

# **Sales growth continues – Temporary operational challenges Financial results for Q4 and full year 2018**

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# Sales growth continues

## – Temporary operational challenges

### Q4 2018 year-on-year

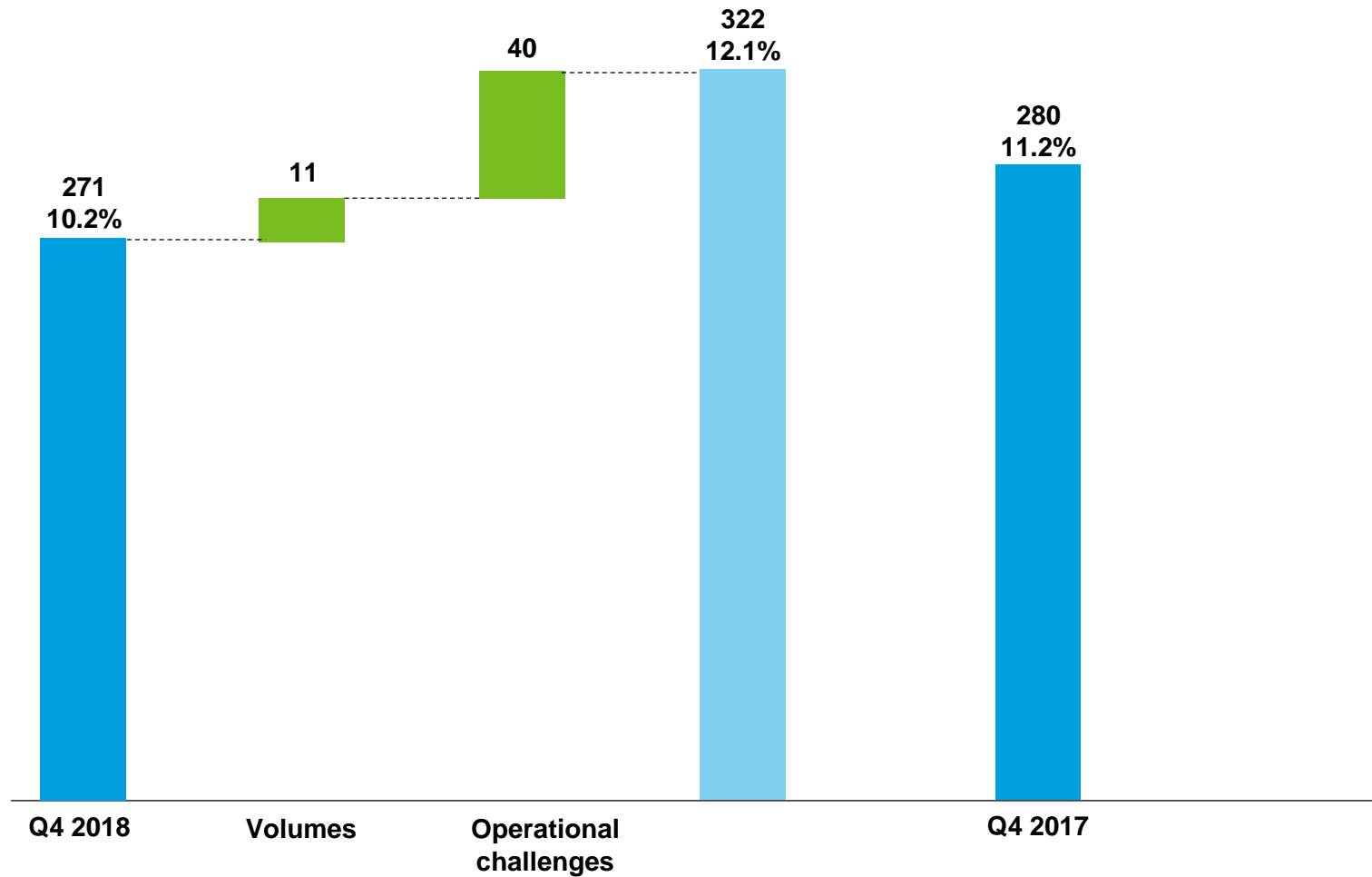


- Sales 2 657 MEUR, +5.8%, 8<sup>th</sup> consecutive quarter of growth
  - Sales growth excluding divested Puumerkki was +6.4%
- Operational EBIT decreased slightly to 271 (280) MEUR
  - EBIT margin 10.2% (11.2%), above 10% for 6th consecutive quarter
  - Operational issues of approximately -40 MEUR at six mills
  - Lower volumes than expected with negative impact of approximately 11 MEUR
- EPS increased by 75.0% to 0.39 (0.22) EUR
- Cash flow after investing activities 148 (262) MEUR
- Continued balance sheet improvement and net debt to operational EBITDA ratio improved to 1.1 (1.4)
- Operational ROCE at 12.4% (13.5%)



# Operational challenges and lower volumes

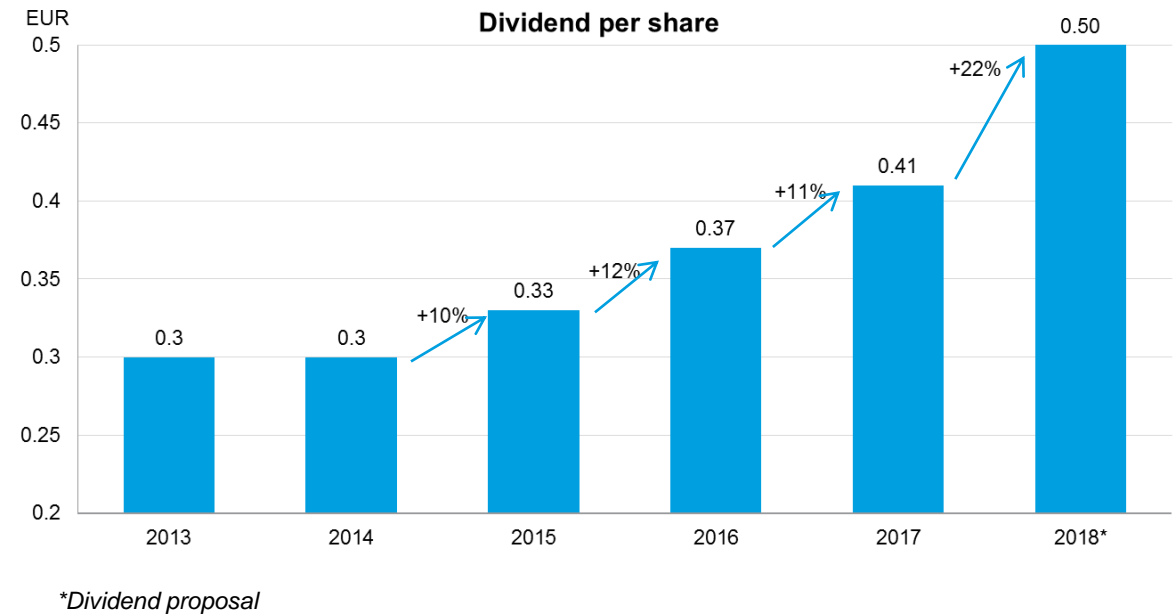
Operational EBIT Q4 y-o-y



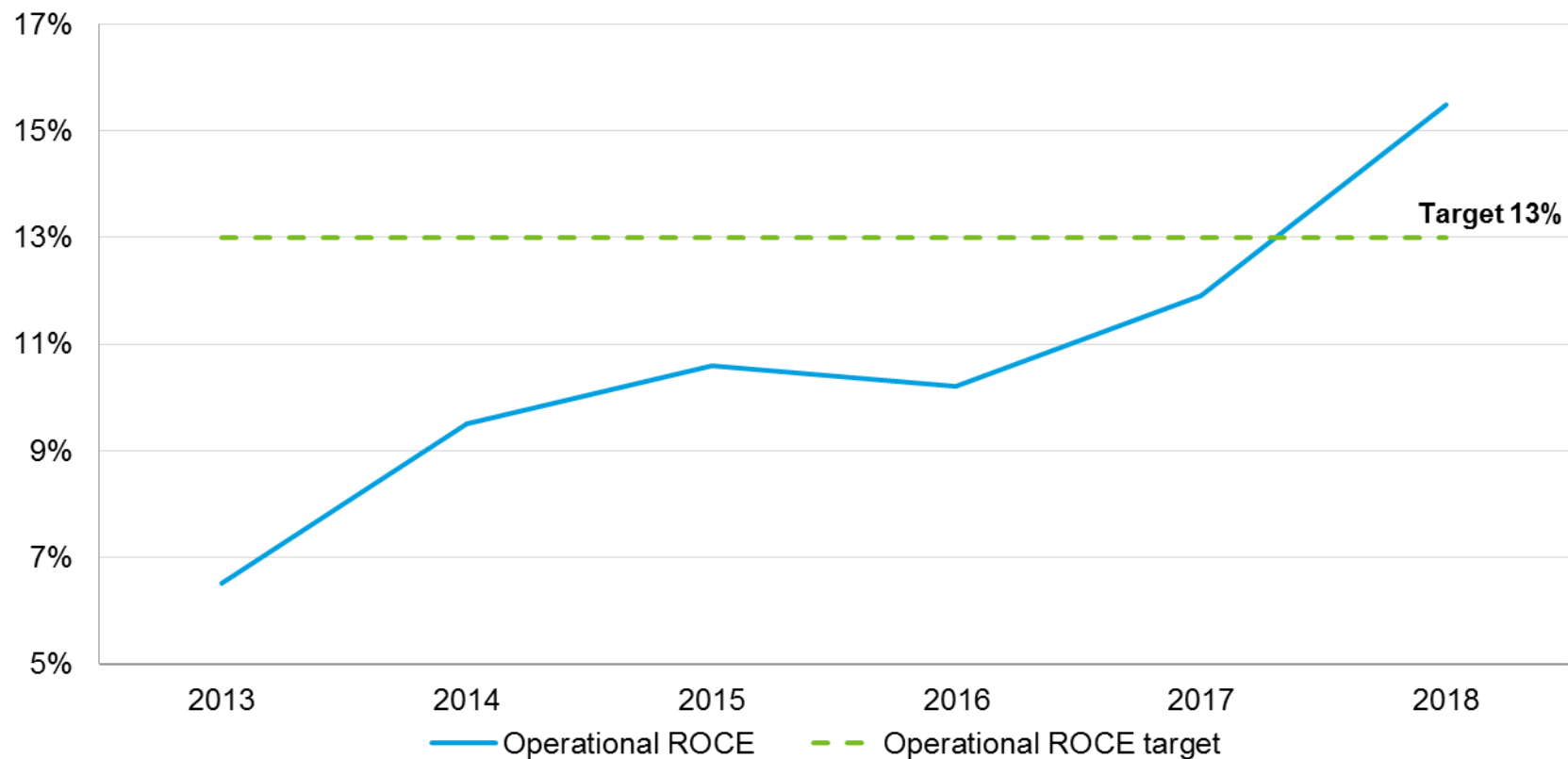
# Increased dividends fourth consecutive year



- Dividend proposal of 0.50 EUR per share for 2018 totalling 394 MEUR, increased by 22%
- Dividend policy:
  - Strive to pay stable dividends linked to the long-term performance
  - 50% of EPS over the cycle



# Annual operational ROCE above the strategic target of 13%



# Profit protection programme to strengthen competitiveness launched



- Intention to achieve 120 MEUR annual cost reduction
  - Fixed and variable costs
  - All divisions and corporate functions
  - Some effects visible in 2019, full impact by the end of 2020
- Capex forecast reduction of about 50 MEUR compared to earlier communication
  - Capex forecast 540–590 MEUR including 40 MEUR effect of new leasing standard
- Including also earlier today announced plans
  - Plans to reduce costs at Ala sawmill in Sweden and Imavere sawmill in Estonia
  - Plan to close down PM6 at Imatra Mills, Finland



# Main events during Q4



- New announced investments
  - Expanding water treatment plant at Skoghall Mill, Sweden. Investment to be completed in early 2020
  - Modernisation of chemical recycling at Skoghall Mill, Sweden
  - New cooling tower at Fors Mill, Sweden
  - Starting the production of pellets at Launkalne sawmill in Latvia. Investment to be completed in Q1 2020
- Develop renewable and biodegradable straws with Sulapac
- Ownership of Cellutech AB increased from 22% to 100%
- Partnering with H&M group and Inter IKEA group to industrialise TreeToTextile
- Launched new sustainable RFID tag technology, ECO™ by Stora Enso
- Oulu conversion feasibility study ongoing. Environmental impact assessment completed in December
- 100% of June Emballage AB divested



# Bergvik Skog ownership restructuring proceeding

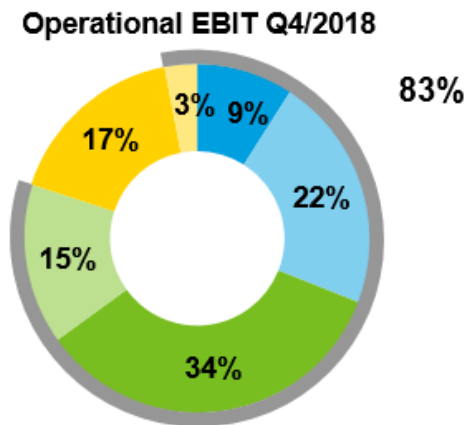
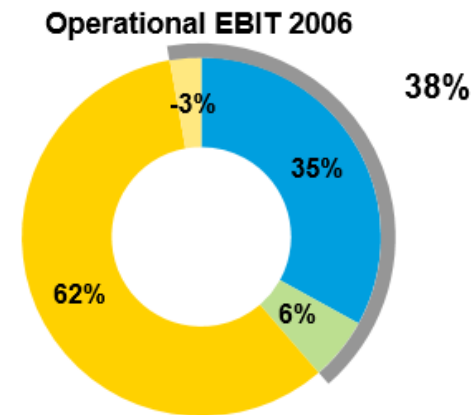
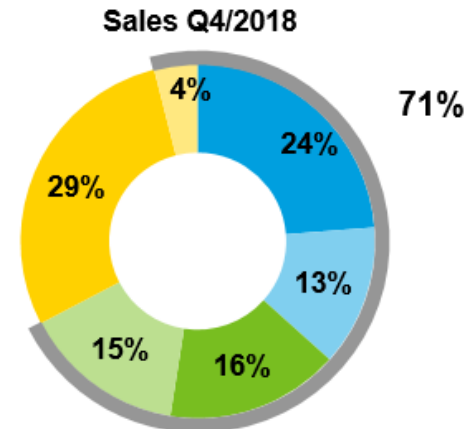
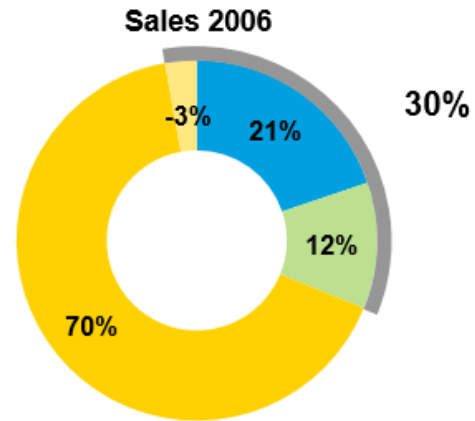


- Binding agreement signed
- Expected to be finalised in H1 2019
- Stora Enso's indirect forest holdings 1.1 million hectares in Sweden will increase to direct ownership of 1.4 million hectares, of which 1.15 million hectares is productive forest land
- An increase of the Stora Enso Balance sheet of approximately 1.0 BEUR
- Bergvik Skog sold forestland in Latvia
  - Selling price 324 MEUR
  - Stora Enso's share of capital gain 47 MEUR
- Bergvik Skog increased fair value of its biological assets. Stora Enso's share of the increase net of tax was 49 MEUR in Q4



# Transformation journey

Growth businesses 71% of sales and 83% of operational EBIT



- Consumer Board
- Packaging Solutions<sup>1</sup>
- Biomaterials
- Wood Products
- Paper<sup>2</sup>
- Other & eliminations

<sup>1</sup> In 2006 included in Consumer Board

<sup>2</sup> In 2006 includes merchants

# Sales growth continues

## Summary financials Q4 2018



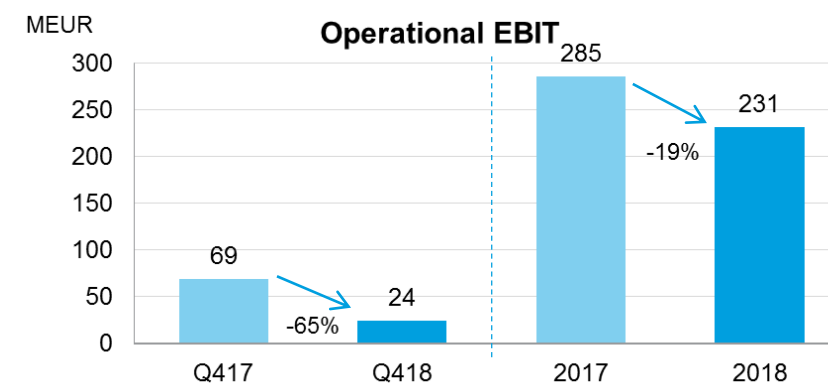
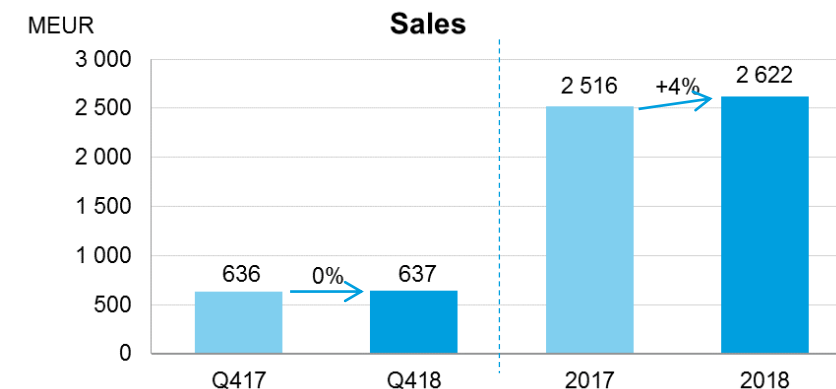
EUR million	Q4/18	Q4/17	Change% Q4/18- Q4/17	Q3/18	Change% Q4/18- Q3/18	2018	2017	Change% 2018- 2017
Sales	2 657	2 511	5.8%	2 585	2.8%	10 486	10 045	4.4%
Operational EBITDA	405	427	-5.1%	502	-19.3%	1 878	1 587	18.3%
Operational EBITDA margin	15.3%	17.0%		19.4%		17.9%	15.8%	
Operational EBIT	271	280	-3.3%	358	-24.4%	1 325	1 004	32.0%
Operational EBIT margin	10.2%	11.2%		13.8%		12.6%	10.0%	
Profit before tax excl. IAC	267	238	12.3%	305	-12.3%	1 190	826	44.1%
Net profit for the period	299	173	72.5%	204	46.5%	988	614	61.0%
EPS excl. IAC, EUR	0.33	0.26	25.0%	0.31	3.8%	1.29	0.89	45.4%
EPS (basic), EUR	0.39	0.22	75.0%	0.27	42.6%	1.28	0.79	62.5%
Operational ROCE	12.4%	13.5%	-8.1%	16.7%	-25.7%	15.5%	11.9%	30.3%
Cash Flow from Operations	323	519	-37.8%	457	-29.3%	1 365	1 492	-8.5%
Net debt/last 12 months' operational EBITDA	1.1	1.4		1.1		1.1	1.4	

# Consumer Board

## Challenging market conditions continued, first price increases achieved Q4 y-o-y



- Sales increased slightly to record-high Q4 of 637 MEUR
  - Higher local sales prices of 10 MEUR was offset by lower volumes
- Operational EBIT decreased 45 MEUR to 24 MEUR
  - Significantly higher variable costs especially for wood, pulp and chemicals were only partly offset by improved sales prices
  - Carton board production was lower
  - Operational challenges at Imatra and Fors mills had a slight negative impact on profitability
- Operational ROOC was 5.0%



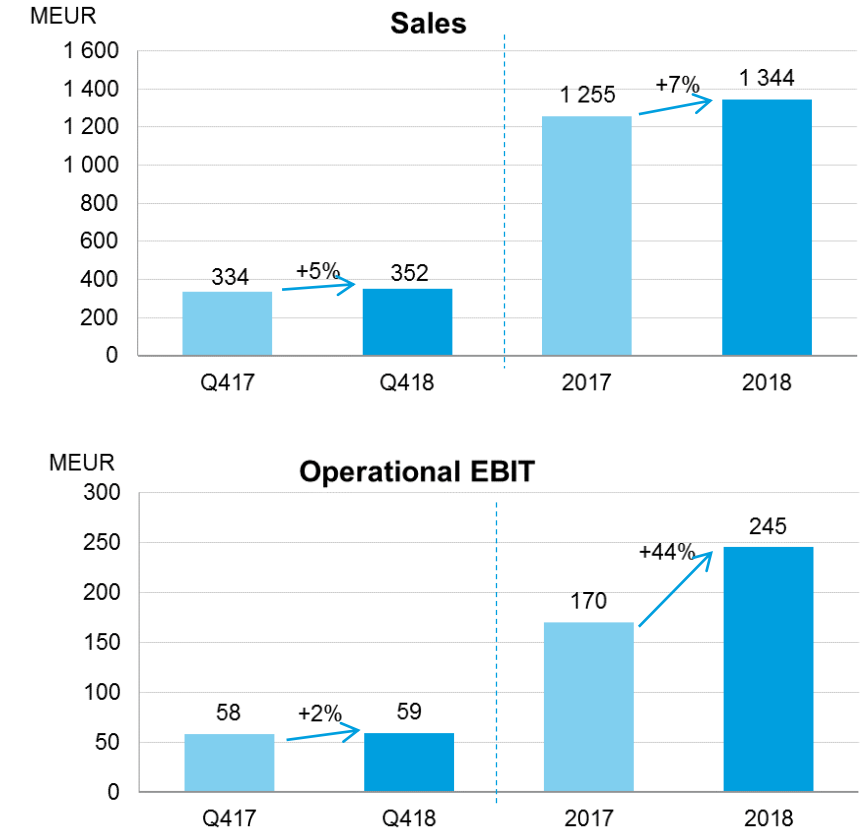
# Packaging Solutions

## Record sales and profitability

### Q4 y-o-y



- Sales +5% to all-time high 352 MEUR
  - Improved prices and active sales mix management in the European-based operations
  - Total containerboard deliveries stable
- Operational EBIT increased to a record high Q4 of 59 MEUR
  - Clearly higher sales prices and good mix management in the European-based units offset by lower sales volumes in China, higher raw material costs overall, and some spare part write-offs
- Operational ROOC at 25.7% significantly above the long-term target of 20%, driven by improved profitability

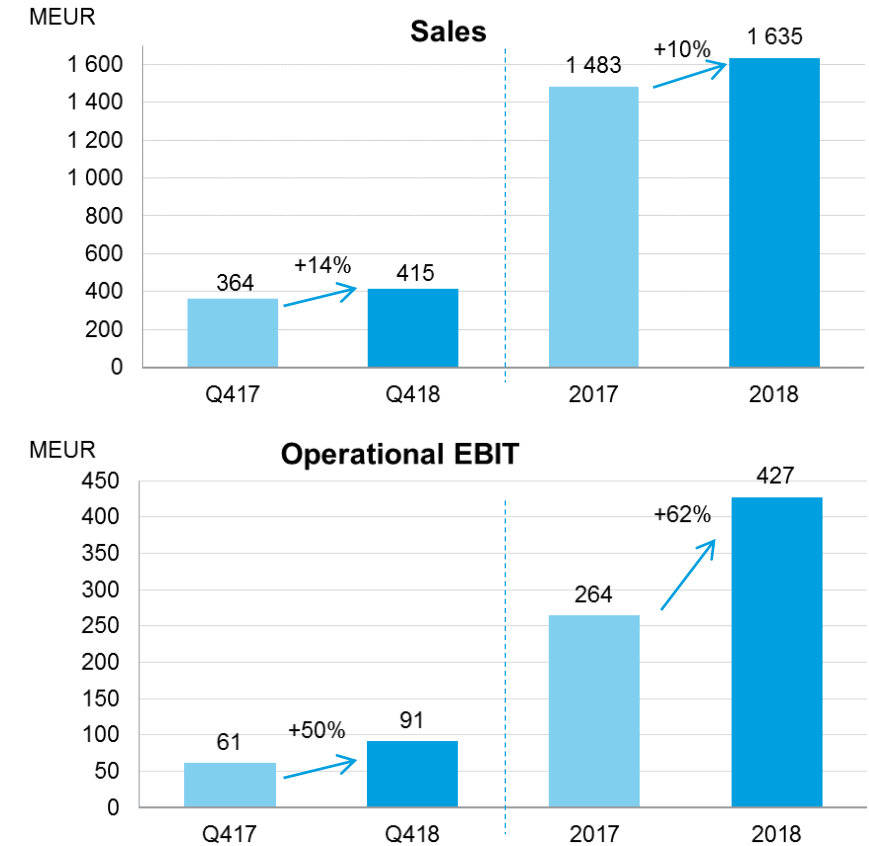


# Biomaterials

## Good market continued, signs of price pressure

Q4 y-o-y

- Sales +14% to another all-time high of 415 MEUR
  - Higher sales prices
  - Slightly lower deliveries
- Operational EBIT at record high Q4 level of 91 MEUR, increase of 30 MEUR
  - Higher pulp prices partly offset by higher variable costs, especially for wood and energy
  - Production problems at Montes del Plata and Skutskär during Q4
- Operational ROOC reached the strategic target of 15%
- Lineo™ by Stora Enso was awarded “Innovative Product Award 2018” by the Institution of Chemical Engineers (IChemE)



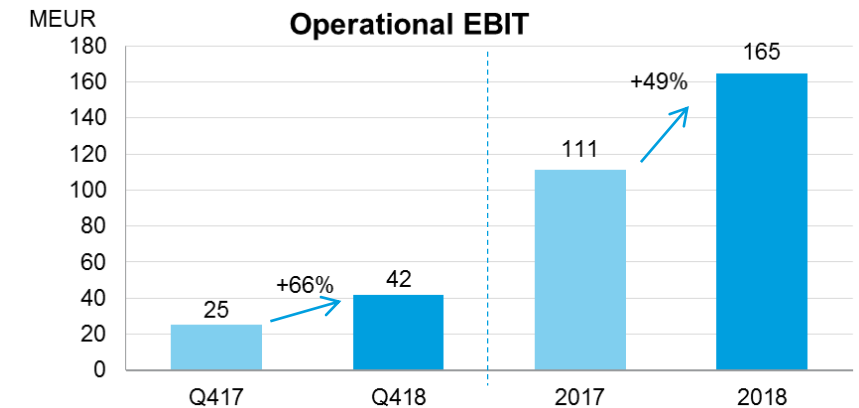
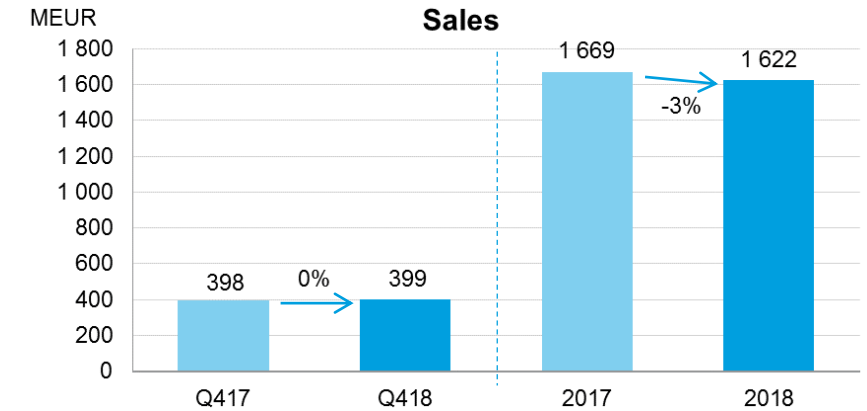
# Wood Products

## Another record quarter

### Q4 y-o-y



- Sales excluding the divested Puumerkki increased 3.5%
  - Improved sales prices in classic sawn
- Operational EBIT +66% to record high Q4 of 42 MEUR
  - Clearly better prices and improved mix partly offset by higher fixed costs related to increase in operations
- Operational ROOC continued at record high level of 27.1%, clearly above strategic target of 20%
- New CLT unit investment at Gruvön sawmill is being completed. Commercial production will begin in Q1 2019 as planned.



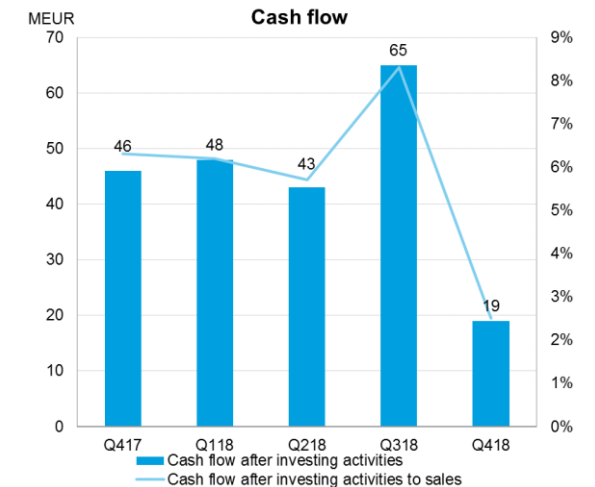
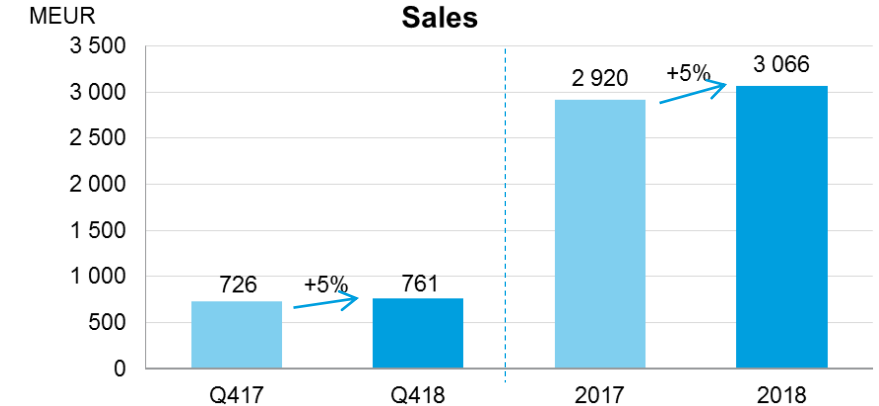
# Paper

## Solid quarter impacted by operational challenges

Q4 y-o-y



- Sales increased +5% to 761 MEUR
  - Clearly higher sales prices in all grades and a better mix partly offset by lower sales volumes
- Operational EBIT stable at level of 45 MEUR
  - Significantly higher sales prices in all grades were offset by higher variable costs, especially in wood, pulp and chemicals
  - Production reductions caused by water shortage at Nymölla Mill and technical problems at Veitsiluoto pulp mill had 16 MEUR negative impact
  - Softness of the coated woodfree paper market led to market curtailments at Oulu Mill
- Cash flow after investing activities to sales ratio 2.5 (6.3)% negatively impacted by temporary working capital challenges



# Strategic targets progressing – still more potential



Group strategic targets		Q4 17	Q4 18		2017	2018	
Dividend	To distribute 50% of EPS over the cycle				0.41 EUR	0.50 EUR*	●
Growth**	To grow faster than the relevant market	6.2% (YoY)	6.9% (YoY)***	●	8.5% (YoY)	5.9% (YoY)***	●
Net debt to operational EBITDA	<2.0x	1.4	1.1	●	1.4	1.1	●
Fixed costs to sales	<20%	26.9%	25.0%	●	25.1%	23.6%	●
Net debt to equity	<60%	38%	31%	●	38%	31%	●
Operational ROCE	>13%	13.5%	12.4%	●	11.9%	15.5%	●

Divisional strategic targets		Q4 17	Q4 18		2017	2018	
Consumer Board	Operational ROOC > 20%	14.2%	5.0%	●	14.6%	11.9%	●
Packaging Solutions	Operational ROOC > 20%	26.9%	25.7%	●	19.6%	27.2%	●
Biomaterials	Operational ROOC > 15%	10.4%	15.0%	●	10.5%	17.9%	●
Wood Products	Operational ROOC > 20%	18.5%	27.1%	●	20.5%	28.1%	●
Paper	Cash flow after investing activities to sales > 7%	6.3%	2.5%	●	5.5%	5.7%	●

\* Dividend proposal \*\* Excluding Paper \*\*\*Excluding Paper and Puumerkki

# Outlook for 2019

## New way of giving annual outlook and quarterly guidance



Stora Enso's year 2019 is expected to be largely in line with the 2018, provided that the current trading conditions do not significantly change. Demand growth is expected to continue for Stora Enso's other businesses except for European Paper, for which demand is forecast to continue to decline in 2019. Group's sales are expected to be higher and costs are forecast to increase in 2019 compared to 2018. Stora Enso will implement measures to mitigate these cost increases and the increased uncertainties with the profit protection programme.



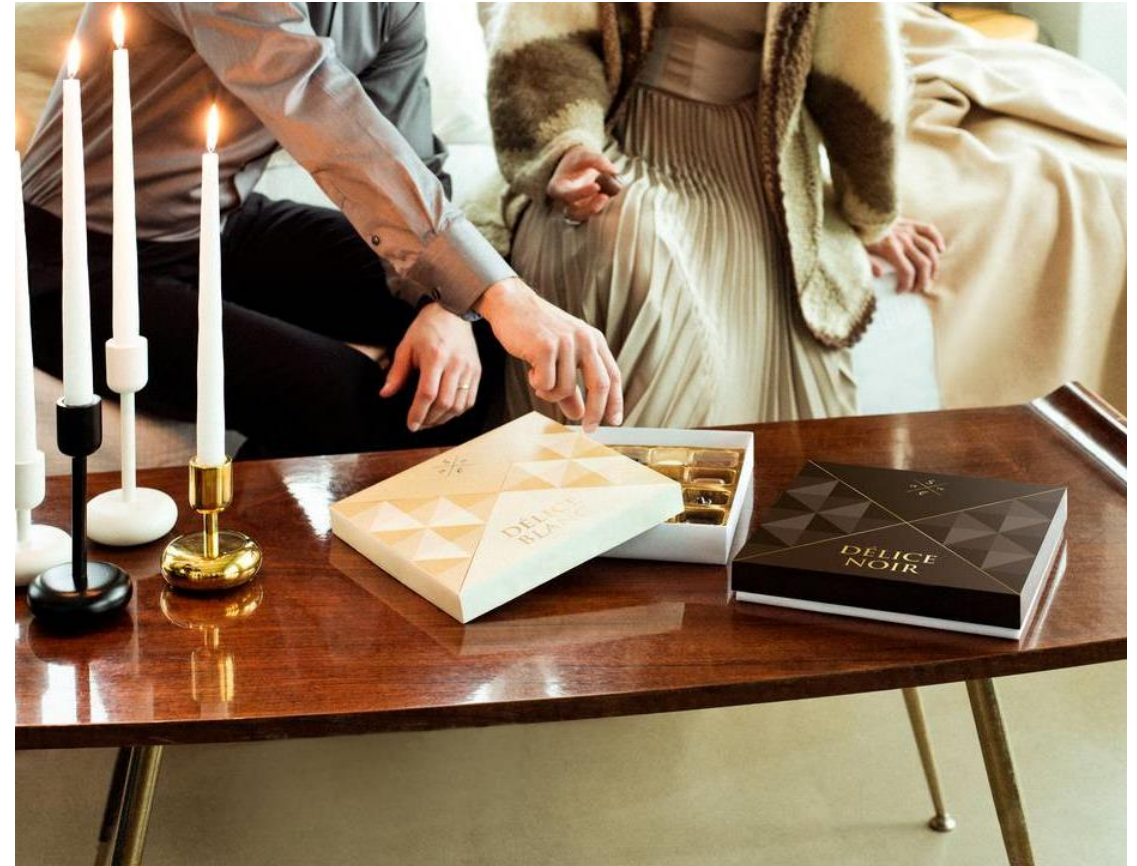
# Guidance for Q1 2019

## New way of giving annual outlook and quarterly guidance



- Operational EBIT is expected to be in the range of 260–350 MEUR
- The group's annual maintenance schedule has been changed from last year. During Q1 2019 there will be annual maintenance shutdowns at Veracel pulp mill and Ostrołęka containerboard mill. The total negative impact of maintenance is estimated to be 20 MEUR more compared to Q1 2018. In Q1/2018 there were no annual maintenance shutdowns.

Annual maintenance	Q1 2019	Q1 2018
Consumer Board	-	-
Packaging Solutions	Ostrołęka Mill PM5	-
Biomaterials	Veracel Mill	-
Paper	-	-



# Sales growth continues

## – Temporary operational challenges

### Q4 2018 year-on-year



- Eighth consecutive quarter of sales growth
- Sixth consecutive quarter of double digit operational EBIT margin
- Annual EBIT growth of 32%
- Annual operational ROCE was 15.5%, well above the strategic target of 13%
- Balance sheet continued to strengthen
- Proposed dividend increase by 22%
- Immediate start to implement profit protection programme to be better prepared for potential market weakness



THE RENEWABLE MATERIALS COMPANY

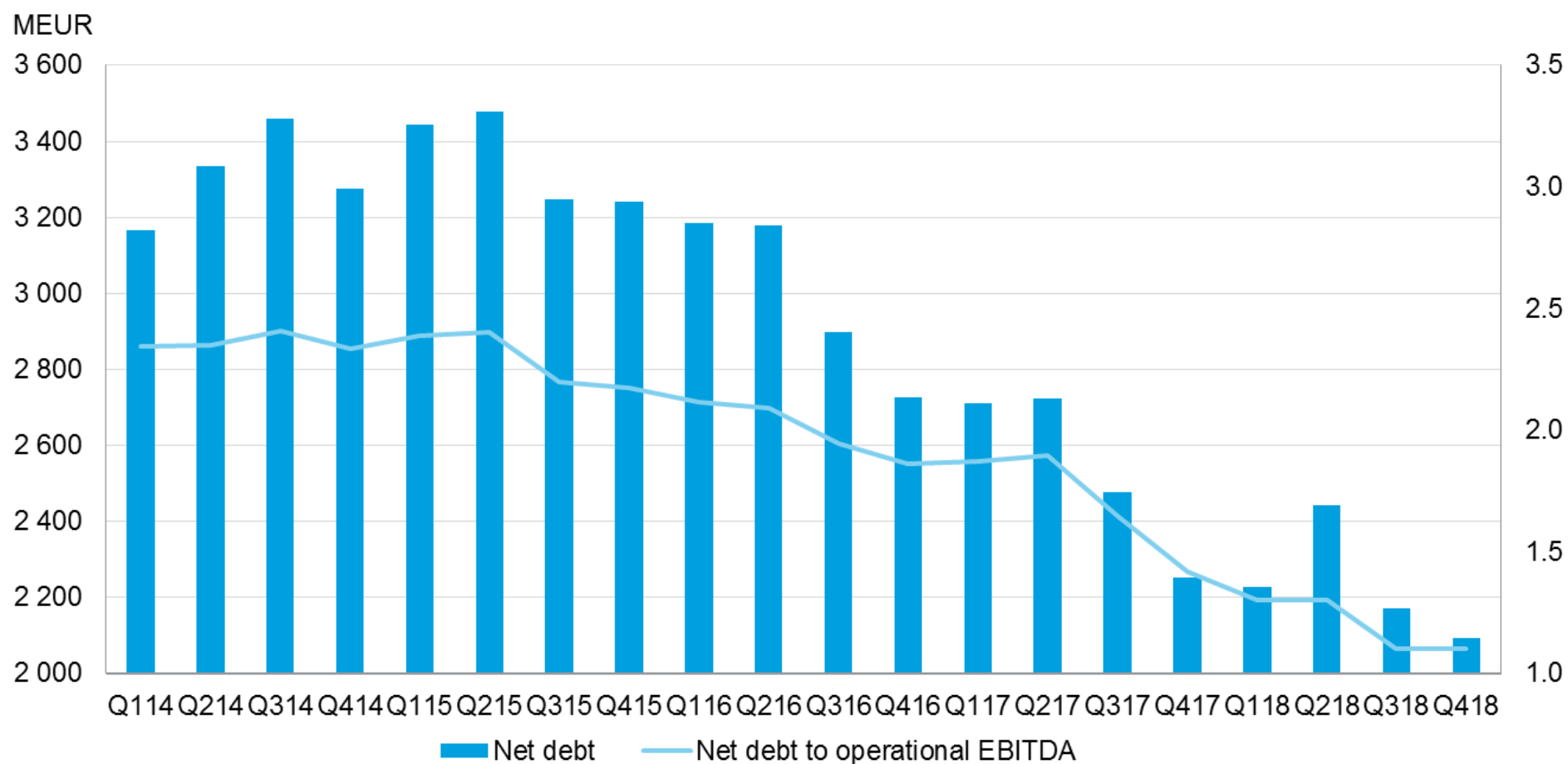


# Operational EBIT by segments

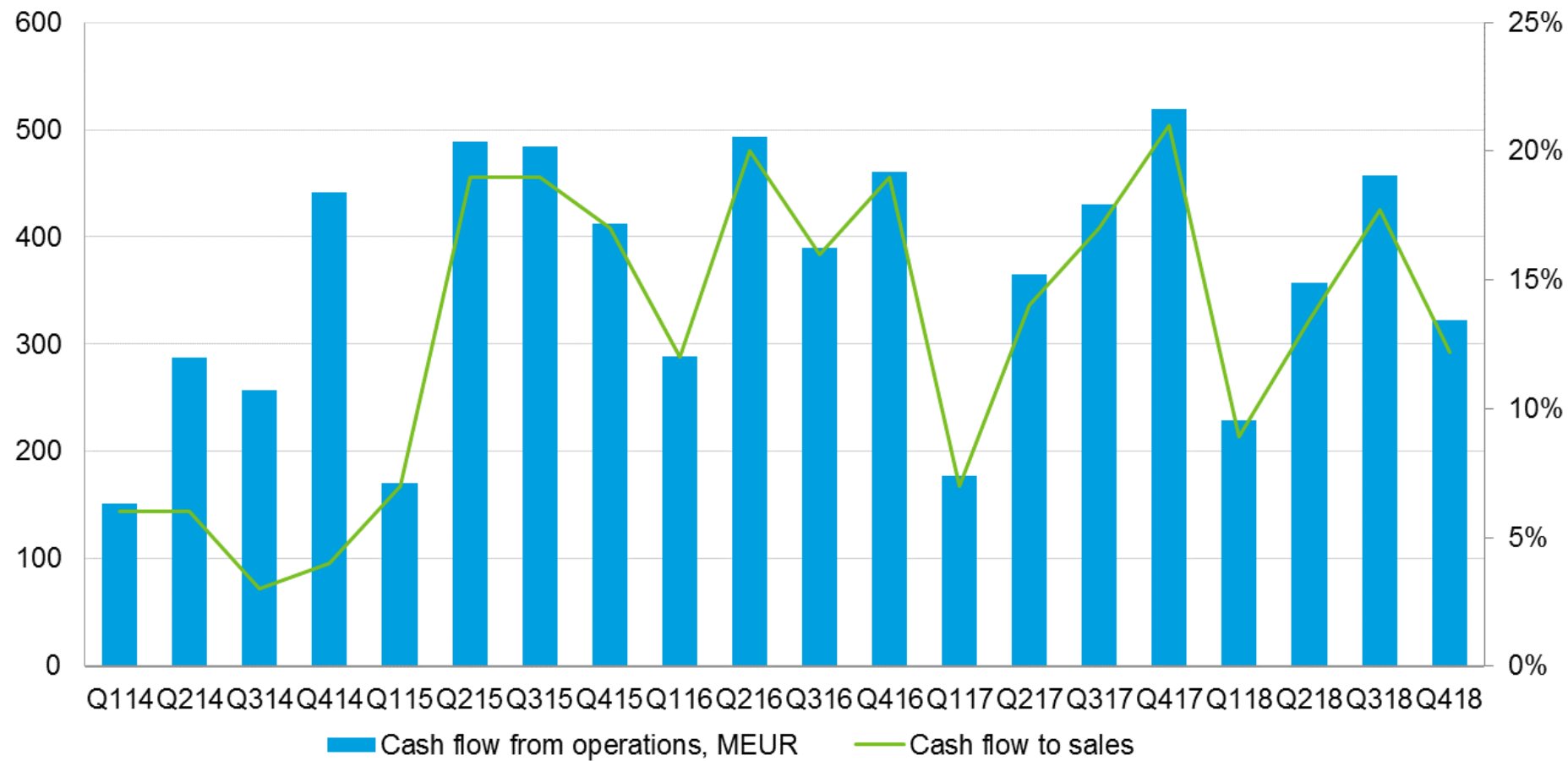


EUR million	Q418	Q417	Change % Q418-Q417	Q318	Change % Q418-Q318	2018	2017	Change % 2018-2017
Consumer Board	24	69	-64.5%	50	-51.5%	231	285	-18.8%
% of sales	3.8%	10.8%		7.8%		8.8%	11.3%	
Packaging Solutions	59	58	1.7%	68	-13.3%	245	170	43.9%
% of sales	16.8%	17.4%		20.6%		18.2%	13.5%	
Biomaterials	91	61	49.6%	125	-27.0%	427	264	61.9%
% of sales	22.0%	16.8%		30.3%		26.1%	17.8%	
Wood Products	42	25	66.2%	48	-12.7%	165	111	48.5%
% of sales	10.4%	6.3%		11.9%		10.2%	6.7%	
Paper	45	46	-2.0%	65	-30.9%	234	128	82.7%
% of sales	5.9%	6.3%		8.4%		7.6%	4.4%	
Other	9	21	-55.1%	2	n/m	23	46	-50.4%
% of sales	1.0%	3.4%		0.2%		0.7%	1.8%	

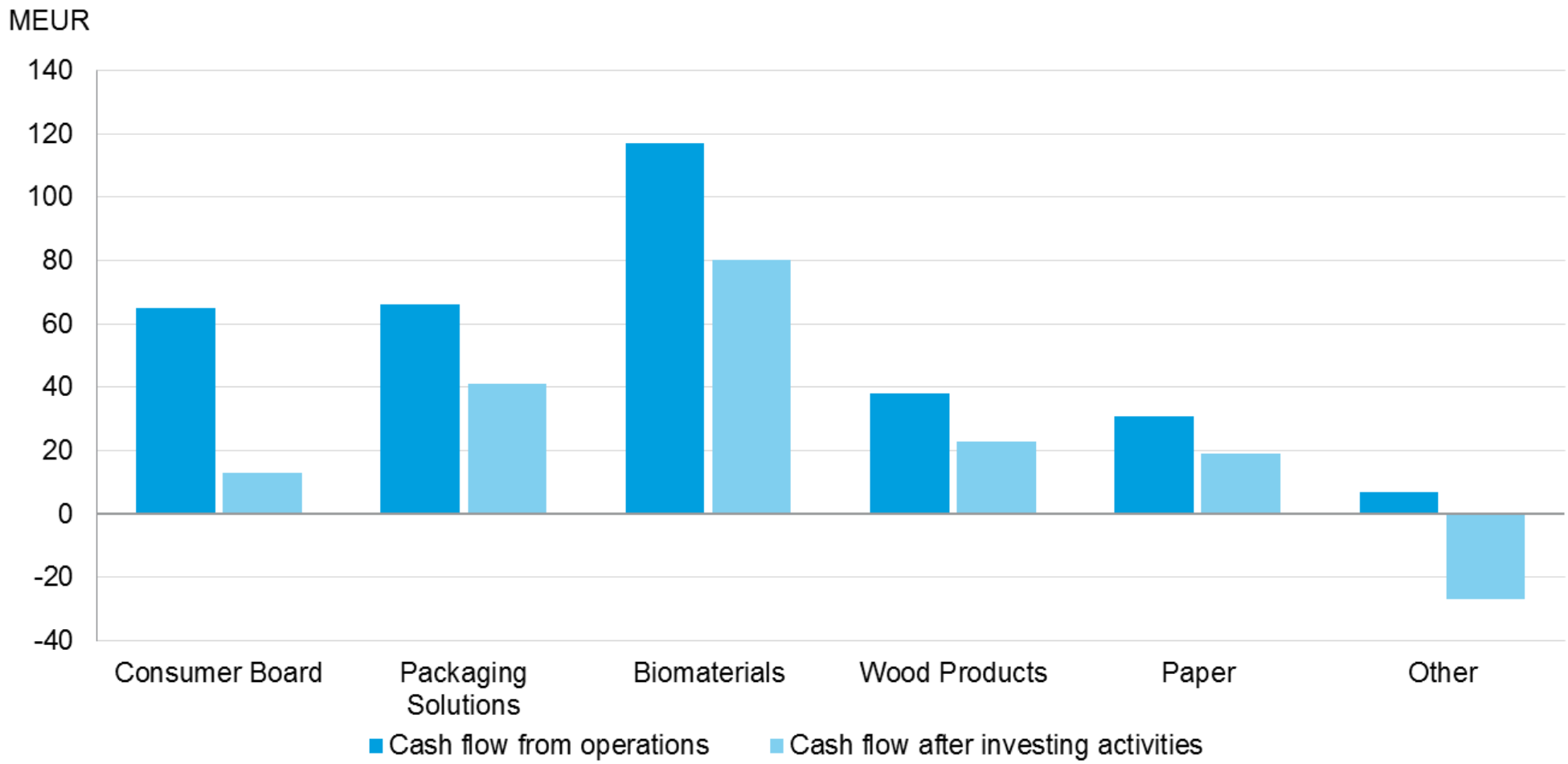
# Year-on-year net debt/EBITDA



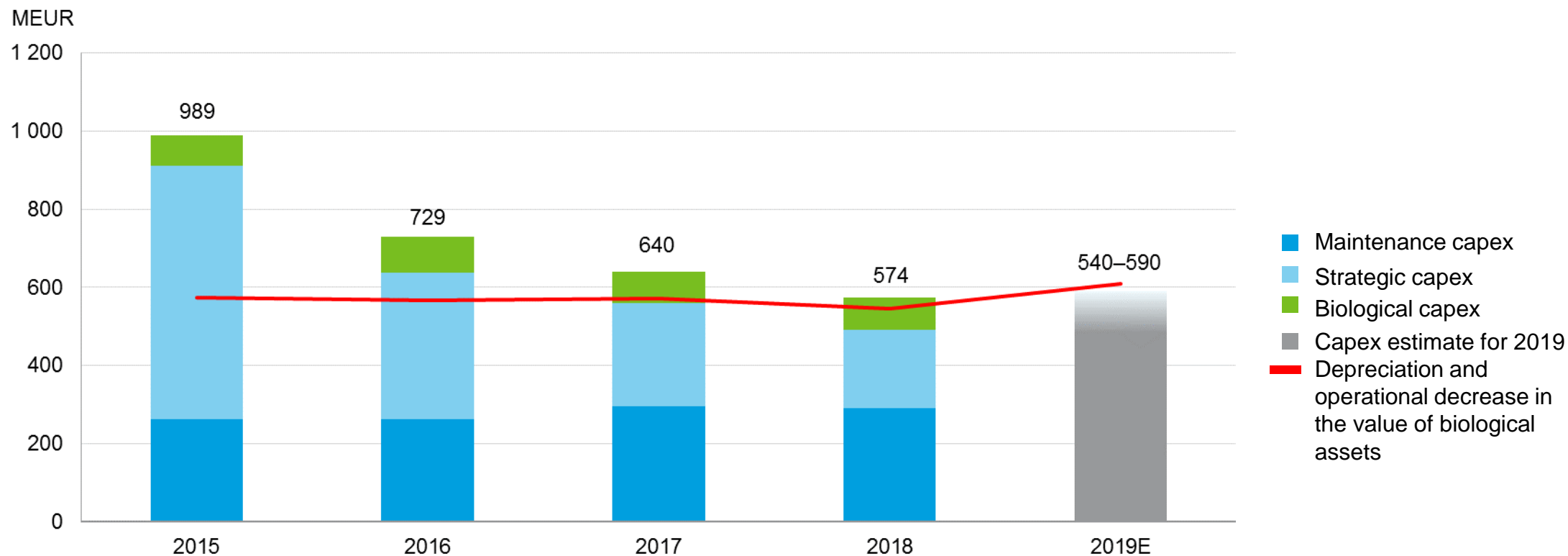
# Healthy cash flow generation continues



# Cash flow by divisions in Q4



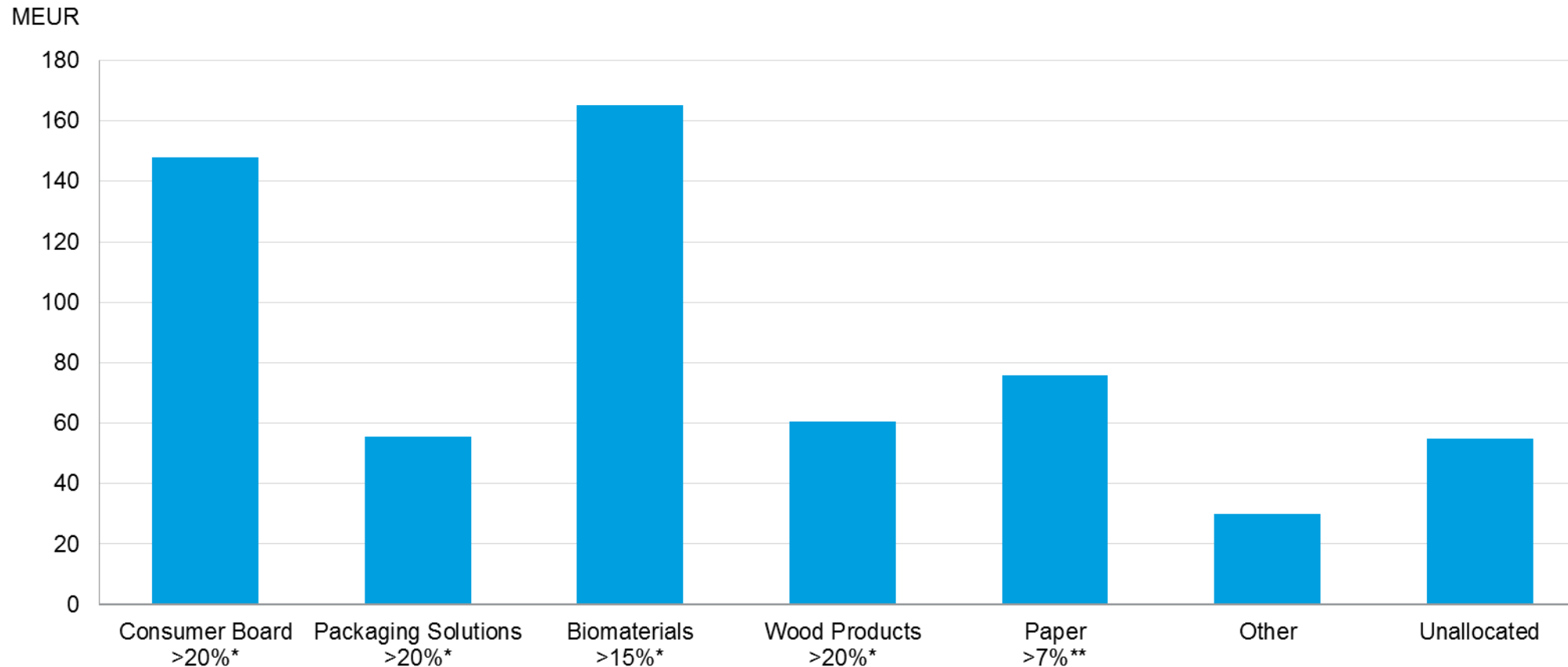
# Capex on targeted levels



Capex estimate for 2019 includes the capitalised leasing contracts according to IFRS 16 Leases standard.

# Targeted ROOC is driving CAPEX allocation

## Capex forecast in 2019



\* Operational ROOC target

\*\* Cash flow after investing activities to sales target

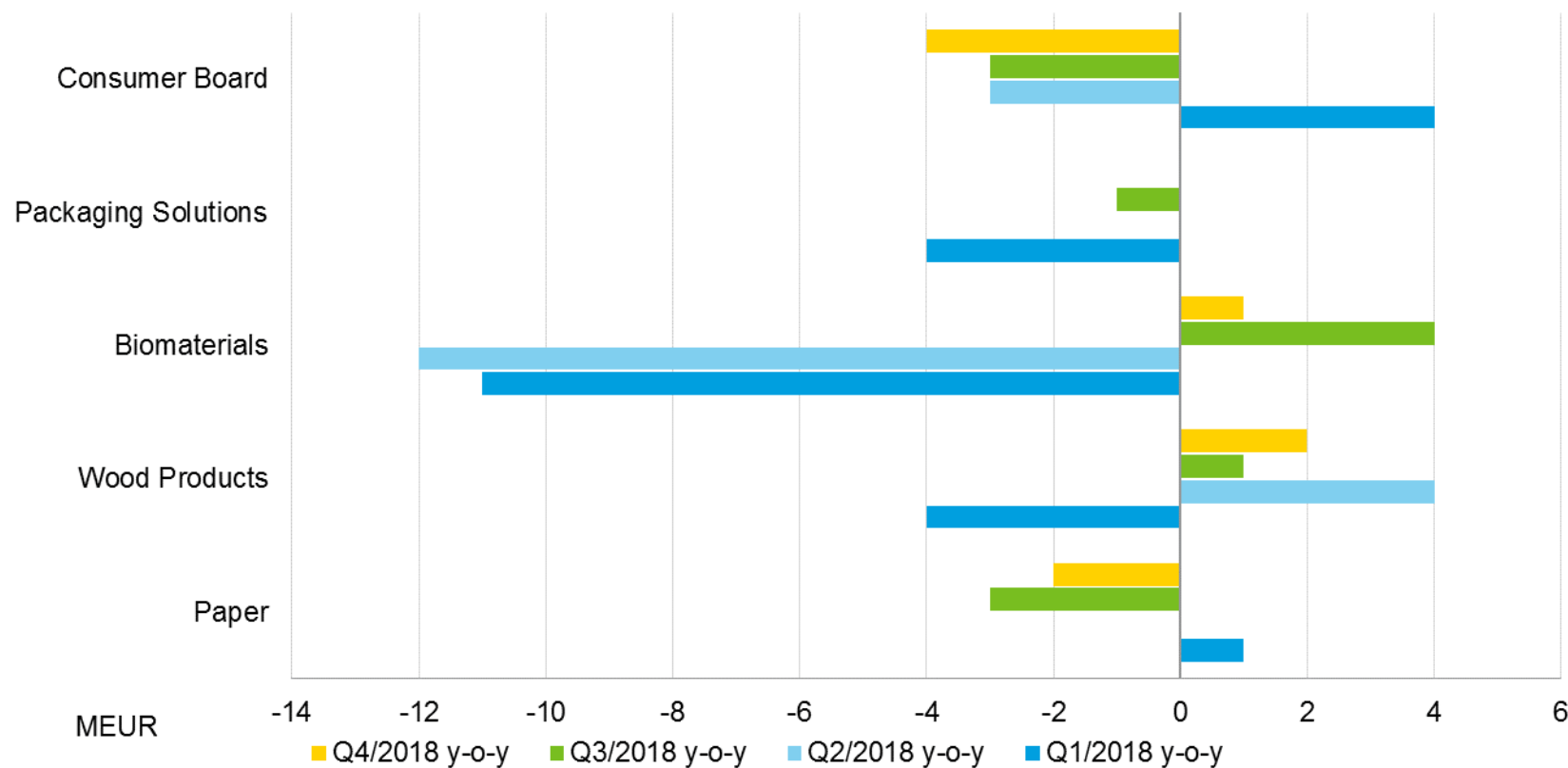
# Net Financials



EUR million	Q4 2018	Q4 2017	Change MEUR Q418/ Q417	Q3 2018	Change MEUR Q418/ Q318
<b>Net interest expense</b>	<b>-34</b>	<b>-31</b>	<b>-3</b>	<b>-34</b>	<b>-</b>
Average interest rate*	4.4%	4.3%		4.4%	
<b>Foreign exchange gains and losses</b>	<b>-4</b>	<b>10</b>	<b>-14</b>	<b>-15</b>	<b>11</b>
<b>Other financial items. of which</b>	<b>-3</b>	<b>-6</b>	<b>3</b>	<b>-9</b>	<b>6</b>
Pension costs (IAS 19R)	-2	-2	-	-2	-
Other items	-1	-4	3	-7	6
<b>Total net financial items</b>	<b>-41</b>	<b>-27</b>	<b>-14</b>	<b>-58</b>	<b>17</b>

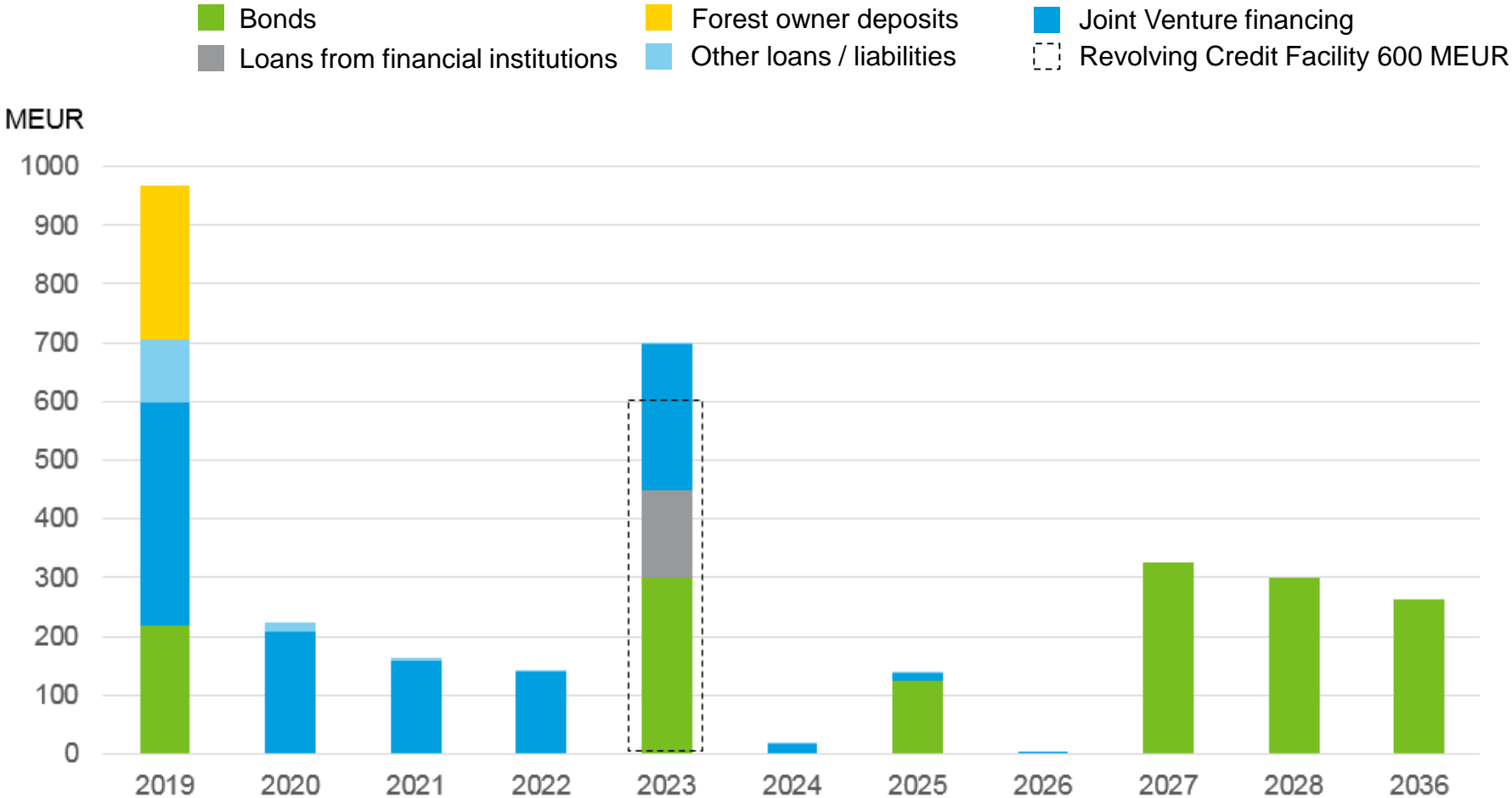
\* Quarterly gross interest expense divided by average gross debt

# Net FX by division



Net FX y-o-y impact  
-2 MEUR in Q4/2018  
on operational EBIT

# Maturity profile Q4 2018



Revolving Credit Facility 600 MEUR matures in January 2023 and is fully undrawn

# Transaction risk and hedges Q4 2018



EUR Million	USD	SEK	GBP
Estimated annual operating cash flow exposure	1 840	-990	380
Transaction hedges as at 31 December 2018	-930	630	-190
<b>Hedging percentage as at 31 December 2018 for the next 12 months</b>	<b>51%</b>	<b>64%*</b>	<b>50%</b>

\* For the next 13-18 months, 19% of estimated exposure in SEK is hedged

Operational EBIT: Currency strengthening of +10%*	EUR million
USD	184
SEK	-99
GBP	38

\* Before currency hedges assuming no other changes other than a single currency rate movement occurs

# Sensitivity analysis

## Impact on operational EBIT



10% decrease in	Impact*
Energy prices	Positive 12 MEUR
Wood prices	Positive 203 MEUR
Chemical and filler prices	Positive 62 MEUR
10% increase in	Impact*
Market pulp price, total	Positive 130 MEUR
10% strengthening against Euro in the value of**	Impact*
US dollar	Positive 184 MEUR
Swedish krona	Negative 99 MEUR
British pound	Positive 38 MEUR
Brazilian real	Negative 12 MEUR
Chinese renminbi	Negative 11 MEUR

\* Impact on operational EBIT for the next twelve months.

\*\* Before FX hedges

An increase of energy, wood or chemical and filler prices or decrease of pulp prices, as well as weakening of the currencies would have the opposite impact

# Pulp sensitivity analysis

## 10% change in prices, impact on operational EBIT

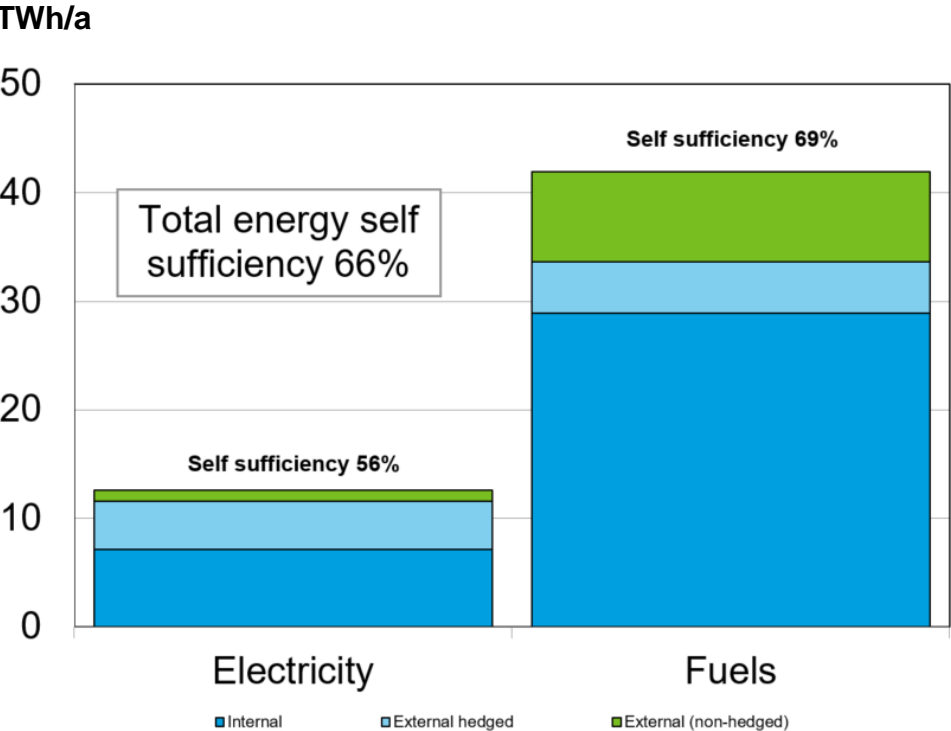


10% increase in	Impact*
Hardwood pulp** prices	Positive 55 MEUR
Softwood pulp prices	Positive 40 MEUR
Fluff pulp prices	Positive 25 MEUR
Dissolving pulp prices	Positive 10 MEUR
<b>Market pulp price, total</b>	<b>Positive 130 MEUR</b>

\* Impact on operational EBIT for the next twelve months. A decrease of pulp prices would have the opposite impact.

\*\* Includes 700 000 tonnes from Montes del Plata

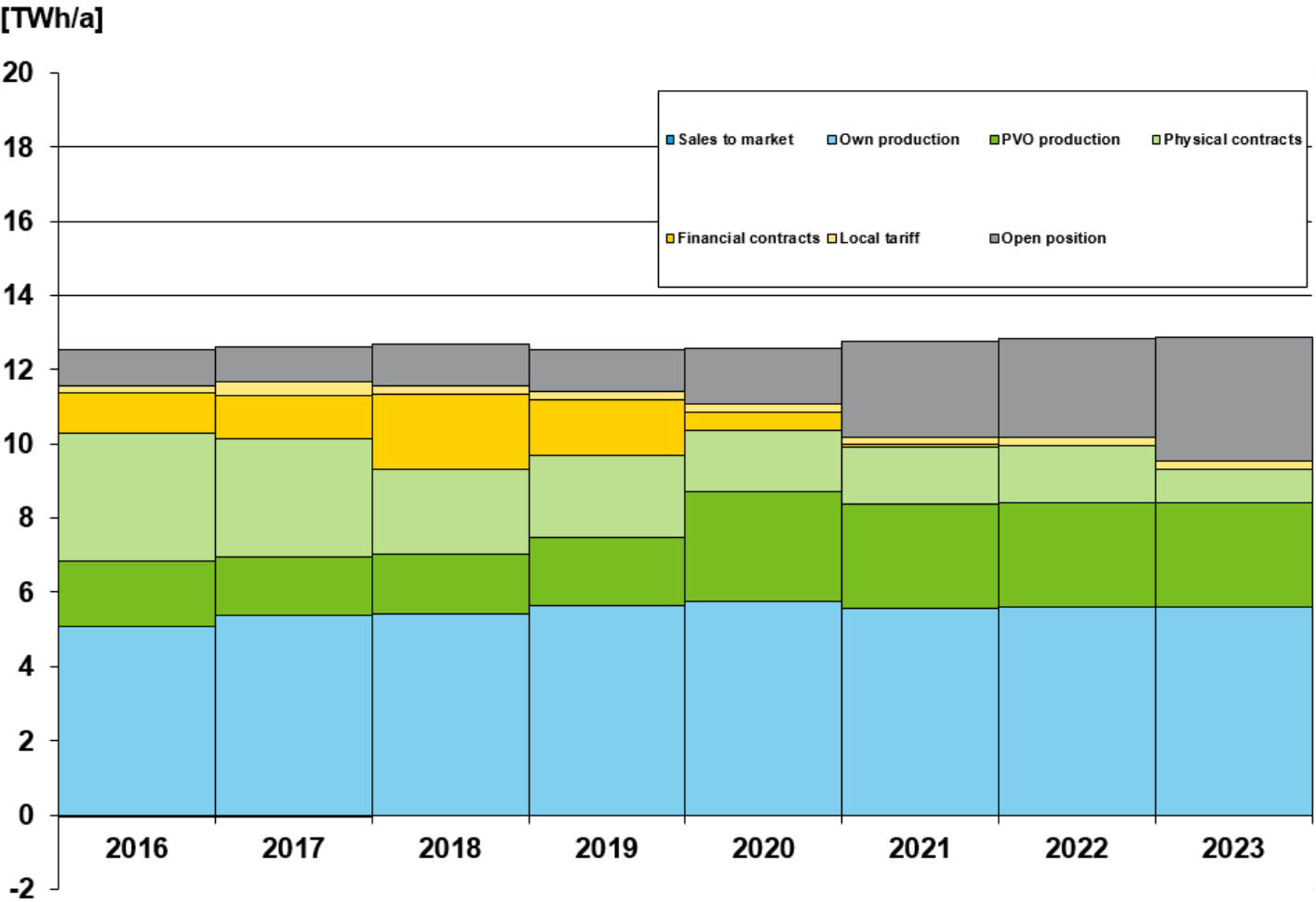
# Stora Enso energy balance\* Q4 2018



Impact on non-hedged volume on operating profit from 10% change in:	EUR million p.a.
Electricity market price	~7.8
Fossil fuel price	~6.1

\*) Pulp, paper and board mills in Europe and overseas, incl. Beihai

# Stora Enso electricity procurement\* Q4 2018



\*) Pulp, paper and board mills in Europe and overseas, incl. Beihai from year 2017

# Permanent pulp, paper and board capacity reductions since 2006



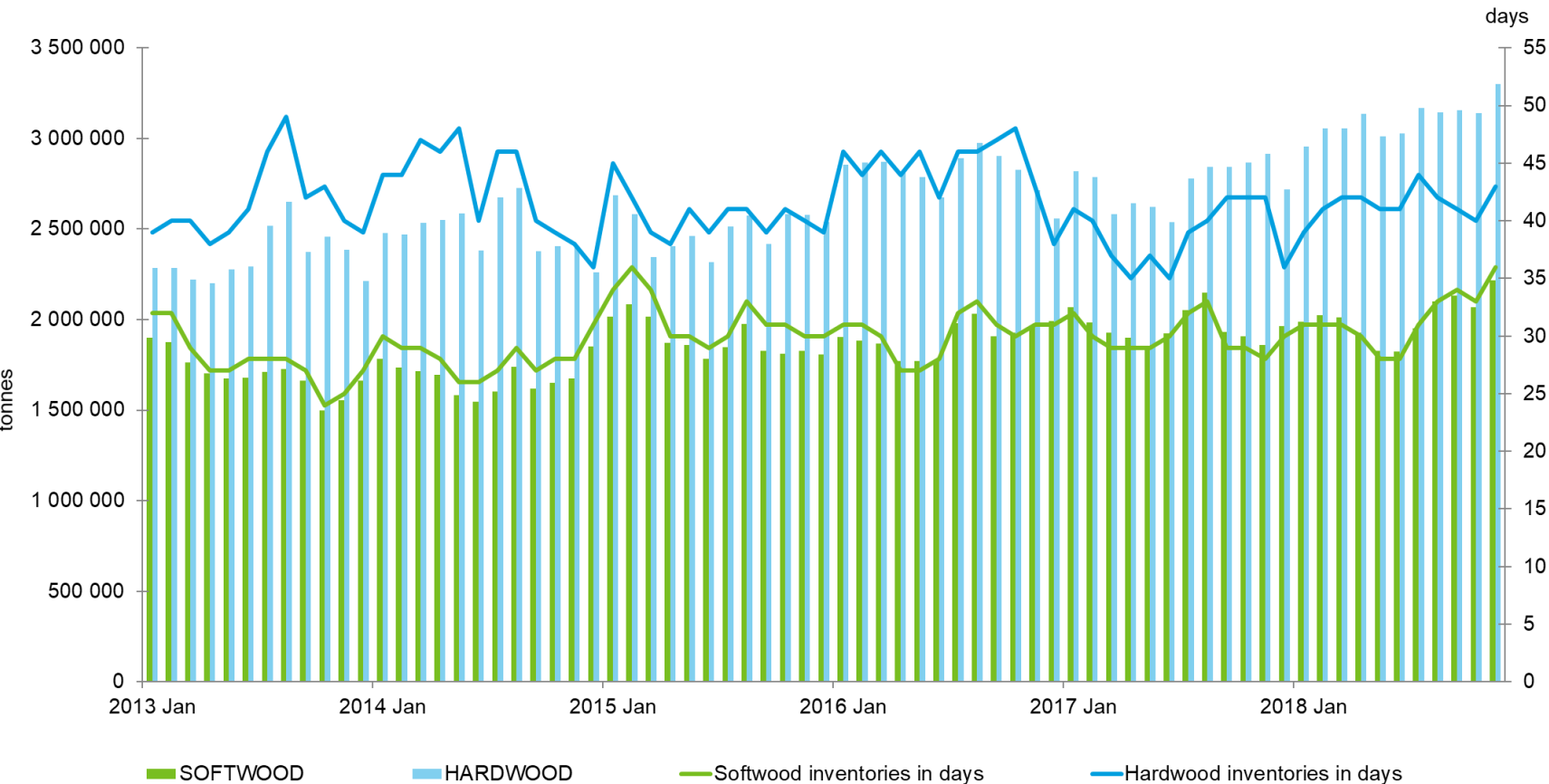
Mill	Date	Grade	Capacity reduction, t
Corbehem PM 3 and PM 4	Jun 2006	LWC	250 000
Varkaus PM 1	End 2006	WFC	95 000
Berghuizer Mill	Oct 2007	WFU	235 000
Reisholz Mill	End 2007	SC	215 000
Summa Mill	Jan 2008	Newsprint, uncoated mag, book paper	415 000
Anjala Mill PM1	Feb 2008	Coated magazine paper	155 000
Baienfurt Mill	End 2008	FBB	190 000
Kabel Mill PM 3	End 2008	Coated magazine	140 000
Kemijärvi Pulp Mill	April 2008	Long-fibre (SW) pulp	250 000
Norrsundet Pulp Mill	Dec 2008	Long-fibre (SW), pulp	300 000
Varkaus Mill coreboard machine	Dec 2008	Coreboard	100 000
Imatra PM 8	Mar 2010	WFU	210 000
Varkaus PM 2 and PM 4	Sep 2010	Newsprint, directory paper	290 000
Maxau PM 7	Nov 2010	Newsprint	195 000
Hylte PM1	Dec 2012	Newsprint	180 000
Ostroleka PM2	Jan 2013	Containerboard	85 000
Hylte PM2	May 2013	Newsprint	205 000
Kvarnsveden PM11	May 2013	Newsprint	270 000
Veitsiluoto PM1	Apr 2014	Coated magazine	190 000
Corbehem Mill	July 2014	LWC	330 000
Varkaus	Aug 2015	WFU	280 000
Suzhou	Jun 2016	WFU	240 000
Kvarnsveden PM8	Jun 2017	SC	100 000
<b>Total</b>			<b>4 920 000</b>

# Permanent sawn wood capacity reductions since 2006



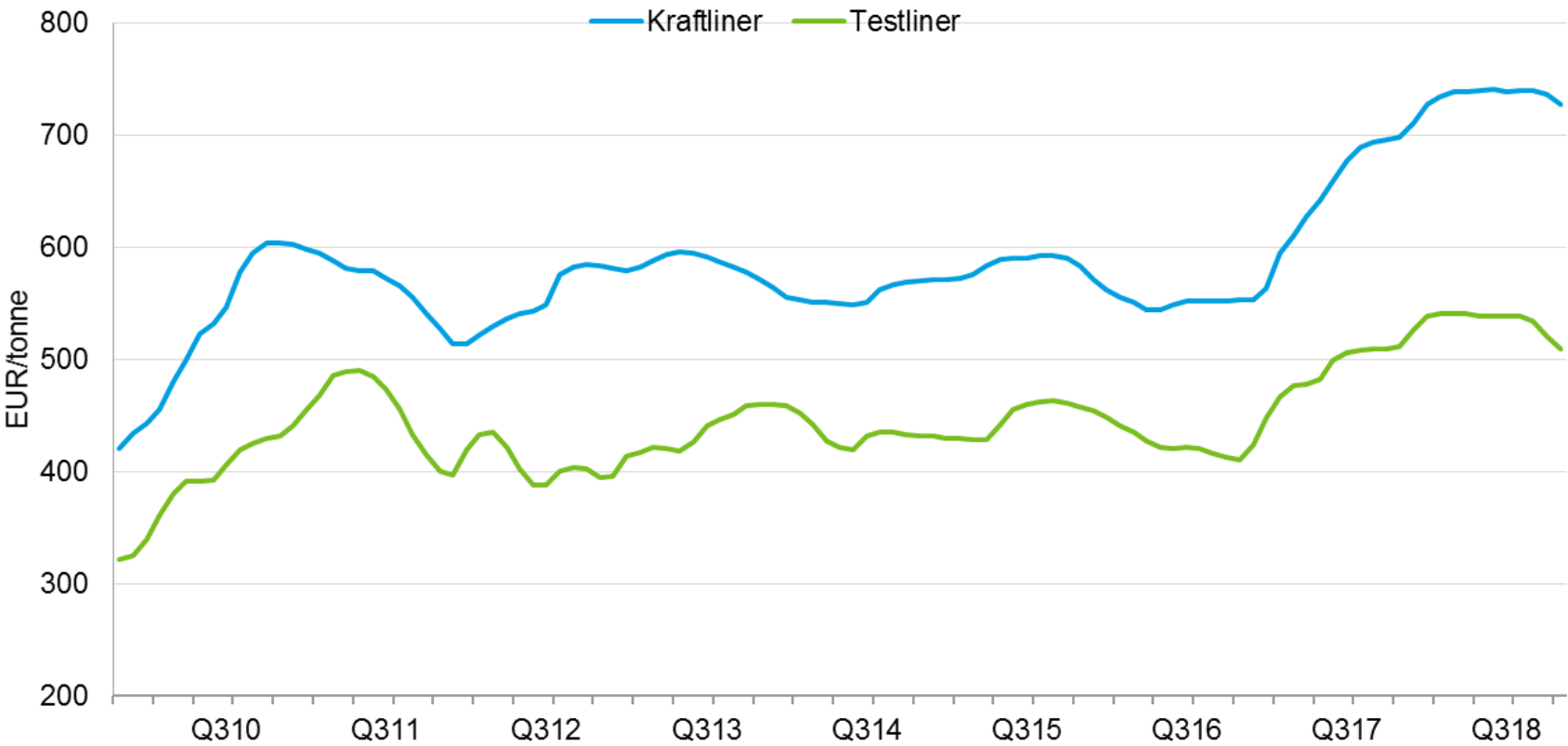
Mill	Date	Capacity reduction, m <sup>3</sup>
Veitsiluoto Sawmill	2006	100 000
Honkalahti Sawmill	2006	90 000
Sauga Sawmill	Jun 2007	130 000
Sollenau Sawmill	2007	110 000
Näpi Sawmill	2007-2008	100 000
Kotka Sawmill	2007-2008	70 000
Paikuse Sawmill	End 2008	220 000
Zdirec Sawmill	2008	120 000
Ybbs Sawmill	2008 & Jun 2009	200 000
Kitee Sawmill	2008 & Jun 2009	130 000
Varkaus Sawmill	Jun 2009	60 000
Tolkkinen Sawmill	End 2009	260 000
Kopparfors Sawmill	End 2011	310 000
Sollenau Sawmill	Jul 2014	400 000
<b>Total</b>		<b>2 300 000</b>

# Global bleached chemical market pulp inventories by grade in tonnes and days of supply



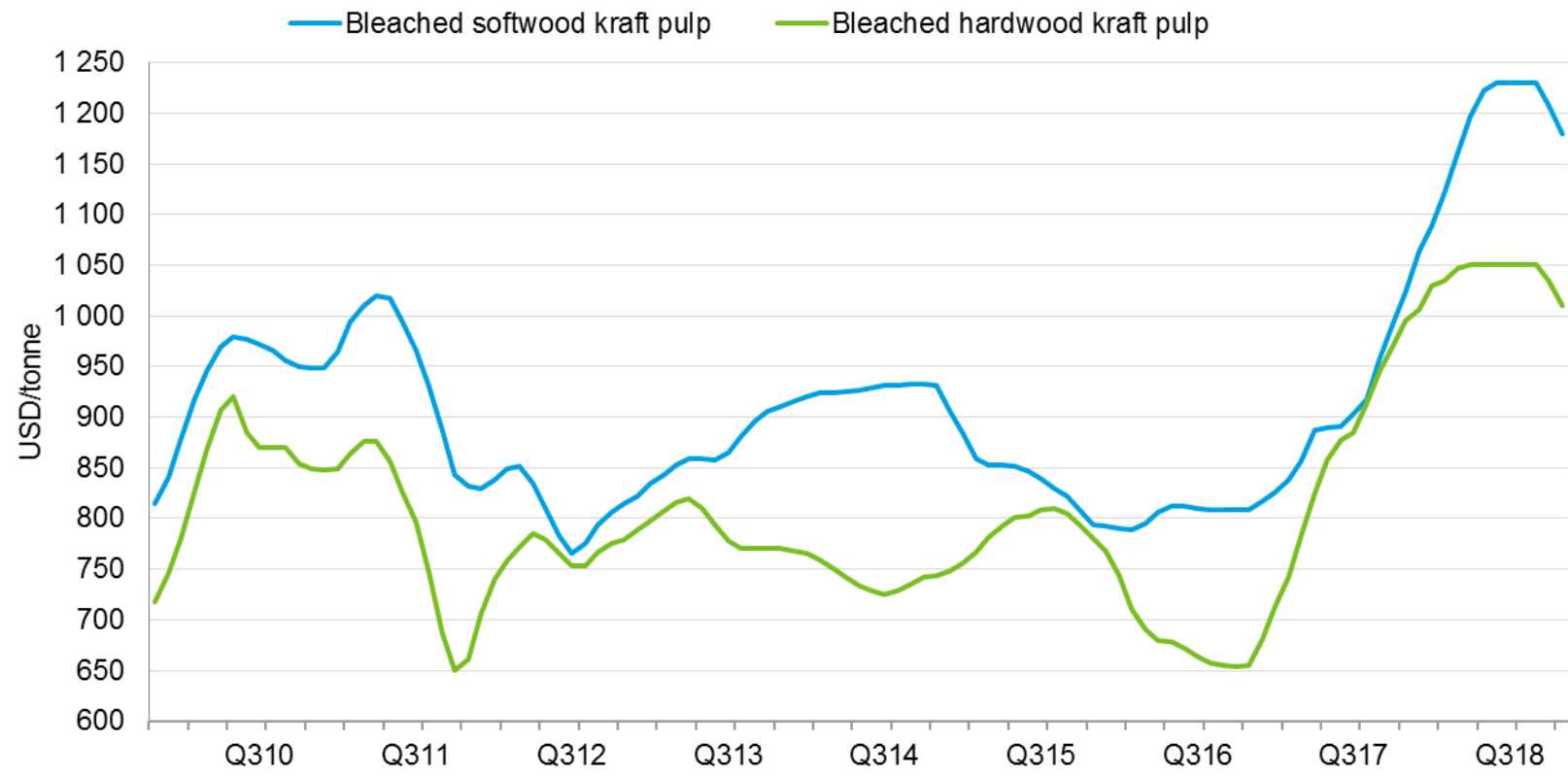
Source: EPIS

# Kraftliner and testliner prices



Source: FOEX

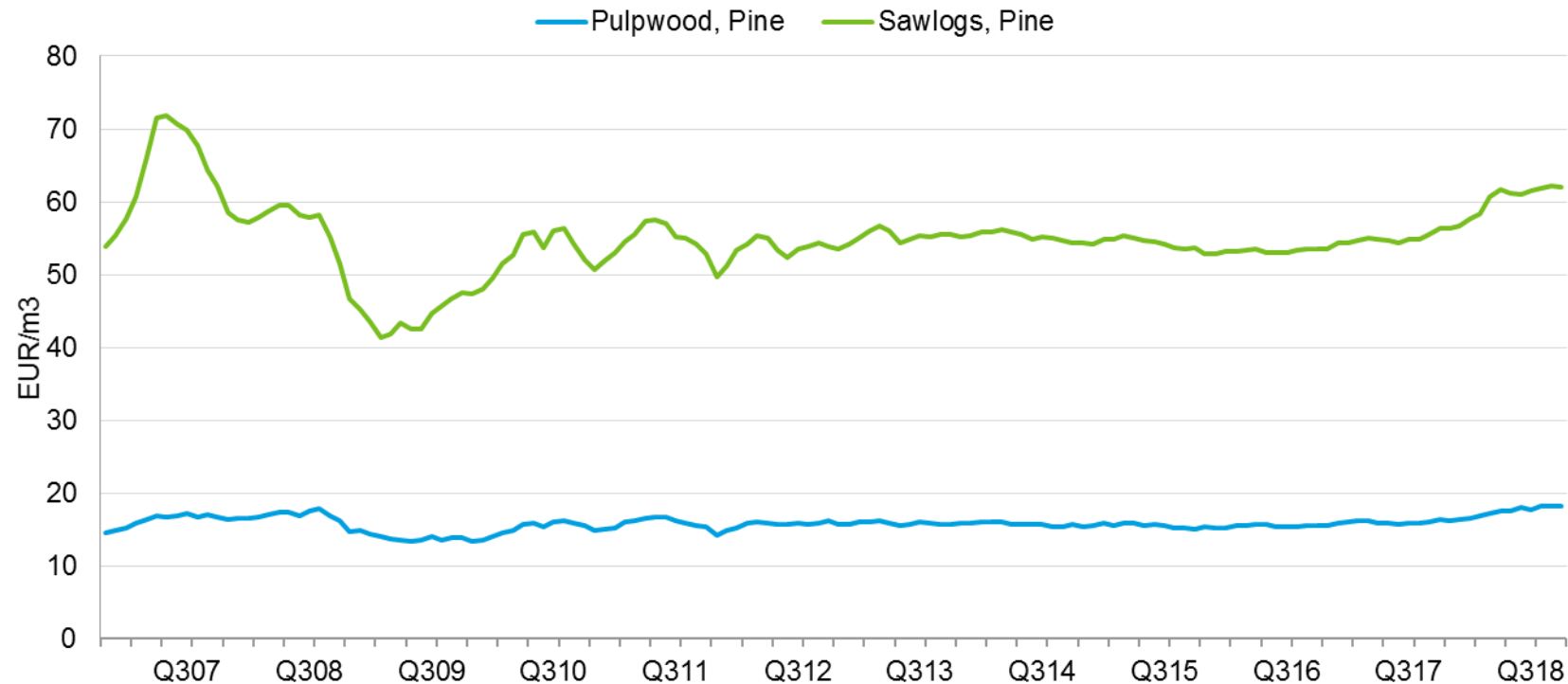
# Pulp price development



Source: FOEX

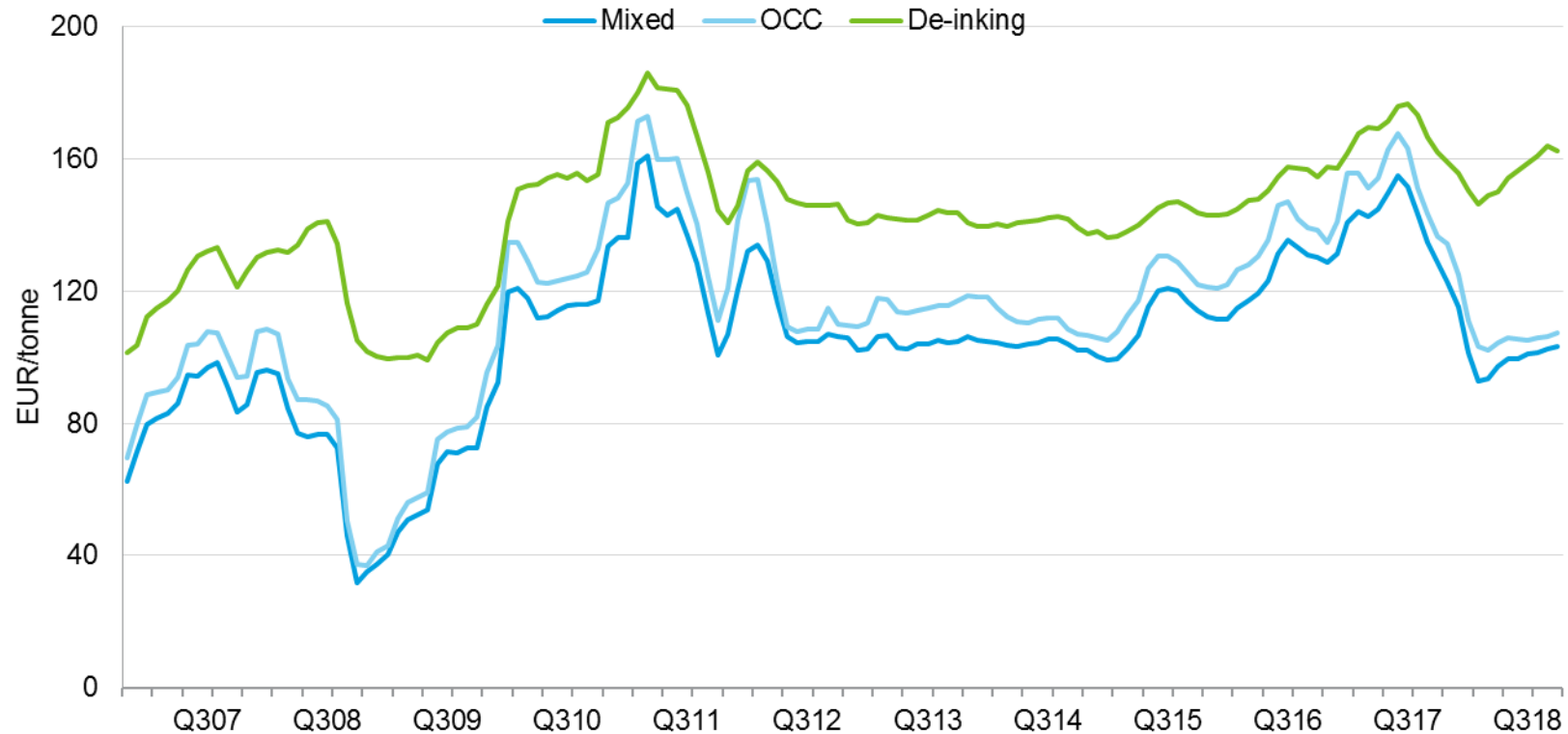
# Pulp wood and saw log prices

## Wood prices in Finland



Source: Luonnonvarakeskus

# Paper for recycling prices



German RCP price development. free delivered  
Source: Verband Deutscher Papierfabriken/Stora Enso

THE RENEWABLE MATERIALS COMPANY

