

Transcript Stora Enso Q4 2022

Annica Bresky: Welcome to Stora Enso Q4 2022 Report Presentation. Our purpose, do good for people and the planet is more important now than ever before. We need to look after our people, the communities in which we operate and the company. By replacing fossil based materials with our renewable products, we can leverage on this opportunity for long term earnings growth and can at the same time positively contribute to mitigating climate change. Sustainability is deeply embedded in our strategy and corporate culture. This is what drives both our underlying performance and our opportunities for innovation and growth.

Annica Bresky: I will now give you an overview of our fourth quarter and full year 2022 performance. Today, I'm most proud that we have delivered the best full year financial performance in 22 years, despite all market disruptions and challenges that we see around us. At the same time, we have been proactive and continue to deliver on our strategic roadmap. As we're all aware, the inflationary cost pressures escalated towards the end of the year, and we could only partly mitigate them in Q4. If we look at our divisions, they give a mixed picture where biomaterials was the star performer, while we saw continued market slowdown in both containerboard and sawn wood, a trend that really started in the middle of last year.

Annica Bresky: We have also been busy with the reshaping of the business and positioning it for future growth to drive our performance over the cycle, where our target is to grow more than five percent. Some examples of progress on recent key initiatives are that this month, we have completed the De Jong acquisition and have started the integration process. We also completed the majority of divestments and dissolved the paper division and started a process to divest consumer board packaging site and forestry operations at our Beihai site in China.

Annica Bresky: After a positive outcome of the feasibility study at our Oulu site, we are investing to build a cost leading consumer board line from a paper machine conversion. We also continue our collaborations and partnerships and have recently partnered with Polestar to contribute to their project to create a climate neutral car for 2030 with our Lignode product. Also, to create further shareholder value, the board is proposing an all-time high dividend of 60 euros cents per share.

Annica Bresky: Let's now take a look at the financials. Let's start with the full year of 2022. Sales increased by 15 percent and annual sales were the highest since 2007. The positive impact from significantly higher sales prices and active mixed management was partly offset by the adverse impact from structural changes, such as the closing of two major paper sites and our exit from Russia. Operational EBIT grew by 24 percent to nearly 1.9 billion euros and as I just mentioned, the strongest since 2000, with an all-time high EBIT margin of 16.2 percent. The operational return on capital employed, excluding Forest 30.9 percent, which is well above our long term target of more than 13 percent.

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Annica Bresky: Looking now at the fourth quarter. They just increased by 5 percent. We had the highest sales prices in all divisions except in Wood Products. The top line was also supported by active mixed management and a stronger US dollar. The operational EBIT of 355 million euros, however, decreased by nearly 17 percent with an EBIT margin of 12.4 percent. There are several reasons behind this drop. To name a few, we have the exit from our Russian operations, which reduced the result by 20 million euros, while the escalated variable costs, especially in energy, chemicals and logistics had a negative impact of almost 270 million euros. Lower volumes reduced operational EBIT by 72 euros million.

Annica Bresky: Then our fixed costs increased by 85 million euros, mainly due to the scheduled annual maintenance shutdowns. We had the two major sites of Packaging Materials being shut down this quarter. The operational return on capital employed excluding forest was 13.2 percent, just above our target of more than 13 percent.

Annica Bresky: I will now show you a year-on-year comparison for the second half of last year on the following slide. As you can see in this slide, we show the third and fourth quarter combined in a year-on-year comparison for 2021. You can see that the development during the second half of last year showed a similar trend as in 2021. The maintenance costs in the second half of 2021 were 314 million euros and just slightly higher at 330 million euros in the second half last year.

Annica Bresky: The main difference is that in 2022, the third quarter was exceptionally high, while the fourth quarter was exceptionally low in comparison to 2021 when both quarters were more stable quarter on quarter. In the second half of 2022, this had the effect of a lumpiness quarter on quarter as many variable costs, such as energy and chemicals escalated, while at the same time we have four of our largest packaging material sites in annual maintenance shutdowns, including two of our largest consumer board sites. In Q4 2022, the maintenance impact was 30 million euros higher than in Q3 2022 and year on year the maintenance impact was 34 million euros higher in Q4 2022. The situation in the fourth quarter therefore impacted negatively with both higher costs and lower volumes. However, the impact on EBIT over the second half was relatively flat.

Annica Bresky: Let's now move into some of the strategic parts that we've been working on. The acquisition of De Jong Packaging Group was announced in September last year and I'm pleased that we have now completed this acquisition and can welcome them as part of Stora Enso. We have started the integration process. We have full focus on that and it is proceeding according to our plan. This acquisition will accelerate revenue growth and build market share in renewable packaging in Western European markets and key consumer and customer segments and double the sales from Packaging Solutions Division.

Annica Bresky: The De Jong Packaging Group, just to remind you, is based in Netherlands

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and is one of the largest corrugated packaging producers in the Benelux countries, with 17 sites across Benelux, Germany and the UK. De Jong sales were approximately €1 billion euros and approximately 114 million euros EBITDA in 2022. Once ramped up, our corrugated capacity will increase by approximately 1200 million square meters to more than 2000 million square meters. Sales for the Packaging Solutions division will nearly double. We expect to achieve 30 million euros of annual synergies over the business cycle built up over the coming three years and an additional annual EBITDA increase of more than 40 million euros from 2025 from these ongoing projects.

Annica Bresky: The two projects that we are currently working on are expansion projects, one in De Lier, Holland and one in UK. Furthermore, the acquired business has an excellent fit with the possible conversion of a paper machine line that we have in Langerbrugge to recycled containerboard line in Belgium, which is currently in a feasibility study phase. We have also for some time now communicated that the structurally declining paper business is not a key area for our long term growth agenda for Stora Enso. As such, we have instead focused our financial and operational resources and also capital allocation on growing in renewable packaging, sustainable building solutions and biomaterials innovation.

Annica Bresky: In spring last year, we announced that four of our five paper sites were entering a divestment process, and we have agreed divestment for a total enterprise value of 378 million euros. We have completed the Nymölla site divestment, which was sold to Sylvamo, and the Maxau site will be divested to Schwarz Group and the Hylte site to Sweden Timber. Both of those are expected to be completed during the first part of this year. The divestment process for Anjala site was discontinued and this will be retained in Stora Enso, continuing with its paper production and serving its current customers. The Langerbrugge site, as I mentioned on the previous slide, was not included in the divestment plan and the ongoing feasibility study of that site is expected to be finalised during the first half of this year.

Annica Bresky: We've also started a new divestment initiative, and let's take a closer look at that. As you are aware, we started a sales process at the end of last year to divest our Beihai site in China. This divestment would include both the industrial site and the forestry operations. Just as a reminder, Beihai has an annual capacity of mechanical pulp of 250,000 tonnes and 550,000 tonnes of consumer board. The forestry operations consists of 73,000 hectares of leased eucalyptus plantations. Stora Enso's ownership of this site is approximately 80 percent.

Annica Bresky: We have, at this point, not any committed timeline for this divestment process. The reason for this decision is that we want to focus on long-term profitable growth where economies of scale can be achieved. We see that we have better options in other opportunities within the company, so we will be able to allocate capital and resources for growth in other existing sites, such as the Oulu site in Finland, for instance. China and other

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Asian markets are important to us both on our existing and also new customers in this market. We will continue to serve them from our other global sites. We still have three packaging sites in China in the Packaging Solutions division.

Annica Bresky: I will now talk a bit more about how we further can strengthen our growth strategy and also learning and reach new markets through collaborations. It is important in order to innovate, to have a strong ecosystems with collaborations and partnering and joint development. These are becoming more and more critical for companies, not only to expand business but also to share knowledge, speed to market and influence the development of different innovations. In biomaterials innovation, we are actively developing our value chain ecosystem to build a path for green batteries. The latest one being the announcement of our partnership with Polestar, an electric performance car brand where Stora Enso will contribute to their Polestar Zero project, which is a climate neutral car for 2030 using our Lignode product.

Annica Bresky: We are also progressing with the ongoing feasibility study for the first industrial scale production of Lignode at our Sunila site in Finland, where we have our current pilot facility and we are of course constantly monitoring the development of battery technologies within wood-based materials. I've already mentioned our investment in a new consumer board line at our Oulu site and we are now moving ahead with the investment of around 1 billion euros to build the most cost-competitive folding box board and consumer board machine in Europe. The targeted end user segments are food and beverage packaging for mainly Europe and North America. This production is estimated to start in early 2025 with an expected annual sales of approximately 800 million euros.

Annica Bresky: In building solutions, we have launched our construction solution, Silver. It's simply explained as a prefabricated and custom made building kit delivered just in time to a building site. These modules help builders to enable faster construction, reduced cost, more efficient use of raw material and of course less CO two emissions than concrete and steel and other available applications on the market. You can see here on a picture an example of a pre-fabricated element being lifted and ready to go on top of the building.

Annica Bresky: Let's now take a short look at our financial targets. All long term group level targets were exceeded in the fourth quarter and for the full year of 2022, including the dividend. In the quarter, it was only Biomaterials and Forest division who outperformed their targets. Packaging Materials and Wood Products division had the biggest drops. For the full year Biomaterials, Wood Products and Forest outperformed their targets, while Packaging Solutions and Paper underperformed and Packaging Materials was with a small improvement not far from their long term target. Now, I hand over to you, Seppo, to give some more flavor on our financials.

Seppo Parvi: Thank you, Annica. Let's look at the bridge between Q4 21 and Q4 22. As you

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can see, we had higher prices during the quarter, but they were offset by increased variable costs, especially energy, logistics and chemicals. Also, maintenance costs played a role here, as Annica already mentioned earlier. Maintenance costs were 34 million higher year-on-year. That is visible in fixed costs, as well as in the volume development for the fourth quarter. We have put in place a number of actions to mitigate when it comes to the inflationary pressures. That is cost control, pricing actions, capacity management, as well as working on sourcing and logistics.

Seppo Parvi: Then, let's move to the divisions and let's look at the Packaging Materials division first. In consumerboard business, we have implemented price increases to mitigate cost inflation, but container board market demand has remained weak. Sales were up 6 percent year-on-year, reaching 1,127 million euros, mainly driven by higher port prices. Operational EBIT was down 102 million euro year-on-year at 31 million euros level. There, we could see increased short term operating costs due to annual maintenance shutdowns, as I mentioned earlier. Also, we had maintenance shutdowns at our four larger sites, which is good to keep in mind and look at the result development. On top of that, we had variable cost inflationary pressures during the quarter and this variable cost in our lower volumes had an effect on margins that were squeezed during the quarter. An operational return on capital was at 3.6 percent for the quarter. Then, the Packaging Solutions division were sales and profitability were impacted by the exit from Russian operations as was visible in the previous quarters already. We had some high inflationary pressures there as well. Sales were down 16 percent year-on-year at 279 million euros level affected by, like I mentioned, Russian units divestments and we had higher sales prices in the corrugated packaging operations despite the softer market conditions. Operational EBIT was down 13 million euros during the quarter again. It's negatively impacted by exit from Russia and higher costs relating to investments in growing the new businesses that we have today in Packaging Solutions division.

Seppo Parvi: That is something when it comes to segment reporting that we are planning to move the new businesses to Segment Other going forward in order to improve transparency in Packaging Solutions division. Operate return of capital at negative 1.4 percent. Then Biomaterials division where we had all-time high quarterly sales and profitability through record high pricing and effective good operational performance. Sales were up 32 percent reaching an all-time high for the quarter at 649 million euros, driven by strong prices and deliveries and good performance in bio-product sales and operational performance. Operational EBIT was up by 49 percent or at all-time high 249 million euros. That was a reflection of higher sales prices and positive foreign exchange impact, fully offsetting higher costs that we were seen in the business and input prices. Operational return on capital at 35 percent. That is also clearly about the long term target of 15 percent for the division.

Seppo Parvi: In Wood Products division, there was a rapid market decline in sawn wood, but continuous stability in building solutions business. Sales were down 7 percent year-on-year at 471 million euros. Construction market was impacted by market slowdown. We can see

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fewer building permits and projects that are started currently. Lower sales were mainly impacted also by lower prices in sawn wood and exit from the Russian operations earlier last year.

Seppo Parvi: Like I said, good and positive thing is a stable demand in building solutions has continued despite the challenging market conditions. Operational EBIT was down by more than 103 million year-on-year at -14 million euros and lower sales prices and increased costs for logistics, electricity and raw materials were affecting profitability and margins in the business and operating return on capital negative at 7.5 percent for the quarter. In Forest division, wood demand and prices remained on a high level and sales were up 11 percent year-on-year, driven by increased demand and higher prices, sales were at 664 million euros level.

Seppo Parvi: Both markets were tight in Finland and Sweden, but they were mitigated by flexible sourcing and our strong sourcing organisation in Baltic countries, Finland and Sweden. Operational EBIT was up 30 percent year-on-year, reaching 62 million euros supported by good operational performance, as well as positive impact from land sales in Sweden. Operating return on capital at 4.4 percent above long term target of 3.5 percent despite the higher fair value of the Nordic forest assets.

Seppo Parvi: Then Paper division. There we significantly improved profitability due to business turnaround after the restructuring that we implemented year before. Sales were up 9 percent year-on-year, reaching 424 million euros. We had higher sales prices for the products and strong performance continued throughout the year. Volumes were impacted somewhat by scheduled maintenance shutdowns during the quarter. Operational EBIT was up 59 million euros year-on-year, reaching 49 million euros. We had good high sales prices that were more than offset higher variable costs. However, cash flow after investments was negative at 0.7 percent, impacted by restructuring provision payouts and transaction costs related to the announced divestments. The restructuring relates to closures of Kvarnsveden and Veitsiluoto sites year earlier. Also you have seen our release that we will discontinue reporting of Paper as a separate division as we are ready with the divestment process.

Seppo Parvi: Then a couple words about the fair valuation of the forests. Like indicated earlier, we have now changed to market transaction-based fair valuation also in Tornator, Finland. Forest assets fair value increased from 8.1 billion euros to 8.3 billion euros, which is equivalent to 10.52 per share. Change of the valuation method from discounted cash flow to market transaction-based in Finland resulted in a 265 million euros positive impact quarter on quarter. There was also higher market transaction-based forest property prices in Sweden but it was offset by negative development in currency rates. The fair value for plantations decreased due to higher discount rates used.

Seppo Parvi: Energy self-sufficiency is moving up with Olkiluoto 3 coming closer to operational stage now. We expect to be 75% energy self-sufficient in total going forward and

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electricity self-sufficiency is increasing from 68% to 79% for 2023.

Seppo Parvi: Then related to capex for the year that has now started. Capex estimate is up from slightly below 800 million euros level to 1,200 – 1,300 million euros range. The estimate increase is driven by the consumer board investment in Oulu, Finland which Annica also referred to earlier. We have now started to move forward with the investment, that was decided and communicated last year.

Seppo Parvi: Then dividend proposal, so we now have proposal from the Board to increase dividend to all-time high level of 0.60 euros per share. This will bring our dividend back to growth track, that we have been showing since 2008 after two years of lower dividend due to Covid-19 pandemic which affected the economy globally.

Seppo Parvi: Then segment reporting changes what we have announced earlier today. As of 1 January 2023, first of all, we have discontinued reporting of Paper as a separate division. Maxau and Hylte sites that are divested and deals are signed will be part of Segment Other until completion of the divestments. The divestments are expected to be completed during the first half of this year. And Langerbrugge and Anjala sites that we will retain in Stora Enso are now reported under Packaging Materials division. Then the new businesses that we have earlier reported as part of Packaging Solutions division will be moved Segment Other. This we are doing in order to improve transparency of Packaging Solutions division going forward as also De Jong is now part of Packaging Solutions division. And restated figures will be issued prior to first quarter reporting. And now back to you Annica and annual guidance.

Annica Bresky: Thanks, sir. Let's take a look at the year ahead. If we look at market conditions and inflationary pressures, they are expected to be more challenging in 2023 than we experienced in 2022. Therefore, the variable cost inflation is also expected to remain high. We expect the operational EBIT for the full year of 2023 to be lower than the record high full year of 2022. That ended up in 1,891 billion euros. We have been and are continually taking actions to manage volatility, and as Seppo mentioned, we work diligently to protect our margins, working with pricing, managing our product mix, inventories as well, of course, as actions in sourcing and logistics.

Annica Bresky: We have also reinforced our cost control across the company and will continue to take active actions also going forward until we recover our profitability. As we've mentioned before, we benefit from our high self-sufficiency relative to other companies. In wood, we are 30 percent self-sufficient and in energy we are 72 percent self-sufficient, well hedged for the coming years. Since I joined as the CEO of Stora Enso now some three years ago, we have taken extensive steps to also reshape the business that we have. The company is now financially, operationally and strategically in much better shape to handle market fluctuations. At the same time, we have the muscles to invest for growth in renewable packaging, in sustainable building solutions, and in biomaterials innovations.

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Annica Bresky: Moving over now to the outlook. If I go into a little more details around each division. For Q1, we see that in Packaging Materials, the overall demand for consumer board is expected to remain stable while the overall containerboard demand is expected to remain weak. This has to do with the consumer consumption. Packaging Solutions demand for corrugated packaging is expected to weaken in Europe. While pulp demand is expected to be more or less on par with the previous year. In wood products, the demand for sawn wood is expected to be significantly weaker, especially in Europe, with the overseas market remaining stable.

Annica Bresky: Lastly, for the Forest division, the pulpwood demand is expected to remain stable while demand for sawn logs is expected to decrease in the first quarter. We're now coming close to the end of the presentation. However, I will first just take a chance to summarise and then Seppo and I look forward to taking your questions. Our performance in 2022 demonstrates, of course, the strength of our leading market positions and our ability to be proactive and agile. Quarterly, all-time high results we have experienced in Biomaterials with continued slowdown in containerboard and sawn wood. We are investing in organic and acquisitive growth and entering partnerships all to drive outperformance over the cycle. The board proposes an all-time high dividend of 0.6 euros per share.

Annica Bresky: All in all, I'm very happy that we are delivering the best full year financial performance in 2022, despite that, the Q4 market challenges were more difficult comparable to previous quarters. With that, I would like to hand over to your question and take your questions. Thank you very much.

Annica Bresky: If you wish to ask a question, please dial star at five on your telephone keypad. To enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Lars Kjellberg from Credit Suisse. Please go ahead.

Lars Kjellberg: Thank you. I'll just start with inflationary pressures. It feels as if the marginal costs for your competitors is starting to come down. You're talking about more challenging pressures in 23 over 22. If you can sort of elaborate a bit, what that is happening. Is that due to hedges rolling over or is this really focused on the wood cost that we've seen rising sharply in the Nordics in particular? Well, I guess in Europe and also the pricing component, considering how we are in softer markets, where do you see opportunities to move prices?

Lars Kjellberg: Then if I just move very quick to De Jong packaging, appreciate the strategic move, the growth ambition in that business, though. I just wanted to ask, how do we get to a phenomenal growth rate around 20 percent to enable you to utilise that incremental volume in the market and maybe growth at 3 percent? How quickly do you believe you're going to be to fill that machine or those incremental capacities? The final point, I guess, on

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Beihai, of course, in the day, this is a high profile project, China as a growth market. I appreciate you need potential capital release to invest in other projects, but what is really going on behind the ones you are taking out of it and pursue that growth that is within that country?

Seppo Parvi: Okay. Thanks, Lars. If I start with the inflation drivers before I hand over to Annica to cover your other questions. We see pressures, especially on energy side, which also leads to pressures and increases on chemicals. I think those are the two biggest drivers going forward. Obviously energy price and energy market is very volatile as you know and that is having an effect even though that we have pretty high self-sufficiency rate, still, we are exposed and then wood market is a third element when it comes to inflation pressures where we see that the market saw log market is more calm than pulpwood market where we see pressures from energy usage having effect on the market. Then, Annica shall, you take the pricing question.

Annica Bresky: Yes. Well, we don't comment on pricing in general, but where there is good and stable demand, we are able to have discussions with our customers to compensate for the inflationary pressures that we have and we do that. If we look, of course that the market is weaker, then it's more difficult to push through price increases and then, we need to work with products, with balancing inventories and making sure that we run our capacities according to market demand. This is the general comment and if we look at containerboard, for instance, there, we could see that the market was significantly weaker in quarter four. We also expect a weaker quarter one.

Annica Bresky: On containerboard side, there are a lot of inventories out on the market. There, the possibility to do adjustments on pricing or is harder. Other areas like consumer board is more stable. There, we have the constant discussions and we renegotiate our contracts as they expire. With our customers, generally, we have most contract discussions in Q3, Q4, but of course we have some also for Q1 and going forward.

Annica Bresky: In Wood Products, if we look at the market, their demand, as I mentioned, was very weak with significant price decreases in Q4. In European market, it was for sawn wood 20 percent and overseas almost 30 percent. Of course, you understand that it is a quite challenging environment for wood products and that's why we did not deliver a satisfactory result for that segment. On paper, there have been quite good pricing situation for quarter four. We have been able to increase pricing. There is a balance in the market, but going forward, that situation also becomes more difficult if the macroeconomics impact and demand starts decreasing.

Annica Bresky: Now, lastly, looking at pulp prices, if I may comment on that, we see that mostly, as we all know, pulp is guided by how the Chinese market operates. We expect, of course, the opening of China as a country to contribute to increased consumption and then

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also continued good demand on pulp. We have seen some decreases of pulp prices during quarter four. If I look at the demand going forward on pulp, we see continued strong demand for tissue and fluff where we are main producers in Europe and then a stable demand for the other grades.

Annica Bresky: Also, of course, the US dollar has a big impact on the results. Then, if I can say a few words about De Jong. As you know, they are a very successful company in the region that they are operating. It's also a very good synergetic asset to have in combination with our site in Ostrołęka already. We can also make choices about how we integrate our own containerboard production together with the de Jong new corrugated capacity. Then of course, I think it's a good market situation to do investments and build the machines now when the cycle is a little bit slower and then we can start up once the cycle turns.

Annica Bresky: I expect the segments where we operate with De Jong, which is an agricultural sector, for instance, serving all the majority of the Netherlands agricultural sector, that's picking up seasonally. It's stronger in springtime and summertime compared to four to four, for instance. I think this is the acquisition that is very synergetic to our existing assets. As I mentioned, we have the opportunity also with the forward looking like conversion to do more.

Seppo Parvi: It's a 2 to 3 years process before the investments are ramped up.

Annica Bresky: Yes, of course.

Seppo Parvi: For market to grow further.

Annica Bresky: Yes. Then, if we look at Beihai, the investment as such has delivered on the capacities, on the kind of product mix on the machine. Yes, it is a growing market in China, but we also believe in economies of scale. For the site, we would see that in order to be able to build a much stronger position in China and reach economies of scale, that we would need to invest more there. When we have done our analysis, we have come to the conclusion that we have better options elsewhere. This allows us to focus on better optionality that we have inside of the rest of the company. That's why we have taken the decision to exit Beihai and as I mentioned, we will continue to serve our customers from our other very cost competitive and global sites that we have within the company and capture the growth in that sense.

Seppo Parvi: You have to make strategic choices. You have to remember that we are investing 1 billion euros in Oulu and we have the feasibility study going on in Langerbrugge,

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and we need to also take care of the balance sheet and where we put the capital and we can release capital for that growth.

Lars Kjellberg: Just the front on that one is the pain level that you need to exceed, to essentially go ahead with the Beihai mill. I'm thinking about Anjala, you keep in that mill because I assume that there's no bidders for that at a reasonable price. Do we have a similar situation?

Annica Bresky: I didn't catch your question.

Lars Kjellberg: I'm saying if there is a minimum price level essentially to Beihai for you to be willing to let go of the asset similar to Anjala, which you will decide to keep because of lack of demand at a reasonable price, I would assume.

Annica Bresky: Yes. Now, I heard your question. Sorry. I believe there is quite a big difference between Anjala and Beihai in terms of how new the assets are and what prospects there are of good buyers. Therefore, they are not really comparable. Of course, we will make sure that we get the best value out of that divestment process with Beihai.

Lars Kjellberg: Very good. Thank you.

Voice Prompt: The next question comes from Joffrey Bellicha Meller from Bofa Securities. Please go ahead.

Joffrey Bellicha Meller: Good morning, everyone, and thank you for taking my question. I have three I'd actually like to ask, please. The first one is looking at the latest performance of Wood Products. What are the measures you are taking to bring EBIT back to a positive level? Also, have you implemented any production curtailments in Q1 at this stage? The second one is on Beihai. Very clear message in your previous answer, the only question I have left over on this one is, what would be the estimated EBIT generation delta between the future Oulu sites and the current Beihai site. If you can guide us on that, please, that would be super helpful.

Joffrey Bellicha Meller: Then, the third question is on Lignode. Could you update us a bit further on the feasibility study and the current customer interest you have there? Obviously, we saw the Polestar Partnership. Did you receive any firm orders from this partnership yet for the Sunila pilot plant, for example? Thank you very much.

Annica Bresky: Thank you for your questions. On Wood Products, we could see the decline in

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the market starting already during Q3. We have already been taking a lot of actions on that. As I said, inventory management and taking down costs. We have had the furlough negotiations with the unions to also close down when the capacity is not needed to reduce cost levels. We've done this in several countries where we operate and we continue, of course, to try to adapt to the change reality of the inflationary pressures.

Annica Bresky: I believe that Q4 and Q1 are probably some of the bottom levels that we see in construction industry and so on. Normally, many companies choose to take down their inventories during the end of the year. That was something that we saw happened during Q4 in Wood Products, but all the actions that we mentioned on in terms of cost reductions and so on are constantly taken.

Seppo Parvi: You have to remember that Q1 is always lowest when it comes to construction business and wood products. So that is obviously having an effect as well.

Annica Bresky: But as we also mentioned, we could see that the two different businesses building solutions, longer projects where they somewhat have longer horizons. That pipeline stayed relatively stable comparably. Then, the business that decreased very quickly was the traditional sawn wood business. We have to remember that we had exceptional years, the latest years in this area with some tremendous results. Hence, a normalisation was in the cards sooner or later.

Seppo Parvi: This also, I think, shows the strength of the building solutions where we are investing and see the growth opportunities. It's less volatile business, as we have said all the time. It's still a relatively small share of the total, but that's stabilising factor going forward.

Annica Bresky: Yes, and that is why our strategy is to grow that part of the business with for instance, these prefabricated modules in the Sylva concept. On the Beihai question, we don't comment between individual sites. Sorry, we cannot help you with that. If we look at Lignode, then we have several ongoing partnerships. Our focus and Polestar and Northvolt, as we've mentioned before, are the ones that we can make public. What we focus now is in parallel that we are doing our feasibility study, using the knowledge that we get from these customer trials that we are doing because we're using the pilot material to deliver customer product to these and test them and make sure that we get the qualification right. This information goes into the feasibility study so we can make the design of the factory according to tailored needs of customers.

Annica Bresky: The focus is now up until we actually build the site or make the decision for the first site in Lignode that we build up the customer offtake agreements. We know that we have enough volumes to ramp up the new production site once decision is taken.

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Joffrey Bellicha Meller: Thank you very much for the answers. Then just a quick follow up on Lignode. I was wondering if Polestar would eventually participate in a joint venture with you as this was your initial plan for Lignode? Thanks.

Annica Bresky: We have not discussed the joint venture at this point with them. Our main target, as I say right now, is to make sure that we fill up the pipeline of volumes so that if and when we start up the new factory, we will be ready to start producing. This is what we put our main focus right now. We have parked the JV question for the time being.

Joffrey Bellicha Meller: Great. Thank you very much.

Voice Prompt: The next question comes from Cole Hathorn from Jefferies. Please go ahead.

Cole Hathorn: My question. I'd just like some clarity on the Packaging Materials division. Could you give us an estimate of how much the maintenance impact was in that division either quarter on quarter or the benefit that we should see into Q1? I'm just trying to get the run rate of what the underlying profitability of the Packaging Materials division should be. I know you called out that there was more maintenance in Q4 than you originally somewhat guided to. Just wondering how big that impact is.

Annica Bresky: I can start with the general comments and then hand over to Seppo. The planned maintenance was not different than we originally had planned. The sites that were down were Skoghall, Imatra, Varkaus, Fors and Maxau . Now, the four first sites are Packaging Material sites, Imatra and Skoghall for those of you who know are the two big consumer board sites. Of course, having annual planned shutdowns with them in the same quarter had a big impact for the quarter.

Annica Bresky: Actually, it's quite good to have your shutdowns in quarter four, especially when energy prices are high. The effect for the division as a whole is big when these two sites have shutdowns. If you remember also, we announced capacity investment in Skoghall. The shutdown in Skoghall was longer than usual. What happened was that the start up after these annual shutdowns was more cumbersome than we have thought. We had some issues in Maxau, and we had also started up issues in Skoghall after the rebuild, which made the performance worse from a cost perspective and also from volume perspective. That's why the initial 125 million euros of cost for the quarter was in fact 180 million euros.

Annica Bresky: As I showed you in the slide, if you look at Q3 and Q4 combined for last year and 2021, the total maintenance cost is the same. It's an effect between quarters, and

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usually we have Skoghall and Imatra in two different quarters. This year, it happened to be in the same.

Seppo Parvi: On the effect, quarter on quarter, it's in the region of 40 million euros more maintenance costs in Q4 and year and year, roughly 30 million euros. Hence, that gives you some flavor. Then, when it comes to Q1 this year, so actually, no board mills are down for maintenance. Only Anjala mill, which is now part of the Packaging Materials division is having maintenance stop, but that's not really affecting the board business.

Annica Bresky: And then Veracel mill in Biomaterial.

Seppo Parvi: In Packaging Materials, no sort of original packaging materials are down.

Cole Hathorn: Then, just following up on this, you've called out that you've been renegotiating some of your liquid packaging board contracts, which should help with the kind of price cost spread. Anything that you can give on what this means for incremental profitability on that liquid packaging board is this you're going to need further step ups in pricing to kind of reset the profitability levels or how should we think about the margins? Then linked to the liquid packaging board, the Beihai mill.

Cole Hathorn: Over the years, qualified that mill on liquid packaging. I imagine that when you dispose that mill will still be able to sell liquid packaging as per normal. There's no kind of contract tied to Stora Enso. I mean, it would go with the mill when you dispose it, so whoever acquires it would get that benefit of having a qualified liquid packaging board mill.

Annica Bresky: Well, if I answer the first question on pricing, we constantly, of course, monitor how we work with pricing. As I said, liquid and aseptic packaging is a stable part of a consumer board where we have constant and ongoing discussions with customers and how we set up the contracts. I can't give you. I know you want to know how we're doing it, but I can't go into more details and answer that. As you can probably understand.

Annica Bresky: Regarding Beihai, yes, the site is qualified for producing liquid packaging. Of course, it's for a customer who they choose to collaborate with is a choice not only based on the product and quality, it's also based on innovation capabilities and other value added services. Ultimately, it's a choice of the customers who they want to collaborate with. Yes, the site is qualified for liquid.

Cole Hathorn: Thank you.

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Voice Prompt: The next question comes from Robin Santavirta from Carnegie. Please go ahead.

Robin Santavirta: Yes. Thank you very much. Hello, everybody. My first question is related to China. You alluded to the opening of that country after several years of quite stringent Covid-19 measures there. What are you seeing at the moment in China? What do you hear from your customers about the outlook for this year in China?

Annica Bresky: Well, I think the expectation is at least that some of the consumption that has been stifled during the last three years of Covid-19 closures would come back and that the market would grow. Then, of course, long term, the market of China is probably not going to grow as fast as historically. That is also have to do with other factors such as demographics and so on.

Annica Bresky: Specifically, then if we look at our products and the packaging has a good prospect in China with a growing population and urbanisation. Then pulp used for different end users is still going to be driven by the Chinese growth. We don't have a lot of business in wood products. That's not one of the key-end use markets in Asia. There we focus more in Japan, Australia, Southeast Asia, where we have more prestige type of wood and construction for us. Then, if we look at the other grades that we have in paper and so on. Asia is not or China is not a big market for us where we focus. That is what we see.

Robin Santavirta: I understand. Thank you.

Annica Bresky: We open up more on different grades, for instance, in packaging in China. Short term or long term?

Robin Santavirta: Yes. Perhaps, what I aimed at is a feel for the general demand there when it comes to perhaps pulp and paper boards, because those are the market that you should probably know the best. Just thinking whether you can see a pick up in sort of activity levels there or more positive customers or essentially not.

Annica Bresky: Yes. I can just share then in the packaging side and one of the grades of course, which is that we are delivering. Liquid as I said is a stable grade. That is a little bit different. If you look at folding box board, for instance, in Q4 the demand for folding box board was down 5 percent and we expect the demand in Q1 to pick up and be around 3 to 4 percent. This is one testimony that the packaging is picking up in China. If we look at softwood and hardwood pulp in demand in Q4, we had about 3 percent increase in demand

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for softwood and hardwood, and we expect a demand between the same levels also for Q1 in pulp side.

Robin Santavirta: All right. Thank you. I understand. Thank you for that detail. Now, I know you don't like the comment about pricing, but I guess the up or down is something that you can share with us to get some kind of view where we're going in this sort of volatile market. Consumer board prices up or down going into 2023?

Annica Bresky: Well, we don't comment on pricing.

Seppo Parvi: Not more than we already said that we have been successfully implementing price increases when it comes to renewing the contracts that we have renewed now around the new year as typically done.

Robin Santavirta: I understand. That is fair. The final question I have, you said a stronger position going into perhaps more challenging times. What do you mean with that? Is that somewhat related to the divestment of the paper business or is it the cost base? Could you just sort of explain so we understand how do you look at this sort of potential downturn ahead?

Annica Bresky: Yes. First of all, I think three years ago and so on, we had a much higher net debt position. Now, even though we are doing these investments in growth, we have a very strong balance sheet and I think a balance sheet and strong liquidity is some of the key positions to have. If you enter a market that's more difficult. Hence, we will continue to work with reducing our debt position and have a strong liquidity. That is one parameter.

Annica Bresky: Then of course, we did restructures and closed down the most unprofitable sites like Kvarnsveden and Veitsiluoto. They were also the sites that consumed a lot of electricity and energy. They would have been in a quite difficult position and would of course, so they would have been in a much more difficult position if we would have still had them. Of course, divesting the paper assets to other owners, we make sure that we find good homes for them with other players out there that will continue to run the business.

Annica Bresky: We also take away risk of quality and the segment that has historically been very volatile, having quite difficult and poor performance in difficult times. If we look at strengthening the position in our growth segments and sites like Skoghall and Imatra, we have made continuous investments in our in Oulu, now in our renewable packaging. We make sure that the profitability and cost position of the sites that we have is leading cost positions and of course in downturns and so on, you benefit from that.

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Annica Bresky: In Wood Products we have also made sure to cut down costs where necessary, but also invest on sites with CLT factories that can kind of handle the volatility in Wood Products. Last but not least, cost position. If you remember, we did a cost or a profit protection program of 410 million euros that we started 2019 with, and we followed through on that the coming year and implemented on that. As such, our general cost structure is much more competitive and in shape. This is of course something that we always adapt when circumstances change. We need to make more decisions and look at what more possibilities we have.

Robin Santavirta: All right. Thank you very much.

Voice Prompt: The next question comes from Linus Larsson from SEB. Please go ahead.

Linus Larsson: Hello. Thank you very much. First question is on variable costs. I think you said that they remain high. Should we understand that as Q1 variable costs are going up compared to the fourth quarter? If you're in that context, also could break down for us the variable, the various variable costs. How wood is progressing, how energy is progressing? Chemicals costs are progressing, logistics, etc. Q1 on Q4, please.

Seppo Parvi: Yes. Obviously, energy cost is one of the key drivers here. Like I said earlier, and it give us about a full year inflation. In short term, obviously, I think it's more around energy and chemicals. On the wood side, it's a mixed picture. Saw log prices are more stabilising, but on the flip side, the challenges are there because of the steady demand for pulpwood, but also increase in need and use of the energy wood as such. I think for the full year outlook, the key thing is that how energy costs develop, and as you have seen, it's very volatile out there and that's why it's very difficult to keep very strict or sort of clear comment on the full year. I think it's a very uncertain market in general.

Linus Larson: Are you seeing higher variable costs as a whole for the first compared to the fourth quarter?

Seppo Parvi: Yes.

Annica Bresky: Yes. For the first quarter.

Seppo Parvi: Absolutely.

Annica Bresky: However, visibility is more challenging. As we all know, also as market cools

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down, also, of course, this will have an impact on other variable costs, such as logistics or chemical costs and so on. But so far, we have not seen that coming through.

Linus Larsson: Right. That's very helpful. Thank you. With chemicals, that's been a cost driver now for a few quarters in the industry. Is that peaking out? Is it starting to come down or where are we in the chemicals cost cycle?

Seppo Parvi: It depends a bit on what chemical it is, but in general, I would say that is very much linked also to energy prices. Also, in many cases they use natural gas as one of the input materials for the recipes, and that is driving the chemical cost development as such. In some cases it is, but in some cases going up. It is a bit mixed picture out there.

Linus Larson: And logistics?

Annica Bresky: Logistics are getting better now. The constraints are easing compared to how they were earlier last year or have been actually the last couple of years. That looks somewhat easier, but obviously, fuel costs are affected by energy costs, How oil develops or diesel prices, they actually going up currently as you see on the market?

Linus Larson: That's very helpful. Thanks for clarifying. Then just jumping back to the discussion on Beihai. Beihai been a growth generator, not least for liquid packaging board, which is part of the product mix on that paperboard machine. How do you see your liquid packaging board market strategy going forward? Are you able to transfer some volumes within your system to mills that you intend to keep or should we expect very limited growth for you in liquid packaging board on your existing or your remaining platform in the couple of years ahead?

Annica Bresky: Very good question. As you know, Oulu second step now is focusing on consumer board grades, which are primarily within food and beverage and liquid. This, of course, is an investment that we are doing in combination with the other consumer board sites. We will have the possibility to do products and transfer mixes between the sites of Imatra, Skoghall, Fors and Oulu and optimise the system. And all of these sites are leading cost positioned sites with good availability of fiber and very good energy solutions, ports and so on. We see that we have the opportunity with the Oulu investment to optimise the consumer board sector and continue to drive growth.

Linus Larson: Great. Many thanks for that. Then, just finally, on the integration of De Jong. What kind of contribution should we expect in the first quarter? If you could say something about De Jong's performance on the full year 2022 or even better, the fourth quarter and also how that will come into your P&L? What's the split between divisions?

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Seppo Parvi: Yes, thanks. You all have to remember we just took it over early January, so we are in the early stages of integration and that is going well, as planned, and integration streams are there in place, and in that sense, in full speed, going ahead there. I think we are running out of time now. We are actually a bit over time compared to schedule. Thank you for the good questions. I know there might be more questions that are unanswered still, but don't hesitate to contact our IR and and Anna-Lena there get some more help and answers. Thank you all.

Annica Bresky: Thank you.