



Q2 Report 2021

Wednesday, 21st July 2021

Introduction

Ulla Paajanen

Head of Investor Relations, Stora Enso

Welcome

Thank you. Good afternoon everyone and welcome to Stora Enso's Q2 2021 Earnings Call. I am Ulla Paajanen, Head of Investor Relations at Stora Enso, and with me here today is our CEO, Annica Bresky, and our CFO, Seppo Parvi. We will start with presentation and have a Q&A after that. So Annica, please go ahead.

Key Highlights

Annica Bresky

Chief Executive Officer, Stora Enso

Thank you, Ulla, and good afternoon to you all. I am very satisfied with the strong performance and the solid growth that we delivered this quarter. It is a proof point of our own actions and of very good market conditions for our products.

Profitable Growth Driven by Own Actions and Good Market Conditions

Healthy demand for all core businesses

So if I now move on to some of the key highlights of this quarter. We see a healthy demand for all our core businesses and also improving market conditions for Paper. So the outlook for the coming half year looks positive, as well as the result of this quarter.

Result driven by Biomaterials, Wood Products and Packaging Materials

Our result is driven mainly by Biomaterials, Wood Products and Packaging Materials, and Biomaterials and Wood Products, they deliver all-time high quarters on the back of a very good operational performance, good pricing and a solid and strong demand.

Majority of financial targets reached

We reached the majority of our financial targets and some of them we also over-exceed, which is very rewarding to see. Last quarter, we said we were back on track, but now we are also providing solid proof points that our strategy is executed and it is delivering. We also have concluded our profit protection programme, delivering on our promises, which is very rewarding, especially since last year was a very volatile year. So all of the actions that we have done here have really supported our result.

Strategy execution at good speed

Our strategy execution is proceeding at very good speed. Oulu kraftliner investment is ahead of the schedule, we have high speed in new business innovation, and restructuring and investing in our Paper division makes me confident that we see a turnaround the coming quarters and that we will have a much more focused and competitive Paper moving forward.

So, all in all, I have a positive outlook for the coming quarters and we reiterate our expectations of this year to be better than last year.

Strong Performance and Solid Growth Continue

Q2 2021 year-on-year

Moving over now to some of the key financials, we can see that our sales increased by 23% and 28% for our core areas, excluding Paper. This really shows, first of all, the resilience we had last year in our core businesses and now our growth transformation moving in the right direction.

Our operational EBIT increased to €364 million, more than doubling, and excluding Paper, to €413 million. Our operational EBIT margin increased to 14%, which is above our target levels, and excluding Paper to 19.1%. So, very healthy margins for us.

Forest assets value increased further, both quarter-on-quarter, by €229 million and compared to a year ago, by €2 billion. So, now our market valuation is €7.4 billion for our forest assets.

We have a strong cash flow from operations, €463 million, and after investments, €339 million. So, also here, we are delivering a strong performance.

I am also very pleased that we are getting our net debt down and our net debt to operational EBITDA is at 1.8x, which is our under our target of being less than 2x, and we have decreased our net debt by more than €300 million.

And last but not least, our returns on operating capital employed, excluding Forest division, increased to 18.1%, which is very good levels and above our long-term target.

Strong Result Driven by Higher Prices and Volumes

Operational EBIT Q2 year-on-year

So we can see now what is driving the result, that it is own actions: being able to push through sales price increases; having a good product mix; delivering on performance of our operations, so production efficiency; and then also good cost control. So, we have been able to more than mitigate the impact of variable cost inflation.

Strategy Execution at Good Speed

If I stay on a few highlights on our strategy execution, I am very pleased of how we have ramped up our kraftliner production at Oulu. We are ahead of schedule, delivering EBITDA breakeven two quarters ahead of plan. The commercialisation is proceeding ahead of plan, we have reached design capacity and technically we are where we should be. Also costs are lower than expected. So, a very good job done here and supported, of course, by a strong demand on the market.

Other areas within packaging supporting our growth is the commercialisation of products utilising new barrier technologies. And here, our investment in Forshaga is commercialising new barrier technologies that support the growth of packaging and making sure that we have good recyclability of our products.

Together with TetraPak, one of our key customers, we are taking the lead in ensuring a circular bioeconomy to support EU ambitions. So, together we jointly invest in recycling of used beverage cartons in Eastern Europe, and I will come back to that in just a few minutes.

We are also partnering with a packaging technology company, Pulpex, to industrialise productions of eco-friendly, fibre-based bottles and containers. This is an area where we see very good opportunities to grow into new applications.

Our feasibility study at Skoghall is ongoing at good pace and, as I have said before, we will come back with a decision of how we proceed by the end of this year.

We have also started the production of Lignode, carbon for energy storage, that is used in batteries for enabling e-mobility, and that has started in our pilot plant at Sunila. I will come back with a few details on that as well.

In Wood Products, our new CLT production line at Ždírec is proceeding as planned. Construction is ongoing, so we will meet the target there of a start-up in 2023.

I am also happy to say that, after the ongoing restructuring, we would see an improved performance for Paper division and we will end up with paper sales that will be slightly above 10% of Group sales. So, here we are transforming to a more focused and competitive Paper division that will be able to serve our customers in a very good way.

The EU's Climate and Forest Policies

One topic that has been highlighted lately is, of course, the EU's ambition within climate neutrality and the Green Deal. So, here we are confident that sustainably managed forests and renewable, circular products, they are part of the solution in reaching the EU's ambitious climate targets. And we are well-positioned as a company. So, we support the EU's Green Deal as an opportunity to transition to a society that is much less dependent on fossil materials and that is low carbon, and this is an absolute necessary transition. So, we are actively engaging in policy development, in promoting ambitious climate targets, and with our renewable products, we can really help achieve the ambitions that the EU have.

In terms of EU Taxonomy, that was published in April and we see that we are well-positioned there to fulfil all the criteria related to sustainable forestry. The 'Fit for 55' package and the EU Forest Strategy, they were published just a few days ago, last week. So, here we are evaluating the initiatives, we are constructively engaging with the EU to make sure that it advocates not only climate but also industrial innovation to support the transition to a circular bioeconomy.

Innovation

I will just showcase, now, two examples of innovation where we see that we contribute to EU reaching these goals.

Lignode, Wood-Based Carbon for Batteries

First of all, it is Lignode, a wood-based carbon for batteries. So, the market for these carbons is growing by more than 30% annually and it is driven, as you know, by electrification of vehicles, consumer electronics and large-scale energy storage systems. So, here we have a leading position to really support the need of more than 450,000 tonnes of carbon material needed in Europe, only by 2025. This is a strategic material, these anode materials, for which Europe today does not have a local supply, so 90% is imported from Asia and based on coal mines. Here we have a product which is bio-based, it is renewable, it is fossil free, so we think that we have a good opportunity to see a business of its own in the ranges of €1 billion sales potential already by 2025 for us a company.

So, we are, as we speak, ramping up production of Lignode in our pilot plant in Sunila. So, here we want to replace conventionally used graphite from coal mines with our bio-based material. It has lower carbon footprint, it is cost-competitive and it is also high-performing in

terms of rechargeability of the batteries. So, our ambition now is to explore strategic partners that will help us accelerate this scale-up and commercialisation.

Taking the Lead with TetraPak in Recycling of Beverage Cartons

Another area which is of great importance is to take the lead in circular bioeconomy, and here, together with TetraPak, we are jointly investing in the recycling of beverage cartons in Central and Eastern Europe. We want to more than triple the recycling capacity in Poland, being able also to take in material from the surrounding countries. We are investing together in a new repulping line at Ostrołęka Mill in Poland, where we, as a company, will recover the carton fibres and use them in our board products; and TetraPak will recover and recycle polymers and aluminium to produce new products and give a second life to those materials. This is another proof point how we can support EU's transition to more sustainable packaging materials. The annual recycling capacity will increase to 75,000 tonnes in Poland and contribute very actively in the creation of a circular economy.

With that, I would like to turn over to you, Seppo, to give us a little bit more flavour on the financials.

Financial Performance

Seppo Parvi

Chief Financial Officer, Stora Enso

Strong Profitable Growth

Summary financials Q2 2021

Thank you, Annica. I start with the key figures from the report that we published earlier today. So, top line grew 23% to about €2.6 billion in the second quarter this year. That is a significant increase from the previous year. Operational EBIT was doubled and was at €364 million and EPS basic increased 40% to €0.26 per share. Operational return on capital, excluding Forest, was at 18.1%, compared to 7.8% a year ago in the second quarter. Cash flow from operations continued strong and cash flow was €100 million higher than a year ago, at €463 million. Like Annica already mentioned, net debt to last 12 months' operational EBITDA was reduced to 1.8x from 2.5x a year earlier. That is now coming down below 2.0x ceiling that we had defined as a long-term target and it had been above that due to the restructuring of Bergvik Skog ownership couple of years ago, and now we are back on track here as there.

Profit Protection Programme Completed

Total €510 million savings including €410 million continuous savings achieved

Moving to our profit protection programme that is now completed two quarters earlier than originally planned. This was a three-year programme, as you might remember. Total savings achieved were €510 million; out of this, €410 million are continuous savings. This is a great achievement by the organisation and our personnel, and shows the full commitments for the continuous improvement as well that will be also in focus going forward. We stop, now, reporting of the profit protection programme as we have reached the €400 million continuous savings.

Packaging Materials

Profitable growth continues, healthy demand for all products, Q2 year-on-year

Then moving to divisions. I start with Packaging Materials, where profitable growth continues and we can see healthy demand for all products. Sales increased by 20% to €987 million during the quarter, and that is a reflection of clearly higher prices and deliveries. Also, operational EBIT increased by €14 million to €144 million. There we see higher sales, partly offset by higher production costs. And operational return on capital improved to 18.4%; this is partly still burdened by Oulu kraftliner paper mill ramp-up, but we now reached the breakeven at EBITDA level there.

Ramp up of kraftliner production at Oulu is proceeding ahead of plan, both technically as well as commercially, and we have now reached operational EBITDA breakeven during the second quarter, at least three quarters ahead of the initial target; the originally communicated target of the first quarter next year when it comes to breakeven that we reached.

We have also launched new products. Trayforma, a new wood-fibre based product – it has low-carbon material for microwavable ready-meal trays – was introduced during the quarter.

Packaging Solutions

Very strong growth, profitability challenged by continued increase in raw material costs, Q2 year-on-year

Then moving to packaging solutions, where we can see very strong growth, but profitability is challenged by continuous increases in raw material costs. Sales increased by 21% to €170 million thanks to higher European corrugated prices and deliveries, but there is slower business activity in China and some delays of the launches of our key customers.

Operational EBIT decreased by €6 million and was €2 million. This is a reflection of continued sales price increases that we have taken to mitigate high raw material prices, but the raw material prices continue to increase and have done so since October/November last year. We are confident that we will be able to catch up as we move forward, and once the price increases of containerboard stabilise, then we can be able to close the gap.

Accelerated new business impacted operational EBIT also negatively by some €4 million and temporary higher costs in China during the quarter. Operational return on capital was at 3.6%.

Biomaterials

Record results in a strong market, Q2 year-on-year

Then, in Biomaterials, where we had record results in a strong market. Sales increased by 57% to €453 million thanks to clearly higher pulp prices and deliveries. Operational EBIT also increased by €127 million, and we have reached all-time high quarter of €145 million operational EBIT. Operational return on capital exceeded clearly the long-term target of 15% that we had set for biomaterials and was 24.4%. We have launched NeoLigno, a fully bio-based binder, during the quarter to provide healthier indoor and working environments.

Wood Products

Strong sales with record high profitability and operational ROOC, Q2 year-on-year

Then in third place are Wood Products. There, strong sales with record high profitability and operational return on capital has continued. Sales increased by 38% and was €477 million.

That is thanks to all-time high prices, also strong global demand, especially in classic sawn, has been helping the development.

Operational EBIT increased by €74 million to all-time high of €100 million, and that is thanks to higher prices and volumes that were partly offset by higher raw material costs. Also, return on capital was at record high level at 65.8%, and that exceeds significantly long-term target of 20% for Wood Products division.

Forest

Solid financial and operational performance, Q2 year-on-year

Forest, solid financial and operational performance continues. Sales increased by 13% and was €586 million. There, we had higher wood deliveries in Finland, Sweden and Baltics.

Operational EBIT increased by €6 million and was €46 million. Higher sawlog prices were partly offset by higher variable and fixed costs, and operational return on capital remained above the long-term target of 3.5% at 3.7%. And during the quarter, we also joined new WWF platform, Forests Forward.

Paper

Restructuring and improving market triggering a turnaround Q2 year-on-year

In the Paper division the restructuring has continued as planned and improving market conditions, together with the restructuring, are triggering a turnaround in the coming quarters.

Sales were flat at €446 million. Clearly, lower prices were offset by higher deliveries. Operational EBIT decreased by €10 million to negative €49 million, but we can see the global paper market demand is improving. High variable costs, however, are not yet mitigated through price increases and lower fixed costs.

Cash flow after investing activities to sales ratio was negative 2.7%, but the work continues to come back to the targeted level there as well.

We have taken actions to restructure and to invest to make our Paper division more competitive. We are working to have a more agile and more independent organisation, to take better into account the changing market conditions in the paper business.

We have finalised restructuring at the Hylte mill. Final steps since end of last year announced capacity closures there, and we are planning to close Veitsiluoto and Kvarnsveden during the third quarter this year. And we have announced divestment of Sachsen site. And we also decided to make some investments for competitiveness at Anjala-Ingerois and Nymölla mills, and we are investing €45 million.

Development of Long-term Financial Targets

Group long-term financial targets

Then, looking at long-term financial targets development, as you see, turning more green now when it comes to dividend growth as well as debt ratio and return on capital, as commented earlier.

Divisional long-term financial targets

On the divisions, Packaging Materials is slightly below the targeted 20% level, but it is still as communicated earlier in the second quarter, burdened by the Oulu ramp-up. Packaging

Solutions is clearly below, at 3.6%, and Biomaterials, Wood Products, and Forest above the long-term target level and Paper continues to come back to the targeted levels.

And then over to you, Annica.

Outlook

Annica Bresky

Chief Executive Officer, Stora Enso

Annual Outlook for 2021 Remains Unchanged

Operational EBIT in 2021 expected to be higher than in 2020

Thank you, Seppo. And moving now to the annual outlook, I see a positive momentum continuing also for the second half of this year, so we reiterate our positive outlook for this year to be better in performance than last year.

Global economy is recovering strongly from the impact of the pandemic, and we have a very healthy demand for most of our products. And the market for paper is improving on the back of restructuring efforts that are being delivered, not only by us, but also by other companies. So, supply-demand situation will improve for paper products.

We are moving into quarter three and quarter four, which are more maintenance intensive. And here, we have an impact on the costs, in terms of cost inflation, and also, we have some maintenance work that we postponed during the pandemic, impacting the total maintenance cost level.

If we look at the profit protection programme, as Seppo said, it is now completed, so we will not continue to come back to that. However, of course, we will continuously work with constant improvements, and that is a key area of our focus, to have good cost control and good sales and pricing excellence.

Oulu kraftliner unit reached operational EBITDA, as we said, three quarters ahead of our initial target. And, of course, the costs then for the ramp-up were lower; landed at €20-25 million of total negative impact, below our previous estimate of €40-50 million for the year. This is also a very positive result of the work that the organisation is doing, so in terms of any continuous reporting, we will now discontinue that for Oulu.

Profitable Growth Driven by Own Actions and Good Market Conditions

If I would summarise, I am very satisfied. We have profitable growth that is driven by our own actions and good market conditions. We have healthy demand for most of our products, and improving conditions for paper. We reached the majority of our financial targets. Our strategy execution is proceeding at good speed, both in terms of innovation, in terms of cost control and of our key investments. And there is a turnaround in sight for paper, which will improve the competitiveness of the division as such.

All in all, I am now open for your questions. Thank you very much.

Q&A

Cole Hathorn (Jefferies): Morning, thanks for taking my question. If we could just start off with the Wood Products division, which has had a phenomenal performance this quarter, could you just give us an update of where you see demand, and prices have been rising, what is the supply outlook for this division? Are sawmills able to ramp up supply further, or will prices be higher for longer in Wood Products, is the first question.

And then moving on to Packaging Materials, we have seen increase announcements for folding boxboard, as well as on the containerboard side. When will those higher prices that we are seeing in the market be reflected in your Packaging Materials division? Will folding boxboard only be a 2022 story, with containerboard likely being second half of this year, and then for 2022, if prices remain at good levels? Thank you.

Annica Bresky: Thank you for the questions. In terms of Wood Products, I think we see a continued strong demand, both in Europe and overseas. We have many products, construction projects in our pipeline, the renovation activity is continuing. Also, if we look at EU, and the long-term ambition for green buildings, building with wood is really supported through the directives. Short-term, if we look at the coming quarters, I see a continued good outlook for Wood Products.

The supply-demand situation is somewhat restricted. There are not a lot of inventories out there, so I think that even if we would see a normalisation in half a year or so, the fundamentals of growth in this area are there. We have to remember that wood-based buildings, they are only constituting a few percentage of all construction, and we see many schools, many offices, many actions in terms of building with wood that are in our pipeline.

In terms of classic sawn, we know that market is more volatile, but our building solutions business is more stable, so they are balancing each other in a very good way. We have assigned more shifts to our production already in the beginning of the year, so I believe all sawmills are running at their full capacity now.

Then, if we move over to Packaging, we are fully booked on all machines. We have a very healthy demand, both within Consumer Board and containerboard. For containerboard, the inventory levels are really low. There is a tight supply-demand situation, so therefore, we have seen continued price increases both in kraftliner and testliner. And of course, this is reflected in the results of Corrugated, where we have been able to pass on some of the inflation in the raw material side, but by far, not all. So, within Corrugated Packaging, we will continue to push for price increases, and we will see an improvement in the coming quarters.

As I see it, all our areas are supported by growth that our customers have, both liquid packing board, folding boxboard, and the containerboard, so I am quite optimistic.

Cole Hathorn: Great, thanks very much.

Robin Santavirta (Carnegie Investment Bank AB): Thank you very much. Now, first of all, related to the Paper business, you talk about turnaround, and I was wondering if that is more related to the demand and the price outlook you are seeing now for the end of this year, next year, or then to the restructuring you have. And also related to the Paper division, is this a part of the company that is in any way core, or are you considering some structural measures to get rid of this business in the mid-term? That is the first question.

Annica Bresky: If we look at the supply-demand balance, it will improve, and that is because many companies have announced restructuring actions. And as they are implemented, you would see a tightening supply-demand situation, where it is adapted to the new baseline that we have seen now after the pandemic. As we said, also, our own restructuring with Kvarnsveden and Veitsiluoto, the mills will be stopped in Q3, and that is when the capacity actually disappears from the market. And the same has been with the other actions that other players have done.

So, year-on-year, what we see is that now the demand is improving since many economies are coming back, so there is a 22% demand increase in quarter two year-on-year. And this year, the demand will improve by 3% for the full year, so this is the fundamentals that need to be in place in order to be able to push through price increases.

Still, we do not see it in the result this quarter. We are not yet fully mitigating the increase of raw material costs, such as PfR (paper for recycling), but the prices for paper for recycling will also normalise. And we, in the coming quarters, are pushing through price increases to compensate for that and mitigate this inflation.

Our restructuring efforts will create a more focussed and streamlined Paper division, as we explained, and we will see the impact in Q3-Q4, so I am optimistic for the coming quarters for Paper.

Robin Santavirta: And then Paper's position strategically within Stora Enso?

Annica Bresky: Yes. I have gotten this question many times, and we will continue to work as we have been working. It is going to be a smaller business for us. After this restructuring, it is only going to be 10% of our sales. And I said before, that if there are interested parties out there that would like to acquire our Paper business, we are interested to have a dialogue like that.

Also, in the meantime, we will work with improving the performance, getting back on track and delivering on our key financials for the Paper division, and with the actions we are taking, I am confident that we are creating a much more competitive and good division for the future. This is where we stand at this point. However, in terms of core businesses, we have our growth businesses, which are Packing Wood Products and Biomaterial Innovations, and then we have our value creation areas, such as Forest and Biomaterials. In those terms, Paper is no longer a significant part of our sales.

Robin Santavirta: I understand. The second question I have is related to China. We have seen some weakness in the pulp market and also in the Consumer Board market now this summer. Is this more, in your view, more of a seasonal pattern? What do you expect going into the high season, in the autumn, related to Consumer Board in China pulp?

Annica Bresky: Yes, I would agree with what you say, July and August are seasonally weaker months for China. We know that the market then picks up, ahead of Chinese New Year. The fundamentals for growth in China continue to be there and long-term, both pulp and packaging grades are growing significantly in China, so I would see this as a temporary thing. And we know that the Chinese market is more volatile in both packaging and in pulp.

However, what we see in Europe, is as the economies start getting back on track, that we have increases in prices in Europe for pulp and also for Packaging Board, where we are pushing through price increases. I think it is important to have a balanced portfolio, which we have.

Robin Santavirta: Good. Thank you very much.

Harri Taittonen (Nordea): Yes. Good afternoon, thanks for taking the questions. Maybe just on the Packaging side and on this material increase in delivery volumes, is this an absolute maximum now for the deliveries, at least looking at the shipments against the new level of capacity? It looks like it is fairly fully utilised at the moment.

Annica Bresky: Well, we are fully booked, but there is always operational equipment efficiency that you can improve, so I see here, that we are taking actions in the bottleneck in existing assets. We still have potential in all our machines, I would say, and we are driving both targeted investments, where we can take bigger steps. But also, there is day-to-day constant improvement of production efficiency with targeted investments in our pulp mills to improve their performance in the bottleneck in our board machines to support the growth. I think it is both the long-term strategy, but also this day-to-day work that we are doing in better operational efficiency.

And then I would like to say that in the last 1-2 years, we have put a lot of effort in our start-ups after the annual maintenance shutdowns, and here, we have improved our performance significantly. It will be very interesting to see now this autumn, and our ways of working and processes, if we can keep that trend.

Harri Taittonen: Okay, thanks. And then the second question is about the new products, and related to it, looking at the Lignode pilot plant. How long does it take to take this to a commercial scale, and when could there be a decision, and what could be the typical investment scale when that time comes? I know you have some other pilot plant stage for bio-foam, but what sort of product area in this sphere of new products would you say that is the closest to getting to commercial scale?

Annica Bresky: If we look at the big footprint, it is Lignode that has the potential to be a significant growth engine. And with the Sunila investment, we will be able to test and commercialise at the same time, because even though it is a pilot, and it is small-scale at the start, it is commercialising the product that is happening with the pilot production in Sunila. As I said, I would say that the coming five years is when we will co-invest with other partners and drive the acceleration here. It is too early to discuss what type of CAPEX levels will be needed, but we will work with our customers. And that is the key point of commercialisation, that we do this in partnership with the value chain key players to enable this accelerated scaling up. We are now just proving the technology needed, how we will construct the bigger site, and then that will happen during this year. And then we are ready to go for a full scale-up.

Harri Taittonen: Okay, that is very good. Thank you.

Lars Kjellberg (Credit Suisse): Thank you. Annica, I just want to come back to your outlook. Of course, you are already above last year's level, and you are optimistic for H2, as you called it out. Can you share in more colour what you really think? Because you are already above or met your target of being above last year.

And then I just wanted to come back a bit toward products. To your point, classic sawn, you mentioned that as a principle driver for the profit improvement, and then you talked about the stabilisation of the more value-add products. But also in the presentation you talk about, or I guess in the results note, you talk about strong growth in the construction business. I just

wanted to understand what is really driving this profitability, how big a portion of the construction of that improvement, or are we just looking at volatile classic sawn timber going through the roof, which, to your point, is volatile? Those were my questions.

Annica Bresky: If we look at the outlook, I cannot give more flavour than to say that we see a continued strong demand. I do not see any major drivers that would create a setback for quarter three for the businesses that are growing and that are having a good profitability. In those terms, I cannot quantify more. It is a positive outlook. I have been more conservative before, as you are aware, so in these terms, we see that we can deliver on, I think, a good level also for the continuing half-year.

Seppo Parvi: If I may add, I think that it is fair to say that assuming that COVID-19 remains under control – vaccinations move forward, as they seem to be now effective – and trust in terms that the global economy continues to recover and stay strong, there is no reason why our performance will not continue to be strong, like mentioned by Annica.

Annica Bresky: Yes. And then in Wood Products, if we look at what is driving the performance, there are several areas. One is, of course, that there were very low inventory levels in the US last year. The booming renovation and also construction industry, there is a lot of historical lagging in projects of construction that the US, and many other countries, also in Europe, there is a demand for renovations. Then, of course, the pandemic, there was an up-tick of do-it-yourself projects in many countries and the inventory levels going in, were low.

There have been some logistical supply chain challenges of transporting which has also impacted pricing. However, if I look at the construction side with wooden building, there, the pipeline of projects that we have is very healthy. It is not as volatile as sawn timber. I do not see for sawn timber anything indicating that quarter three would be different. There is still a restricted supply for sawn goods, so for the coming two quarters, I see a continued strong performance for sawn timber.

And then, on the construction side, on wooden building solutions, there, there are a lot of projects in the pipeline; schools; it is football arenas; it is offices; it is multi-storey buildings, and in many countries – in Asia as well as in Europe. If you have noticed in Finland, for instance, there are clear projects of wooden cities, and so on, and this is a trend that I expect will continue.

Having a balanced portfolio, where sawn timber is more volatile, and then having an area in Building Solutions also growing with our new projects, and still having more capacity, and the ramp-up of Gruvön site, that will give a good condition to continue growing within Wood Products.

Seppo Parvi: And also, we are seeing continued, even more positive momentum, thanks to recently announced EU Forest Strategy as well as a climate package.

Lars Kjellberg: Thank you. I have a few more questions, but I will get back into the queue. Thank you.

Johannes Grunselius (Kepler Cheuvreux): Yes. Hello, everyone, I just want to come back on the interesting thing, carbon for batteries; you open up a little bit more there, or speeding up, I suppose, the ramp-up concept here. However, previously, you have indicated 35% EBIT margin for these activities. Is this still true, or have you done any changes on this, lately?

Annica Bresky: No, we still see a very, very strong margin business here.

Johannes Grunselius: Okay. And I was also curious about you mentioning partners, could you say who are they? I suppose industrial partners. Are they battery manufacturers or other industrial partners?

Annica Bresky: Both battery partners, of course, which are the direct customers, but also the automotive industry and energy storage industry, which are setting their requirements. I think for these types of innovations, it is about true partnership in the value chain, and we are exploring that now, to set a partnership collaboration business model here, to be able to ramp up local supply in Europe. And I think there are many interesting companies, both in the automotive industry in Europe, and also battery customers that want these materials. And there is a restricted supply for components for batteries in large.

Johannes Grunselius: Okay, yeah. If I may ask just a final question, and that is on Oulu, if you could give some flavour how we should think about this for next year? I know what the capacity is here. Will you be able to run this at full capacity for next year, would you say? And could you help us to perhaps provide any indication of the OPEX part or something like that, or a ballpark earnings level for Oulu that we can think about?

Annica Bresky: I will not provide you with any earnings levels for Oulu. However, I will say that we have only run the mill now for two quarters, so, of course, commercialisation of the high-end and premium products is still ongoing. This is why I am so positive with the achievement that already now, we see a very solid earnings performance and that will improve going forward.

There is always more capacity to get out after design capacity, so if you are good at what you are doing, you will be able to get excess production out of the site. However, at this point, we have a stable production level, which is the best pre-condition to make sure that we can drive the quality improvement now that we have for the highest grades and fully getting the product mix that we want in the machine. And that is the focus for the coming half-year.

Johannes Grunselius: Okay, got you. Thank you very much.

Annica Bresky: Thank you.

Linus Larsson (SEB): Yes. Thanks a lot, and good day to everyone. It is pretty clear from what you are saying, that you are seeing very strong markets in your various areas of operation. How do you see input costs developing in the third and fourth quarters – variable costs in general, but maybe wood costs in particular?

Annica Bresky: Well, we do not see any significant impact here. We have been able to mitigate already in Q2, and we will continue to do so. We have very good sourcing processes. Our major input costs are fibre costs and here, we have been able to push through price increases to our customers and not only maintain margins, but actually improve margins.

Of course, we constantly monitor what is happening on the logistic market, and so on. There, we have had to take cost increases, but then we have been able to reduce costs in other sides. Good cost management is what we are doing here, and we will continue to do that, so I do not see anything alarming going forward.

Seppo Parvi: And adding to Annica's comment, I would add that biggest pressures are, as you said, Linus, on wood side, especially log prices but that is balanced by pulpwood prices. And energy costs are somewhat up as well. Logistics have been stable now in Q2, but there were increases in the first months of the year because of the increased volumes globally and a shortage of, especially, containers, and some small pressures on the chemical side, but I think they are very manageable, like Annica already mentioned.

Linus Larsson: Great, that is helpful. And then maybe something completely different, on the EU policy that you touched upon, and I appreciate this is, to a large degree, work in progress, and a lot still has to be said about it. But could you maybe discuss with us a bit already today what the practical implications may be for Stora Enso from this set of different EU policies now being proposed? With the EU Taxonomy to start with, you say that you are very confident that you comply with it on the Forestry side. Do you also see other areas where you comply? And when it comes to the 'Fit for 55' and the Forest strategy, how do you see that impacting harvesting levels, wood availability and potential cost pressures and your possibilities to operate? And again, I understand it is still early days, but what is your thinking at this stage?

Annica Bresky: If we look at EU Taxonomy as such, I think it is tougher for smaller private forest owners. There is increased reporting of climate impacts and so on. However, we as a large company, we have the processes and they are in place, so we can manage on those levels. And in terms of being a green business, we are fully in line with our sustainable forest management.

In terms of 'Fit for 55' and EU Forest Strategy, it is very early days. This is a directive, so we have to remember it is not legislation. We are looking at the areas where we do have a concern, and it is making sure that sustainable forest management is acknowledged in the EU as a driver for climate benefit. And here, we are driving a lot of advocacy, making sure that our position, as an industry and solution provider for achieving a positive climate impact in the EU, is fully acknowledged.

I think it is early days, and we would need to come back to this topic, once we have analysed a little bit more what possible implications it may have. And our own experience, we have seen many changes in these directives over the year, so this is just a first starting document. However, I will need to come back on this, a little bit further ahead.

Linus Larsson: Sure. I appreciate that answer, thank you very much.

Justin Jordan (Exane BNP Paribas): Good afternoon, Annica and Seppo, and well done on a strong Q2. I have two separate questions. Firstly, on packaging side, where you just commented the outlook has healthy demand for all products. In the 13.4% growth in deliveries in Q2, can you help us understand? Clearly, that is benefitting from the successful ramp-up of Oulu, which clearly is ahead of schedule, but in your more consumable board type areas, can you just give us some quantification what the organic volume growth you, whether it is first half or Q2 specifically, has been? And in North America in particular, we have seen price increases announced in areas like the UK and folding boxboard. Is there scope for that, secondly, in Europe, in your view?

And then secondly, coming back to your slide seven, the EU climate change and forestry policies, there is an interview on *Bloomberg* today from Seppo, talking about essentially, 'Fit for 55', when it comes to board and paper-based products, the substitution effect is not fully

recognised. Can you just help us understand what exactly are you referring to by that comment, please? Thank you.

Annica Bresky: Yes. If I start with Packaging Materials and the demand there, it is clearly very strong, and in folding boxboard and in liquid packaging board, we are growing with our customers. And here, as you know, the contract structure is a little bit more stable, so pushing through price increases and compensating for increased variable cost takes a little bit longer. However, we see that our major customers, such as TetraPak, SIG in liquid packaging, they have very healthy growth outlooks. So, I am quite confident that we will be able to continue with that.

And then if we look at the EU Forest Strategy, I think there is a recognition of packaging materials as being a solution to replacing other materials, such as plastic components or plastic packaging in the society. However, what is not fully recognised is the forest's role as a driver of climate mitigation, that forest management and the products that come from Forest are part of replacing fossil-based materials.

We need to make sure that we do not just look upon the forest as a carbon sink, but rather make sure that it is fully recognised in Europe and many countries where reforestation needs to happen. And that is one of the initiatives that is very good in the EU, that it is now also targeting reforestation. But that you can see that forests, if they are sustainably managed, they can both mitigate climate change but also provide products that replace less eco-friendly products on the market.

And here, we are just in the beginning of that transformation, I believe, in both packaging, in construction, where a lot of the materials used today, like concrete or steel or plastic, have enormous CO2 footprints. This is what I mean when I say it is not fully recognised but there is a big potential for our industry to really enable the EU to reach their targets and at the same time, protect biodiversity and have growth in forest. So, this is not a contradiction per se, and we have proven that in the Nordics, where we have had our practices for sustainable forestry for quite some time.

However, as I said, this is a continuous discussion with the EU, where we are engaging and have a lot of good dialogue, so I am confident that we will see the impact coming forward in a positive manner.

Justin Jordan: Yeah. Best wishes for continued success in the discussions, and I appreciate it is a marathon, not a sprint.

Annica Bresky: Sorry, I did not catch what you said?

Justin Jordan: Sorry, I was just going to say, best of luck with the EU. I appreciate you have material forest assets in Sweden, Finland, and are extremely well-placed to benefit from any EU economic change in forestry policy, so best wishes on that in the coming years.

Annica Bresky: Yes. Yes.

Mikael Doepel (UBS): Thank you. First off, on the graphic paper side, just to clarify the numbers you, Annica, mentioned there in the beginning, you talked about 22% demand increase in Q3 year-over-year, and that the full-year demand should improve by 3%. If you could just clarify, is this on a global level, is this on a European level, is this for graphic paper overall? Who is doing the estimation for the full year, and so on; just a bit of clarification there.

Also on paper, I was wondering if you could give some indication of what kind of price hikes you have been able to achieve for mechanical papers in particular, going into the second half of this year. That would be my first question.

Annica Bresky: Well, the demand outlook is for the European market, and it is for all of the segments within graphical paper in general. That is the foundation for that data.

And if we look at commenting price increases looking forward, unfortunately, I cannot do that, as you know. However, we have had several price hikes during the end of quarter two, and we are pushing through that, to mitigate the raw material cost increase, so that is, unfortunately, all that I can comment at this point.

Mikael Doepel: Okay. And then my second question would be on the pulp markets, and maybe in Europe in particular, if you could just talk a bit about what you see in the European markets right now in terms of demand for pulp, in terms of customer inventories, producer inventories. Any particular price trends that you see in Europe now. We see, as you pointed yourself, price volatility or declines actually in China. Europe seems to hold up fairly well. I was wondering what you see in the European pulp markets right now, please?

Annica Bresky: We have seen a continued demand increase through the quarter and price increases there. If I look on a global level, because, China and Europe, it is all interlinked, so it is very difficult to separate the one area from the other, but the supply is tight for pulp on the market. And it is driven by a few factors. One, is that quarter two was quite maintenance heavy. There were many companies that had postponed maintenance activities during the first year of the pandemic, and now they took a chance to prolong their maintenance shuts during quarter two. There have been logistical challenges in supplying pulp to the many corners of the world, as you are well aware, with everything going on in the logistic side.

If we look at inventory levels, the global inventory levels, for hardwood, for instance, they are eight days below the five-year average, and for softwood, the global inventories are in line with the five-year average. Therefore, moving them forward to quarter three, which is usually a maintenance-intensive quarter, supply is going to be restricted again. So, I see that for Europe there is a continued healthy, balanced supply-demand situation also going forward the coming two quarters.

Mikael Doepel: Okay, thank you very much.

Ulla Paajanen: Thank you, everyone, for participating in our Q2 earnings call and lively discussions and good questions. And I will now hand it over for Annica for final words. Please, Annica.

Annica Bresky: Thank you, everyone. As I said in the beginning, this was a quarter that we are proud of, and I am satisfied with our performance. We have strong performance and solid growth, both year-on-year and quarter-on-quarter, and I see we have a positive outlook going forward, and I am excited to talk to you again in connection with the quarter three report. Thank you all very much, and I wish you all a nice summer.

Seppo Parvi: Thank you.

[END OF TRANSCRIPT]