

# **Sustainable profitable growth continues despite temporary headwinds**

**Financial results for Q2 2018**

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**20 July 2018**

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# Sustainable profitable growth continues...

## Q2 2018 year-on-year



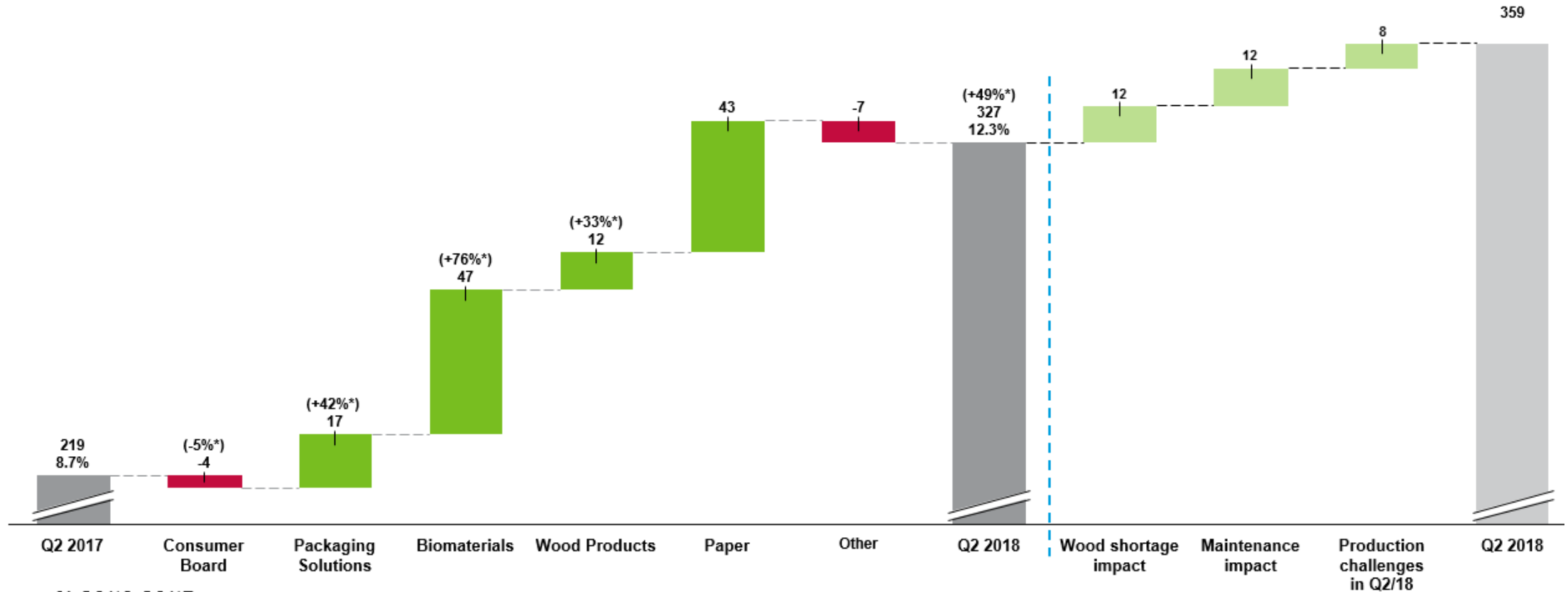
- Sales 2 664 MEUR, +5.4% despite wood shortage
  - Favourable prices and active product mix management
  - Sales growth excluding divested Puumerkki was 7.0%
- Operational EBIT +49% to 327 MEUR
  - EBIT margin 12.3% (8.7%)
  - Favourable prices and active product mix management despite temporary headwinds in wood sourcing and Consumer Board production
- EPS 0.28 (0.19) EUR, increase of 46%
- Cash flow from operations 357 MEUR (365 MEUR), after investing activities 231 MEUR (237 MEUR)
- Balance sheet strengthened further despite increased dividend pay-out and net debt reduced by 10%; net debt to operational EBITDA ratio improved to 1.3 (1.9)
- Operational ROCE at 15.5% (10.3%), above strategic target of 13% for the fourth consecutive quarter



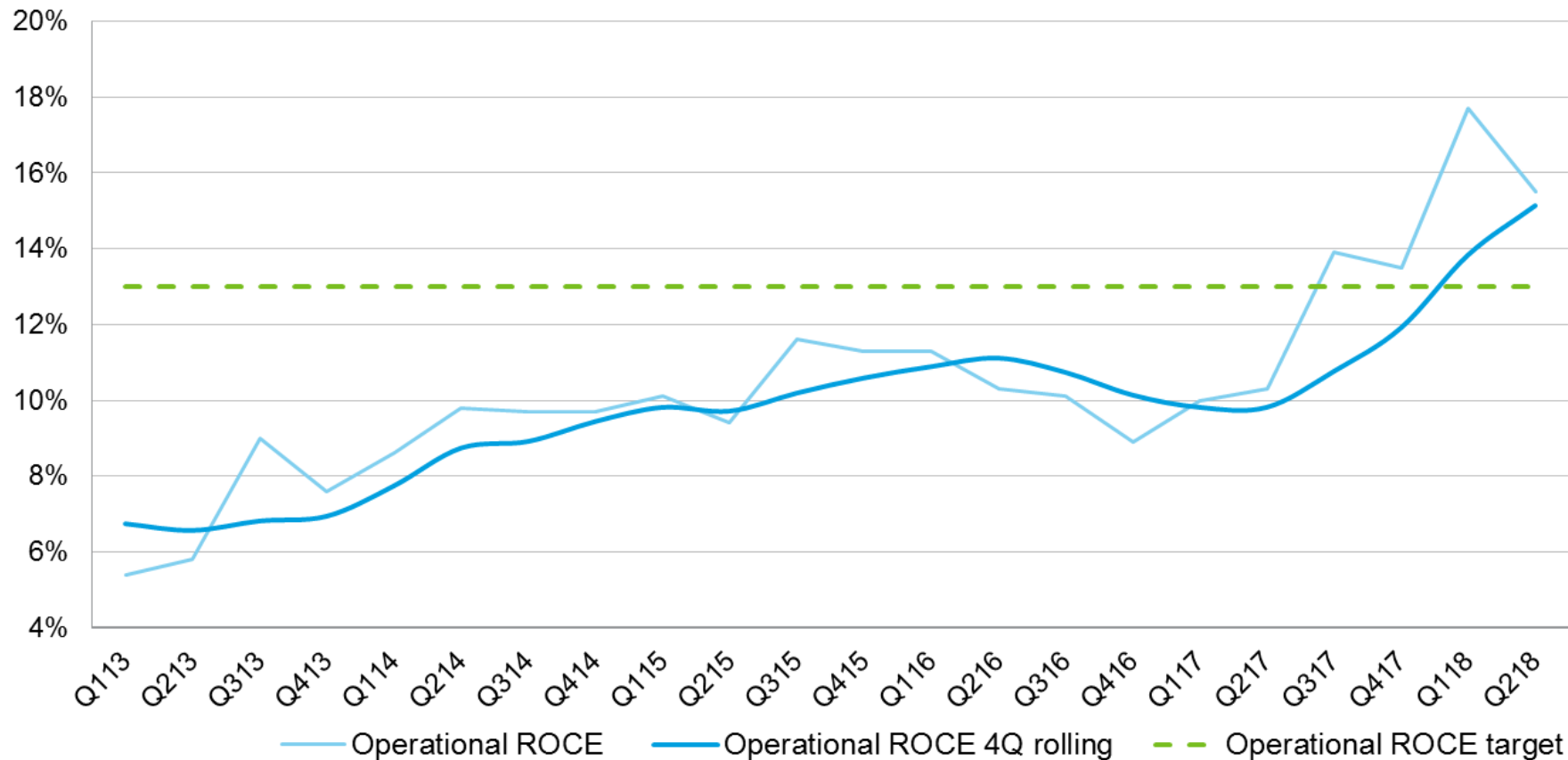
# ...despite temporary headwinds

## Operational EBIT increased 49%

Q2 y-o-y



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



# Conversion opportunity at Oulu Mill

## Potential reduction of Stora Enso paper capacity by 20%



- A feasibility study to convert to board grades expected to be concluded by the end of 2018–early 2019
- The potential 700 MEUR investment would include
  - Brown-based cartonboard line (450 000 t/a)
  - Kraftliner line (400 000 t/a)
  - Integrated kraft pulp (500 000 t/a)
  - Integrated new CTMP plant (350 000 t/a)
- Products
  - CUK
  - Kraftliner
- Production of the potential new lines would start 2020
- The other option is to continue the current fine paper production





# Latest transformation steps

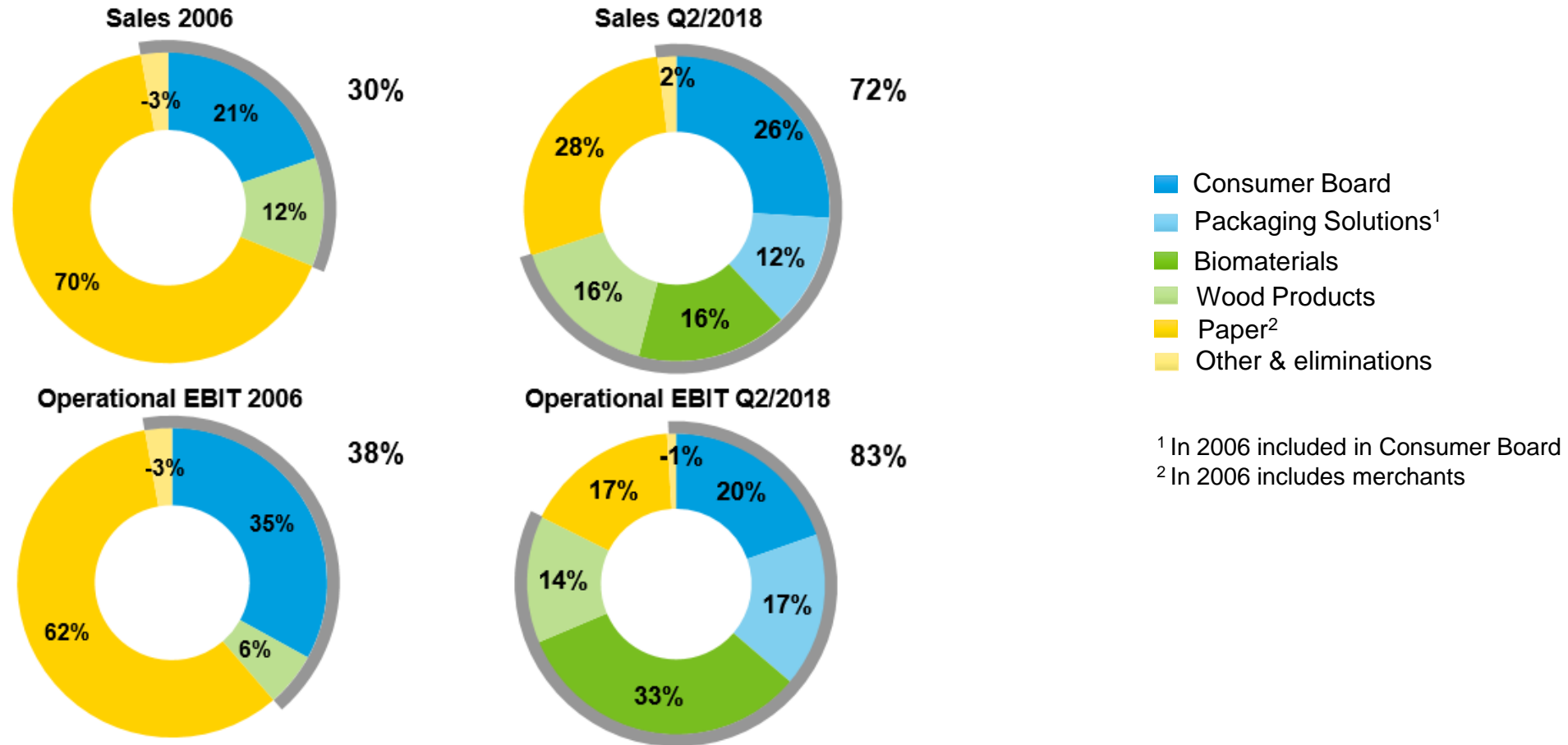


- Completed investments during the quarter
  - MFC Ingerois
  - Improving quality and increasing production capacity of AvantFlute SC products in Heinola Fluting Mill
  - Skutskär fluff pulp
- Announced investments during the quarter
  - Launkalne sawmilling and planing increase
  - Maxau boiler green energy generation
- Ongoing acquisitions
  - Letter of intent aiming at structural changes in Bergvik Skog signed



# Transformation journey

## Growth businesses 72% of sales and 83% of operational EBIT





# Clear improvement year-on-year

## Summary financials Q2 2018



EUR million	Q2/18	Q2/17	Change% Q2/18- Q2/17	Q1/18	Change% Q2/18- Q1/18
Sales	2 664	2 528	5.4%	2 579	3.3%
Operational EBITDA	466	359	29.8%	504	-7.5%
Operational EBITDA margin	17.5%	14.2%		19.5%	
Operational EBIT	327	219	49.4%	369	-11.3%
Operational EBIT margin	12.3%	8.7%		14.3%	
Profit before tax excl. IAC	285	153	86.2%	333	-14.4%
EPS excl. IAC, EUR	0.31	0.19	64.7%	0.35	-10.6%
EPS (basic), EUR	0.28	0.19	46.3%	0.35	-20.6%
Operational ROCE	15.5%	10.3%	50.5%	17.7%	-12.4%
Cash Flow from Operations	357	365	-2.2%	229	55.7%
Net debt/last 12 months' operational EBITDA	1.3	1.9		1.3	

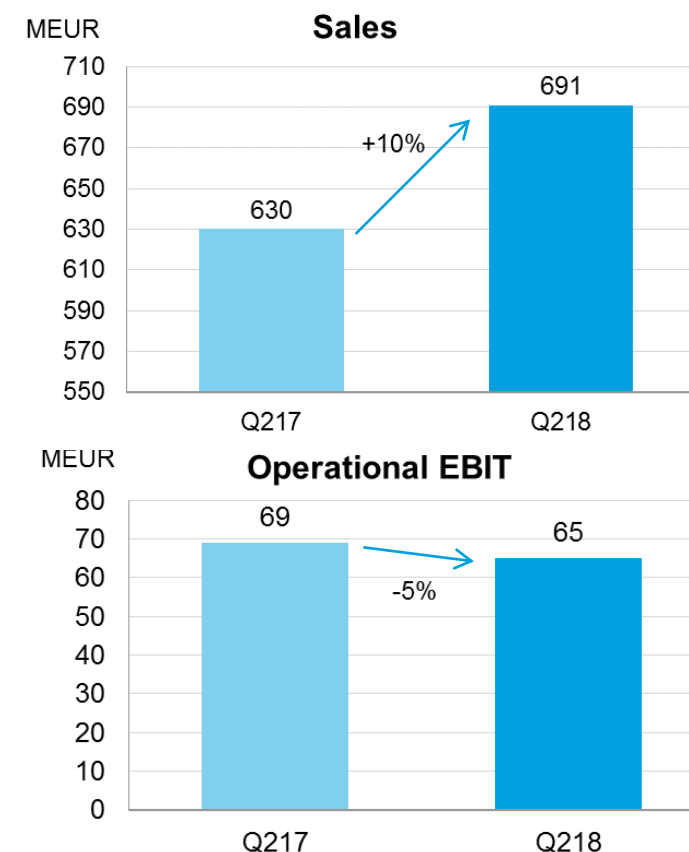
# Consumer Board

## All-time high sales despite headwinds

### Q2 y-o-y



- Sales +10% to all-time high 691 MEUR despite headwinds
  - Clearly higher volumes in European mills and ramp-up of Beihai Mill
  - More than half of the sales coming from long pricing contracts
- Operational EBIT slightly down to 65 MEUR
  - Higher sales prices more than offset by higher variable costs, mainly wood, pulp, chemicals and fillers
  - Production challenges in European mills and wood shortage impact -12 MEUR
  - Beihai Mill ramp-up as planned
    - 95 000 t/a softwood pulp from market
    - 120 000 t/a captive hardwood pulp from Veracel
- Operational ROOC reached 13.1% slightly less than a year ago
- MFC investment at Ingerois Mill completed
- Joint development agreement with Sulapac
  - To license its materials and technology
  - Begin the development of fully renewable caps and closures for liquid packages



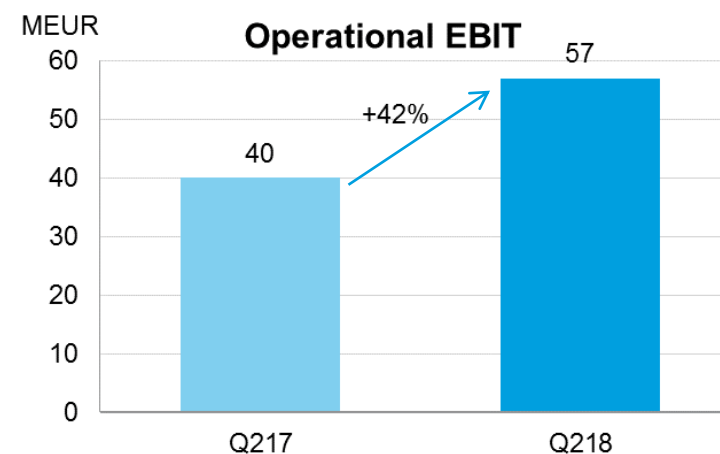
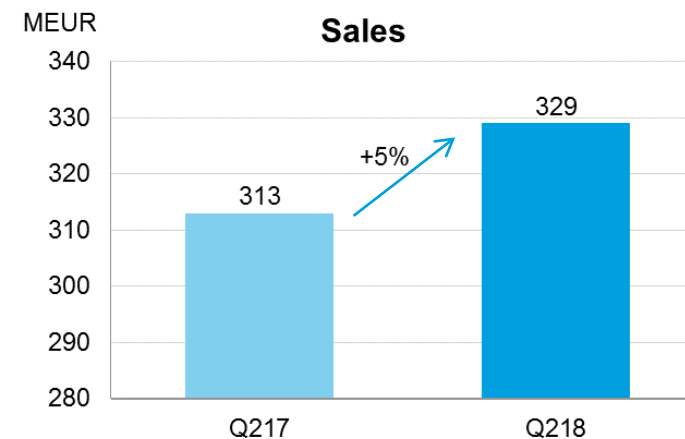
# Packaging Solutions

## Continued solid performance despite investment shutdown

### Q2 y-o-y



- Sales +5% to record high Q2 of 329 MEUR
  - Driven by price increases and active sales mix improvements in European based operations
- Operational EBIT record high Q2 of 57 MEUR, +42%
  - Clearly higher sales prices for European based units and good sales mix management
- Heinola 28 MEUR investment to improve quality and increase production capacity of AvantFlute SC products successfully completed
  - Related shutdown impacted production and delivery volumes negatively during the quarter
- Operational ROOC clearly above the strategic target at 25.6% (18.3%)
  - Strong profitability



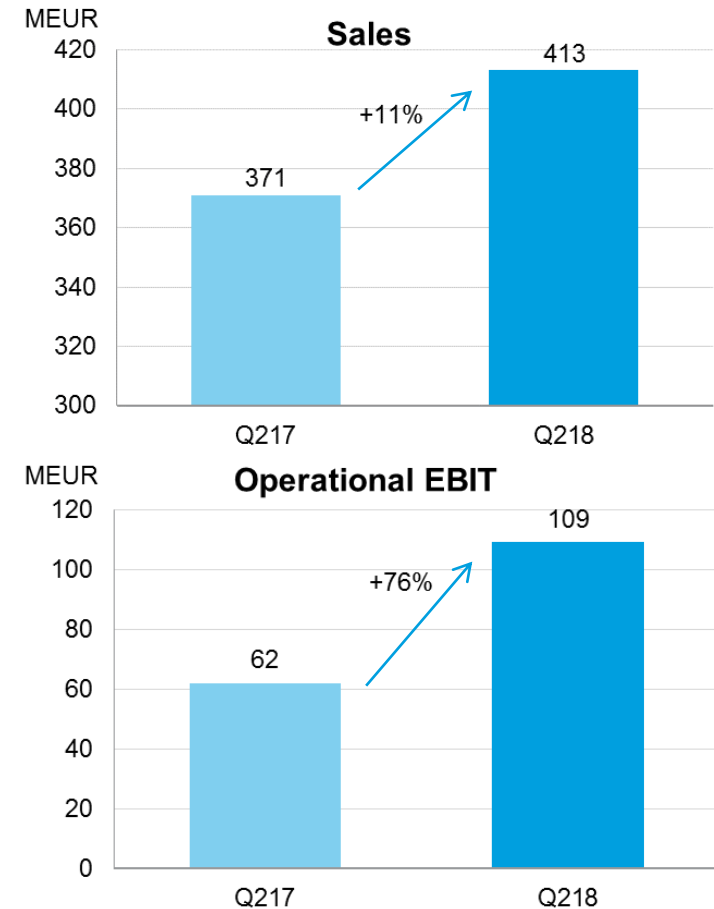
# Biomaterials

## All-time high sales and profitability

### Q2 y-o-y



- Sales +11% to all-time high 413 MEUR
  - Higher sales prices
- Operational EBIT +76% to all-time high 109 MEUR despite a maintenance shutdown at Enocell Mill reducing production volumes
  - Higher pulp prices only partly offset by higher variable costs, and negative net currency effect
- Operational ROOC improved to all-time high level of 18.6%
- Production started as planned at the new fluff pulp line at Skutskär Mill following 26 MEUR investment
  - First commercial deliveries shipped



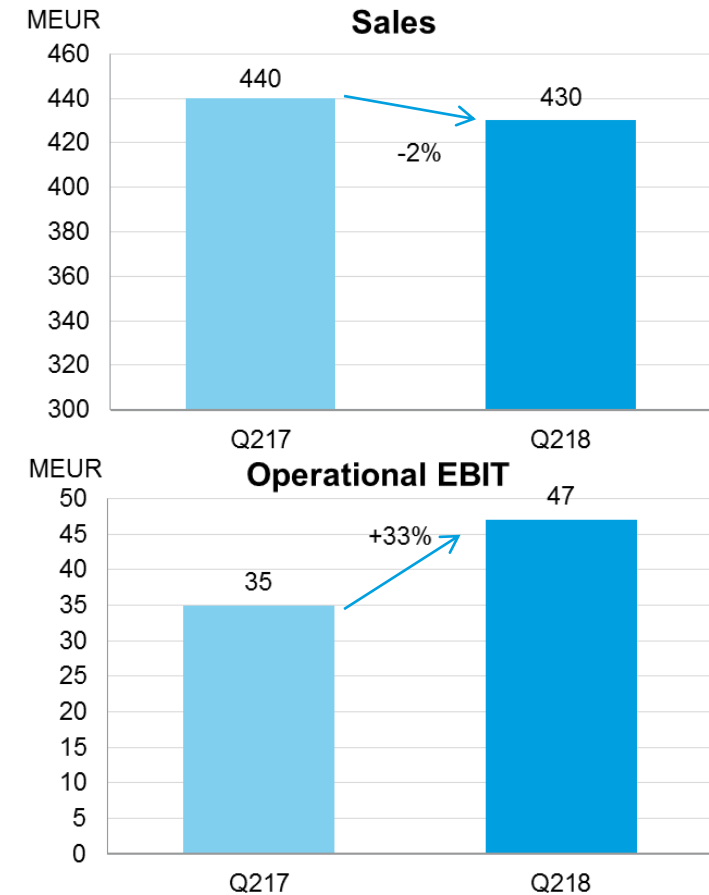
# Wood Products

## Return on capital at record level

### Q2 y-o-y



- Sales increased 7% excluding the divested Puumerkki to 430 MEUR
  - Improved prices and active mix management driving value creation
- Operational EBIT +33% to record high Q2 of 47 MEUR and the highest since 2007
  - Improved prices and mix supported by growth from strategic investments of Murów sawmill and Varkaus LVL
- Ramp-up of the LVL production at Varkaus Mill completed
- The first commercial deliveries of biocomposite granules shipped during quarter, under the newly launched brand DuraSense™ by Stora Enso
- Investments
  - CLT investment at Gruvön proceeding as planned, Q1/2019
  - 13 MEUR investment to increase sawmilling and planing capacity at Launkalne sawmill, Q2–Q3/2019



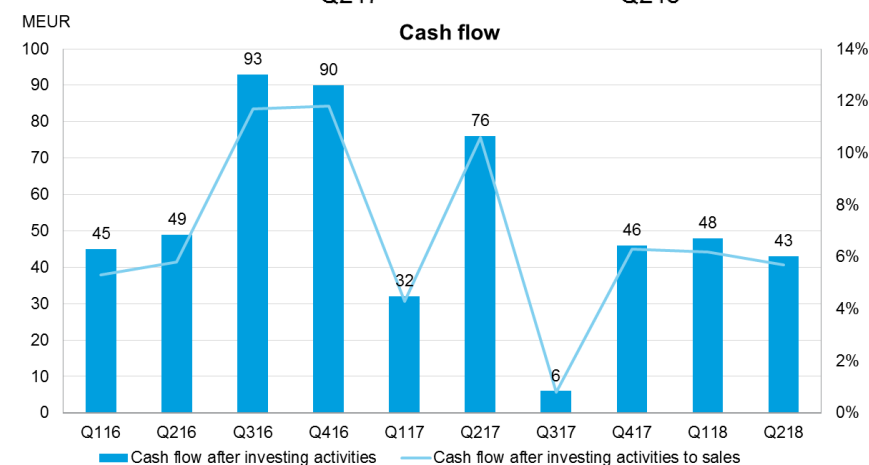
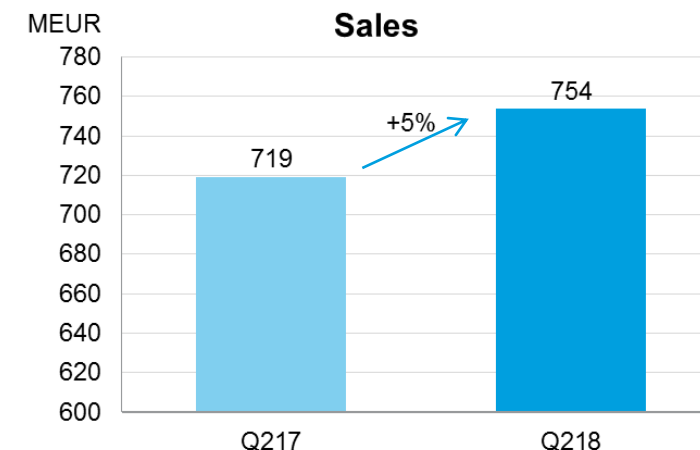
# Paper

## Significant profitability improvement

### Q2 y-o-y



- Sales increased +5% to 754 MEUR
  - Significantly higher sales prices and better mix were only partly offset by lower volumes and negative currency effect
- Operational EBIT increased +43 MEUR to 54 MEUR
  - Higher sales prices in all grades were only partly offset by higher variable costs, mainly for wood, pulp and logistics
- Cash flow after investing activities to sales ratio 5.7%
  - Clearly higher profitability was more than offset by less favourable operative working capital movement, due to positive one-off impacts in the same quarter a year ago
- 25 MEUR boiler investment to reduce energy costs and boost green energy generation at Maxau Mill, to be completed in 2020

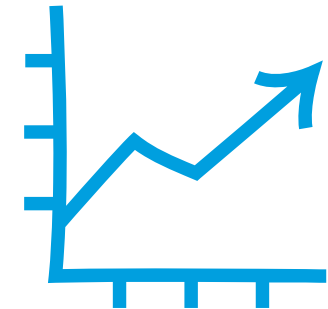




# Stora Enso strengthens its strategic leverage targets



- Stricter targets due to strong cash flow generation capabilities and higher profitability levels
  - New Net Debt / Operational EBITDA <2.0 (old <3.0)
  - New Debt/equity Ratio <0.6 (old <0.8)
- Stora Enso's transformation to a renewable material's growth company has been successful
- Balance sheet has strengthened considerably
  - Strong cash flow generation combined with sale of non-core assets
  - Reduction of the annual capital expenditure to or below the level of depreciation and the operational decrease in the value of biological assets over the business cycle
- Even with the new tighter financial policy, Stora Enso expects to keep the level of strategic flexibility needed.
- To enforce its commitment to efficient management of capital



# Strategic targets in good progress – still more potential



Group strategic targets		Q2 17	Q2 18	
Dividend	To distribute 50% of net income over the cycle			
Growth*	To grow faster than the relevant market	7.1% (YoY)	5.4% (YoY)	●
Net debt to operational EBITDA	<2.0x <b>new target</b>	1.9	1.3	●
Fixed costs to sales	<20%	25.6%	23.5%	●
Debt to equity	<60% <b>new target</b>	49%	40%	●
Operational ROCE	>13%	10.3%	15.5%	●

Divisional strategic targets		Q2 17	Q2 18	
Consumer Board	Operational ROOC > 20%	13.9%	13.1%	●
Packaging Solutions	Operational ROOC > 20%	18.3%	25.6%	●
Biomaterials	Operational ROOC > 15%	9.8%	18.6%	●
Wood Products	Operational ROOC > 20%	25.5%	31.7%	●
Paper	Cash flow after investing activities to sales > 7%	10.6%	5.7%	●

\* Excluding Paper

# Guidance for Q3 2018

## Compared to Q2 2018



- Sales are estimated to be similar to the amount of 2 664 MEUR recorded in Q2/2018
- Operational EBIT is expected to be in line with the 327 MEUR recorded in Q2/2018
- The impact of annual maintenance shutdowns is expected to be approximately 5 MEUR lower than in Q2/2018. Second quarter maintenance impact was 15 MEUR higher than initially forecast. The Nordic wood supply situation is expected to continue tight due to the risk of forest fires affecting harvesting conditions. The wood supply impact is expected to be approximately 10 MEUR negative in the Q3/2018. These impacts are included in the above outlook

Annual maintenance	Q3 2018	Q2 2018
<b>Consumer Board</b>	Imatra and Ingeröis mills	Beihai Mill
<b>Packaging Solutions</b>	Ostrołęka Mill	Heinola and Varkaus mills
<b>Biomaterials</b>	Sunila Mill	Enocell Mill
<b>Paper</b>	Veitsiluoto Mill	Oulu Mill



# Sustainable profitable growth continues

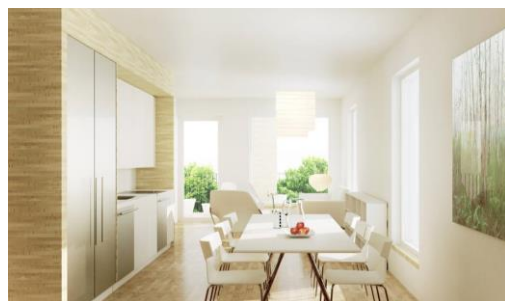


- Sixth consecutive quarter of sales growth
- Fourth consecutive quarter of double digit operational EBIT margin
- Operational ROCE above the strategic target of 13% for the fourth consecutive quarter
- Stora Enso sets new targets levels for Net Debt / Operational EBITDA (<2.0) and Debt/equity Ratio (<0.6)
- Wood sourcing still challenging
- Moving from asset transformation to innovation and sales transformation





# 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



storaenso

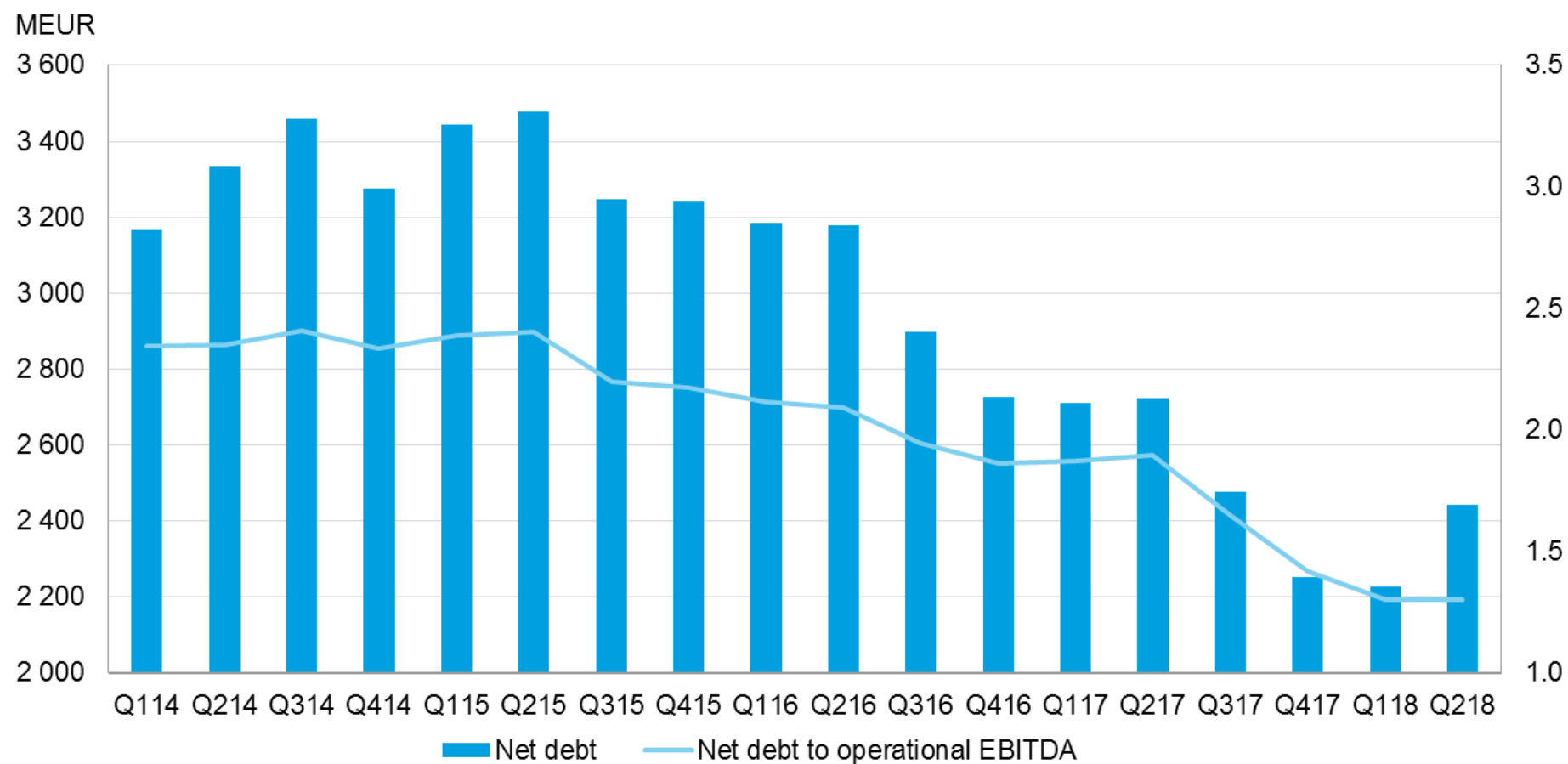


# Operational EBIT by segments

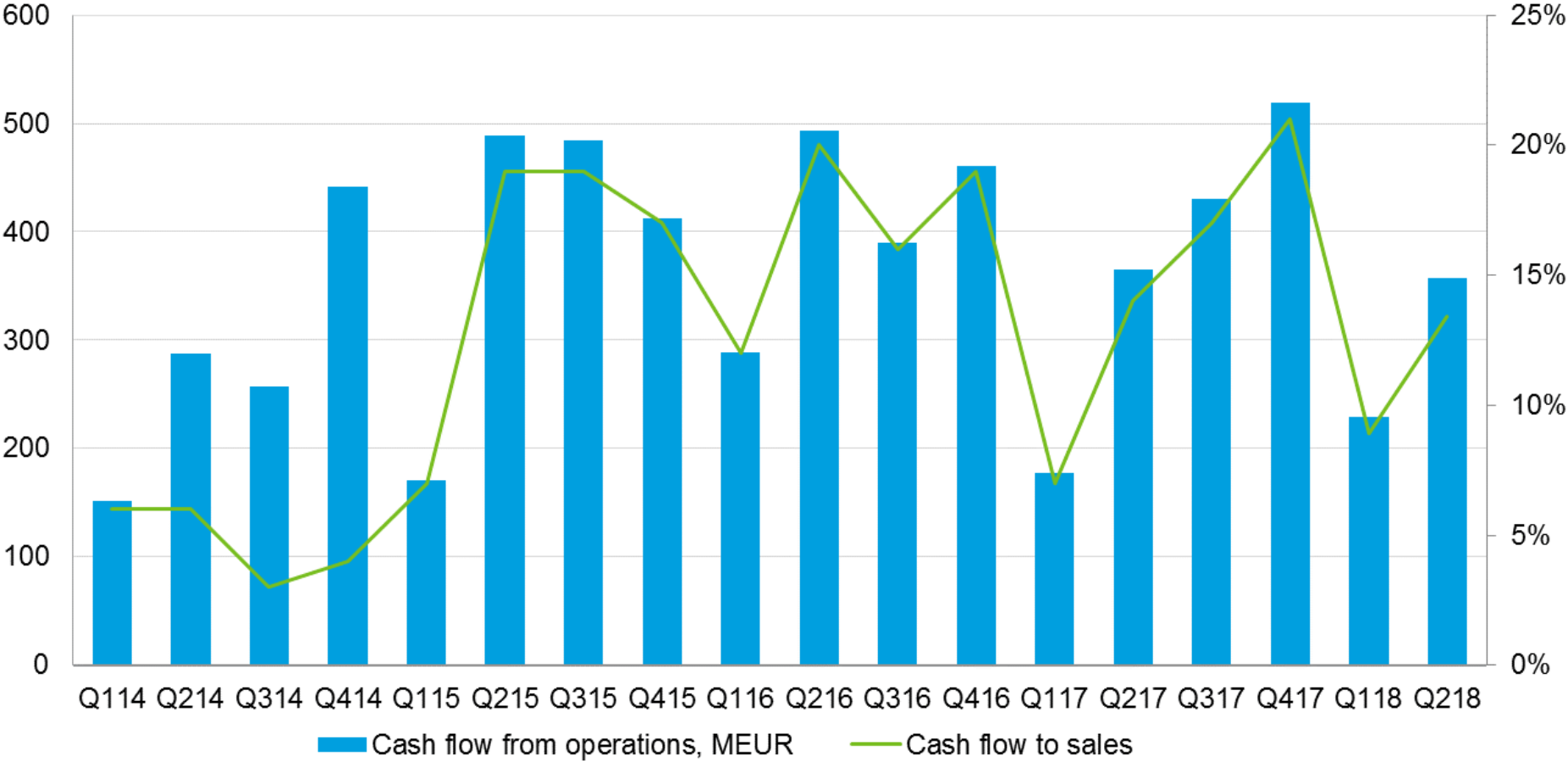


EUR million	Q218	Q217	Change % Q218-Q217	Q118	Change % Q218-Q118
Consumer Board	65	69	-5.1	91	-28.1%
% of sales	9.5%	11.0%		14.1%	
Packaging Solutions	57	40	41.6%	61	-7.2%
% of sales	17.2%	12.8%		18.3%	
Biomaterials	109	62	76.3%	102	7.1%
% of sales	26.5%	16.7%		25.9%	
Wood Products	47	35	33.4%	29	61.1%
% of sales	10.9%	8.0%		7.4%	
Paper	54	11	n/m	69	-21.1%
% of sales	7.2%	1.5%		8.9%	
Other	-5	2	n/m	17	-131%
% of sales	-0.6%	0.3%		2.0%	

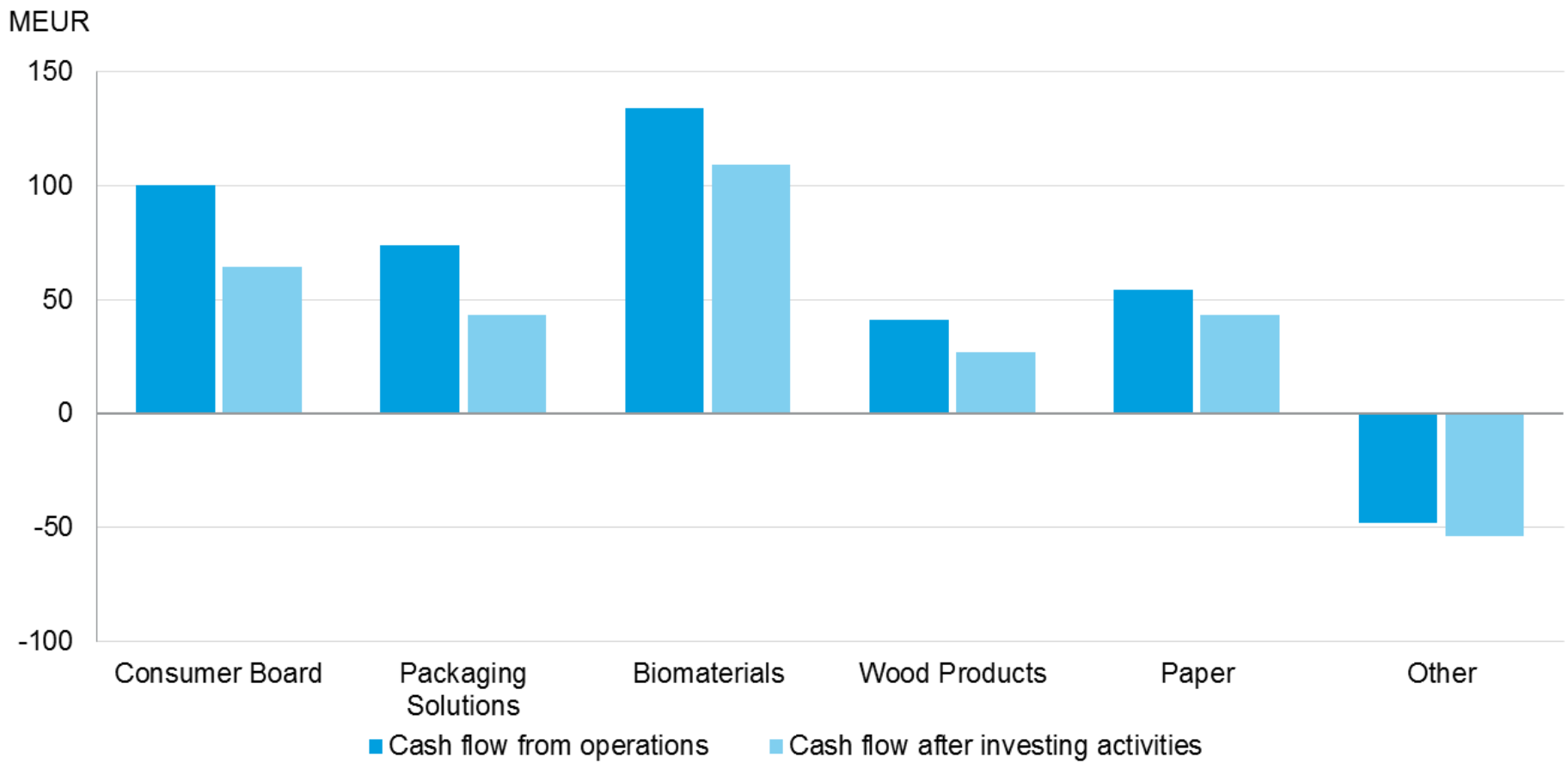
# Year-on-year net debt/EBITDA



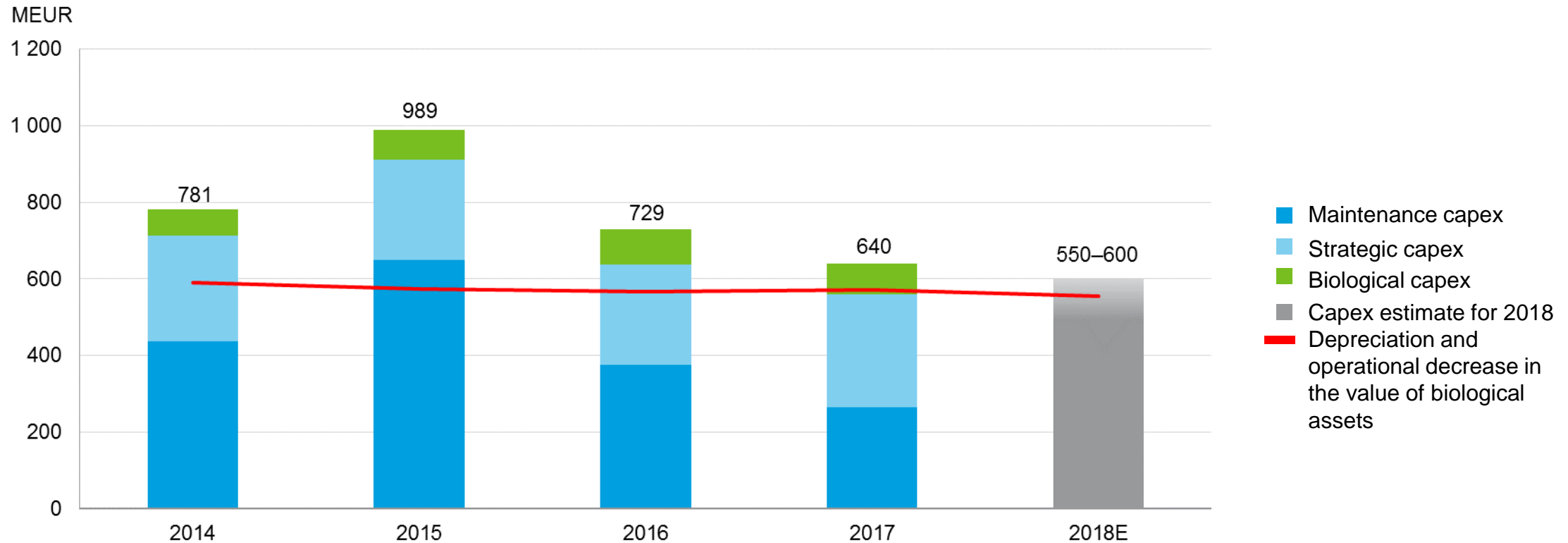
# Healthy cash flow generation continues



# Cash flow by divisions in Q2



# Capex is moving towards targeted level

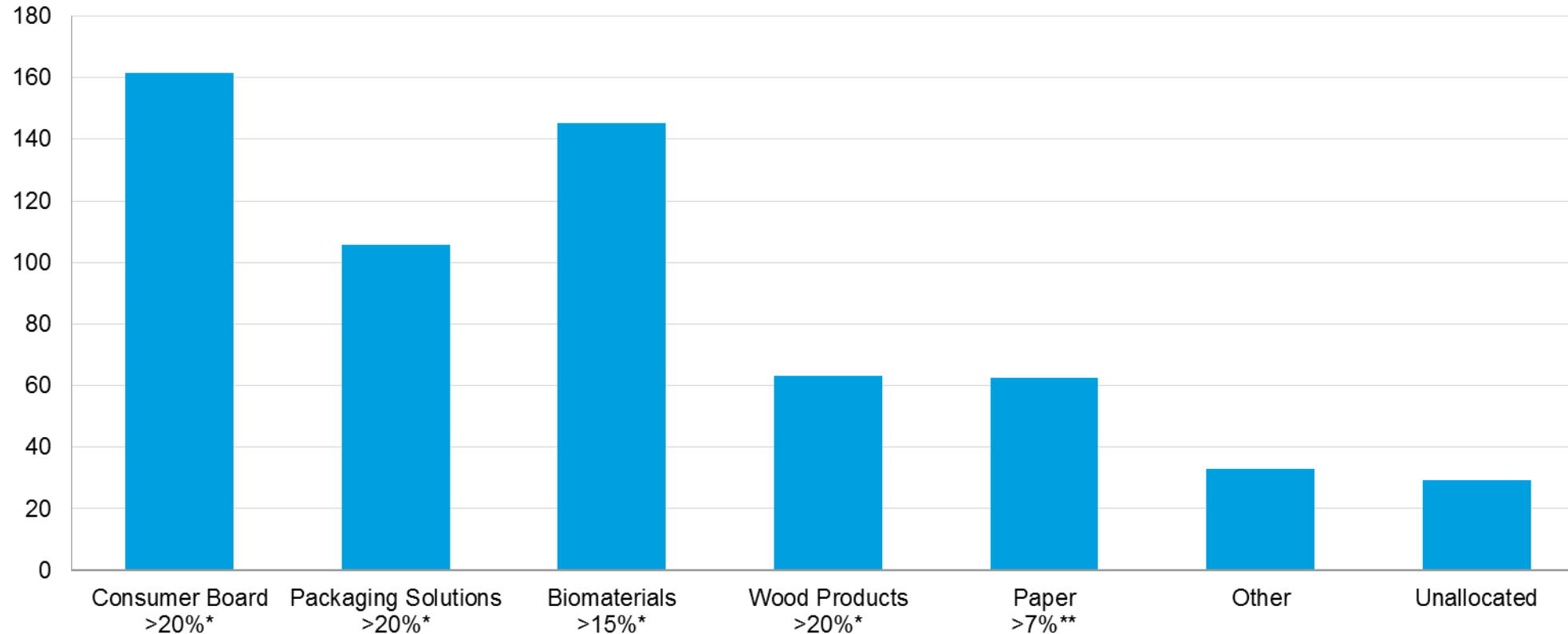


# Targeted ROOC is driving CAPEX allocation

## Capex forecast in 2018



MEUR



\* Operational ROOC target

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



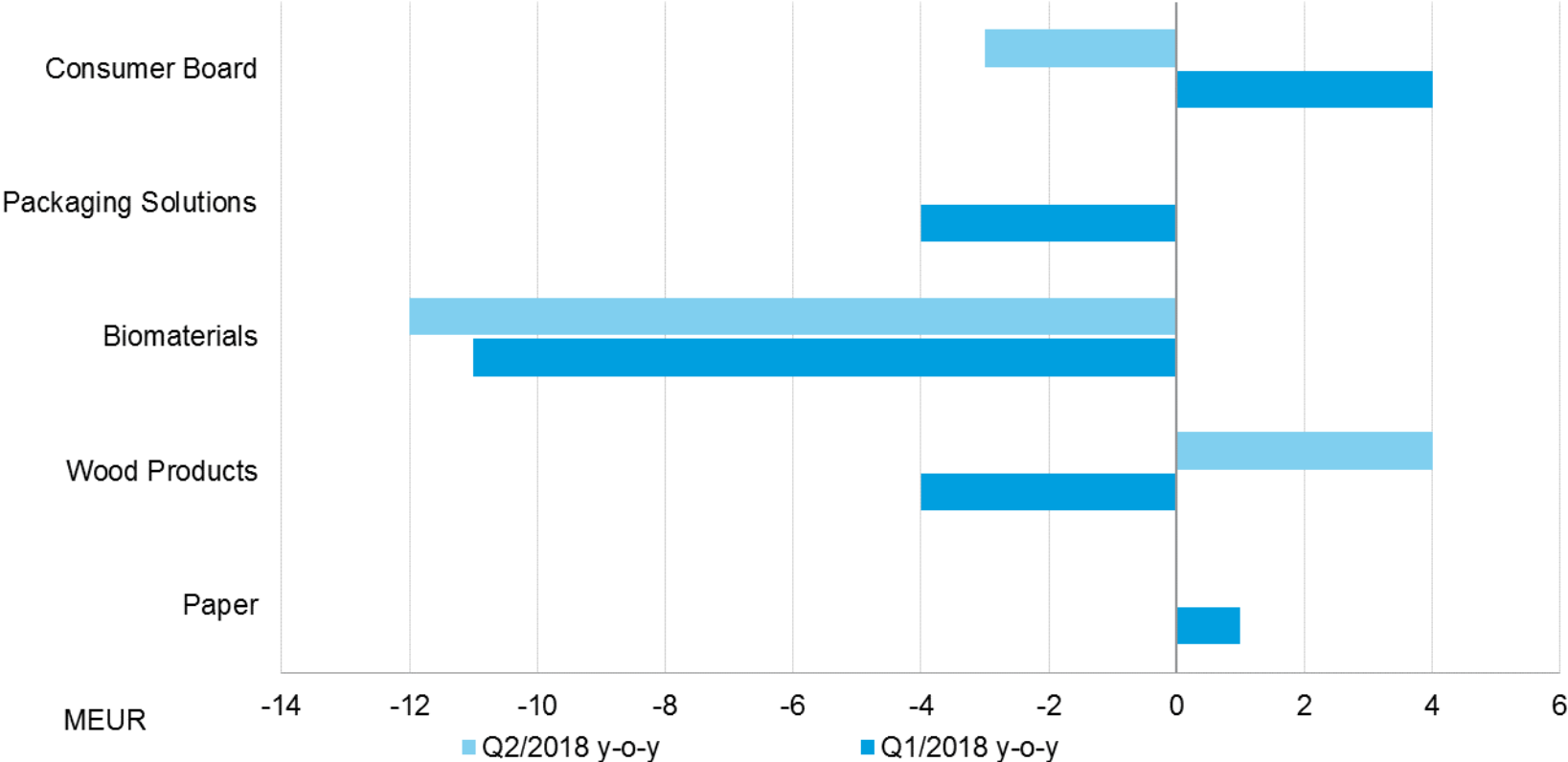
# Net Financials



EUR million	Q2 2018	Q2 2017	Change MEUR Q218/ Q217	Q1 2018	Change MEUR Q218/ Q118
<b>Net interest expense</b>	<b>-31</b>	<b>-38</b>	<b>7</b>	<b>-29</b>	<b>-2</b>
Average interest rate*	4.1%	4.2%		4.1%	
<b>Foreign exchange gains and losses</b>	<b>-26</b>	<b>8</b>	<b>-34</b>	<b>10</b>	<b>-36</b>
<b>Other financial items. of which</b>	<b>-3</b>	<b>-30</b>	<b>27</b>	<b>-3</b>	<b>0</b>
Pension costs (IAS 19R)	-2	-2	0	-1	-1
Other items	-1	-28	27	-2	1
<b>Total net financial items</b>	<b>-60</b>	<b>-60</b>	<b>0</b>	<b>-22</b>	<b>-38</b>

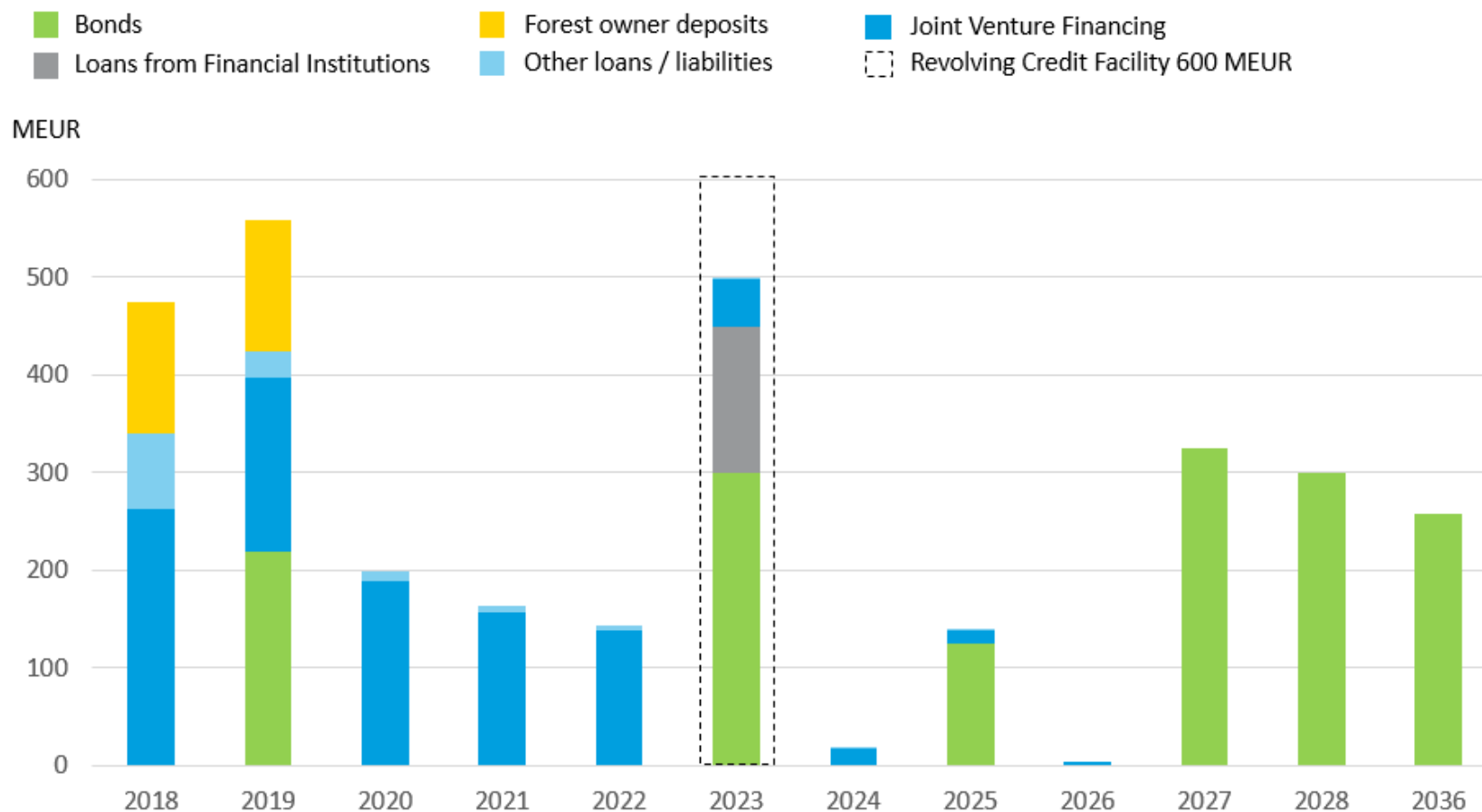
\* Quarterly gross interest expense divided by average gross debt

# Net FX by division



Net FX y-o-y impact  
-12 MEUR in Q2/2018  
on operational EBIT

# Maturity profile Q2 2018



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

# Transaction risk and hedges Q2 2018



EUR Million	USD	SEK	GBP
Estimated annual operating cash flow exposure	1 650	-980	370
Transaction hedges as at 30 June 2018	-850	610	-180
<b>Hedging percentage as at 30 June 2018 for the next 12 months</b>	<b>52%</b>	<b>62%*</b>	<b>49%</b>

\* In SEK for months 13-24, 19% of estimated exposure is hedged

Operational EBIT: Currency strengthening of +10%*	EUR million
USD	165
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 194 MEUR
Chemical and filler prices	Positive 55 MEUR
10% increase in	Impact*
Market pulp price, total	Positive 135 MEUR
10% strengthening against Euro in the value of**	Impact*
US dollar	Positive 165 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



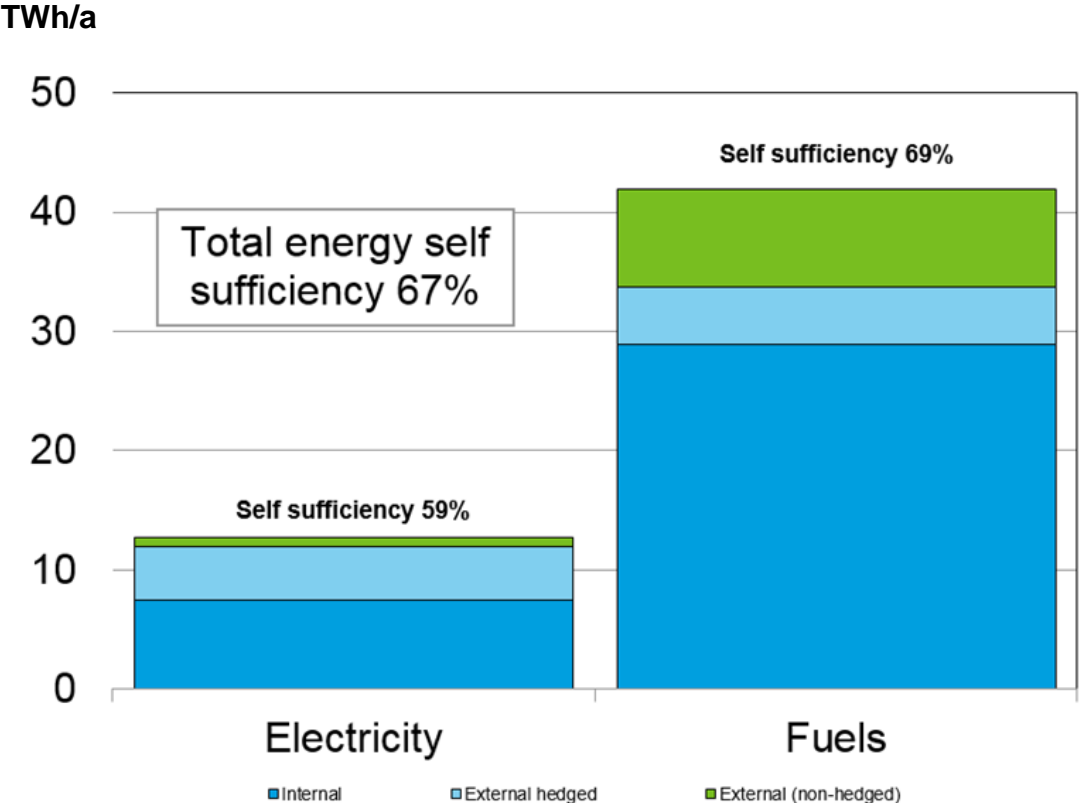
10% increase in	Impact*
Hardwood pulp** prices	Positive 55 MEUR
Softwood pulp prices	Positive 45 MEUR
Fluff pulp prices	Positive 25 MEUR
Dissolving pulp prices	Positive 10 MEUR
<b>Market pulp price, total</b>	<b>Positive 135 MEUR</b>

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

\*\* Includes 750 000 tonnes from Montes del Plata



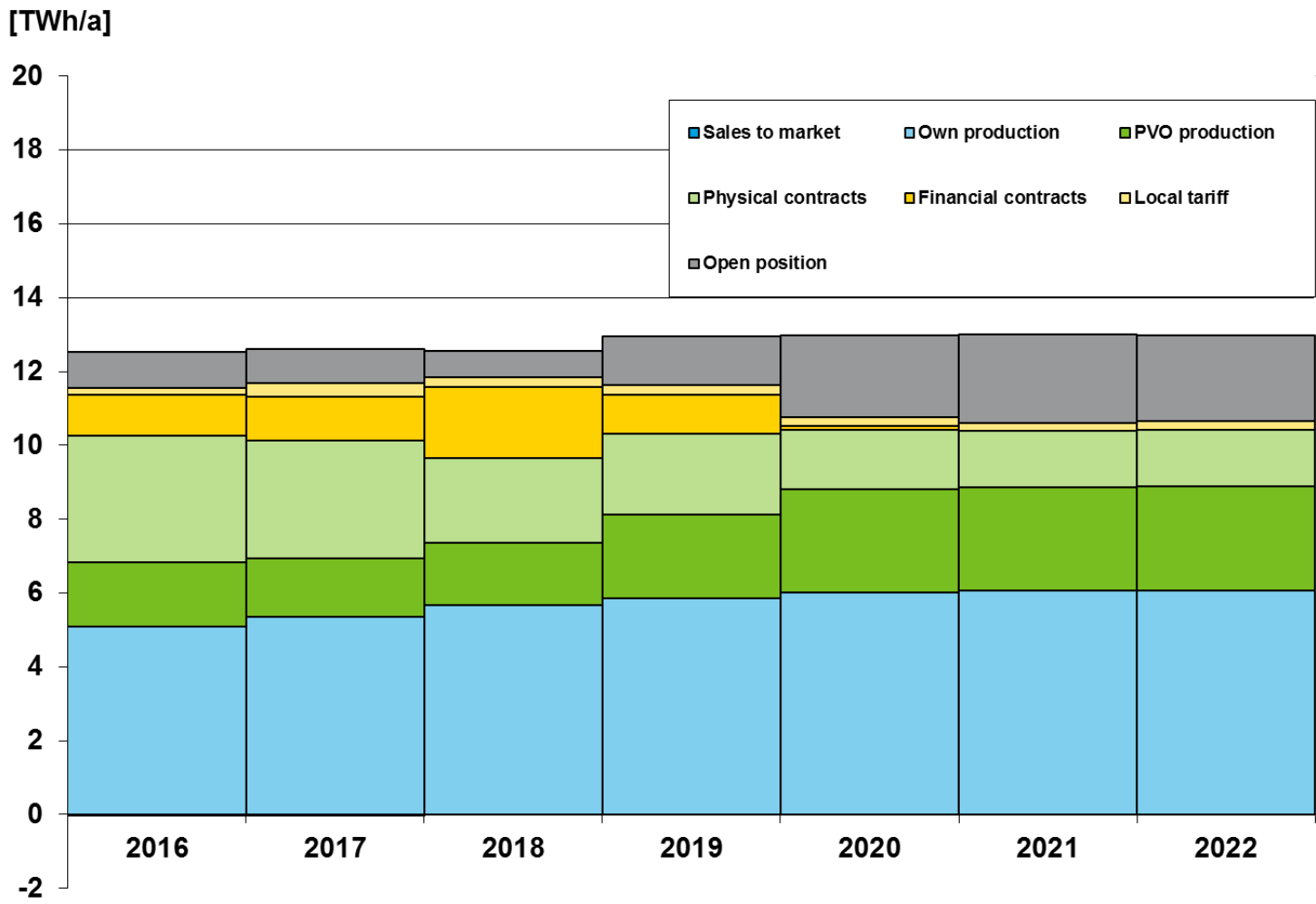
# Stora Enso energy balance\* Q2 2018



Impact on non-hedged volume on operating profit from 10% change in:	EUR million p.a.
Electricity market price	~6.0
Fossil fuel price	~10.0

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

# Stora Enso electricity procurement\* Q2 2018



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

# Permanent pulp, paper and board capacity reductions since 2006



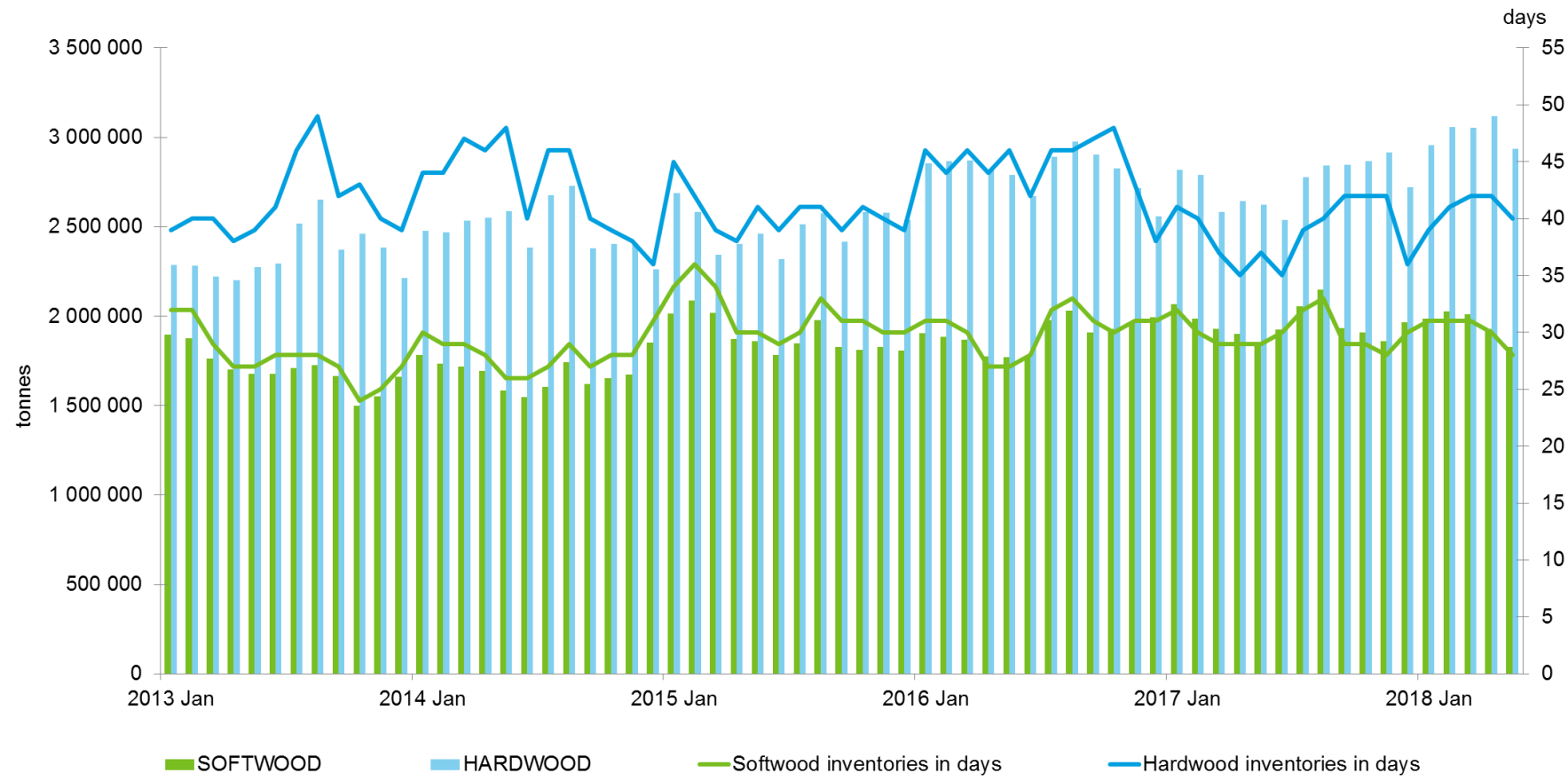
Mill	Date	Grade	Capacity reduction, t
Corbehem PM 3 and PM 4	Jun 2006	LWC	250 000
Varkaus PM 1	End 2006	WFC	95 000
Berghuizer Mill	Oct 2007	WFU	235 000
Reisholz Mill	End 2007	SC	215 000
Summa Mill	Jan 2008	Newsprint, uncoated mag, book paper	415 000
Anjala Mill PM1	Feb 2008	Coated magazine paper	155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



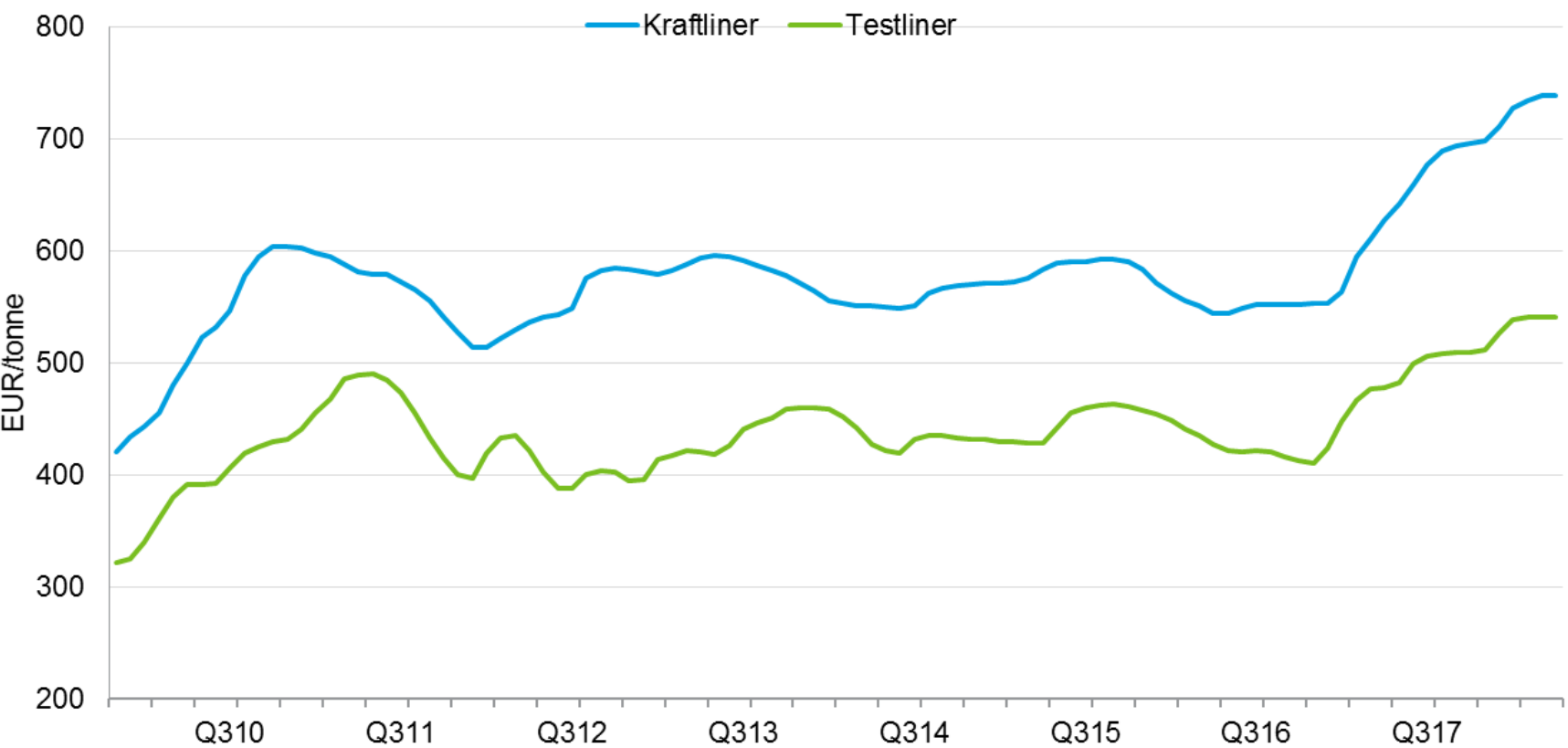
Mill	Date	Capacity reduction, m <sup>3</sup>
Veitsiluoto Sawmill	2006	100 000
Honkalahti Sawmill	2006	90 000
Sauga Sawmill	Jun 2007	130 000
Sollenau Sawmill	2007	110 000
Näpi Sawmill	2007-2008	100 000
Kotka Sawmill	2007-2008	70 000
Paikuse Sawmill	End 2008	220 000
Zdirec Sawmill	2008	120 000
Ybbs Sawmill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



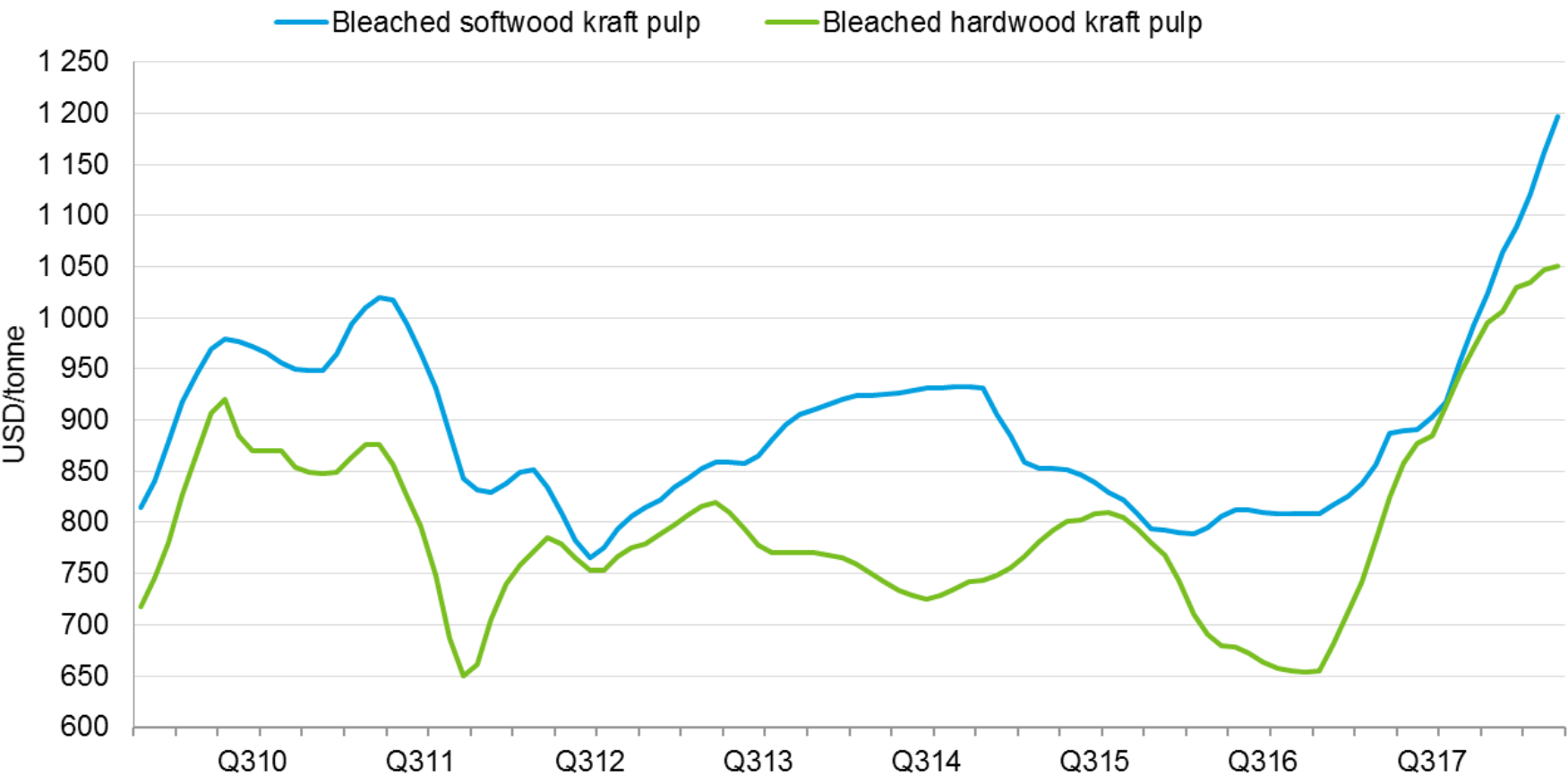
Source: EPIS

# Kraftliner and testliner prices



Source: FOEX

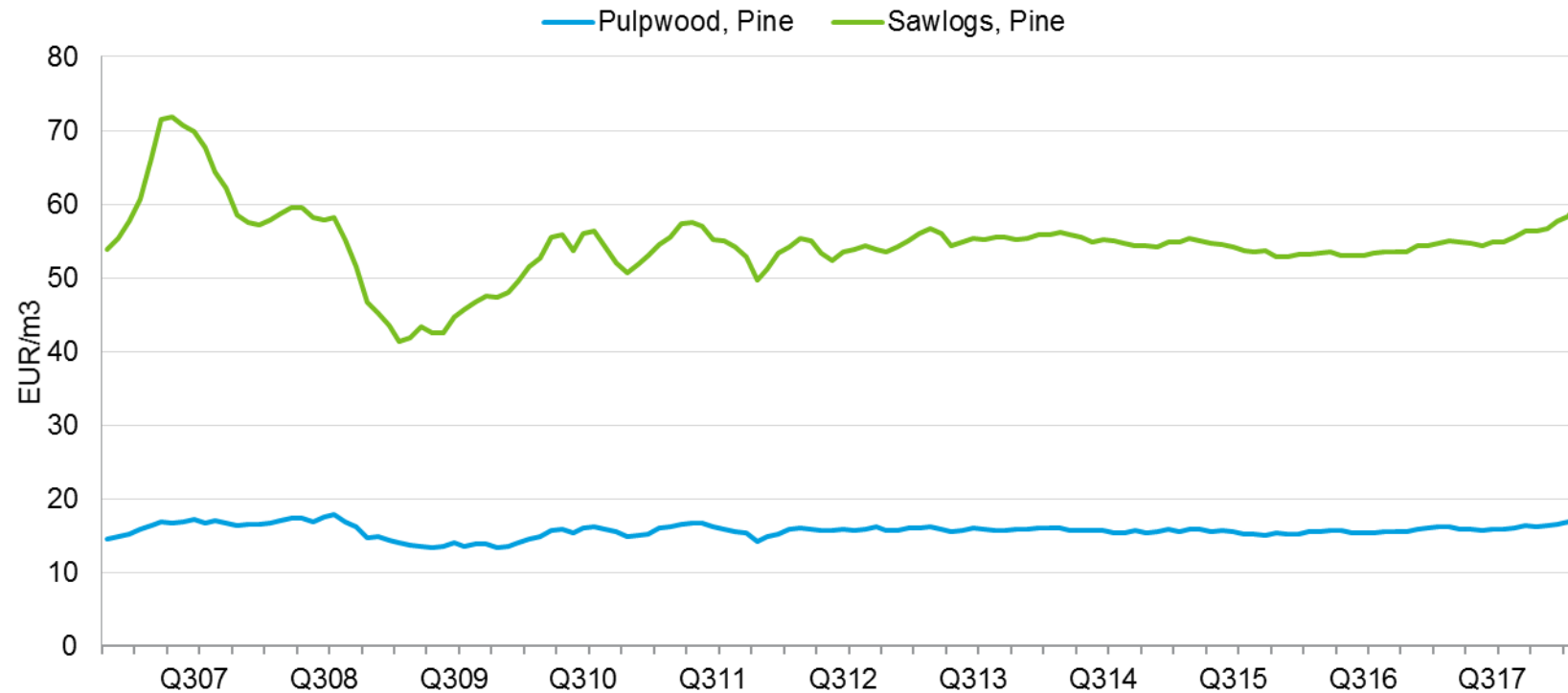
# Pulp price development



Source: FOEX

# Pulp wood and saw log prices

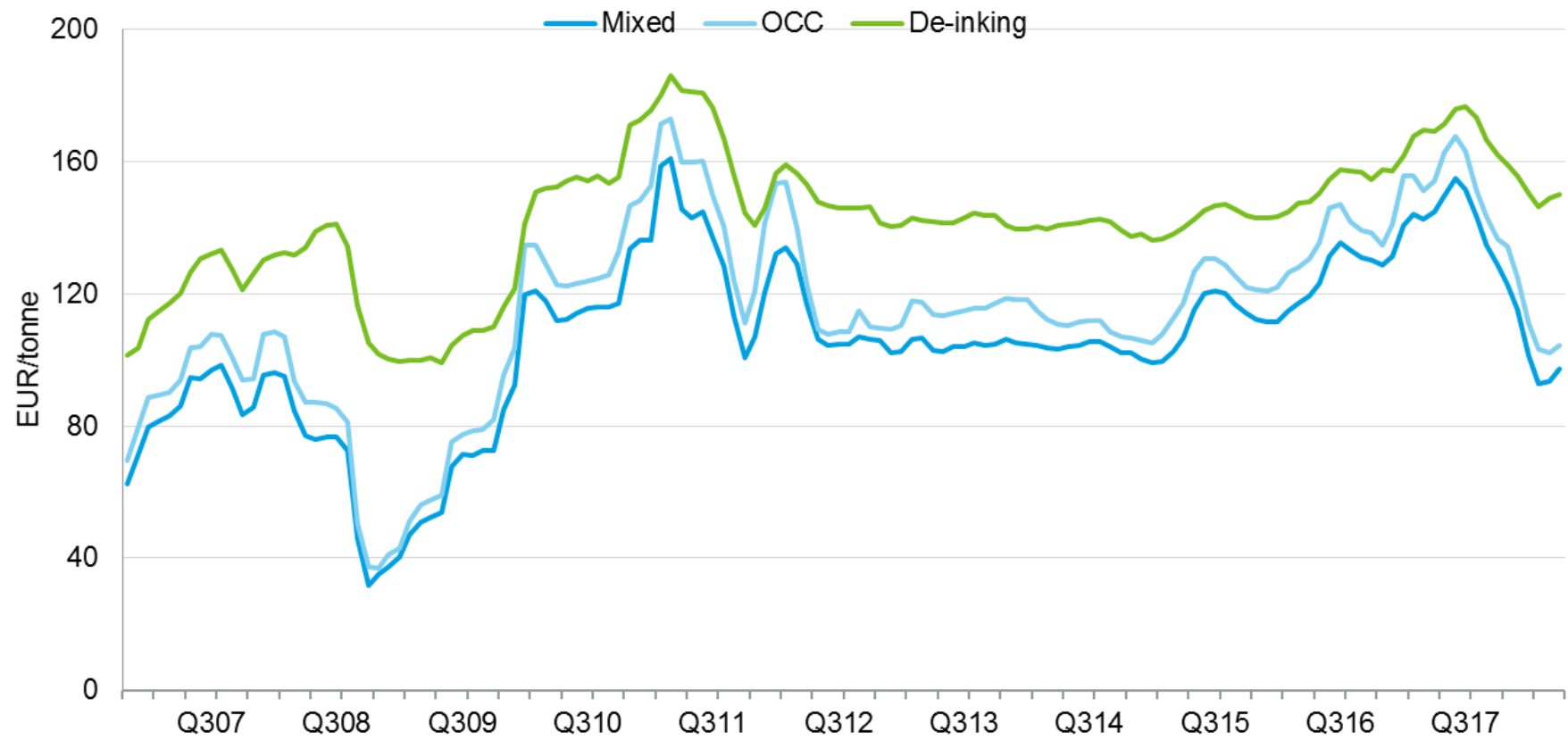
## Wood prices in Finland



Source: Luonnonvarakeskus



# Paper for recycling prices



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

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