

Conference Title: Metsä Board's Half- Year Financial Report for January-June 2018

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Mika Joukio: Good afternoon, ladies and gentlemen, and welcome to this presentation of Metsä Board's half-year and second quarter results 2018.

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

So let's start by looking at the second quarter in brief. Our total paperboard delivery volumes rose compared to the first quarter, and were 489,000 tonnes. Quarterly, this was an all-time-high.

Also, price levels developed nicely. In folding boxboard, prices remained stable compared to the first quarter, whereas kraftliner prices continued to rise slightly. In folding boxboard, we reached roughly half of the price increase, 90 euros per tonne, which we announced in Europe at the end of 2017. In white kraftliners, our latest price increase announcement, 50 euros per tonne, has been realised almost fully. The pulp market continued to be strong, and market prices kept rising in Europe.

As always, the second quarter included several planned maintenance shutdowns. Actually, all the other mills in Finland, except Kemi integrate, had shutdowns. In addition, Metsä Fibre's two mills – Äänekoski and Joutseno – had their maintenance breaks too. And naturally, all this had a negative impact on our profitability. The difference in the first quarter - which is the only maintenance free quarter – compared to all the other quarters, is approximately 10 million euros. This derives from actual maintenance work but also the lost production during the shutdown. And this calculation includes Metsä Fibre's share.

Wood costs continued to rise. In particular, the cost of wood imported from Baltic countries to Sweden continued to increase in the second quarter. In the US, the shortage in truck transport capacity have pushed up the freight costs, which also impaired the profitability.

Our total paperboard deliveries were at a record high level in the second quarter, roughly 490,000 tonnes. The growth rate compared to the first quarter was 4 per cent. Among all European producers the growth rate was 1 per cent. During the first half of 2018, our total deliveries grew by 6 per cent compared to the first half of 2017. Among all European producers the growth rate was 4 per cent.

Discussions around the sustainable and pure packaging materials continue to drive the demand for fresh fibre paperboards, especially for folding boxboard. Increasing demand in point-of-sale solutions in retail and growing e-commerce keep the demand for high-quality kraftliners on a high level.

Then the sales and operating result. Higher delivery volumes together with rising price levels increased our quarterly sales to over 500 million euros. In fact, this was the highest level during the time Metsä Board has been a pure-play paperboard company, since the beginning of 2017.

Our operating profit in the second quarter was weaker, as expected, compared to the first quarter. The main negatives were several planned maintenance breaks in Finnish mills, and higher costs caused by tightened wood supply and increased freight costs in the US. Profitability was upheld by higher delivery volumes and increased prices in paperboards as well as the strong pulp market.

In Husum mill in Sweden, we still continue the efforts to increase the average price in folding boxboard by improving the sales mix.

The pulp market remained strong, and prices kept rising in Europe. The dollar price of softwood pulp rose by 10 per cent in the second quarter compared to the first quarter, and by 32 per cent in

the first half of 2018 compared to the first half of 2017. In China, the corresponding price movements were flat and 40 per cent, respectively.

Metsä Board's annual pulp balance, including the share from Metsä Fibre, is over 500,000 tonnes long. The majority of that long position is softwood pulp and is sold mostly in Europe and in China. Market drivers for pulp are, among other things, limited new capacity especially in softwood pulp in the coming years and increased demand from China.

Then a look at the costs. After several years with stable wood prices, we have seen them rising this year. The trigger was a very wet autumn and early winter, which caused harvesting problems and shortages in wood supply.

Metsä Board's production costs rose in the second quarter, mainly due to the cost of wood imported from Baltics to Sweden. We estimate that the negative result impact from rising wood costs in 2018 compared to 2017 will be 30 million euros. We have updated our previous estimate due to the higher-than-expected share of imported wood to Sweden.

Impacts from foreign exchange rates in the second quarter compared to the first quarter were flat. This includes the hedging activities. During the first half of 2018, the negative impact was 28 million euros compared to the corresponding period last year.

During 2018, the US dollar has somewhat strengthened against the euro whereas the Swedish krona has weakened. However, the positive impacts from these will be evident in our result only at the end of the year. In fact, the third quarter result will take the biggest hit, deriving from foreign exchange rate changes including the hedges, compared to other quarters in 2018.

The comparable return on capital employed in the second quarter was 13.9 percent, which is above our long-term annual target level of 12 per cent. The 12-month rolling return was 13.8 per cent. Our capital employed at the end of review period was 1.7 billion euros.

The 12-month rolling cash flow from operations was 240 million euros. Second quarter did not include any major changes in the working capital, which would have impacted the cash flow.

Our financial position is strong, and leverage is at 1.2. Our interest-bearing net debt at the end of June was 388 million euros. In April, we made an early payment 100 million euros of our existing long-term loan, and at the same time increased our unraised credit facilities. Our net debt slightly increased due to the dividend payments of 75 million euros.

We also continued our success regarding external recognitions in sustainability and social responsibility. In June, we were awarded the Gold level rating by EcoVadis for the second consecutive year. Overall, we were ranked in the top 1% of suppliers assessed by EcoVadis across all categories. This is a significant achievement, as the EcoVadis assessment is becoming an increasingly important guide for our customers when judging their suppliers' sustainability and corporate social responsibility performance.

And then to the near-term outlook. We believe that the good momentum in the paperboard market will continue. A big part of the price increase announcements have gone through, and we expect the prices to remain at least stable. We expect, that Metsä Board's paperboard delivery volumes will be flat in the third quarter compared to the second.

During the third quarter, we will have planned shutdowns in Kemi integrate and partly in Husum integrate. Foreign exchange will have some additional headwind in the third quarter compared to the second quarter. The negative impact from the foreign exchange changes will be the biggest in the third quarter compared to other quarters in 2018.

Our total production costs in 2018 will increase from previous year. The main contributor is wood cost, which will be 30 million euros higher compared to 2017. At the moment, we don't expect the delta between Q2 and Q3 in wood costs be that big. And most importantly, we don't expect any production curtailments due to the shortage of wood availability.

And then our result guidance. We expect that our operating result in the third quarter of 2018 will remain roughly at the same level as in the second quarter of 2018.

Then, to summarize. All-time-high paperboard delivery volumes together with rising price levels increased our sales in the second quarter. The pulp market continued to be strong, and price levels accelerated in Europe.

Metsä Board has also suffered from rising wood costs in 2018. Exceptional weather conditions have caused shortages in wood availability and impacted on pricing. The big picture looks favourable for us. Demand for ecological paperboards is growing, and price levels in folding boxboard and white kraftliners are expected to stay stable or even rise.

Before finishing, I want to inform you of our upcoming Capital Markets Day 2018. This time we will hold it in London, at Haberdashers' Hall, on 14 November. Public invitation is out and registration has started. You will find more information about the event on our investor webpage.

So, ladies and gentlemen, this was the presentation of Metsä Board's half-year and second quarter results. We are now happy to answer any questions you may have.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing Star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press Star 1 to ask a question. And we will take our first question from Antti Koskivuori with Danske Bank.

Antti Koskivuori: Thank you. I would have two clarifying questions on kind of the near term outlook. Firstly, on the effects that you now see to be somewhat of a headwind in Q3, could you provide us a number of how big impact this should be in Q3 versus Q2 and also, it would be very helpful to hear your comments about the similar kind of for Q4, what do you see there? That would be my first question.

And secondly, about the wood supply issues that we currently have, I guess, and you say that you don't see any kind of impact for the H2 at the moment. I was just wondering that do you see risks that the situation could turn worse and especially of course the Swedish forest fires comes to my mind. Is that a - if that's any kind of risk to your outlook for H2. Yes. Those would be my questions, thank you.

Mika Joukio: Okay, if I take your second question first and then Jussi Noponen will take the first one. So as far as the wood supply is concerned, we are not concerned about the wood availability, as I already mentioned. If there will be bigger, bigger problems in Sweden, then we take more - supply more wood from Baltic countries or from Finland and that of course will have a slight negative impact on costs, no doubt. But at the moment, we don't see that a very big risk. So for the woods costs, we estimated the wood costs at more or less the same level in Q3 as they were in Q2.

Antti Koskivuori: Yes.

Mika Joukio: Okay, then Jussi Noponen will take this foreign exchange question.

Jussi Noponen: Yes, so the net headwind, including all currencies in the third quarter is estimated to be low single digit millions versus the second quarter and that consists of a bigger headwind from the US dollar which is partly offset by the weaker krona. And in the fourth quarter, after hedging, the

effects will be more favorable compared to the third quarter but we are not yet giving any specific guidance on that.

Antti Koskivuori: Yes. Okay, then, still one question, if I may, about the Husum and the sales mix, kind of the outlook for that. Can you give us, you know, kind of insight about the hundred million improvement. Where were you, actually, on the run rate at the end of Q2? If I understand correctly, you state that the sales makes this kind of the only that's keeping you away from the hundred million at this point.

Mika Joukio: At this point, I don't give any specific number, our intention is to open up this Husum case more in the Capital market days in November but what I can say here is that, as we all remember, there are practically three elements behind this profit improvement. First of all, higher pulp production and then secondly, the fixed cost improvement and then thirdly, the biggest part, higher sales and higher - higher sales, higher production and then higher prices.

So as far the pulp production is concerned, we are practically there so that's okay. Then the fixed costs, we have been able to cut as we targeted and as we have told earlier and then as far as the third element is concerned, the production is pretty close to the target level already, we don't report separately any more the so called operating rate, but I can say that it's at a good level and as far as the prices are concerned so month after month, the price levels are increasing and remains to be there then where we are at the end of the year or beginning of next year. But we will, as I said, we will open u,p the case a little bit more in London in November.

Antti Koskivuori: Yes. All right. Thank you very much.

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

Linus Larsson: Yes, good day everyone and thanks for taking my questions. Firstly, on paperboard shipments growth, where the pace came down a bit in the second quarter compared to the previous quarters, do you have a target for the full year in terms of paperboard volume growth?

Mika Joukio: So, I don't fully understand what you said, that the pace - I mean, during this year, we have delivered 6% more than last year in the corresponding time period and that is clearly over the market growth and our target has - it has been public - publicly also stated is to grow over the market growth, so also this year, target is to grow more than this 3 or 4%. So that's the clear target and so far we have been able to grow by 6%.

Linus Larsson: Okay.

Mika Joukio: And Q2 was all-time high, so, I think...

Linus Larsson: Yes, yes. No, no, but the pace of growth, year-on-year was much slower in the second quarter compared to previous quarters, that's why I asked. And in the previous couple of years, you've had double digit growth so my question is also, in the second half of 2018, will we see the pace of year on year growth pick-up in paperboard volumes?

Mika Joukio: At the moment, the best estimation is that the pace will be pretty much as now in the first half of this year.

Linus Larsson: Okay. Thank you. And I guess, to some extent related to that question and just coming back to something that we have discussed on the previous earnings calls as well, when it comes to further potential debottlenecking some investments in paperboard production, is there anything to add to that today and if not, when do you think you might come back to the market with some information regarding that?

Mika Joukio: I have said that, I said that already in May and I can comment here also that of course we are planning different options, whether they are debottlenecking or bigger ones and we will tell when we are ready but I don't want to give myself any clear deadline for that, end of this year or whether it's something else, but I can guarantee that we are calculating different options – after summer holidays already.

Linus Larsson: Okay, thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, please press Star 1 on your telephone to ask a question. Thank you. And we take our next question from Harri Taittonen from Nordea.

Harri Taittonen: Yes, good afternoon. There's one sort of difference in the maintenance schedule this year compared to last, which is the Husum that you're starting the maintenance already during the third quarter and then - just wondering how that might - do you have sort of a feel, is this quite a big stoppage and if I remember right, the impact was close to 10 million or so in the fourth quarter last year. So is there any indication how that is sort of seen to be split between the third quarter and the fourth quarter this year?

Mika Joukio: So the length of the shutdown is more or less the same as last year, but only difference is that it's practically one week earlier so we will start already during or at the end of September, then continue in October. And as we have said earlier also is that when we take the first quarter, so first quarter was maintenance free and for that reason practically it's 10 million euros better result in that quarter compared to Q2, Q3 or Q4. So there is nothing special as such here and the impact for maintenance shutdowns in Q3 will be more or less the same as in Q2.

Harri Taittonen: Good. Okay. Another question is about the linerboard market and the white top business there because there are some price increase announcement so that at least in public sort of a mention to be kind of raising prices for linerboard, well, and you refer to some potential increase

but is there, have you been out or do you sort of have communicated plans to move with the price increases for linerboard in any greets? there?

Mika Joukio: In linerboard, we have utilized pretty well the tight market situation and during last 12 months, we have, if I remember right, at least three price increases. I don't speculate with the coming price increases but I can only say to you that we are awake, so we follow markets very carefully and then act accordingly. But I don't give any promise at this point.

Harri Taittonen: No. Thank you. Thanks.

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

Robin Santavirta: Good afternoon, thank you. Now case of Metsä Fibre, I guess that they had two plants under maintenance now in Q2, do you - can you remind us about the maintenance sort of outlook for Q3 and for Q4. I'm talking about Metsä Fibre here.

Mika Joukio: So in Q3, they will have, together with us, the Kemi shutdown and then if I remember right, in fourth quarter, will be Rauma.

Robin Santavirta: Sure. Thanks. And then in terms of the paperboard business, so you if you exclude, I mean, Metsä Fibre obviously reports very strong earnings again, at this point of maintenance but if you exclude that from your numbers, actually you're down one million in terms of comparable EBIT, that's with the most paperboard business and is this despite should be much more profitable at the moment, year-on-year. So is this only higher input costs or is there something else that is impacting the profitability of your paperboard business?

Mika Joukio: Of course, the impact from pulp prices will be as you described but then we need to remember the currencies so this year we will have a clear headwind comparing last year and that will of course effect on paperboard business.

Robin Santavirta: All right, good, thanks.

Mika Joukio: Partly being able to cover that by having these price increases, but not fully.

Robin Santavirta: Exactly. Exactly. And in terms of the markets, I know you don't like to comment exactly on price increases and what you see out there but in terms of just market dynamics, the folding boxboard particularly and then the pulp market in Europe. What are you seeing? Are the markets still as tight as they have been or what kind of market dynamics are you seeing at the moment in Europe?

Mika Joukio: So during summer months, we have not seen any kind of change so all the inflows are good, things are running full up in Husum as well as in Finland, so market situation is good, demand is good and as far as the pulp market is concerned, also same story.

Robin Santavirta: All right, good. Thank you.

Operator: Thank you. And as a reminder, please press Star 1 to ask a question. We take our next question from Mikael Jafs with Kepler Cheuvreux.

Mikael Jafs: Yes, hello, good afternoon, everybody. In your report there, you talk about American transportation costs going up. Can you please give us some color and flavor on that please?

Mika Joukio: Yes, of course there are - there have been new legislation also in the US that limits the time, how long the drivers can be able to drive, et cetera, et cetera, so the flat costs have increased there and for us it's, what would I say? Let say 2 to 3 million euros, roughly, the impact.

Mikael Jafs: Oh, okay. Perfect. Thank you.

Operator: Thank you and it appears we have no further questions so I would like to hand the call back over to you for any additional or closing remarks.

Mika Joukio: Okay, thank you, everybody for your participation and looking forward to see you in London in November. Thank you. Have a nice evening.