

Company: Metsä Board Oyj
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Presenters: Mika Joukio
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Mika Joukio: Good afternoon, everybody, and welcome to Metsä Board's 2016 half year results webcast. My name is Mika Joukio and I am the CEO of Metsä Board. Here with me I have also our CFO Markus Holm and Head of Investor Relations Katri Sundström.

Let's start with the second quarter's performance. Market situation in our main market areas remained stable. We saw healthy demand for folding boxboard as well as white-top liner boards both in Europe and in Americas. European producers' deliveries grew by 7% in folding boxboard and 4% in white kraftliner quarter-on-quarter. Price levels in paperboards remained stable. The market price in long-fibre pulp has recovered but short-fibre pulp prices continued to decline. Metsä Board's paperboard delivery volumes grew, and I will come back to that later. Despite the operational challenges in Husum mill, production volumes in paperboards grew by 6% quarter-on-quarter and by 14% by year-on-year.

Our operating result excluding the non-rec items was €36 million, and it remained on the same level as in the previous quarter. Cash flow from operations remained negative, mainly due to changes in working capital. All this was more or less related to Husum investment programme, growing stocks and less capex payables.

Our balance sheet remains strong even though several items in second quarter decreased our liquidity and increased our net debt. During the review period, we agreed on the extension of our existing syndicated credit facility by two years.

Our sales decreased somewhat from the first quarter. The main reason for this was lower volumes in pulp deliveries. As mentioned in the first quarter, we finished trading activities with Sappi Company, which will decrease our annual sales by approximately €60 million, and of course our sales have been impacted by decrease in paper deliveries.

The past three quarters, we have seen very stable EBIT development, where the Husum investment programme has had the biggest impact. During the construction and ramp-up phase, the result has been impacted by integrated shutdown, low production volumes in pulp and paperboard as well as the start-up volumes, which have lowered the average price in folding boxboard; also bearing in mind that last year, 2015, result was supported by higher pulp prices.

Profitability was stable compared to previous quarter but lower compared to last year's levels. In the second quarter, return on capital employed was 8.5% and EBIT margin the same, 8.5%. Of course, this will change as we get the production volumes and the deliveries in full speed from Husum. Our financial target for return on capital employed is still the same, so over 12% from next year onwards.

Then a closer look at quarter-on-quarter changes in operating result. The ramp-up of the new folding boxboard machine in Husum had the greatest impact on our second quarter results. Start-up grades decreased the average price in folding boxboard. At the end of June, there was an unfortunate leakage in the recovery boiler in Husum pulp mill, impacting negatively in both second and third quarter results. Also, we have more planned maintenance shutdowns at our Finnish mills during the second quarter and the impact was approximately €5 million. Foreign exchange had a negative impact on paperboard's EBIT but this was offset to some extent by positive difference from hedge accounting. Other operations result was also improved by other smaller items such as the sale of emission rights. The unprofitable paper business, which is fully reported in non-core operations segment, continued to reduce and thus its impact on Group-level results was quite small.

In July, the paper production in Husum ended and according to this, we will no longer report non-core operations segment. From third quarter onwards, we will only have one reporting segment, which will include the current paperboard segment and other operations.

Our paperboard deliveries continue to grow. Compared to previous quarter, they grew by 8% and compared to second quarter last year, we saw a 12% growth. We have an ambitious but still reachable long-term target to grow annually by 13% on average from 2015 to 2018. I am fully confident that we will reach that target. In the coming years, we will see growth mainly from Americas but of course Europe, as our main market area, is a very important market for us too.

According to our strategy, we focus on premium fresh fibre paperboards for consumer and retail packaging. Our main products are folding boxboard and white fresh fibre linerboard. In July, we ended the production of uncoated paper in Husum. We still have some small volumes and stocks, which will be sold out during the second half of this year. Board Machine #2 in Husum produces now only linerboards and these deliveries are targeted both to Europe and Americas.

In addition, we are planning to close down the wallpaper base machine and discontinue the loss-making wallpaper base manufacturing at the Kyro mill in Hämeenkyrö, Finland. The demand for wallpaper base is decreasing globally and wallpaper base production is not in our core business.

We also have a need to adjust and improve operations at Kyro mill in order to increase its overall competitiveness. Therefore, we will commence related statutory labour negotiations covering all employees at the mill. According to the plan, the estimated personnel effect is up to 100 employees.

The ramp-up phase of the new folding boxboard machine in Husum is progressing. The operational reliability of the machine line and production line is constantly improving and daily production volumes are growing. However, the production output in second quarter was still low. The board machine itself has been running well but we have had bottlenecks in the finishing area – in other words, in winding and packing lines. Most of these problems have been solved by now. We also had an unfortunate leakage in the recovery boiler in Husum pulp mill at

the end of period, which restricted also paperboard production. This will have a negative impact also in third quarter results.

Due to the challenges in production, we have revised our full year sales target in folding boxboard from Husum from 200,000 to 150,000 tons, and our third quarter result will still be impacted by low prices of start-up volumes. The total capacity of this new folding boxboard machine is 400,000 tons and we expect to reach that fully by end of this year.

The efficiency improvement programme in Husum is progressing as planned. The recognised savings potential in the entire site is at least €10 million, which will be realised in our results partly this year and then fully next year. A lot of cost savings will derive from maintenance and external services. Also, we still expect to realise the annual product improvement of €50 million from the whole investment program, which is mainly evidence in 2017 and then fully in 2018.

On slide 9, you can see Husum's daily production volumes in folding boxboard. Most importantly, the operational reliability of the paperboard production line has now clearly improved. In July, the daily production volume exceeded 800 tons in several days as you can see, which is the needed level in order to achieve the 150,000 tons sales target for this year. I am confident that we will reach those levels. We have also been able to reach over 1,000 tons daily production volumes, which really proves that the annual capacity of 400,000 tons is fully reachable. In here, we have also pointed out the unfortunately stoppages and the impact on daily production late June and late July.

Foreign exchange rate changes after hedges had a slight negative impact on our operating result in the second quarter compared to first quarter. The UK referendum concerning Brexit did not have a major impact on our result since the pressure in British pound has clearly decreased, with a decline in paper deliveries.

Our quarterly cash flow from operations was negative and the main reason for that were changes in working capital. Inventories grew and also the accounts payables were smaller as the Husum investment is basically finalised. Free cash flow was impacted by investments, including the equity investment in Metsä Fibre's bioproduct mill, €25 million.

Our balance sheet is still strong, yet we saw a rise in net debt in the second quarter. Our net debt rose to €540 million and net gearing to 54%. Net debt to EBITDA ratio was 2.1. Here, I'd like to emphasise that in second quarter we had an exceptional high number of items that weakened our liquidity and increased net debt such as paid dividends, increase in working capital and several investment payments. In January-June, our gross investments were €103 million and depreciations were €48 million. In the second quarter, we made the equity investment in Metsä Fibre's bioproduct mill, €25 million.

Then to the outlook. We expect the healthy demand in fresh fibre paperboards to continue both in Europe and in Americas. In Europe, we expect to see positive price development in folding boxboard and in white linerboards. During the first half of 2016, we have announced price increases in both fresh fibre linerboards as well as folding boxboard in Europe. We are already seeing signs of the success of the price increase in fresh fibre linerboards. Our total paperboard delivery volumes are expected to grow from the second quarter levels. In third quarter, result will be impacted by low average prices of folding boxboard due to start-up volumes, leakage in recovery boiler and unexpected production stoppages at Husum mill, as well as the delays in customer approvals due to the production bottlenecks in the second quarter.

And based on these assumptions, our guidance is that our operating result excluding non-recurring items in the third quarter of 2016 is expected to remain roughly at the same level as in the second quarter of 2016.

And then to summarise, our second quarter result remained on the same level as in the first quarter, which was expected. Production volumes of new folding boxboard from Husum are growing but low prices of start-up volumes will still impact profitability. Our total paperboard deliveries were all-time high in second quarter and we expect them to continue growing. We produced our last paper reels in Husum in July, a historical moment. Remaining paper stocks will be sold out during the second half of this year. From third quarter onwards, also Metsä Boards business operations will be reported through one reporting segment. We plan to discontinue the wallpaper base manufacturing at Kyro mill due to poor profitability. We will commence

related statutory labour negotiations and also adjust and improve operations at the entire Kyro mill in order to increase and improve its competitiveness.

Despite our short-term challenges, we keep our long-term targets intact. Our target is to increase our annual paperboard deliveries on average by 13% until 2018. Our return on capital employed target is still over 12% from 2017 onwards.

Dear participants, thank you very much for your attention. We are now ready for your questions please.

Please, free to ask.

Operator: Please go ahead, your line is open.

Antti Koskivuori: Sorry, this is Antti Koskivuori. Is it my turn?

Operator: Yes.

Antti Koskivuori: Okay, sorry, I didn't hear anything from the line. Okay, I have three questions. Firstly, the Husum ramp-up and the recovery boiler leakage that you had at the site, could you give us a number what kind of impact that had in your Q2 EBIT? Secondly, on the last conference call I believe you said that you expected the folding boxboard machine in Husum to reach breakeven in or during the Q3. Has there been changes in your thinking around that issue? And thirdly on the price increases that you talk about, could you give us an indication each within the grades, linerboard and folding boxboard, how do you expect the prices evolving? Do you expect the prices to increase more in one of the grades than in other? Thanks, those would be my questions.

Mika Joukio: Okay, first on the leakage, unfortunate leakage at the pulp mill in Husum, so the effect of that was between €2 and €3 million. There will be also effect concerning third quarter which is more or less the same size.

Then concerning your question of the breakeven, yes – so yes, you are right by saying that I mentioned the third quarter but now it's fair to say that it will be, let's say, very early first quarter next year or then last fourth quarter this year. But anyway, later than originally I told.

Antti Koskivuori: Sure.

Mika Joukio: And the third question was the price levels, yes. So we have announced price increases for both main products and we have already seen in July, increases in linerboards. But you asked that where will be higher price increases, and at this stage it's a bit too early to say because the folding boxboard increases are valid not before 1 September. But we announced clearly higher increase for folding boxboard than for linerboards.

Antti Koskivuori: Sure.

Mika Joukio: And by having said that, then of course we expect higher price increases in folding boxboard. But then we need to remember here that we have these annual deals where the prices are fixed until the end of this year, and it's understandable that we are not able to get increases fully through for them, but then of course we need to fight for next year.

Antti Koskivuori: Yes, but what has been kind of the – if I remember correctly, it was like 10% price increase that you announced for folding boxboard, which is quite big. So what kind of general feedback or acceptance do you get from the customers' side on that?

Mika Joukio: So far, the general feedback has been, how would I say, customers understand that there is a need but of course there are questions how big need there is.

Antti Koskivuori: Sure.

Mika Joukio: That's normally, typically, yes. And then I'm positive, I'm really optimistic about this.

Antti Koskivuori: All right, thank you very much.

Mika Joukio: Thanks.

Operator: If you would like to register your question, please press *1 on your telephone keypad.
And we will now take our next question from Linus Larsson from SEB. Please go ahead, sir.

Linus Larsson: Thank you very much and good afternoon to everyone. How big were your maintenance costs in the second quarter and what do you expect in terms of maintenance costs for the third quarter?

Mika Joukio: Yes. So as we announced and told and informed, we have had these planned maintenance shutdowns at our Finnish mills during the second quarter; we didn't have those in the first quarter. And the effect or negative impact of those are roughly plus – sorry, €5 million. So €5 million all together. And then during this quarter, we will have integrated shutdown at Kemi mill and I would say that quarter-on-quarter, the impact is more or less flat.

Linus Larsson: All right, okay. Great, and then just looking at your guidance, you expect a similar adjusted EBIT in the third compared to the second quarter. But given that you had a pretty strong other operations EBIT in the second quarter, which I would guess would be weaker in the third quarter, is it fair to say that you do expect a material improvement in your core paperboard operation in the third versus the second quarter?

Mika Joukio: You are very close to be right.

Linus Larsson: Okay. That's good. And then –

Markus Holm: Maybe I could add to that – sorry, Markus here. So I could add to that that in the other items, we had now positive hedging items and some other items that will not be repeated, as we see, in the third quarter.

Linus Larsson: Would you even have some rough guidance for what number we should expect on the other operations line in the third quarter?

Markus Holm: Nothing different from what we usually guide that the other operations has been usually a cost of €5 million. But also as you know and have seen perhaps now that we will not report any more the other operations in Quarter 3, so we will report only Metsä Board results.

Linus Larsson: Right, right.

Mika Joukio: But the magnitude, the size is more or less as before.

Linus Larsson: Okay, good, and then maybe just finally on the wallpaper announcement earlier today, and I understand it's pretty early days, do you have any indication as to timing, as to one-time costs relating to this planned closure? Are you intending to sell any parts of this business or equipment to third parties?

Mika Joukio: Yes, yes, you started – so it's far too early to say because the negotiations will only start next year. So at this stage, I don't want to comment this. We will come back to that then later.

Linus Larsson: Okay, thank you very much. Those were my questions.

Operator: As a reminder, at this time, please press *1 to ask a question. And we will now take our next question from Mikael Doepel from Handelsbanken Capital Markets. Please go ahead, your line is open.

Mikael Doepel: Thank you and good afternoon. I just have one question on the paperboard division's earnings. If I look at the adjusted EBITDA for the first half of 2016 and I then deduct the impact from the Metsä Fibre share of profit, I get a €24 million negative delta compared to the first half of last year. I'm just trying to get my head around these numbers. How much of this negative – or let's say decline in earnings year over year in the first half, or if you want to talk about the Q2 that's fine as well – is explained by the negative effects in Husum, and what other factors are playing into the numbers?

Mika Joukio: Markus Holm will...

Markus Holm: Yes, it's Markus here. So it's quite clear and evident that the biggest explaining factor on the delta is the Husum start-up in the paperboard segment. Of course there are some impacts also in the market pulp which is reported also in the paperboard segment, but that is a smaller impact than the Husum start-up.

Mikael Doepel: Could you give a figure on what's the negative effect from Husum in Q2 for example?

Mika Joukio: Well, as a very rough figure I would say that if you take all the impacts of the start-up grades and bottlenecks we had and so forth, the magnitude is around maybe €10 million or so.

Mikael Doepel: Okay, thank you.

Operator: And we will now take our next question from Mikko Ervasti from DNB Markets. Please go ahead, your line is open.

Mikko Ervasti: Thank you very much and good afternoon. So I wanted to hear about the pulp exposure you have at the moment. So what's the net market pulp exposure, especially now with softer deliveries gone and what will it be once Husum is up to full speed? You've said previously that you would benefit from higher pulp prices. And then the other question around those thunderstorms that you mentioned there on the slide as well, it looks like quite a heavy impact in the end of the month. So what's really causing that and has that extended all the way to August? I haven't really checked the weather forecast but is that a big issue? Thank you.

Mika Joukio: Okay, first of all, the pulp position. So at the moment, we are roughly 400,000 long in our position and of course when Husum is running fully and full speed, and then we have this Metsä Fibre Äänekoski mill up and running, so then it will be roughly half a million tons. That is the change.

Mikko Ervasti: Okay.

Mika Joukio: Concerning these thunderstorms, so paperboard mills as well as pulp mills, they are very sensitive mills. We have had also some problems, for example last year in Finland, concerning

these thunderstorms. And if there is a peak in electricity deliveries then you have these kind of problems and in Husum, we had three occasions or three times at the late of July, the whole integrated was stopped by lightning or by thunderstorms, and the forecast has to be better now.

Mikko Ervasti: Okay, and does that happen every year sort of this – yes.

Mika Joukio: And it's quite typical, quite typical for these type of mills but Husum was really unfortunate now that they had several of those in a row. Just when they started production then there was another one under. Bad luck also partly. But I don't explain anything; that is just the case.

Mikko Ervasti: Okay, thanks very much.

Operator: And we will now take our next question from Henri Parkkinen from OP Finance Group. Please go ahead, your line is open.

Henri Parkkinen: Yes, first of all, good afternoon for everyone. I have a couple of questions. first about your customer delivery volumes during the second quarter of this year, if I remember right, during the first quarter, the customer deliveries from the new line were something like 2,000 tons. I wonder if you can give us a figure regarding second quarter of this year. And then a couple of words about the fourth quarter of this year and then your maintenance stoppage in Husum. What kind of – how long is that maintenance stoppage and what kind of impact it will have regarding your new folding boxboard line? So just to give us some example that, how should we model that maintenance stoppage in our models. Thank you very much.

Mika Joukio: What do you mean, maintenance stoppage at Husum? Our Quarter 4, sorry?

Henri Parkkinen: During the fourth quarter, yes.

Mika Joukio: Yes, yes, yes. Okay, sorry.

Henri Parkkinen: Okay, sorry. Sorry, yes.

Mika Joukio: That's about €5 million, yes. That's about €5 million.

Henri Parkkinen: Okay.

Mika Joukio: Coming back to these deliveries, so you were right by saying that the first quarter was 2,000 tons roughly and the second quarter was about 30,000.

Henri Parkkinen: Thirty, 30? Okay, thank you.

Mika Joukio: 30.

Henri Parkkinen: Very helpful, thanks.

Mika Joukio: Of course the lion's share of that is – the lion's share of that is still this so-called B grades and now...

Henri Parkkinen: Okay, okay.

Mika Joukio: Okay.

Henri Porcine: Okay, thanks.

Mika Joukio: Thanks.

Operator: Again, please press *1 to ask a question. And we will now take our next question from Harri Taittonen from Nordea. Please go ahead, your line is open.

Harri Taittonen: Thank you. Yes, good afternoon. On the working capital, after this pretty heavy increase during the first half, where can you sort of reasonably expect this year's working capital to end up for the full year, and i.e. how much can you expect sort of reversal to what we saw in

the first half during the second half? And also it is usual that in the beginning of the year, there is some tie-up in working capital elsewhere in the system. So the other question is how much of this sort of big increase in working capital is related to Husum and how much to the rest of the system? Roughly.

Mika Joukio: Markus will take this one.

Markus Holm: Hi Harri.

Harri Taittonen: Hi.

Markus Holm: So on the working capital, as we've guided earlier, we have – the first half has been very heavy in terms of working capital as we had very low working capital due to the low paper business at the end of last year. So working capital now grew by some €100 million and paperboard ties up, on average, a bit more working capital than the paper business earlier. And we expect this, with the sales still to increase somewhat in the third quarter, then it should start normalising. And so I don't want to give you an exact level...

Harri Taittonen: Sure.

Markus Holm: But most of it we have seen now and then there will be some still perhaps in third quarter but normalising.

Harri Taittonen: Okay, so we are kind of getting to the new level for the new system in the third/fourth quarter, and from there we can start looking at normalised level. Is that so or should we say sort of a weaker decline during the next two or three quarters when the system is really up and running?

Mika Joukio: Yes, here we need to remember that now we are selling and delivering much more, relatively speaking, much more to Americas than before.

Harri Taittonen: Yes.

Mika Joukio: And of course that will increase that figure, so to say.

Harri Taittonen: Sure, okay, thank you. Maybe another question just on the – you mentioned that of course the new volumes, they had a lower price, sales price, but if you exclude that, was sort of the average price for other paperboard mills flat quarter-on-quarter? And maybe a word on any sign of the impacts from the new supply starting up in July? Of course it's very early days but if you have seen any sort of impact on the market sentiment because of the increase in supply, that would be useful to know.

Mika Joukio: Okay, first of all I correct that – so new volumes are not necessarily low-priced volumes, but the start-up volumes are low-priced volumes.

Harri Taittonen: Okay, yes, sure.

Mika Joukio: Of course the so-called A grade production that we are selling, then that is normal price levels, and then the start-up volumes are lower. The other mills' price development is quite flat, so during the first half of this year. And of course now our expectation is that after these price increase announcements then we will see some improvement there.

Harri Taittonen: Good. And the other question on the additional supply from new competition?

Mika Joukio: Ah okay, yes, actually you already answered it – very, very early to say anything because they are, based on my understanding, they just [unclear] started up production of...

Harri Taittonen: Yes, yes.

Mika Joukio: So it's difficult to say.

Harri Taittonen: Sure. No, okay, fair enough. Many thanks.

Mika Joukio: Thanks.

Operator: And we will now take our next question from Mikael Jåfs from Kepler Cheuvreux. Please go ahead, your line is open.

Mikael Jåfs: Hello. Sorry, hello, everybody. I have a question there regarding the split of start-up grades and the A grades from this new machine. I mean, you have touched upon it partly, but how should we think about that? When will you reach sort of a full A grade level on the new machine and is there any more colour and flavour you can give us around this?

Mika Joukio: Yes, so during the second quarter, the so-called B grades or start-up grades, low-priced start-up grades, they were between 50% and 60%, so close to 60% still. And now during the third quarter, they are one-third and then – roughly – and then the last quarter of course then it's pretty close to next to nothing.

Mikael Jåfs: Okay, perfect. That was my question. Many thanks.

Mika Joukio: Thank you.

Operator: And there are no further questions in the queue at this time.

Mika Joukio: Okay, then I thank everybody for your active participation and wish you a nice evening. Thank you.