



Stora Enso Q4 Report

Friday, 29th January 2021

Welcome

Thank you, Ella. Good afternoon, everyone also on my behalf and welcome to Stora Enso full-year 2020 and Q4 conference call. We are running this call now for an hour and I will hand it over for our CEO, Annica Bresky. Annica, please, go ahead.

Introduction

Annica Bresky
CEO, Stora Enso

Thank you very much and a lot of welcome to our call today.

Steady performance as a result of our own actions

I'm very satisfied with the quarter that we have behind us. We deliver a steady performance, as result of our own action. And as you know, we have an unprecedented year behind us. I'm happy that we have been able to protect our people's health, run our operations without major disturbances and serve our customers through a year that has been quite exceptional for all of us.

If we look at our results, our sales and operational EBIT decreased by 11% compared to a year ago, but if we exclude Paper, we had a 3% decline. And sequentially, I'm happy to see it that our sales actually increased by 4% compared to Quarter 3. This shows that our main businesses are performing well and I can see signs of improvement going on.

Our operational EBIT was €118 million down, largely in line with 2019. We have to remember this is a maintenance-heavy quarter, where we also had the conversion of Oulu, which we finalised. So, from that perspective, coming back to pre-Corona levels is a stellar performance.

We can see a clear improvement to our base businesses excluding Paper, from €80 million to €122 million, which is more than 50% improvement. Our operational EBIT decreased to 5.5% and excluding paper to 7.3%. So, there are signs of recovery in our results.

Our cash flow from operations landed at €436 million, and after investment, that's €223 million. Here, we have to remember that we had a positive effect from an extraordinary dividend and capital repayment from Bergvik Skog, amounting at €223 million last year. Net debt to operational EBITDA landed at 2.3x, slightly above our target of 2 times, but we have managed to reduce our debt by €300 million. Our operational return on capital employed excluding our Forest division landed at 4.6%. And our board is proposing a dividend of 0.3 euro cents per share for AGM decisions. This is in line with the dividend payout of 2019.

So all in all, I can say that we see signs of recovery of our businesses and this has been a steady performance, coming back to pre-Corona levels.

Cost reductions compensating for lower prices and volumes

Moving on now, if we look at what are the main drivers for our result, we can see of course a decline in sales prices and volumes, which are the biggest effect during the quarter. But through our own actions, cost savings and good management in our company, we have been able to mitigate that decline.

Fair valuation of forest assets

As you also know, we have through the year worked with the re-evaluation of our forest assets and now we have moved over to market transaction-based fair valuation applied to our Swedish Forest assets. With that, we end up at a fair value of €7.3 billion, which is slightly above the higher area of the interval that we communicated earlier this year. This shows the fair value of the assets that we have and from now on we will continue with this transparent communication towards all of you.

Our other forest assets are based on discounting cash flow methodology still, so Tornator, Montes del Plata, Veracel and Guangxi in total have a fair value of €1.7 billion. Our Swedish forest assets' fair value is €5.6 billion, which is both biological assets and land assets.

One of the largest forest owners

So with that, we can conclude that we are one of the largest global forest owners. This is a very good position to have. Innovation and new products all start from our renewable materials, and here you can see a comparison of us with other peer companies in the Nordics.

Stable dividend

We also enable a stable dividend. Our proposal is 30 euro cents – €0.3 per share. The dividend proposal is unchanged compared to 2019. And our policy, as we communicated in the last Capital Markets Day, is to pay stable dividends linked to the long-term performance and to have a 50% EPS excluded fair valuation over the cycle. And it is important to have a perspective of over the cycle when we distribute the dividend. So this is the proposal from the board.

Positive signs of market recovery

And as I said, we see positive signs of market recovery. Our performance in Packaging Materials continues to be strong. Stable demand for consumer board. And we see improving market conditions for container board. We had a very good result for our Packaging Materials division.

Strong e-commerce demand supports corrugated packaging and we also had the best – the second best Quarter 4 for our Wood Products division. So, a very strong performance there and high demand for Wood Products solutions, both building solutions and traditional sawn logs. And here, we can see that it is mainly the US market and the European market that have been driving that development.

Continued strong and stable performance for Forest. We have good harvesting conditions and a stable supply of sawn logs. And we can also see improving market conditions for Biomaterials. As you know, this – the last year was a challenging year from a pricing perspective. We started with very high inventories for market pulp globally. But at the end of the year, we have a much more balanced supply and demand. The inventories have come down to normal levels globally, and we see that the Chinese recovery is proceeding, so demand is expected to increase going forward. And these are positive signs for our Biomaterials division going forward.

And last but not least, as you are all aware, Paper is in a structural decline and has been already before the pandemic. We can see that the demand decline continues and the structural overcapacity is there in all the paper grades. So, this market continues to be challenging. And here I come to our own actions and the importance of those. Paper has delivered a strong cash flow, coming back to the levels that we were before the pandemic, and that comes down to

very good cost management, making sure that the mills stay competitive and also having a very good working capital management.

High intensity in strategy execution

We have a high intensity in our strategy execution. Oulu Mill conversion to kraftliner is finalised and the – we are in the start-up phase. Our pulp mill is producing pulp and we are starting up the board machine, so this is a very good step in our transformation forward into growth areas of Packaging Materials.

We are conducting the feasibility study at Skoghall, as you are aware, which will be finished in Q4 this year and up for decision by the board. We decided on an €80 million investment in our Imatra Mills, to strengthen the wood handling and the competitive position of our integrated Imatra. That will be finalised by Q3 2022. We also chose to accelerate the innovation performance of lignin and our platform in Sunila, by investing €40 million to enable better operations and granulations in the packaging plant of lignin.

We made a decision in CLT, in production in Ždírec, and that is progressing according to plan. Contracts for construction are ongoing and the start-up is planned in Q3 2022.

During Q4, we also divested non-core forest assets in the southern parts of Sweden for €90 million. And we also decided on a closure of our US-based Virdia operations. This is a small pilot plant that we have had over the years, where we see it's no longer part of our core innovation platform. So unfortunately, we had to make the decision to close that during this year.

We are collaborating with our customers in order to enable a circular economy and a circular bio-economy, so we are conducting with Tetra Pak a study on expanding the availability – or the – the possibility to use used beverage cartons in recycling, in Ostrołęka Mill. And this is a true testimony that we really want to be the leaders in this area, in enabling the circular bio-economy.

And last but not least, we are continuing our ramp-up of formed fibre food service bowls to replace plastic, commercialised together with our wholesaler Tingstad. So that is clearly available on the market and has had rendered a lot of interest.

So with that, I hand over to you, Seppo, to go through the financials in more detail.

Financial Performance

Seppo Parvi

CFO, Stora Enso

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

Cash flow supported by working capital reduction

First of all, top-line sales, like Annica already mentioned, was down 11% year-on-year. Sequentially, compared to Q3, sales were up 3.6%. Operational EBITDA margin was 12.7% and EBIT margin 5.5%. Earnings per share, basic, for the Quarter, 30 euro cents. Look at the

EPS excluding fair valuation, so the base for the dividend policy, around full year figure at 45 euro cents.

Operational return on capital – capital employed excluding Forest was 4.6%. And cash flow from operations at 300 and – sorry, €436 million.

Then compared to last year, you should notice and remember that there was the significant €230 million extraordinary dividend from Bergvik Skog related to the ownership restructuring done – done earlier. So in that sense, I think it's fair to say that our – our cash flow was strong for the quarter and – and it was supported by working capital reduction. Working capital is actually at – at record low levels and that is, I think, very – very encouraging news. We have been working a year and a half to reduce the working capital. Now we start to be at the targeted levels. And this kept the last 12 months operational EBITDA, 2.3.

Profit protection programme

Then shortly on our profit protection programme, where we are coming to final – final year. Like I said earlier, we – we are now – now expecting to close the programme during 2021.

In Q4, we achieved €70 million continuous savings and, on top of that, €5 million one-time savings. We expect additional savings of €80 million during this year that has started now.

Packaging materials

Then, starting with the divisions and first looking at Packaging Materials, where strong performance continues. And also, in containerboard business market, conditions are improving. Sales decreased slightly, to €759 million. That is due to clearly lower containerboard prices during the quarter compared to year before, and closure of that small packaging paper machine at Imatra Mills in Finland had also an effect. That was partly mitigated by higher pulp sales and containerboard demand.

Operational EBIT increased by €10 million. This is I think a good achievement, keeping in mind that the result includes conversion costs of Oulu, €27 million.

Result was supported by clearly lower variable costs, especially pulp, chemicals and energy, and lower containerboard prices and lower consumer board volumes had an effect. Good to see that market situation in China has continued to improve. And operational return on capital improved – improved to 9.2% during the quarter.

Packaging solutions

Then moving to Packaging Solutions division, very solid result was visible and it was supported by strong e-commerce demand, like also earlier during the year.

Sales decreased by 6%. There was visible lower corrugated box prices in Europe, mainly due to decreased raw material prices, and also negative sales FX effect. We have slightly higher European corrugated deliveries.

Operational EBIT – that remained flat at €10 million. It reflects our lower sales, but also lower containerboard and fixed costs. It's good to remember that in Packaging Solutions division we have the new businesses included. That is biocomposites, formed fibre and Box, and that has a negative impact on operational EBIT, as they are in the – in the start-up and development phase.

Operational return on capital remains stable at 16.2%.

Biomaterials

In Biomaterials, market conditions are improving, but the result in Q4 was burdened by – by plant maintenance works. Sales decreased by 8% and was €340 million, due to lower pulp deliveries, mainly due to all-time high deliveries a year ago in the comparison period, and negative sales FX.

Operational EBIT was flat at negative €12 million and the result was negatively impacted from total volumes affected by maintenance and slightly lower prices. But we had also clearly lower variable costs, especially for wood, chemicals and energy supporting the result.

Operational return on capital at the low level was of course actually negative 2.1%.

Wood products

Then Wood Products division, where we had exceptionally strong Q4. Sales decreased by 4% and that was a result of structural changes at Pfarrkirchen and Uimaharju and Kitee sawmills, and that was partly offset by slightly better prices and mix for classic sawn, LVL and US market.

Operational EBIT increased by €19 million, to €33 million, and that was second highest Q4 ever so far. That is thanks to higher sales prices and especially good cost control improving profitability.

Operational return on capital increased and was clearly above the long-term target of 20%. That was 23.5% for the quarter.

Forest

Then moving to Forest division, where – where strong and stable performance continued. Sales decreased by 5% due to lower wood prices and that was partly offset by increased wood deliveries, especially in Sweden.

Operational EBIT increased by €10 million to record-high Q4 level of €41 million. There, we had also positive effect from Tornator wind power project, that together with increased efficiency in Finnish wood sourcing during unit improved profitability significantly.

Operational return on capital employed remained above long-term target, at 3.8%.

Paper

Then Paper, where challenging market conditions continue but we are very happy about the strong cash flow generation during the Q4.

Sales decreased by 31%, due to continued accelerated structural demand in the case of decline and global overcapacity situation. That is placing additional pressure on prices in all paper grades.

Also, Oulu Mill conversion, discontinuation of paper production there, decreased sales by €50 million.

And operation EBIT decreased by €49 million to negative €5 million. There, we saw clearly lower prices and total impact of the volumes, partly offset by lower costs and activities related to discontinuation of paper production at Oulu Mill had a €5 million negative impact, as indicated already earlier.

As I had said, very strong good cash flow – cash flow after investing activities to sales ratio was at 10.3%, which is clearly above the long-term target. And that is thanks to very good working capital management by the – by the division.

Development of long-term financial targets

Then looking at the development of long-term financial targets, and there I will concentrate on full-year figures, as I have been already commenting quarterly figures in the case of divisions.

Dividend, like Annica already mentioned, proposal is 30 euro cents per share. And looking at other figures, growth for the year, that was negative 8.7%, due to the effects of the COVID-19 spreading around and affecting the global economy.

Net debt to operational EBITDA at 2.3, moving in the right direction, from the peak during the year, but still above the targeted maximum 2.0.

Net debt to equity at 33% and operational return on capital employed excluding forex for the full year at 7%.

Looking at the divisions, both Packaging divisions, both Packaging Materials and Packaging Solutions, about 14% level. That is below the targeted 20% and 25% levels, but quite strong taking into account the business environment.

Biomaterials, roughly at 0 – 0.4%. And Wood Products for full year at 19.1%, so not far away from the targeted 20% level. And Forest division at 3.9%, above the target of 3.5%. And like I said, Paper cash flow for the quarter, Q4, was 10.3%, but due to the challenges of the previous quarters, full-year cash flow was 1.6%.

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

Forward View

Annica Bresky

CEO, Stora Enso

Thank you, Seppo.

Outlook resumed with annual approach

And we are resuming our outlook with an annual approach. And what we see, as I said, is signs of improvement, and we do expect an operational EBIT in 2021 to be higher than in 2020. So, we can see expectations of economic recovery, provided that the COVID vaccination progresses successfully and we are managing the – the uncertainties in our surrounding environment.

We do see that the demand of our products remained mixed. We have strong demand in our Packaging, Wood Products and we see improvement in Biomaterials, a stable outlook for our Forest division, but our Paper division is challenged.

The Oulu ramp-up is going according to plan. We estimate approximately €20 million negative impact on operational EBIT in Q1, and approximately between €45 million to €50 million total negative impact on operational EBIT for Packaging Materials for the full year.

Design capacity is predicted to be reached by end of Q2 and the full, final commercialisation of the full product portfolio by end of 2021.

We estimate to reach operational EBITDA break-even in Q1 2022.

Our profit protection programme will be concluded during this year and we estimate approximately 80 million of cost savings for this year. And we continue to focus on cash flow generation.

Also, we are giving an outlook and a comparison on the full maintenance impact quarter-by-quarter. And as you can see, our estimation for Quarter 1 this year is €105 million of total impact. That includes both volumes and costs in comparison to Q1 2020 that was €98 million.

Steady performance as a result of our own actions

So all in all, if we conclude, we are back in line with where we were 2019, before the Corona happened in Q4. We have a steady performance and it is largely a result of our own actions. We see signs of recovery. Our sales has increased sequentially quarter-on-quarter, and market conditions are improving for our containerboard products. They are staying stable in demand for our consumer board and for biomaterials.

We have cost reductions and they are visible. They are seen in our P&L. And our Oulu Mill conversion is finalised and is in the start-up phase.

We have divested non-core forest land in Sweden for €90 million and this highlights also the value that our forests have. The total forest assets' fair value is €7.3 billion and our dividend proposal is 0.3 euro per share, to be decided at the upcoming AGM.

And with that, we open up for your questions.

Q&A

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer sessions. If you'd like to ask a question, please press star and one on your telephone and wait for your name to be announced. You can cancel your requests at any time by pressing the hash key. And your first question is from the line of Robin Santavirta of Carnegie. Please go ahead.

Robin Santavirta (Carnegie Investment Bank): It's related to your Paper business. When I look at the capacity, the machine park you have and – and the current deliveries and perhaps the outlook for this year, it seems as your operating rate with – with this machine park will – will remain low, below 80% outreach. What is – what is visible plan in this division for – for you guys? Is it to continue with this machine park, to do something substantial in terms of cutting, simply closing capacity, or any potential for – for divestment or – or consolidation in the paper industry? So, that's the first question, thanks.

Annica Bresky: Thank you for the question and I think we're all aware that there is an overcapacity in Europe – 6.5 million tonnes, approximately 10% overcapacity. So, this means that structural changes will need to happen on the paper market. We believe that there is a new baseline established now after the pandemic. So, if we look at our own assets, our strategy has been the same over all time. We make sure that we have the most competitive assets and we drive cash flow, which we proved also now in Q4. And we evaluate constantly if we can convert a mill, such as we did in Varkaus, also in Oulu, into other grades. If we don't see any good opportunities that fit our own business portfolio, then we divest, and we have done several

of those. And as a last option, if there are no good opportunities, then unfortunately we have to close down capacity, such as we did in Hylte decision that we took last year, where we closed down one machine and then the inking plant. So, this is our strategy all along and that is what we are working on.

Robin Santavirta: All right. Thank you. Then related to the containerboard business, where you had the start-up cost of ramping up Oulu in Q4, I think you guided for €30 to €40 million cost in the containerboard segment and then €5 to €10 million costs in the Paper business. Where did you land? I was just looking at the containerboard EBITDA, which seems quite strong in relation to that €30 to €40 million cost booked in that – the line for that division. So, where did you land on those costs? And maybe what's sort of behind this strength of the containerboard profitability?

Seppo Parvi: Seppo here. Maybe I can take this one. Like I mentioned in my presentation, effect on – of Packaging Materials, operational EBIT from Oulu conversion was €27 million, so slightly below the low end of the range we gave, it's at €30 to €40 million. On Paper, the effect was €5 million, so they are also at the lower end of the range. We are of course positive and I think it's – it's a – it shows the good work done in both divisions on these projects, and – and it's challenging to keep guidance and exact figures, as you can imagine, especially under the uncertainties with COVID-19, when it comes to conversion. So, I think we are very happy and proud of the work done by both teams and I think that's a reflection of the result there.

Annica Bresky: And if we look at the containerboard market, we can see positive signs. We saw that already in Q4. The inventory levels, they came down and we could see a push for price increases. So, e-commerce and the use of boxes within e-commerce has clearly been one of the main drivers here, and we have of course benefited on that.

Robin Santavirta: Yes, thank you. And then just finally on China, seeing as after this already some of the activity levels there have been quite strong, based on statistics, especially carton board and packaging demand and pricing is – has improved and is improving. Is this something that is supporting your operations there, and I'm particularly, the sort of Beihai, I can see ivory board or folding boxboard prices surging there. Is that positive for Beihai? Or how would have the pricing dynamics for what Beihai sales work in China?

Annica Bresky: Yes, there is a good development in China. It is recovering. It's affecting not only our Packaging business but also our Biomaterials business going forward, with improved demand levels there and a balancing of the inventories. And for Beihai specifically, yes, the consolidation of the folding boxboard market by the big players and the push-up of prices there is impacting positively our mill there.

Robin Santavirta: Any comments on Beihai profitability as at this stage, you know, close to targeted level or far below still, or how you...?

Annica Bresky: I'm sorry, but we are not able to comment on individual mills' performance.

Robin Santavirta: I understand. Thank you very much. That was very much appreciated.

Annica Bresky: Thank you.

Operator: Thank you. Your next question is from the line of Alexander Berglund from Bank of America. Please go ahead. Alexander, your line is open.

Alexander Berglund (Bank of America Merrill Lynch): Thank you very much and hope everyone's doing well. Three questions from my side. The first... Can you hear me? Hello?

Annica Bresky: Yes, I can hear you, yes.

Alexander Berglund: Can you hear me? Can you hear me now?

Speaker: Yes, we can hear you, Alex.

Annica Bresky: We can hear you.

Alexander Berglund: Oh, perfect. Okay. Great. No, hope you're doing well. No, that's great. Perfect. So, I – three questions from my side. I mean, just the first one is a bit specifically on price, if I may, starting with graphic paper. One of your peers talked about the mid-single-decline into the first half on – on their graphic paper portfolio. Is there anything you can comment there on – on what you have seen, potential price declines in graphic paper? And then similarly on – on consumer board, we talked a little bit about Beihai now, but do you see any potential to increase consumer board prices into – into 2021? And then finally, also, Wood Products, you mentioned it was strong. STA talked about a 10% increase into first quarter on their wood products. I know it's not the same thing, but just if it's possible to give any colour on pricing on this – on these three grades. And then I have some follow-ups on – on Forest and cost inflation.

Annica Bresky: Yeah. As you know, we don't comment on prices moving forward, but what I can say is that I do agree that there is a high price pressure for paper, also for Quarter 1, so it continues to be kind of the area where we need to constantly evaluate the competitiveness of our assets and also take cost reductions to be able to mitigate. But it is – it is – if we look long term and structural, the price decline has been between 5% and 6% annually, and the new levels now that are on the market, they can only be corrected if – if structural changes are happening on the market, so if the overcapacity is reduced. Otherwise, I think we will need to live with these levels for quite some time on the prices for paper. Regarding consumer board prices, here, as you know, a big part of the portfolio is fixed contracts, long-term contracts. So, I would say that for a big part of that portfolio, it's stable. And then we have annual contracts in the folding boxboard area, where we are negotiating, and of course I cannot comment on future price increases in that area. But we take into account, of course, the development in pulp prices when we do our negotiations. And then regarding Wood Products, the price increases we have seen during Quarter 4 have been in all regions, and especially strong in US, but also in Europe. And the imbalance in demand – the strong demand especially in Europe – US – we expect to continue. So, we have a positive outlook for the quarter. But I cannot go into specifics regarding the prices.

Alexander Berglund: Okay, thanks. Moving on to cost and thinking about cost inflation, is there anything you can comment on what you're seeing on wood pulp chemicals? Is there any [inaudible] on logistics? And also, if you can remind us on your recycled fibre exposure, so how much you're buying on ONP and OCC on an annual basis. Again, it seems like those prices are going up.

Annica Bresky: So, if we look at the - if you remind me of the first question that you asked. You said the – oh, their supply chain and variable cost. We do not see any kind of major impact there. In supply chain during 2020, since there has been a lot of kind of changes of kind of

supplies due to COVID, we have had increases cost in logistics, that we have mitigated by other actions through our profit protection programme. But we don't have any major challenges there, as we see it, moving forward. And the last question -

Alexander Berglund: And on your recycled fibre purchases -

Annica Bresky: Yes.

Alexander Berglund: - if you can just remind us how many tonnes short -

Annica Bresky: Yes. So, we have 1.2 million tonnes of recycled paper, so, and OCC, 700,000 tonnes. So altogether, 2 million tonnes.

Alexander Berglund: Thank you very much. A final question. I'll try to keep it short here. Forest: you're - you came out in a bit more than your guided range. Any comment on that? And then also, you know, for us, for help us with our modelling here, you know, how often are you going to revalue? If there's any specific statistics that you will be looking at we perhaps could follow, and also, are you looking to - are you doing a three-year average to some of your peers, or are you just using the latest annual data on forest prices? Thank you. And transaction prices.

Seppo Parvi: Yeah. Thank you. First of all, if you look at - at the final fair valuation, 7.3 billion higher compared to the range that we gave, 6.5 to 7, the main driver of our Swedish Krone foreign exchange rate development, as it is a big asset, so changes there has play quite a significant role there. Obviously, there was a fine-tuning data based on the - on the further work, but it was - main reason was the foreign exchange rate. We plan to do the revaluation twice a year and some checking of obviously quarterly, but main valuations twice a year, so Q2 and Q4. And we use three-year averages, as seems to be the market practice also, looking at our competitors and others following the same method.

Alexander Berglund: Thank you very much. Those were my questions.

Seppo Parvi: Thank you.

Operator: Thank you. Your next question is from the line of Mikael Doepel of UBS. Please go ahead.

Mikael Doepel (UBS): Thank you. Good afternoon, everybody. Just a couple of questions, first on - on the graphic paper market. Have you seen any improvements in the demand trends now, going into 2021? I mean, we did see a sequential improvement in the trends, back half of last year into Q4 - still fairly weak, but still improving trends. Have you seen that trend continuing into January this year? And also, I think you previously said that you do expect some sort of a bounce-back in volumes this year. Is this still your assumption, or has it changed in any way?

Annica Bresky: What we can see moving forward is that there are no real bounce-backs in demand. I don't remember saying that we will see a bounce-back. I - what I - what we have communicated before is that we see that this is a step-change, that we see the shift into new ways of communication through digitalisation. People are reading fewer magazines, they are not buying newspapers as much. In offices, we do not print on copied paper as much. So, I believe that there has been an establishment of a new baseline and the structural decline that we have had historically will probably continue from this baseline. So, since the overcapacity

is so big, I have not seen and we have not seen any major kind of demand improvements moving forward.

Mikael Doepel: Okay. So, you assume that this year as well demand will continue to decline?

Annica Bresky: That is what we see so far.

Mikael Doepel: Okay. Good. Then in terms of the carton board business, and I was specifically looking at the volumes trends in that specific segment and I was wondering if you can help me understand the trends we saw there in 2019 and 20. I think you had declining volumes more or less in each quarter there, despite the fact that I guess for the boxboard and liquid packaging board markets were either growing or stable in both years. So, I was wondering if you could explain a bit what's happening there.

Annica Bresky: There are – within the segments, there are many different end uses. So, the end uses that have been strong have been, for instance, pharmaceutical, food packaging for homes, like our liquid board and so on. But there are also end uses that have gone weaker, like cosmetics, like food service board. So, everything used for on-the-go food and in restaurants, naturally impacted by the pandemic. So, we believe that this is a temporary decline in those end uses and as societies come back to a more normal ways of operation, that business is going to bounce back, and we see positives signs of that as societies are opening up. But of course, this is the explanation behind that. Some end uses have been stronger and some end uses a little bit weaker, even in packaging materials.

Mikael Doepel: Okay. Good. Then just finally, on the cost side of things, I think you mentioned that you had a temporary cost savings in 2020. Was it €85 million? Seppo can correct me if I'm wrong, but something along those lines. Will that come back in 2021, do you believe? Or do you have some further measures in place to keep that away? And if you think about then, you know, overall variable cost or inputs cost going into this year, what would be your guess of how that's going to pan out? I mean, are we going to see any inflationary or deflationary trends for the year?

Seppo Parvi: Yes, thank you.

Annica Bresky: Oh, I can comment on a large scale, Seppo, and you can go into details –

Seppo Parvi: Yeah, fine, yes.

Annica Bresky: – if you want. So, if we look at kind of the distribution between variable and fixed costs, approximately 40% is fixed costs and 60% is variable costs. So of course, variable costs are dependent on what is happening on the market, so that is something that might change if there is a very strong market recovery and depending on how we negotiate our contracts. But the fixed cost savings have been kind of something that is not dependent on the market as such, but under our control. So, we expect to keep that. We have reduced by 2,000 people in Stora Enso over last year, so this is something that we're constantly working with, becoming more efficient.

Seppo Parvi: Yes, and then it comes to this one-time savings, it is of course something that we expect to come back, and that's why we have separated the savings reporting as well, those one-time savings away from continuous savings, in order not to mislead the market. Obviously there will be some additional smaller amount of one-time savings this year. As I mentioned, in Q1 we expect some €5 million – oh sorry, it was €5 million in Q4. But on top of that, there will

be – on top of this €80 million, some relatively small one-time savings still. So, it's something that is coming back. But obviously, we mitigate those with the continuous improvement actions outside the profit protection programme. And full-year profit protection programme, for this year, we expect some €80 million continuous savings, on top of what has been already implemented.

Mikael Doepel: Okay. And in terms of the variable costs, I mean, in chemicals, logistics, energy, wood, what do you see overall trends in – going into this year?

Seppo Parvi: There I would say in general that cost pressures are not very high. There are of course some differences between different type of costs, like Annica mentioned, logistics, where there has been challenges to get some containers occasionally.

Mikael Doepel: Okay.

Seppo Parvi: And logs also on the Wood side.

Mikael Doepel: Okay. That's clear. Thank you very much.

Seppo Parvi: Thank you.

Operator: Thank you. Your next question comes from the line of Lars Kjellberg of Credit Suisse. Please go ahead.

Lars Kjellberg (Credit Suisse): Thank you. I just want to come back to the outlook. Annica, you of course mentioned that you expect an improvement in 2021. Can you give us any colour on the respective segments? Of course, you mentioned some positive trends in the beginning of the year, but when you evaluate the whole year, what are you seeing? And equally, so if you can give us any short-term views on the first quarter, considering that we're still sort of fighting the pandemic, in big scale, are you seeing any meaningful impacts of that in the first quarter? And then also, if I could just ask on the Biomaterials, it was quite a bit weaker than I had expected. Did you have an unusually difficult maintenance cycle that caused those costs to be really elevated? And on the maintenance costs, you've highlighted of course now in your presentation pretty high numbers for every quarter. I think last year you've mentioned you had no maintenance, and I can tell from your report today that you're not having any mills taken down for maintenance. So, I just wanted to understand what the 105 million represents that you're saying for the first quarter, because I can't see any mills going down, so if you can elaborate.

Seppo Parvi: If I take the maintenance question first, Annica. So, you have to remember, we have small maintenance continuously. So when we refer that there is no – it's major maintenance and shut downs. There are sort of smaller maintenance works going on also during Q1, but no major ones. And the figure – it might look high, but you have to remember earlier we have been only communicating the difference sequentially or year-on-year, but it is matching basically, look at the differences. This is just that we wanted to give the full figures that has been sometimes asked by you or your colleagues, so just to give them more – more informative.

Lars Kjellberg: And to be clear, that does not include any Oulu-related costs?

Seppo Parvi: No, no, that is an investment.

Lars Kjellberg: Yeah, got it. Thank you.

Annica Bresky: So – so, adding on what Seppo is saying on maintenance, the annual maintenance shuts of the pulp mill, those are the ones that we have in Q3 and Q4 normally, and those are the ones that are the biggest ones. But as Seppo said, there is continuous maintenance done all year around for our 60 sites. So by doing in this way, we show you more transparently the effect, so it makes it easier for you to see. So, remind me of your first question.

Lars Kjellberg: Yeah, on the Biomaterials –

Annica Bresky: Well, yeah. Yeah.

Lars Kjellberg: Yeah, so go ahead.

Annica Bresky: We do not have any... Yes, I remember now, sorry. We do not have any pulp mill shut-downs during Q1, and those are normally the challenging ones, if I have to say so. Shutting down a pulp mill, and especially as it has been in Q4 in minus 20 or 30 degrees, and with COVID, with all the precautions that we have to take, is of course a huge exercise. So, Biomaterials has been impacted by tougher conditions for performing maintenance shuts during this year compared to a normal year. So, this is one of the reasons for Biomaterials results.

Lars Kjellberg: And then I just wanted to see if I can get any more colour on the outlook in anything on Q1 specifically.

Annica Bresky: Well, if we look at Q1, we continue – we will continue to have a difficult situation on Paper. That goes without saying. For Packaging, we have stable conditions. For consumer board, we see improvement in – we see stronger demand for folding boxboard, especially in China. What we see in pulp side is that there is support for improved prices, if we look at the demand that we see. And then for Wood Products, the market continues to be strong in construction, despite the pandemic, so here we think that we – it is – a continues strong performance for Wood Products. And Forest stays stable in the returns. There are good harvesting conditions for Forest.

Lars Kjellberg: Got it. Two more questions – just quick ones. The CapEx levels continue to look relatively elevated. Seppo, if you can allude to if there's any particular large projects that we should think of. I would have assumed that numbers to go down to in the 500s, but clearly here you're well above that. And also, if you just – maybe Annica could think how you think about the recent flurry of investments in pulp mills in China, considering that you abstained from doing the same in Beihai.

Seppo Parvi: Yes, if I start with the CapEx, there is nothing extraordinary on top of what we told earlier. There is of course some leftovers from Oulu investment still and then you have to remember that this, in 2020, due to COVID-19 hitting during Q1, we started to limit CapEx last year. That meant that some projects were delayed from 2020 to '21 in order to safeguard the cash flow, and that is probably why you see a bit higher figure this year than you would have seen otherwise. Other than that, nothing extraordinary as such.

Lars Kjellberg: Got it. Thank you.

Annica Bresky: And regarding pulp mills in China, I do not comment on that. What I can say is that it is – there is not a lot of wood availability in China. Having plantations and managing them is something that is not evident in China, so how the profitability of the pulp mills in China is, that is not something that I have any insight on.

Lars Kjellberg: Appreciate that. Thank you.

Operator: Thank you. Your next question is from the line of Justin Jordan of Exane. Please go ahead.

Justin Jordan (Exane BNP Paribas): Thank you. Good afternoon, everyone. I've got three completely separate questions. So, firstly on pulp, I appreciate you don't comment on price here. I wouldn't expect you to. But clearly, Stora Enso is a major global supplier of market pulp and I'm just trying to understand the delivery times between let's say a dissolving pulp customer who's supplied from Finland to Europe somewhere will be very different to, I don't know, a Chinese tissue maker supplied from Berisol. So, can you just think about across the entire portfolio of Stora Enso market Pulp sales, what's the typical time delay, as it were, between agreeing a price for pulp or contracting, for example, today on January is it 29th or something, to actual delivery? And the reason for asking that question is clearly if we think about rising pulp prices in '21, when do they start feeding through to rising biomaterial EBIT, as it were? That's my first question.

Annica Bresky: Well, from the point that you start seeing price increases, it usually takes about a quarter before you see it in your – your results.

Justin Jordan: Okay. Thanks, Annica. And then secondly, one for Seppo on FX. And clearly, you've been diligently hedging for many years, but on page 33 and 34, you've got some details of hedging for 2021. And I'm thinking particularly about movements recently in US dollar versus euro, where – how does that hedge actually work in practice? Have you hedged the same percentage for every quarter in 2021, or is that rolled down as we go through the quarters in 2021?

Seppo Parvi: Yeah, of course. We – on average, our policy is to hedge about 50% of the coming 12 months' cash flow, but obviously the hedging ratio is higher for the shorter-term periods than longer term, because of the uncertainty with the longer-term cash flows. So –

Justin Jordan: Yeah.

Seppo Parvi: – based on difference between the period or inside the 12-month period.

Justin Jordan: Okay. And my final question –

Seppo Parvi: And of course, it's depending a bit on the market situation, our yield. We are not of course issuing exactly at 50%. It can vary at say plus/minus 10%, roughly, around that point. And so sometimes even more. But 50% is quite fair for your modelling purposes, if you want to do that.

Justin Jordan: Okay. Thank you, Seppo. And then, I guess one final question for Annica, on the announcement you've made this morning with Tetra Pak, can you give us some more colour as to potentially what sort of volumes you could be talking about re-using here within the Ostrołęka Mill? And I suppose, what proportion of the furnish could be coming from liquid packaging board, as opposed to potentially OCC or – for that mill?

Annica Breska: Well, we are in a starting phase. This is a feasibility study. So, we have done trials in both Ostrołęka with used beverage carton and then also of course in Langerbrugge with taking back cup – cup stock from. So, our ambition is really to be part of the solution of enabling a bio-economy based on recycled materials. So, we are still in early stages of this

feasibility study, so we will have to come back on how big amount that we can actually do in Ostrołęka. So, it's too early to say.

Justin Jordan: Okay. All right, that's good with it.

Annica Breska: We have to [inaudible] and develop that. But our ambition is to be present in the central European market that we would be able to take back significant volumes of the used beverage carton in Europe, in Ostrołęka. But we have to come back on exactly the levels when we've done our study.

Justin Jordan: Great. And just a follow-up, sorry. The – what's the technical difficulty, is it separating the various materials that are used in liquid packaging board? Would it mean separating out the polymer and the aluminium from the actual paper board, or what – what is the sort of technical challenges that the feasibility study is examining?

Annica Bresky: Actually, the technology already exists. We used to have a mill in Barcelona many times ago, where you did this separation, and it is exactly – it is about separating the different materials and making sure that the different product streams can use and be upcycled. The fibre will be used in the Ostrołęka Mill and the other fractions of the materials, like the poly-aluminium, will be finding other end uses. So, this is the collaboration that we're doing to develop that business model, together with Tetra Pak.

Justin Jordan: Great.

Annica Bresky: But technically, it is not challenging to do. The technology exists. It is more about how you optimise it in the individual mill settings, so that it works. And that's why I cannot tell you exactly how much of the total furnish, because we have to trial that. And that is the work we're doing this year.

Justin Jordan: Okay, thank you Annica.

Annica Bresky: Thank you.

Operator: Okay, and now we take the final question from Harri Taittonen, Nordea. Please, moderator, go ahead.

Harri Taittonen (Nordea): All right, thanks for taking it. I'll only make one question, in that case, to keep it short. I noticed in the Q4 segment, you mentioned that in the Forest division, the division benefited from the – well, apart from the efficiency but also the wind power project and that. So, I was wondering, was that related to kind of some divestment then, or is it something that kind of continues? So, what was behind that? And in general, are you looking into that kind of activity in Finland or in the Swedish forest, to kind of develop that sort of a business in the future?

Seppo Parvi: Thank you. Yes, it's related to Tornator, first of all, in Finland –

Harri Taittonen: Okay.

Seppo Parvi: – where they have been participating – are participating in various wind power projects. As an example, it takes one day to create more value from the forest plant that we have, and that then you participate, you realise this kind of one – one time, it's innovate for the project one time, but it's sort of continuous work. So, there might be other projects in the pipeline later and then you book the benefit from that once you've made the deals and

arrangements. So, it's an important part of the Forest development and economy and management, but that's one parameter as well in the Forest valuation.

Harri Taittonen: Right.

Annica Bresky: Yes, and complementing on Seppo here, of course, which projects within wind power are profitable or not are dependent on the prices of electrical prices and so on. So, as big landowners, we always have discussions with the wind power owners and wanting them to kind of collaborate with us on this, if they see opportunities for our land.

Harri Taittonen: Okay.

Seppo Parvi: And then of course there is rental income from these projects going forward.

Harri Taittonen: Thank you. Okay. Good. Interesting. Thank you.

Ulla Paajanen: Okay. Thank you for everyone for good questions and good discussions and I'm very sorry that we have to now end the call and we still have some questions online, but I will take them over the phone then later. But Annica, to you for final words.

Annica Bresky: Yes, thank you so much, and a lot of good questions, as always. So, all in all, we have a steady performance in Q4. We see signs of improvement. We can say that our main businesses, Packaging divisions, the Wood Products, our Forest, they are delivering good results and have a positive outlook. We have a positive outlook for our Pulp business and for Paper, we continue to generate strong cash flow and take actions needed as the market adapts to a new level of demand. So, with that, I thank you very much.

Seppo Parvi: Thank you.

Speaker: Thank you.

[END OF TRANSCRIPT]