A4S
CFO LEADERSHIP
NETWORK

ESSENTIAL GUIDE TO
CAPEX
Practical example: Stora Enso

THE PRINCE OF WALES'S
CHARITABLE FUND

storaenso

STORA ENSO IS A LEADING PROVIDER OF RENEWABLE SOLUTIONS IN PACKAGING, BIOMATERIALS, WOODEN CONSTRUCTIONS AND PAPER GLOBALLY.

WHAT

In 2008, we launched our Energy Efficiency Fund. This is an annual €10 million fund for capital expenditure earmarked for energy efficiency projects at our mills. We have financed over 400 projects so far. During 2018, the fund financed 55 projects, including LED lighting projects at 14 units, a power plant controlling project, and a new energy efficient method of producing mechanical pulp. When fully implemented, the projects financed in 2018 are estimated to generate annual energy savings of at least 259 GWh (73 GWh electricity and 186 GWh heat). The projects are estimated to eliminate over 16,000 tonnes of annual direct fossil CO_2 emissions.

The projects in the fund form a portfolio, which has been our most successful portfolio in terms of Net Present Value (NPV)/capex. Over the ten years we have had the fund, the average ratio of NPV/capex has been over four, higher than average in our investment projects.

A key benefit of the fund is that it has increased our focus on energy in addition to financial returns, as well as creating a network between the energy experts across the organization. It has also allowed us to share our ideas between the different mills. This fund has contributed, and will continue to contribute, to our science-based target for reducing greenhouse gas emissions.

WHY

In addition to our strategic level targets for reduction in carbon emissions and our commitment to improve energy efficiency continuously, energy is a significant cost item for us. Energy accounted for 10% of Stora Enso's variable costs in 2018. Nevertheless, prior to establishing the fund, energy efficiency investments were often overlooked in favour of other investments. In order to meet our company-wide targets we needed a way to bypass the previous capex processes. We knew there was potential money to be saved in operational expenses.

HOW

All potential investments that are targeted at energy efficiency are collated and ranked according to NPV, IRR and Payback, but also the level of energy and heat savings. Energy experts review the applications and the investment working group then assesses these projects and allocates funds accordingly. The calculations include using:

- A discount rate of the company's weighted average cost of capital, updated yearly.
- A ten year operational period about a year after completion. We track each investment against the initial criteria in a post-completion audit. Through this, we can learn which projects are most effective, both in financial and energy efficiency terms. We then transfer this learning to other mills and assets. We also keep track of the returns of the energy fund portfolio.

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