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METSB.HE - Q4 2012 Metsä Board Corporation Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Mikko Helander** *Metsa Board Corporation - CEO*

## CONFERENCE CALL PARTICIPANTS

**Antti Koskivuori** *Danske Bank - Analyst*

**Priya Vizavandan** *- Analyst*

**Nitin Dias** *JPMorgan - Analyst*

## PRESENTATION

**Mikko Helander** - *Metsa Board Corporation - CEO*

Ladies and gentlemen, welcome to the webcast presentation of Metsa Board fourth quarter and full year 2012 results. I am Metsa Board CEO, Mikko Helander. We also have the CFO, Matti Morsky, and the Head of Investor Relations and Communications, Juha Laine participating in this webcast.

I will first go through the main events in 2012 which was a very important milestone for us. After the rather slow start of the year due to economic uncertainties, the paperboard market situation normalized rather rapidly in the spring as expected.

The substitution from recycled fiber paperboard to fresh forest fiber paperboard continued. The main reasons for this are health concerns related to the mineral oil substances in the recycled fiber board but also the high cost of recycled raw materials.

Program to increase our annual folding box Board capacity by 150,000 tons was successfully, finalized thanks to the expanded capacity and intensified sales actions our folding box Board markets in Europe continued to increase in 2012. The increase also to folding box Board sheeting capacity in 2012 to serve our customers even better in the future.

Kemi mill's liner board machine was modernized in late 2011 and in early 2012, we launched the new coated liner boards to the market. These new products have been a great success. We increased further the use of biofuels when the new bio power plant commissioned at Kyro mill in autumn 2012.

We completed the paper industry strategy preview in 2012. The very important and extensive measures to eliminate EUR10 million annual losses from paper and pulp businesses were completed as planned. We closed permanently the Alizay paper mill in France in spring 2012 and the assets were divested in January 2013 for EUR22 million. I'm very pleased about this divestment, all in all we were able to implement it the heavy measures in Alizay with lower costs than originally estimated.

Gohrsmuhle mill's unprofitable operations were discontinued and we have put a lot of emphasis to optimize the cost base and increase sales of the continuing [Romolux] business and the FBB setting. Other important measures to eliminate the paper business losses were the divestment of Reflex mills remaining operations as well as the transfer of Aanekoski mill's reel paper production to Husum.

Husum mill is in good speed toward super productivity, reengineering implemented [tear], and the new flex production structure enables us to increase the annual pulp production to 750,000 tons and paper production to over 800,000 tons. New environmental permit reflecting the increased production potential was received in late 2012.

In spring 2012, the Company's name that was changed from M-meal to Metsa Board to reflect our current business better. The new name has been very welcome by our different stakeholders. Our balance sheet was clearly strengthened in 2012. All in all, net debt reduced from EUR783 million to EUR625 million.



We reduced our part surplus by divestment 7.3% shareholding in Metsä Fibre. We also divested 0.5% shareholding in Pohjolan Voima, the proceeds from these two divestments were in total EUR202 million. We were also able to reduce our operating net working capital in 2012. That had an impact in the net debt reduction. It is also important to note that in spring 2012, we signed to EUR600 million refinancing agreement.

I will then present the annual key figures. Sales reduced from EUR2.5 billion to about EUR2.1 billion as a result of the restructuring measures. Our profitability improved in 2012 operating result excluding nonrecurring items from EUR59 million to EUR74 million and result before taxes excluding nonrecurring items from the zero to EUR30 million.

If we include nonrecurring items, the improvement was radical. Operating results rose from minus EUR214 million to EUR220 million and results before taxes from minus EUR281 million to EUR276 million. Board of Directors is proposing to the annual general meeting a dividend of EUR0.06 per share for the financial year 2012.

As expected, the fourth quarter 2012 operating result excluding nonrecurring items was on previous quarter level, EUR25 million. Sales were EUR509 million in the fourth quarter. Result before taxes excluding nonrecurring items was also stable at EUR12 million.

As already previously presented, in connection to the key figures, we booked material positive nonrecurring items in 2012. During the past couple of years, we have booked extensive negative nonrecurring items related to impairments and restructuring costs. I am very happy that those kinds of items we did not need to book in 2012 anymore.

All in all, we booked EUR146 million in positive nonrecurring items in 2012. As a result of the sale of 7.3% holding in Metsä Fibre, we booked EUR85 million and based on the sale of 0.5% holding in Pohjolan Voima, EUR59 million.

In Alizay we booked reversal of impairments and reductions of cost provisions worth EUR11 million and Gohrsmuhle cost provisions were reduced by EUR6 million. All in all, we were able to implement the restructurings in Alizay and Gohrsmuhle with lower costs than originally estimated. The main negative nonrecurring item in 2012, EUR8 million, was related to cleaning of a land area in Tampere in Finland.

I will then present the business area performance more in detail. Paperboard operating results remain stable in the fourth quarter and was EUR28 million, sales was EUR279 million. Higher linerboard prices improve results from third-quarter slightly lower average folding box board price due to sales mix and seasonally lower total paperboard deliveries had negative result impacts in fourth quarter.

During the past few weeks, the folding box board order inflow development has been encouraging. We expect them to gradually strengthen further during first quarter 2013 and deliveries are forecast to somewhat increase from fourth quarter. I'm happy to report that the annual folding box board contract negotiations were completed as planned. Volumes increased from 2012 and no material price changes are inside.

Linerboard demand continues very strong and deliveries are expected to increase slightly in first quarter 2013. Price increase for successfully in late last year that supports the average price development also in early 2013.

USA is a big market in our linerboard business, the US dollar development impacts the average prices. We also see plus volumes of folding box board to the UK and US dollar markets. Currency rates play a role also in the average folding box board price development.

Paper and pulp operating result was at breakeven which is roughly the same as in the previous quarter sales. Sales was EUR210 million. Lower paper delivery volumes and prices as well as decreased average pulp prices weakened results and fourth-quarter. And the result was approved by higher market pulp delivery volume.

We expect uncoated fine paper delivery volume to somewhat increase in first quarter. The bad news is that no price increases are in sight at the moment. Coated paper market situation has weakened further. We expect the deliveries and prices to decrease slightly in the first quarter. No material change is forecasted to market pulp delivery volumes in first quarter. The good news is that the market price increase of long fiber pulp in US dollars seems to continue in the first quarter 2013.



It was very important for us that we were able to improve the financial situation considerably in 2012. Net debt at year-end was EUR625 million. Net gearing was 72% and equity ratio, 33.6%. Operating net working capital decreased by EUR35 million in 2012. Our cash position continues good, at year-end, Metsa Board's cash was about EUR185 million. Average interest rate was at year-end, 4.6%.

Then the short-term profitability outlook. Metsa Board operating results for the first quarter of 2013, excluding nonrecurring items, is expected to improve slightly from the fourth quarter of 2012.

Next I would like to summarize the Metsa Board key focus areas in 2013 as follows. In order to realize the profit-making potential of Metsa Board, it is extremely important to fully benefit the potential of the expanded folding box board capacity.

We have reallocated resources both in production and sales to reach the best in class production efficiency as well as increase sales in Europe, North America, and Asia. I'm convinced that the modern folding box board has great growth potential globally. The use of our ecological and safe folding box board instead of traditional heavy materials is an excellent way for global consumer goods companies to improve sustainability of their operations.

We do our utmost to enhance the sustainability. We continue to develop even more ecological and safe paper boards and we are working to expand the current products range. Our remaining paper units' profitability is not satisfactory. We are looking at new innovative ways to improve the profitability and cash flow in Husum, Kyro Paper, and Gohrsmuhle.

In market pulp business we continue to increase the amount of contractual market pulp customers. We already have had good progress since 2011 but I'm certain that the sales mix can be further optimized this year. In this industry, high productivity and efficient supply sale are essential. We are introducing new measures to move towards super productivity and best in class supply chain.

I will end my presentation by showing how Metsa Board is in good speed towards super productivity. Our progress in recent years has been very good and there definitely is good potential for more. Super productivity is one of the key success factors in our industry.

Ladies and gentlemen, this was my presentation. We are now together with my colleagues happy to take your questions. Please.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions).

Your first question comes from the line of Antti Koskivuori. Please ask a question.

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### Antti Koskivuori - Danske Bank - Analyst

Hi. This is Antti Koskivuori from Danske Bank. First thing on the paperboard, you talk about sales mix change in folding box board side. Do you see this as a temporary issue and should we see a reversal already in Q1? That will be my first question.

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### Unidentified Company Representative

About the sales mix, it is a little bit difficult to say. It depends on of course how market develops in Europe, how market develops in Asia. At the moment, we don't expect major changes in sales mix of minor boards and folding box board.



**Antti Koskivuori** - *Danske Bank - Analyst*

All right. Thank you. Secondly, about the depreciation going forward. Now I believe it was a level of EUR110 million on annual level. Do you see any changes going forward in 2013 or is this a good level to assume going forward?

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**Unidentified Company Representative**

No major changes, not at all.

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**Antti Koskivuori** - *Danske Bank - Analyst*

All right. That's all from my site. Thanks.

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**Operator**

Thank you. (Operator Instructions). Your next question comes from the line of [Priya Vizavandan]. Please ask your question.

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**Priya Vizavandan** - *Analyst*

Thank you. Thank you for taking my question. Just on the incremental boxed board capacity that you set up, can you give us a sense of what you think if -- the entire incremental capacity would be, you will be able to ramp up and relative to the market in the near future or is there a timeline that you have set up for this? Thank you so much.

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**Unidentified Company Representative**

First, very happily, I confirm that machines are running now well after those investment actions and measures and it seems that this new capacity is fully available, starting from this year. At the same time, I can confirm that market outlook is positive.

We succeeded to book very well additional volumes in annual contract negotiations and if and when economy does not disturb or slow economy will not disturb supply demand balance. We are very optimistic that we will successfully sell new capacity and increase our sales and delivery volumes thanks to new capacity.

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**Operator**

Thank you. (Operator Instructions). Your next question comes from the line of Antti Koskivuori. Please ask your question.

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**Antti Koskivuori** - *Danske Bank - Analyst*

Thanks. It's Antti Koskivuori again. Still on your market share on the FBB side, it has been on a 35% level. Is this the correct figure at the end of the year and do you see big changes there in 2013, i.e., is the market growth -- underlying market growth lower than your capacity? Or what do you expect to sell from your new capacity?

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**Unidentified Company Representative**

Yes, you mentioned 35%. 35% was our share of Europe in folding box board capacity and now of course after those investments share of capacity increasing and is higher today. The market share in Europe in folding box board has gradually increased and improved since 2006 and we are very proud of that. Today we are close to 30% in European market share.

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**Antti Koskivuori - Danske Bank - Analyst**

30%, right. And about the development in 2013, do you have any expectations on that?

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**Unidentified Company Representative**

Our target setting is very clear. We recognize Europe as a domestic market and based on also successful annual contract negotiations, we have good reasons to expect that we will maintain this positive development and further increase our market share.

But at the same time, I stress that the market share itself is not the main target. It is of course a very important issue, but I would like to say that even more important today is to save healthy prices and I can guarantee that as the market leader we look after very carefully healthy pricing and we don't want to risk positive price development.

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**Antti Koskivuori - Danske Bank - Analyst**

All right, thank you.

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**Operator**

Thank you. Your next question comes from the line of [Eulin Lee]. Please ask your question.

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**Nitin Dias - JPMorgan - Analyst**

Hi, this is Nitin on Eulin's line from JPMorgan. My question was on the credit facility. Obviously you will draw them at the end of March to pay down the bond which matures on the 1st of April. Any thoughts about accessing the bond markets either in this window or given that you (inaudible) results or anytime after that or are you comfortable with the current capital structure as is?

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**Unidentified Company Representative**

I think one has to sort of divide the response on two categories. Of course, at the moment, we are quite happy with the financing arrangement we were able to reach during the spring last year. On the longer term, as I guess we have indicated in earlier connections, of course some kind of a bond arrangement and other means in order to get also the liability or the debt structure more in balance for a company of our nature but that sort of remains to be seen.

We are of course monitoring the market quite carefully all the time. If reasonable opportunities arise we are of course considering them [advantageously], but at the moment, like I said we are very happy about the financing arrangement we achieved last spring.

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**Nitin Dias - JPMorgan - Analyst**

Okay. And this is a few housekeeping questions. Can you give us a sense of what we should assume in our models for cash interest, cash taxes and CapEx for this year?



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**Unidentified Company Representative**

CapEx is around EUR60 million or somewhat below EUR60 million, say maximum EUR60 million. Financing, net interest costs are around EUR60 million, but then you have to add on top of that some for the other finance sale items say around EUR70 million new would be the magnitude of those items. And the taxes will this year be higher than last year but by how much of course is dependent on the profitability. You can assume in your models an average tax rate of about 24% units.

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**Nitin Dias - JPMorgan - Analyst**

Okay, understood. And is there any other I guess one off restructuring cost for this year, given that you've had a small number fairly consistently every year? Or should we assume that that number will be close to zero?

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**Unidentified Company Representative**

Very close to zero. We announced the Husum EUR4 million provision for the next round of restructuring at that mill and then apart from that, the only announced matter is a EUR5 million plus one off item concerning the sale of Alizay assets.

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**Nitin Dias - JPMorgan - Analyst**

But that's a non-cash, right, because you'll get EUR22 million of cash --

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**Unidentified Company Representative**

Well, the cash is already in as the bookings by the year end 2012 didn't include all of the matters because we couldn't -- we didn't have the final terms and conditions concerning the transaction clear so part of that will be booked during the first quarter.

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**Nitin Dias - JPMorgan - Analyst**

Okay, and the EUR22 million, the cash that you got by selling the machinery in the land to the French government, that should come in this year, right? In the year --?

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**Unidentified Company Representative**

It's already on the bank account. Mikko has made sort of very careful sort of questioning all the time when the money arrives and we have been to our luck announced that the money is on the account.

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**Nitin Dias - JPMorgan - Analyst**

Okay, but it came in the calendar year '13, not in the calendar year '12?

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**Unidentified Company Representative**

Yes, yes. This year. Yes.

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**Nitin Dias** - *JPMorgan - Analyst*

Okay. That's helpful. Thank you.

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**Operator**

Thank you. (Operator Instructions). We appear to have no further questions at this time. Please continue, sir.

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**Unidentified Company Representative**

Okay, ladies and gentlemen. Thank you very much for your participation and we wish a very nice evening for you. Thank you. Bye-bye.

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