



storaenso

# CEO's report

## Karl-Henrik Sundström

# Congratulations Finland 100 years!



# The renewable materials growth company



Everything that's made with fossil-based materials today can be made from a tree tomorrow.

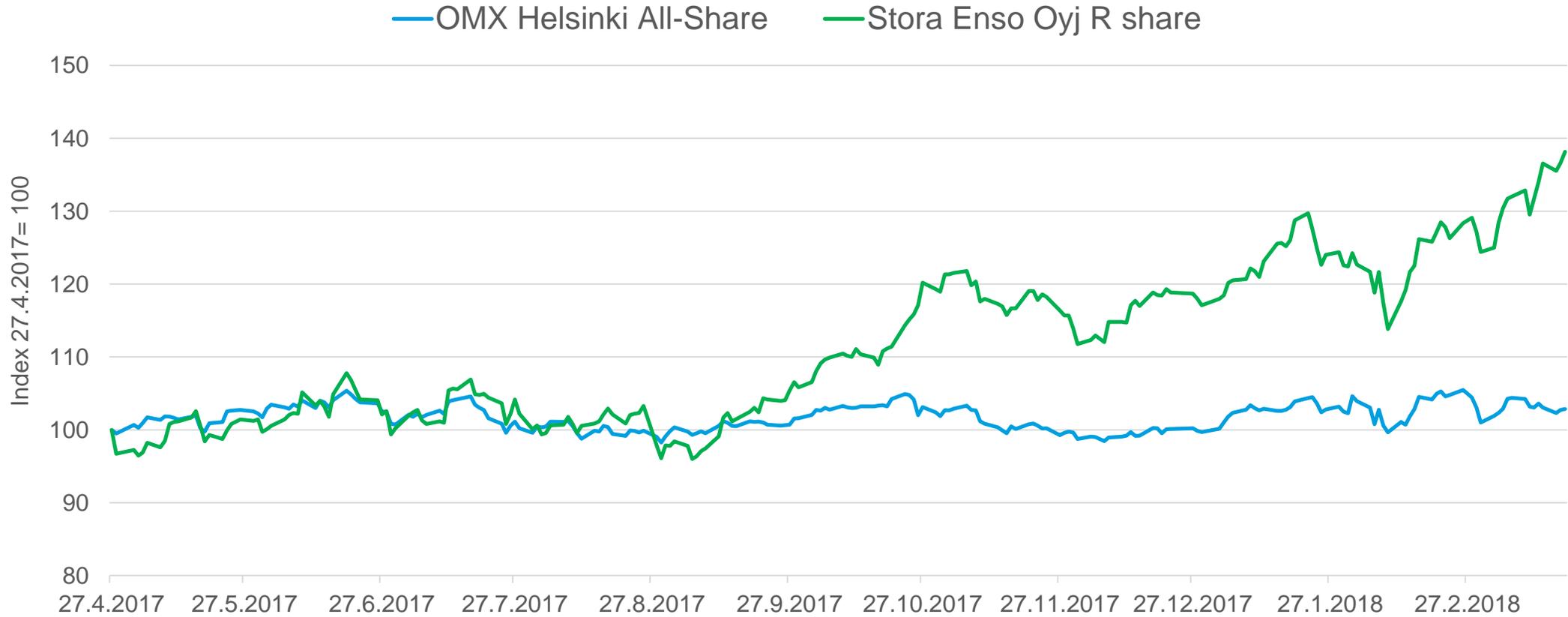


Over EUR 10 billion sales

Over EUR 1 billion operational EBIT

Over 10% operational EBIT margin

# Stora Enso share price since the last AGM on 27 April 2017



# Full year results

## 2014–2017



| EUR million                                   | 2017      | 2016     | 2015     | 2014     |
|---|-----------|----------|----------|----------|
| Sales   | 10 045    | 9 802    | 10 040   | 10 213   |
| Operational EBIT                              | 1 004     | 884      | 915      | 810      |
| Operational EBIT margin                       | 10.0%     | 9.0%     | 9.1%     | 7.9%     |
| Operational ROCE                              | 11.9%     | 10.2%    | 10.6%    | 9.5%     |
| Cash flow from operations                     | 1 492     | 1 633    | 1 556    | 1 139    |
| Cash flow after investing activities          | 825       | 834      | 599      | 255      |
| EPS excl. IAC                                 | EUR 0.89  | EUR 0.65 | EUR 1.24 | EUR 0.40 |
| Dividend per share                            | EUR 0.41* | EUR 0.37 | EUR 0.33 | EUR 0.30 |
| Net debt/last 12 months' operational EBITDA** | 1.4       | 1.9      | 2.2      | 2.3      |

\* Proposal for 2017

\*\*Restated due to a change in group's operational EBITDA definition to include the operational EBITDA of its equity accounted investments (EAI)

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# Accelerated profitable growth

## 2017 year-on-year

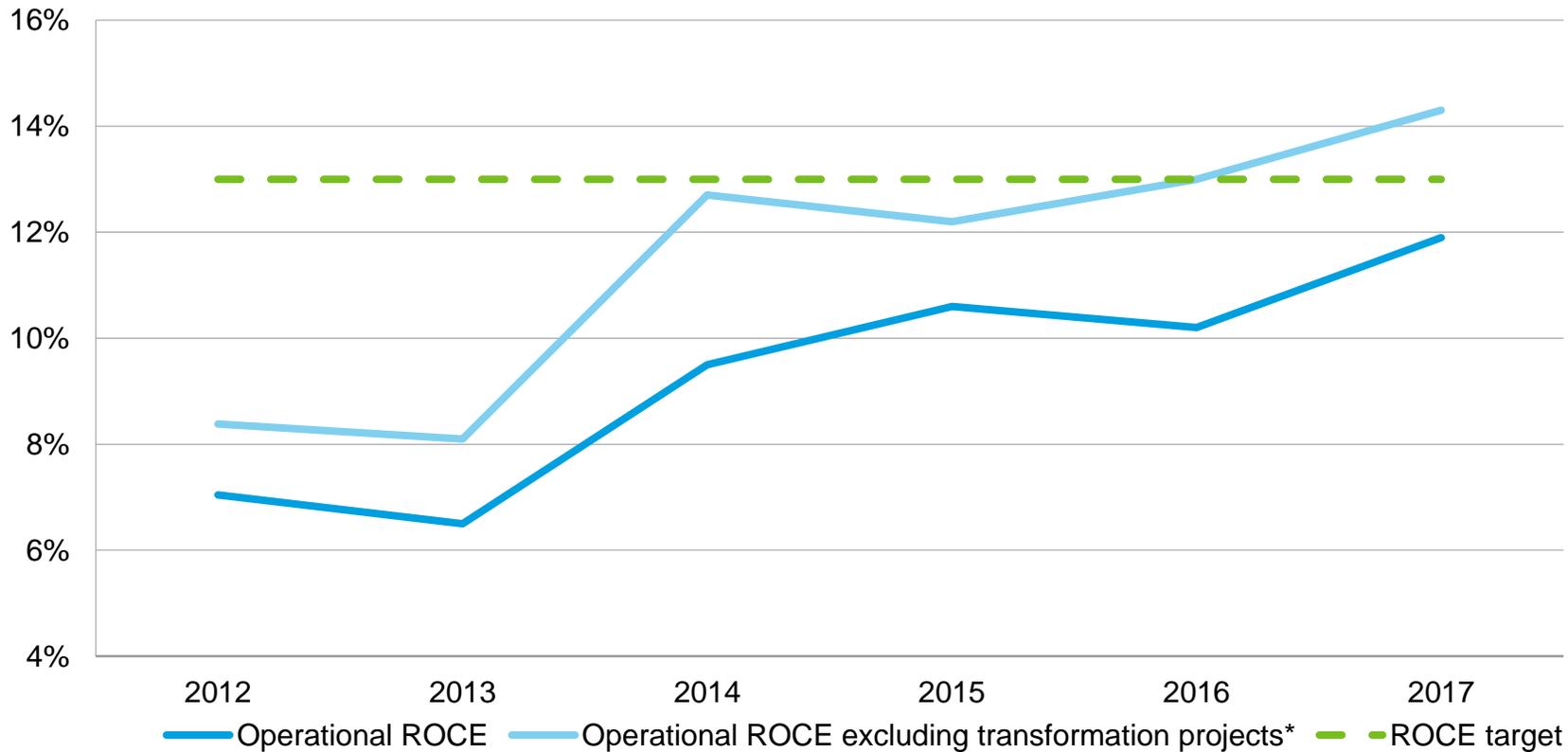


- Sales EUR 10 045 million, growth of 2.5%
  - Increased 8.5% excluding paper business
    - Beihai consumer board mill ramp-up, Murów sawmill, Varkaus laminated veneer lumber (LVL) and kraftliner mills, higher pulp production output
- Operational EBIT EUR 1 004 million increased by EUR 120 million
  - Higher volumes, higher sales prices and better mix
  - Net foreign exchange rates, higher variable and fixed cost and a negative impact on operational EBIT
- Operational EBIT margin 10.0%



# Continuous improvement

2017: Operational ROCE 11.9%, excluding Beihai Mill project 14.3%



\* Excluding Montes del Plata until end of 2014 and excluding Beihai Mill project in Guangxi

# Transformation steps during 2017

## Yet another active year



### Ramp-up of new projects

- Beihai Mill
- Varkaus kraftliner
- Varkaus LVL
- Murów sawmill
- Ala pellet

### Acquisitions

- Letter of intent aiming at structural changes in Bergvik Skog signed

### Divestments and closures

- Kvarnsveden SC 100 kt PM closure
- Re-board business in Sweden
- Bulleh Shah Packaging
- Puumerkki, a wholesaler of wooden building materials in Finland
- Baienfurt sheeting centre in Germany

### New investments CAPEX 350 MEUR\*

Completed project in 2017:

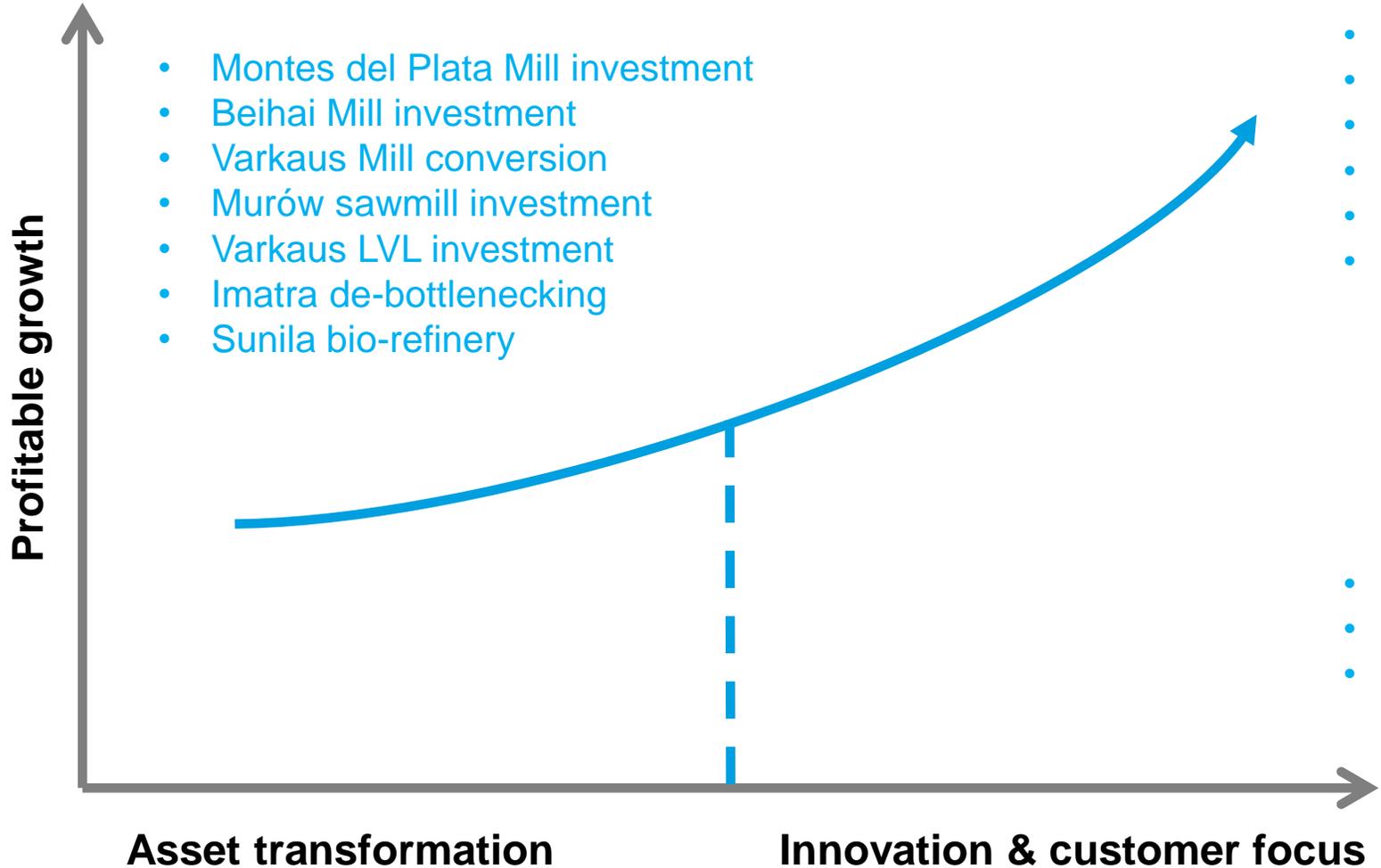
- Beihai PE coating line
- Imatra PE coating line and automated warehouse
- Skoghall chemical plant
- MFC Imatra and Fors

Ongoing projects:

- Skutskär fluff pulp
- Lahti corrugated packaging
- Heinola Fluting Mill capacity increase
- Hylte biocomposite granules
- Gruvön CLT production unit
- Tychy corrugated plant
- China Packaging capacity extension and technology
- Ingerois MFC
- Enocell dissolving pulp
- Imatra CTMP drying capacity

\* Capex excluding maintenance capex

# Improving sales and innovation



- Montes del Plata Mill investment
- Beihai Mill investment
- Varkaus Mill conversion
- Murów sawmill investment
- Varkaus LVL investment
- Imatra de-bottlenecking
- Sunila bio-refinery

- Innovation Centre Helsinki
- Innovation Centre Stockholm
- NXP and Rennovia JDA
- Launch of first MFC product
- Intelligent packaging
- Launches of:
  - Performa Brilliance by Stora Enso
  - CKB Nude by Stora Enso
  - Natura Life by Stora Enso
  - Fibre Cup
  - Multicopy Zero by Stora Enso
  - FlyoBrite by Stora Enso
  - Bio-based lignin Lineo™ by Stora Enso
- Biocomposites
- Product & Sales Management, S&OP, CRM
- Accelerator programme

# These are our drivers for accelerating renewable growth



7% of our sales came from NEW products and services in 2017.

# Our road to success in the bioeconomy

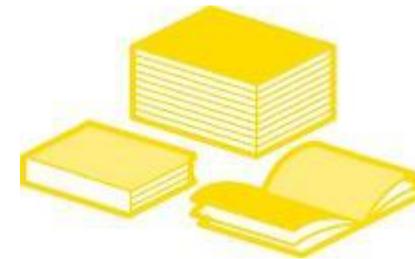
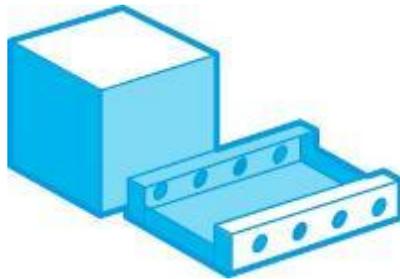


Introducing  
new products  
and services

Addressing  
attractive  
end-use  
segments

Delivering  
sustainable  
profitable  
growth

Generating  
superior  
ROCE



# Strategic targets

## Years 2014–2017



| Group targets                  |  | 2014       | 2015       | 2016       | 2017       | Status |
|--------------------------------|--|------------|------------|------------|------------|--------|
| Dividend                       | To distribute 50% of net income over the cycle | EUR 0.30   | EUR 0.33   | EUR 0.37   | EUR 0.41*  | ●      |
| Growth**                       | To grow faster than the relevant market        | 0.9% (YoY) | 4.6% (YoY) | 3.1% (YoY) | 8.5% (YoY) | ●      |
| Net debt to operational EBITDA | <3.0   | 2.3        | 2.2        | 1.9        | 1.4        | ●      |
| Fixed costs to sales           | <20%   | 25.1%      | 25.0%      | 25.3%      | 25.1%      | ●      |
| Debt to equity                 | <80%   | 65%        | 60%        | 47%        | 38%        | ●      |
| Operational ROCE               | >13%   | 9.5%       | 10.6%      | 10.2%      | 11.9%      | ●      |
| Operational ROCE excl. Beihai  |  | 12.7%***   | 12.2%      | 13.0%      | 14.3%      | ●      |

| Divisional targets                 |   | 2014  | 2015  | 2016  | 2017  | Status |
|------------------------------------|---|-------|-------|-------|-------|--------|
| Consumer Board                     | Operational ROOC >20%                             | 17.8% | 15.5% | 12.7% | 14.6% | ●      |
| <i>Consumer Board excl. Beihai</i> |   | 27.2% | 29.7% | 36.2% | 36.7% | ●      |
| Packaging Solutions                | Operational ROOC >20%                             | 14.1% | 11.1% | 7.6%  | 19.6% | ●      |
| Biomaterials                       | Operational ROOC >15%                             | 3.9%  | 12.4% | 8.5%  | 10.5% | ●      |
| Wood Products                      | Operational ROOC >20% (18% for 2014–2016)         | 17.3% | 15.7% | 16.8% | 20.5% | ●      |
| Paper                              | Cash flow after investing activities to sales >7% | 6.2%  | 5.5%  | 8.5%  | 5.5%  | ●      |

\* Dividend proposal

\*\* Excluding Paper

\*\*\* Excluding also Montes del Plata investments

# Beihai Mill in China – Operational EBITDA break-even in Q4/2017



# Varkaus kraftliner mill in Finland – exceeded its designed capacity level and targeted profitability in Q4/2017



**Varkaus laminated veneer lumber (LVL) line  
in Finland – ramping up**

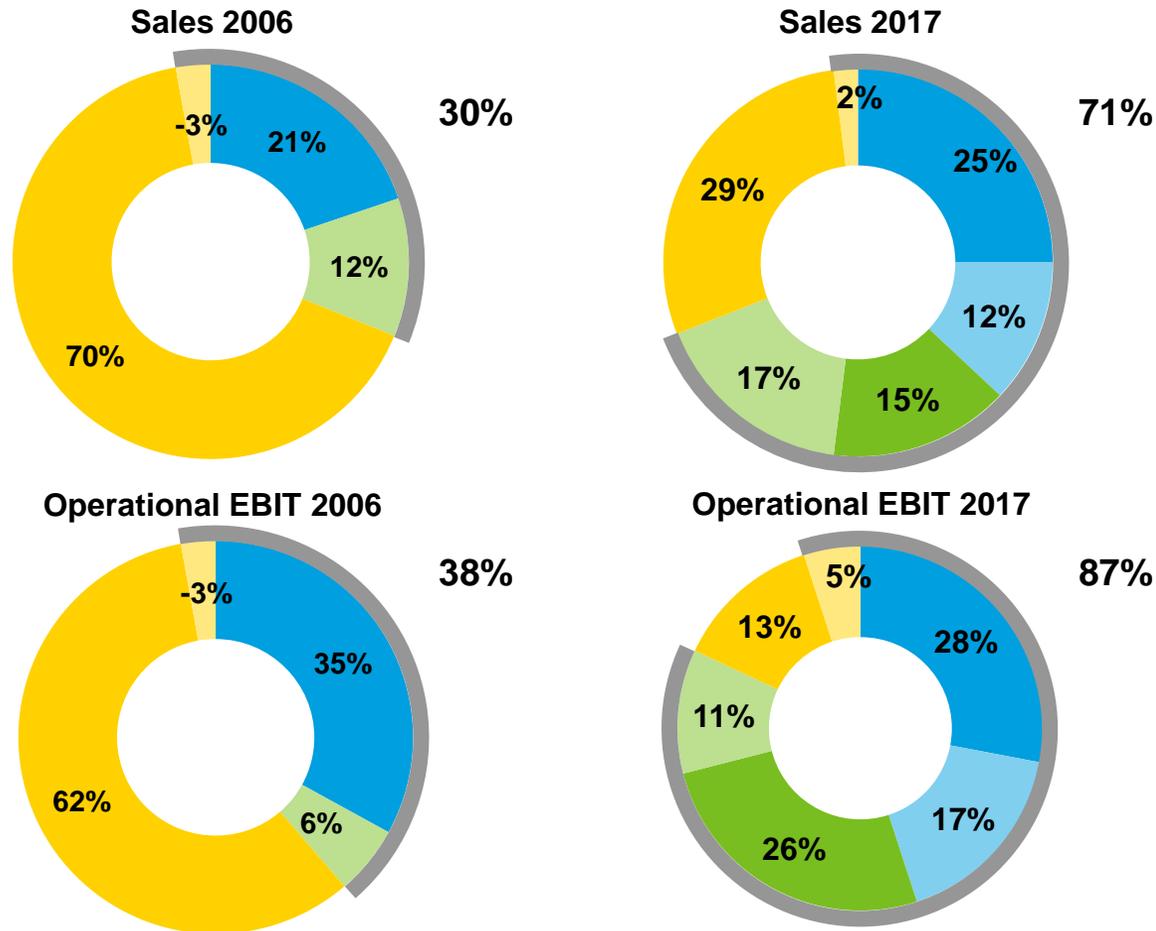


# Murów sawmill in Poland – ramping up



# Transformation journey continues

2017: Growth businesses 71% of sales and 87% of operational EBIT



- Consumer Board
- Packaging Solutions\*
- Biomaterials
- Wood Products
- Paper\*\*
- Other & eliminations

\* In 2006 included in Consumer Board

\*\* In 2006 includes merchants

# Stora Enso as a taxpayer



| EUR million in 2017          | Finland    | Sweden               | Germany              | UK        | China                | Poland               | Belgium              | Austria              | Brazil     | Russia               | Other     | Total        |
|------------------------------|------------|----------------------|----------------------|-----------|----------------------|----------------------|----------------------|----------------------|------------|----------------------|-----------|--------------|
| Primary activity             | Production | Production and sales | Production and sales | Sales     | Production and sales | Production and sales | Production and sales | Production and sales | Production | Production and sales |           |              |
| <b>Taxes borne</b>           |            |                      |                      |           |                      |                      |                      |                      |            |                      |           |              |
| Corporate income tax         | 0          | 45                   | 4                    | 0         | 17                   | 11                   | 3                    | 13                   | 3          | 7                    | 10        | <b>113</b>   |
| Employment taxes             | 90         | 86                   | 12                   | 1         | 11                   | 5                    | 10                   | 12                   | 3          | 3                    | 16        | <b>249</b>   |
| Operational taxes            | 13         | 7                    | 4                    | 0         | 30                   | 7                    | 7                    | 0                    | 2          | 5                    | 2         | <b>77</b>    |
| <b>Total Taxes Borne</b>     | <b>103</b> | <b>138</b>           | <b>20</b>            | <b>1</b>  | <b>58</b>            | <b>23</b>            | <b>20</b>            | <b>25</b>            | <b>8</b>   | <b>15</b>            | <b>28</b> | <b>439</b>   |
| <b>Taxes collected</b>       |            |                      |                      |           |                      |                      |                      |                      |            |                      |           |              |
| VAT & similar*               | 35         | 77                   | 110                  | 71        | 9                    | 37                   | 7                    | 8                    | 3          | 10                   | 31        | <b>398</b>   |
| Payroll taxes                | 144        | 85                   | 26                   | 2         | 11                   | 8                    | 8                    | 14                   | 3          | 2                    | 18        | <b>321</b>   |
| Other taxes                  | 67         | 0                    | 0                    | 0         | 0                    | 0                    | 1                    | 0                    | 7          | 0                    | 3         | <b>78</b>    |
| <b>Total Taxes Collected</b> | <b>246</b> | <b>162</b>           | <b>136</b>           | <b>73</b> | <b>20</b>            | <b>45</b>            | <b>16</b>            | <b>22</b>            | <b>13</b>  | <b>12</b>            | <b>52</b> | <b>797</b>   |
| <b>Total Taxes Paid</b>      | <b>349</b> | <b>300</b>           | <b>156</b>           | <b>74</b> | <b>78</b>            | <b>68</b>            | <b>36</b>            | <b>47</b>            | <b>21</b>  | <b>27</b>            | <b>80</b> | <b>1 236</b> |

\* VAT, good and services taxes and similar turnover related taxes

# Creating a renewable future in the bioeconomy



In the bioeconomy, products based on wood fibres are replacing non-renewable materials.



Megatrends support our future.

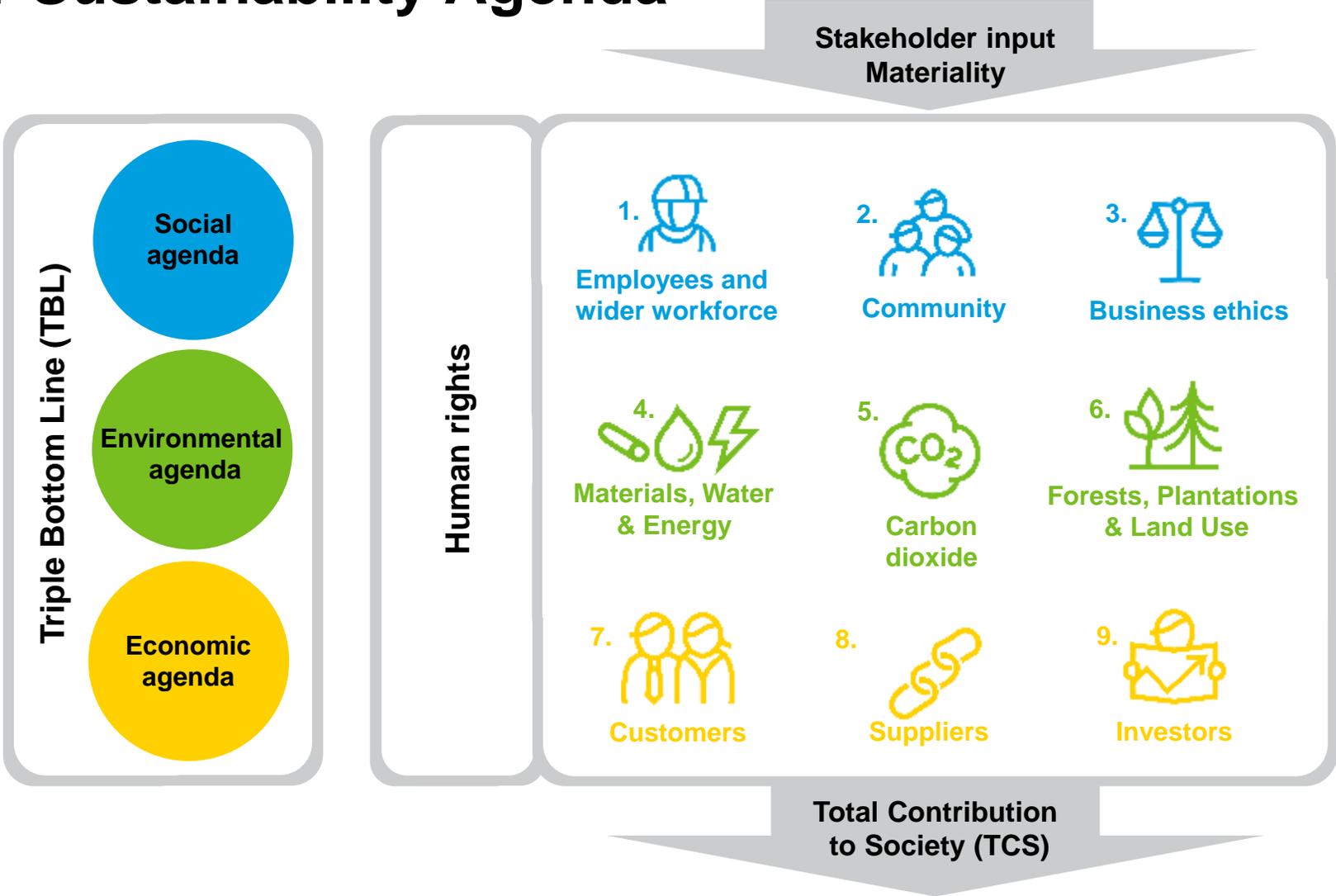
A collection of white line-art icons on a green background. From left to right: a city skyline, a globe, a group of three people, a recycling symbol with "CO2" inside, a stack of papers, and a plant with three leaves.

# Video: Choose the climate, choose renewable materials

A person in a blue shirt is holding a white carton with the text "Now, you choose." printed on it. The scene is set in a kitchen with a yellow mug, a glass of orange juice, and a brown paper basket in the foreground.

Now, you  
choose.

# Our Sustainability Agenda



# Taking the lead to combat global warming

## Setting ambitious reduction targets for greenhouse gas emissions



SCIENCE  
BASED  
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

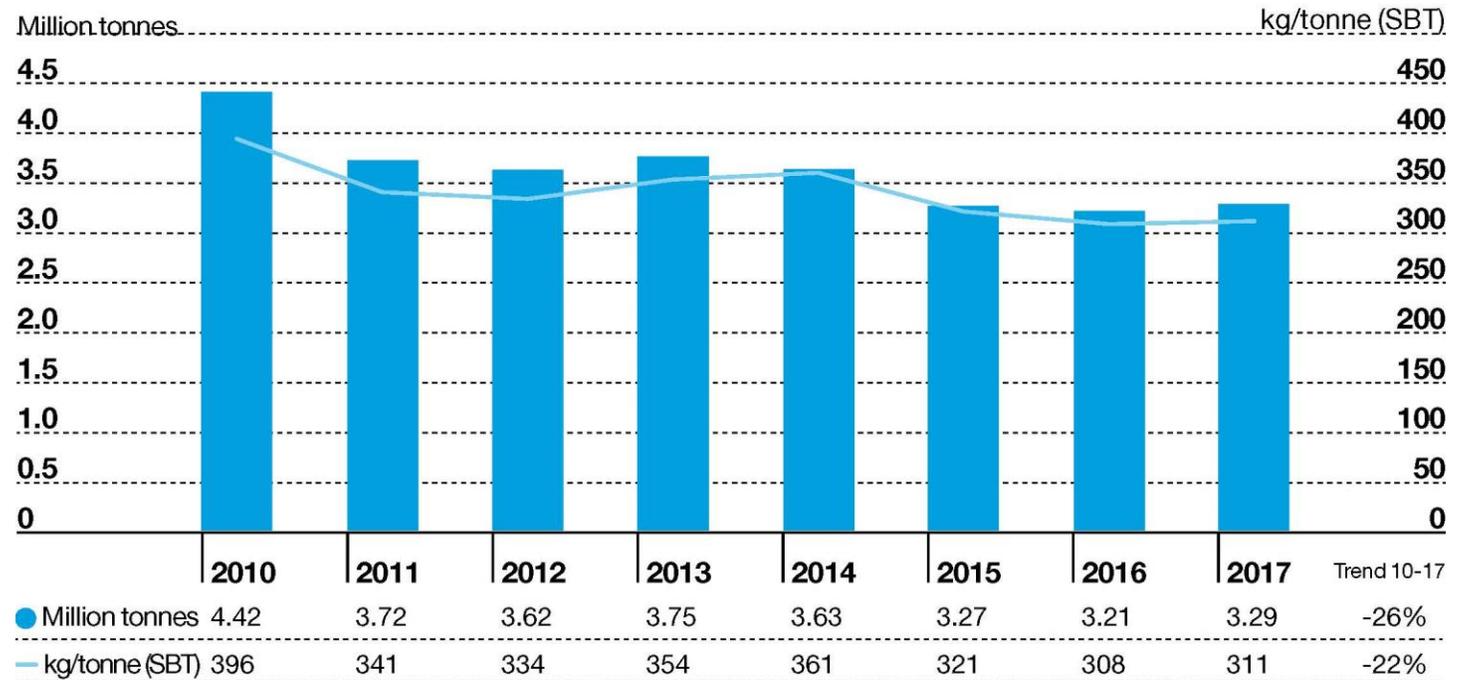
- Stora Enso is the **first forest products company** to have externally approved science-based targets (SBT) to reduce its greenhouse gas (GHG) emissions.
- **Targets for our operations**
  - Reducing GHG emissions from operations by **31%** per tonne of pulp, paper, and board produced by 2030, compared to a 2010 baseline.
- **Engagement targets for our suppliers**
  - 70% of our non-fibre suppliers in terms of spend to set GHG reduction targets.
- **Engagement targets for our customers**
  - Training our customer-facing staff on the advantages of setting science-based targets.

# Science-based targets to reduce greenhouse gas emissions



We are reducing GHG emissions from operations by **31%** per tonne of pulp, paper, and board produced by 2030, compared to a 2010 baseline.

Science-based target (SBT) performance:  
Greenhouse gas emissions in relation to production<sup>1</sup>



<sup>1</sup> Covering direct and indirect fossil CO<sub>2</sub> (scope 1 and 2) emissions as well as CO<sub>2</sub>-equivalents for methane (CH<sub>4</sub>) and dinitrogenoxide (N<sub>2</sub>O) emissions from pulp, paper, and board production units. Excluding joint operations. Normalised figures are reported per unit of sales production.

# External recognitions and awards



# Lineo™ by Stora Enso awarded Bio-Based Product of the Year



- Lineo™ by Stora Enso, a renewable replacement for oil-based phenolic materials, has been awarded 'Bio-Based Product of the Year' at the Bio-Based World News Innovation Awards 2018.
- The judges recognised the potential of Lineo, made from versatile wood-based raw material lignin. Lineo can be used in a range of applications where fossil-based materials are currently used.



# Group Leadership Team of Stora Enso



# When you want to know more

## Read our reports



THE RENEWABLE MATERIALS COMPANY | ANNUAL REPORT 2017

Highlights | Progress Book | Sustainability Report | Financial Report | Governance Report

Everything that's made with fossil-based materials today can be made from a tree tomorrow

Here are the highlights of our journey in 2017



[storaenso.com/annualreport](http://storaenso.com/annualreport)

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Over EUR 1 billion operational EBIT

Over 10% operational EBIT margin

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Over EUR 1 billion operational EBIT

Over 10% operational EBIT margin

Leader in combatting fossil-based materials