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Mikael Jafs *Cheuvreux - Analyst*

PRESENTATION

Mikko Helander - *Metsa Board Corporation - CEO*

Ladies and gentlemen, welcome to the Metsa Board's second quarter 2012 interim report presentation. I am Mikko Helander, the CEO of the Company. Our CFO, Matti Morsky, and Head of Communications, Juha Laine, are also participating in this conference call.

Let's look first at our key events in the second quarter. In the Paperboard business, market situation and operational performance continued to improve as expected. Decided measures in Alizay and Gohrsmuhle proceeded, and losses of those mills reduced clearly. Our investment program in Paperboard business is proceeding.

The Aankoski mill's folding boxboard capacity increase investment was completed and the board machine is back to normal production. Reduction of shareholdings in Metsa Fibre and Pohjolan Voima were finalized. And refinancing agreements were signed in the second quarter.

I am pleased to report that our quarterly result before taxes is back to black figures after three loss-making quarters. Sales was in the second quarter EUR522 million. Operating profit, excluding nonrecurring items, EUR19 million. And result before taxes, excluding nonrecurring items, EUR17 million. This result includes EUR6 million operating loss coming from the units which are under restructuring.

Paperboard business area's operating result was EUR23 million in the second quarter, and sales EUR274 million. Profitability improved from first quarter 2012 mainly due to higher folding boxboard delivery volumes, but Aankoski investment shutdown had a clear negative result impact as expected. In Paperboard business, our order stocks and operating rates were improved and are at normal levels, but volumes are not yet at a peak level and capacity at the board mills is not yet fully utilized.

Despite the summer months, we have had a good order inflow in Paperboard business, and we expect delivery volumes to improve in the third quarter from the second quarter. Also sales prices outlook is positive. Metsa Board increases linerboard prices by 5% to 8% from September 2012, and folding boxboard price increases under consideration to early autumn.

All in all, we have a positive outlook in Paperboard business in third quarter. Stronger U.S. dollar and British pound contribute positively, but extensive maintenance shutdown at Kemi integrate has a negative result impact in this quarter.

Our folding boxboard capacity expansion program at Simpele, Kyrö and Aankoski mills is now completed, and all new capacity of 150,000 annual tons shall be fully available from early 2013 as originally targeted.

Paper and Pulp business area's operating profit was EUR5 million and result improved clearly from previous quarter's operating loss of EUR12 million. Sales was EUR229 million. Substantial profitability improvement came from the higher delivery volume and better price of pulp, as well as reduction of Alizay mill's losses.



Uncoated fine paper and pulp delivery volumes, as well as average prices are expected to be stable in the third quarter. But in coated paper, the delivery volumes are increasing. We are expecting improving performance from Husum pulp and paper operations, but extensive maintenance shutdown in late September curtails Husum's operational result.

Also a strengthened Swedish krona will have a negative impact on the third quarter result. Metsa Board has also announced a woodfree uncoated price increase in range of 6% to 8% from September 2012. At the moment, no major price changes are in sight in coated paper or in pulp. According to our strategy, in market pulp, we are increasing gradually our sales volumes to European contractual customers.

Thanks to successful restructuring, our financial situation has improved steadily and is very stable today. Our net debt has been reduced to below EUR600 million. At the end of second quarter, net gearing was 73% and equity ratio 31%. Operating net working capital decreased further by EUR11 million. We had cash about EUR270 million. And average interest rate reduced to 5.3% at the end of second quarter.

Since 2010, we have had abnormal fluctuations in Paperboard delivery volumes. In the second half 2010 and first half 2011, customers did heavy stock-building, mainly due to two reasons. They had confidence regarding availability of folding boxboard in situation when the producers had abnormally long delivery times. At the same time, customers also wanted to minimize the negative impact of expected folding boxboard price increases.

Then, in the second half 2011, FBB producers suffered from low order inflows because customers did heavy stock reductions to improve their own cash flow in the middle of general economic uncertainty, and at the same time, the folding boxboard availability was improved. Customers also expected FBB prices to start declining.

Today, we have good reasons to expect that folding boxboard's delivery volumes continue more stable. Deliveries, as well as the stock levels in the delivery chain are at a normal level. Because of this, we do not expect major reduction in cartonboard deliveries if macroeconomic uncertainty emerges again in a larger scale.

It's always also important to remember that FBB is typically used in food, cigarette, cosmetics and pharmaceutical packages, which consumer demand is stable. All in all, it's clear that we have much less volatility in the Paperboard business than in printing and graphic papers.

And then last, our short-term profitability outlook. Metsa Board's operating result for the third quarter of 2012, excluding nonrecurring items, is expected to be slightly better than in the second quarter of 2012.

This was the end of my presentation. Now, it is my -- now, it is time for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Lars Kjellberg, Credit Suisse.

Lars Kjellberg - Credit Suisse - Analyst

Just a couple of questions. Could you please quantify the impact of Aankoski and the overall impact on your P&L from the various investment closures that you've done in the past 12, 18 months?

And also when you talked about potentially folding boxboard price hikes, that's something that has been discussed, as far as I can recall, probably at least two, three years, with little or no impact. Why are you seeing any potential progress being made at this stage?



And the EUR6 million that you still had in costs from the now restructured assets, do you expect any further costs to occur in Q3 or is that something that we now have behind us?

Mikko Helander - Metsa Board Corporation - CEO

Maybe I can start about Aankoski, and we are somewhere in range from EUR4 million to EUR5 million when we think negative impact coming from Aankoski investment shutdown.

Lars Kjellberg - Credit Suisse - Analyst

Okay. And folding boxboard prices, why should they succeed now when they haven't over the past couple of years?

Mikko Helander - Metsa Board Corporation - CEO

Folding boxboard prices, firstly, you should remember that as the market leader, I feel that we have done great job to save and to keep prices on the current level when the demand drop was experienced at the end of last year, early this year.

But as we mentioned, we are now evaluating, in the coming weeks, very carefully market situation and looking possibilities to increase also folding boxboard prices, as we did yesterday in linerboard.

Lars Kjellberg - Credit Suisse - Analyst

And the remaining cost from the now [chartered] assets that we should expect in Q3? You had EUR6 million in Q2.

Matti Morsky - Metsa Board Corporation - CFO

More difficult to make any quarterly estimates anymore as the number is quite small. It's -- main message is that we expect to get rid of all the losses concerning these restructuring units by the end of the year; so starting from clean table next year. There will be a slight improvement also in that respect.

But maybe one element to remember is that we are proceeding and progressing with our Gohrsmuhle cost-cutting as planned. But also at the same time, we are in the process of ramping up this folding boxboard sheeting operation. And of course, as they are under the same roof, so there will be some kind of an impact also from that factor.

Lars Kjellberg - Credit Suisse - Analyst

Okay. And then if I point you to look at Kemi and Husum maintenance shutdowns, would the cost associated with that be particularly high in Q3 versus the other quarters that we have various maintenance works in other mills?

Mikko Helander - Metsa Board Corporation - CEO

Very difficult to say, but I can just confirm again that we will have, end of September, very extensive maintenance shutdown at Husum mill. And this size of shutdown will cost or let's say will curtail our profitability easily EUR5 million or EUR6 million.



Lars Kjellberg - *Credit Suisse - Analyst*

And that's, of course, included in your guidance?

Mikko Helander - *Metsa Board Corporation - CEO*

Yes, it is in our current.

Lars Kjellberg - *Credit Suisse - Analyst*

And give me the same number or --

Mikko Helander - *Metsa Board Corporation - CEO*

No, it's less, it's less, let's say a few millions.

Lars Kjellberg - *Credit Suisse - Analyst*

Okay. And that compares to the EUR4 million or EUR5 million you had in Aaneoski in Q2 then? So they -- that's kind of awash then, I suppose.

Mikko Helander - *Metsa Board Corporation - CEO*

Yes, yes, you are right.

Lars Kjellberg - *Credit Suisse - Analyst*

All right, very good, thank you.

Operator

(Operator Instructions) Linus Larsson, SEB Enskilda.

Linus Larsson - *SEB Enskilda - Analyst*

Thank you, SEB Enskilda in Stockholm. Good afternoon. Just a question, given the recent strengthening of the dollar and the weakening of the euro, are you changing your business considerations? Are you exporting more or doing anything else differently, given this change in the business environment?

Mikko Helander - *Metsa Board Corporation - CEO*

No major changes. But of course, when we remember that we have very, very extensive paper and pulp operation in Sweden. This strengthening krona means that we have even bigger pressure now to increase prices. And due to that reason, we have announced a price increase in uncoated woodfree, and hopefully also in pulp prices we will see positive price development later this year.



When we think our core business, linerboard, Paperboard operations, we should remember that weakening euro definitely is a positive issue for us when we remember that roughly 30% of our Paperboard sales is coming from North America and from Asia. And in that respect, this is a positive news and positive development for us.

Linus Larsson - *SEB Enskilda - Analyst*

And are you actively trying to sell more into those markets when it comes to your board qualities?

Mikko Helander - *Metsa Board Corporation - CEO*

No, no, because we should remember that in Paperboard business, our business is based on very long-term cooperation between us and leading brand owners. And those changes of currency definitely not change our business strategy.

Europe, we have recognized and we recognize also today as the domestic market, and Europe is definitely extremely important marketplace for us. And we are seeking still the opportunities to further increase our business volumes also in Europe.

Linus Larsson - *SEB Enskilda - Analyst*

And then just a question regarding your uncoated fine paper price hike. I seem to remember that you referred to increased pulp prices when you launched that price hike initiative. Just wanted to hear some report about how that is progressing, if you have any feedback from your customers and so forth.

Mikko Helander - *Metsa Board Corporation - CEO*

Not yet feedback, but as you know very well, paper market is quite challenging still today. But anyhow, we have many reasons to increase prices in uncoated fine. And I can just confirm that together with our sales force, we are doing our utmost to succeed in those announced price increases.

Linus Larsson - *SEB Enskilda - Analyst*

Okay, I think that's all from my side. Thank you.

Operator

(Operator Instructions) Nitin Dias, JPMorgan.

Nitin Dias - *JPMorgan - Analyst*

Good afternoon, gentlemen. I was a little late on the call, so you may have answered this. But to the extent you can comment, what are your thoughts and have your thoughts changed in terms of refinancing these credit facilities in the long-term bond market? I mean obviously, your underlying earnings are improving and you're trying to show that you're more of packaging and less of a paper company. So how are you thinking about refinancing these in the bond market?

Matti Morsky - Metsa Board Corporation - CFO

No plans at the moment. We are still in a situation where we consider that, well, the price for the money as we now have agreed with our banks about the refinancing is more feasible from our angle than to go to the bond market. But nevertheless, of course, if situations arise so, we are prepared to consider and act, of course also, if needed and if sensible.

Nitin Dias - JPMorgan - Analyst

That's helpful. And then on the restructuring cash spend, can you confirm that for the first half of this year you would have spent cash cost of about EUR76 million? I'm looking at footnote 6 to your financials. Is that the right number to go with, the restructuring cash spend?

Matti Morsky - Metsa Board Corporation - CFO

Magnitude is okay. Kind of somewhere between EUR60 million and EUR70 million is my best estimate, if I shoot from the hip a number. But there, of course, are some maybe other elements in your number. Purely related to the restructuring, so something between EUR60 million and EUR70 million is my guess.

Nitin Dias - JPMorgan - Analyst

Okay. This is year-to-date spend, correct?

Matti Morsky - Metsa Board Corporation - CFO

Yes.

Nitin Dias - JPMorgan - Analyst

Okay. And then, given that obviously you kind of shutting down and getting out of a few operations that have been loss-making, is there any plan to kind of balance your overheads or rebalance your overheads to the new reality of the business, or is that already incorporated in your existing plans?

Matti Morsky - Metsa Board Corporation - CFO

Pretty much all the overhead reductions are already, at least, in the implementation phase. Like I said, so there are still some matters in the pipeline and expecting to get a clean table, as I noted, from the start of next year. I think that goes for good guidance also in that respect.

Nitin Dias - JPMorgan - Analyst

Okay. And the last question is, given the new structure of the Company -- not new structure, but again, I guess a more packaging-focused company, what should we assume as a decent run rate for CapEx going forward? Obviously, ignoring the restructuring cost because that probably will be legacy cost, but more kind of maintenance and expansion, what kind of run rate should we use for your business?

Mikko Helander - *Metsa Board Corporation - CEO*

Anyhow, good news is that we have now completed very extensive investment program, capacity increase investment program in paperboard operations, including also Kemi linerboard investment. And we must also remember that some years ago we did a very extensive maintenance and upgrading investments in Husum.

All that means that CapEx definitely will remain quite much slower in the coming years. Let's say that a very realistic range is somewhere between EUR50 million and EUR70 million annually.

Nitin Dias - *JPMorgan - Analyst*

Okay, that's helpful. Thank you very much.

Operator

Mikael Jafs, Cheuvreux.

Mikael Jafs - *Cheuvreux - Analyst*

Yes, hello everybody, Mikael Jafs from Cheuvreux in Stockholm. I have a question on the cartonboard market. And first question is, what's your long-term estimated growth rate for the FBB or for the European cartonboard market?

And the second question would be, now that you have this 150,000 tons of new capacity available from the beginning of next year, how do you plan to introduce those volumes into the market, if you could give some flavor on that, please?

Mikko Helander - *Metsa Board Corporation - CEO*

Yes, first about this consumer board market growth, we can see growth potential and based on our statistics, market and demand is very steadily growing, somewhere in the range between 2% and 3%.

But of course, we should remember that especially in food packages, virgin fiber based cartonboard, it takes market sale from recycled packaging materials. And that potential is not yet in those figures. When we discuss about this new 150,000 tons capacity, as we have stated, all that new capacity would be available starting from next year.

But for the time being, we have succeeded very well to sell this capacity. And feedback from our brand owner customers is that this new capacity is very much needed to fulfill growing demand of big, global consumer goods companies.

Mikael Jafs - *Cheuvreux - Analyst*

Okay, thank you.

Operator

We have no further questions at this time. Sir, I'll hand the conference back to you.



Mikko Helander - *Metsa Board Corporation - CEO*

Okay, ladies and gentlemen, thank you for your participation. And together with Matti and Juha, I wish you very nice summer day, summer afternoon and summer evening. Thank you very much.

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