



NANYANG BUSINESS SCHOOL

Financial results Q1 2023

Due to the worsened market outlook actions are taken to protect margins and manage costs

President and CEO Annica Bresky
CFO Seppo Parvi
25 April 2023

THE RENEWABLE MATERIALS COMPANY

Photo: Steeltech Industries PTE Ltd

Our purpose



Do good for
people and the
planet



Replace non-
renewable materials
with **renewable**
products



Delivering on our strategic roadmap during challenging market conditions



Key highlights

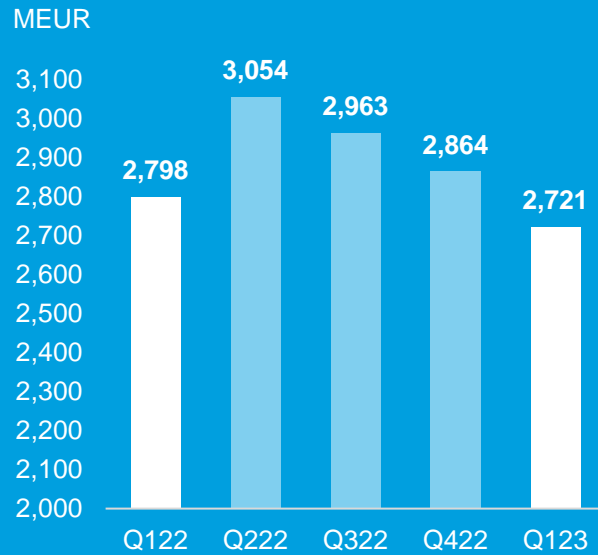
- **Optimisation** of the business portfolio by the discontinuation of the Paper division to focus on the key growth areas
- **Completion** of the strategic acquisition of De Jong to advance growth in renewable packaging and entering new markets
- **Allocation** of capital to the Oulu site to grow in high-end renewable consumer board, creating the lowest cash cost megasite in Europe
- **Continuation** of the divestment process of the Beihai site proceeding to plan



Market-driven slowdown and higher cost levels continued to impact sales and profit

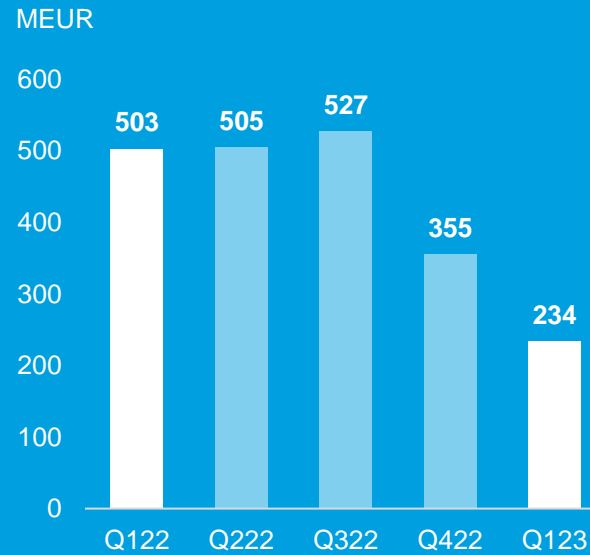


Sales



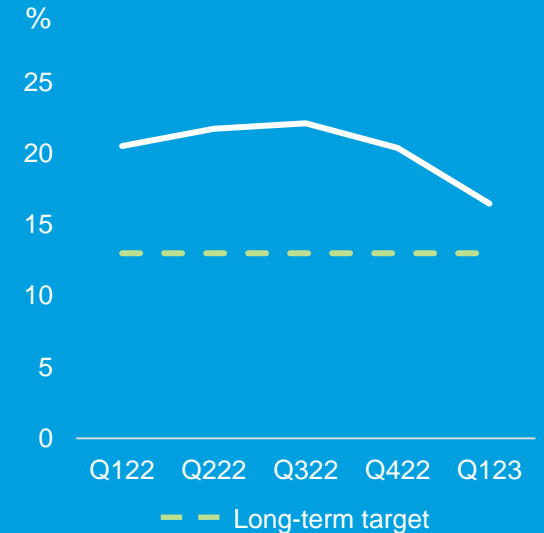
Sales decreased by 3% YoY

Operational EBIT



OpEBIT decreased by 53% YoY

LTM Operational ROCE excl. Forest

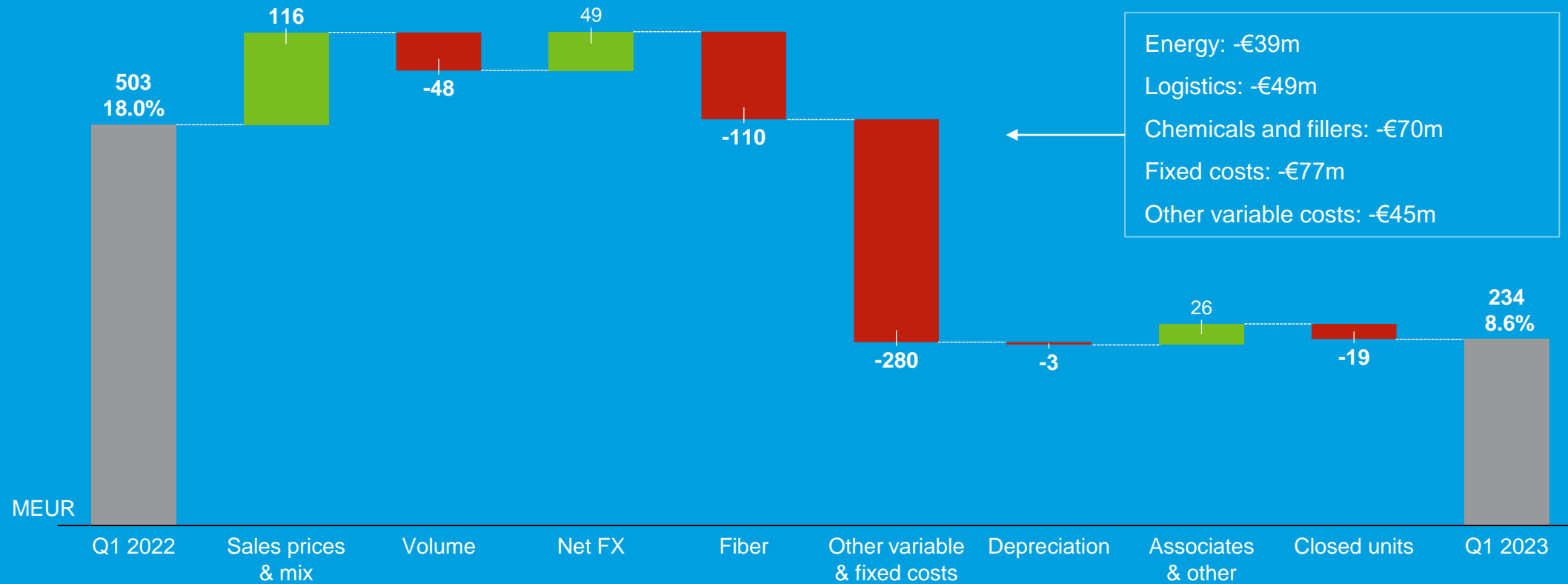


LTM OpROCE excl. Forest 16.5%, above long-term target of >13%

Higher prices did not mitigate the continued increase in variable costs



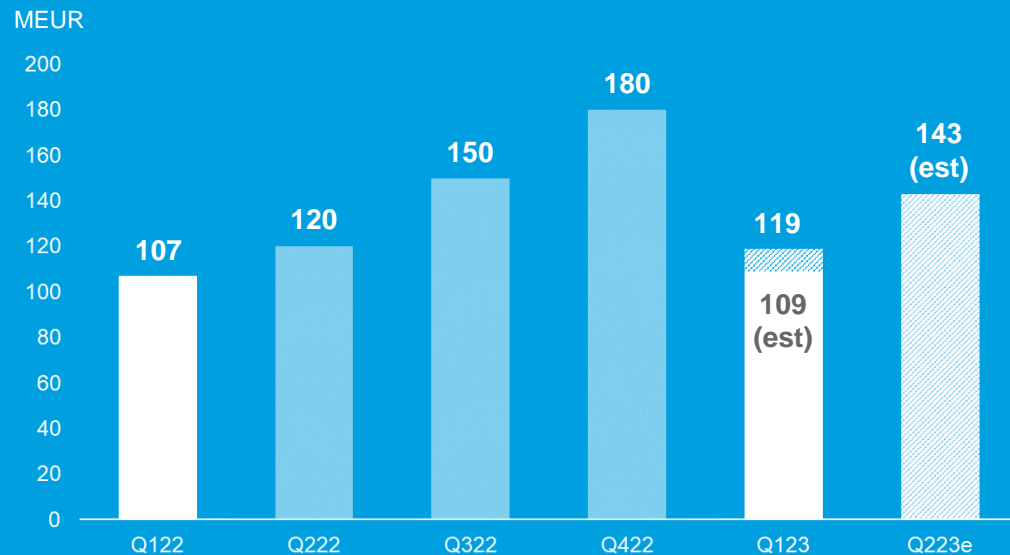
Quarterly Operational EBIT variance YoY



Maintenance shutdowns impacting quarterly results



Group total maintenance impact on operational EBIT



Major maintenance shutdowns in 2023

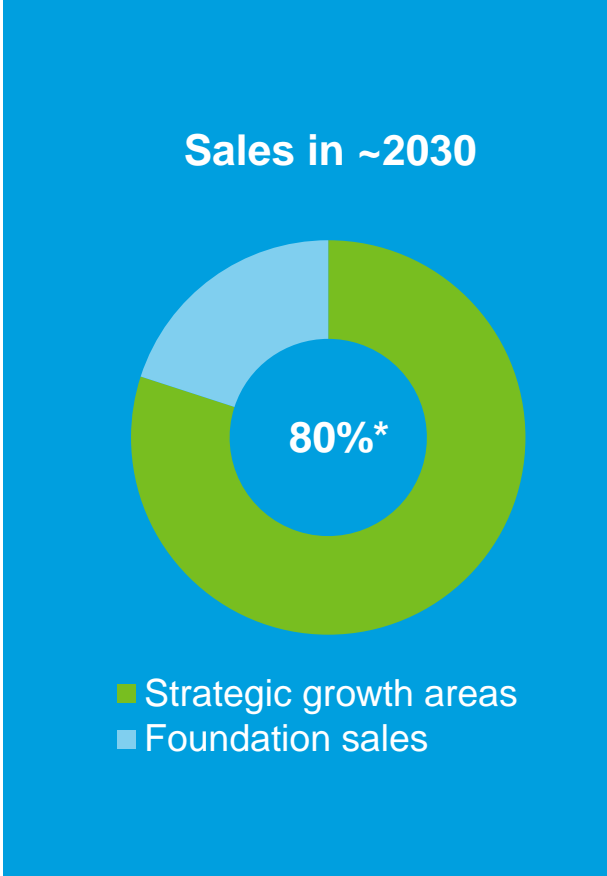
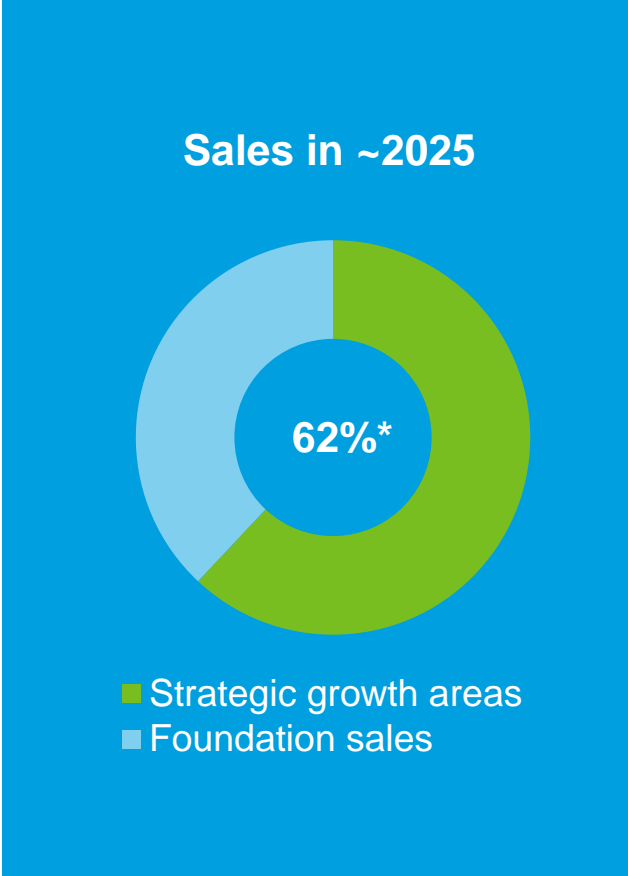
Packaging Materials

- Q1: -
- Q2: Beihai, Ostroleka, Langerbrugge
- Q3: Anjala, Heinola, Ostroleka, Oulu, Varkaus, Ingerois
- Q4: Fors, Imatra, De Hoop, Skoghall

Biomaterials

- Q1: Veracel
- Q2: Montes Del Plata, Skutskär
- Q3: Sunila
- Q4: Enocell

Strategic growth areas represented 53% of sales Q1/2023



*Strategic growth areas include Packaging Materials, Packaging Solutions, Biomaterials Innovations (part of Biomaterials), Building Solutions (part of Wood Products) and New business (part of Segment Other)
**Foundation businesses include Pulp in Biomaterials, Traditional Wood Products in Wood Products, Forest and Paper

Delivering on strategic initiatives and completing tactical acquisition



Strategic investments and integration

- Completed the De Jong acquisition on 6 January - ongoing integration. The corrugated business is part the Packaging Solutions division and De Hoop containerboard business is part of the Packaging Materials division

Allocation of capital for growth in renewable packaging

- Growth investment at the Oulu site
- Initiated divestment process of the Beihai site

Discontinued the paper division on 1 January 2023

- Finalised divestments of the Nymölla, Maxau and Hylte paper sites
- Discontinued divestment process of the Anjala paper site - the site will be retained in the Group and one of two paper machines planned to be closed down



Partnering to develop and advance innovations



New co-operations to enhance development of lignin-based products and bio-based polyesters

- Bio-based plywood, collaboration with Polish plywood manufacturer Paged – using high-purity kraft lignin
- Stora Enso and Finnish company Valmet are collaborating on next-generation lignin product and process development
- Joint Development Agreement with Korean company Kolon to develop and industrialise bio-based polyesters as an alternative to fossil-based plastics



Building a sustainable renewable future with wood



The timber structures of this spectacular building store ~5,900 tonnes of CO₂, equivalent to driving 1,260 times around the world by car

Photo: Pasi Salminen/Stora Enso

Stora Enso HQ - Building owner: Finnish pension insurance company Varma

10 25 April 2023

Stora Enso Q1 2023 results



The timber from Stora Enso alone removed ~5,800 tonnes of CO₂ from the atmosphere while the trees were growing which they will store safely in the structure for the duration of the building's lifecycle

Photo: Steeltech Industries PTE Ltd

University Building in Nanyang, Singapore

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Financials

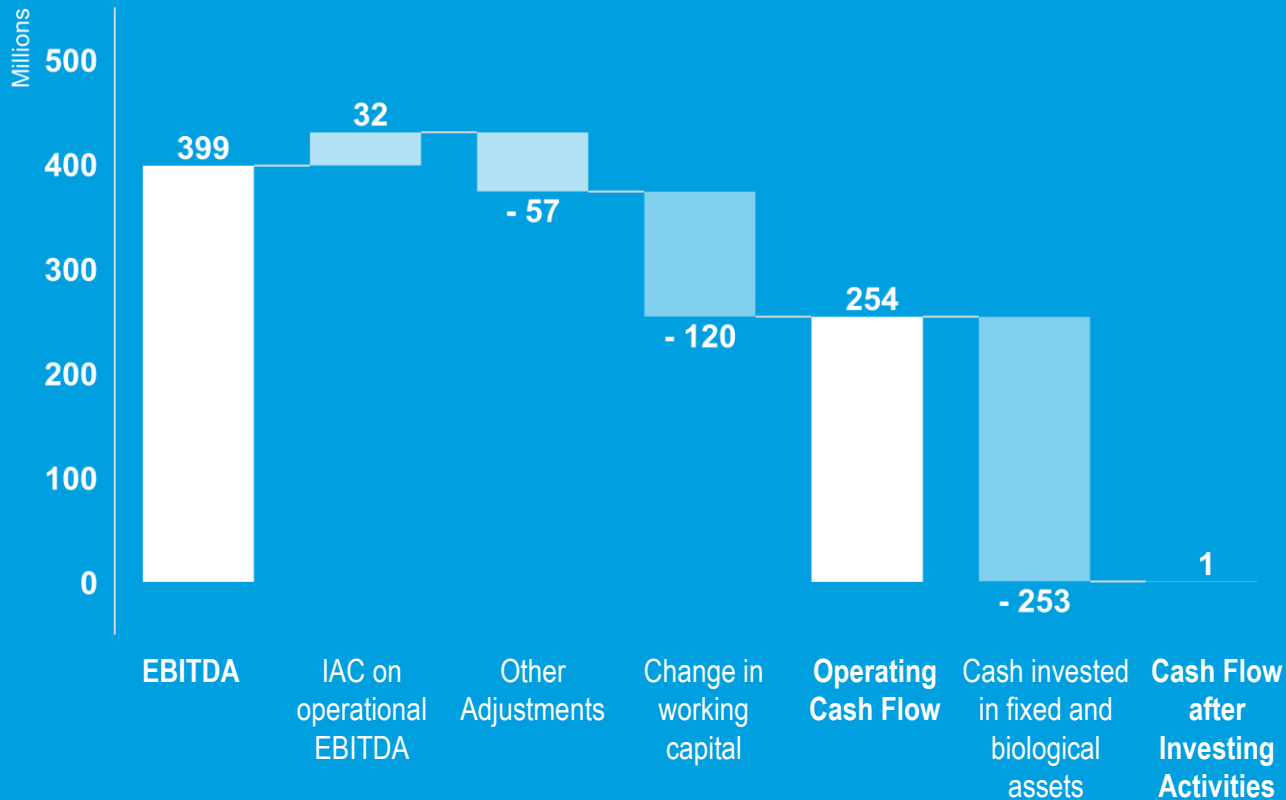
Long-term Group level financial targets

Growth impacted by lower deliveries and structural changes



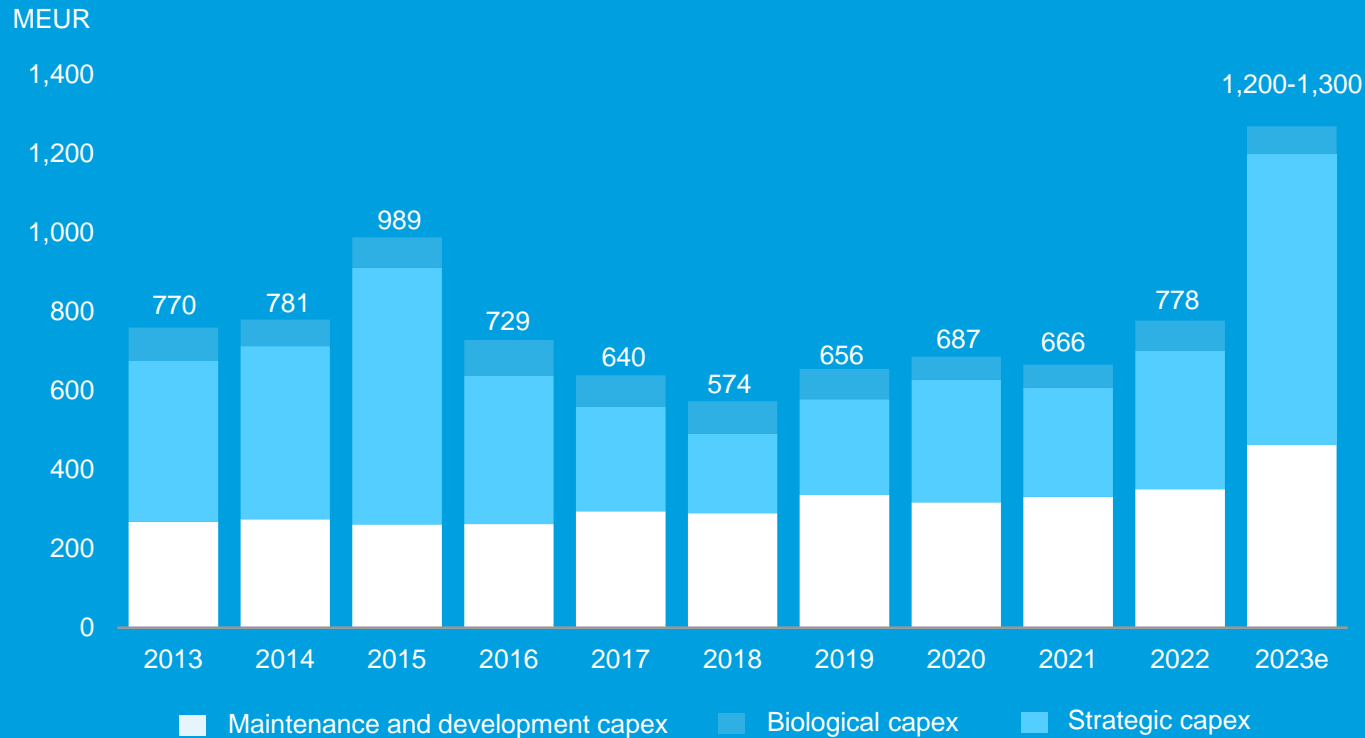
Group long-term financial targets		Q1 22	Q1 23		2022	
Dividend (annual)	To distribute 50% of EPS excluding fair valuation over the cycle	N/A	N/A		0.60	●
Growth YoY	> 5%	23%	-3%	●	17%	●
Net debt to operational EBITDA	< 2.0x	1.1	1.3	●	0.7	●
Net debt to equity	< 60%	24%	25%	●	15%	●
LTM Operational ROCE excl. Forest	> 13%	20.5%	16.5%	●	20.4%	●
Divisional long-term financial targets		Q1 22	Q1 23		2022	
Packaging Materials	LTM Operational ROOC > 20%	18.4%	13.5%	●	18.6%	●
Packaging Solutions	LTM Operational ROOC > 15%	18.6%	5.2%	●	7.9%	●
Biomaterials	LTM Operational ROOC > 15%	22.2%	24.0%	●	25.3%	●
Wood Products	LTM Operational ROOC > 20%	65.8%	24.9%	●	43.2%	●
Forest	LTM Operational ROCE > 3.5%	3.7%	3.8%	●	3.7%	●

Cash flow impacted by working capital development and high capex - focus on improving cash flow



- Cash flow after investing activities was EUR 1 (202) million
- Working capital increased by EUR 120 million, mainly due to increased inventories, and was offset by lower trade receivables and increased payables
- Cash spent on capex was EUR 253 million, of which the majority related to strategic investments
- Focus on turning around the working capital trend and restricted capital allocation to improve cash flow
- We will postpone major strategic initiatives until further notice including a decision on a conversion at the Langerbrugge site. We are also assessing the investment in Lignode

Higher capex estimate mainly due to growth investments in consumer board



Capex includes the capitalised leasing contracts according to IFRS 16 Leases standard from 2019 onwards

Average capex split for 2013–2023

Depending on investment decisions

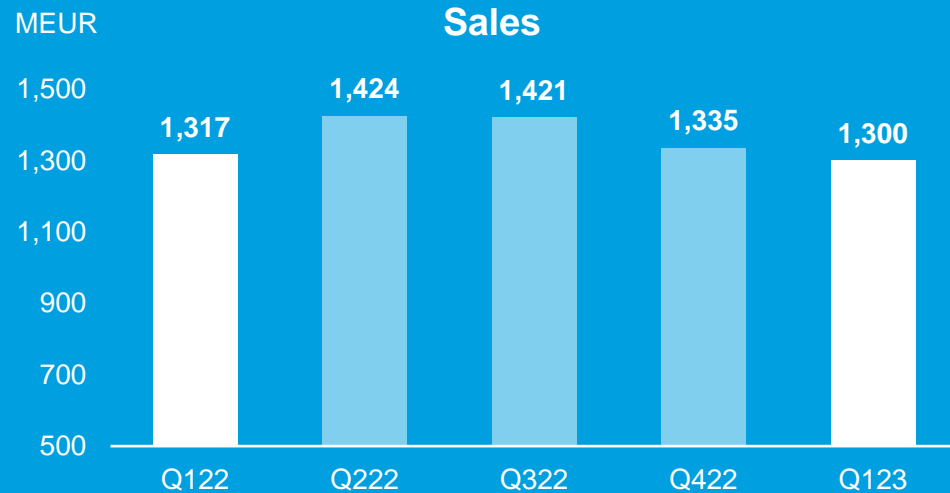




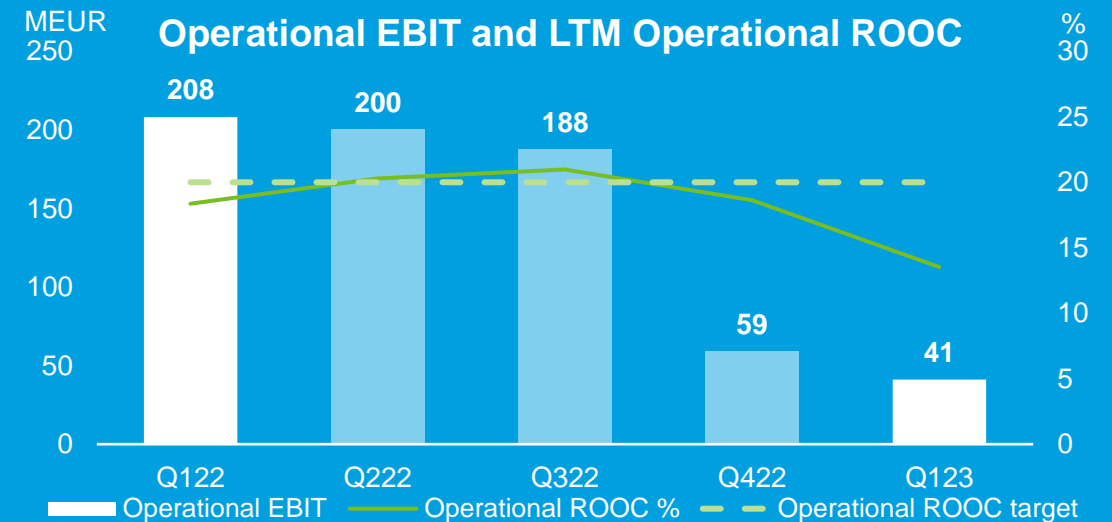
Divisional overview

Packaging Materials

High operating costs continued in the quarter, with weakening market demand outside Liquid Packaging Board



- Sales -1% YoY
- Price and volume decline was only partly offset by the contribution from the De Hoop recycled containerboard site and higher Consumer Board and Paper prices
- Weakening demand of cartonboard towards the end of the quarter

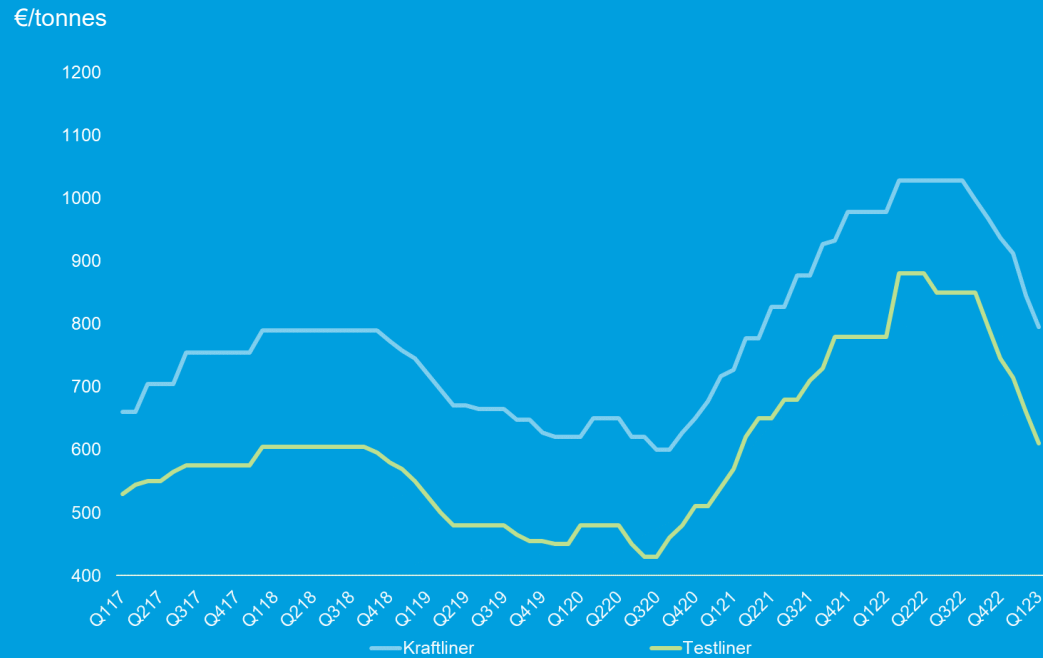


- OpEBIT -€167m YoY
- Increased operating costs, lower containerboard volumes and prices and impact from the logistics strikes in Finland were only partly offset by higher consumer board and paper prices
- LTM OpROOC at 13.5%, long-term target >20%

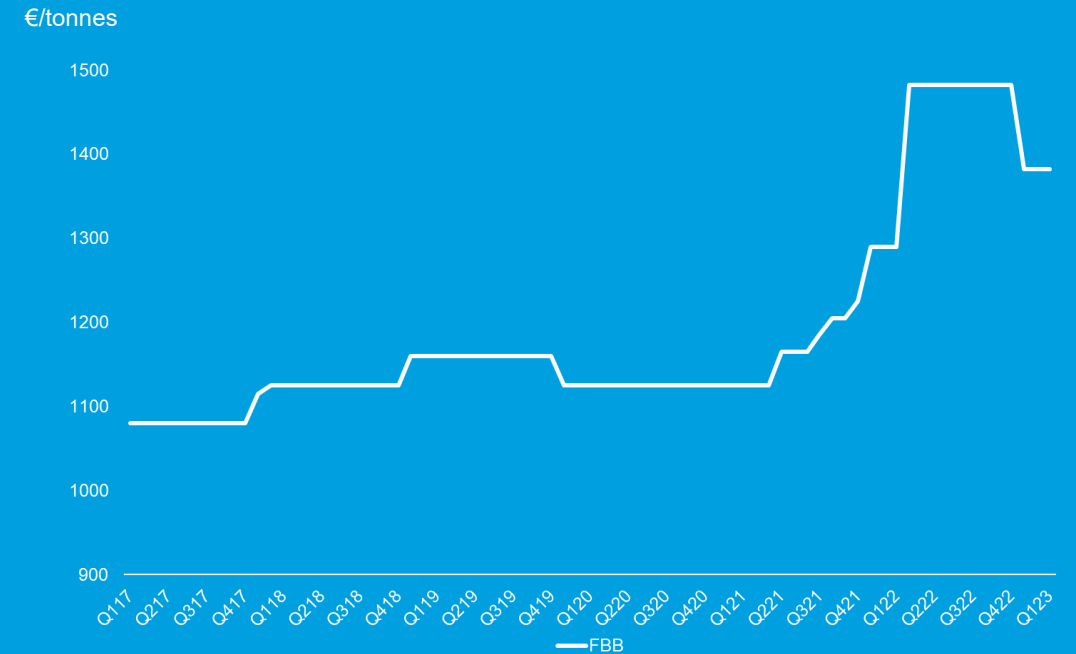
Falling containerboard prices due to weaker demand and high inventories - weakening Folding Box Board prices



Containerboard prices

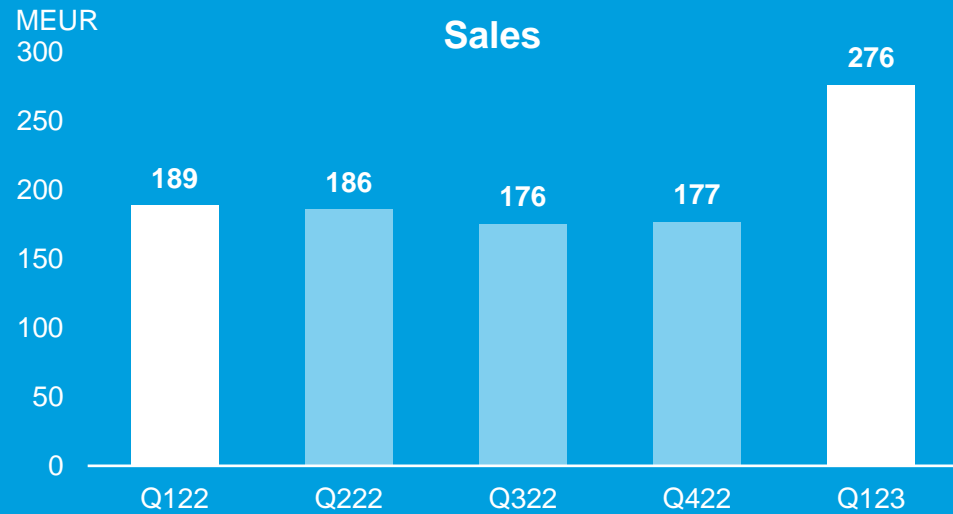


Folding boxboard prices

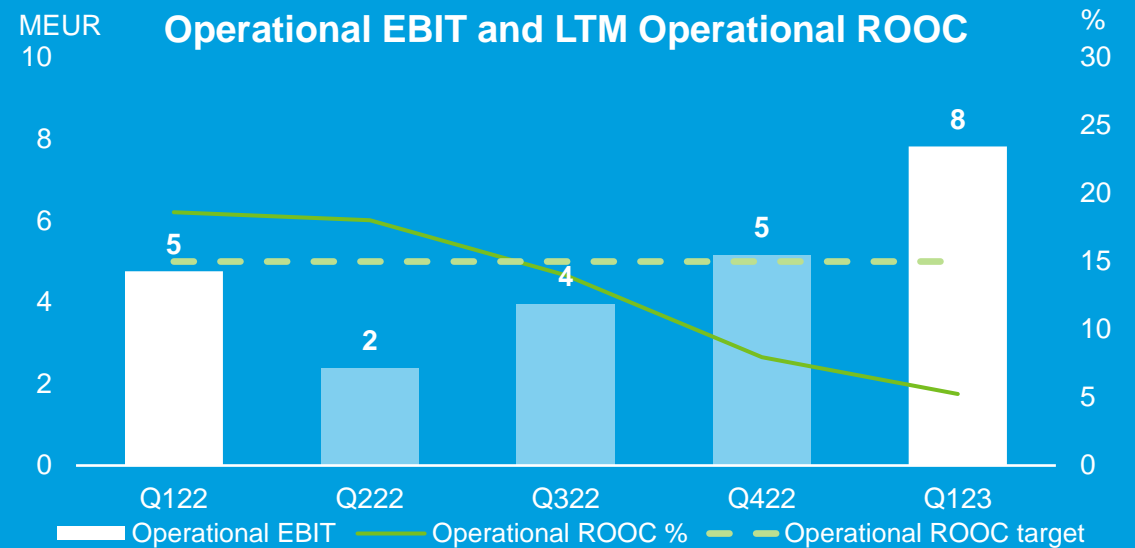


Packaging Solutions

Strengthened results despite challenging overall market demand



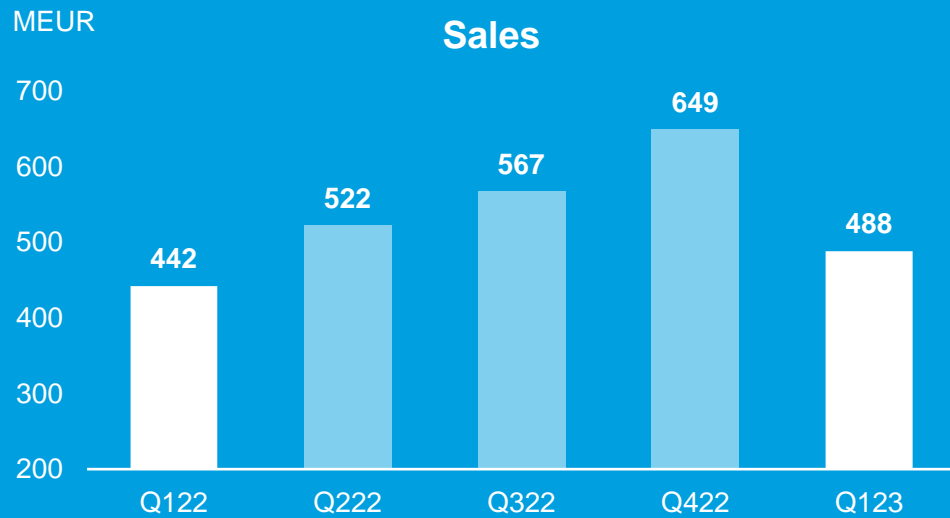
- Sales +46% YoY
- The acquisition of De Jong more than offset the impact from the divestment of the Russian operations in Q2/2022
- Sales from the Northern and Central-Eastern European businesses decreased slightly due to the soft market, and lower sales prices



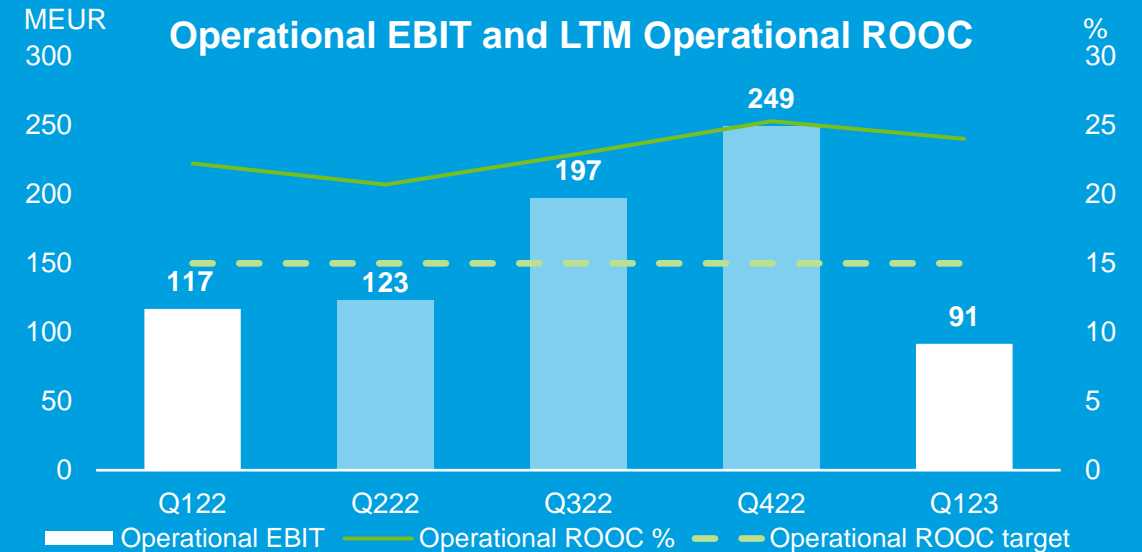
- OpEBIT +€3m YoY
- The acquisition of De Jong and contribution from Northern and Central-Eastern Europe improved performance, mitigating negative impact from the soft market and the divestment of the Russian operations in Q2/2022
- LTM OpROOC at 5.2%, long-term target >15%

Biomaterials

All-time high first quarterly sales did not offset cost escalation as the pulp market turned softer during the quarter

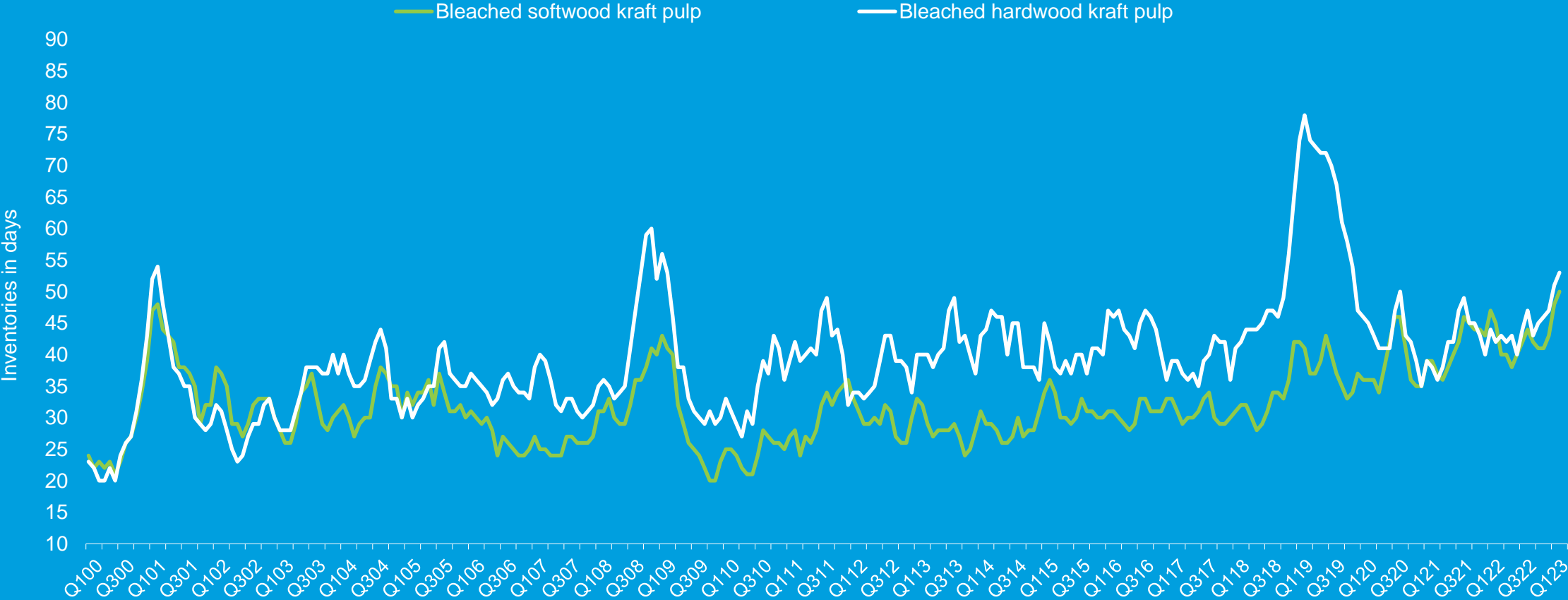


- Sales +10% YoY, first quarter all-time high
- Sales were driven by stronger year-on-year prices, solid by-product sales support and favourable currency exchange rates
- Increasing global market pulp inventories due to low demand, and weaker than expected the Chinese market

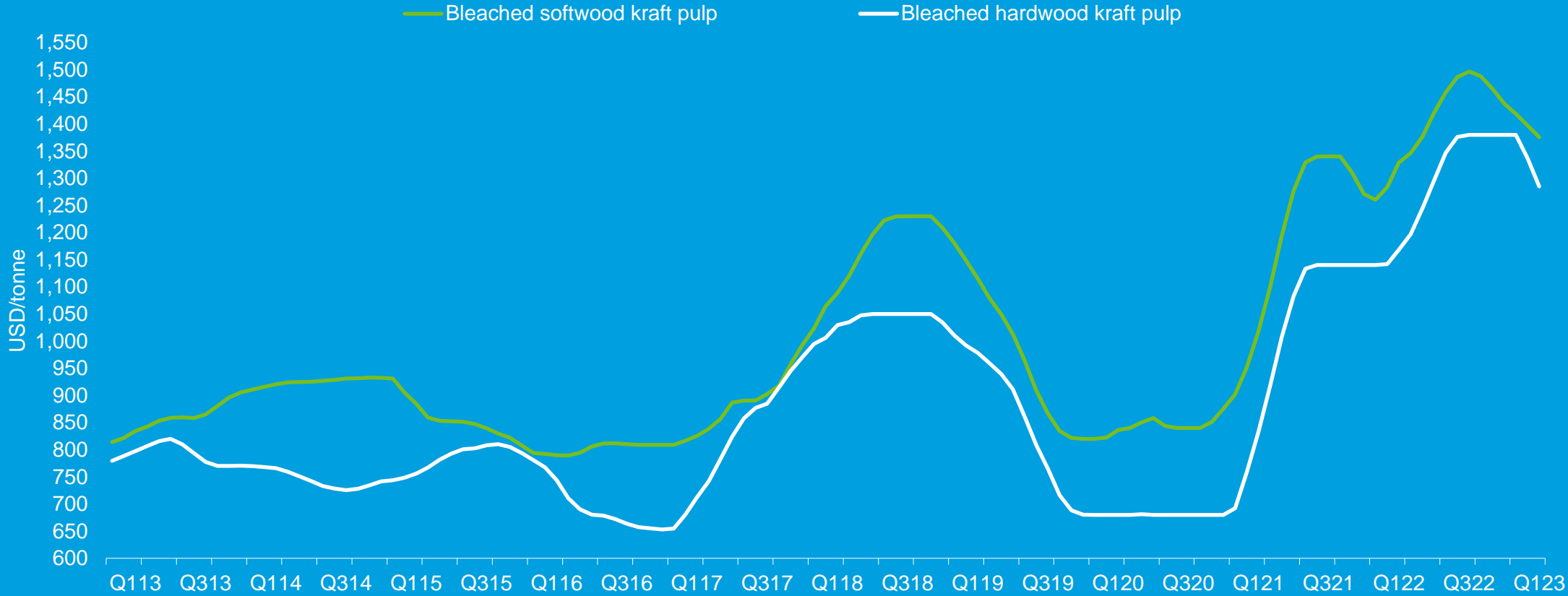


- OpEBIT -22% YoY
- Higher sales did not offset higher higher wood, chemicals and fixed costs
- The Veracel site in Brazil had a planned major annual maintenance shutdown which significantly impacted the result
- LTM OpROOC at 24%, long-term target >15%

Global pulp inventories

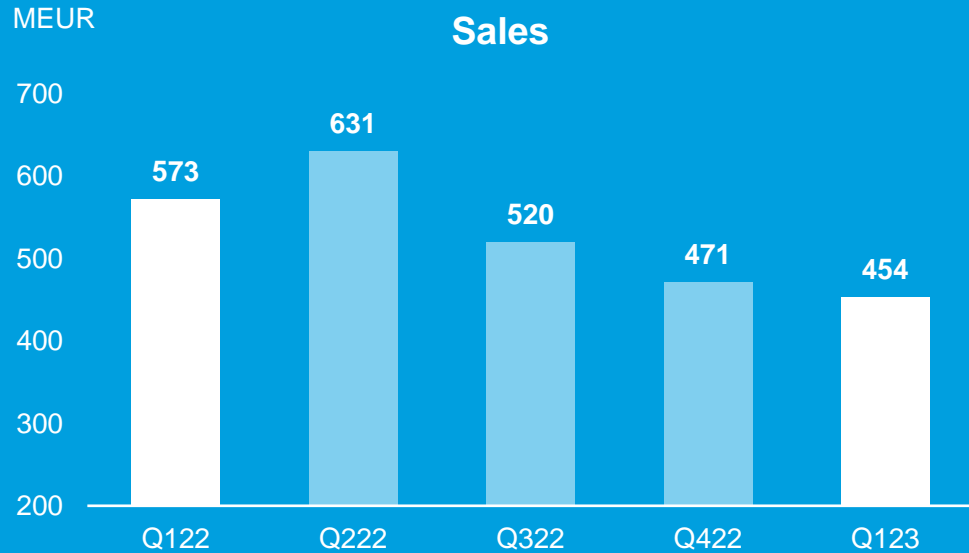


Global market pulp prices

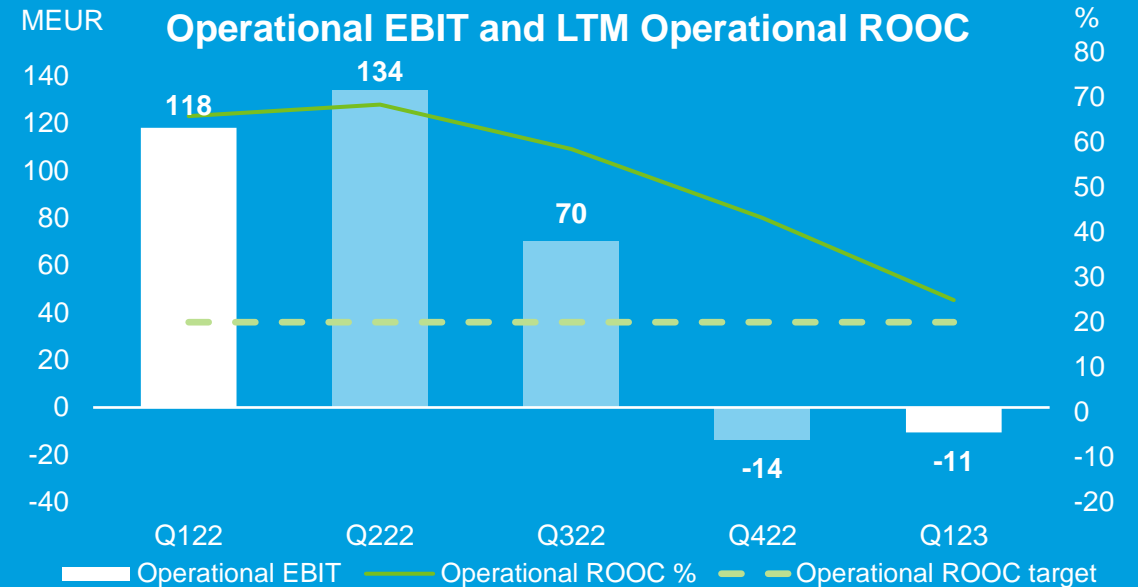


Wood Products

Sales and profit were impacted by a significantly weaker sawn wood market and the exit from the Russian operations



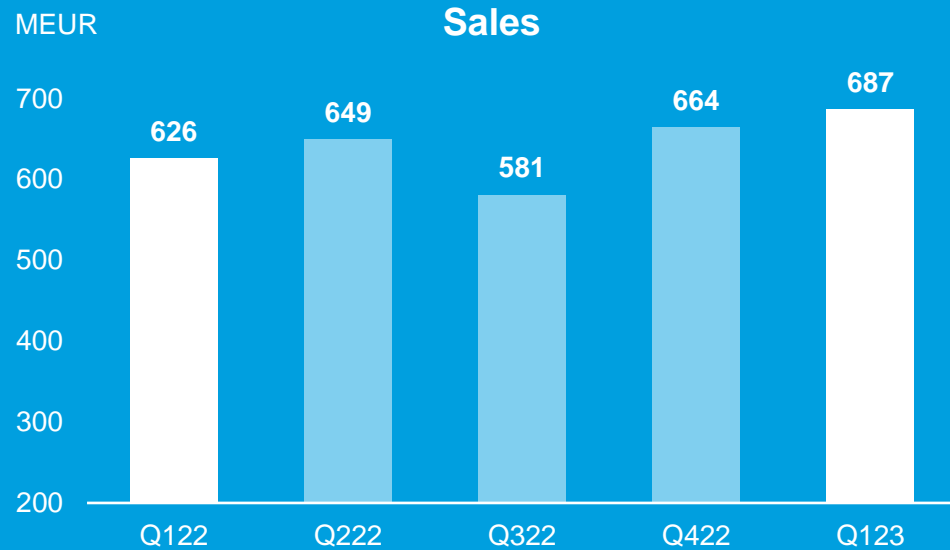
- Sales -21% YoY
- The construction market was impacted by market slowdown with fewer building permits and projects
- Lower sales mainly impacted by lower volumes and sales prices, especially for sawn wood, and the exit from the Russian operations in Q2/2022



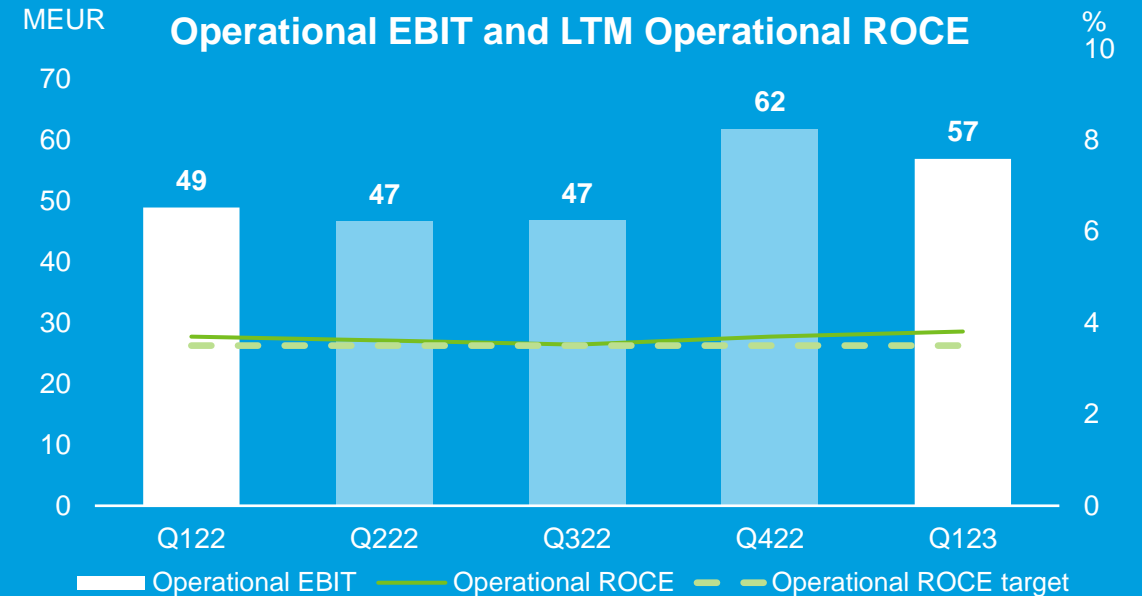
- OpEBIT -€129m YoY
- Lower prices and volumes, together with increased costs mainly for logistics and electricity
- LTM OpROOC at 24.9%, long-term target >20%

Forest

Strong and stable financial result continued



- Sales +10% YoY
- Sales was driven by higher wood prices year-on-year, especially in pulpwood, whereas the wood demand was lower year-on-year

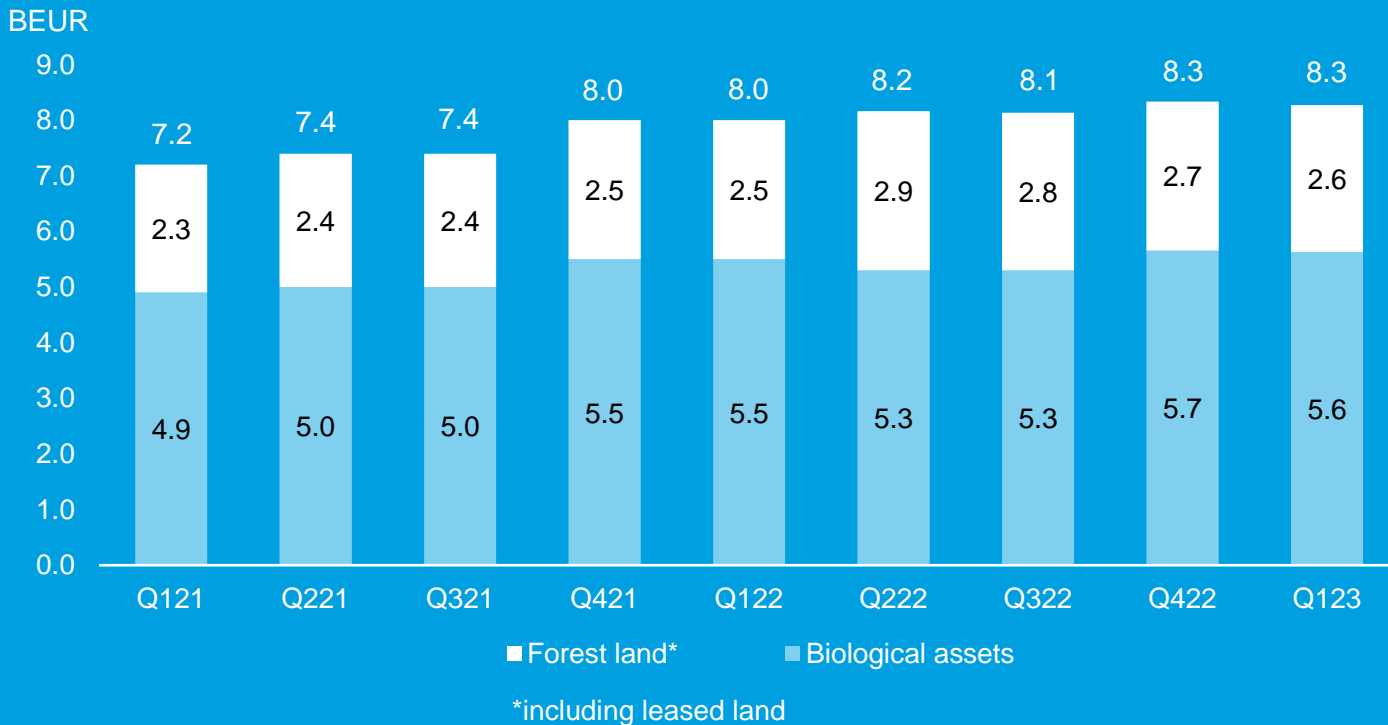


- OpEBIT +16% YoY
- Results were driven by stable and strong operational performance in the Group's own forest assets and in the wood supply operations
- LTM OpROCE at 3.8%, long-term target >3.5%

Stable forest assets fair value development provides strong resilience to inflation



Group forest assets



- Fair value of €8.3 billion equivalent to €10.49 per share
- Slight adverse FX impact, mainly in SEK
- Market transaction-based forest property prices updated in Finland and Sweden in connection with Q2 and Q4 reporting



Outlook & Market development

Outlook and guidance

Lowered annual guidance due to worsening outlook: the FY2023 operational EBIT is expected to be significantly lower than for the FY2022 (€1,891m)



- Cost pressures and market uncertainties are expected to be significantly more challenging in 2023 than in 2022 weighing on our result and lowering the short-term visibility this year
- Group margins are expected to be adversely impacted by increasing costs, particularly in relation to energy, wood, and chemicals
- Demand in the whole packaging market is weakening, especially containerboard, Wood Products are impacted by the continued slowdown in the construction sector, and a weaker pulp market with tight availability of pulpwood is expected to weigh on the Biomaterials division
- Pricing, flexibility in product mix, inventory, capacity adjustments, sourcing and logistics and reinforced cost control are in place
- Restrictive capital expenditure and working capital management to safeguard cash flow and to secure a solid balance sheet are in place
- Operationally, the focus on decentralisation continues in combination with a reduction of overhead costs, focus on cash flow and lowering capex

Group Operational EBIT

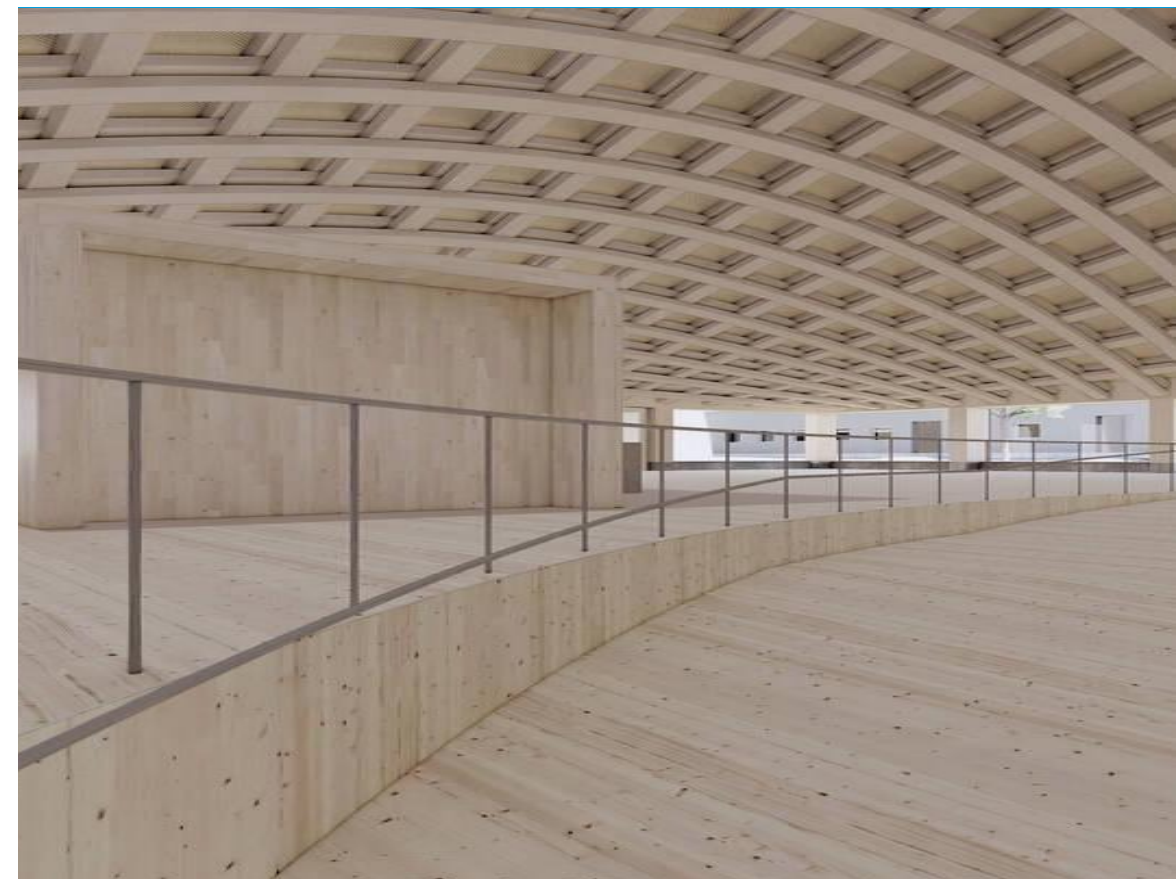
Guidance range full year	%
Significantly higher	+50 % and above
Higher	More than +15%, but less than +50%
In line with	+/- 15 %
Lower	More than -15%, but less than -50%
Significantly lower	- 50 % and below

Market development

Market demand outlook Q1 2023 to Q2 2023



Packaging Materials	Demand for consumer board is expected to remain stable Demand for containerboard is expected to remain weak
Packaging Solutions	Demand for corrugated packaging is expected to slightly improve due to seasonality
Biomaterials	Pulp demand is expected to be lower in Europe and China
Wood Products	Limited seasonal demand improvement for sawn wood expected
Forest	Sawlogs demand is expected to remain stable, while pulpwood demand is expected to decline



Key takeaways



Financial performance

- Weak Q1 results caused by external factors such as weakening demand and continued high cost inflation
- Managing market volatility with flexibility and sourcing measures, combined with reinforced cost control and lowering capex

Strategic initiatives

- Optimising the business portfolio to focus on long-term value creation by growing in renewable packaging, sustainable building solutions and biomaterials innovations
- Positioning for long-term growth by combining financial performance with lowered environmental impact to serve all business sectors



Disclaimer



It should be noted that Stora Enso and its business are exposed to various risks and uncertainties and certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by “believes”, “expects”, “anticipates”, “foresees”, or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by the group’s targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the group’s patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the group’s products and the pricing pressures thereto, price fluctuations in raw materials, financial condition of the customers and the competitors of the group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the group’s principal geographic markets or fluctuations in exchange and interest rates. All statements are based on management’s best assumptions and beliefs in light of the information currently available to it and Stora Enso assumes no obligation to publicly update or revise any forward-looking statement except to the extent legally required.



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Development of long term targets

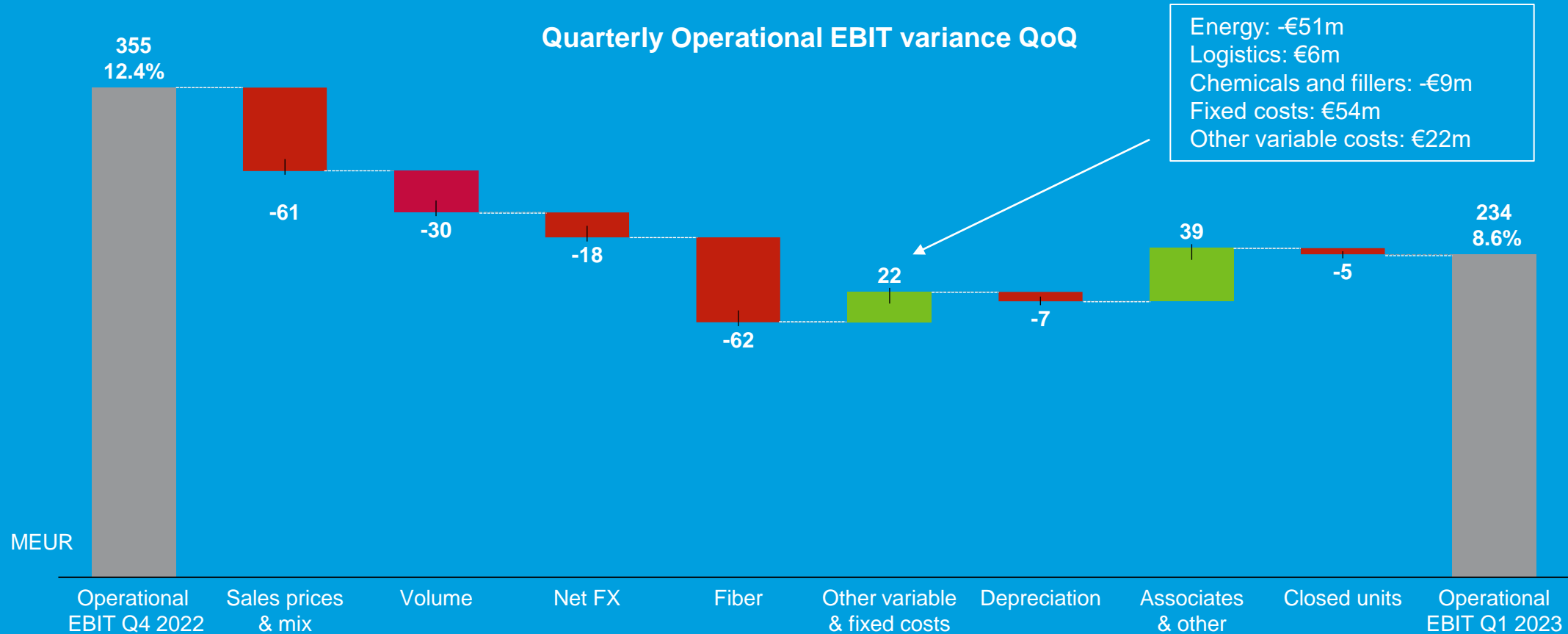


Financial performance		Q1/2022	Q1/2023
Growth YoY	> 5%	23%	-3%
Net debt to operational EBITDA	< 2.0x	1.1	1.3
Net debt to equity	< 60%	24%	25%
Operational ROCE excl. Forest	> 13%	21%	17%
Dividend per share (EUR)	To distribute 50% of EPS excluding fair valuation over the cycle	N/A	N/A

Sustainability performance		FY/2021	FY/2022
Climate: Reduction of fossil CO ₂ e emissions (scope 1 and 2)	-50% by the end of 2030 from 2019	-14%	-27% ↑
Climate: Reduction of fossil CO ₂ e emissions (scope 3)	-50% by the end of 2030 from 2019	-4%	-27% ↑
Circularity	100% by 2030	94%	94%
Biodiversity: Forest certification coverage	≥ 96%	99%	99%

Higher prices did not offset by increased variable costs

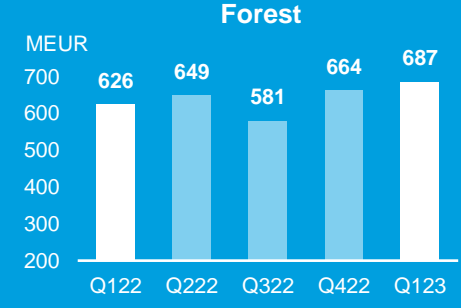
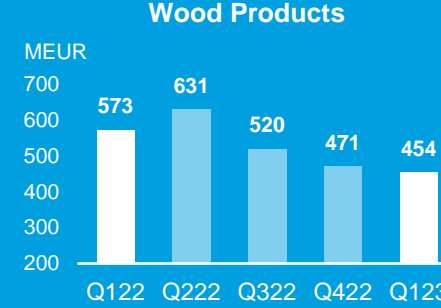
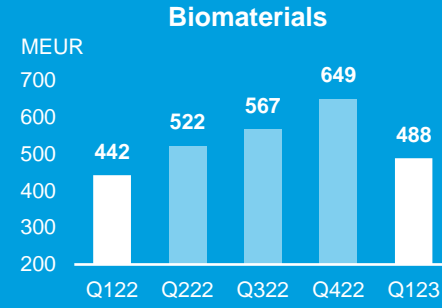
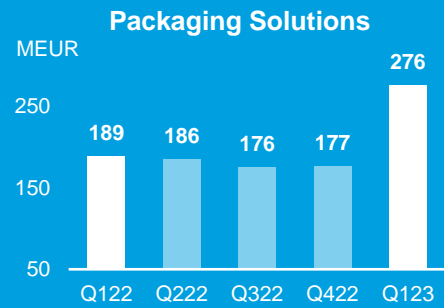
Quarter-on-Quarter



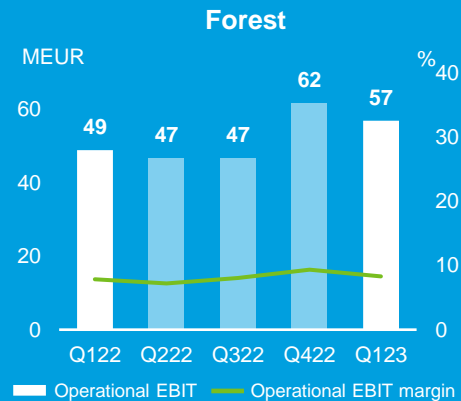
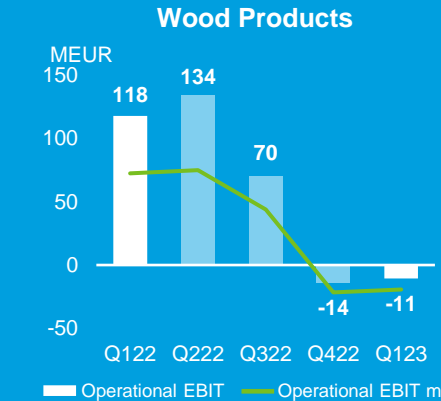
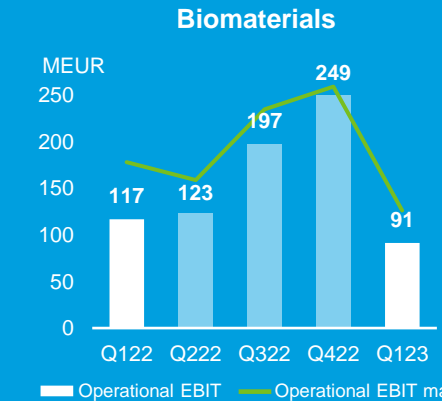
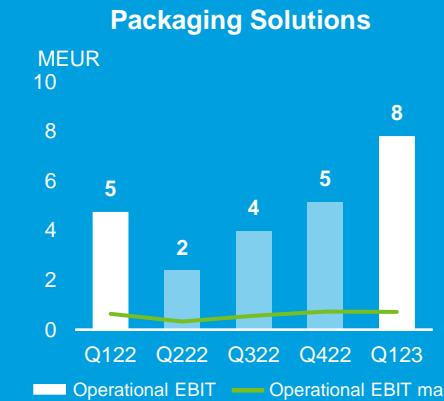
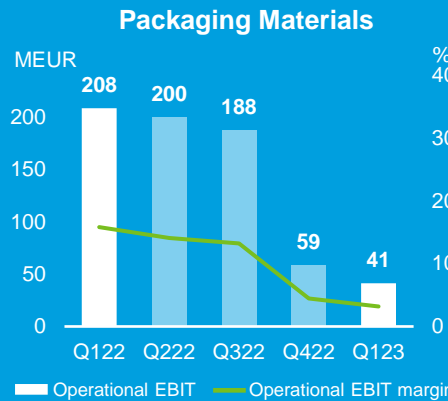
Division overview (sales, opEBIT and opEBIT margin)



Sales



Operational EBIT and Operational EBIT Margin



Changing the segment reporting and restating numbers



Changes as of 1 January 2023

- Paper division was discontinued
- Langerbrugge and Anjala sites, are reported as part of Packaging Materials
- The De Hoop site reported as part of Packaging Materials
- The Hylte paper site reported in Segment Other until completion of the divestment 4 April 2023
- New Business units transferred from Packaging Solutions to Segment Other

Changes as of Q1 2023

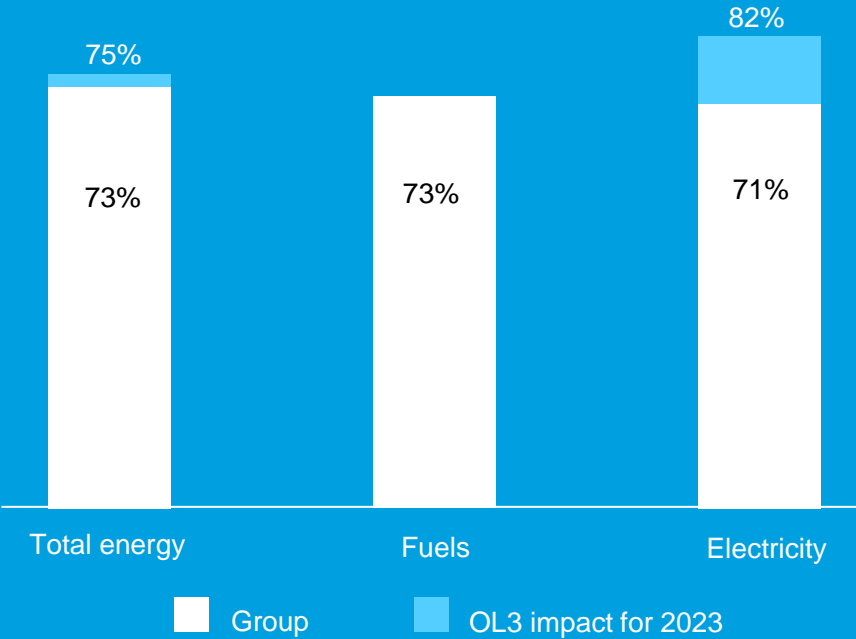
- Operational ROCE based on the last 12 months prior to the end of the reporting period



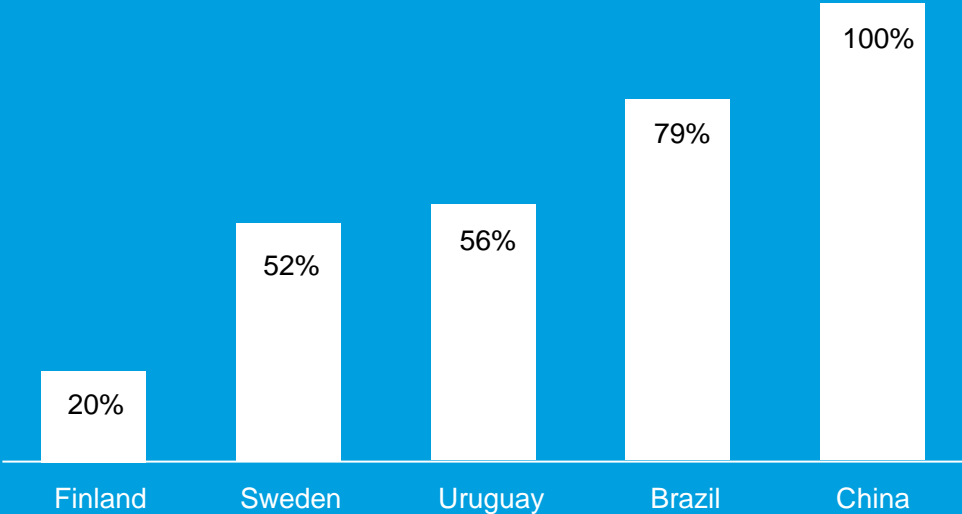
Start-up of the Olkiluoto 3 nuclear power plant increases Group's energy self-sufficiency to 75%



Group energy self-sufficiency excl. JVs (2023e)



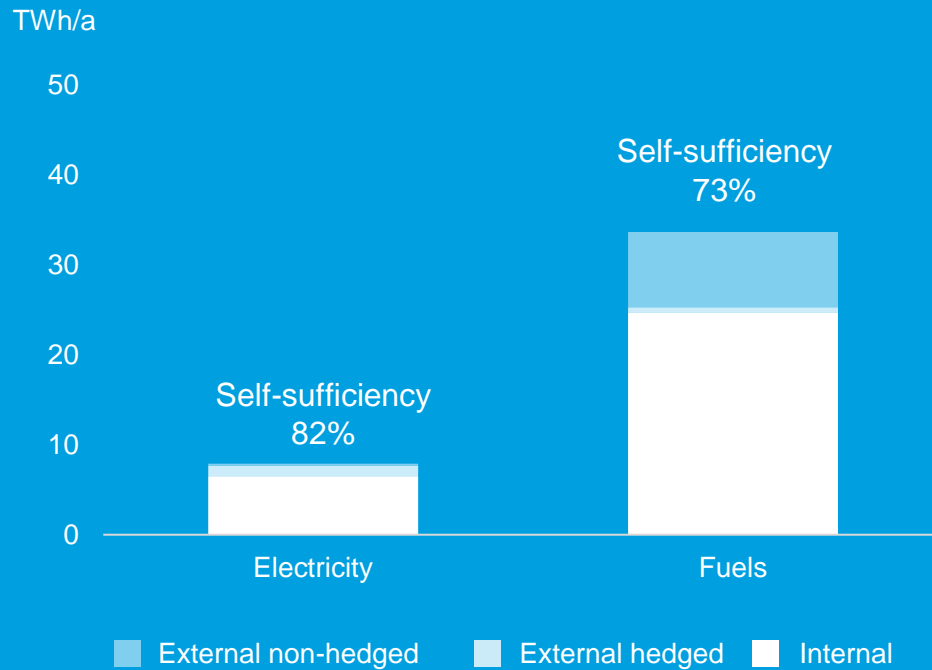
Group wood self-sufficiency by country (2022)



Energy balance in detail



Group energy balance estimate excl. JVs (2023e)



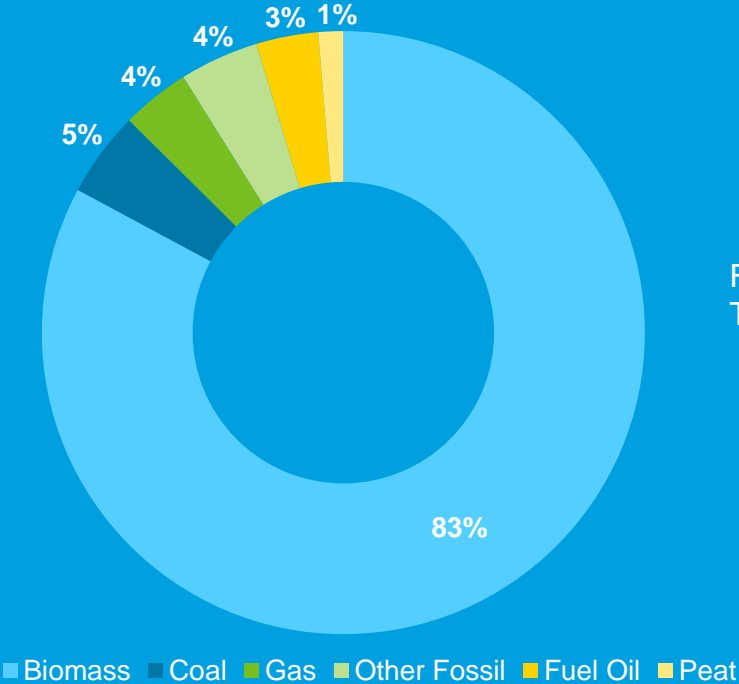
Impact on non-hedged volume on operating profit from 10% change for the next 12 months in:	EUR million p.a.
Electricity market price	~21.3
Fossil fuel price	~13.2

Energy hedging in 2023	~80%
Energy costs of total costs in 2021	~9%

Mainly biomass used as fuel



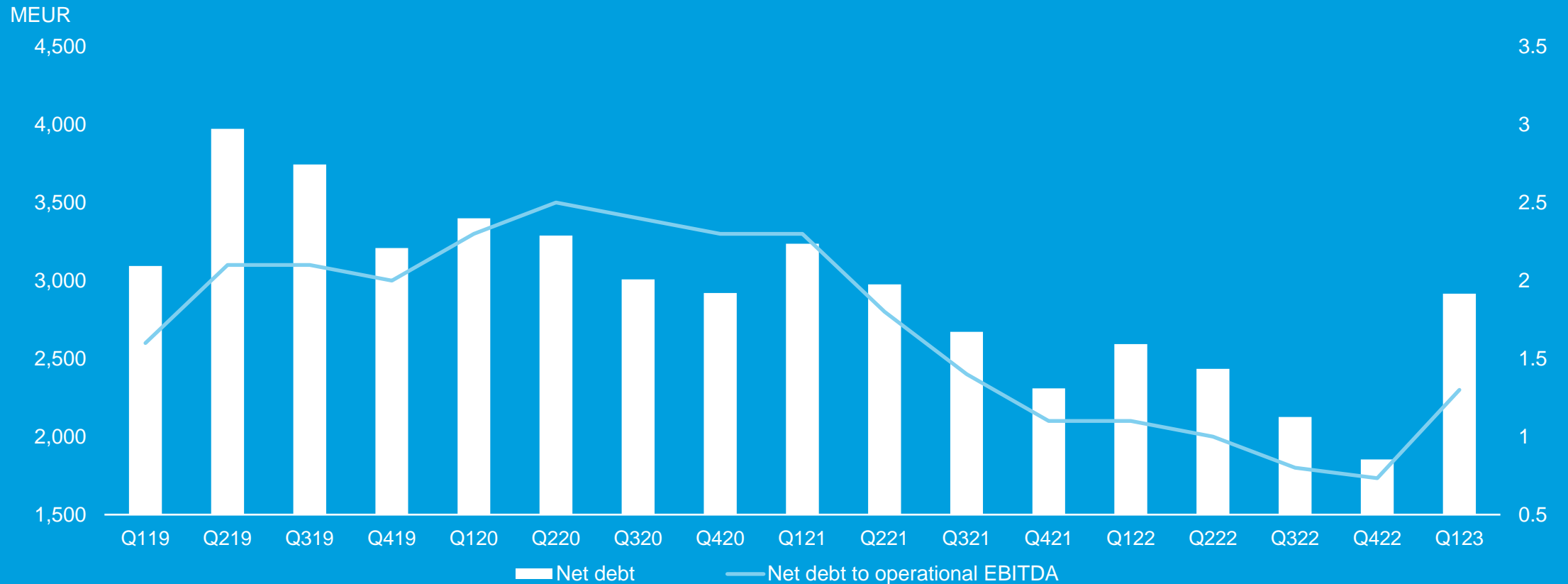
Group fuel consumption Q1 2023



Fuel consumption was 8.3 TWh in the first quarter



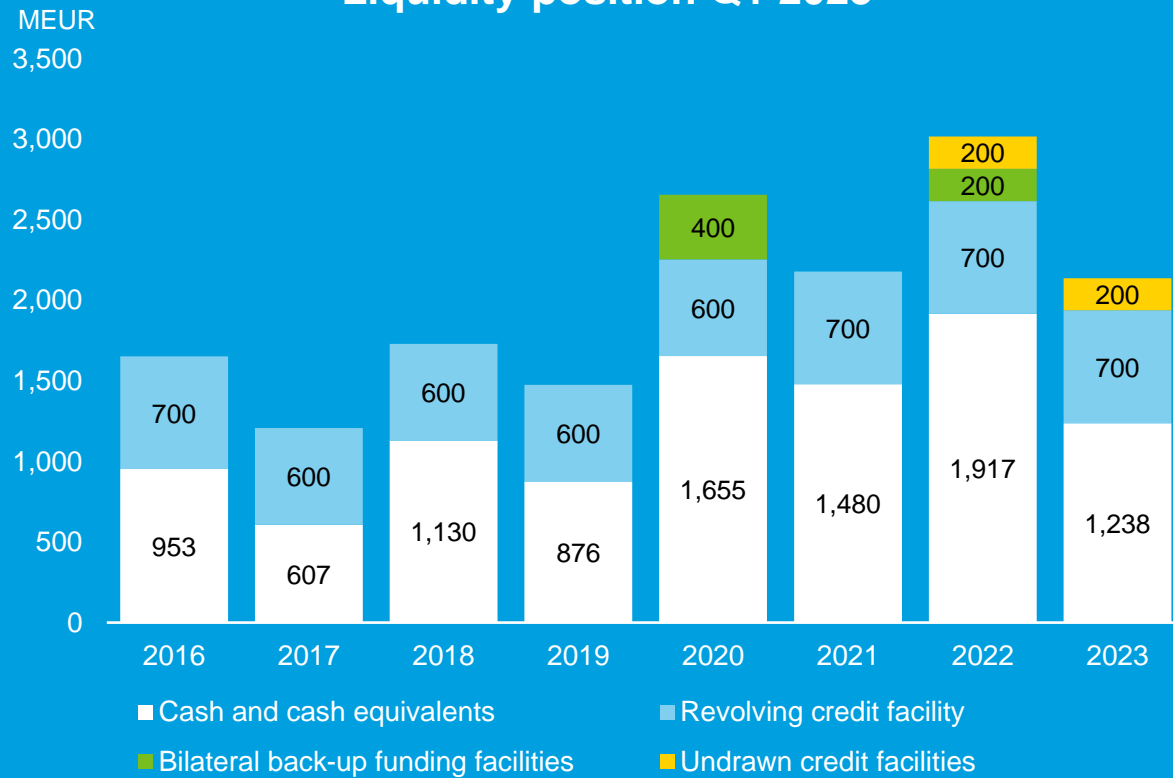
Year-on-year net debt/Operational EBITDA



Continued solid liquidity position



Liquidity position Q1 2023



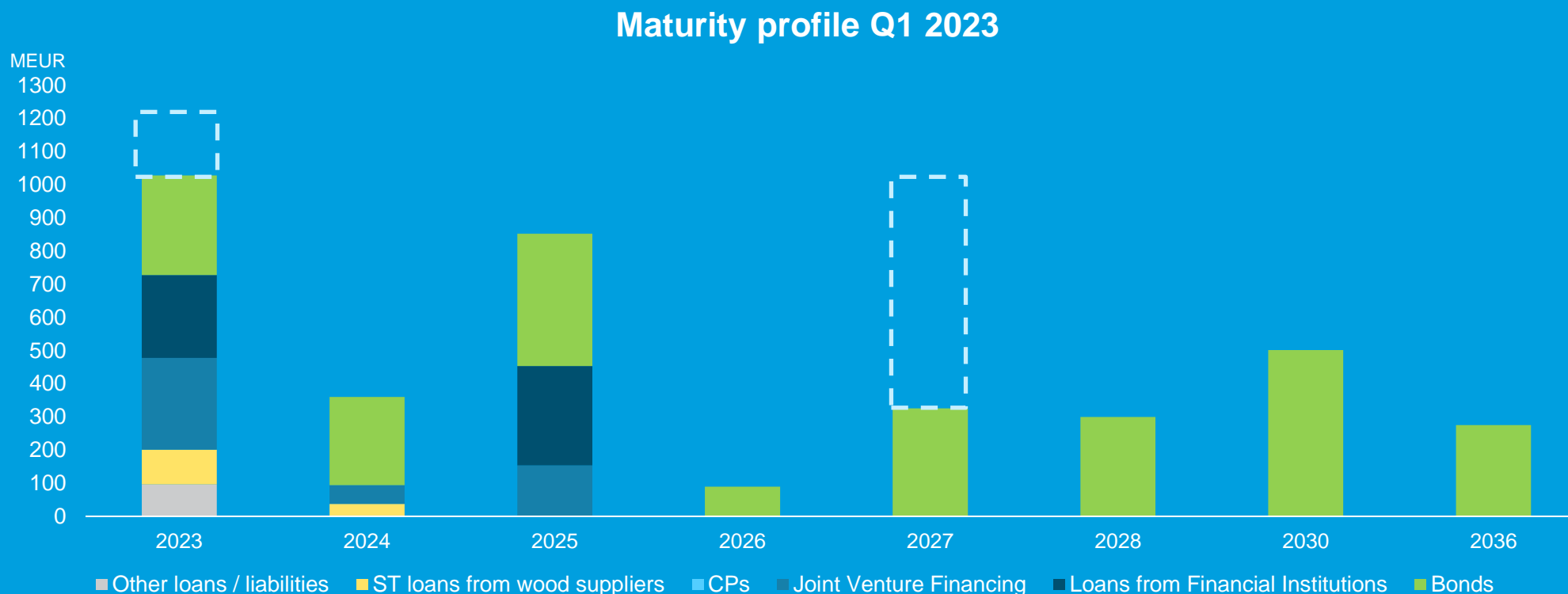
- Liquidity at the end of Q1 2023:
 - €1,238m cash and cash equivalents
 - €700m committed revolving credit facility fully undrawn
 - €200m committed credit facilities fully undrawn
 - €1,050m statutory pension premium loans available
- No financial covenants on Stora Enso Oyj's debt
- Net debt to operational EBITDA at 1.3x and net debt/equity ratio at 25%

Net financial items



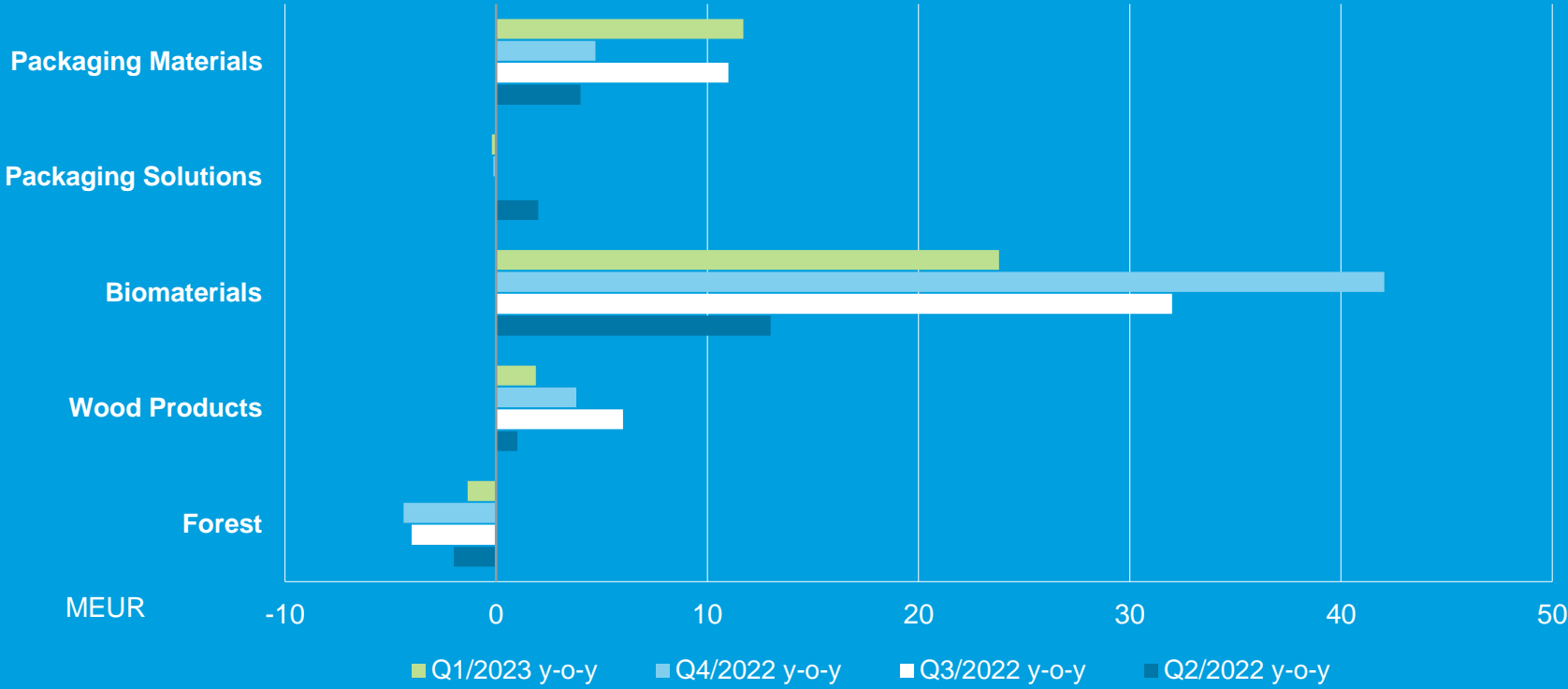
MEUR	Q1 2023	Q1 2022	Change MEUR Q123/ Q122	Q4 2022	Change MEUR Q123/ Q422
Net interest expense	-25	-29	3	-21	-4
Average interest rate*	3.5%	3.1%		3.3%	
Foreign exchange gains and losses	-2	16	-19	-9	7
Other financial items, of which	-2	-7	5	-9	7
Pension costs (IAS 19R)	-1	-1	-1	-1	0
Other items	-1	-6	6	-8	8
Total net financial items	-29	-19	-10	-39	10

Maturity profile at the end of quarter



Committed credit facilities are fully undrawn and mature in 2023 and 2027 (€ 900 million in total).

Net FX by division

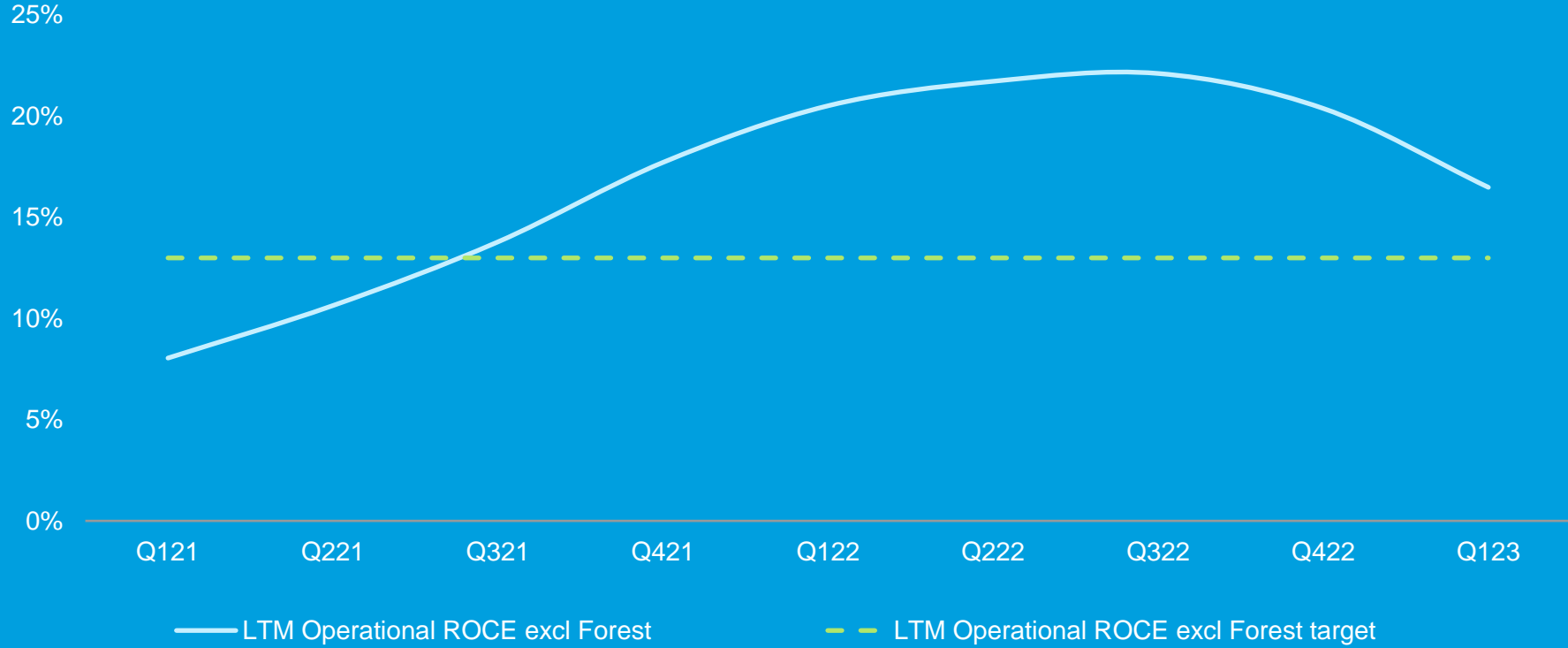


Operational EBIT by segments

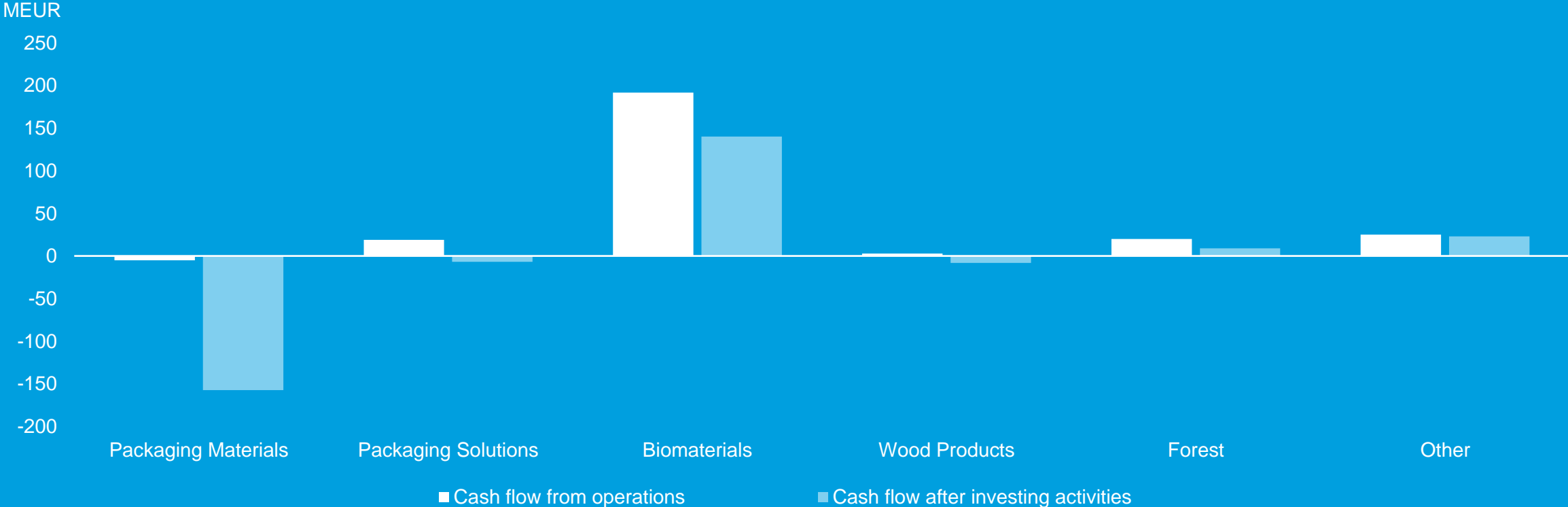


MEUR	Q123	Q122	Change % Q123-Q122	Q422	Change % Q123-Q422
Packaging Materials	41	208	-80.3%	59	-30.3%
% of sales	3.2%	15.8%		4.4%	
Packaging Solutions	8	5	64.3%	5	51.6%
% of sales	2.8%	2.5%		2.9%	
Biomaterials	91	117	-21.7%	249	-63.3%
% of sales	18.7%	26.4%		38.4%	
Wood Products	-11	118	-109.0%	-14	-22.3%
% of sales	-2.3%	20.6%		-2.9%	
Forest	57	49	16.4%	62	-7.9%
% of sales	8.3%	7.8%		9.3%	
Other	27	6	n/m	14	93.6%
% of sales	7.3%	1.3%		2.6%	

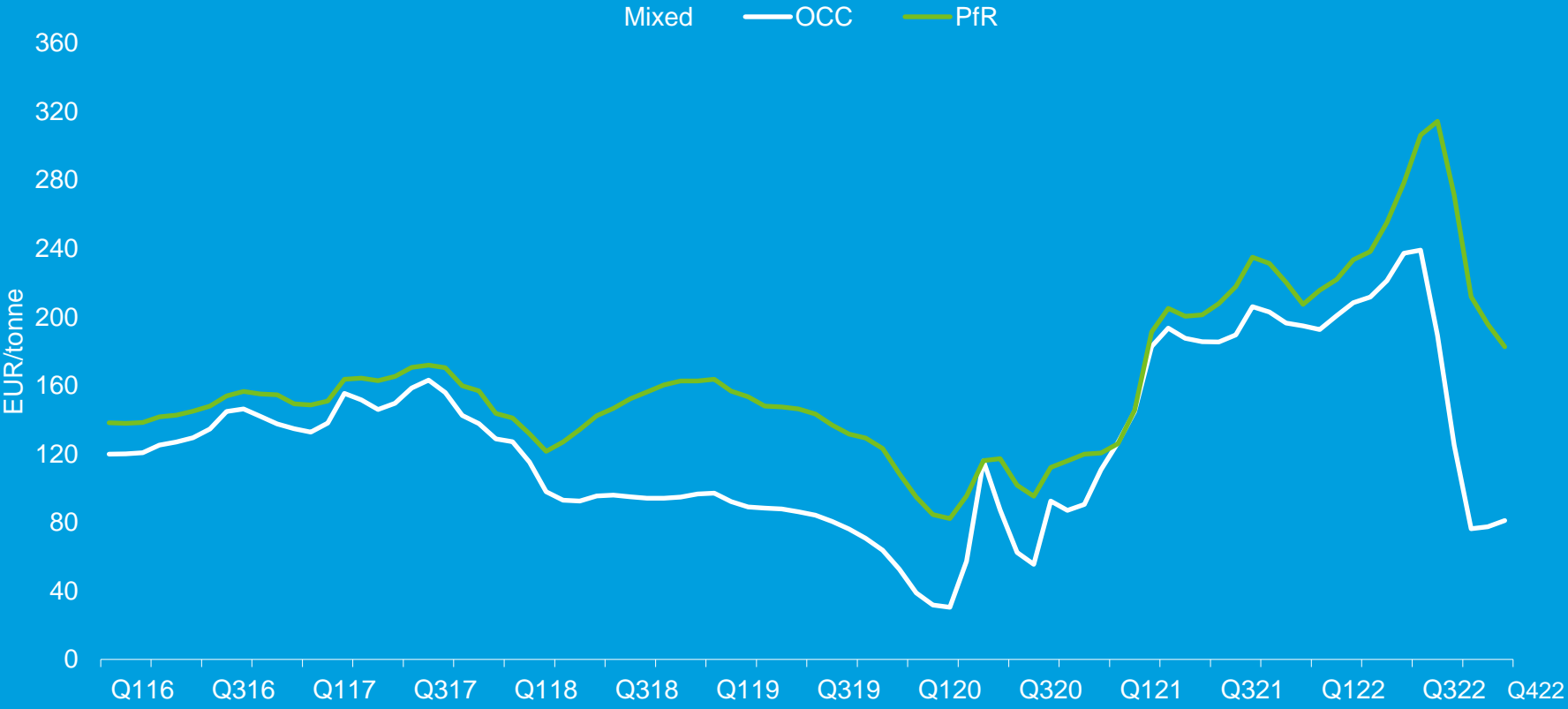
Development of operational LTM ROCE excluding Forest



Cash flow by divisions in Q1/2023



Paper for recycling prices



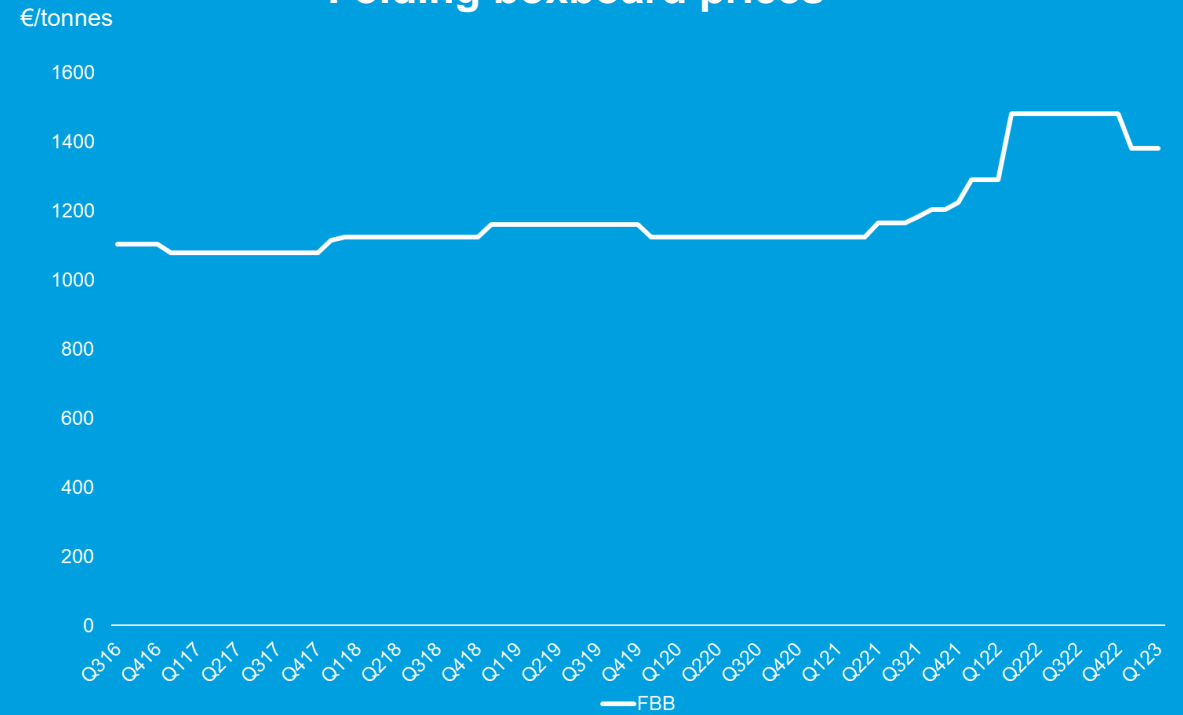
Falling containerboard prices due to weaker demand and high inventories - stable FBB prices



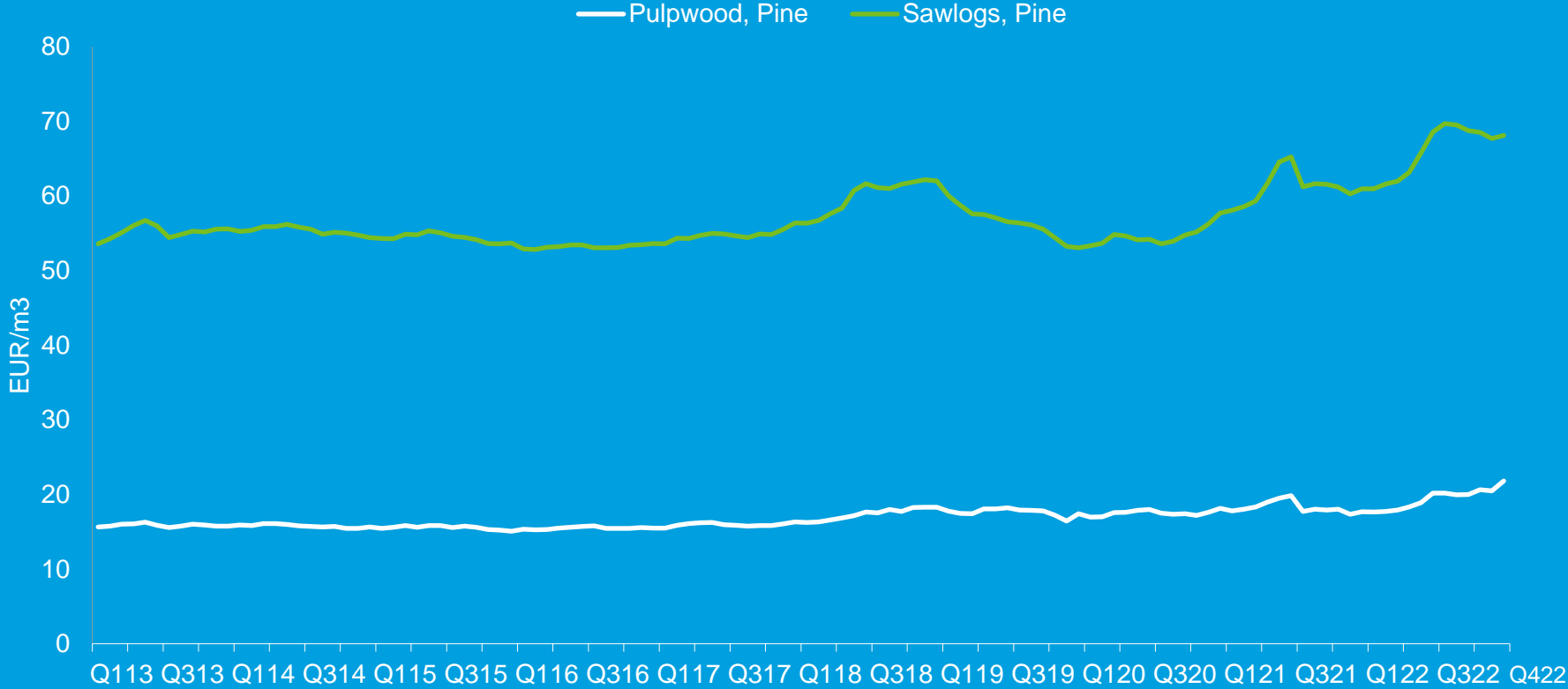
Containerboard prices



Folding boxboard prices



Pulpwood and sawlog prices in Finland

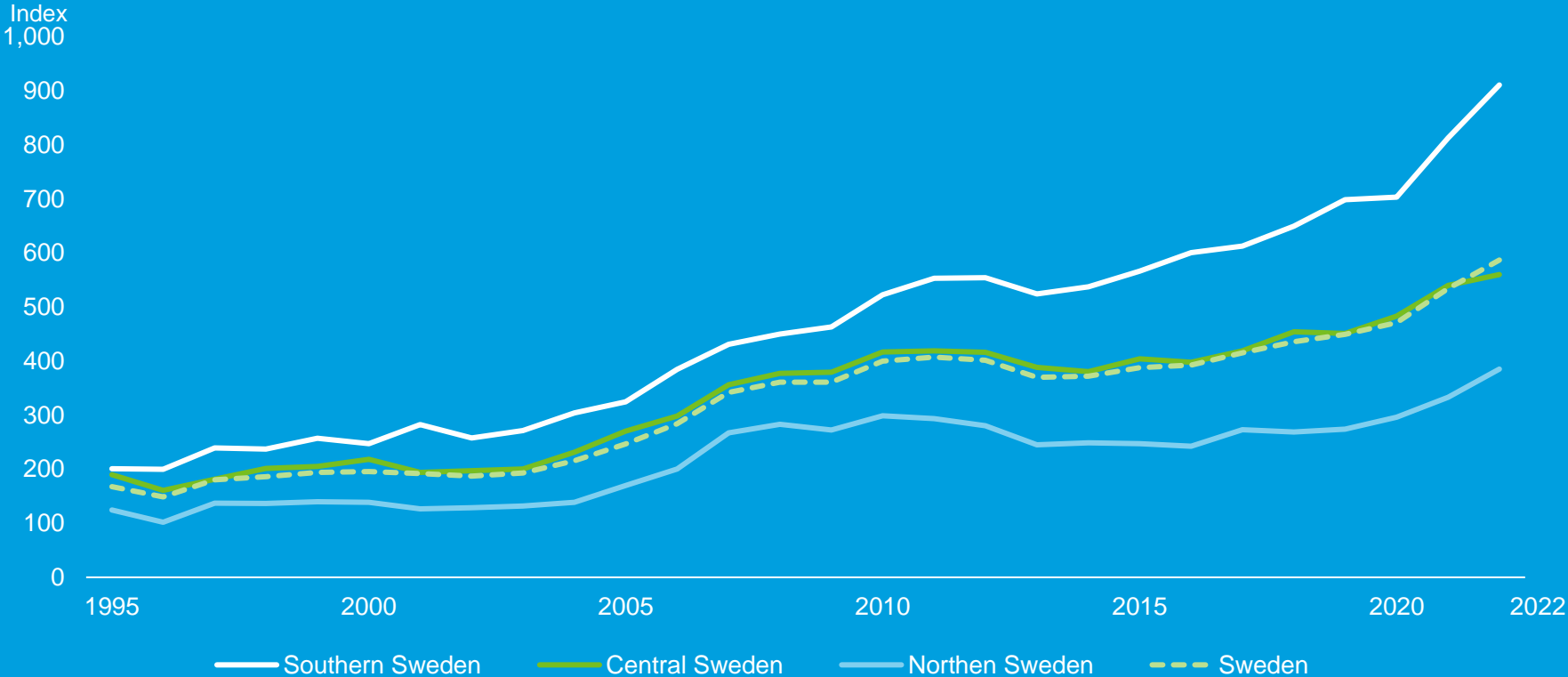


Source: Luonnonvarakeskus

Market transaction prices continued to increase in 2022








Market transaction based forest property prices in Sweden



Scores by ESG rating agency



	Climate A-, Forest B and Water B
	Highest recognition level, Platinum
FTSE Russell	ESG rating 4.5 out of 5
	ESG QualityScore highest possible score (1*) in Social, Environment and Governance
	ESG rating AAA (highest possible score)
	ESG rating 15.8* out of 100
Transition Pathway Initiative	Top-ranked in both management quality and carbon
VigeoEiris***	ESG rating 73 out of 100

THE RENEWABLE MATERIALS COMPANY