

**Conference Title: Metsä Board Interim report for January-September 2018**

**Date: Thursday, 8<sup>th</sup> November 2018**

**Conference Time: 15:00 (UTC+2:00)**

Mika Joukio: Good afternoon and welcome to this presentation of Metsä Board's results for January to September. My name is Mika Joukio, and I'm the CEO of Metsä Board. Together here with me today, I have our CFO, Jussi Noponen, and our Head of Investor Relations, Kati Sundström.

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So let's start by looking at the performance in the third quarter.

Our profitability improved due to higher average paperboard prices and a strong pulp market. This positive performance was also supported by higher production and delivery volumes from Metsä Fibre.

Our total paperboard delivery volumes were down on the record-high Q2 levels. We estimate that the high delivery volumes during the first half of the year – and especially in the second quarter – increased our customers' stocks, which had an effect on paperboard delivery volumes during the third quarter. We also continued our actions to optimise the price mix of paperboard sales in the Americas as well as in Europe. That also impacted the delivery volumes.

Wood costs remained high, but steady, compared to the previous quarter.

Then, we had the planned maintenance shutdowns at Kemi and Husum integrated mills. The maintenance shutdown at Husum began at the end of September and ended at the beginning of October.

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Then, a brief look at the demand drivers for fresh fibre paperboards before we move on to the results.

The demand for fresh fibre paperboard is supported by strong market trends, such as globalisation and urbanisation, sustainability, food safety and the growth of e-commerce. Fresh fibre paperboard is replacing plastic packaging materials and the use of recycled paperboard to an increasing degree, particularly in food and food service packaging.

The importance of sustainability is constantly growing. Metsä Board's lightweight paperboards are not only safe and recyclable, but also resource-efficient: their production consumes less energy, water and raw materials than before.

The growth of e-commerce is especially supporting demand for linerboards.

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Paperboard prices have developed favourably. The picture here shows the market prices only in Europe, but development has been positive in the other market areas as well.

Metsä Board has announced an increase of 80 euros per tonne in the price of folding boxboard in Europe, valid from November. We expect the effect of the announced price increase on the results to be visible at the beginning of 2019.

The price development of kraftliner has also been strong within the past year.

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As I said earlier, our paperboard deliveries declined in the third quarter. And we believe that one of the reasons for the drop was the record-high delivery volumes and increased stocks of our customers' in Q2. If we look at all European producers, delivery volumes among all folding boxboard and white kraftliner producers dropped by 5 per cent in the third quarter versus the second.

And in the year to date, total deliveries of folding boxboard rose by 6 per cent whereas, total deliveries of white kraftliners declined by 3 per cent.

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This slide shows the delivery split of our folding boxboard and white kraftliners.

We have taken initiatives to optimise the price mix of paperboard sales, which have had an impact on delivery volumes. In Husum, the average selling price of folding boxboard is not yet at the level where we want it to be, even though it has developed nicely. Overall, our aim is to find the most profitable customers and focus on the best-performing paperboard segments.

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Here you see the quarterly development of sales and operating result.

Lower delivery volumes of paperboard and market pulp impacted our sales in the third quarter. In the year to date, higher volumes and prices in paperboard increased the sales. The decline in Metsä Board's market pulp deliveries is the result of an increase in Husum's paperboard production. However, our net surplus in pulp, including Metsä Fibre's holding, has gradually increased.

Then, profitability. The operating result in January to September improved by nearly 40 per cent compared to last year. Positive contributors were, once again, higher prices and volumes, the improved result from Metsä Fibre and improved cost-efficiency. On the negative side, we had higher production costs, especially wood costs, and a weaker US dollar after hedging.

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Favourable profitability development is visible in our return on capital employed, which is above our long-term target of 12 per cent. The 12-month rolling return was 14.1 per cent.

Capital employed at the end of the review period was 1.7 billion euros.

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Then a closer look at wood costs.

After a very turbulent beginning of the year, wood costs remained quite stable in the third quarter compared to Q2. Stable, but at a high level. The main contributor is still the expensive wood in the Baltics, imported to our Husum mill in Sweden. A surplus in demand in the Baltic states is keeping prices high. In Sweden and in Finland, the balance in supply and demand is more or less normal.

Despite the tightness in wood availability, which we have witnessed for a year now, we have not needed any downtime in our production.

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The pulp market remained strong and improved our profitability. Production and delivery volumes at our associated company Metsä Fibre increased, and their new bioproduct mill in Äänekoski achieved its full capacity in August – exactly a year after its start-up, as planned.

Metsä Board's annual pulp balance, including the share from Metsä Fibre, is approximately 550,000 tonnes long in 2018. The majority of that long position is softwood pulp and is sold mostly in Europe and in China.

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Foreign exchange had a negative impact of 4 million euros in the third quarter compared to the second quarter. This includes hedging activities.

The negative impact in the year to date was 47 million euros compared to the corresponding period last year. The main contributor to both negatives was weaker US dollar.

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The 12-month rolling cash flow from operations was 226 million euros. In January to September, working capital rose by 59 million euros. This was mainly due to the growth in business volumes. In the current pulp market conditions, a bigger share of our result is generated by Metsä Fibre, and that share of the result is a non-cash item. The dividend from Metsä Fibre will be received in the first quarter.

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Our financial position is strong, and our leverage ratio is at 1.0. Our interest-bearing net debt at the end of September was 344 million euros.

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And then to the near-term outlook.

The market prices of folding boxboard and white kraftliner in local currencies are expected to remain mainly stable or to rise slightly. In Europe, we have announced a price increase in folding boxboard, and we expect to see impacts of that at the beginning of 2019. We will continue our own actions to improve the average price of folding boxboard by optimising the sales mix.

We believe that the pulp market will remain strong.

Foreign exchange will have a positive impact on our Q4 result due to the stronger US dollar and weaker Swedish krona.

We expect our paperboard deliveries during the fourth quarter to remain roughly at the level of the third quarter or to decline slightly. Delivery volumes in the fourth quarter are affected by the seasonally slower December.

We see that cost inflation has slowed down, and we don't expect significant changes to production costs in the near future.

Net impact of energy costs and sale of emission rights will have a positive impact in the fourth quarter.

Part of the shutdown at the Husum integrated mill took place at the beginning of October, and the result impact from that has been taken into account in our result guidance for Q4.

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And based on the near-term outlook, we expect that our operating result in the fourth quarter will improve compared to the third quarter.

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Then, let's summarize.

The overall market situation still looks good. Market trends – such as urbanisation, sustainability and food safety – are all supporting the demand for ecological fresh fibre paperboards. We estimate that the global annual growth rate in demand for folding boxboard and white kraftliner will be 3 per cent, on average.

We see good demand in pulp. Demand is supported by limited new capacity in the coming years - especially in softwood pulp, as well as restrictions on recycled paper imports in China.

After a strong start to this year and the record-high delivery volumes in the first half of 2018, we expect our delivery volumes to decline in the second half of the year.

Metsä Board's performance during 2018 has been good, but we still see further potential to improve it. We will continue our actions to improve the price mix in our paperboard sales, especially in Husum's folding boxboard. We will have a strong focus on profitability.

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Before finishing, I want to remind you of our upcoming Capital Markets Day 2018. It will be held in London, at Haberdashers' Hall, on 14 November, so next week. You will find more information of this on our webpage.

Those of you participating, see you next week.

So, this was the presentation of Metsä Board's results for January to September. We are now happy to answer any questions you may have.

We are now happy to answer any questions you may have. Thank you.

Operator: Thank you. If you'd like to ask a question please press star one on your touchtone telephone. If you're using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Once again it is star one to ask a question. Our first question is from Harri Taittonen. Please go ahead.

Harri Taittonen: Yes, good afternoon Harri Taittonen, Nordea. If you look at the cost side and if you can give any colour on the sort of – any sort of changes early next year. I know that you're guiding a fairly flat sort of environment for the fourth quarter but is it typical or are there many sorts of similar contracts that you are negotiating that then there is a possibility for a sort of bigger change when the new year starts? Or – or is it more like a business ongoing basis?

Mika Joukio: Yes, I'm okay. Mika Joukio here. So we don't expect any – any major changes when comparing Q1 to Q4. So of course, when the economy's strong there – there is a kind of tendency to have some cost inflation but we don't expect any major ones.

Harri Taittonen: Okay, okay, very good. And – and on the sort of the wood sourcing from the Baltics, I recall from this some years ago it – it's been around a quarter of your wood sourcing overall or thereabouts. But, I mean, is there something you are planning or should do about the – the volume imported from the Baltics and if that's sort of – how much is that percentage these days of the total volume in wood sourcing?

Mika Joukio: Yes, at the moment we don't see any – any major changes here either. So overall – overall only roughly 17% of our wood supply is coming from Baltic countries. So that is the situation.

Harri Taittonen: Okay. Okay, okay. Alright. Maybe the last question, if I may, on the linerboard market is there's been some kind of concern about – well, not concern but some indications of – of the market perhaps becoming more balanced than – than sort of in being in really short supply. But – and also some – some concern on the linerboard increases in North America. But are you seeing any – any sort of a changes in the market dynamics there as you see it?

Mika Joukio: Yes, so as far as our – our products are concerned they are based on fresh fibre so we are not using any recycled. In that category we haven't seen any – any major changes or even any smaller changes. It's mainly – mainly on the other grades in linerboard.

Harri Taittonen: Very good. Yes, exactly. Thank you very much.

Operator: Moving on we have a question from Robin Santavirta.

Robin Santavirta: Thank you. Thank you. Starting off a question related to – to volumes in the paperboard segment. Do you – you said you suspect customers' inventories are a bit elevated at the moment. Is – is it a concern for you that – that this might impact volumes further on than –

than Q4, going into next year. Could you just comment a little bit on – on what is going on with – with customer inventories of – of your linerboards and folding boxboards?

Mika Joukio: Yes, so our – our understanding is that – is that the stocks at the customers they have – they have increased. Also then what has effect on our volumes is that we have optimised our price mix, both in Americas and in – in Europe. So at the end demand, so to say, we haven't seen any – any major changes.

Robin Santavirta: Alright, thank you. And then in terms of the folding boxboard the price increase announcement you have – you have made. How would you if you would compare the market balance, the order books you have and the order books you know in the industry this year compared to last year? How would you sort of compare this year compared to last year?

Mika Joukio: Yes, the situation is pretty much quite close to last year so it's very difficult to kind of specify any – any differences between the situation a year ago and now. Demand is – is good and – and price negotiations are ongoing.

Robin Santavirta: Okay, okay. In terms of linerboard can you just remind me the price increases you have had in – in 2018, when and where have you gained higher prices in linerboard throughout 2018 now?

Mika Joukio: So in linerboard we have raised during last 12 months, so to say, we have increased prices at least four times. Three or four times in Europe and then also once in – in the – in the North America. I can't remember by – by hardly how much altogether but altogether it has been quite a lot.

Robin Santavirta: And the one in North America was when?

Mika Joukio: Let me think. The first half of this year so some time in spring. I cannot remember any more.

Robin Santavirta: Right, thanks. And – and – and in terms of wood cost now –

Mika Joukio: Ok ok.

Robin Santavirta: Yes, sure.

Mika Joukio: I try to say that folding boxboard you know that we increase prices here in Europe at the beginning of this year and then we have another second price increase ongoing.

Robin Santavirta: Exactly. Exactly, exactly. And does the wood cost obviously this year has been – been challenging in many – in many ways but also due to the weather and – and the higher prices in Baltics. Is – is there a possibility that we will have 2019 with actually flat or even lower wood cost for – for your buys or do you expect the sort underlying inflation still? I mean, even though the weather conditions, the harvesting conditions would be – would be normal, even good. But still the underlying cost inflation will push up wood cost in 2019 comparing to 2018.

Mika Joukio: I – I would say that at the moment it's a bit too early to – to answer precisely to your question but I do not expect any – any major changes at least upwards. But as I said, it remains to be seen what kind of weather we will have in November, December and January because that really has an impact on – on those prices. Or wood harvesting costs at least.

Robin Santavirta: Okay, good, thanks. And then a final one more technical but you will say about the tax. Obviously you book Metsä Fibre post-tax in – in the EBIT so the normalised tax rate is 10-12% what you normal – normally have but – but now it's – it's really low in this quarter. Was there something special happening there?



Jussi Noponen: Yes, this is Jussi Noponen. Yes, your observation is right. So on top of this consolidation effect from Metsä Fibre we also booked some small tax receivables related to earlier reporting periods now in the third quarter.

Robin Santavirta: Okay and now when you're on the line could you – could you just share some – some light on what kind of positive FX impact you will have in 2019 if we use the current spot grade? When I do the maths it's 35-40 million sort of post – post the hedges. Is that sort of profit the number you're looking at?

Jussi Noponen: Now for the fourth quarter of this year we estimate about 5-7 million positive from FX that we have largely hedged already so that we know pretty precisely. I would not like to give any number for next year because that is largely unhedged at this point of time.

Robin Santavirta: Sure. Thank you very much. Thanks.

Operator: Just a reminder, it's star one if you'd like to ask a question. Our next question comes from Markku Järvinen.

Markku Järvinen: Yes, good afternoon. This is Markku Järvinen from Handelsbanken. I was wondering – if I just continue on the FX so that 5-6 million positive for Q4 compared to Q3 is it positive year-on-year as well?

Mika Joukio: Sorry, that figure I don't have here with me now. So perhaps we can come back to this point at next week's event.

Markku Järvinen: Sure. Sure. Then could you give some more flavour on the sort of optimisation you've done on price/customer mix? Which customers or which markets have you reduced and which products? Or how does that work?

Mika Joukio: So Mika Joukio here. So because our operating rate has been – has been very high so of course then we have – by saying that we are optimising the price mix or customer mix it means that – that we are constantly looking for, so to say, better customers who are paying the higher prices and then the operating rates are high. Then we need to – need to then let go of the less profitable customers. That happens in all areas. I mean, that happens in Asia Pacific. That happens in – in Europe and that happens in Americas. And then if you think about the – the geographical – from geographical point of view then of course the Middle East – Middle East area is – is – is the area where the prices are not as good as in elsewhere. So – so that is also then – then the fact that – that we have – we have produced or sold less to that region. But it – it happens between the regions as well as inside the – the countries and regions. Both in linerboard and in folding boxboard.

Markku Järvinen: Okay, thank you. And I guess Metsä Fibre is now a significant part of your result. Do they have any maintenance in Q4?

Mika Joukio: No. No, they don't.

Markku Järvinen: No maintenance. Good, thank you. And perhaps I missed this but did you give a figure for the emission rights impact mentioned?

Jussi Noponen: Jussi here. So the year has not ended yet so we will not give an impact figure now. But in any case it will be single-digit number in millions.

Markku Jarvinen: Okay, thank you.

Operator: We'll take a question from Linus Larsson.

Linus Larsson: Yes, thank you very much, it's Linus Larsson with SED. I'd like to ask about the paperboard volumes and the deceleration that we see in growth and even a decline year-on-year. And – and first if we look at linerboard, can you explain the reasons behind the decline that we've seen year-to-date. Shipments are down year-on-year both to the Americas and to Europe. Which are the reasons for that as you see it?

Mika Joukio: In linerboard it's very clear. At the end of – so at the end of 2016 so we had a very high stock for Kemi linerboard mill and practically we sold in 2017 more than we produced. And now when we start the 2018 situation was the other way round. So the stock levels were quite low and that explains simply the difference between 2017 and 2018.

Linus Larsson: Okay. And when you look into next year then should we – how much – if you – let's split it between folding boxboard and linerboard maybe. What's the spare capacity that – that you still have? Are you – is that a constraint in the – in the next year or is it still the market environment that is the limitation in linerboard and folding boxboard respectively?

Mika Joukio: So in linerboard, linerboard we are still able to slightly increase our – our sales because the – both Kemi and Husum production will be slightly higher next year on this year, not remarkably but slightly. And then as far as folding boxboard is concerned we still have unused capacity or unused capacity in Husum because Husum has gradually increased and improved their – their production during this year. So the next year production will be higher in Husum than this year. And that will impact then on – on also in delivery volumes in folding boxboard.

Linus Larsson: And what's the year – what's the expected Husum volume folding boxboard shipment for the full year 2018? Is that a figure that – that you could provide?

Mika Joukio: Not able to say that yet. It will be clearly higher than last year but – but then it remains to be seen how much.

Linus Larsson: What I'm – what I'm getting at is – is how – actually is what the – the increment might be 2019 versus 2018 on – on Husum folding boxboard.

Mika Joukio: You mean production?

Linus Larsson: In production and – and – and/or deliveries.

Mika Joukio: Yes, as I said, growth continues but again it's because budget and plants are still open. So it's too early – too early to say how much more we will produce until next year and this year. But – but it's clear that we will sell more.

Linus Larsson: Okay. And – and linked – linked to this, something that we've discussed on – on previous calls, is there anything you can – you can say about your long-term plans for potential new investments in – into organic growth in folding boxboard or linerboard for that – for that matter?

Mika Joukio: At this point no – no news. So no new news. We continue of course to – to control different options and it remains to be seen then what is the end result.

Linus Larsson: And you previously said that you would come to the market with some kind of conclusion before the end of 2018. Is that still the case or – or would you rather suggest that we might need to wait a bit longer for a conclusion on that?

Mika Joukio: Yes, I think by end of this year is – is – is probably not – too early so let's see. We are coming out when we are ready. We don't – I don't want to give any – any clear deadline or timeline for that.

Linus Larsson: Well that's – that's great. Thank you very much.

Operator: And our next question comes from Antti Koskivuori.

Antti Koskivuori: Yes, thank you. Most of my questions have already been answered but maybe two from my side still. First one, on – on the US folding boxboard deliveries, it seems that you've been letting go of some of the customers of volumes in that market. In coming quarters are you planning to kind of to seek new customers or grow within the existing customer base? That's the first question. Then secondly, still coming back with the emission rights and the sales that you see – the sales gains you see in Q4. To – to understand this, do you see that the volumes that you are going to be actively selling on the market is it kind of going to be kind of normalised level, if you will, compared to other years or – or have you been able to be banked somehow and now benefit from – from that when the prices have doubled more or less? Could you open that up – that a bit? Thank you .

Mika Joukio: Okay, I will take this first question and then Jussi, Jussi Noponen, will take the second. So in the US our – our target is – is the same as before, so to reach the level of 300,000 tonnes folding boxboard and we are not yet there. So we have – we have plans to grow further and of course we are planning to grow with the existing customers if the price levels are right. And then we are seeking and looking for – for new customers. But you're right that we have let – let go certain customers where the price levels have not been good enough but the growth targets are still the same. No reason to change them.

Antti Koskivuori: And could you comment anything about the – kind of do you see that there is a new kind of customer, potential to be signed in coming quarters?

Mika Joukio: We are – we are constantly –

Antti Koskivuori: Is there a demand – yes.

Mika Joukio: Sorry. We are constantly

Antti Koskivuori: Yes, I was just wondering if you – you know, if you could comment anything about that kind of potential new customers in that market?

Mika Joukio: I can only comment that we have potential new customers at the market. So we are – we are constantly – constantly negotiating with the customers and – and then trying to find better and better deals. And – and obviously we have new customers, no doubt. I mean, this is normal.

Jussi Noponen: Yes, then the emission rights question, so there is nothing extraordinary about the volume of – of emission rights that we are selling. It's here we get a small surplus of emission rights and it's kind of sale is ordinary course of business now that the price is – happens to be higher than – than in the previous years. And for that reason it has an impact on – on our quarterly result that we wanted to point out.

Antti Koskivuori: Yes, absolutely. Then the – so then the bear assumption is that that positive impact in this Q4 will be more or less doubled than it has been in the past years.

Mika Joukio: As said earlier that the year has not ended yet.

Antti Koskivuori: Or not.

Mika Joukio: Indeed yes. We don't know the exact volume and how much we are selling. And so we can come back to this then afterwards.

Antti Koskivuori: Alright. Fair enough. Yes. Absolutely. Fair enough, thank you.

Operator: And once again it's star one to ask a question. And it appears there are no further questions at this time. Speakers, I'll turn the conference back to you for additional or closing remarks.

Mika Joukio: Okay, Mika Joukio here. So thank you very much everybody for participating and I still remind you that next year we will – we will have this Capital Markets Day so you are all warmly welcome. So thank you and have a nice afternoon. Thanks.