Q3 Report 2021

Wednesday, 20th October 2021

Introduction

Ulla Paajanen

SVP, Head of Investor Relations, Stora Enso

Good afternoon to everyone. This is Stora Enso Q3 2021 earnings conference call. It will be presented by our CEO, Annica Bresky, and our CFO, Seppo Parvi. After that, we will have a Q&A session. So, Annica, please go ahead.

Q3 Highlights

Annica Bresky

President & CEO, Stora Enso

Another Quarter with Robust Growth and Profitability

Thank you, Ulla, and good afternoon to everyone. I am very pleased to be here today and present yet another quarter with robust growth and profitability. Our strategic transformation programme is progressing really well and we have a powerful foundation for growth going forward.

We have seen that we have been delivering solid results and many divisions have had record high deliveries and results this quarter. And our top line growth in our key focus areas, Packaging Materials, Wood Products and Biomaterials, has been very strong. Also, our forest assets are yielding very well.

We also today announced an investment in expansion of the attractive end user segments of Packaging to accelerate our growth for sustainable packaging, underpinned by a very healthy demand in that sector. And we are in a strong position to end this year on a high level. And I am very happy for the strong performance that we have shown this quarter considering the market conditions.

Operational EBIT Trending Up

So moving over now to operational EBIT in our results, a few highlights. Our profits are trending up, so we more than doubled our results compared than last year. And our sales have increased by 24% year-on-year; excluding Paper, almost 33%. Our operational return on capital employed, excluding Forest, is above our long-term target of 13%, reaching 20% level. So all in all, we are trending in the right direction.

Higher Prices Offsetting Higher Costs

Moving on now to the impact of some of the input costs that we have had in logistics, energy, fixed costs and other variable costs, as well as fiber. You can see here that we have been able to offset that impact very well through the quarter through our increased sales prices and improved product mix. So that is, all in all, building up our results for this quarter.

Strategy Execution Moving Ahead

On our strategy execution, we are taking decisive action to grow our packaging position following a very strong demand in sustainable packaging. The long trend here is very favourable. Our pilot production of Lignode is progressing according to plan. We are here evaluating the different options of partners that we have to be able to scale up and industrialise this opportunity. With the restructurings that we have done during the latest quarter, we will move towards an impact of 10% of total sales from Paper after the closing of Veitsiluoto and Kvarnsveden sites. And we did that at the end of this quarter. We also divested our Sachsen Paper Mill this quarter. So all in all, paper business will have a very small impact on our overall sales and results going forward.

I am also happy to say that our remaining business in Paper has an improved position on the market. It is competitive, and we can see it turning around. We also see that due to the actions that we have taken, we and other players on the market, the balance in supply-demand is more favourable for Paper.

And we are also implementing a decentralised operating model, which will I come back to in a few minutes.

Taking Action to Grow in Sustainable Packaging

Looking now at one of our key areas of growth, sustainable packaging, we today announced that we want to invest close to EUR 100 million at our Skoghall mill in western Sweden to enable and accelerate growth in high margin business. This is supporting the ambitions that our customers have, and Skoghall site in Sweden is a key strategic asset for us with a very competitive position as a global quality leader. And the segments that we are aiming for is liquid packaging and other consumer board grades, which see a long-term, strong trend in sustainability that we want to capture.

The debottlenecking of the existing production line will be completed by second half 2023, and it would yield about 100,000 tonnes of additional board grades to the market. If you remember, we initially communicated a total investment level of EUR 800 million to EUR 850 million based on us also doing a pulp investment, but we have decided not to proceed with that at this stage.

Since our ramp-up in the Oulu mill in Finland has been very successful, we delivered an EBITDA breakeven three quarters ahead of the plan, and we have already reached the quality demands on the market. We want to capture the strong growth in the packaging board grades. And therefore, we have decided to proceed with a review of the second idle line that we have in Oulu. And this is to capture the opportunities that we see on the market and drive market share in packaging board grades.

Decentralised Operating Model to Strengthen Execution of Strategy and Customer Intimacy

Coming back now to our decentralised operating model, we want to strengthen the execution of the strategy and achieve customer intimacy. Our different businesses have different roles; some are growth, some are value-creating. And to empower them and get a more agile and a quick decision-making closer to the market, we are driving an organisation where we have focused functions, focusing on scale areas across the company. And then we drive performance culture through our business-specific processes and closer to customer decision-making.

Stora Enso Sets Ambitious Goal to Offer 100% Regenerative Solutions By 2050

We have also communicated today that we have set ambitious targets for 2030, and the goal that, by 2050, we want to be 100% regenerative. As you know, EU Commission has a very ambitious climate agenda, and we fully support that. This is an opportunity to transition to a low carbon society. And we, as long-term owners of sustainably managed forests and having renewable circular products, we are part of the solution to reach these ambitious targets. By developing products that not only reduce harm, but also are positive from biodiversity, circular economy and CO2 footprint, we are taking the lead in this area.

Stora Enso is Taking the Lead with New 2030 Sustainability Targets

And if we look at what that actually means in concrete steps up to 2030, it means that we align our CO2 footprint through science-based targets with the 1.5 degree scenario. We do that by reducing the CO2 emissions not only in our own operations, but also with our partners and suppliers. We look at our products and design them for circularity. And we want to have circular design guidelines by 2025. And 100% of our products should be recyclable by 2030.

And in the biodiversity area, we have a detailed action plan towards 2030 to achieve a restoration in biodiversity. And we do that by having 15 indicators on ecosystem, landscape and species level. We will transparently communicate our indicators to show progress in these different areas, and have an outside-in perspective and the science-based approach to this. And through these three major steps, we want to take the lead and be leading in the sustainability area also going forward.

European Commission Inspection of Our Headquarters in Kanavaranta

And before I hand over now to Seppo to give you the details of the financials, I guess you are all aware that the European Commission has conducted an unannounced inspection at several member states and premises of several companies acted in the wood pulp sector. And Stora Enso was one of these companies and we had an inspection at our headquarters in Kanavaranta in Finland last week.

We are fully cooperating with the authorities and sharing all information, enabling this inspection in every possible way. EU Commission carry out such inspection, but that does not mean that the companies are guilty of anticompetitive behaviour, or that this is a prejudgment of outcome in any way. We are under strict confidentiality, so we can unfortunately not share any more details on the proceedings of this investigation.

And I just want to stress that as a company, we have zero tolerance to antitrust and anticompetitive behaviour, having processes in our company and making sure that our employees understand what this means through constant education.

And with that, I would like to hand over to Seppo to take you through the financials. Seppo, over to you.

Financial Overview

Seppo Parvi

CFO, Stora Enso

Financial highlights

Thank you, Annica. Then I start with the financials key figures from the report that we have published today.

Sales for the quarter were up 24% year-on-year and reached EUR 2,577 million. Operational EBIT more than doubled and was at EUR 410 million, and earnings per share amounted to EUR

0.38. Return on capital employed, excluding Forest, was clearly above targeted 13% level, reaching 20%. We continue to generate strong cash flow from operations, and we had, in Q3 this year, EUR 485 million operative cash flow. This is thanks to good profitability and good working capital management. Also, our debt has been coming down and our EBITDA going up. And thanks to that, our net debt to operational EBITDA is down to 1.4 at the end of Q3 this year.

Packaging Materials

Then moving to divisions. And I start with Packaging Materials, where we have excellent quarter. Sales were up 28% year-on-year, reaching all-time high. This was driven by higher deliveries, mainly thanks to ramp-up of production at Oulu and higher prices. As communicated earlier, Oulu ramp-up is moving ahead in good order, very well and ahead of the plan, as announced earlier.

Operational EBIT was up 37% year-on-year, and this is also an all-time high at EUR 153 million. This is thanks to very strong containerboard performance as well as good performance at the Oulu kraftliner mill. Higher sales were partly offset by higher variable costs. Operational return on capital was at 19.5%, and this is close to long-term target. Here, I want to remind that even though that Oulu is ramping up well and performing financially better than expected, it is still at the ramp-up phase, and the full effect is obviously in the balance sheet. So going forward, the improvements should be visible here when it comes to return on capital.

Packaging Solutions

Then moving to Packaging Solutions, and there we can see that the strong growth continues. Sales were up 24% year-on-year, reaching EUR 180 million. Sales were driven by prices as well as increased sales in innovation and services. And these are following steep increases in containerboard raw material prices earlier during the year and those are still going up.

Operational EBIT was at the same level year-on-year but we are catching up with the price increases to close the gap between higher containerboard prices and overall selling prices. I think it is visible as improved margins in corrugated business. This was somewhat offset by increased investments in the new businesses that we are developing and higher fixed costs related to that. Operation return on capital was at 12.6% but this is still below the long-term target.

Biomaterials

In Biomaterials, we have record third quarter despite some global logistics challenges that we are also facing here. Sales were up 40% year-on-year. This was record high third quarter. We can see clearly higher prices currently and European markets has been holding quite well.

Partly good sales were offset by slightly lower deliveries due to global logistics disturbances. And we saw some volumes moving from third quarter to Q4. Operational EBIT was up by EUR 111 million at EUR 118 million and that is the second highest third quarter. Positive sales prices were partly offset by higher maintenance costs due to changed maintenance schedule. And operational return on capital was at 19.6%, clearly above long-term target.

Wood Products

In Wood products, we also have all-time high results. Sales go up 48%, reaching EUR 503 million, and prices were at record high level. We saw slightly lower classic sawn deliveries during the quarter.

Operational EBIT was significantly up year-on-year, 228%. This is also all-time high at EUR 123 million. We had an extraordinary high profitability due to record high prices in the business. This was partly offset by higher raw material and production costs. And return on capital was at 76.5%, which is significantly over the long-term target that we had set for this business.

Forest

Then moving to Forest division, where good and stable financial performance continues. Sales were up 19% year-on-year, also at record high level for the quarter. And this was driven by higher deliveries, especially in Sweden and Finland, as well as increased wood prices. Operational EBIT was up 21% year-on-year, also at the record high third quarter level. This is thanks to higher margins in our own forest assets and our forest operations.

Group's forest assets remained at EUR 7.4 billion level, so no major change there this quarter. But here, I want to highlight that in Q2 and Q4 is when we perform comprehensive forest assets fair valuation, so that is coming in the next quarter. Operational return on capital was 3.9%, and this is also above the long-term target.

Paper

Then Paper division, the result was still impacted by restructuring and the high input costs, but we can now see that remaining business is turning around. Sales were down 6% year-on-year at EUR 441 million, and this is mainly due to structural changes in the business portfolio relating mainly to Oulu and the Veitsiluoto paper mills.

Positive is that sales from the remaining business increased by EUR 85 million, mainly due to higher deliveries. Operating EBIT was down and was at EUR -31 million. This is driven by clearly higher input costs, with energy, fiber and logistics, as well as the lower prices. We also had some additional operational costs relating to closed paper mills; Veitsiluoto and Kvarnsveden. Cash flow to sales, after investments, was negative 7.7%.

Development of Long-Term Financial Targets

Then let us take a look at the long-term financial targets and their development. First, if you look at the Group's long-term financial targets, as you can see across the traffic lights, they all are on green. When it comes to especially our debt metrics, net debt to operational EBITDA and net debt to equity, we are clearly below maximum. Our operational return on capital, excluding Forest, was at 20%, so clearly also above the 13% targeted level, and clearly up from 7.8% a year ago.

Looking at the divisions, there, Biomaterials, Wood Products and Forests reaching the target and being above the target level; and Packaging Materials, only a bit short of the 20% targeted level. And here, I want to remind that Oulu is still in the ramp-up phase. And Paper at a negative 7.7% compared to targeted 7% level.

And Packaging Solutions, where we have target of 25%, they are still working on price increases to close the gap between higher containerboard prices and our selling prices, and that is why we are still 12.6% level when it comes to return on capital.

With this, over to you, Annica.

Outlook

Annica Bresky

President & CEO, Stora Enso

Annual Outlook for FY2021 Remains Unchanged

Thank you, Seppo. And taking now a look at the outlook. We reiterate our outlook. We see that we will end the year on a high note. Global economic activity is continuing to be on a healthy level and favouring our product. We have a strong demand for our key focus areas and our businesses. And we have a full order book for Q4.

We continue to work with what we can impact to mitigate input costs and make sure that we can continue to deliver to our customers despite logistics challenges around the world. And I think we have proven that, with a strong quarter three, we are able to do that.

So all in all, I see that the end of the year is finishing on a high note.

Another Quarter with Robust Growth and Profitability

So to close up, I am very pleased with this quarter. It is actually the best quarter we have had since 2001. We are proceeding with high pace in our strategic transformation programme. We continue to see strong underlying demand and good growth for our key focused areas. We are proceeding with investments in high margin areas to accelerate our growth. And I think that we see the end of the year with a strong order book and a healthy demand to end on a high note.

So with that, I hand back to you, Ulla, and for the Q&A session.

Q&A

Ulla Paajanen: Thank you, Annica. Yes, we are starting the Q&A session now, and I would like to remind you that please limit your questions to two. We have usually a lot of interest. And therefore, we want to give a chance to as many people as possible to ask the questions.

Justin Jordan (Exane BNP Paribas): I have two questions, if I may. Firstly on, I suppose, topic of energy costs. I know from the very detailed investor kit that Ulla updates every quarter, that energy was approximately 6% of costs in 2020. Clearly, we are in an inflationary world. Can you give us some help as to how we should think about energy costs going forward, not just in Q4, but 2022 hedging that may be in place? And I am thinking particularly in both the Packaging Material and Paper divisions. Clearly, it is probably less of an issue in Biomaterials.

And then the second question is on wood prices. Clearly, in your bridge, you have EUR 155 million of extra fiber costs year-over-year and now we are all familiar with rising OCC costs. But looking at your Forest revenues, it would appear like wood prices were up something like 9-10% year-over-year. Is that the actual fact, as it were? Because that would seem to be slightly higher than the previous inflation that you have seen in wood prices in recent quarters.

Seppo Parvi: Okay. If I start with the energy costs. So I think, first of all, I want to remind that our energy self-sufficiency rate is relatively high. If you look at the total Group, it is something like 67%, and in Finland alone it is 90%, thanks to our ownership in PVO, where we get the energy at cost.

When it comes to our hedging policy, we hedge about 80% of a current calendar year and 70% of the following. And in the coming years, 50% and 30%. So in that sense, we are in a relatively good position at Group level. But obviously, that can be a bit different for divisions as we are then internally rising electricity prices to the market price level.

The energy cost development with the rest of the year, we do not expect any serious increases any more during the Q4. And obviously next year, we come back later and we give further guidance for the coming year, but that we are not doing today. But for the rest of the year, that is not very much higher than what we are seeing so far.

On the wood costs side, they are, in Q3, higher compared to a year ago. And we expect costs to increase also in the coming quarter compared to previous quarter. Saw log costs have been clearly higher year-on-year. That has been the case since the beginning of the year, while pulpwood costs are expected and have been more stable and that has been balancing the total costs.

Linus Larsson (SEB): My first question is on capital allocation and your decision not to go ahead with the big investment in Skoghall and rather focus on Oulu. And my question is, if you could talk a bit about the background for that. Is the market strength that has caused that altered focus away from pulp and increasingly to paperboard?

And secondly, given that you have done work in a previous feasibility study on the Oulu site, could you talk us through the timeline and how soon would we potentially be in CAPEX phase and start up with that second machine at Oulu? And maybe also in connection to that, if you could share some thoughts what that would imply in terms of CAPEX for 2022 potentially?

Annica Bresky: Okay. I can start with the market side and say that we have, for a long time, seen the sustainability trends in packaging really picking up. And this is the chosen growth areas that we have, that we have communicated also earlier that will drive significant growth for the company. So the decision to prioritise to accelerate packaging growth, both in Oulu and Skoghall, in sense that in Skoghall, through the big revision, we made we saw that we wanted to debottleneck one line and grow with our customers within liquid and food packaging. And in Oulu, we decided to do the pre-feasibility study earlier than we had expected. If you remember, we have two machine lines in Oulu. We chose to convert and start up one first. That conversion and the ramp-up has gone better than we expected, both in terms of quality and reaching design capacity of the Oulu line. So that gave us the confidence to proceed quicker than expected with that and reprioritise our CAPEX allocation from the pulp mill to getting board on the market quicker.

And in terms of pulp, we are long in pulp already as a company. So this reprioritisation made sense from that perspective.

If we look then at how quickly we get the board to the market, it is for Skoghall in the second half of 2023. And for Oulu, provided that the pre-feasibility study ends beginning of first quarter next year, we will come back with more details on what type of product mix we will be running and also how quickly it can be converted in the beginning of next year.

Seppo Parvi: Yeah. Then about the capital expenditure figures. So I think, first of all, in the case of Oulu, like Annica said, we have to remember that this is pre-feasibility study that we are starting now, and we expect to be ready with that early next year. And after that phase, we are able to commit more on phasing of the CAPEX as well as total CAPEX figures. And that obviously will depend on end product and once we are also more clear on potential infrastructure-related needs, etc. So that is something we have to come back to.

Then with the Skoghall investment, this EUR 97 million we announced today, typically first year when you start the project, the capital expenditure is not so high. You will make the down payments, etc. Year after, second year, is that when the major part of the CAPEX takes place. And third year typically where you have the last payments then from the project after testing and acceptance of the machinery doing that has been done.

So no major effects seen for the 2022 CAPEX from that. Typically, as you know, CAPEX has been around EUR 600 million, excluding any major development projects. And this year we are guiding around EUR 700 million, as you might remember. So that is something we come back to obviously when we are coming in Q4 with both the new annual guidance on CAPEX, but currently we do not have any major things in the pipeline on top of what we have announced already now. But that is something we have to come back later. But no major effects from Skoghall for next year.

Linus Larsson: But even in a fast-paced process, it is hard to see that there would be much CAPEX at Oulu in 2022, and not much at Oulu either. So is it fair to say that 2022 will have clearly less CAPEX than 2021, where you have a midpoint guidance of EUR 700 million?

Seppo Parvi: As I said, we will come back with a more clear guidance in Q4 reporting. So that is when we can comment it. But like I said, we do not have any major projects in the pipeline for the coming year, as such, where we would have cash outflow.

Linus Larsson: Okay. And then maybe just to check, you did not mention much on the Lignode project in your report. Could you just give us a quick update if there is anything to say and what is the sequence of events? What is the potential news flow in the next months and quarters, please?

Annica Bresky: Yes, I can comment on that. So what we are doing now is that we have verified the technical parameters of the product in Sunila Mill, so that project is proceeding very well. We are looking for the partners and having those discussions, signing up our collaboration partners, and we will come back when we have more transparency on that. And then, it is about the setup of the legal structure that we are considering to enable as quick ramp-up as possible to industrialise this.

So in the coming quarters, we will be able to disclose more information as we proceed with those two key focus areas.

Johannes Grunselius (Kepler): So if you could help us a little bit to understand the big moving parts in the fourth quarter because it is such a fast-moving market, or volatile and so forth. You were successful in mitigating the higher input costs in the third quarter. The picture on page five in the presentation kit is very useful. How should we see this in the fourth quarter? Should we expect less cost inflation quarter-over-quarter, would you say, than in the third quarter? And what is your feeling about mitigating or even get more compensation on the sales price? Could you talk about that?

Annica Bresky: So if I start with the market, of course, we constantly review the contracts that we have with our customers. And depending where we are in the cycle of contract negotiations, we are also able, of course, to mitigate input costs as the contracts are being renewed. Different businesses have different cycles. We are quicker in, for instance, containerboard and compensating, more stable in consumer boards where we have a longer contract period. And you have seen, even though that is the case, consumer board has delivered really well in quarter three and has a stable outlook also for the coming quarters.

If we look at Wood Products, we have a split between the sawn goods, where prices typically move up and down quicker. But having building solutions as part of our business, we have more stability and long-term contracts with customers.

So if we look at pulp, here it is about how efficient we can run our production units and supply our customers in the logistics. So all in all, I see that and I think Q3 is a good testimony that we are able to mitigate costs and work with what we can impact. If you remember, we had our profit protection programme that we finished in the previous quarter, making sure that we have a sound cost structure as a fixed cost structure as well.

Seppo Parvi: Yes. Then maybe just adding on cost inflation. So if you look at the key cost drivers or input cost, like energy, wood , chemicals, in Q4, additional cost coming from cost inflation,in the case of each item, we are talking about some single millions effect for the remaining year. It may be good to remind also that, as I mentioned, so we have some transfer of volumes from Q3 to Q4, and that obviously is also positive for the coming quarter. And that was because of logistics issues that we and many other companies are facing. So that helps also going forward.

Annica Bresky: And suppliers, of course, for input materials, like chemicals and so on, we also have long contracts that somehow help us in this situation when there are quick moves.

Johannes Grunselius: Thank you. Very helpful comments for that. Can I just follow-up on Wood Products It is difficult to know for us sitting on the outside to understand how the pricing will develop short term, maybe even more complicated for 2022. But what is your feeling here? What do you hear in the discussion in terms of price pressure on this extremely favourable pricing?

Annica Bresky: I think one of the things to remember is that through our ownership of Tornator and our own forests, we are able to balance also by using our own forest to drive wood to our operations. And so this is one of the areas where we can impact, of course, how much we source from other forest owners and how much we choose in our own forests.

Seppo Parvi: And during this year, harvesting conditions have been quite good. So we have not had any issues with that. Now obviously when autumn and winter is coming and now it is getting wet, so then the key is that how fast the ground gets frozen so that we can continue to harvest also during the winter time. And that will be, I think, critical for the coming months how the wood price will develop.

Johannes Grunselius: That is helpful. But I was actually thinking about the pricing for wood products and sawn goods for the do-it-yourself markets and the construction builders, etc. What do you see there in terms of pricing at the moment?

Annica Bresky: What we have seen in the current quarter is that the prices of US market has gone down, but the markets of Europe, Australia and overseas, Japan, have had a very healthy demand and a quite stable situation so far. And as I tried to explain, we have chosen a mix of customers that gives us more stability in the long run. This is favourable when there are big moves of the prices up and down in the sawn goods.

And our building solutions part of the business is giving that stability, long run. We have 600 projects ongoing in the building solutions part. So staying with the customers that we have and not being opportunistic when the prices move on the markets and having a good market mix, that I think is key to deliver good results in Wood Products.

Lars Kjellberg (Credit Suisse): A couple of follow-up questions. When you are looking at Skoghall and Oulu, being the two investments, Skoghall, of course, you provided the pulp project. I am just thinking about the two mills. Will you have sufficient integrated pulp at both sites post these expansionary – or potentially at Oulu expansionary investment? And I appreciate you did not call out specifics in terms of the grades you plan to produce at Oulu in the second machine. But would that be back to where you – I guess, the first pre-feasibility study, which was some sort of CUK grade, is that what you are contemplating? That was my first question if you can address that first, please.

Annica Bresky: Yes, what we see is that both sites are highly competitive. So from that perspective, we will be able to have a very competitive production even though Skoghall is not fully integrated or Oulu is not fully integrated. So we have taken that, of course, into account and we have internal pulp in our business, as you are aware, since we are long in pulp. So that helps us. Both of the sites are positioned in areas where we have good wood availability and the closure of Veitsiluoto in northern Finland, enables us to direct the wood volumes in the region back to the Oulu mill.

Then the second question is…?

Seppo Parvi: Which grade.

Annica Bresky: Which grade. Yes. Of course, we want to have a machine that is flexible, but the exact product base we would need to come back to. And this is what we are contemplating now looking at the full product portfolio that we have in consumer board and containerboard, what makes most sense. So bear with us one quarter more and we will come back in beginning of next year with a more precise plan.

Lars Kjellberg: Okay. And my second question comes back to what you talked about, sustainable packaging you are seeing strong demand. Could you help us understand what that means in your portfolio and how that contributes to your growth and in what areas?

Annica Bresky: So if we look at the strategy, packaging as a whole, both Packaging Solutions and Packaging Materials, is what is going to drive the significant growth agenda that we have. So 25% of our growth is expected to come from that area. This is just the steps that we are taking now in a very structured way to make sure that we can grow with our customers. Liquid is growing well. Containerboard is growing well, driven by e-commerce, for instance, and long-term sustainability drivers, where a lot of products in plastics are being replaced by paper packaging. So we are taking advantage of that.

Cole Hathorn (Jefferies): The first one is following up on the capital allocation point that was asked earlier. If I look into next year with not doing Skoghall, your CAPEX is likely going to be lower. If I look at where consensus is and that the implication for your net debt to EBITDA for next year, if consensus is right, then you will be approaching 1 times net debt to EBITDA. So it brings up the question, what are you going to do with the higher free cash flow? How are you thinking about that? Is that going to be your dividend policy? Is it going to be potentially some M&A or other capital returns to shareholders? If you could just talk about how you think about that before you go into further CAPEX into 2023, 2024, 2025, if you approve Oulu and your Lignode project? So the first question.

And the second question is around demand. Annica, you made the comment that your order books into the fourth quarter are good. Are you referring to the Packaging Materials or the Wood Products? Just a little bit more colour around the near-term order book and demand environment?

Annica Bresky: Yes, I can start with the market side. We are fully booked actually on all our products. So it is a very good situation that we see on the market. And as I said also, the paper business has a much better balance. So also there, the competitive remaining mills that we have left are full. So I think that it is a healthy market environment for us, generally.

And then if we look at the CAPEX allocation, of course, the ramp-up of Lignode is something that we are doing in the coming years, and we are looking for partners to share that investment with us. But it is part of our growth agenda. In Packaging, we have these two steps that we are looking at today, and we have announced today. And then, of course, as you very correctly said, we have taken down our net debt. This opens up opportunities for acquisitions.

In Wood Products and in Packaging Solutions, there are targets that we are looking at long term. And this is part now of our transformation, as we have communicated before, that we are moving from a phase of restructuring into a growth phase. And, of course, M&A is a part of that. If there are attractive opportunities out there, we will be in a position to utilise that opportunity.

Cole Hathorn: Would buybacks fall under the capital allocation agenda or not so much at this stage, if there were no attractive M&A opportunities that you execute on next year?

Seppo Parvi: Seppo here. It is true, like you said, that our balance sheet is getting stronger and our net debt to EBITDA ratio has clearly improved and we believe that we can continue to improve it going forward, thanks to good cash flow and improved profitability. I think you referred to potentially higher dividends or share buyback programmes, etc. But I think those kind of things are up to the Board and shareholders to decide and not something that we, as management, comment.

Harri Taittonen (Nordea): I remember when you talked about it first. I think there was one motive was that will be renewing the pulp line (in Skoghall) and that there was a little bit of a maintenance nature in that way. But do see that that will come relevant at some stage now, in any case, if you now decide not to address the pulp line? That is my first question, please.

Annica Bresky: Yes. Of course, pulp mills are maintained every year. The annual shuts that we have is to maintain the pulp mill. So from that perspective, it is not something that we see in the immediate future. We take care of our pulp mills to make sure that they are in good shape. What we do want to do now is because of the quicker ramp-up of Oulu, we could push forward a conversion that was further ahead in our plan, and we would not have done the second line of Oulu until much later. So we take advantage of that opportunity now.

Harri Taittonen: Okay. So there is no urgent need or near-term need for modernisation there at Skoghall, that is how I should understand it. That is great. Well, if I have another question left, let us see which one I choose. Maybe on the packaging board, deliveries were just a little bit down in the quarter compared to Q2, practically unchanged. But then you wrote that demand was weaker in, I think, recycled fibre-based grades. But what was behind that comment? There was the genuine weakness or was seasonality or how would you sort of characterise that comment in the report?

Annica Bresky: In the recycled side, we see a strong demand. So I do not recognise that there was a weak demand. And if we look at the consumer board, if you compare quarter-on-quarter, you have to remember that Q3 is a maintenance quarter. So therefore, the deliveries cannot be directly compared with Q2. And also Q4 is generally a maintenance quarter for many of our pulp mills and seasonally, a weaker quarter.

Seppo Parvi: We refer to strong containerboard performance actually in the report, but I will check.

Annica Bresky: Yeah. We see a strong demand for both kraftliner and testliner on all our markets.

Harri Taittonen: Exactly. I just wanted to double confirm that because I was just looking at the result from demand Q3 versus Q2, and that is why you said that the recycled fibre-based containerboard demand was a bit weaker. But that should be purely understood as seasonal factors.

Annica Bresky: Yes, seasonality effect.

Oskar Lindström (Danske Bank): I have two questions from my side. And both of them are on the outlook for your business. The first one is on sawn timber operations and you mentioned weaker pricing and demand in North America, but pretty good in Europe and Asia. And I was wondering if you could comment also on some of the key export markets such as the UK and North Africa. What are you seeing in terms of momentum for prices there? That was my first question.

And my second question is on market pulp. We have had some news of paper and tissue producers reducing or closing production due to high energy prices or lack of electricity in some regions. Are you seeing any impact of this on demand for your pulp? So two questions.

Annica Bresky: Yes, if I can start with the pulp. In China, there have been operations that have been curtailed. Our own operations have not been curtailed anywhere, neither in pulp nor in other products in China. And if we look at our own portfolio, we have transformed ourselves out of the graphic paper end usages in pulp. So we are in the areas of packaging and the hygiene and specialties. So there we see a strong demand. And as I said, we are fully booked for the coming quarter.

And if we then come back to sawn timber, North Africa is not a big market for us. We are focusing on Asian markets, Australia, and Japan, because that is where we see building solutions, for instance, driving a lot of projects. I can mention Singapore, for instance, wanting to be the world's most sustainable city and building their whole university area with CLT wood, for instance.

We also see in Europe, that EU is taking very decisive action in promoting building with wood as part of the solution for the construction industries. Construction is today 40% on CO2 footprint globally and here, replacing other products or other materials with wood to the extent that it is something that is favoured in the EU strategies that are being promoted.

So from that perspective, Europe has stayed strong. We also know that globally there is a backlog of renovation and infrastructure projects that needs to be done, and building on wood is such a small part of the total construction market. It is only about 10% totally of the construction market. So therefore, even though the construction market might move, we are still able to capture market share.

Oskar Lindström: Okay. So you are not seeing any signs of price weakness outside of North America?

Annica Bresky: Well, I think we have seen peak prices. As we said, it has been an exceptional quarter this quarter three. And probably there are going to be spill-over effects, but as I said, our pipeline is strong and we think we will end the rest of the year on high note also on wood products. And then we would need to come back with guidance for next year at next quarterly report.

Seppo Parvi: I think it is important to emphasise that we have a significant share coming from building solutions that is obviously balancing our portfolio compared to some other participants in the market.

Oskar Lindström: Sorry, what share is that roughly in terms of the operating profit?

Seppo Parvi: We do not comment Building Solutions' share of Group operating profit but Building Solutions are roughly one-third of the total sales in Wood Products.

Lars Kjellberg: Now just my question was about the logistical challenges that you called out in the pulp business. Is that the only area you are seeing this or if it is wider spread? I was thinking more on the board side where you do have some material exports, I would assume. But also if you can call out the quantity we are talking about in volumes that may have been pushed into Q4.

Annica Bresky: I can comment on logistics in general, and I think we are all aware that this year has been a difficult year for many perspectives globally for the supply chains. And we have proven that we can deliver as Q3 shows, even though there are challenges there. And if we look at the outlook, the expectation is that the bottlenecks that we see in logistics will continue also next year. But we have proven that we can supply our customers.

In the pulp side for instance, we see that inventories have gone up. And one of the reasons for that is that there is a lot in transit. So the lead times might be a little bit longer. The materials are on the boat before they can be offloaded. Many harbours have been congested or closed. So there are a lot of queues.And that was what happened actually for one boat that missed the quarterly day and ended up in Q4 for Biomaterials this time. So it will impact positively the results in Q4. But we have shown that we are able to handle this situation and we will continue handling it.

Lars Kjellberg: What are you hearing from your customers about their capabilities to move products, and as such, which could impact your business indirectly?

Annica Bresky: Yeah. In Packaging for instance, we are used to working with inventory management. I think contingency and robustness, having several sites being able to supply material, such as we have, interchangeability and having this active dialogue with our customers, we have proven that we can deliver and have high results in packaging, for instance, despite these challenges in the supply chain. So I do not see that being a problem going forward. We will sort it out.

Robin Santavirta (Carnegie): So if I look at your Q3 and listen to you now in this call, obviously your performance seems to be quite good and you are also calling out quite good outlook. Now still if I read the outlook statement that you have, you have changed that since Q3, stating now that you see resilient demand. I think you said very healthy demand in the last quarter. Where can you see a change or weak demand or outlook now compared to last quarter?

Annica Bresky: Well, we see a continued healthy demand for next quarter. And we have annual guidance. And I understand that we are performing better than last year and going through the businesses, like we are doing now, trying to comment and give more flavour to this. But as I have said, our order books are full. The demand looks healthy for our products, and managing that is about choosing the right markets, the right products, the right customers and making sure that you have a very active dialogue. That is what is bringing the results at this point for us.

Robin Santavirta: And then related to the China, it seems to be a bit of a tricky situation ongoing there. What are you seeing when it comes to paperboard sales and your pricing in that market? What is the competitive environment when it comes to production, inventories, etc., in paper boards? And also, related to pulp, what are your customers saying at the moment in China?

Annica Bresky: Well, we know that there have been paper board and paper producers that have been curtailed due to the energy situation. We have not curtailed our production. Our board mill in Beihai has been producing. We know that China, of course, has a big impact on macroeconomic levels. So a slowdown of China means impacts in the rest of the economy.

For pulp side, of course, if board machines or paper machines are closed down in China, that means that pulp consumption is lower. But as said, quarter four is also tight from the perspective that many of the pulp producers have their annual maintenance shuts during both Q3 and Q4. And as the logistics make predictability of when you are going to get your material more difficult, that means also that customers are managing their inventory better and making sure that they have inventory enough to be able to produce when they want to produce. So it is a tricky situation. I agree to that.

Robin Santavirta: Thank you. And then a final one, looking at Paper. You have done a great job driving down capacity and increasing capacity utilisation in that business. And I should say it seems to be turning around now with likely higher prices and lower fixed cost for you guys.

Are you considering strategic options now when it seems the profitability outlook is improving? What could those strategic options be if you do consider any of those?

Annica Bresky: We have our three strategic options. And it is becoming now a very small part of our total business. So when we are finished with the restructuring totally, it is going to be close to 10% of our sales. So it does not become significant anymore, but our options are still that if we have attractive opportunities to convert, we will do that. Oulu is an example of that, Varkaus is an example of that, and there might be others.

The business that is remaining, we make sure that it is competitive and has good products for the customers in paper. If there is a better owner for some of the sites, we will divest, like we did with Sachsen, and that is considered an option also going forward. And of course, with improved profitability, those opportunities become better for those choices.

And if we cannot find a better owner or we cannot convert, then we will take action if the market balance is not in our favour, like we have been doing. So I think we are moving to a much better position for paper going forward.

Ulla Paajanen: I just want to thank everyone for my past almost 20 years at Stora Enso and 12 years as Head of Investor Relations at Stora Enso. It has been a great journey. I have enjoyed it thoroughly. This is a great company, and I hope all the best to it and its owners. So some of you I might see in the future. But otherwise, I say goodbye and thanks for all these years.

And now we have concluded the conference call.