

# Another quarter of profitable growth

Financial results for Q3 2018

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26 October 2018

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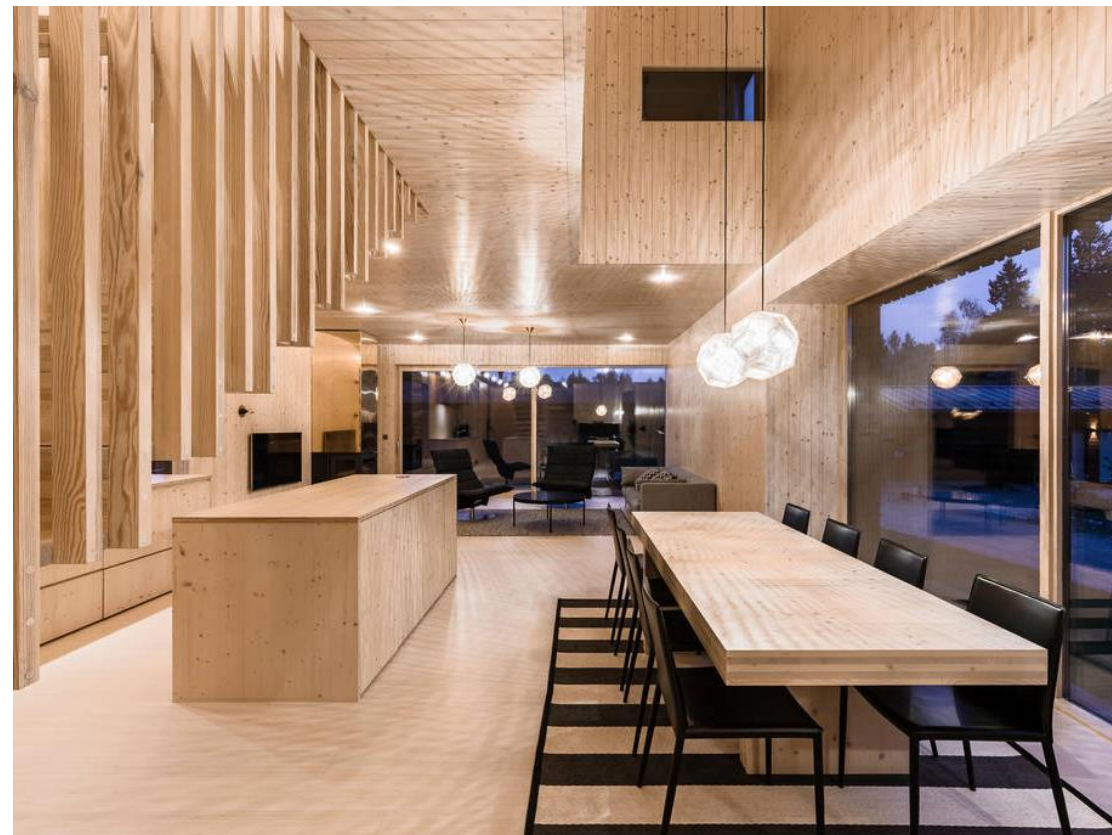
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# Another quarter of profitable growth

## Q3 2018 year-on-year



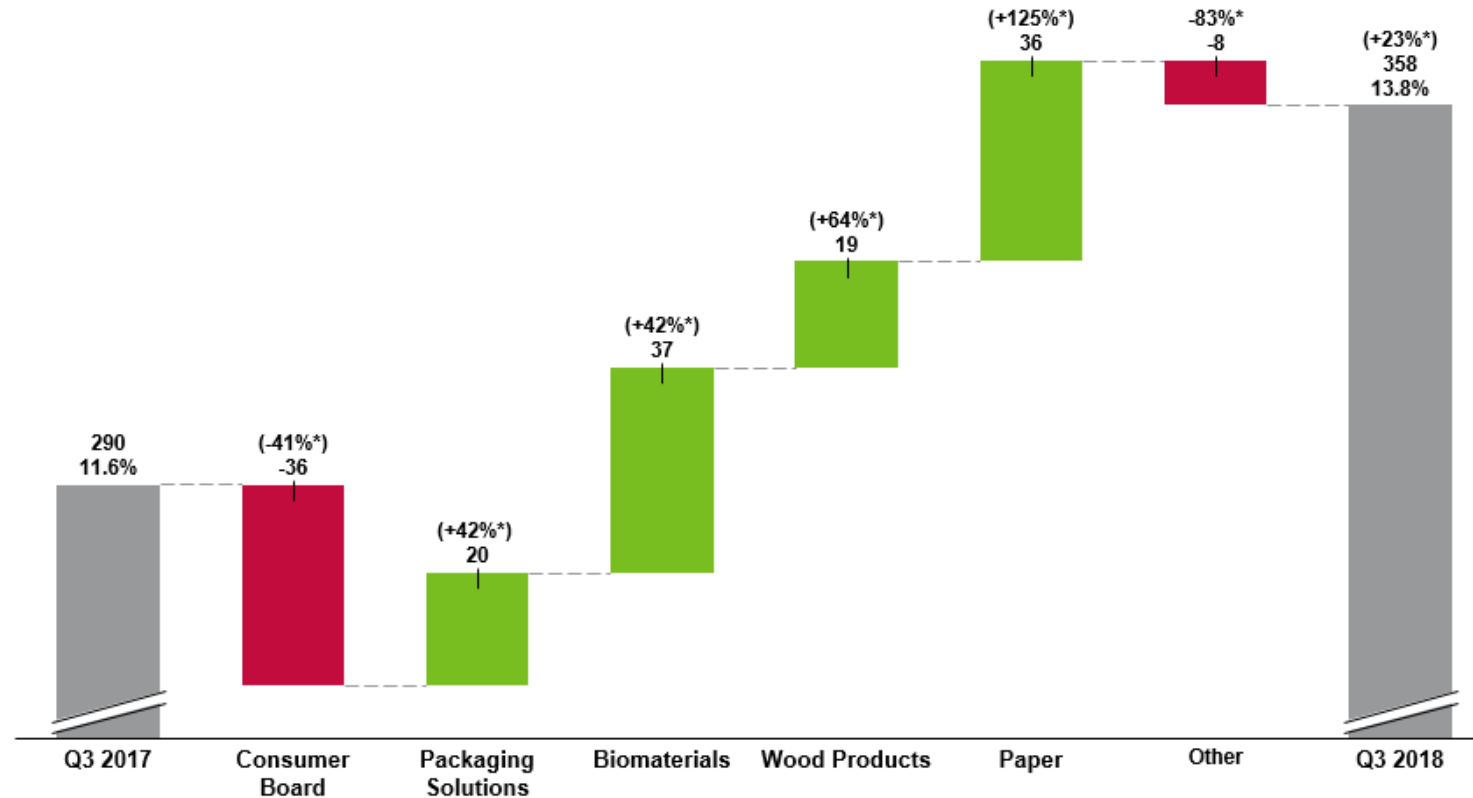
- Sales 2 585 MEUR, +3.0%, 7<sup>th</sup> consecutive quarter of growth
  - Sales growth excluding divested Puumerkki was +4.7%
- Operational EBIT +23% to 358 MEUR
  - EBIT margin 13.8% (11.6%)
  - Favourable prices and active product mix management
- EPS increased by 12.9% to 0.27 (0.24) EUR
- Strong cash flow from operations was 457 MEUR (430 MEUR), after investing activities 319 MEUR (283 MEUR)
- Continued balance sheet improvement and net debt to operational EBITDA ratio improved significantly to 1.1 (1.6)
- Operational ROCE at 16.7% (13.9%), well above strategic target of 13% for the fifth consecutive quarter



# Visible strength of the portfolio

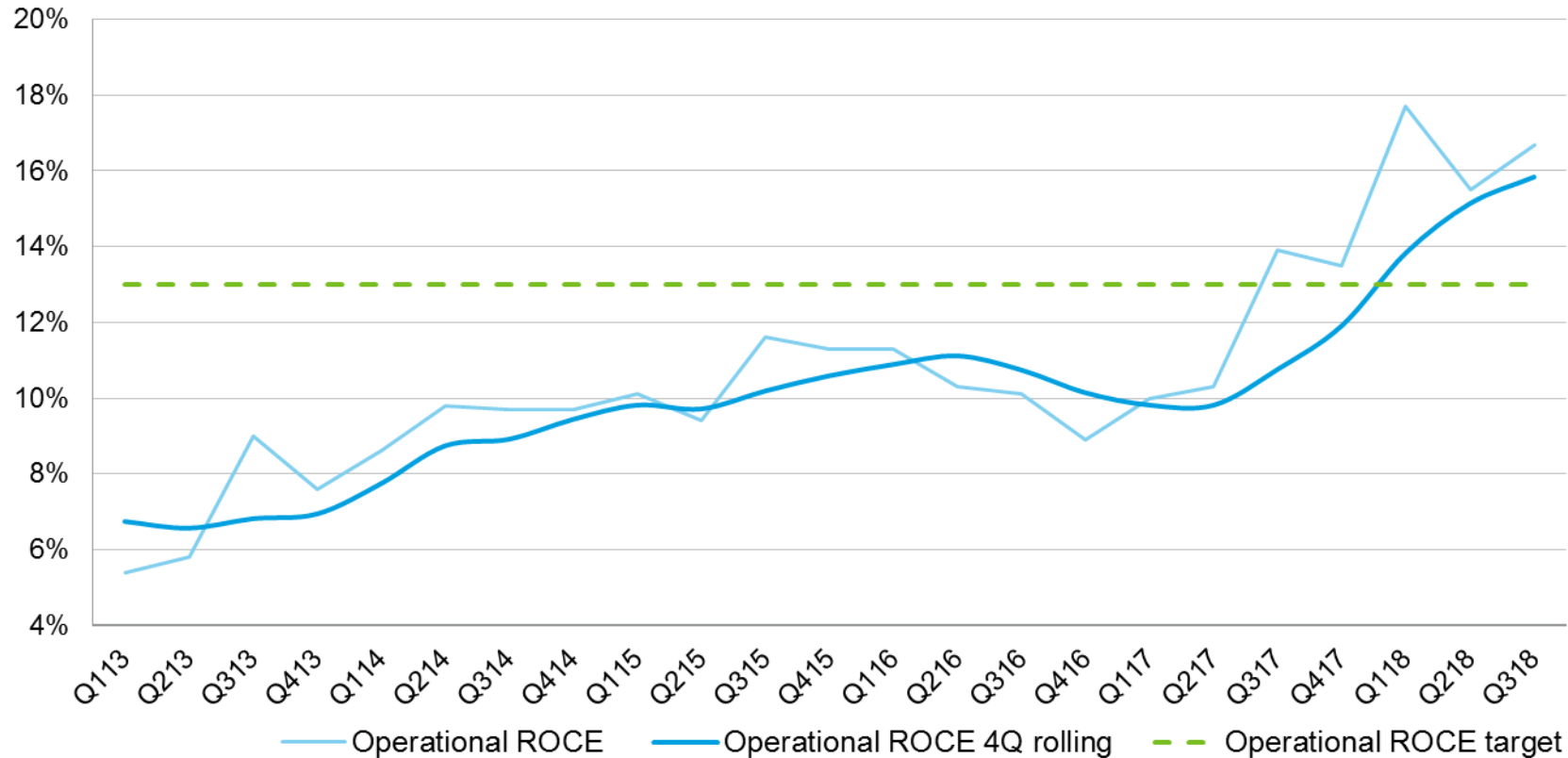
## Record performance in three divisions

Operational EBIT Q3 y-o-y



\* Change % Q3/18-Q3/17

# Fifth consecutive quarter above the strategic target of 13% Operational ROCE



# Latest transformation steps

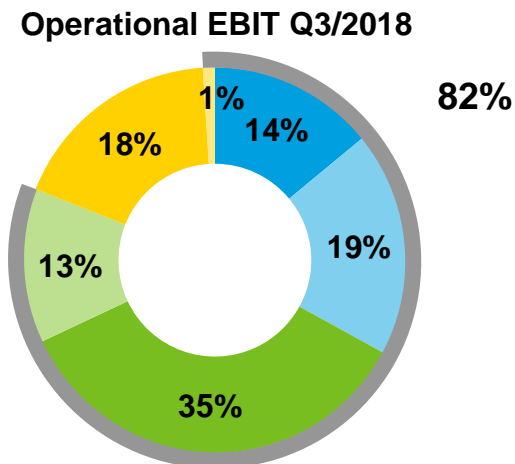
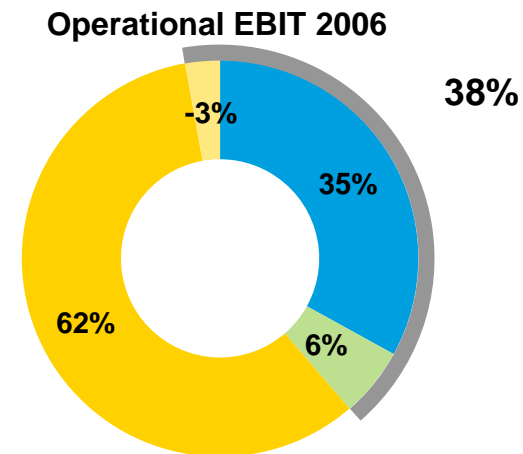
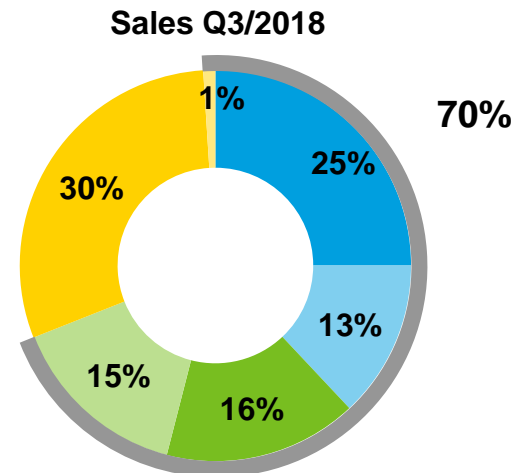
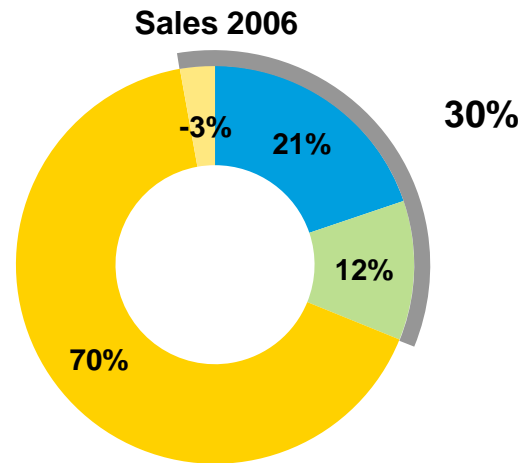


- New announced investments
  - Upgrading and expanding the corrugated packaging plant in Riga, Latvia. Project to be completed in 2019.
  - New Competence Centre for biocomposites and additional production capacity in Sweden
  - Stora Enso and Gasum to build a biogas plant at Stora Enso's Nymölla paper mill in Sweden
- Bergvik Skog restructuring
  - On-going progress
  - Main restructuring expected to be finalised in H1 2019
  - No negative effect on 2019 wood sourcing expected
- Oulu conversion feasibility study ongoing



# Transformation journey

## Growth businesses 70% of sales and 82% 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



# Performance clearly improving

## Summary financials Q3 2018



EUR million	Q3/18	Q3/17	Change% Q3/18- Q3/17	Q2/18	Change% Q3/18- Q2/18
Sales	2 585	2 509	3.0%	2 664	-3.0%
Operational EBITDA	502	432	16.3%	466	7.8%
Operational EBITDA margin	19.4%	17.2%		17.5%	
Operational EBIT	358	290	23.4%	327	9.4%
Operational EBIT margin	13.8%	11.6%		12.3%	
Profit before tax excl. IAC	305	244	25.0%	285	7.0%
EPS excl. IAC, EUR	0.31	0.27	13.3%	0.31	-2.2%
EPS (basic), EUR	0.27	0.24	12.9%	0.28	-2.5%
Operational ROCE	16.7%	13.9%	20.1%	15.5%	7.7%
Cash Flow from Operations	457	430	6.2%	357	28.1%
Net debt/last 12 months' operational EBITDA	1.1	1.6		1.3	



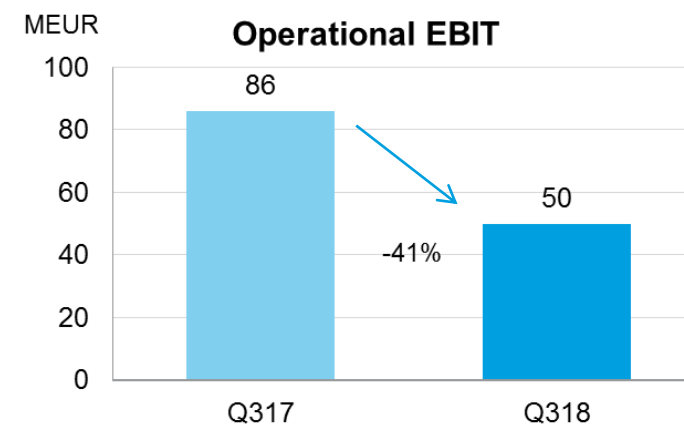
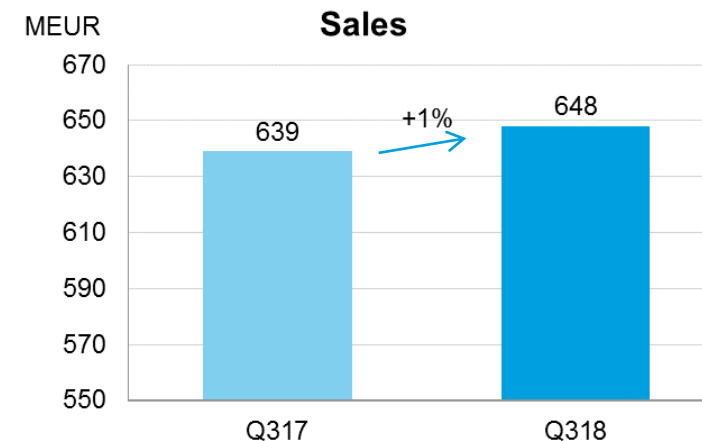
# Consumer Board

## Sales growth continues

### Q3 y-o-y



- Sales increased slightly to record-high Q3 of 648 MEUR
  - Increased volumes and first price increases visible
  - Supported by the ramp-up of Beihai Mill operations
- Operational EBIT decreased 36 MEUR to 50 MEUR
  - Significantly higher variable costs, especially for pulp, chemicals and wood were only partly offset by improved sales prices and fixed costs management
- Operational ROOC declined to 10.3%
- Successful rebuild of a machine at Imatra Mills in Finland for industrial production of MFC for barrier film production. Ramp-up will start during Q4.



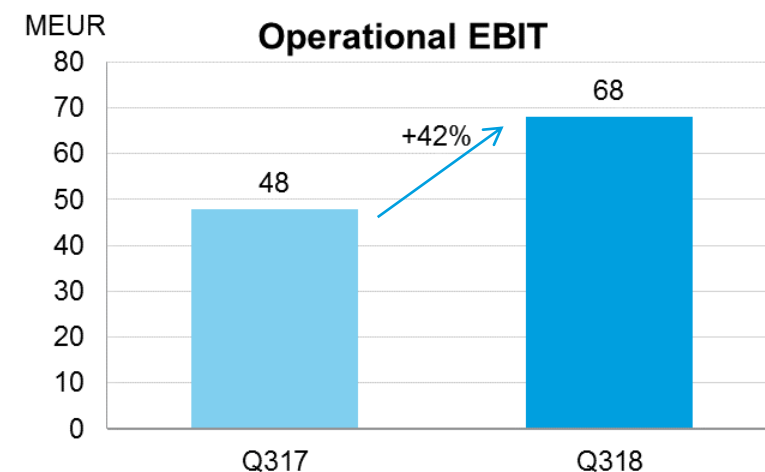
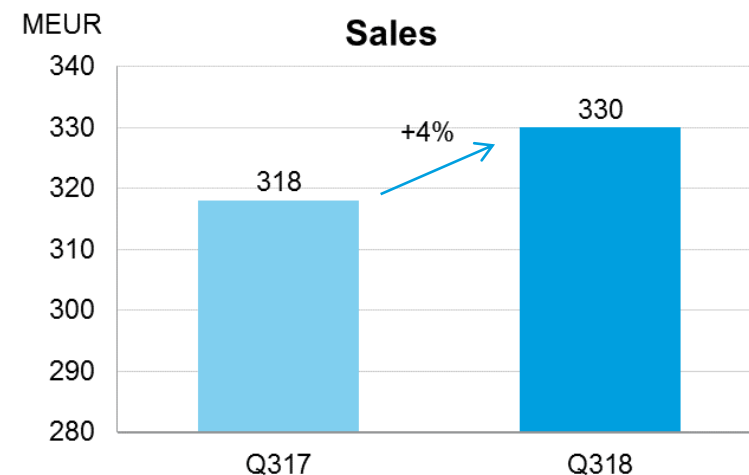
# Packaging Solutions

## Another all-time high quarter

### Q3 y-o-y



- Sales +4% to record high Q3 of 330 MEUR
  - Continued active sales mix management supported by continued good price development in European operations
- Operational EBIT increased another 20 MEUR to an all-time high of 68 MEUR
  - Strong financial performance partly offset by lower deliveries and higher raw material costs for corrugated units
- Operational ROOC also hit an all-time high level of 30.4% and clearly above the strategic target of 20%
- 9 MEUR investment to upgrade and expand the corrugated packaging plant in Riga, Latvia



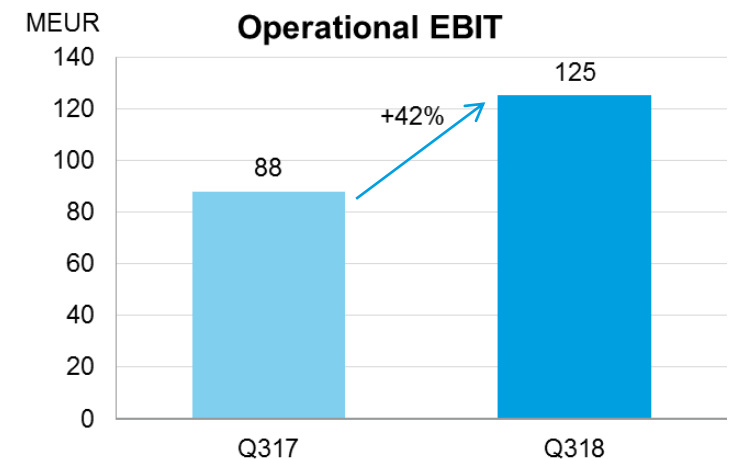
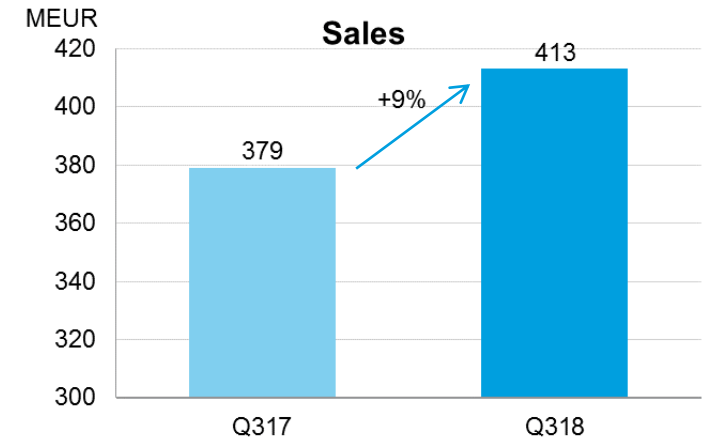
# Biomaterials

## Strong pulp market continues

### Q3 y-o-y



- Sales +9% to another all-time high of 413 MEUR
  - Higher sales prices partly offset by lower sales volumes, negatively impacted mainly by maintenance at Sunila pulp mill in Finland
- Operational EBIT also at all-time high level of 125 MEUR, increase of 37 MEUR, despite a maintenance shutdown at Sunila Mill reducing volumes
  - Higher pulp prices partly offset by higher variable costs
- Operational ROOC increased to a new all-time high of 20.9%, which is clearly above the strategic target of 15%
- Lineo™ by Stora Enso won “Best Product Innovation at the ICIS Innovation Awards 2018. ICIS is the world’s largest petrochemical market information provider.



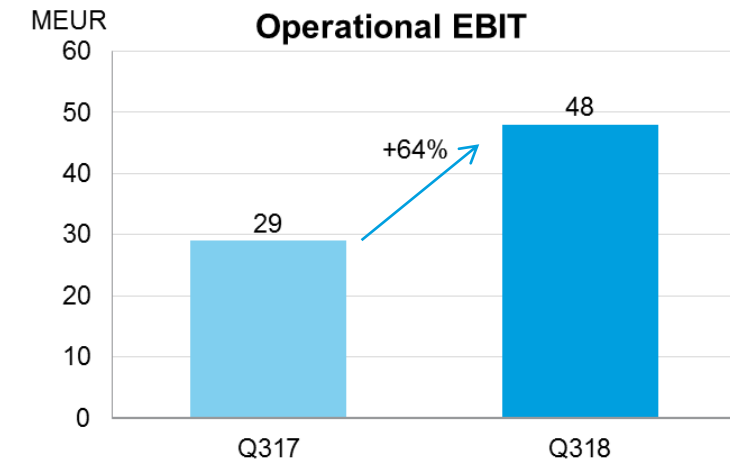
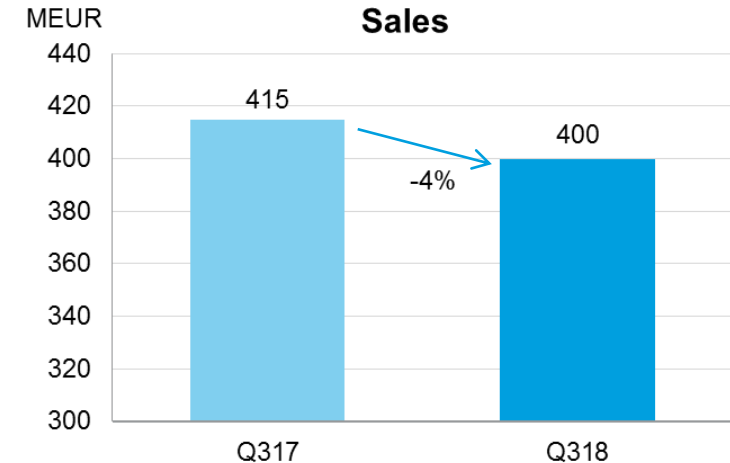
# Wood Products

## Wood-based building continues to grow

### Q3 y-o-y



- Sales excluding the divested Puumerkki increased 6.4%
- Operational EBIT +64% to record high Q3
  - Better prices and mix, as well as volume growth, supported by Murów sawmill and Varkaus LVL investments
- Operational ROOC continued at record high level of 31.6%, clearly above strategic target of 20%
- Business portfolio development
  - 7 MEUR investment in building a Competence Centre for biocomposites in Sweden
  - Stora Enso and the Finnish start-up TRÄ Group to develop innovative digital services for wooden buildings
  - Stora Enso and Orthex launched a new range of kitchen utensils made from biocomposite. The 98% bio-based material used to replace fossil-based plastic is made from spruce and sugarcane.



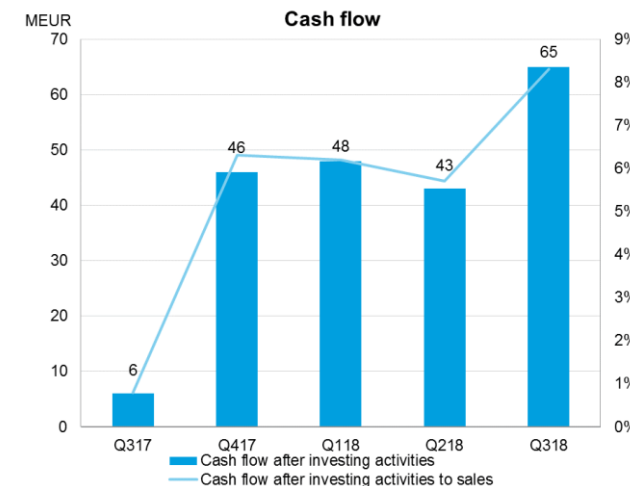
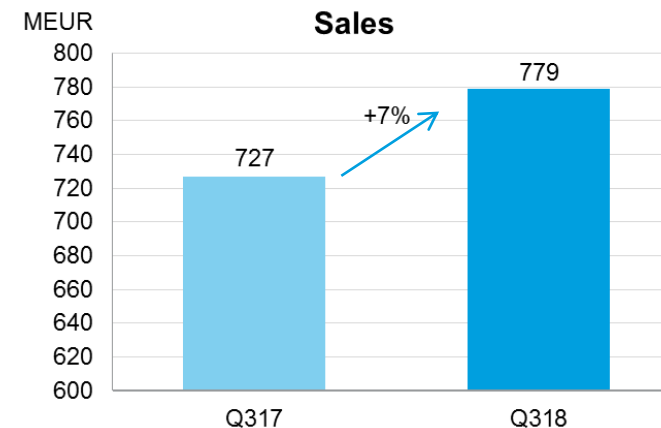
# Paper

## Solid profitability and cash flow

### Q3 y-o-y



- Sales increased +7% to 779 MEUR
  - Clearly higher sales prices in all grades and a better mix
- Operational EBIT increased 125% to 65 MEUR
  - Good market balance continues
- Cash flow after investing activities to sales ratio 8.3 (0.8)% achieved on the back of better profitability
- Stora Enso and Gasum to build a biogas plant at Stora Enso Nymölla paper mill in Sweden. Total investment for Stora Enso 5 MEUR.



# Strategic targets in good progress – still more potential



Group strategic targets		Q3 17	Q3 18	
Dividend	To distribute 50% of EPS over the cycle			
Growth*	To grow faster than the relevant market	11.1% (YoY)	3.6% (YoY)**	●
Net debt to operational EBITDA	<2.0x	1.6	1.1	●
Fixed costs to sales	<20%	23.8%	23.3%	●
Debt to equity	<60%	43%	34%	●
Operational ROCE	>13%	13.9%	16.7%	●

Divisional strategic targets		Q3 17	Q3 18	
Consumer Board	Operational ROOC > 20%	17.7%	10.3%	●
Packaging Solutions	Operational ROOC > 20%	22.4%	30.4%	●
Biomaterials	Operational ROOC > 15%	14.8%	20.9%	●
Wood Products	Operational ROOC > 20%	21.3%	31.6%	●
Paper	Cash flow after investing activities to sales > 7%	0.8%	8.3%	●

\* Excluding Paper \*\* Excluding Paper and Puumerkki

# Outlook for Q4 2018

## Compared to Q3 2018



- Sales are estimated to be slightly higher than the amount of 2 585 MEUR recorded in Q3/2018
- Operational EBIT is expected to be in line with or somewhat lower than the 358 MEUR recorded in Q3/2018
- A negative 10 MEUR impact on operational EBIT is expected due to production restrictions at uncoated fine paper mill in Nymölla, Sweden. This is because water at a near by lake, which supplies water for the mill operations, is at too low level. The impact of annual maintenance shutdowns is expected to be similar to Q3/2018. These impacts are included in the above outlook.

Annual maintenance	Q4 2018	Q3 2018
<b>Consumer Board</b>	Skoghall and Fors mills	Imatra and Ingerois mills
<b>Packaging Solutions</b>	-	Ostrołęka Mill
<b>Biomaterials</b>	Montes del Plata and Skutskär mills	Sunila Mill
<b>Paper</b>	-	Veitsiluoto Mill





# Another quarter of profitable growth

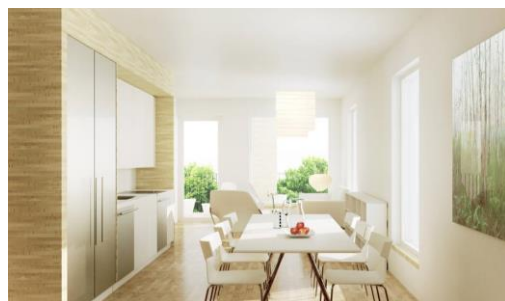
## Visible strength of the portfolio



- Seventh consecutive quarter of sales growth
- Fifth consecutive quarter of double digit operational EBIT margin. Q3 YoY operational EBIT margin improved 2.2 percentage points.
- Fifth consecutive quarter of operational ROCE well above the strategic target of 13%
- Balance sheet continues to strengthen
- Operational EBIT expected to be clearly higher in 2018 compared to 2017
- Moving from asset transformation to innovation and sales transformation continues successfully



# Welcome to Stora Enso CMD on 7 November 2018 in Helsinki



**Followed by  
Packaging Solutions  
visit in Design Studio  
Lahti and SC fluting  
mill in Heinola  
on 8 November 2018**



THE RENEWABLE MATERIALS COMPANY



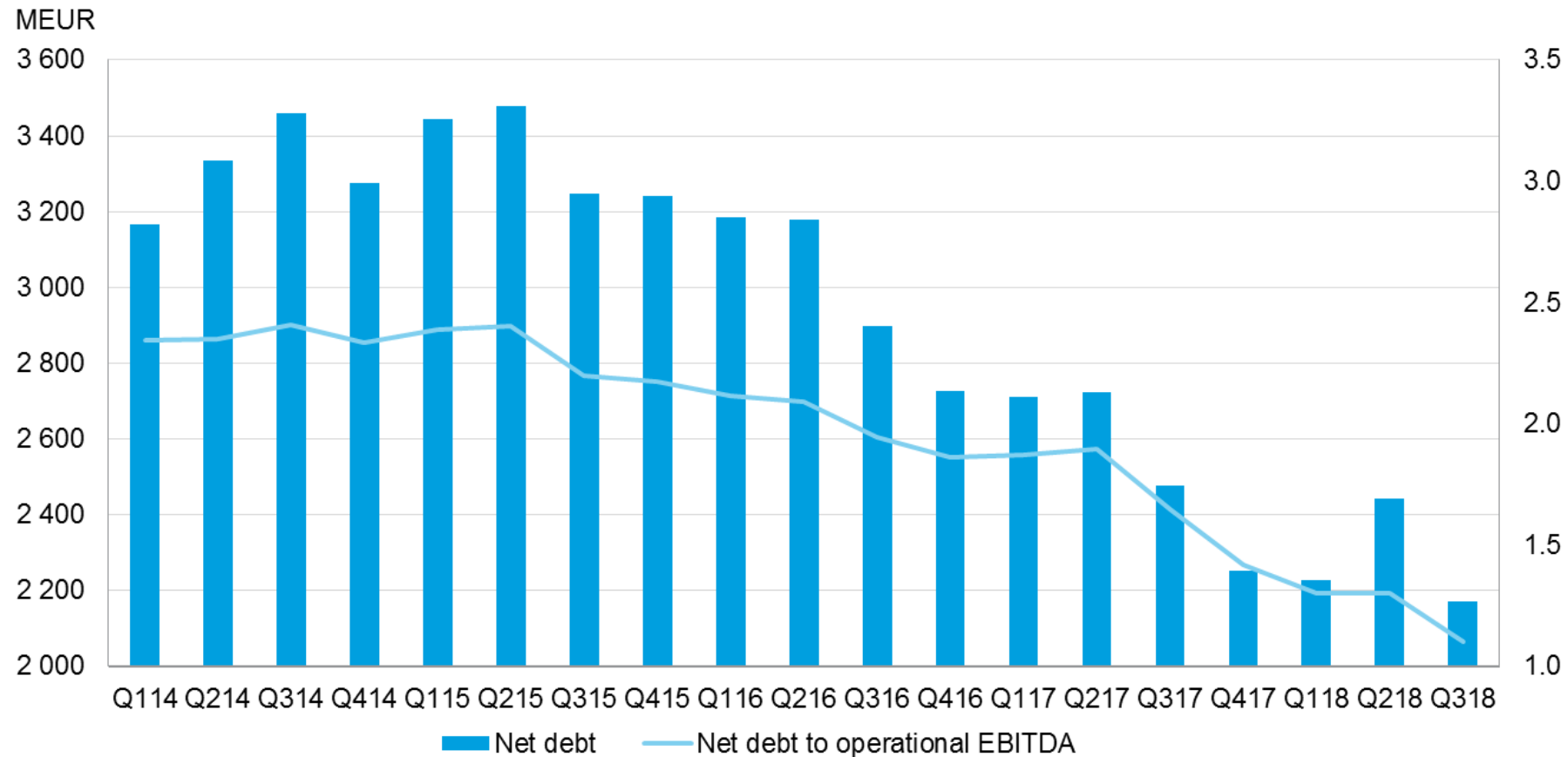
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# Operational EBIT by segments

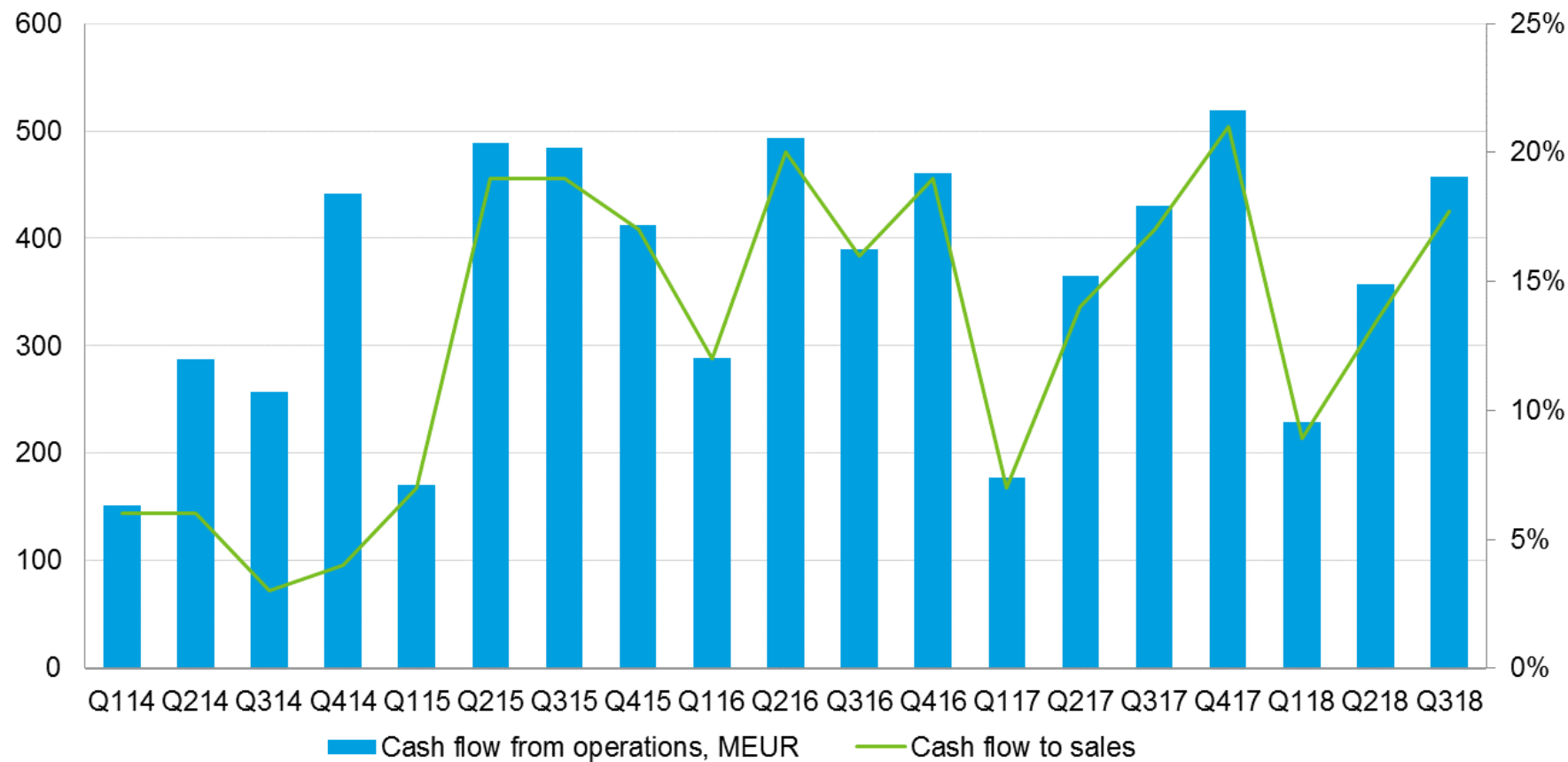


EUR million	Q318	Q317	Change % Q318-Q317	Q218	Change % Q318-Q218
Consumer Board	50	86	-41.3	65	-22.3%
% of sales	7.8%	13.5%		9.5%	
Packaging Solutions	68	48	41.6%	57	19.3%
% of sales	20.6%	15.1%		17.2%	
Biomaterials	125	88	42.0%	109	14.6%
% of sales	30.3%	23.2%		26.5%	
Wood Products	48	29	64.1%	47	1.3%
% of sales	11.9%	7.0%		10.9%	
Paper	65	29	125.0%	54	20.8%
% of sales	8.4%	4.0%		7.2%	
Other	2	10	-83.1%	-5	133.9%
% of sales	0.2%	1.7%		-0.6%	

# Year-on-year net debt/EBITDA

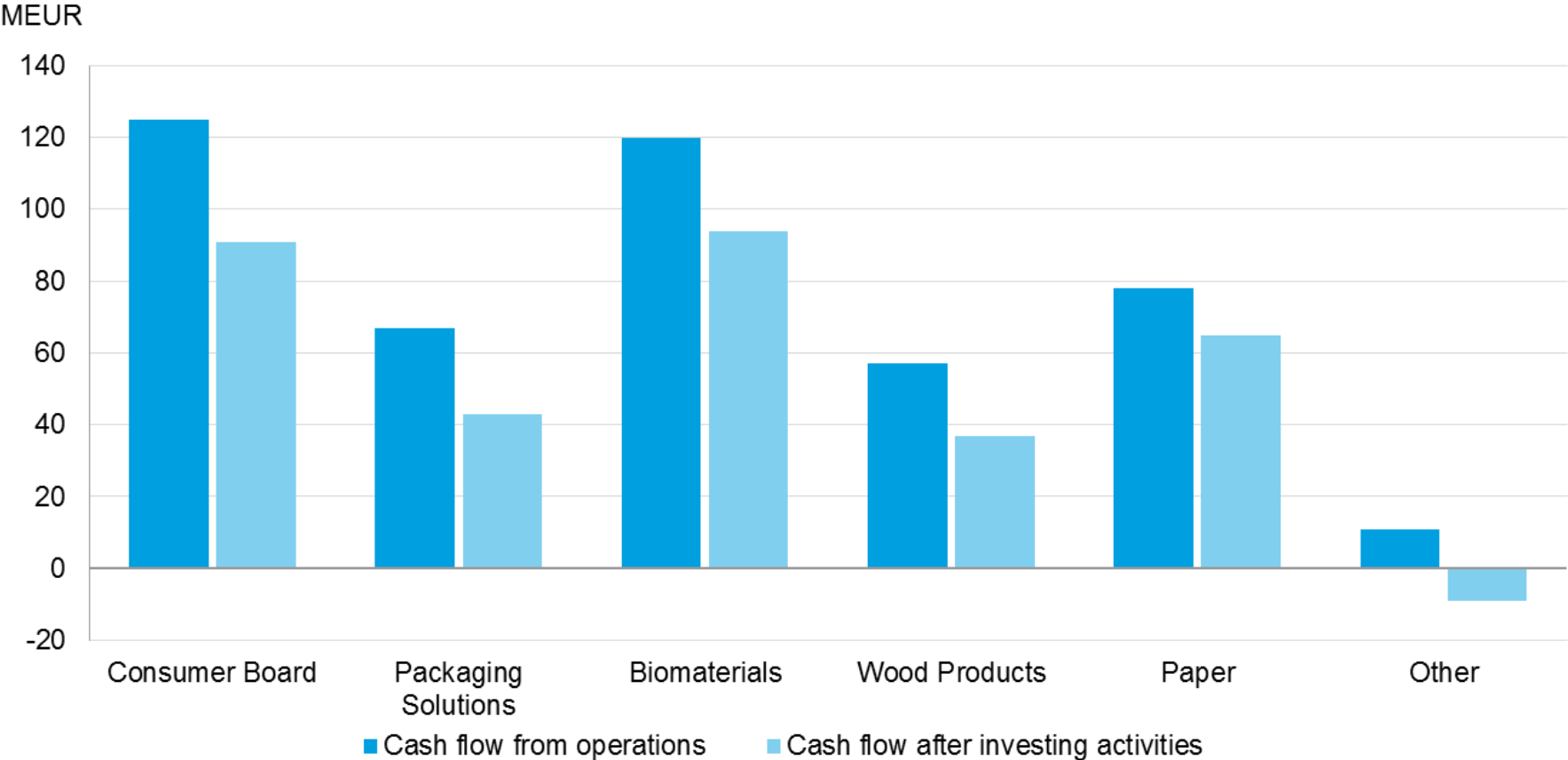


# Healthy cash flow generation continues



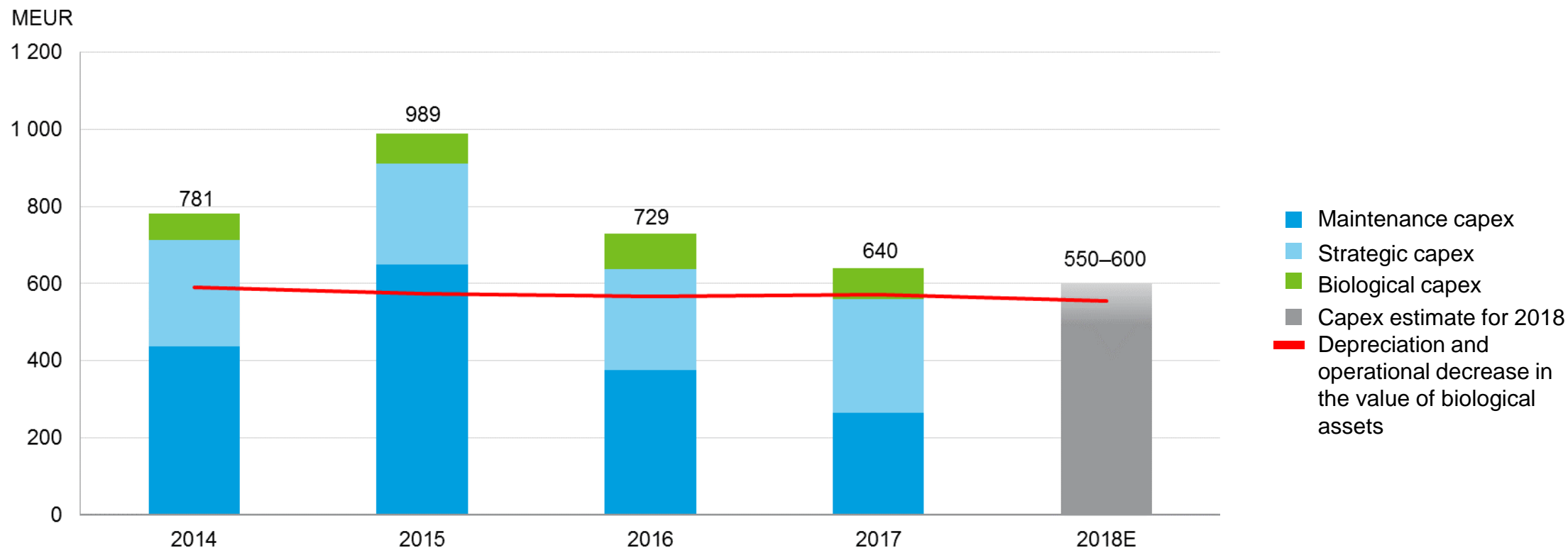


# Cash flow by divisions in Q3



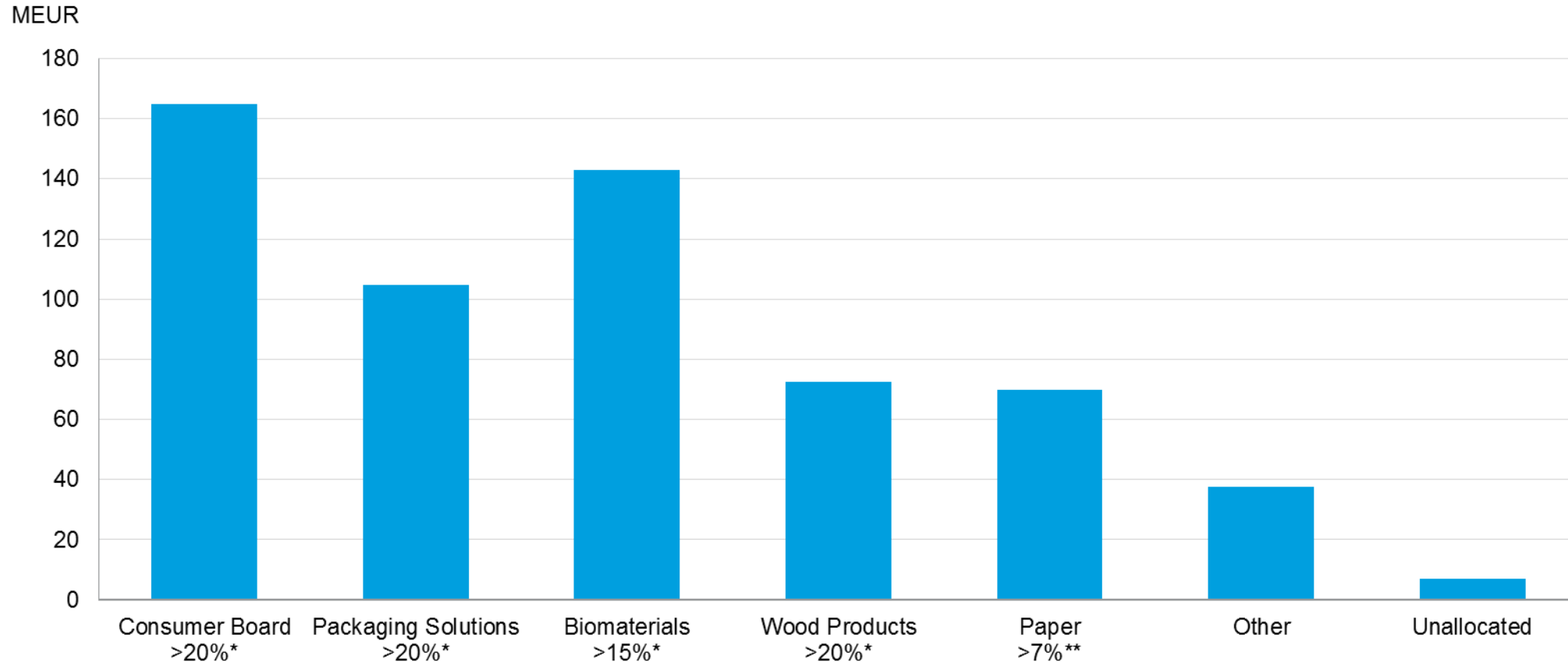


# Capex on targeted levels



# Targeted ROOC is driving CAPEX allocation

## Capex forecast in 2018



\* Operational ROOC target

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

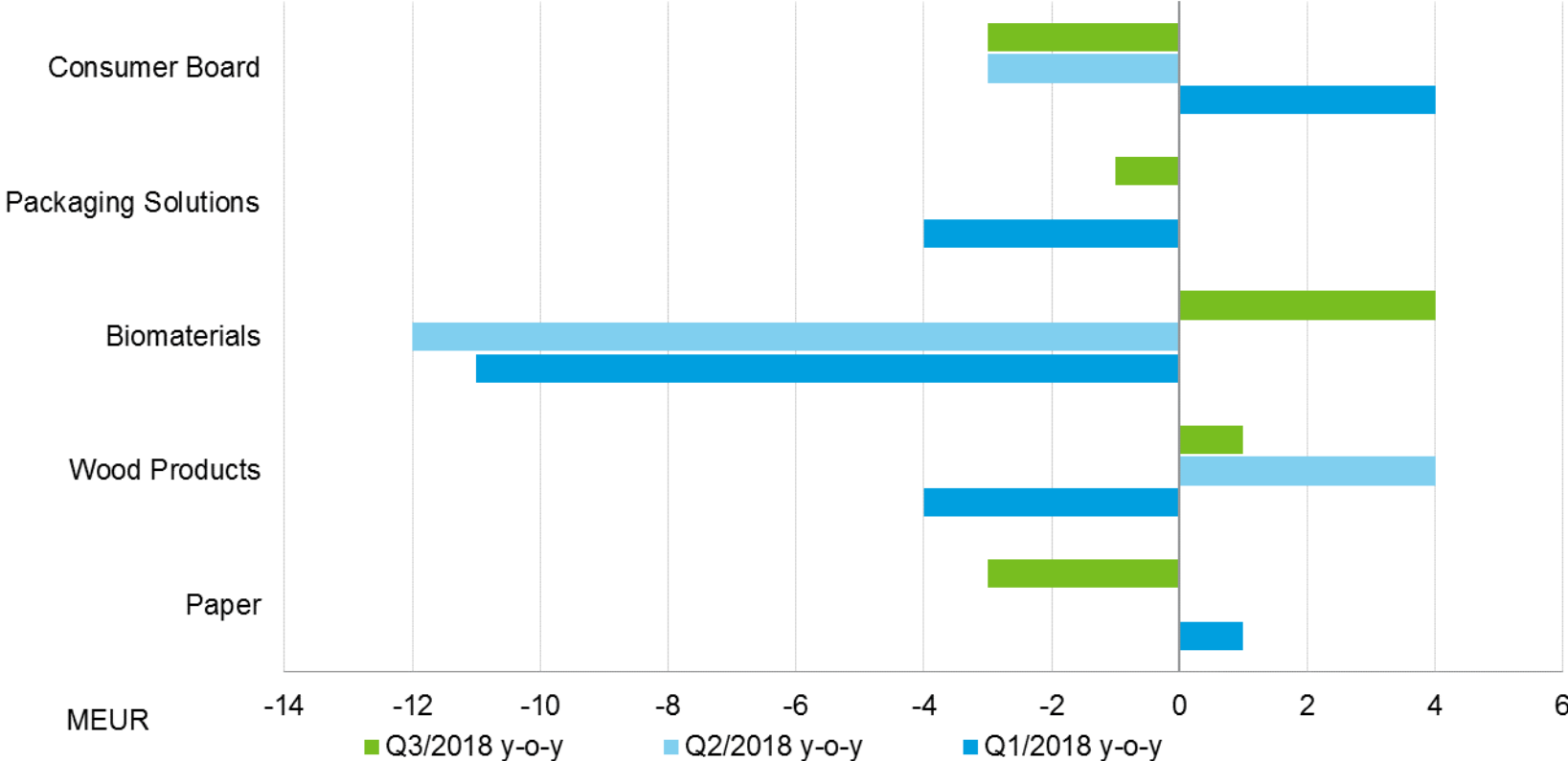
# Net Financials



EUR million	Q3 2018	Q3 2017	Change MEUR Q318/ Q317	Q2 2018	Change MEUR Q318/ Q218
<b>Net interest expense</b>	<b>-34</b>	<b>-32</b>	<b>-2</b>	<b>-31</b>	<b>-3</b>
Average interest rate*	4.4%	4.1%		4.1%	
<b>Foreign exchange gains and losses</b>	<b>-15</b>	<b>1</b>	<b>-16</b>	<b>-26</b>	<b>11</b>
<b>Other financial items. of which</b>	<b>-9</b>	<b>-15</b>	<b>6</b>	<b>-3</b>	<b>-6</b>
Pension costs (IAS 19R)	-2	-1	-1	-2	-
Other items	-7	-14	7	-1	-6
<b>Total net financial items</b>	<b>-58</b>	<b>-46</b>	<b>-12</b>	<b>-60</b>	<b>2</b>

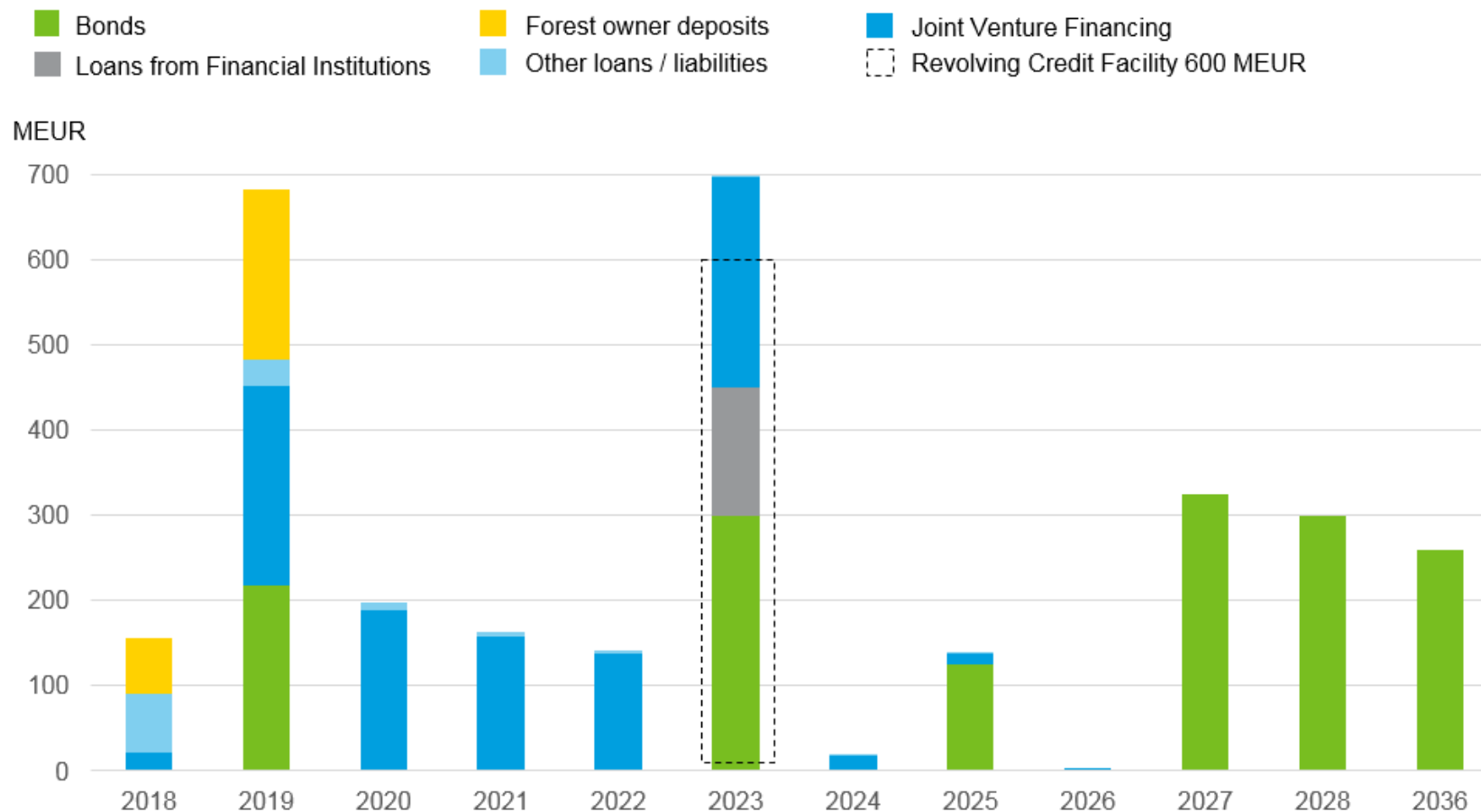
\* Quarterly gross interest expense divided by average gross debt

# Net FX by division



Net FX y-o-y impact  
-3 MEUR in Q3/2018  
on operational EBIT

# Maturity profile Q3 2018



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

# Transaction risk and hedges Q3 2018



EUR Million	USD	SEK	GBP
Estimated annual operating cash flow exposure	1 700	-980	370
Transaction hedges as at 30 September 2018	-840	620	-180
<b>Hedging percentage as at 30 September 2018 for the next 12 months</b>	<b>49%</b>	<b>63%*</b>	<b>49%</b>

\* For the next 13-21 months, 19% of estimated exposure in SEK is hedged

Operational EBIT: Currency strengthening of +10%*	EUR million
USD	170
SEK	-98
GBP	37

\* 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 15 MEUR
Wood prices	Positive 196 MEUR
Chemical and filler prices	Positive 60 MEUR
10% increase in	Impact*
Market pulp price, total	Positive 135 MEUR
10% strengthening against Euro in the value of**	Impact*
US dollar	Positive 170 MEUR
Swedish krona	Negative 98 MEUR
British pound	Positive 37 MEUR
Brazilian real	Negative 12 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

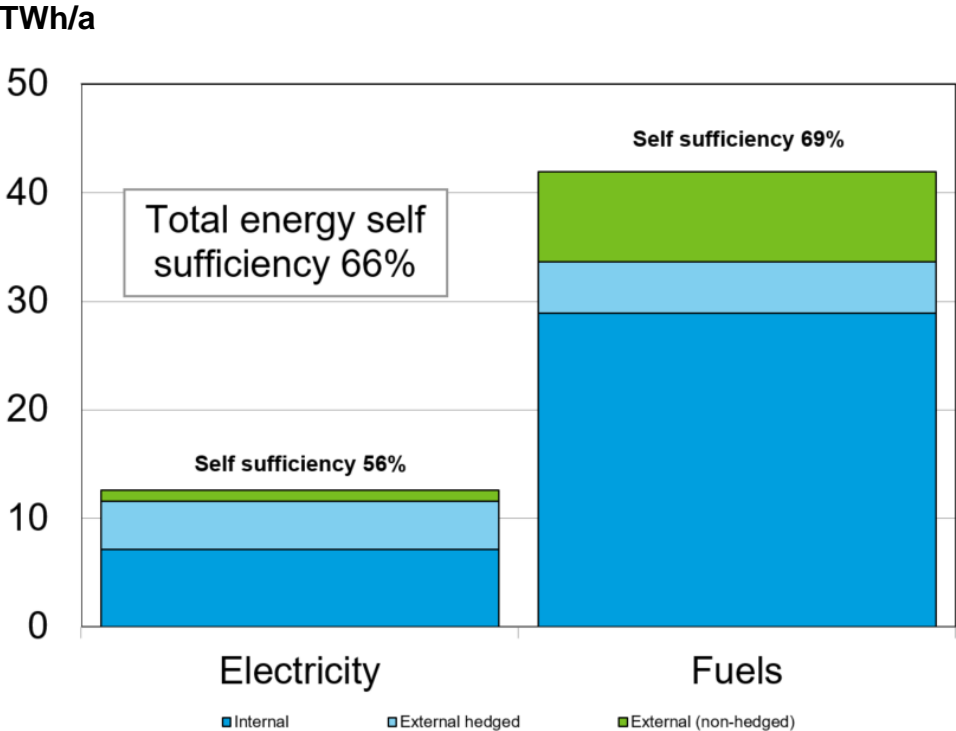


10% increase in	Impact*
Hardwood pulp** prices	Positive 55 MEUR
Softwood pulp prices	Positive 45 MEUR
Fluff pulp prices	Positive 25 MEUR
Dissolving pulp prices	Positive 10 MEUR
<b>Market pulp price, total</b>	<b>Positive 135 MEUR</b>

\* 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

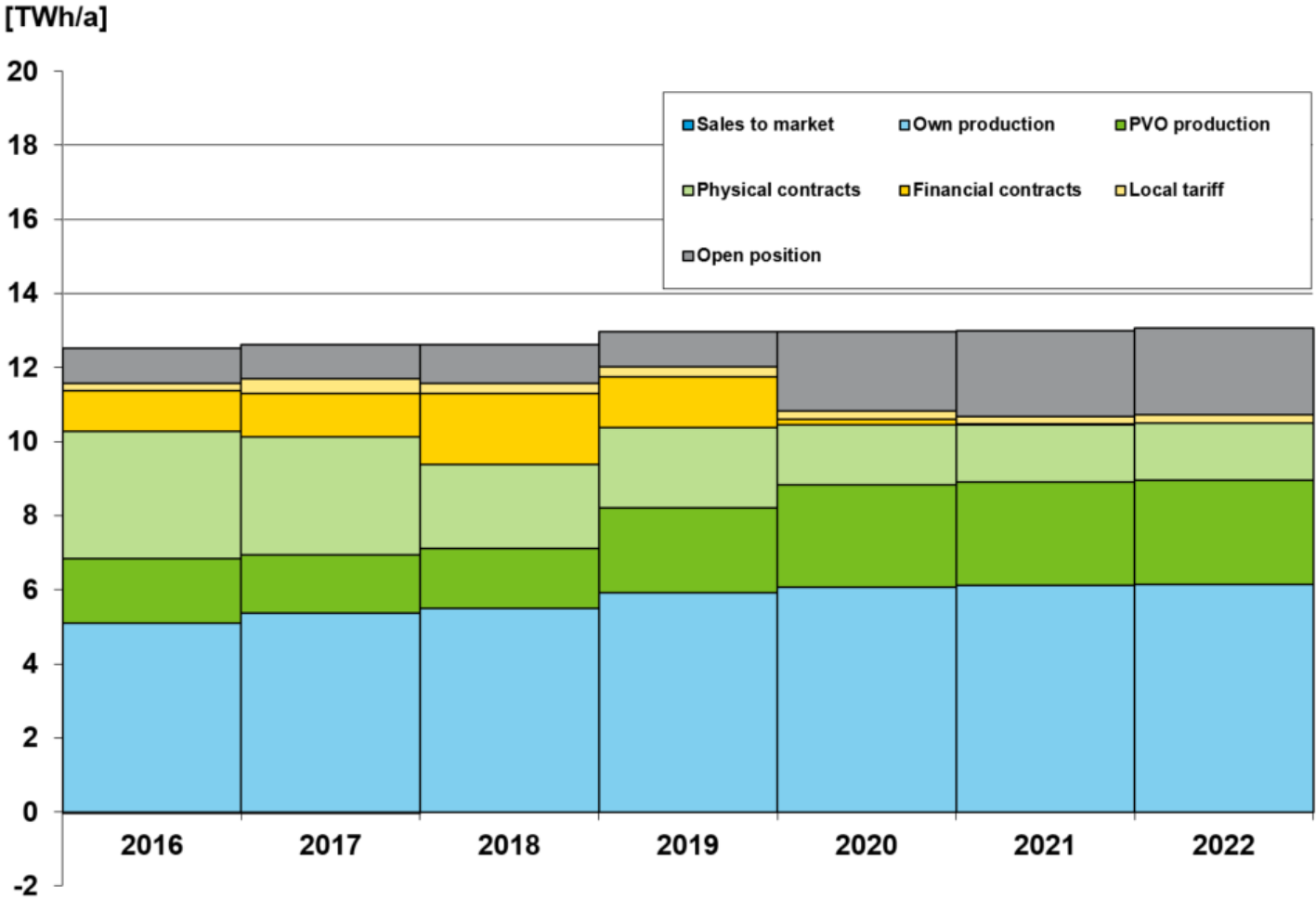
# Stora Enso energy balance\* Q3 2018



Impact on non-hedged volume on operating profit from 10% change in:	EUR million p.a.
Electricity market price	~6.6
Fossil fuel price	~9.5

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

# Stora Enso electricity procurement\* Q3 2018



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

# Permanent pulp, paper and board capacity reductions since 2006



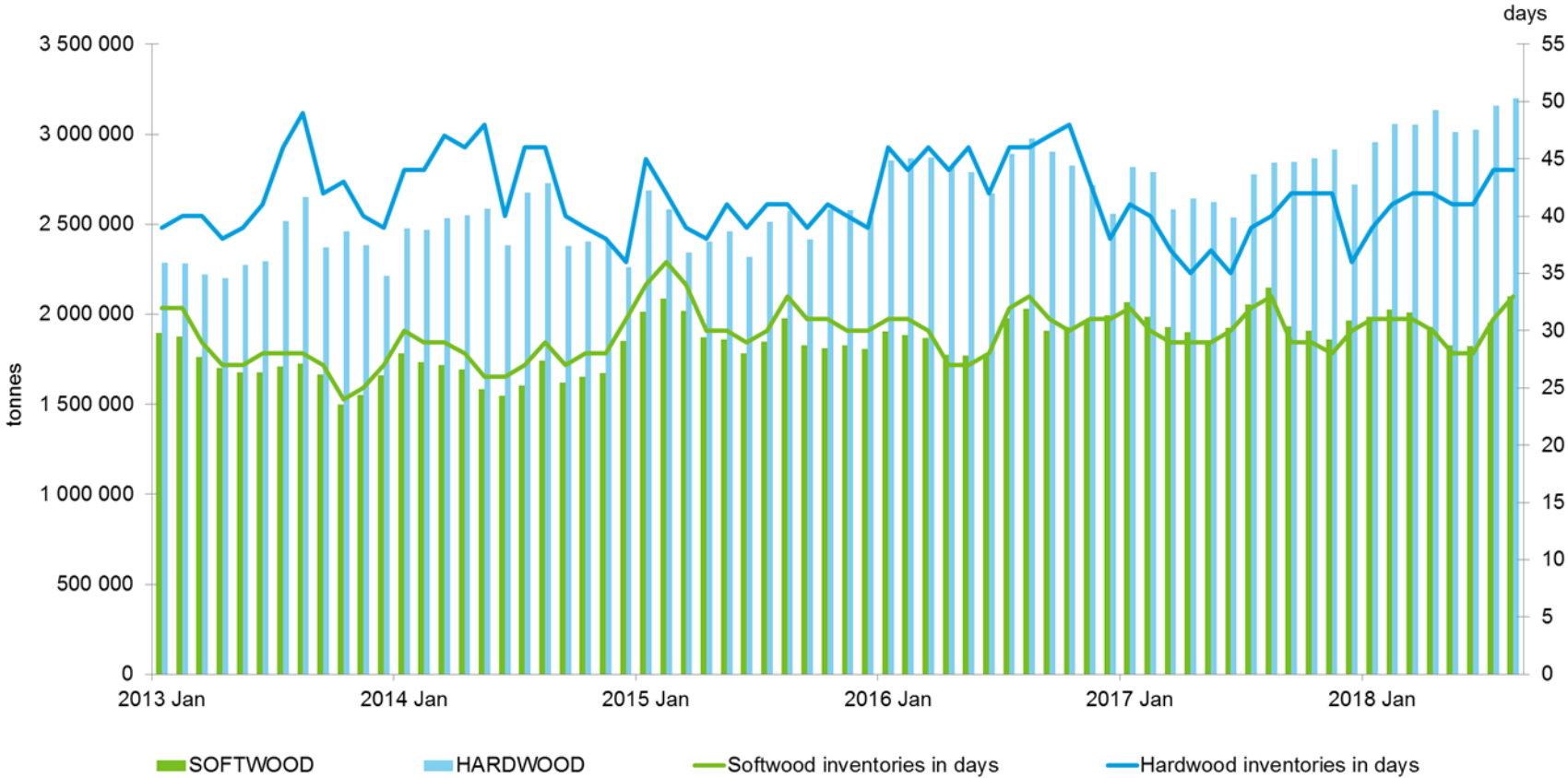
Mill	Date	Grade	Capacity reduction, t
Corbehem PM 3 and PM 4	Jun 2006	LWC	250 000
Varkaus PM 1	End 2006	WFC	95 000
Berghuizer Mill	Oct 2007	WFU	235 000
Reisholz Mill	End 2007	SC	215 000
Summa Mill	Jan 2008	Newsprint, uncoated mag, book paper	415 000
Anjala Mill PM1	Feb 2008	Coated magazine paper	155 000
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



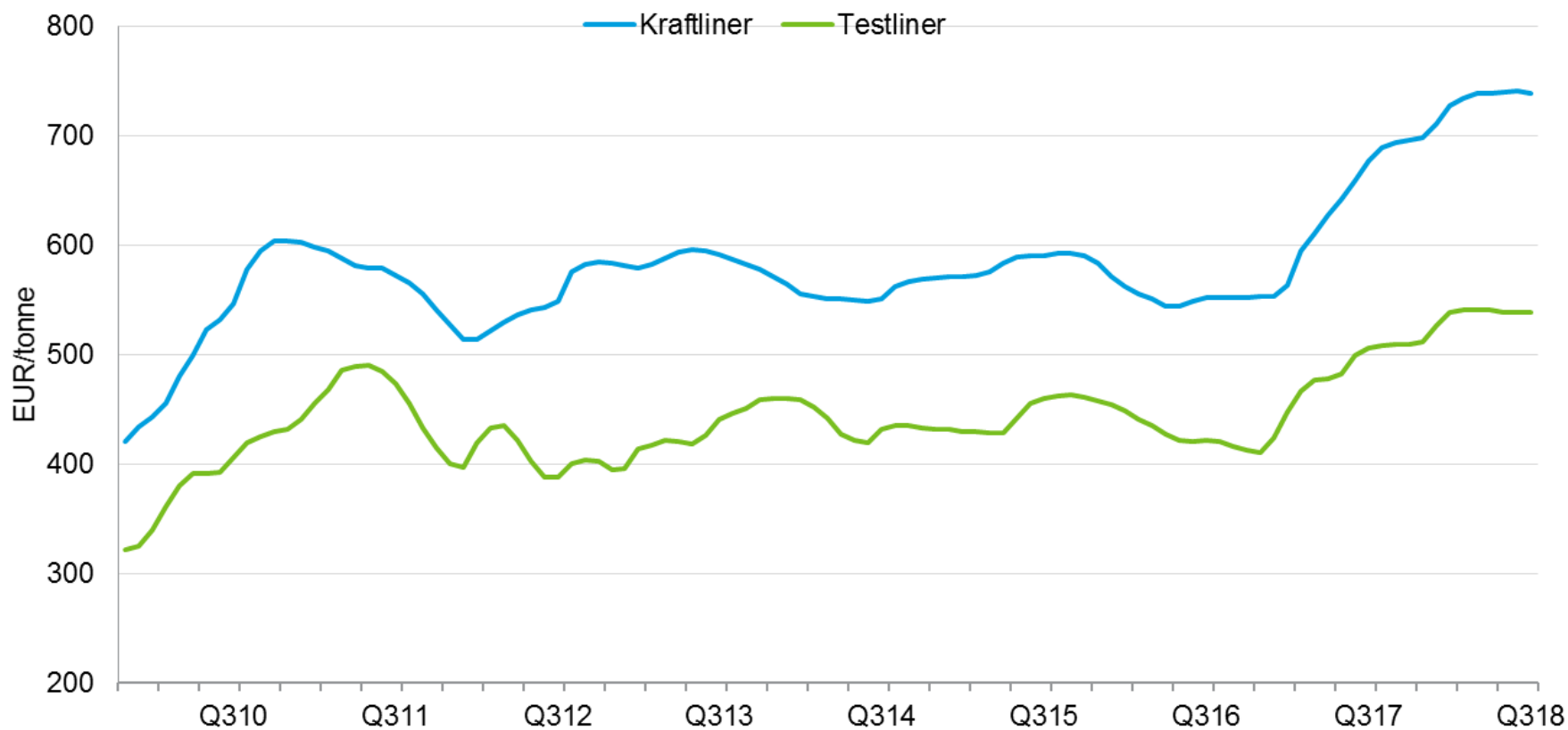
Mill	Date	Capacity reduction, m <sup>3</sup>
Veitsiluoto Sawmill	2006	100 000
Honkalahti Sawmill	2006	90 000
Sauga Sawmill	Jun 2007	130 000
Sollenau Sawmill	2007	110 000
Näpi Sawmill	2007-2008	100 000
Kotka Sawmill	2007-2008	70 000
Paikuse Sawmill	End 2008	220 000
Zdirec Sawmill	2008	120 000
Ybbs Sawmill	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



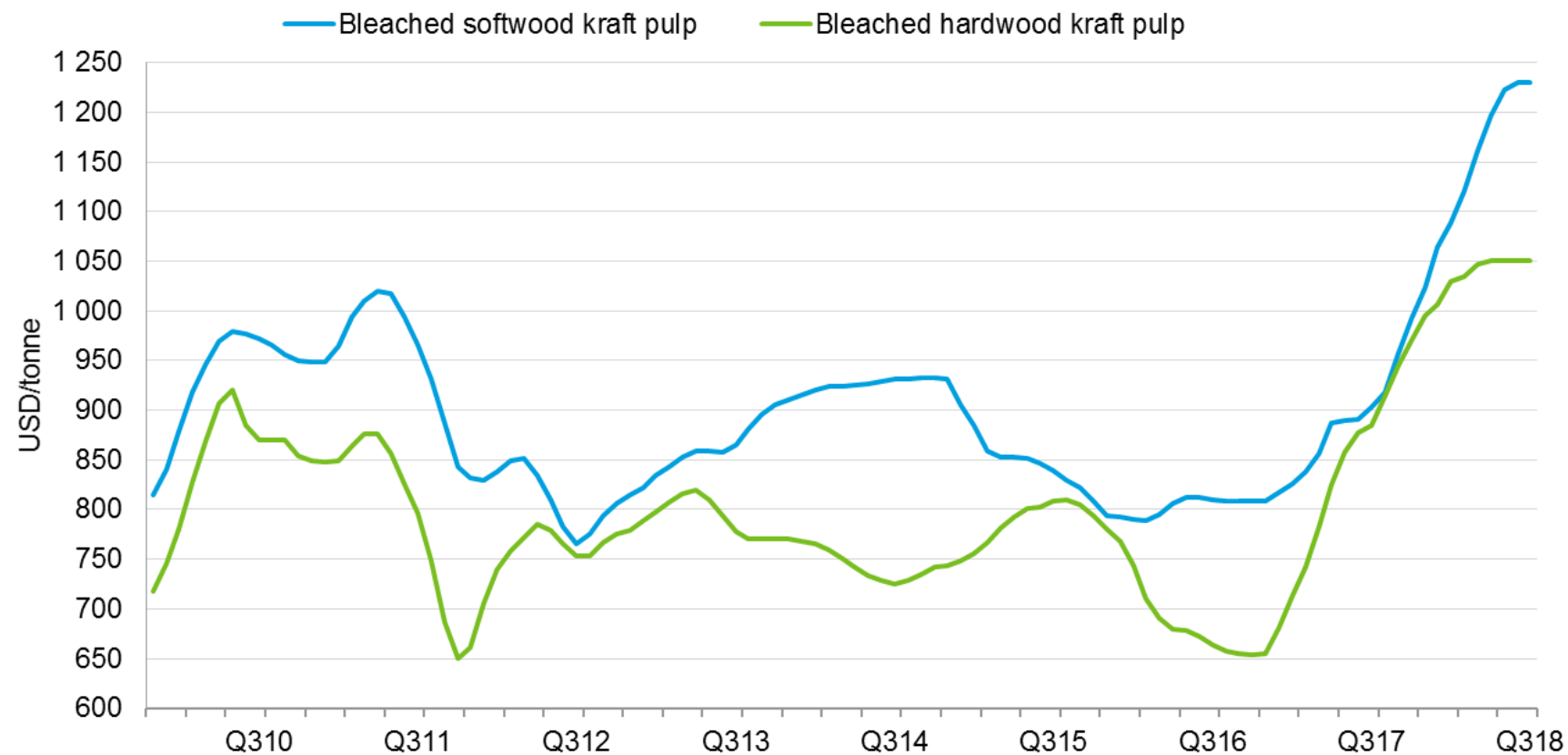
Source: EPIS

# Kraftliner and testliner prices



Source: FOEX

# Pulp price development

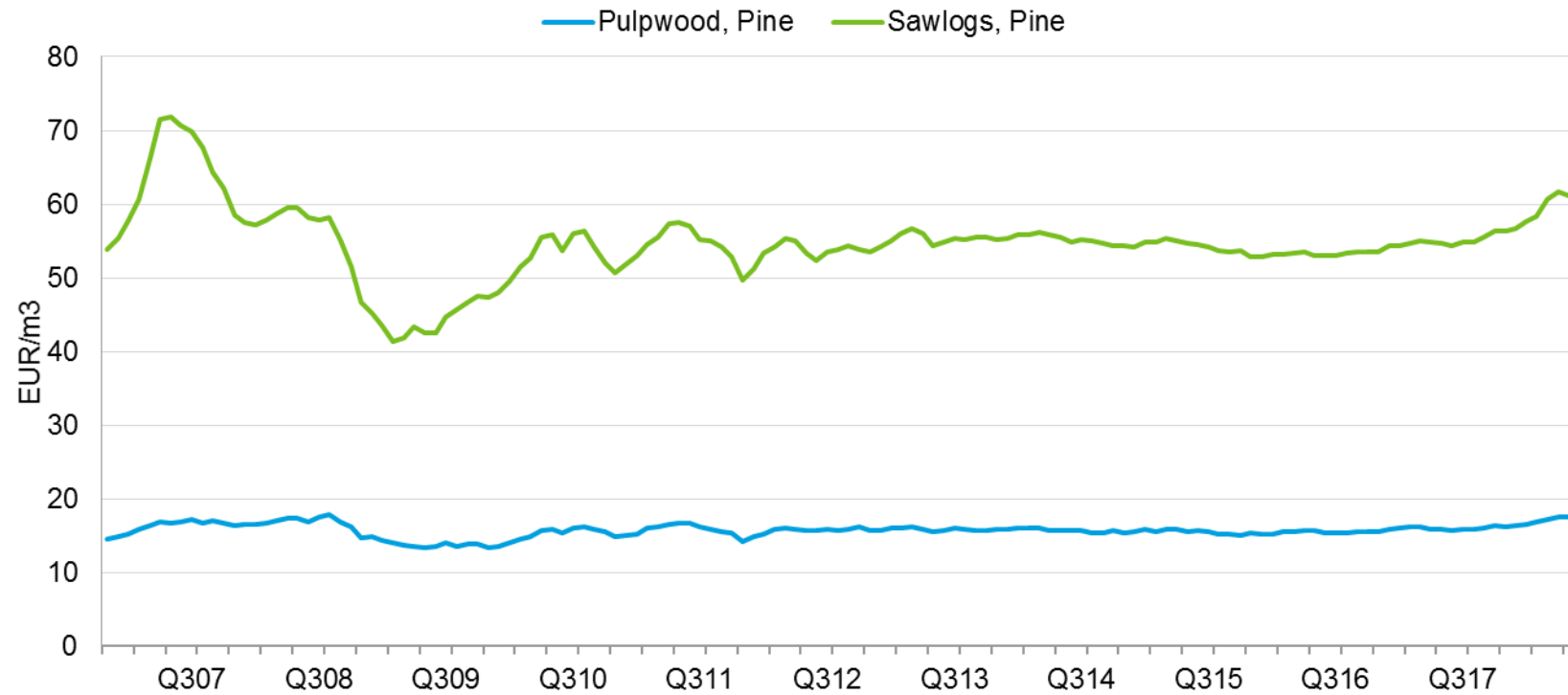


Source: FOEX



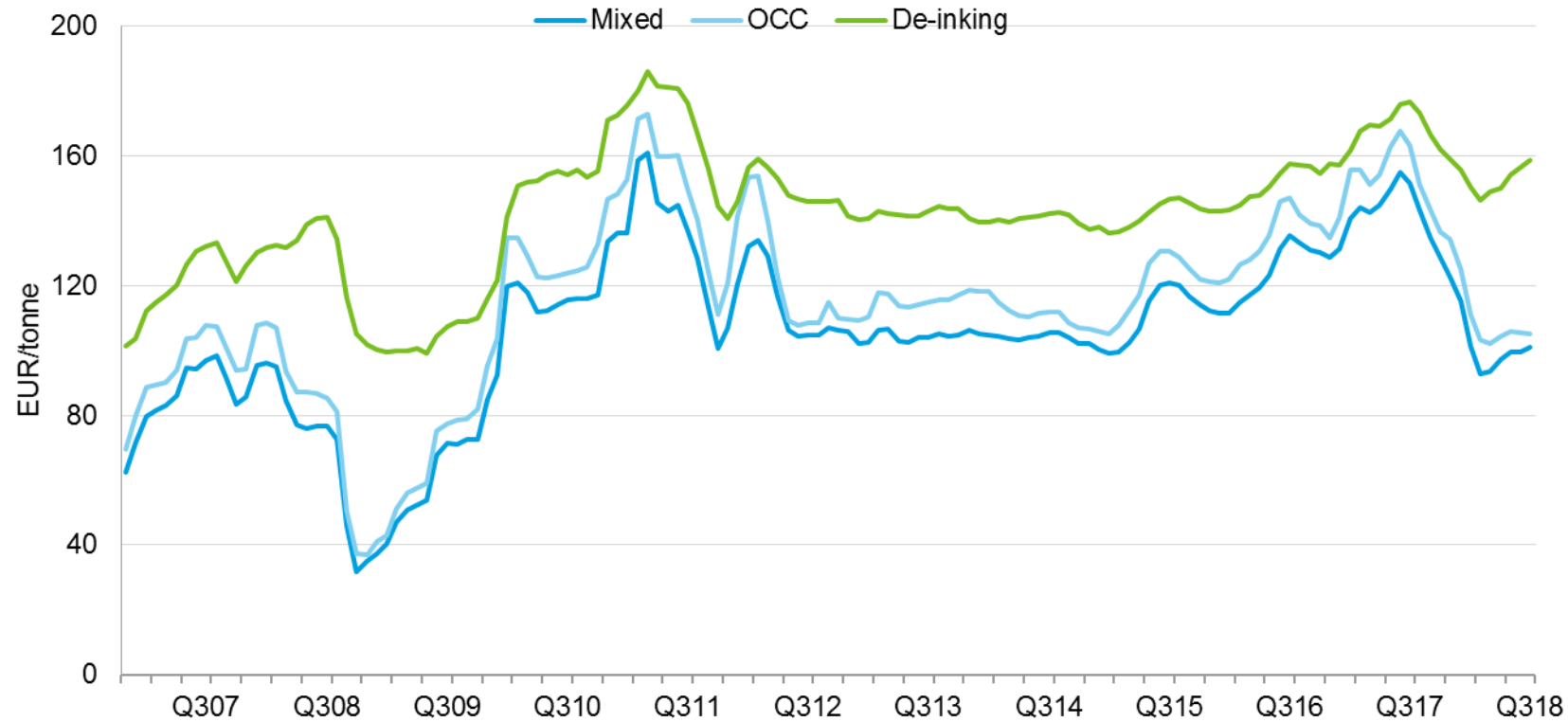
# Pulp wood and saw log prices

## Wood prices in Finland



Source: Luonnonvarakeskus

# Paper for recycling prices



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

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