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METSB.HE - Q2 2013 Metsä Board Corporation Earnings Conference Call

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

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

**Michael Jost** *Kepler - Analyst*

## PRESENTATION

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

Ladies and gentlemen, welcome to the Metsa Board's Second Quarter 2013 Result Webcast. I am the CEO, Mikko Helander, also the CFO, Matti Morsky, and the head of investor relations and communications, Juha Laine, are participating in this webcast.

I will first briefly present the key event in the second quarter. I am very happy about the fact that the increase of folding boxboard volumes continued. White-top kraftliner market continued very strong and we managed to increase prices.

Partly due to seasonal reasons, our paper delivery volumes weakened from previous quarter. We unfortunately have not seen any change for the better in European paper markets.

As a result of price increase attempts, the uncoated fine paper prices were slightly higher in the second quarter, but the decline in coated paper prices continued. Pulp prices continued to increase in the second quarter. I am very pleased how the production of new lightweight uncoated kraftliners has proceeded at Husum. I will give some more color on this later on in my presentation.

Our quarterly sales dropped from EUR535 million to EUR503 million in the second quarter, mainly due to a decline in paper deliveries. The operating result was EUR26 million in the second quarter. That was roughly in line with the previous quarter.

The [finals] are items that are low in the second quarter due to lower interest costs as well as certain valuation [cage]. Therefore, the result before taxes increased to EUR90 million.

Paperboard says we are in the second quarter stable at about EUR290 million. Operating results declined slightly from the previous quarter. Main reasons for the lower profitability to our declined production volumes mainly due to several plant maintenance shutdowns, as well as somewhat lower average folding boxboard price due to sales mix.

As mentioned already, our folding boxboard delivery increased slightly in the second quarter. The market prices for the FBBs remained stable. White-top kraftliner market was very strong in the second quarter and average prices were somewhat higher. When it comes to outlook, we expect stable FBB deliveries in the third quarter, a very important issue for us in the FBB pricing in the future.

I will go through this issue more in detail later on this presentation. Anyway, the possible FBB price increase in the coming months has not yet been decided. We expect the white-top kraftliner deliveries to grow further in the third quarter, including the increase in volume from Husum (inaudible). No material change in the prices is in sight.

All in all, the outlook for our paperboard business is good. We expect the performance of our folding boxboard business to improve in the third quarter mainly due to the fact that we don't have as much maintenance shutdowns as in the second quarter. However, it should be noted that paperboard business area result is in the third quarter negatively impacted by the extensive annual maintenance shutdown at [demi cross-liner] and [false] integrate.



Paper and pulp's operating results improved in the second quarter to EUR4 million, mainly due to higher pulp price. Sales declined in the second quarter to below EUR200 million. I cannot be happy about the paper delivery volume development. Of course, the weakness is partly seasonal, but the underlying market is not strong either.

Uncoated fine paper prices were slightly higher in the second quarter as the result of price increase attempts. The [lowering] fact is that the coated paper prices continued to stabilize. No material change is expected in paper or market pulp delivery volumes, nor prices in the third quarter.

Very good news for our Husum mill is that the production of new lightweight uncoated kraftliners has been increased as planned. It's very important for the future of the mill. Paper and pulp's business area result is in the third quarter negatively impacted by the extensive annual maintenance shutdown at Husum integrated.

Our financial situation continues good. Net debt is at the level of EUR 600 million, net gearing was 74% and the equity ratio 32.4% at the end of the second quarter. We [throw up] at EUR500 million spend loans on April, and the remaining EUR450 million of the EUR500 million [err upon plus rebate]. Our cash box at the end of the second quarter was about EUR130 million, on top of which we have the AUS100 million as fully deliverable. Our average interest rate has dropped to 3.9%.

Next, the short-term profitability outlook. Metsä Board's operating results, excluding non-recurring items, is in the third quarter of 2013 expected to be weaker than in the second quarter of 2013, primarily due to the maintenance shutdowns at Husum and Kemi mills.

I will then introduce some facts about the paperboard pricing situation. I again emphasize that Metsä Board aims always to seek a healthy price levels paperboard. We took a major role in increasing the rise of kraftliner prices in late 2012, as well as in the spring, 2013.

FBB prices have been stable for quite a long time now. Previously folding boxboard price increase was implemented in 2011. Since then we have experienced an increase in our production costs.

We have already for a while been in process to consider the newest price increase. The market situation in spring 2013 does, however, not support the FBB price increase. I have been very happy to note that FBB order inflows have strengthened during recent weeks. It is worthwhile to remind, also, that as a result of our product development work, we have launched even lighter weighted folding boxboard products that offer even better give advantage for our customers.

Partly due to the ongoing holiday season, the final decision on the possible folding boxboard price increase during the coming months has not yet been taken.

As mentioned already, the production and sales of Husum kraftliners have developed very well. First kraftliners were sold from Husum in April 2013. Monthly sales volume has now been increased to about 3,000 tons. We expect the monthly sales to rise to about 5,000 tons by the end of the year, and the growth will continue from that.

The feedback from customers has been good, and the interest for this new product is increasing in the market. We have already now been able to sign large (inaudible) agreements with leading packaging companies and are in negotiations with many more.

Our Kemi mill is focusing on the higher value-added coated crates, and we will move some 20,000 annual tons of uncoated kraftliners from Kemi to Husum mill in 2013, and additionally over 10,000 tons more in 2014.

All in all, the target is to produce minimum 80,000 tons of kraftliner at Husum in 2014. That would improve the mill's profitability by about EUR10 million, compared to the actual annualized EUR3,000 of the first half of 2013. The EUR15 million cost-saving program is also proceeding well in Husum.

Ladies and gentlemen, this was my presentation. Thank you for your attention. We are now ready for your questions.

## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). The first question is from the line of Karl (inaudible) from Credit Suisse. Please go ahead.

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### Unidentified Participant

Yes. (inaudible) Credit Suisse. I just wanted to follow up on the -- what you just said about kraftliner. How does that impact you on coated output at the mill, if at all?

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### Mikko Helander - Metsa Board - CEO

Yes, you mean at the Husum kraftliners?

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### Unidentified Participant

Yes, correct.

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### Mikko Helander - Metsa Board - CEO

As I told, our plan is to move 20,000 tons uncoated kraftliner volume from Kemi to Husum, and next year even additional 10,000 tons. And that is very much needed because the demand of coated [plates] is very strong, and our intention is to increase gradually the production of coated kraftliner production.

Uncoated fine in Husum coated [magazine] in Husum. It depends on the market situation, but we have lot of flexibility to increased uncoated fine or to decrease coated magazine production volumes in Husum. But once again, I underline, it depends on well the market will develop.

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### Unidentified Participant

So there's no room to up utilization, per se, until some -- you'd definitely say 2,000 tons would be not huge enough today, so you will have to reduce krafted paper production to achieve this.

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### Mikko Helander - Metsa Board - CEO

Once again, I trust that we have today in Husum very flexible production system, thanks to completed development and investment, and we have a lot of flexibility to maintain production program in Husum, depending on market situation.

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### Unidentified Participant

I probably just -- came in slightly later in the conference call, but did you at all quantify what you expect these extensive maintenance works at Husum and Kemi, what that's going to cost you in Q3?

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**Mikko Helander** - *Metsä Board - CEO*

No, our rough estimation is that this maintenance shutdown will decrease roughly EUR3 million at Kemi's fine paper mills.

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**Unidentified Participant**

And Husum?

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**Mikko Helander** - *Metsä Board - CEO*

About EUR10 million.

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**Unidentified Participant**

EUR10 million. And how does that correspond to the maintenance cost that you incurred in Q2? Is that a -- did you have any meaningful maintenance works, just to recalibrate?

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**Mikko Helander** - *Metsä Board - CEO*

Back to Husum, it is -- Husum is about EUR7 million. Husum and Kemi together, about EUR10 million. Sorry that I mixed those figures.

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**Unidentified Participant**

And in Q2, you had any material [mill outs] for maintenance?

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**Mikko Helander** - *Metsä Board - CEO*

We had at folding boxboard [vasine's] plant maintenance works. And of course those shutdowns had some negative financial impact.

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**Unidentified Participant**

But of course, they're just going to be bigger than -- because they've been integrated now, so I suppose so.

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**Mikko Helander** - *Metsä Board - CEO*

Much less. Roughly EUR2 million, EUR2-3 million negative impact for second quarter.

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**Unidentified Participant**

OK, thank you. That's it for me.

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**Operator**

Thank you. Next question is from (inaudible) from [STD]. Please go ahead.



**Unidentified Participant**

Yes, thank you very much. And good afternoon to everyone.

You mentioned in the report that you've had some negative mix effect in your paperboard division in the second quarter. And I wonder if that is something that would -- that we should expect to deliver in any quarter ahead.

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**Mikko Helander - Metsa Board - CEO**

We don't expect this negative impact coming from sales mix in the third quarter and in the second half of 2013, because the main problem in the second quarter was cigarette segment.

And maybe you have noticed that our highest prices -- we enjoy highest prices in cigarette end users and Q2 reasons coming from customer side, order inflows and deliveries to the cigarette end users were below average and below our expectations.

But still our understanding is that the annual volumes will meet original targets and plans. That is at least feedback coming from cigarette customers. And based on that, we don't see risk that the sales mix would be as unfavorable as sales mix was in the second quarter.

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**Unidentified Participant**

That -- that's great. And would it be possible for you to quantify this negative effect compared to the normal quarter?

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**Mikko Helander - Metsa Board - CEO**

I'm not ready to do that, but you should remember that the cigarette segment is one of the biggest segments, actually the biggest single end user segment. And once again, I repeat that the highest FBB prices we have in cigarette end users and, of course, that issue, what I mentioned had a quite big negative impact on our second quarter (inaudible).

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**Unidentified Participant**

Mm-hmm. That's great. Then -- and regarding the machine that you have divested from the Aenekoski mill, would you be able to say where, to whom, and for what purpose you divested it?

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**Mikko Helander - Metsa Board - CEO**

No, but I'm very happy that our people succeeded to sell Aenekoski's old metal fine paper machine, and I can also confirm that the machine definitely will not disturb Metsa Board remaining businesses.

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**Unidentified Participant**

Okay. But do you -- don't want to say to which region or . . .

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**Mikko Helander - Metsa Board - CEO**

No, no. No. No.

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**Unidentified Participant**

Okay. That's fine. And would suggest finally in your paperboard division, I note that production has been exceeding shipments for the past few quarters and maybe that is not very surprising, but could you maybe comment upon your current inventory situation? Is it at the -- what you would perceive as normal level, or should we expect any discrepancies between shipments and production in the quarter's end?

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**Mikko Helander - Metsa Board - CEO**

It's very, very much at the normal level. In folding boxboard, we didn't have any major change in inventory levels in the second quarter, during the second quarter. And in Kemi Husum, we have had increases in inventory as well as in Kaskinen, due to big planned maintenance shutdowns.

And that was a decision made by the management, to increase inventories at those operations, to guarantee good customer service during and after those very extensive maintenance shutdowns.

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**Unidentified Participant**

Okay. That's great. Thank you very much.

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**Operator**

Thank you. As a reminder, if you wish to ask a question, please press star, one, and wait for an intervener.

The next question is from the line of Antti Koskivuori from Danske Bank. Please go ahead.

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**Antti Koskivuori - Danske Bank - Analyst**

Yes, thank you. Still a question about paperboard and your average sales price there. The earlier kraftliner price increases, 50 -- 56 dollars per ton, is that fully reachable in Q2 figures? Could you comment on that? I mean, if you have (inaudible) normalized mix for Q3, is Q1 a good reference for the average sales price, or should we expect that go higher due this price increase in kraftliner?

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**Mikko Helander - Metsa Board - CEO**

Yes, it's not yet fully visible, and also we should remember that this second price increase in kraftliner business, we didn't succeed to implement fully. But anyhow, I'm very satisfied how we have succeeded to increase kraftliner prices in the last 12 months. We should remember that late 2012, we succeeded fully implement price increase and also the second price increase, we succeed partly to implement.

But when we look second quarter figures we should remember that those increases were not yet fully implemented, as well as interest rates were not very favorable. Once again, I underline that we have had extended quarter price development in kraftliner business.

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**Antti Koskivuori - Danske Bank - Analyst**

Mm-hmm. But you expect that to somewhat support your average sales price going forward, also, to Q3, Q4.

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**Mikko Helander** - *Metsä Board - CEO*

I'm optimistic. In all respects, I'm very optimistic regarding the kraftliner business. And already today our finest seller [peso] months is very good in kraftliner business. And now, of course, we have big expectations, also, regarding Husum lightweight kraftliner operation. And all in all, everything looks very good in the liner board business.

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

Sure. All right. Thank you.

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**Operator**

Thank you. And the next question is from the line of [Michael Jost] from Kepler (inaudible). Please go ahead.

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**Michael Jost** - *Kepler - Analyst*

Yes, hello, everybody. This is Michael Jost from Kepler (inaudible) in Stockholm. I come -- I note there in your presentation that you're talking about improving order inflows for FBB during the recent weeks. And you gained some sort of color and flavor, but could you please expand on that?

How -- is it something that's very small or is it something that is material, and perhaps, you know, you could tell us, you know, the length of order book and development phase. Thank you.

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**Mikko Helander** - *Metsä Board - CEO*

You know, let's start from order books. Order books are now much better than order books were, let's say, one -- one and a half months ago. And thanks to improving order inflows. And if and when we succeed to continue on the same level what we have had now in this last five, six weeks in the folding boxboard order bookings, we will enjoy a very high operating rate in the third, and maybe also in the fourth quarter.

The problem is that the -- in many respects, late spring, early summer in order inflows were a disappointment in FBB business. Reasons, to be honest, I don't fully understand. But customers have confirmed that the end demand of brand owners is good and business is still very good.

And now, as I said, since end of June we have enjoyed much better order inflows. But at the same time, we should remember that the -- especially in European economy, we have still a lot of question marks and visibility is quite limited. But at the moment, development is very, very positive, and it is definitely a question of material improvement regarding order inflows.

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**Michael Jost** - *Kepler - Analyst*

Okay. Thank you very much.

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**Operator**

Thank you. The next question is from the line of Klaus (inaudible) from [Courtesy]. Please go ahead.





**Unidentified Participant**

Yes, I just wanted to turn back to the previous question. Do you think -- we've heard from other companies, practicing companies, there's been a [care] element of weather-related issues where [there to vie] they were weak in the spring and early summer due to cold weather, and there's been a meaningful improvement as the weather has improved in Northern Europe in particular.

Can you -- you know, decipher from your order books if that is indeed what's going on? It's coming from beverage companies, the increments in the orders. And if so, if there's any risk of that falling off as we're getting to a colder season again?

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**Mikko Helander - Metsa Board - CEO**

My understanding is that the -- our main customers' businesses are not so much weather related, cold or hot summer should not have such a big impact on our customers' businesses.

I repeat that we have had plenty of open discussions with customers late spring, early summer, when order inflows were under expectations. And customers widely confirmed that not reasons to be worried. They have had strong demand of own products, but visibility, as I said, has been mentioned also by customers.

Limited visibility and maybe that has been main reason why also customers have kept own inventories on a very low level. And the ability -- also customers have worked very hard to reduce own working capital. But it should not be such a big issue, big end demand of customers' product. Mainly a question of post issues, what I mentioned.

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**Unidentified Participant**

That makes sense. Thank you.

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**Operator**

Thank you. (Operator Instructions). There seem to be no further questions from the phone line. Please continue.

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**Mikko Helander - Metsa Board - CEO**

Okay. Ladies and gentlemen, thank you for your very active participation and together with Matti and Juha, I wish you very nice evening. Thank you very much.

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**Operator**

Thank you. That does conclude the conference today. Thank you for participating, and you are now free to disconnect.

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