Q1 Report 2021

Friday 23rd April 2021

Introduction

Ulla Paajanen

Head of Investor Relations, Stora Enso

I am Ulla Paajanen, Head of Investor Relations here at Stora Enso and welcome to our Q1 2021 results announcement call. And with me here today is our CEO Annica Bresky and our CFO Seppo Parvi, who will give us first a presentation of the results before the Q&A session. So Annica, please go ahead.

Presentation

Annica Bresky

CEO, Stora Enso

Back on track

Thank you, Ulla, and thanks for joining us this Friday afternoon. If I start by summarising this quarter, I would say that we are back on track on many of our financial targets and this is due to improved performance in our company but also recovering market conditions. We have seen a good growth of our core businesses, 14%, and we can also see an improvement in our operational EBIT by 82%, and the backdrop is that all our growth businesses are moving in the right direction, and we have had good cost management within the company.

As you are aware, this week we also announced the planned closure of two paper mills and of course, this is very difficult news to deliver to all our mill personnel. If we look at how this impacts our paper business, this will, of course, improve significantly the profitability of our paper business and our long-term competitiveness, and at the same time, our footprint within the paper business will be reduced. So after completed negotiations, 90% of our group sales would come from our core businesses, and this is, of course, the direction we are going in the execution of our strategy.

Oulu Mill, which was one of the significant steps of transformation we took last year that we started ramping up at the beginning of this year, is performing very well. We are delivering our products to the customers. We have reached many of the quality demands, and I am very happy to announce that we are reaching our operational EBITDA break-even earlier than planned, already in quarter three this year.

And last but not least, we reaffirm our outlook for this year, where we say that we expect our operational EBIT to be higher than last year. So, all in all, I would say that Stora Enso is back on track and that we see traction in our growth and core businesses.

Improving performance and market conditions

So if we move now over to some of the high-level financials, our sales increased by 3% in quarter one and excluding paper, as I said, by 14%. Our operational EBIT increased to EUR 328 million and excluding paper to EUR 362 million, and of course, we need to remember here that we have the impact of our Forest assets sales in Sweden - EUR 74 million.

All in all, despite this forest assets divestment, we still have a very strong underlying result. Our operational EBIT margin increased to 14.4% and excluding paper to 19.4%, which is a very good level, showing the strength of our businesses in the growth segments and also our core businesses.

Cash flow from operations landed at EUR 185 million and after investments at EUR -9 million. Our net debt to operational EBITDA is at 2.3 on the same level as a quarter ago, and operational return on capital employed, excluding our Forest division, increased to 12%, which is quite close now to our long-term financial target of 13%.

Result improvement driven by performance in growth businesses and good cost management

If we now move to the bridge showing what impacted on our results, you can see here that it was mainly driven by performance in our growth businesses and also good cost management on top of, of course, the Forest land sale. And the impact of paper has been quite significant, as you can see here. The market is still very demanding, and sales prices are low in the paper business, but we have, through the other businesses, been able to increase our sales, increase our volumes despite a challenging supply chain situation around the world and also deliver on our reduction in variable and fixed cost and our profit protection programme. So all in all, we are moving in the right direction.

Strong market conditions for the growth businesses

I will say a few words now about the market conditions for our businesses, and we have seen robust performance in Packaging Materials. That was the case also last year. This year we see that we are fully sold out. There is a high demand, and our capacity for the division is very allocated right now.

Market situation in China is continuing to improve, which is also driving our results in that division. For Packaging Solutions, there is a solid demand for e-commerce and this supports, of course, our corrugated packaging. The prices here are yet to catch up because they have been quite steep with the raw material prices in Containerboard, but this will adjust itself as we go along.

Classic sawn as well as CLT and LVL have been extremely strong in Wood Product's result. We have seen a very good performance there with all-time high levels of EBIT margin – operational EBIT margin. This is a very strong testimony of the direction of our wood products in terms of building with wood.

We have a continued healthy performance for our Forest division. The harvesting conditions have been excellent, so our Forest division has been able to supply this increased demand for all our other businesses.

Of course, we have also seen the improvement in Biomaterials, and as you are all aware, the pulp prices have moved in the right direction since already last quarter, and now they are shown in our books, which is good to see. Demand is expected to stay strong for this year.

Last but not least, as we have said many times, the paper demand is still very much challenged and will continue to be so, but we have taken significant steps now in our company to adjust our capacity to meet this new reality.

Strategy execution intensifies further

So, all in all, we stayed firm in our strategy execution, and the actions are intensifying as we are moving further. Our paper restructuring plans have been announced. We also decided to shut down our US-based Virdia operations in Q1 since they were not in line with our areas of growth.

Our TreeToTextile (TTT) joint venture, where Stora Enso holds a 25% share, is in the demonstration phase for developing a new technology for sustainable textile fibre in Nymölla. So this is an area where we put effort because we believe that textiles need to be much more sustainably produced in the future. So here we have a leadership position together with other joint venture partners.

In our strategic review, we made the decision to cease dissolving pulp production at Enocell Mill during 2021 and instead increase the production of other pulp grades. And as you are aware, the ramp-up of the converted Kraftliner in Oulu is proceeding very well and ahead of plan, and as I mentioned, we reached EBITDA break-even already in quarter three 2021. We estimated before that it would be quarter one 2022.

In Ždírec Mill, we have decided on an investment in cross-laminated timber (CLT) production and here we are in the construction phase, and this project is also proceeding as planned and this will be a very good add-on seeing now the demand and the many projects that we are running in our wood products division.

Our feasibility study is ongoing at Skoghall Mill, and the decision on that investment is to be taken at the end of this year. And last we have signed an agreement with OX2 to lease land in Sweden for the construction of a 170MW wind power park, and this is also how we support renewable energy production through our Forest holdings and collaborating with partners in that.

Plans to permanently close down pulp and paper production at Kvarnsveden and Veitsiluoto Mills

I will just say a few words now about the plans to permanently close down the pulp and paper production at Kvarnsveden and Veitsiluoto Mills, and a lot of this, of course, you have already read in the media. And it is important to remember that this decision is still subject to completed co-determination negotiations that we will do in the coming months now. But what we aim for is to reduce our capacity in SC magazine paper and improved news, and also in wood-free uncoated office paper and coated magazine paper. And as you are all aware, there is significant overall capacity in many paper grades, especially in the European market. So, for us, we reduce our own capacity by 35% by this step and make sure that the rest of the sites that we have are competitive, and our paper business becomes profitable. Of course, this is very, very sad news for our people. It has a potential impact of maximum 1110 persons.

Financial impact of potential paper mill closures

And the financial impact of this would be EUR 35 million in operational EBITDA, that would be improved for the Paper division. And as I said, it would take out 35% of our paper capacity or 1.3 million tonnes per year. Our annual sales would decrease by approximately EUR 600 million on the back of this decision. And then we allocate EUR 127 million of non-cash impairment costs in quarter one, and EUR 104 million as items affecting comparability in quarter two results, out of which EUR 96 million is a cash impact due to restructuring and layoff costs.

Now with that I turn over to you Seppo to give a little bit more detail on the financials.

Financial Overview

Seppo Parvi

CFO, Stora Enso

Thank you, Annica. And I start with the key figures from the report that we have published today. First of all, sales line for the first quarter this year, sales reached EUR 2.276 million. That is a 3.1% increase year-on-year. Operational EBITDA margin at 21.4%, significantly up compared to a year ago when we were at 15.2%. Operational EBIT was at EUR 328 million. That is 82.4% increase versus a year ago. Then operational EBIT margin was at 14.4%.

Earnings per share basic at EUR 0.18 for the quarter and operational return on capital employed excluding Forest, as Annica already mentioned, that is 12%, a bit below 13% long-term target, and cash flow from operations at EUR 185 million, and then the last 12 months operational EBITDA, stable at 2.3, despite the fact that we have paid the dividend at the end of the first quarter.

The EUR 400 million profit protection programme target will be reached ahead of plan

Then moving forward and looking at our EUR 400 million profit protection programme, where we are moving ahead with good speed, and we will be able to reach the target with savings already ahead of the plan, during the current quarter, Q2. We are very proud and happy about the achievement, and the organisation has been working hard to reach the target.

We are planning to close also the reporting of the programme at the end of the coming quarter. Obviously, we will continue to track the savings and close the sales towards the end of the year.

Packaging Materials

Then moving to divisions, and I start by looking at the Packaging Materials division. The strong performance continues, and we are very, very proud about the Oulu Mill ramp-up that is proceeding also ahead of the plan. Sales increased by 13% and reached EUR 862 million. This is thanks to higher deliveries and price.

Operational EBIT was up EUR 31 million at EUR 127 million levels despite all of the ramp-up costs. Ramp-up costs for the Oulu Mill were EUR 23 million during the quarter.

Lower variable and fixed costs supported the result, and good to remember that last year, the first quarter was negatively impacted by strikes in Finland.

Operational return on capital improved to 16.7% compared to 13.5% a year ago, and like Annica already mentioned, Oulu Mill operational EBITA break-even is expected to be reached already in Q3 this year. That is two quarters ahead of the original expectations, where we thought that we would be there by Q1 next year.

Packaging Solutions

Then looking at Packaging Solutions where we can see solid growth, but operational EBIT is challenged by higher raw material costs. Sales increased by 7% year-on-year. This is thanks to higher sales in China Packaging and European corrugated deliveries.

Operational EBIT decreased by EUR 4 million and was at EUR 4 million level. This is because of higher raw material prices and negative FX foreign exchange impact that is not yet fully compensated by higher selling prices. The price lag is about one quarter.

New businesses impacted operational EBIT also negatively. This is because we are making an investment when it comes to biocomposites, formed fiber and Box Inc. These have been partly offset by higher volumes, and operational return on capital was at 7.5%.

Biomaterials

Turning to Biomaterials, the excellent market conditions and solid performance improved profitability. Sales increased by 24% and were at EUR 355 million. This is thanks to higher pulp prices as well as higher deliveries, partly due to the Finnish strike in the comparison period Q1 2020, as seen in the figures.

So it is good to know that the market is quite strong, and currently, the global inventories are two days below the five-year average.

Operational EBIT increased by EUR 68 million, and it was EUR 65 million, and this is thanks to higher sales and lower variable costs. Operational return on capital increased to 11.2%.

Wood Products

Next, looking at our Wood Products division, here we have a record-high quarterly operational EBIT margin. Sales also increased by 13% to EUR 382 million thanks to strong demand, especially classic sawn market has continued to be strong.

Operational EBIT increased by EUR 34 million and was at EUR 52 million. This is the second-highest Q1 ever. Higher sales prices and volumes were partly offset by higher raw material costs, and like mentioned also earlier, in addition to record-high costs with the EBIT margin, it was also the highest ever operational return on capital at 36.9%. This is an increase compared to 11.3% a year ago.

Forest

Then our Forest division where solid operational performance continues and top of that we had the gain from the land divestment. Sales increased by 7% to EUR 582 million. This is thanks to higher wood deliveries in Finland and the Baltics.

Operational EBIT increased by EUR 82 million. The record-high first-quarter level was EUR 123 million. This is including a EUR 74 million impact of Forest land divestment in Sweden, as well as solid wood supply performance. It is also worth mentioning that harvesting conditions have been excellent and quite optimal for the time. It is, of course, good news for the availability of the wood. Operational return on capital is clearly above long-term targets and was at 9.9%.

Paper

Then our Paper division where we expect that planned closures would improve profitability and long-term competitiveness of the division. Sales decreased by 28% to EUR 428 million. This is due to lower deliveries because of accelerated structural demand in decline. Oulu Mill conversion also decreased sales significantly in the Paper division.

Operational EBIT decreased by EUR 55 million to EUR -34 million. This is due to global paper market challenges; higher variable costs were partly offset by lower fixed costs. The comparison last year was negatively impacted by the strike in Finland. Also, cash flow after investing activities was at -4.6%.

Development of long-term financial targets

Then taking a look at our long-term financial targets and the development, it starts to be now more on green and yellow compared to previous quarters. Dividend and growth in green. Growth 14.3% in our core growth businesses, and net debt to operational EBITDA of 2.3 and net debt to equity at 37%. Operational return on capital employed at 12% and in this period likely below 13% target level.

Then a look at the divisions, so looking at the Packaging Materials slightly below the targeted 20% level at 16.7%, also Packaging Solutions at 7.5%. Biomaterials moving up at 11.2% now, and Wood Products, like we said, at record levels, 36.9%, clearly higher and above the targeted 20% level. Forest at 9.9%, also above the 3.5% level that we had set as a long-term goal. Paper, where we targeted at 7%, was now a negative 4.6%.

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

Conclusion

Annica Bresky

CEO, Stora Enso

Thank you, Seppo, and coming back to our outlook, we stay firm in our expectation that this year, operational EBIT is expected to be higher than in 2020. And as you are all aware, this is driven by the recovering global economy from the pandemic. It is specifically strong in China and in the US, but also Europe is catching up. The demand for our products is healthy, except for graphic paper. So this is the backdrop upon which we see that this year will continue to be better than last year.

In Packaging Materials, our Oulu Mill is performing better than we expected, so as we said, the EBITDA break-even happens already in Q3. Before it was Q1 2022, and as Seppo also mentioned before, EUR 10-15 million negative impact of ramp-up costs are expected in quarter two and approximately EUR 40-50 million total negative impact of the ramp-up for operational EBIT in 2021.

We will reach design capacity by the end of quarter two. This is progressing very well. What we are focusing on now is establishing the final steps in the quality that we have, and already now, we have had very good feedback from our customers. So, the commercialisation of the product portfolio will be reached by the end of 2021.

And as Seppo mentioned before, our EUR 400 million profit protection programme is proceeding very, very well, and we will conclude this ahead of our plan already by Q2 this year, delivering on our target.

Our estimation for our total maintenance impact is EUR 112 million for quarter two, and in the pulp business, we have no significant maintenance shuts during quarter two.

Back on track

So, to summarise once again, we are getting back on track on delivering on our new financial targets that we set app. 6 months ago on our Capital Markets Day, and I am very proud of the work that we have done. It has been a combination of our own actions and then a very strong demand for renewable materials in our core businesses. Moving forward now, we will continue our focus on our strategy execution to deliver growth, and this is something that the whole organisation is focusing on. So, with that, I will open up for your questions.

Q&A

Robin Santavirta (Carnegie Investment Bank): Yes, thank you very much. It is Robin Santavirta from Carnegie. Now, the first question I have is related to the consumer board business of yours. You have launched price increases in Europe and in Asia, I assume.

Could you just describe, first of all, the background for those price increases? I think you have been quite cautious related to the consumer board – the volume boxboard market in Europe before. Has that – what has changed?

And then, related to the Chinese business, we have seen ivory board prices increasing quite significantly. Could you describe what kind of pricing agreements you have in China when it comes to length? So are those mostly still monthly price agreements, or do you have mostly long agreements in China? So, more information on that. Thanks.

Annica Bresky: Yes, if I start with Europe and consumer board, as you are all aware, we have a mix of different types of contracts from long contracts that are up to five years. Then we have three years, one year and then shorter contracts. And how we can increase prices is dependent on when the contracts are reaching their time for renegotiation. So this is always depending on that when we can push prices, but of course, whenever we have the possibility and we see that there is a strong demand, we push price increases.

If we look at China, the market is different. It is more shorter-term contracts, especially in the folding boxboard business, and the market is more volatile. On our liquid business that we have in China, it is more or less the same set up that we have in Europe, where it is more longer contracts.

Robin Santavirta: Thank you. And can I ask what the relation between the longer contracts and shorter contracts in China? Is it 50-50?

Annica Bresky: We do not comment on the contractual setup, unfortunately. I am sorry for that.

Robin Santavirta: All right, and then just on the situation in Europe, has something changed now when you are launching price increases and before you, I guess – quite consistently we are talking about lower prices; price pressure in Europe?

Annica Bresky: I do not recognise the comment that we have seen price pressure in Europe. We have pushed price increases when we have had a strong demand and when the contracts have been up for renegotiation.

Seppo Parvi: And typically, the prices in any cycle, they are renegotiated about New Year on both sides of the New Year, so – and that is certainly reflected on the timing.

Robin Santavirta: All right, I understand. The second question I have is related to the pulp business and your dissolving business. What is the background for you now moving out of that business, and when will you stop selling or producing this dissolving pulp?

Annica Bresky: As many of you might be aware, we have done a strategic review. We did that already last year. And within that, we decided which areas we had the opportunity to be market leaders in and take significant market share, where we would see our best opportunities for good margin business.

And when we looked at it, dissolving pulp for viscose production was not an area where we would be able to have a significant share of the market, nor have an upside from a profitability perspective. Enocell Mill is a swing mill, and the dissolving business is a minor part of our total business in Stora Enso. And if you look at having a site such as Enocell you want to have less complexity and reduce complexity. And if there is no clear margin upside, then this complexity just adds to production costs. So this is the backdrop of the decision to move out.

If we then look at the timing, we have customers globally, not only in China. So this is, of course, something that we gradually will do and hope that by beginning next year we would have moved out most of our business.

Robin Santavirta: I understand. Thank you very much.

Annica Bresky: Thank you.

Justin Jordan (Exane): Thank you, and good afternoon, everyone, and well done clearly on the nice cyclical recovery in Q1.

I have got two separate questions. Firstly, on Wood Products, where you describe the demand in Q1 versus Q4 as significantly stronger. And clearly, you are seeing the positive impacts and benefits of that in terms of increased record EBITDA.

Can you share with us your view on the outlook for demand, as it were? Do you believe that it will remain significantly stronger year over year throughout calendar 2021?

And secondly, on a completely different topic, I appreciate you have had a very busy week, but on Wednesday this week, new EU Taxonomy was released. And clearly, Stora Enso is a major forest manager in Sweden and Finland. What is your initial take on what Taxonomy might mean for Stora Enso in terms of proportion of revenue that might be, for example, taxonomy-aligned? Thank you.

Annica Bresky: Thank you. If we start with Wood products, we see a healthy demand continuing here. There are no signals or indications that something would change. There is a restriction in supply, and in addition there are a lot of projects requiring, for instance, CLT and LVL products that we have. So I expect the demand to continue staying on this level.

And if we then move on to Taxonomy – and sorry before moving there, in Wood Products demand is mainly driven by, of course, the demand in the US and also a very strong demand in the EU. We are seeing it picking up also in Asia, and of course, here we constantly make sure that we choose the projects where we can also deliver and support our customers.

You are all aware of the challenges on the supply chain side, and we have managed really well to be able to both deliver wood products to our customers and make sure that we choose the right projects.

And then, if we move on to Taxonomy, our initial take is that we will be able to live up to the expectations in the draft what we have seen so far. It will mostly impact on smaller forest owners by having to declare environment and climate impact assessments and so on. But this is something that we are already working on as a big forest owner. So for us, this impact is not going to be substantial. And of course, as forestry now is classified as green investment, it is, of course, positive for us.

So we will continue improving our operations in this to be in line with the requirements. A deeper analysis, of course, we will come back to. We have only had the text for a couple of days now.

Justin Jordan: Thank you, Annica.

Lars Kjellberg (Credit Suisse): Thank you for taking my question. It is going to be getting back to consumer board. It has been pretty good evidence that, of course, corrugated packaging has seen very strong demand from e-commerce. But I suppose you would have in your consumer board business, potentially greater scope for plastic to paper wins. Are you seeing any of that? And have you seen a greater acceleration of growth in that business that, relative to containerboard, has been comparatively slow? That is my first question.

Annica Bresky: What we can say is that we see that we have a very strong demand from our customers in liquid board and in consumer boards, and as I said, our capacity is fully sold out. So our Skoghall investment is the step that we would like to take if everything is found to be on a good level in the feasibility study to increase our ability to deliver on this, on the consumer board market as well.

And then, of course, innovating in the types of barriers and so on is a work that we are doing to support the transition from other materials into consumer boards. But I would say, yes, the sustainability trends in society are increasing and more and more people are questioning their choices in terms of packaging; what type of packaging can be recycled? So design for circularity and also design for a lower carbon footprint is going on. And here, our products have superior a lower carbon footprint than many of the other alternatives out there. So, yes, I believe that we are seeing some of these trends materialising.

Lars Kjellberg: Have you in any sort of from started to track any gains of new business from plastics to paper?

Annica Bresky: That is very difficult to track. It is very, very hard to do that, but we get increasing questions from customers where they want to move out of many of their most difficult plastic, for instance, packaging and going into paper for the reasons that I have said. But generally, on a high level, it is very difficult to track. And of course, if we can have availability of more material to give and have these solutions, that will drive our growth.

Lars Kjellberg: Just the follow-up question, what you said on liquid paperboard and capacity being sold out. Of course, one of your customers think they are about to close their own Chinese Mill in June. Does this present opportunity for you to speed up the mix improvement in China?

Annica Bresky: I do not comment on China specifically, but of course, we are growing together with our customer needs both in Asia and in Europe, and SIG is one of our customers.

Lars Kjellberg: Got it, thank you.

Mikael Doepel (UBS): Thank you. A couple of questions; first on the sawn timber markets. Now, given the very strong demand and pricing that we see there, have you seen any signs of a capacity build-up in that market?

Annica Bresky: You mean inventory?

Mikael Doepel: No, I mean starting up of new sawmills and building new sawmills to match the higher demand.

Annica Bresky: Oh, okay. No. I cannot say it is like that – there is always excess capacity in a sawmill. You can always add more shifts and so on. This is the type of business where when the business is low, you take out shifts, and then you increase the shifts. So it is not so much about building new sawmills. It is actually about running the sawmills that are already there to their full capacity.

Seppo Parvi: And if I may add that there are some projects by our competitors but those are not so significant capacity additions that those would disturb market as such.

Annica Bresky: No.

Mikael Doepel: Okay, and then my second question would be on costs, basically on the underlying cost trends that you see now heading into Q2 and the second half of this year. I guess there are some inflationary pressures in some areas, and some areas are more stable. But just wondering, what kind of trends do you see now going forward in the year.

And also related to costs, I think you had a temporary cost-saving last year, a quite significant one. I am just wondering if you see that coming back now this year, or is it staying away, so to say?

Seppo Parvi: Yes, maybe I can take this.

Annica Bresky: Yes, you take it, Seppo.

Seppo Parvi: Okay, thank you. So looking at the cost pressures, they are relatively low still at the moment. There are some increases when it comes to paper costs; for instance recycled papers and recycled paper prices are going up, but we have managed to compensate quite well when it comes to containerboard business with the price increases. So that is not hurting the business.

Logistics costs, we all know that there is a challenge with the availability of the containers, which is increasing the costs, but that also is a small portion of the total cost and we have been able to compensate pretty well. When it comes to Packaging Solutions business, like Annica commented earlier, there – the cycle is a bit longer, so it takes about a quarter to get a chance to compensate for the higher input costs, but they are also on the right track to be compensated. So, I would say it is relatively well under control at the moment.

When it comes to last year sort of temporary savings that we took because of COVID-19, those were more temporary by nature, but like we said, our permanent cost savings and improvements to the protection programme are moving ahead – well ahead of the plan and that partly compensates for that part from last year.

Mikael Doepel: Okay, right, and then just to follow-up on the underlying cost side, is there – what do you see in terms of wood costs, pulpwood or sawlogs? What are the trends you are seeing there?

Seppo Parvi: Well, especially in the case of log costs, we see that the trend has been going up and the costs are increasing. Pulpwood has been more stable and balanced in it somewhat.

Mikael Doepel: Okay. That is clear. Thank you very much.

Johannes Grunselius (Kepler Cheuvreux): Perfect. Perfect, okay. Hello there. So I have a question first. My first question is on Oulu, and I appreciate your giving us the detail of where you foresee the EBITDA break-even. But could you say something on when you see profits for the Oulu conversion, given where prices are today, for example?

Annica Bresky: Well, we cannot comment on that. Its future outlook. So at the moment, we comment on EBITDA.

Johannes Grunselius: Okay. Yes, I remember historically you were mentioning what indicative EBITDA you would achieve and so on, but I then look at the – yeah. I do that work myself. I just wanted to see if you could help me there. Then I was wondering about the closures that you announced this week in Finland. I think in that press release, you mentioned that the impact would be EUR 35 million positive from the closure. Is that based on historical EBITDA for those mills, or how did you come to that number? Is it more an indication or can you elaborate on that, please?

Annica Bresky: Seppo, will you take that?

Seppo Parvi: Sorry, can you repeat the question?

Johannes Grunselius: Yes, sure. I am after the earnings impact from the decision of closing the two paper mills in Sweden and Finland, and I think you said in the press release that you are indicating an impact of EUR 35 million positive. How did you come to that number? Was it based on the isolated effect from those two mills, or did you consider indirect effects, or how did you arrive at that number?

Seppo Parvi: This is the reflection of the profitability of those mills at the moment. And like we said that they were loss making last year and continue to be loss making also this year, and in many ways, we are exiting those businesses and volumes, if we come to the decision to close the mills after the co-determination negotiation process.

Johannes Grunselius: Sure, because I was thinking that when this happens, the operating rates should be quite healthy in Stora Enso's paper business. So my feeling is that the earnings impact could be a lot higher than EUR 35 million. Do you agree on that?

Seppo Parvi: Well, like I said, this is based on the current performance of those mills and some of the grades, if you look at for instance at the Veitsiluoto where we are producing coated mechanical magazine and we are planning to exit that market totally, and that is not of course then bringing any additions to the operating rates. We produce also office paper elsewhere but also there it depends a lot about the future demand and price development. So that is difficult to comment.

Annica Bresky: I would rather say that how much this will impact has to do with how the market develops going forward and what type of overcapacities that are still on the market. So it is about making sure that now we exit the unprofitable mills but it is also about the ability to push prices then on the grades. And yes, as we all know, it is tough there.

Johannes Grunselius: Yes, sure, but I mean it is a given that your operating rates now will be quite healthy even if demand stays where it is on these low levels, right?

Annica Bresky: Yes, that is the point that Nymölla is producing office paper, for instance. So, of course, we will try to transfer as much of our customer base as possible and offer them grades within our portfolio. And Anjala is producing improved news, and then we have SC paper that is produced in Langerbrugge and Maxau Mill that can be offered to our customers.

Johannes Grunselius: Okay, thank you. That is helpful comments. Thank you.

Annica Bresky: Thank you.

Cole Hathorn (Jeffries): Good afternoon. Thanks for taking my question. Would you mind just providing a little bit more colour on the demand trend you are seeing in pulp? Firstly, what are you seeing from your tissue customers and the graphic paper demand by region? That would be helpful.

And then also on containerboard, what are you seeing there from the demand end markets? And also, would you mind commenting on where inventory levels are in the containerboard market at the moment? Thank you.

Annica Bresky: If we look at the pulp side, as I said, we see a health demand increase for this year; 3-4%. It is mainly driven by China. Long-term, it is 2%. From the end user perspective, of course, the graphical side, there it is about the pain capabilities of paper customers that kind of impact that and the paper mills ability to drive through price increases and stay running despite the increased pulp prices.

If we look at the hygiene and other end users there, I think the ability to pass on is quite good. So for us, we have about in our mix a much smaller part in the graphical side, approximately, just about 10% of our sales are to graphic users, and the rest is through other end uses which are developing quite well.

Then remind me of the second part of your question. You are saying containerboards?

Cole Hathorn: And then on containerboard, I am just wondering if you can give some perspective on where you are seeing the demand, either by region or end markets, industrial, consumer, and also where inventory levels are in containerboard?

Annica Bresky: If we look at the containerboard business in terms of industrial, we see the industrial businesses picking up, and that has been going on in China for quite some time. Europe is also coming now. So the end-use demand for containerboard is picking up and also e-commerce and so on has been strong throughout the pandemic. And that will also continue afterwards through change behaviours.

So we see a healthy demand going forward both in Europe and in Asia. Yes, and then inventory levels. I will have to check that with you Ulla, if you can support. I cannot remember right now how the inventory levels are for containerboard.

Ulla Paajanen: Well, I do not think there is anything meaningful to say on that because there is a good demand, healthy demand at the moment and we are more or less sold out except for Oulu. So apparently the inventories are not too high because the demand seems to be going so strongly at the moment.

Seppo Parvi: And in the case of containerboard, there are no statistics available like for pulp in the case of inventory levels globally.

Cole Hathorn: Thank you.

Harri Taittonen (Nordea) Yes, good afternoon and thanks for taking the questions. Obviously, it would be interesting to hear your take what were the drivers for the steep appreciation in pulp prices and what you are seeing. You referred to the suppliers' inventories that they are a little bit below the average. But is there anything you could comment on the buyers' inventories on the paper-making side and what sorts of signals you are seeing in the market?

Also, maybe related to that, but there have been some comments that maybe the European demand for pulp is not so strong, but the prices have been more being up by the premium in the Chinese market. But what is your take on the European demand for pulp these days?

Annica Bresky: Yes, it is the Chinese market that is driving the pulp market and that has been the case for many years. So in Europe, there is a relatively strong demand. But as I said, the pain capability of the graphical side is deciding on an overall global level how the demand develops.

And as you are all aware, the prices are getting close to the higher levels that they were, what was it, roughly a year ago or something like that? And that means that what we see ahead of us is that the continued growth in the global economy; that is what is fuelling the growth in pulp side. So as I said, I expect between 3 to 4% demand increase globally, mainly driven by China. So that is what we can say at this point.

Harri Taittonen: Yes, fair enough. Thank you. And my second question will be regarding the – I mean, when do you potentially calibrating your guidance? Because obviously it sounds a little bit undemanding, to say the least. But I mean, is there some sort of a – do you envisage that you would be calibrating it as the year goes?

Annica Bresky: This is the guidance we gave on – we do not go into more specific adjectives on the guidance.

Harri Taittonen: Yes, okay. Thank you. Thank you.

Alexander Berglund (Bank of America): Thank you very much. First off, on the inflation that we are seeing on paper for recycling and in your P&L. I just want to get your view, if you think that this is solely a transitory effect from the lockdowns, or perhaps it could also be a structural trend here on collection issues, as we are getting more and more packaging going by the e-commerce channels. I just wondered if you have any data on how collection or recycling rates have changed in Europe.

And then how you see your responsibility and the overall responsibility in the industry to make sure that circularity is still very high within paper products. That was my first question, and then I have a technical follow-up.

Annica Bresky: Yes. I will start with the last question that you asked. We see our responsibility, first of all, as a company and also as an industry as being very strong in supporting the build-up of good collection systems for all fibre materials.

We see the trend for circularity is increasing. And of course, having a renewable material that is also circular and collected is something that we are working very hard with each country in Europe to make sure that that becomes realised. And we have had a lot of discussions with the EU on the needs for standardisation of the collection systems in order to ensure that as much of the material that is out there is actually being collected and recycled.

And I can just mention one of the collaboration projects that we have with one of our customers, with our mill in Ostroleka and also the trials that we have done in Langerbrugge, where we take back packaging and put it back into our operations from the liquid side and from the foodservice side, where the collection rates have historically been quite low.

So I think, yes, this is going to have to develop, and standardisation of the collection systems long-term is going to take place in Europe. And we are having a lot of discussions on that with EU.

And then, if we look short-term, one of the things that is happening has been, as you mentioned, the lockdown that has impacted people's ability to return their packaging in the degree that we have had before, and also, the trade flows between countries of material has been impacted. That is a short-term situation. And I expect as lockdowns are eased, that then the collection rates will increase once again.

Long-term. I do see that more and more products are going in the direction that there needs to be a part of the product coming from recycled. And that will drive, of course, the competition for PFR, but not to the degree that it cannot be handled by the fresh fibre kind of intake in the system.

Alexander Berglund: Thank you. Yes, another question is just on your improved guidance on Oulu now pulling for the EBITDA break-even. I just noticed if I got this right, the EBIT increase that you are guiding for is only EUR 5 million. And it is not really clear to me why the positive effect would not be larger, so if you can help me a bit on the map here.

Seppo Parvi: Well, if you look at the guidance, we mentioned that approximately EUR 10 to EUR 15 million negative impact would be there for Q2 and approximately EUR 40 to 50 million for a full year. The depreciation is roughly EUR 30 million for Oulu Mill this year. So that might help you a bit on that. But of course, it is not a linear line when it comes to ramp-up and operations. And I think the main thing is that we are now confident and like we communicated, that we are reaching or expect to reach break-even on EBITDA already in Q3 instead of Q1 next year. So it is moving ahead at full speed and also supported by the market.

Alexander Berglund: Thank you.

Ulla Paajanen: Okay, thank you, Roberto, and thank you, everyone, for listening in for our Q1 2021 results. And I will now hand it over to Annica for the final words of our call today.

Annica Bresky: Thanks, everyone. We have delivered a solid result on the backdrop of a good performance, good cost control and strong demand and market recovery. And we have seen solid growth in our growth businesses, which also is a testimony that our strategy is moving in the right direction, and our focus is now executing on the plans that we have announced and come back to you in the coming quarters. I wish you all a nice weekend. Thank you.

[END OF TRANSCRIPT]