

## **Conference Title: Metsä Board Interim Report January-March 2019**

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Mika Joukio: Good afternoon and welcome to this presentation of Metsä Board's first quarter results for 2019.

My name is Mika Joukio, and I'm the CEO of Metsä Board. Together here with me, I have our CFO, Jussi Noponen, and our Head of Investor Relations, Kati Sundström.

Let's first have a look at today's agenda.

First, I will go through our January – March 2019 results as well as the outlook for coming months.

After that, I will tell more about the capex plans that we, and our associated company Metsä Fibre, announced earlier today. If realised, the investment value for all three projects would amount to approximately two billion euros. The planned investments would further develop our competitiveness of pulp and energy production, and move us towards fossil-free production.

And regarding to these investment plans, we have also updated our financial targets.

Then, at the end, we will take our normal Q&A.

But first, January-March results.

All in all, our profitability improved thanks to the higher paperboard prices and slightly increased delivery volumes. Demand for folding boxboards was good in both EMEA and the Americas, and in Europe, higher folding boxboard prices came into effect mainly from the beginning of the year. In the Americas, price levels remained stable.

In white kraftliners, weakened demand, especially here in Europe, has been reflected in our delivery volumes, which have been declining for some time now. The price level of white kraftliners remained stable compared to the previous quarter. However, we expect that the weaker market will have an impact on average price of our kraftliner sales in the coming months.

The pulp market, especially in China, has somewhat recovered from the sudden drop at the end of 2018. In softwood pulp, the price gap between Europe and China has narrowed as prices in Europe have declined, but prices in China slightly improved. Metsä Board's and Metsä Fibre's delivery volumes in market pulp increased during the first quarter compared to the previous quarter, but the average selling price was lower.

And compared to other quarters, the first quarter is always lighter in the sense of maintenance breaks. There were no maintenance shutdowns at Metsä Board's paperboard mills, but Metsä Fibre's bioproduct mill in Äänekoski had its planned maintenance shutdown in March.

Here are the quarterly paperboard delivery volumes. Compared to the corresponding period last year, we had steady development in folding boxboards but declining volumes in white kraftliners. Total paperboard deliveries, however, were slightly up from the previous quarter. And the expectations for the second quarter look fairly similar to the first quarter.

Our sales grew by 6 percent compared to the previous quarter thanks to the higher delivery volumes of paperboards and market pulp. Of total sales, 58 percent derived from folding boxboard, 24 percent from white kraftliners and 18 percent from market pulp.

The comparable operating result was roughly at the same level as in the fourth quarter last year, as we estimated. On the positive side, we had higher paperboard prices, increased volumes, less maintenance and a positive FX impact. On the negative side, we had lower market pulp prices and slightly increased production costs.

And if we compare the first quarter result to the corresponding period last year, the main positives were higher paperboard prices, higher volumes in folding boxboard, and currencies. At the same time, production costs increased significantly. The planned maintenance shutdown in Metsä Fibre's bioproduct mill and declined market pulp prices in China also impaired profitability.

Our return on capital employed during the first quarter was 14.4 percent, well above of our targeted level of 12 percent. The capital employed at the end of the review period was 1.7 billion euros.

The total impact from FX fluctuations including hedges had a positive impact of 6 million euros on our first quarter results compared to the previous quarter. And when comparing it to the corresponding period last year, the positive impact was 11 million euros.

Total production costs for paperboard and pulp increased slightly in the first quarter compared to the previous quarter. However, there was a negative difference of several million euros when comparing to the corresponding period last year.

As we remember, wood costs – especially in Sweden – rose rapidly during 2018. And the price level remained at a high level at the beginning of this year. Another big negative item in 2018 was higher inland transport costs in the US. We expect them to fall slightly in 2019, but not to return to their starting level.

Then a few words about the pulp market and its impacts on the first quarter's result.

First, I want to remind you that our annual pulp balance, including the share from Metsä Fibre, is approximately 600,000 tonnes long in 2019. The majority of that long position is long-fibre pulp, which is sold mostly in Europe and in China.

So, Metsä Board's and Metsä Fibre's market pulp delivery volumes increased in the first quarter compared to the year-end volumes in 2018. In the fourth quarter, we experienced a sudden decline in pulp demand, especially in China. However, the increased delivery volumes did not compensate for the weakened average price level, and therefore the overall impact in the first quarter remained negative.

During the early part of this year, the pulp market has showed signs of recovery, and together with rising volumes, Chinese pulp prices have slightly improved. At the same time though, the price level in Europe has weakened, which has narrowed the price gap between Europe and China.

Yet I want to highlight that we still have a positive view of global pulp demand in the long term.

Then to the cash flows.

Our cash flow from operations was 36 million euros. It was improved by the dividend received from Metsä Fibre, 63 million euros, but at the same time weakened by increased working capital due to the higher inventory levels and growth in sales receivables.

Gross investments during the first quarter were minor – only 6 million euros.

Then to the balance sheet. Our net debt fell below 300 million euros and the leverage at the end of the review period was 0.9.

In March, we paid the remaining 60 million euros of our bond issued in 2014.

We have improved and simplified our folding boxboard portfolio, which will further enhance our leading position in premium lightweight paperboards. This new portfolio will answer to increasing demand for sustainability, product safety and brand promotion.

The operating environment around us is constantly changing, and we have to keep up with the pace, or even more - be a step ahead of our competitors. We must continuously develop our products and offer solutions to meet the needs of future packaging.

A big part of our R&D work relates to the lightweighting of paperboards, and that is based on improved properties in the high-yield pulp. We will continue our development work in this area in the future.

Then to the near-term outlook.

We expect our second quarter paperboard deliveries to remain roughly at the same level as in the first quarter.

In folding boxboards, we expect to see stable price levels in the coming months. Demand for kraftliners has weakened, especially in Europe. And this development could have a negative impact on our average sales price.

We expect demand in the global pulp market to remain stable. Several maintenance shutdowns among global pulp producers during the second quarter may reduce the pulp supply somewhat and reduce inventory levels.

Changes in FX as well as production costs are estimated to be only minor in the second quarter compared to the first quarter.

And finally, the April-to-June results will be negatively impacted by several maintenance shutdowns, especially at Metsä Board's Finnish mills, as typically.

And based on these assumptions, we expect that our operating result in the second quarter will weaken compared to the first quarter of 2019.

Then, moving on to the investment plans. Metsä Board and its associated company Metsä Fibre, of which Metsä Board owns roughly 25 percent, have today announced to launch pre-engineering phases for three major investments: Renewal of the Metsä Board Husum pulp mill, Metsä Fibre to build a new bioproduct mill in Kemi and a new pine sawmill line in Rauma. If realised, the total investment value for all three projects would amount to approximately two billion euros.

The final investment decisions are expected to be made, depending on each investment, roughly within a year from now.

The aim of all three investments, and for both companies, is to further improve the competitiveness of our pulp and energy production and move towards fossil-free production.

Husum pulp mill would be renewed in two phases.

In the first phase, the existing two recovery boilers would be replaced with one new recovery boiler, and the old turbines replaced with one new turbine. We will launch a pre-engineering phase for the investment in recovery boiler, which will also include the necessary regulatory process, among other things.

The investment would enable the long-term development of the Husum integrated mill.

It would reduce the energy costs of the mill, improve the reliability of production and decrease the duration of the annual maintenance shutdown. Own electricity generation, entirely based on renewable biomass, will double and increase the self-sufficiency in electricity of the integrate to over 80 percent.

Then in the second phase, during the 2020's, the existing two fibre lines of the mill would be replaced with the one new. During that period, potential investments to increase paperboard capacity could be based on a cost efficient, long-term energy production solution.

And this shows the estimated time schedule for the renewal.

The timing of the final investment decision for the first phase depends on the duration of the regulatory processes. The investment decision is expected to be made in the fourth quarter of this year, at the earliest. The recovery boiler and the turbine would be in operation roughly two years after the final investment decision.

The size of the first phase investment is approximately 300 million euros, and it would be divided between years 2019–2022. Total annual production capacity of the pulp mill after the investment would remain at 750 000 tonnes.

Then, Metsä Fibre will launch a pre-engineering phase for the construction of a bioproduct mill in Kemi, Finland. When realised, the size of the investment would be approximately 1.5 billion euros and the annual pulp capacity of the mill approximately 1.5 million tonnes. In addition to pulp, the mill would produce several other bioproducts. The final investment decision by Metsä Fibre is estimated to be made in the summer of 2020, at the earliest.

Metsä Fibre will also launch a pre-engineering phase for the construction of a new pine sawmill with approximately 750,000 cubic meters of annual capacity in connection with Rauma pulp mill. The size of the investment would be approximately 200 million euros and the sawmill line, when realised, would be the most modern and efficient in the world.

Related to these investments and our target to improve the competitiveness of pulp and energy production, we have updated our long-term financial targets.

In the coming years, profitability will guide our capital allocation. This means small and medium-sized investments in our existing paperboard production lines and, overall, more moderate growth in paperboard deliveries.

Thus, we have removed our earlier growth target, which aimed for higher-than-average market growth in paperboard deliveries. Other financial targets have remained the same: We target a minimum of 12 percent return on our capital employed and want to keep the ratio of net debt to EBITDA at a maximum of 2.5 times, even during the investment periods.

Then to summarize, and starting with current market situation.

Demand for folding boxboard is at a good level in all our market areas. Also, we believe that current price levels will hold. In white kraftliners, the market situation is softer, which might have an impact on our average selling prices in the coming months. Pulp market is recovering, yet the high inventory levels are still causing uncertainty in the short-term.

We have renewed our folding boxboard portfolio, which enhances our position in premium lightweight paperboards. In addition, it provides clear benefits to our customers and end users. From a broader perspective, it offers solutions to meet the needs of future packaging in a more sustainable way.

Metsä Board and Metsä Fibre have today announced major capex plans. The aim is to further improve the competitiveness of pulp and energy production and move towards fossil-free production. For Metsä Board, the Husum pulp mill renewal will enable the long-term development of the integrate.

And finally, profitability will guide our decision-making and capital allocation in the coming years. Our ROCE and leverage targets remain the same.

Now, that was the end of my presentation, and we are ready for your questions. Thank you.

And we're ready for your questions. Thank you.

Operator: Thank you. Ladies and gentlemen, if you would like to ask questions, please signal by pressing star one on your telephone keypad. If you're using your speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on your phone line will indicate when the line is open. Please state your name before posing a question. Once again if you'd like to ask questions, please press star one on your telephone keypad. We will now take our first question from first Antti Koskivuori from Danske.

Antti Koskivuori: Yes, hi good afternoon. I would actually have three questions. Firstly, on the Husum recovery boiler investment; I understand that the size or the capacity would be similar than the current pulp mill has. So, I was just wondering if the positives are just going to come from better energy efficiency as you mentioned and better reliability, If you could give us an indication of what kind of the ROCE you expect for this 300-million investment. That would be the first question.

Secondly, would be very helpful if you could give a kind of indication of what the Capex will be for the second phase of the investment plan i.e. the two fibre lines that you mentioned.

And then thirdly on the kind of financial targets and you dropping the target to outgrow the market in paperboard. I was just wondering, is this related to the Husum investment plan and capacity to do other investment at the same time or is it more that you have changed your view about the market growth for paperboards or supply-demand balance in general? Thank you. Those would be my questions.

Mika Joukio: Okay. First the Husum investment and the new recovery boiler and turbine. Of course, we're still at the planning phase or we will start the pre-engineering phase, and it's too early to say anything concerning the kind of payback time or something. But we don't – we – our target is the 12% in company level and we don't at this point can specify what the other return of capital employed levels are for the separate investments.

Then the second phase in Husum, that's pretty much the same money we are talking about, so new fibre line replacing two old fibre lines. The price tag would be pretty much similar, so 300 million. And then this profitably targets, we need to remember here that during the last five, six years, we have been able to grow more than 10% annually year-on-year on the average. So, growth rate has been – the pace has been quite quick so to say or high. And then now we really put pressure and emphasis on profitability, so moving less profitable volumes to better profitable volumes. And of course, still our intention is to grow, but not necessarily more than the market, and that is concerning this case.

So, we still see that the demand for high-quality paperboard, global demand will grow like 3% annually, so no reason to expect something else.

Antti Koskivuori: But you haven't changed your kind of view apart for example the US potential for example or something like that?

Mika Joukio: No, no, no changes there.

Antti Koskivuori: All right, thank you very much.

Operator: Thank you. We will now take our next question from Mikael Doepel from UBS.

Mikael Doepel: Yes, thank you. Hey, hi everybody, a few questions here. Just to continue on the Husum investment; you mentioned that this will enhance the paperboard capacity,

but I was trying to figure out in what way given that the pulp capacity won't increase, so if maybe you could start by explaining that?

Mika Joukio: So, we have said that these investments in Husum, I mean the turbine and the recovery boiler and then later stage the new fibre line, of course, that will set an excellent kind of platform for further developing the paperboard production. And I mean, of course, this will, the first phase will improve the energy efficiency and then self-sufficiency in energy in that integrate. So, by doing that, of course, then that will have a positive impact also for profitability of the whole Husum site.

Mikael Doepel: Yes, but I think you mentioned that you expected to improve or increase the paperboard capacity as well?

Mika Joukio: We didn't say that. We say that –

Mikael Doepel: Okay.

Mika Joukio: Because of course, we're not announcing any investments for paperboard at this point.

Mikael Doepel: No. Increased with the capacity in the future, so the foundation I think is paperboard capacity in the future, that's on your slides. Okay, but moving on to the pulp markets, a couple of questions there. If you think about the European market now, how would you describe the demand situation right now and what's your take on the inventory levels? How long will it take to drive them down?

Mika Joukio: Starting from inventories, of course, it's difficult to say, difficult to say how long does it take, but the demand in Europe at this point is relatively good. But of course, there are pressure on prices because the price gap between China and Europe is quite high. And even though we don't see that the prices in China would further decline, we estimate they would be stable or slightly increase. But we see that in Europe during the second quarter, the prices will decline. And the fact is that the gap for the Chinese prices is too high at the moment, but demand is okay.

Mikael Doepel: Okay. And then also in your slides you're saying that on the longer term, you still believe in the pulp demand growth, and that's going to be supported by the China's



recycled paper import ban. Now, with regards to that, how much of incremental demand do you expect that to bring the virgin fibre markets and in which grades?

Mika Joukio: Those numbers I don't have in mind, but we need to remember here that especially concerning the long-fibre pulp, no new projects have been announced. Okay, we announced today that that Metsa Fibre and Metsa Group is planning a new mill in Kemi, but it's still several years ahead. So, at the moment there are – after Äänekoski investment, there have not been any new announcements concerning new capacity and demand is growing. So, it's quite logical that the demand -supply balance will be healthy also in the future.

Mikael Doepel: Okay. Then a final question on the white linerboard market, which you say are been weakening now recently. Could you explain a bit in more detail, I mean which customer segments are driving demand down right now, and also in terms of the pricing how steep declines are you looking at?

Mika Joukio: So, Metsa board is the market leader in white kraftliners in Europe. And of course, we have last year, during last year, and also 2017, we have increased prices because demand has been good. And as a market leader, of course, we need to act so to say. And now last year especially, when the prices of the recycled fibres in Europe have declined comparing to – I mean relatively declined comparing to pulp prices, then of course these recycled-based producers have had a possibility to kind of attack also to kraftliner producers. And all in all, kraftliner producers have lost market share slightly for testliners and other recycled-based linerboard, so that is one effect. And then the other one is to be honest here, that because we have been quite strict with the prices, we have lost some volumes for our competitors also in white kraftliners.

Mikael Doepel: Okay.

Mika Joukio: But all in all – the market as such if I compare 2018 to 2017, it still grew close to 1%, I mean box market.

Mikael Doepel: Okay, good, thank you very much.

Operator: Thank you. We'll take our next question from Gustaf Schwerin from Pareto Securities.

Gustaf Schwerin: Good afternoon. I have three questions. Firstly, a follow-up on the Husum investment. I mean is this something you would purely do in order to reduce your energy cost and the self-sufficiency or is this an investment that can't wait because of the recovery boiler being in bad shape? I mean I'm trying to get a feeling for the potential return levels on the investment. I'll take them one-by-one.

Mika Joukio: Yeah, so the current recovery boilers, they are not in the best shape so to say. And now we are moving to modern technology and replacing these two boilers with one. And by doing that, of course, we will get benefit on of course in energy costs and energy production, but also then the length of the annual shutdown. We are able to have in the future shorter shutdowns, annual maintenance shutdowns than what we have had during last years.

Gustaf Schwerin: Okay, great. Then secondly, again, on you changing your financial targets today, I mean I understand the reason behind it. But I mean you talked about the focus on profitability already at the CMD last year. Is there any reason for changing this right now?

Mika Joukio: Not, of course, we could have changed that already in CMD, but I think now it's when we have these big news concerning these Capex and investments, it was good timing also to do it now, so nothing dramatic there. We just put the profitability first, and, of course, as I said earlier, we continue to grow and we are targeting growth and we are opening the bottlenecks at the current mills also in the future. But now we really put pressure on profitability and that is the background. Nothing dramatic as I said.

Gustaf Schwerin: Okay great. Then lastly from me, on your guidance for Q2 and the profitability. Given stable volumes and stable FX, can you give us some feeling for how much you believe is lower pricing on white kraftliners and how much of that is maintenance?

Mika Joukio: I would say the two major or the biggest reasons here are, of course, the maintenance shutdowns, and then the other important reason is coming from pulp. So, we see that the prices especially in Europe are declining comparing to Q1, and that has – will have a negative impact on pulp prices, not that much on volumes as I said, but prices.

And then of course linerboard remains to be seen. Our intention is not to decrease the prices in Europe, but then if the demand is a bit soft, then we need to find other customers

elsewhere. And then this market mix or customer mix could have a negative impact on prices and then profitability all in all. But these are the main elements and very important these maintenance, maintenance breaks in Finnish mills as well as in the pulp price development.

Gustaf Schwerin: But you don't want to quantify anything on the maintenance side?

Mika Joukio: Not really.

Gustaf Schwerin: Okay, fair enough, thank you.

Operator: Thank you. We'll take our next question from Robin Santavirta from Carnegie.

Robin Santavirta: Thank you very much. So, just a question on your liner capacity. How much of that at the moment is coated? Is it more than 50% of the liners coated?

Mika Joukio: Yes, if you take only Kemi mill, the lion share is coated. We have some tens of thousands of tonnes uncoated. And then the whole Husum is uncoated. So, in rough figures, I think a little bit more than 50% is coated all in all, Kemi and Husum together.

Robin Santavirta: Okay, sure.

Mika Joukio: Kemi and Husum together, yeah.

Robin Santavirta: So, probably a 60% or something like that.

Mika Joukio: It's more than 50%.

Robin Santavirta: Now prices in coated grades have historically been very stable. Are you now also expecting both the grades to actually decline, are you seeing pressure there as well or is it just the uncoated price?

Mika Joukio: We see that the decline is mainly coming from the customer mix or sales mix and not that much so that we are giving up in prices. That is the background. So, we try to – as a market leader, we try to keep the prices or hold the prices remembering that profitability comes first.

Robin Santavirta: Okay, that is clear. In terms of Capex now, if you would go ahead now with this recovery boiler investment in Husum, that decision would be made end of this year and then it's three years of basically 300 million in additional Capex. Should we think it's 100, 100 and 100 in that case? So, that's the first question related to Capex.

And second, what is sort of the maintenance Capex? How much would Capex if you would decide on this? How much would the annual Capex roughly be over the next three years?

Mika Joukio: So, our normal Capex level during the last year it has – I mean this kind of maintenance Capex as well as since more development has been around 70 million as you probably remember. And concerning then this, how many – what is still a split between the years I think it's a bit too early to say at this point because we are still in the planning phase. Probably not that much for this year yet, but then during the – when the project will proceed, then of course we will see but I don't know if Mr. Jussi Noponen will add something, but I think it's a bit too early to say.

Jussi Noponen: Perhaps I could still highlight that the Capex still be spread over four years, not three years in our base estimate. So, if the investment decision can be made still this year, we will make certain prepayments to machinery suppliers already this year.

Mika Joukio: That's true.

Robin Santavirta: Okay, sure. Right, but then in terms of the second part of this Husum investment, would that possibly be made during so probably '19 to '22 most likely I would assume, or is this something that you would make later on?

Mika Joukio: Most probably it will be a bit later. So, during 2020's but not at the same time.

Robin Santavirta: Okay. And that would be the same case with that, that would improve your efficiency but most likely not a lot, but –

Mika Joukio: Yeah, that's true. Replacing two current fibre lines with one, one new.

Robin Santavirta: Okay, I understand. And then finally on this Kemi, the Metsa Fibre investment. Wasn't originally the decision meant to be made now in the summer this year? Is this sort of push forward one year? That's the first question.

And the second question I have is on financing. How will sort of – you must have some a view or some idea on how this would affect your Capex. Would it be a similar arrangement as in the Äänekoski investment or how would affect you?

Mika Joukio: So, roughly a year ago, we announced that we are studying different options in Kemi integrate. So, whether it will be a totally new bioproduct mill or is it the current mill kind of renewal. And now, we said that during one year, so latest this summer, then we will know that, announce that, and now we are here. It's almost summer. So, I think timing is more or less as we as we said year ago.

And concerning then what is the Metsa Board's share of financing, again, it's too early to say anything about that. It will remain to be seen when the final plans are ready.

Robin Santavirta: All right. Thank you very much. Those were my questions.

Operator: Thank you. We'll now take our next question from Linus Larsson from SEB.

Linus Larsson: Yes, thank you very much. Maybe a follow-up on Husum. Just a clarification, did I hear you right that you say that the second phase would also be the same magnitude Capex i.e. another €300 million?

Mika Joukio: Yes, roughly.

Linus Larsson: Thanks. And then if we call it maybe phase three what you might do with your paperboard capacity on the same site, could you talk a bit about that in terms of

capacity numbers or Capex scope? What possibilities do these investments in the phase one and phase two provide you with?

Mika Joukio: I think if you think about the volume development, so currently roughly 50% of the output of a pulp mill is used and utilised at paperboard production both in linerboard and folding boxboard. And as we have said that the capacity of the pulp mill will remain pretty much as today, so 750,000 tonnes capacity. So, today we are utilising only 50%, so of course there is a lot of possibilities to increase – from fibre perspective to increase the paperboard capacity.

And as I have said earlier, there are, on our table, we have different calculations concerning different mills, but then at the moment, we don't have any decisions. But it's excellent situation that we have in Husum that we have more fibres than we are utilising at the moment.

Linus Larsson: But it sounds like the long-term plan would be to add a new state-of-the-art paperboard machine on that same site?

Mika Joukio: No comment.

Linus Larsson: No comments.

Jussi Noponen: Linus, its Jussi here, I would like to add that what we want to communicate about the pulp mill with this phase one and phase two is that at phase two, what we have is a new pulp mill with a lifetime of at least 35 years. So, what it enables is a long-term platform for developing the paperboard capacity there without any concerns about the remaining life of the pulp mill. So, that's the story we want to tell you.

Linus Larsson: That's fine. So, if we don't stick to phase one and phase two, and you said – I mean that's without capacity growth really. So, it's only about cost improvement and a competitiveness. Do those projects meet your return requirements?

Mika Joukio: As I said, our company target is this 12% and no reason to say something else.

Linus Larsson: So, you don't have to think like long term into the next step in order to defend this €600 million platform improvement?

Mika Joukio: No, not at this point.

Linus Larsson: Okay. And then just also a follow-up question that's on the containerboard volume side. Shipments dropped by 19% year-on-year, which is obviously a lot. And you talked about the reasons behind that. And I think I understand the background, but could you maybe say a couple of words about how that year-on-year development was during different parts of the quarter and maybe in the beginning the second quarter? Is second quarter for instance materially different from the low volume that we now see for the first quarter?

Mika Joukio: So, first of all, if you compare the first half of last year comparing – or first quarter of last year to this quarter, of course, the market was really overheated year ago. So, the demand was really good and inventories grew, and then that was the reason that it slowed down in Q3 and also partly Q4. But then also as I said we have lost the market – all kraftliner producers have lost market share for testliner producers, so that's one thing. And the other one is that we have really kept the prices, hold the prices quite tightly. And for that reason, to be honest, we have lost some volumes to our competitors in kraftliners side. And then as Q2, this year is concerned, our estimation at the volume development is quite stable as we said. So, that's it.

Linus Larsson: Okay. That's it for me. Thank you very much.

Operator: Thank you. We'll take the next question from Markku Järvinen from Handelsbanken.

Markku Järvinen: Yes, good afternoon. I still had a few questions. I suppose the pulp mill, you outlined the second phase Capex and it possibly would happen in that 2020s, and I guess there's no increasing capacity. Does it still leave upside to open up bottlenecks at the pulp mill at a later stage as is typical with new pulp mill?

Mika Joukio: So, really the recovery boiler is literally the heart of the pulp mill. And the size of that pretty much then I mean, how would I say – if and when we fix the size now then it's very difficult to get it bigger afterwards. So, we need to remember that.

Markku Järvinen: So, it's 70 –

Mika Joukio: If we now say 750,000 tonnes and design and plan the recovery boiler based on that fact, so it's very difficult to increase then later.

Markku Järvinen: And could you discuss these various options for the Husum pulp mill in the past then – possibly, I mean if you utilise currently 50% of the pulp at the site, how did you arrive at this solution where you keep the current scale rather than having a sort of smaller mill at the site, which probably was also thought about?

Mika Joukio: We need to remember that there are also other parts of the pulp mill, not only the fibre lines and the recovery boiler and turbine. There are wood yard, there are different other areas and they are designed for the 750,000 tonnes. So, it really doesn't make sense to at this point do something else or plan something else.

Markku Järvinen: And once you've done the recovery and the fibre line, is there any other part that needs to be rebuilt after that or is it completely new pulp line?

Mika Joukio: They are much, much minor, so these two are practically the big ones.

Markku Järvinen: Okay. And in terms of the Metsa Fibre investment, I guess you didn't really have any view at this stage on the need for a capital injection. Do you have any idea on the impact on potential dividends from Metsa Fibre or the dividend policy? Could you just clarify what that is and will that remain the same going forward?

Mika Joukio: Yeah, too early to say.

Markku Järvinen: And when would you expect – if that decision is made in a year's time, when would the Metsa Fibre pulp mill start?

Mika Joukio: So, if the decision will be made by next summer, so then it's depending on the regulatory processes, etc., but roughly two to three years after that decision, they should be up and running.



Markku Järvinen: Okay. And on the Husum pulp mill still, you've said that energy production or electricity production at the site would increase. What – could you quantify that increase?

Mika Joukio: It will double. So, today, our self-sufficiency of the integrate is roughly 40% and in the future then after this planned investment there, it's a bit over 80%. So, it's clearly higher.

Markku Järvinen: And in terms of the –

Mika Joukio: Of the whole integrate including the paperboard production.

Markku Järvinen: Yeah, in terms of power production in how much is that?

Mika Joukio: Okay. We can come back to that a bit later.

Markku Järvinen: Okay good. And then just on the maintenance schedule this year, you didn't quantify how much Q2 would be higher than Q1 I guess. Could you say something about Q3 at this stage? I guess the maintenance schedule is a bit different this year than last year.

Mika Joukio: Not much. I mean the same Finnish mills have their plant shutdown now Q2 and then Q3 we will have Kemi. And Husum then probably partly starting in Q3 and ending in Q4 as last year. So, pretty much similar pace.

Markku Järvinen: So, Q3, Q4 similar to Q2 more or less?

Mika Joukio: I didn't say that. I said that pretty much similar as last year. So, I mean Finnish mills by Q2 and then Kemi and partly Husum Q3 and then Husum Q4 partly.

Markku Järvinen: So, only difference is that Q1 was a bit higher than last year?

Mika Joukio: Yeah, and the fact that in Q1, we didn't have those major shutdowns.

Markku Järvinen: Yeah. Okay. And then on the kraftliner market, pulp market and the volumes, you indicated that you'd this year get the final benefits of 20 million to 30 million from Husum. Do you still expect that or is that something that is not – is apparently top of markets for the time being?

Mika Joukio: Could you read the expectation of what?

Markku Järvinen: Well, the Husum transformation final leg of this –

Mika Joukio: All right so.

Markku Järvinen: – savings or earnings improvement was expected this year?

Mika Joukio: No reason to change that.

Markku Järvinen: Okay.

Mika Joukio: It's still valid.

Markku Järvinen: Very good, thank you.

Operator: Thank you. We'll take our next question from Harri Taittonen from Nordea.

Harri Taittonen: Yes, good afternoon, Harri Taittonen, Nordea. Just a one quick question on the Americas market and folding boxboard deliveries, and basically, they have now gone up a bit still from a year ago. But what ambition level or further potential in the price mix or customer mix in the US do you see and should we look at further changes in the geographic balance or the mix for the folding boxboard side and price mix improvement from there?

Mika Joukio: So, concerning the Americas market and the US market, we have said earlier that the target is to be at the level of roughly 300,000 tonnes in folding boxboard and food service board together, and we are not far away from that. So, we are still growing there and then we improve the customer mix at the same time, but no major changes concerning the geographical split in Americas.

Harri Taittonen: Yes, exactly. And, well, I mean just we mean that customer mix. I mean is that – is there some kind of exchanges worth mentioning or sort of the ways how to do it or is it just kind of a customer-specific or is it more like product-specific development or how would that work?

Mika Joukio: It's both and. So, we still will increase our PE-coated volumes for example in the US. So, it's partly related to product and partly related to customers.

Harri Taittonen: Okay. That's great. Thank you.

Operator: Thank you. We'll now take our next question from Mikko Ervasti from SEB.

Mikko Ervasti: Thank you very much. Just going back to Husum once more. I'm just trying to understand the timing of this investment announcement. How much does the technical age of the mill parts drive these investments or is it actually more opportunistic for the efficiencies? So, it's like reactive or proactive?

And also related to that, how do you actually build it when you turn two recovery boilers into one? Do you have to be offline for quite long or do you have like more land plot there or how does it work?

Mika Joukio: Yeah, so concerning the Husum pulp mill in general, the oldest parts are more than 40 years old, that need to be remembered. So, it is relatively old mill comparing for example to Kemi mill which is we're talking about now. So, Husum is on the average then older. And concerning then this new boiler, a new turbine, we have a land, so we are building that up during the – and during that time period when pulp mill and board mill is running. So, this is pretty much so to say plug and play. So, we start up the new boiler and then connect that to the other process. So, we don't expect any long standstill or something like that due to this renewal in the first phase.

Mikko Ervasti: Okay. Because at the time of the Husum board investment some – was it five years ago, it was highlighted that this is a very cost-efficient brownfield investment. And now we're getting suddenly the 600 million on top relatively soon. So, I mean did this come as a surprise to you as well or have you communicated this, or how did it go?

Mika Joukio: We mentioned that this – I mean this investment on the paperboard production per tonne, that was really competitive price. I mean by using this roughly €200 million, we were able to get 400,000 tonnes new capacity. So, that that was the kind of background of that. We didn't – at those – at that time, we didn't mean anything concerning the pulp mill. Of course, those days, we also knew that pulp mill is old and there are old parts, and there are challenges. And already then, we knew new that something needs to be done for that mill, and then last year we had this kind of pre-engineering phase and now we know what to do, and now the decision is to renew the mill.

But then still when we started up this board production back 2016, then we still had different options concerning pulp mill, but they were not ready to be published, I mean –

Mikko Ervasti: And then more operationally, obviously, you are a player in China as well. So, you have this comment about the Chinese pulp market and the prices, and we've asked this from every player in the market. So, do you see that this uptick now is on a sustainable level based on what you see? What do you have to say about the customer inventories, so the competitor behaviour underlying end demand, these things, or are you just commenting on the same indexes we see?

Mika Joukio: Pretty much similar, yeah, so. So, we see that the demand will be quite stable, but price development won't be that positive, not even negative in China. But then we need to remember that historically on the long term, the pulp prices are good at the moment; that need to be remembered also. If you take like five, six, ten years back, the prices are still healthy at good level.

Mikko Ervasti: Okay. Thank you very much.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask questions, please press star one on your telephone keypad. We will take our next question from Mikael Doepel from UBS.

Mikael Doepel: Thank you, just a couple of follow-up questions. I was starting to think about the folding boxboard volume seen in Q2, which you say will be flat compared to Q1. Looking at history, it seems as if there is a positive seasonality usually. I think there are some seasonal factors driving up volumes in Q2 compared to Q1, but now you're seeing it flat. Is this a reflection of demand weakening or is this something else?

Mika Joukio: It's nothing special. I mean order inflows are okay for the mills. And we are running in a good operating rate except of course this maintenance shutdown. And then the Q1 was actually quite good. It was more than 300,000 tonnes altogether. So, I think it is quite fair estimation that the volumes remain flat. Of course, we're looking after growth. But I mean at this point, it's fair to say that our estimations is flat.

Mikael Doepel: Yeah, okay. And then just on the cost, if you think about your total input cost in 2019 then compared to 2018, what kind of inflation or deflation would you expect to see?

Mika Joukio: Of course, concerning wood prices they were – they peaked last year in the second quarter roughly. Then they stayed in the higher level; so, from estimation is that wood prices this year will be slightly higher on the average than last year. And then there is a normal cost inflation that started last year. But I can't give you any exact figures. Can Jussi say? Do you have any?

Jussi Noponen: Well, what we can say is that cost inflation is much slower now this year than it was last year, so low single-digit percentage.

Mikael Doepel: And do you intend to mitigate that by any cost measures or are there any plans for that?

Mika Joukio: We are continuously improving our efficiencies and – cost-efficiency and cost competitiveness. So, that is ongoing and continuous work, but no kind of separate measures or actions. It's normal work, normal daily work.

Mikael Doepel: All right, good. Thank you very much.

Operator: Thank you so much. It appears there are no further questions at this point of time. I would like to turn the conference back to you for additional closing remarks.

Mika Joukio: Okay, thank you everybody for good interesting questions. At this point, I wish you a nice weekend. And also in Finland we have this celebration called Vappu. So, have a nice 1st of May ie. Vappu also next week. So, thank you.