



Stora Enso Q4 Report 2021

Friday, 28th January 2022

Introduction

Annica Bresky

CEO, Stora Enso

Welcome

Welcome, everyone. I am very pleased to be able to present a record high quarter for Stora Enso, driven by what we have a very strong demand and our strategic progress.

Record high quarter driven by strong demand and strategic progress

We can see record high earnings for Q4 in four divisions. Also, we see continued strong commercial momentum into 2022. We have been successful in being proactive to mitigate higher variable input costs. All that leads to our good performance that we have seen during the quarter.

Operational EBIT continues strong trend

Moving now over for a quick overview of our financials. We can see that we have solid growth, with a sales increase of 26% year-on-year. Quarter-by-quarter, we have been improving our top line. That also goes for our operational EBIT, amounting to €426 million.

Last but not least, we also see a very solid performance in our return on operating capital employed, excluding our Forest, which was 20.4%, which is higher than our long-term target of 13%. This is the third quarter that we performed on these levels.

Strong annual performance

That sums up also a very strong annual performance. We are back on sales to pre-pandemic levels, with a sales increase of 19% year-on-year. Our operational EBIT improved by 135% year-on-year to a level of just above €1.5 billion. This is actually the best result that we have had in 20 years.

Our operating return on capital employed was 18% for the year, also above our long-term target.

Higher prices major driver for increase in profitability

I mentioned that we have been proactive in managing our cost structure, and that has been important to compensate for higher electricity and energy levels and also higher logistical cost levels. You can see here that we have a solid improvement in our sales prices and mix, and also improved volumes from our operations. That has offset the impact that we have seen from higher logistical costs and energy prices.

For us, energy prices are 6% of our total cost structure and logistic costs are 11% of our cost structure. By being proactive in the way that we have distributed our product and also in our contracting setup with our suppliers of these services, we have been able to improve our results.

We have learned a lot during a very volatile year, and I am feeling confident that we will be able to continue to work in this mode also for the coming years.

Forest assets fair value increased to €8 billion

Moving over now to our Forest assets. We have an increase of €700 million to a valuation of €8 billion for our asset holdings. The main drivers here are higher market transaction-based

prices for the land in Sweden and the inclusion of retention areas in Sweden. We have much better visibility now of the retention areas than we had a year ago. That is why we see this increase.

Also higher values in Tornator holding and our plantations due to positive WACC and FX related changes. All in all, this is showing a very good development also for our Forest division.

Dividend increased to an all-time high of €0.55 per share

Our Board is confident in our strategic direction for growth, and in line with that is proposing an all-time high dividend of €0.55 per share. This is in line with our dividend policy to distribute 50% of our earnings per share over the cycle. I am very happy that, after such a good year, we can reward our shareholders as well.

Strong momentum in strategy execution

Moving over now to our strategy execution. We have a strong momentum in our continued growth agenda. The transformation from primarily a paper company to the renewable materials company is largely complete. Sustainability, we see is a trend that is long term and the opportunity that is driving both our short and long-term strategy for growth.

Now we are entering a new phase, an evolution phase, where we will be able to deliver long-term profitable growth by making sure that we increase our footprint in our Packaging business, our Building Solutions business, and Biomaterials innovation.

What have we done during the last year is to make sure that we have competitive paper mills by restructuring and divesting the uncompetitive ones. We have freed up resources and capacity to accelerate our growth in renewable packaging and green building materials. We are progressing with our Lignode project according to plan. And this is also how we make targeted investments by allocating CapEx in these three areas.

For Packaging, it is about conversions of existing machines or debottlenecking, but also targeted M&As for especially Packaging Solutions. For Building Solutions, we have new capacity coming on stream. And also, we are taking on bigger projects in Building Solutions. And for Biomaterials innovations, we are commercialising new products based on lignin for various applications.

Strategic initiatives supporting growth

Some of the strategic initiatives in the last quarter that are supporting our growth is the investment that we are doing in Varkaus to increase containerboard capacity by 10%. We have also chosen, as you are aware, to cease production of dissolving pulp to be able to focus in other existing and new innovative pulp grades and products. And so, we have honoured the commitments that we have had to our customers and are now discontinuing that segment.

We have completed the containerboard ramp-up and commercialisation phase at the Oulu site in Finland, and the pre-feasibility study for the second line is ongoing. And we will come back with news regarding the next step during Q1 2022, as promised.

We have also decided to invest €40 million to improve competitiveness on operational level, but also environmental performance and carbon footprint for our fluff production site at Skutskär in Sweden, and this was announced today.

Commercialising our innovations

If we look at our products, we are commercialising our innovation. Some of the examples you can see here. For instance, the launch of Performa Light CarbonZero, which is the first carbon-neutral cartonboard offer on the market. We are also commercially ramping up dispersion barrier technology in our Forshaga site in Sweden. And we are extending our office for bio-based foams, which are used for protective and thermal packaging as part of our packaging offering. This includes two products, Fibrease and Papira.

We have launched a new oxygen-delignified fluff pulp, which has 30% lower carbon footprint than traditional pulp, NaturaFluff Eco, which we believe is a product that is very important for decreasing carbon footprint on the fluff market.

In terms of Lignode, we are progressing there with the pre-feasibility study of a scale-up factory, and that is a material that is used for replacing fossil-based anode materials in batteries and has a very good performance in terms of rechargeability and in cold weather.

For Building Solutions, we have launched a new building concept for industrial buildings. This enables designers and prospect users of buildings to building low carbon with simple and fast construction, which is easy also to disassemble and reassemble.

EU Taxonomy is still in its early days

A few words now on EU Taxonomy. As you are aware, it is still in very early days. We fully support EU's ambition, and we can see that the focus in the beginning now is on energy-intensive areas. Many of the products that we, as a forest industry are doing, are still largely out of scope for the time being.

Therefore, the only relevant economic activity categories to report on are wooden-based materials and components for building energy efficiency and bio-based electricity and heat sales. For us, so far the proportion of taxonomy-eligible activities is around 5% on turnover and about 6% for OpEx and 4% for CapEx. However, it is early days in the taxonomy, and there is still a lot of development going on in this area. We have not seen the final yet.

Our leading performance in ESG is recognised

If we look at our ESG performance, I am very happy that our leading performance is now recognised. We can see improvements in many of the categories. This is a selection of the assessments that are made on us as a company. And you can see here that we have a leading position in all of them. I think this is also a testimony that we walk the talk in sustainability.

With that, I would like to hand over to Seppo Parvi, our CFO, to take you through the financials in a little bit more detail. Seppo?

Financial Overview

Seppo Parvi

CFO, Stora Enso

Financial Highlights

Thank you, Annica. And I start with some of the financial highlights from the report that we have published today.

Sales for the quarter were up 26% year-on-year and reached about €2.7 billion. Full year sales about €10.2 billion for 2021, and that is up 19% versus previous year. Operational EBIT up over 260% at €426 million for Q4 and full year result more than doubled and amounted to €1.5 billion. Earnings per share for full year, €1.61.

Like Annica already mentioned, operating return on capital employed, excluding Forest, clearly above the targeted 13% for the quarter as well as full year, coming at 18% and 20%, respectively.

And cash flow from operations continues on a good level. We are very happy with the good strong working capital management during the Q4 as the case has been during the whole year. And cash flow from operations was a €619 million for the last quarter and close to €1.8 billion for the full year.

That has also led, together with the improved profitability, to net debt operational EBITDA ratio of 1.1, that is significantly down compared to 2.3 a year earlier.

Packaging Materials

Record quarter driven by high deliveries and improved profitability in containerboard

Then moving to the divisions, and I start with Packaging Materials, where we reported record quarter, driven by high deliveries and improved profitability, especially in the containerboard business.

Sales were up 40% for the quarter, reaching over €1 billion, and that is all-time high. Sales were driven by higher board prices, including better mix and higher deliveries. And especially, we are happy I can highlight successful ramp-up of the containerboard production at the Oulu site.

Operational EBIT doubled year-on-year, reached a record high Q4 and was at €133 million. Improved containerboard performance was visible there and also our consumer board continued solid performance. We had higher sales, improving the profitability, and that was partly offset by higher variable costs.

Operating return on capital at 16.8%, clear improvement compared to a year ago, but still slightly below the long-term target of 20% that we have for the Packaging Materials division.

Packaging Solutions

All-time high sales driven by increased prices and sales in innovation and services

Then moving to Packaging Solutions, where we had all-time high sales that was driven by increased prices as well as increased sales in innovation and services. Sales were up 34%, and that is, like I said, reflection of higher prices. As you know, we have worked all year on increasing the prices, causing the gap between higher containerboard prices and our selling

prices. And that starts to be now visible if you look at the operational EBIT development, where we are clearly now coming back to the levels and above the levels that we had a year ago. Operational EBIT was up 27% year-on-year for the last quarter of the year.

Operational return on capital at 19.4%, going up, but slightly still below the long-term target of 25%.

Biomaterials

All-time high performance mainly driven by high pulp prices and volumes

Then in Biomaterials, where all-time high performance is visible on the sales line at €494 million, that is driven by higher pulp prices and volumes. We also had record high deliveries as well.

Then on operational EBIT, that was up significantly, €181 million year-on-year, reaching all-time high at €167 million. That reflects higher sales prices and volumes as well as lower maintenance costs during the quarter. Operating return on capital at 27%, and that is clearly above the long-term target of 15% for the Biomaterials business.

Wood Products

Record high Q4 profitability driven by high prices and a balanced product mix

Then looking at the Wood Products division, where we had record high Q4 profitability. That has been driven by high prices and the good balanced product mix. Sales for the quarter were up 42% year-on-year, reaching €510 million.

And like mentioned, we have record high prices and solid demand with good balanced mix, supporting the performance of the division. We had somewhat slightly lower classic sawn deliveries, but especially the export markets are holding well, being Northern Africa, Asia markets as well as we saw some positive signals on the US market as well recently.

Operational EBIT was up 170% year-on-year with a record high Q4 at €89 million. Extraordinary high profitability continued, driven by record prices, and that was more than offsetting clearly higher raw material costs.

Operating return on capital also at excellent level at 53.1% and that is clearly above the long-term target of 20%.

Forest

Strong profitability driven by good operational performance

Then looking at the Forest division, where also strong profitability continued, and that was driven by good operational performance. Sales were up 13% year-on-year, reaching €597 million. That was driven by improved product mix, wood prices, especially for logs.

Operational EBIT was up 21% year-on-year with the record high Q4 at €48 million. And it was mainly driven by good performance of our own Forest assets, due to higher prices as well as the wind power projects, both in Finland and Sweden. Operating return on capital was at 3.6%, slightly above the long-term target of 3.5%.

Paper

Turnaround ongoing, cost inflation mitigated by price increases

Then finally, our Paper division, where turnaround is going on. Cost inflation has been mitigated by the price increases. Sales were down 18% for the quarter year-on-year at €389 million.

Sales were going down year-on-year, mainly driven by capacity closures at Veitsiluoto and Kvarnsveden as well as Oulu site due to the conversion that we made to kraftliner. However, important to notice that we can start to see turnaround there. Sales of retained businesses increased by 12%, mainly due to the increased prices, which is a positive signal going forward.

Operational EBIT was down 112% year-on-year and was negative €10 million. There, we can see those higher prices, more than offset by clearly higher variable costs, especially recycled paper, and energy cost. And there were some structural changes, decreasing fixed cost and volumes.

Cash flow to sales after investments was negative 2.9% for the whole division, but retained businesses were positive 7.4%, which is a good signal about the turnaround happening in the retained business.

Development of long-term financial targets

Then look at the long-term financial targets table and comparison. Now you can see comparison both for the last quarter as well as the full year. We got the Group long-term financial targets when it comes to growth and debt metrics as well as return on capital employed. You can see that we are clearly exceeding our targets in all of those.

And in the divisions also, you can see that we have a positive direction, especially the packaging businesses, both improving moving in the right direction, still slightly below the targets that we had set. Then we have very much on [inaudible] the Biomaterials, Wood Production, Forest divisions that have reached and all exceeded when it comes to long-term targets.

And lastly, Paper still on negative for the whole division, but the positive is that the retained businesses are already showing positive development there.

With that, I hand over back to you, Annica.

Conclusion

Annica Bresky
CEO, Stora Enso

Annual outlook and guidance

Operational EBIT in FY 2022 estimated to be approximately in line with FY 2021

Thank you, Seppo. Now let us take a look on the outlook. I am very happy to say that the sustainability trends, as well as our strong positioning, is showing itself by us being fully booked for quarter one in all our businesses.

So, demand is strong. And also the measures that we are taking, such as pricing, our flexibility in sourcing and logistics and also hedging for energy prices. For instance, this year, 2022, we are 80% hedged on energy, and for next year, we are 70% hedged. That allows us to manage the volatility that we see in the input cost side.

All in all, we expect this year operational EBIT to be approximately in line with the full year operational EBIT for 2021. And this has to do that we see our businesses being fully booked.

Record high quarter driven by strong demand and strategic progress

To conclude, we have a record high quarter behind us, but I also see a very good quarter one approaching. We see good strategic progress in our growth businesses. Our record high Q4 is a testimony of that. And the full year results, the best in 20 years, also shows our resilience and strong position that we have been able to have in the pandemic.

We are moving into a new phase, a phase of growth with having strong positions for our Packaging, Building Solutions, and Biomaterials innovations businesses. Forest fair valuation has reached €8 billion, also showing the strength of that business. An all-time high dividend of €0.55 is proposed by the Board. And we see this commercial momentum continuing in 2022. So, all in all, we are very well positioned to capture future growth.

With that, I hand over to you for questions and answers.

Q&A

Cole Hathorn (Jefferies): Just like to follow up on the Packaging Materials market. Could you give a little bit of colour of how you have negotiated your contracts looking into 2022? Because folding boxboard looks like prices are higher than you are set to benefit through the whole of 2022 with your annual contracts. I would just like a little bit more colour around that consumer board business, is the first question.

Then the second question for Seppo on the balance sheet. With your guidance in line with 2021, your balance sheet is going to be very strong, kind of one-time net debt to EBITDA, or potentially below. How are you thinking about capital allocation from here? I mean, does it give you flexibility for CapEx, M&A or is buybacks potentially on the agenda?

Annica Bresky: Yes. If I start then for Packaging Materials, as I said, we have a very strong demand for both consumer board and containerboards, and this is expected to continue. In terms of product mix, I think we are in a very favourable position because we have a mix of contracts that are short term, and we can increase prices and adapt to the surrounding world, like in containerboards, for instance, where we can continue pushing for price increases. Then we have contracts that are one year validity, and some are longer.

I think this is the product mix that the full division has that is also showing the stability of the performance of Packaging Materials as a whole.

And if I hand over now to you, Seppo, to discuss our strong balance sheet. Of course, that is a very good position to be in. It gives us flexibility to invest in our own assets, but also to consider complementary M&As.

Seppo Parvi: Yeah. Thank you. And like Annica already said, we are very happy with the positive development and stronger balance sheet that we have managed to reach now. And it

is actually in line what we communicated after Bergvik Skog restructuring and said that we would be coming back to levels we were before the deal after couple of years. It was a bit delayed because of COVID-19, but now we are there as planned.

And that gives us opportunities to capture the growth opportunities on the market, especially the growth areas that we have defined, Packaging Businesses, Building Solutions, as well as Biomaterials innovations.

Our CapEx guidance for the year that has started is €640 million to €680 million, so roughly at the same level as we have had also past year. And like I said, this of course gives us also acquisition firepower if there are opportunities to capture market opportunities and growth opportunities there.

Cole Hathorn: Seppo, just to understand how you think about that M&A, are buybacks benchmarked against that from an EPS accretion just to see what the best solution is?

Seppo Parvi: There are no discussions on buybacks at the moment. That is obviously something that the Board or AGM would then need to decide.

Robin Santavirta (Carnegie): Two questions. First of all, I would be interested in an update related to Lignode. When should we expect to hear about your joint-venture partners? And when should we expect any kind of CapEx plan about the production ramp-up? Related to that, what are the other sort of key entities in your R&D portfolio that you believe are closest to commercialisation?

Annica Bresky: If I start with your last question, I think focus for scale-up is important. For lignin, for instance, the Lignode opportunities is the key one that we are putting our efforts in. And then the other area is in Packaging Materials, where we have complementary barrier solutions based on MFC that are the other type of business for scaling up that. And that is to enable easier recycling of liquid packaging board by eliminating aluminium component in that recycling process. Those are the key ones that we are driving.

And if we go back on Lignode, discussions are ongoing. Once we have come further, we will, of course, announce that as soon as possible. There is an interest on the market. And if we look at pre-feasibility study in Sunila is ongoing in terms of scaling up the first operations.

Pre-feasibility will be ready this quarter. And after that, we will announce the feasibility study, which is the next step in scale-up of the first unit.

Robin Santavirta: And the second one is related to the pre-feasibility study you are doing, conducting in Oulu related to the conversion of the second paper machine to paperboards. Can you just remind me what grades are you studying to convert that machine to? Is it also kraftliner, or is it rather cartonboard? And what kind of investment should we look at? I know you have some 550,000 tonnes of pulp production capacity there. Would you also need to invest in pulp capacity, or would it only be the paper machine in Oulu?

Annica Bresky: We are looking at both consumer and containerboards. The pre-feasibility will be ready during quarter one. And then, we will announce once we start the next step, which grades we will look at. That is going to happen during quarter one.

And before that pre-feasibility is finalised, I cannot comment on the pulp setup because that is dependent on which qualities we use, consumer or containerboards. Let us come back during Q1 on that.

Justin Jordan (Exane BNP Paribas): I have got two quick questions. Firstly, I suppose, on the umbrella topic of sustainability. Can you give us perhaps a little bit more colour on the Packaging Materials division particularly? I am thinking particularly in the area of liquid packaging board. Clearly, Stora Enso is a global leader in manufacturing paper for liquid packaging board manufacturers around the world. Can you help us understand what sort of growth rate that you have enjoyed in volume terms in 2021? And then how you see the market developing in coming years?

Then second question on a completely different topic. In the Paper division, clearly, you have taken some very tough decisions in recent years to rightsize the business, and I will commend you for the tough decisions. I just wanted to clarify exactly what Seppo was saying on slide 19 in terms of the cash flow from retained businesses being 7.4%. Is that for Q4 2021 specifically? And then when we think about that going forward, clearly, I just want to clarify, there are no sort of legacy impacts in Q1, Q2 2022 of the mill closures that you talked into 2021?

Annica Bresky: Yes. Well, if we look at liquid packaging board, I am very happy that we have very strong customer relationships that go back 60 years, and that enables us to continue developing those qualities. And one of the main themes for liquid packaging is to be superior in sustainability and circular economy is at the centre of that.

We announced last year our joint investment in our site in Ostrołęka for recycling facility, enabling recycling of liquid packaging board of big volumes for Eastern Europe. And I think that is the direction that we will continue taking together with our customers, enabling the circular economy. And that also enables growth of sustainable liquid packaging.

And the growth rates are typically around 2-3%, depending also which market it is, growing faster, of course outside of Europe. Europe is a mature market here, but the opportunities are outside of Europe in liquid packaging growth.

And having competitive assets as we have with a global reach and a very strong cost competitive position such as Skoghall and Imatra and moving over also strengthening Oulu, that gives us opportunities to reach our customers in a global setting.

If we look now at Paper, your second question there. There are no legacy costs coming into Q1 and Q2. We have handled that during last year and the competitiveness of the assets that we have left is very good. And we will continue to make sure that we can support our customers and drive good profitability from the retained paper business.

Seppo Parvi: 7.4% for Q4 as you said.

Lars Kjellberg (Credit Suisse): Just the first one, just coming back to Cole's question a bit about consumer board. It is quite difficult from the outside to really understand how these higher prices we can note in the folding boxboard area will translate into earnings for you. Can you give us any sense of how we should think about the transition from quite meaningful price increases into your P&L in the current year versus the average in 2021?

And then the next thing I was thinking about, you are now starting to invest quite a bit in your operations, the Skoghall is coming in, Skutskär you announced today. What other areas are you seeing for potential to improve asset performance within your existing asset base, including any debottlenecking and efficiency improvements? And how should we think about CapEx into that category as opposed to just simple growth investments in new categories?

Annica Bresky: If we start with the consumer board, our mix of products is different compared to just having folding boxboard. We have folding boxboard. We have liquid packaging board, and we have CUK brown boards. And the mix there is also different in terms of contract lengths. And that is how we are driving our consumer board business.

The mills that we have, they are able to produce these three qualities. And depending how we choose to fill up our line, we are also able to kind of handle prices and price increases. Folding boxboard is standing very strong, and we are one of the leaders in producing folding boxboard. We saw, in Q4, quite substantial price increases in Europe. China was more stable in that front. And moving over, the demand is solid for folding boxboard. And it is one of the qualities that we are looking at when we talk about consumer boards in Oulu second line, a potential quality is there.

If we look then at your second question, remind me what that was?

Lars Kjellberg: Well, essentially, you are starting to spend more money in.

Annica Bresky: Capital allocation.

Lars Kjellberg: Yeah, exactly.

Annica Bresky: Yeah. CapEx allocation. I think we are in a very fortunate position to have quite many mills that still have good debottlenecking capability and also conversion capabilities. I think that if we utilise those smart, we can have a substantially lower CapEx comparing to, for instance, the greenfield and at significantly lower risk.

I think we will continue to work on that. The examples that you raised are testimony that we can do that in a cost-efficient way, and at the same time, increase our product portfolio in the areas where we see strong demand, especially in the cartonboards and the consumer boards and containerboard.

Lars Kjellberg: Just to follow up on that one. What sort of return profile do you typically see in these sorts of investments?

Annica Bresky: I do not want to go into detail for that, of course, as you understand. Every investment is measured against all other opportunities, for instance, an M&A opportunity or our own kind of conversion or bottlenecking. And the targets for returns for each division is part of this evaluation. For Packaging Materials, 20% is what the business should be yielding in return on operating capital.

Johannes Grunselius (DNB Markets): My question is on your guidance for 2022, flat underlying or flat operational EBIT. You were quite clear here, Annica, about Q1 that looks good with the order backlog and so forth. What are your assumptions for the latter part of 2022 here? For example, if you could give any indication what kind of, for example, pulp assumptions, price assumption you have on pulp, maybe wood products, or if you can give some colour there how we should think about this guidance, please?

Annica Bresky: Yes. As I said, we see a very solid and strong demand for all our products. And for Biomaterials, for instance, if I start there, and pulp, in Europe, there is a tight supply-demand balance. And this is due to good overall demand for all grades, especially for fluff. This benefits our Skutskär mill, which is the biggest fluff producer in Europe. There, the demand is really solid.

There is a tightened demand also since the paper business is coming back with a solid demand for pulp. We see stable inventory levels. Even though it is a few days above the five-year average, I believe that has to do more with the logistical disturbances that are still characterising, I think, the beginning at least of 2022.

We see China recovering and coming back to an improved pulp demand. All in all, we see some more maintenance impacting the supply chain. From pulp perspective, we see a good position for this year.

If we look at the Wood Products, the other area where we have seen very high price levels last year and strong demand. In Europe, there is a weakening of classic sawn demand with about 5% in Q1 2022 year-on-year, but that is from very, very high levels that we had last year. Then, overseas, which is one of the important markets for us, we see a significant demand increase by 29% in Q1 2022 year-on-year in classic sawn, and that is also driving our business.

North America is coming back. Japan, Australia, North America. For Wood Products, generally Q1 is a typically seasonally weak quarter for us. All in all, when we look short-term and long-term, we see that our results will land, as we said, approximately in line with last year's results.

Johannes Grunselius: Okay. That is very helpful. Is it fair to assume that you are thinking about the pulp price will be quite even for the rest of the year or quite stable as where we are?

Annica Bresky: We do not comment on price outlook, but we have taken, of course, into consideration how we see the market looks like from a supply-demand situation. I think as a company, we have a product mix in different areas. Even if one area goes down, another area might be stronger. I think that is the good thing with the product mix that we have.

Johannes Grunselius: Then I had a second question. I can see here that your OpEx per tonne is very low and favourable for the Biomaterials division. Of course, this is due to good shipments. How should one think about cost inflation for your pulp mills in general? Are they quite immune to that because they are producing a lot of excess energy, or is that true that the OpEx outlook is pretty stable for that division as such?

Annica Bresky: If we look at how we are handling the logistical situation, I think we have proven that we are able to take care of that during last year in a good way. I do not expect it to be easier this first half. We will still need to fight for containers and choose wisely the destinations that we have for our pulp business. We are a little bit helped by the fact that we have a lot of our customers in Europe. This helps our pulp business to perform better. I do not know, Seppo, if you want to comment on the OpEx level?

Seppo Parvi: Just to highlight that obviously like you said partly, it is energy self-sufficient. Energy costs are not causing any issues there, but in some case, they are surplus, so it is another positive opportunity when electricity prices are going up.

Key growth driver there is naturally wood costs, where, again, if you look at the Latin American mills, we have our plantations. We are pretty self-sufficient there, some 80% or so. Like you saw, you can see the statistics in Finland, for instance, the log prices and pulp wood prices have been rather stable and stabilising towards the end of last year, and we expect that to continue.

I would say that the OpEx related inflationary pressures are relatively small in that business.

Mikael Doepel (UBS): Continuing a bit on the same topic in a way. My first question would be basically on visibility. Annica, you mentioned that you have different business areas with different products and pricing contracts and volume contracts on the cost side of things. You are partly hedged. Also there, I guess, you are buying some more spots, some more longer-term contracts. I was just wondering if you could share, on the average group level, what is your visibility right now in terms of volumes, in terms of pricing, in terms of costs? Is it a quarter or two or something else?

Annica Bresky: Well, we do our estimations for the full year and our business plan for the full year. Of course, as any company, our best visibility is the closest quarters. Also if we look at the businesses that we have and the demand that we see and the drivers that we have in our businesses, we see a strong pipeline and quarter one is fully booked. We have strong momentum also in quarter two. That gives us the confidence to say to what we are stating in our outlook.

If we look at pricing, of course, as you say, there are different products with different drivers. All in all, in Group, some prices we might think are going down, some might go up. It is the balance for the full group that we are commenting. That is what we based our performance on.

I think there are many factors on the cost side that are in our hands of influence. Here, it is about being proactive, for instance, how we hedge our energy, how we take care of our overall costs with our supplier contracts, but also how we are running our operations if we are able to produce and deliver as we want to our customers. Here, we have put a lot of work in operational equipment efficiency to improve and stabilise our operations.

We are investing in our mills. We will get out stronger than we were two years ago by, for instance, the investment in Skutskär, which will reduce maintenance costs and improve operational efficiency, as well as environmental performance. All in all, this is the way that we are able to stand behind the outlook that we gave to you.

Mikael Doepel: Okay. That is helpful. Then my second question would be coming back to the Lignode again. I heard what you said previously. Just wondering if you could share some thoughts about where you see good opportunities for that product. Is it more within lithium-ion batteries in the EV value chain, or is it perhaps more within sodium-ion batteries for energy storage or something else? If you could share some thoughts around where you see the best opportunities? What would you like to focus on in terms of the various options you surely have for that new product?

Annica Bresky: Yes. There are about 200 giga factories that are planned to be built that will use battery production for, as you say, either in vehicle batteries or in energy storage systems or in other electrical applications because there is electrification going on in many segments.

We have targeted for the automotive industry at this point, but there is nothing hindering us from providing the material also to the other areas. It all has to do with how quickly we can scale up sales. Some areas are easier to enter, and some are more complicated. For the automotive industry, that is why it is important for us to have partners where we collaborate to make sure that the commercialisation and scale-up of the product is as quick as possible because it is about grasping the market growth that we see is out there.

That is why OEMs and also perhaps automotive manufacturers who set the criteria for performance are so important to get early in the process. Our ambition is to have five mills scaled up in the coming years. That is why it goes hand-in-hand also with our feasibility studies that we are starting quite soon after the pre-feasibility, which is ongoing now. However, we are focusing on the automotive part at the moment.

Linus Larsson (SEB): I appreciate you are guiding on the full year. If we stick to the first quarter in comparison with the fourth quarter and looking at variable costs, could you maybe specify which are the sources of increasing unit costs sequentially, and which are the potential sources of decline? Just to get a figure for what sort of sequential variable cost change you may be expecting in the first quarter.

Seppo Parvi: Seppo here, maybe I can comment on that. Linus, like you said, we do not guide quarterly anymore. We do not really comment on the quarterly results as such. I would say that with the exception of the energy, other cost items are relatively stable compared to end of the past year. Like Annica said, on the energy side, we are pretty well hedged with the high self-sufficient and high hedge ratios.

Linus Larsson: However, energy is one of those sources where net-net, you will see somewhat higher costs in Stora Enso Q1 on Q4?

Seppo Parvi: Compared to other cost items, yes.

Annica Bresky: Energy costs are 6% of our total cost structure. In Finland, we are 100% electricity self-sufficient. For the Group, we are approximately 70% energy self-sufficient.

Linus Larsson: Great. That sounds reassuring. Sometimes also, in the past, you have been pretty specific on guiding on average selling prices to come in the Paper division. We are all aware that there have been some pretty hefty price hikes in at least some of the Paper segments. What is the mix? What is your portfolio price improvement looking like in the first compared to the fourth quarter?

Annica Bresky: We do not guide on pricing, but what I can say is that now our retained Paper business is biggest on news and book, and that is where we see a very strong demand. Of course, we will continue to increase our pricing to compensate for increased energy costs or increased PFR cost, Paper for Recycling costs. I see good opportunities for us, as we have said, to continue turning around that business. As I said, it is long-term competitive. That is what I can comment at this point.

Harri Taittonen (Nordea): On the fairly sizable revaluation of the Forest assets and related to that and looking ahead, I mean, what will be the factors driving the next assessments of the Forest value? Are you looking at the transaction values, or is there something else that you are doing through your own measures from sort of speeding up growth assumptions or things like that? Also, like can you remind which quarters or when do you next are likely to look into the values more closely?

Annica Bresky: We do the revaluation every half year. Next time is end of quarter two. As you said, market transactional values are one component, but the other one is also how we are managing our Forest to increase growth. That is, of course, at the core of the Forest division to continue doing that.

Harri Taittonen: How about this 10% increase? what component was the pricing or the transaction values and what was your own measures?

Annica Bresky: Of the €700 million value increase, ~30%% of that was market price transactions in Sweden, ~30% inclusion of retention tree areas in Sweden and then ~40% from other changes.

Harri Taittonen: Another question on the packaging side. If one wants to be devil's advocate here, the argument has been that some of the packaging strength in Europe has been driven by the lack of availability from imports from outside Europe and that has been helping to boost the order books in Europe. However, could that be a reason to think that supply-demand could normalise at some point from these very tight levels when the global logistics issues someday will be eased, or is it the case to think about?

Annica Bresky: We do not see that. We see, on the other hand, a lot of the sustainability trends that we have been talking about for a long time that is actually realised. If I talk with brand owners and others, how they are looking at making their packaging more sustainable, we see that trend within consumer boards, within industrial packaging. Many companies are using paperboard to be able to have more sustainable packaging. The long-term trend is there. Of course, if we look at now the coming year, we still see a lot of high demand in our business.

Lars Kjellberg: I just wanted to hear your thoughts on the impact of a competing company's labour issues, specifically in Finland. How is that impacting the marketplace? And if that has any impact on how you can do business in Finland itself?

Annica Bresky: I do not see that it has any business implications for us in Finland specifically, but we are very keen on having constructive dialogues with the unions. We closed our union agreements in all the areas that we have business in. I think that is important to be able to continue our growth agenda and cater to the demand that we see for our products. The relationships with the unions are good between Stora Enso and the labour market.

I do not know if you, Seppo, would like to comment anything else?

Seppo Parvi: Maybe it is there in the market. Obviously, if you look at the pulp market or paper market, it is even more tight than it would be otherwise because some capacity is out. However, if you look at from our labour contract perspective, there is no effects. Like Annica

said, we have already closed all labour contracts that were expiring by end of the year. We have everything in place.

Annica Bresky: Yes. I thank you for participating today and for the many good questions that we have gotten and look forward to talking again with you next quarter. Thank you very much and have a good day.

Seppo Parvi: Thank you.

[END OF TRANSCRIPT]