

### Rating Action: **Moody's upgrades Stora Enso to Ba1; positive outlook**

---

Global Credit Research - 26 Feb 2018

Frankfurt am Main, February 26, 2018 -- Moody's Investors Service, ("Moody's") has today upgraded the Corporate Family Rating (CFR) of Stora Enso Oyj (Stora Enso) to Ba1 from Ba2, its probability of default rating (PDR) to Ba1-PD from Ba2-PD, the rating of its senior unsecured MTN programme to (P)Ba1 from (P)Ba2, as well as its various senior unsecured bond ratings to Ba1 from Ba2. Concurrently, Moody's has affirmed Stora Enso's NP Commercial Paper rating and (P)NP Other Short Term programme rating. The outlook remains positive. A complete list of affected ratings is included at the end of this press release.

"Today's rating action recognises a further strengthening of Stora Enso's business profile and its balance sheet during 2017, with an increasing likelihood that over the next 18 months the company will reach credit metrics sustainably commensurate with an investment grade rating", says Martin Fajerik, Moody's lead analyst on Stora Enso.

#### RATINGS RATIONALE

Today's rating action recognises a further strengthening of Stora Enso's business profile during 2017 and continuation of successful business diversification beyond the traditional graphic grade paper, which is in structural decline in mature markets. In the past couple of years Stora Enso has invested sizeable amounts into businesses with underlying growth, such as paper packaging, well in excess of depreciation and maintenance capex levels. In 2017 these growth businesses represented already over 80% of the group's operating income, as defined by Stora Enso, which compares to around one third in 2006. The last year also marks the first year in the past five years when Stora Enso's growth businesses outpaced the decline in paper business in topline -- a trend that Moody's expects to continue into 2018 and 2019.

Given that growth activities generally also enjoy structurally higher profitability than the paper operations, the continuous shift in the business mix has led to a sustained improvement of Stora Enso's credit metrics that is now fully in line with a Ba1 rating. Moody's estimates that Stora Enso's EBITDA margin, as adjusted by the rating agency, reached around 15% and retained cash flow (RCF) to debt roughly 22% in 2017. Even when Moody's considers a pro-forma impact of the Bergvik Skog transaction announced in November last year, which would reduce the RCF/debt to around 18%, this would still position Stora Enso solidly in the Ba1 rating category. The upgrade also recognises the return of a meaningful positive free cash flow generation, with a Moody's adjusted (RCF-capex)/debt in mid-single digit in % terms, driven by a normalisation of capital investments following number of years of extraordinary growth.

#### RATIONALE FOR POSITIVE OUTLOOK

The positive outlook reflects the increasing likelihood that over the next 18 months Stora Enso's credit metrics will further improve and reach the levels that Moody's would deem commensurate with an investment grade, such as EBITDA margin above 15% and RCF/debt above 20% (including the Bergvik Skog transaction). Moody's expects organic growth to be solid through 2018 supported by good pricing for a number of end products. In addition, the rating agency recognises that some of the previously undertaken investments, such as the Beihai mill in China, are still ramping up and provide further upward potential until the desired return on investments is reached.

Moody's also understands that Stora Enso's management is considering tightening of its net leverage ceiling (as defined by Stora Enso), which is currently 3.0x (1.4x in 2017, or around 2.0x pro-forma for the Bergvik Skog transaction). Such tightening would increase the likelihood that Stora Enso would be also willing to maintain credit metrics that are commensurate with an investment grade.

#### WHAT COULD CHANGE RATINGS UP/DOWN

Moody's could upgrade Stora Enso's ratings if the company built further track record of good operational performance with Moody's adjusted EBITDA margin above 15%. In addition to that it would require (1) a financial policy that would lead to Moody's adjusted RCF/debt sustainably above 20% with meaningful free cash flow generation and (2) strengthening of its liquidity profile with a reduced reliance on short-term debt.

The rating agency could downgrade Stora Enso ratings if the company experienced sustainable deterioration of operating performance with Moody's EBITDA margin toward low-teens in % terms. It could also result from more aggressive use of balance sheet, with Moody's adjusted RCF/debt declining sustainably below 15%.

Headquartered in Helsinki, Finland, Stora Enso is among the world's largest paper and forest products companies, with sales of around €10 billion in 2017. Its portfolio comprises production of paper, paper-based packaging, wood products and pulp. Stora Enso's shares are listed on the NASDAQ OMX Helsinki and Stockholm. The company's single-largest shareholder, with 12.3% of shares, is Solidium Oy, which is 100% owned by the Finnish state, followed by Foundation Asset Management, with a holding of 10.2% shares. Stora Enso has roughly 26,000 employees worldwide, with the majority of revenue generated in Europe.

#### LIST OF AFFECTED RATINGS

Issuer: Stora Enso Oyj

Upgrades:

....LT Corporate Family Rating, Upgraded to Ba1 from Ba2

....Probability of Default Rating, Upgraded to Ba1-PD from Ba2-PD

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2

....Senior Unsecured MTN Program, Upgraded to (P)Ba1 from (P)Ba2

Affirmations:

....Commercial Paper, Affirmed NP

....Other Short Term Program, Affirmed (P)NP

Outlook Actions:

....Outlook, Remains Positive

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Paper and Forest Products Industry published in October 2013. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moody's.com](http://www.moody's.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for additional regulatory disclosures for each credit rating.

Martin Fujeřík  
Vice President - Senior Analyst  
Corporate Finance Group  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Matthias Hellstern  
MD - Corporate Finance  
Corporate Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

**Moody's**  
INVESTORS SERVICE

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section

761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.