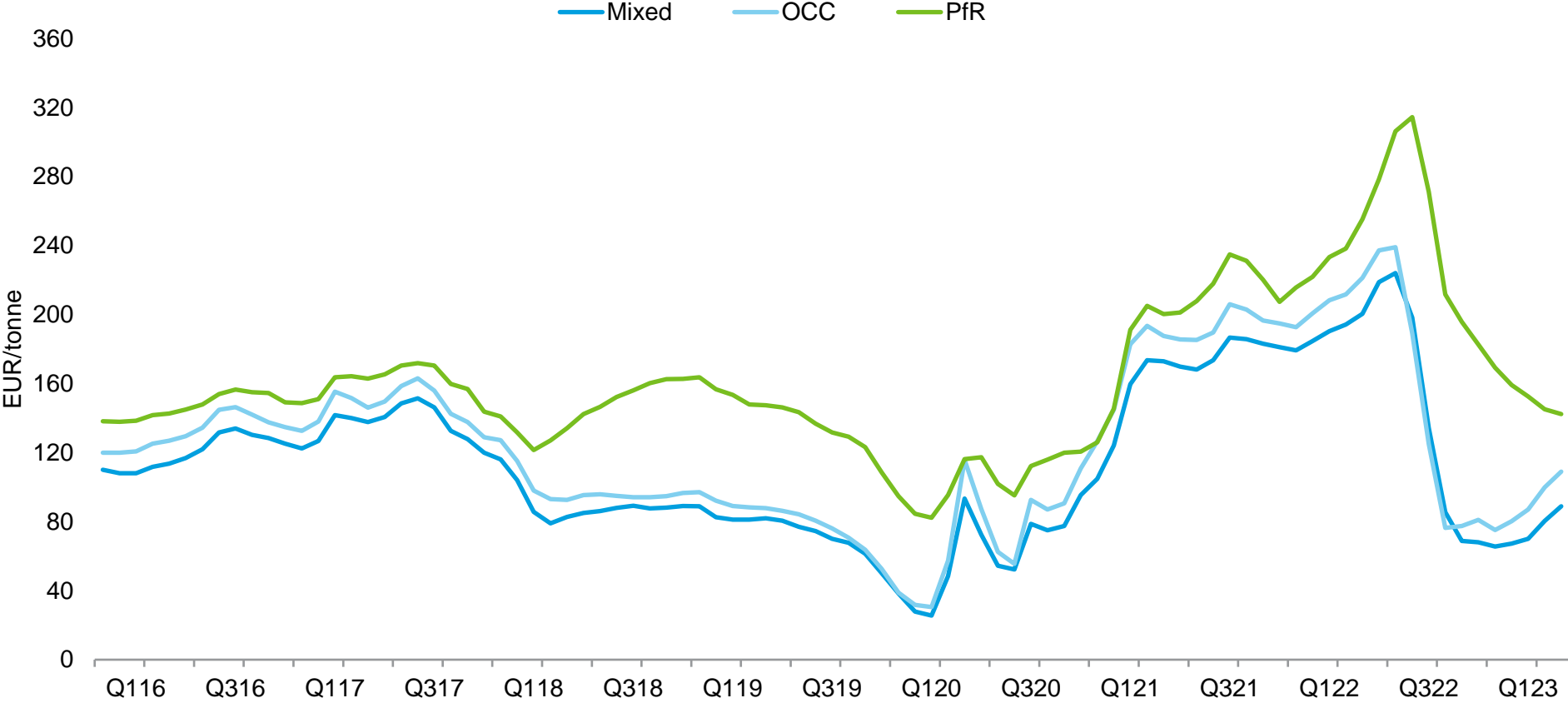


MEUR	Q2/23	Q2/22	Change % Q223-Q222	Q1/23	Change % Q223-Q123
Packaging Materials	-22	200	-110.8%	41	-152.4%
% of sales	-1,9%	14.1%		3.2%	
Packaging Solutions	15	2	n/m	8	91,7%
% of sales	5,2%	1.3%		2.8%	
Biomaterials	-13	123	-110.6%	91	-114,3%
% of sales	-3,4%	23,6%		18.7%	
Wood Products	-6	134	-104,2%	-11	47,3%
% of sales	-1,3%	21.3%		-2.3%	
Forest	62	47	32,5%	57	8,5%
% of sales	10,0%	7.2%		8,3%	
Other	-9	14	-166,3%	27	-134,7%
% of sales	-4,3%	2,4%		7,3%	

Cash flow by divisions in Q2/2023

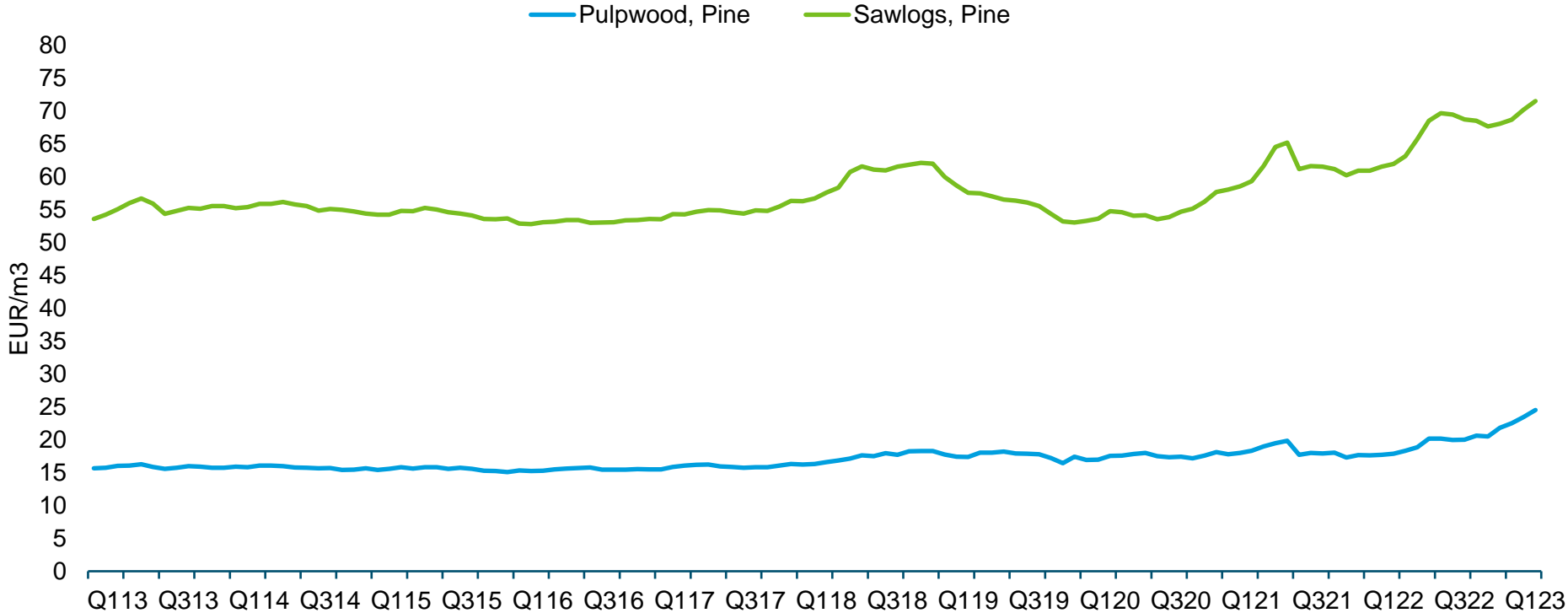


Paper for recycling prices



Source: Fastmarkets FOEX

Pulpwood and sawlog prices in Finland

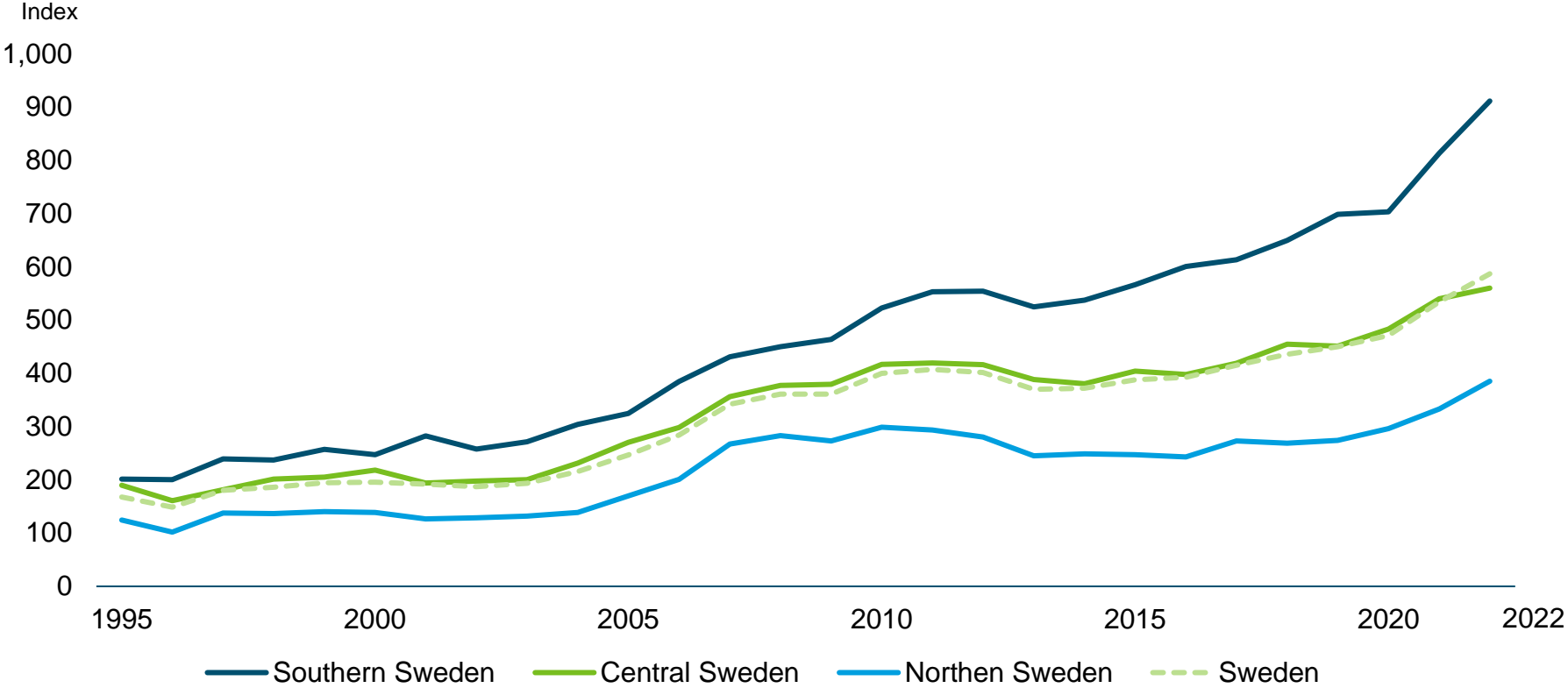


Source: Luonnonvarakeskus

Market transaction prices continued to increase in 2022



Market transaction based forest property prices in Sweden



Source: Ludvig & Co 26 January 2023 report, based on nominal prices

ESG ratings and recognition



Climate A-,
Forest B and
Water B



Highest
recognition
level, Platinum,
Total score 82
out of 100

**FTSE
Russell**

ESG rating
4.4 out of 5



ESG QualityScore
highest possible
score (1*)
in Social, and
Environment



ESG rating
AAA (highest
possible score)



ESG rating
14.7* out of 100

**Transition
Pathway
Initiative**

Top-ranked
in both
management
quality and
carbon

VigeoEiris***

ESG rating
73 out of 100

* 1 indicating the lowest risk * 0 indicating the lowest risk *** V.E. part of Moody's ESG solutions

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