

Rating Action: Moody's upgrades Stora Enso to Baa3; stable outlook

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Frankfurt am Main, November 01, 2018 -- Moody's Investors Service ("Moody's") has today upgraded Stora Enso Oyj (Stora Enso), assigning a Baa3 long-term issuer rating. Concurrently Moody's has withdrawn its Ba1 corporate family rating and Ba1-PD probability of default rating, as per the rating agency's practice for corporates with investment grade ratings. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moody.com.

Moody's has also upgraded Stora Enso's Commercial Paper rating to Prime-3 (P-3) from Not Prime (NP), its Other Short Term programme rating to (P)P-3 from (P)NP, the rating of its MTN programme to (P)Baa3 from (P)Ba1 as well as the rating of the senior unsecured bonds issued by Stora Enso Oyj to Baa3 from Ba1. Moody's has also changed Stora Enso's outlook to stable from positive. The complete list of the affected ratings is included in the end of this press release.

"Today's action reflects Stora Enso's further track record of healthy operating performance and ongoing business transformation beyond structurally declining graphic grade paper, which, together with the recent tightening of financial policies, gives us more comfort that the company will be willing and able to maintain credit metrics commensurate with an investment grade rating", says Martin Fujeřík, Moody's lead analyst for Stora Enso.

RATINGS RATIONALE

RATIONALE FOR THE Baa3 RATINGS

Today's upgrade is supported by Stora Enso building further track record of profitable growth enabled by the company's investments into businesses with positive underlying growth, such as pulp, paper-packaging and wood products. The third quarter 2018 marks the seventh consecutive quarter of top line growth despite ongoing reduction in volumes in its graphic grade paper business, which however remains profitable and, owing to its limited maintenance needs, also consistently cash flow generative.

Stora Enso's operational results through 2018 were well above Moody's expectations owing to strong pricing momentum across many sub-segments in which Stora Enso operates, including graphic grade paper, supported by a tight supply/demand balance. This has helped the company to further improve its credit metrics that are now comfortably in line with a Baa3 rating.

Moody's calculates that Stora Enso's EBITDA margin has improved to 17.1% for 12 months to September 2018 from 15.1% in 2017, its RCF/debt to 27.9% from 21.9% and its gross leverage to 2.5x from 2.8x, all ratios as adjusted by the rating agency. Even pro-forma for the Bergvik Skog transaction announced in November 2017, which has not closed yet and would increase Stora Enso's net leverage by roughly 0.6x, its credit metrics would still be largely in line with the rating agency's requirements for a Baa3 rating, such as Moody's adjusted gross leverage below 3.0x and RCF/debt above 20%.

Another factor that supports the upgrade of Stora Enso's ratings is the company's recent tightening of its financial policy. With its second quarter 2018 results, Stora Enso announced that it decreased its internally self-imposed net leverage ceiling to 2.0x from 3.0x previously (1.1x for 12 months to September 2018 or roughly 1.7x pro forma for Bergvik Skog). Such tightening gives the rating agency more comfort that Stora Enso will remain disciplined in managing its balance sheet, increasing the likelihood that the company is willing to retain credit metrics commensurate with an investment grade rating. The company has also publicly stated its aspiration to reach and retain investment grade status.

Starting in 2017, the company has also decreased the level of capital spending and returned to meaningful positive free cash flow generation. Moody's expects that Stora Enso will sustain its free cash flow generation in the next 12-18 months, even if the company decides to go ahead with the potential conversion of its fine paper mill in Oulu, Finland, into packaging grades. Positive free cash flows might be used to further repay debt, which the company has done over the last years - between December 2013 and September 2018 Stora Enso repaid roughly EUR2.2 billion of debt - and which would further strengthen Moody's credit metrics based on gross

debt and support the rating positioning.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the currently favorable operating environment will continue into 2019 and that Stora Enso will maintain its Moody's adjusted EBITDA margin broadly around 17% and its Moody's adjusted RCF/debt and Moody's adjusted debt/EBITDA above 20% and below 3.0x, respectively, even if the Bergvik Skog transaction is closed.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could upgrade Stora Enso's ratings if the company built further track record of good operational performance and financial discipline, leading to (1) a maintenance of its Moody's adjusted EBITDA margin in high-teens; (2) Moody's adjusted RCF/debt sustainably above 25%; (3) Moody's adjusted gross debt/EBITDA sustainably below 2.5x; and (4) sustained material free cash flow generation and further strengthening of its liquidity profile with a reduced reliance on short-term debt.

The rating agency could downgrade Stora Enso's ratings if the company experienced sustainable deterioration of operating performance with Moody's adjusted EBITDA margin towards low-teens in % terms. It could also result from more aggressive use of balance sheet, with Moody's adjusted RCF/debt declining sustainably below 20% and Moody's adjusted debt/EBITDA above 3.0x. The downgrade could be also triggered by a return to sustained negative free cash flows and a weakening of its liquidity profile.

LIST OF AFFECTED RATINGS

..Issuer: Stora Enso Oyj

Assignments:

.... LT Issuer Rating, Assigned Baa3

Upgrades:

....Commercial Paper, Upgraded to P-3 from NP

....Other Short Term, Upgraded to (P)P-3 from (P)NP

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa3 from (P)Ba1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 from Ba1

Withdrawals:

.... Probability of Default Rating, Withdrawn , previously rated Ba1-PD

.... LT Corporate Family Rating, Withdrawn , previously rated Ba1

Outlook Actions:

....Outlook, Changed To Stable From Positive

The principal methodology used in these ratings was Paper and Forest Products Industry published in October 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Helsinki, Finland, Stora Enso is among the world's largest paper and forest products companies, with sales of around EUR10 billion in 2017. Its fairly wide portfolio comprises production of graphic grade paper, paper-based packaging, pulp and wood products. Stora Enso's shares are listed on the NASDAQ QMX Helsinki and Stockholm. Stora Enso has roughly 26,000 employees worldwide and generates roughly three quarters of its revenues in Europe.

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