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METSB.HE - Q1 2013 Metsä Board Corporation Earnings Conference Call

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

**Henry Parkerman** - *Analyst*

**Linus Lawson** - *Analyst*

**Carrie Winthrop** - *Analyst*

**Lars Calbert** - *Analyst*

## PRESENTATION

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

Ladies and gentlemen, welcome to Metsa Board's First Quarter of 2013 Result Webcast. I'm the CEO, Mikko Helander. The CFO, Matti Morsky, and the Head of Communication, Juha Laine, are also participating in this webcast.

I will briefly present the key events in the first quarter of 2013. As expected, the folding boxboard market situation improved from previous quarter. Also the production of our expanded folding boxboard machines increased and we have now the full 150,000 annual tons of new capacity available.

I am very happy to note that white-top kraftliner market continued very strong and Metsa Board has announced a price increase in all main markets.

The delivery volumes increased from previous quarter but the prices declined [third]. The prices are unacceptable low in Europe. Metsa Board is currently trying to push the currently [uncoated] prices up.

Pulp demand continued strong and prices increased. One important event for Metsa Board was the divestment of the property and production at the Alizay mill site in France. Now we don't have any production operations left in France.

Operating result improved in the first quarter. Sales was EUR535 million. (inaudible) EUR30 million, up from previous quarters EUR24 million. Report is clean result before taxes was EUR4 million, but it would have been EUR12 million without the interest costs from early repayment of \$121 million private placement otherwise brought during the next 12 months.

Our paper pulp business area continued its strong performance. Sales was EUR293 million and EBIT improved from EUR27 million to EUR32 million in the first quarter. Result was improved by higher forwarding boxboard and line delivery volumes. We expect that our forwarding boxboard deliveries to somewhat increase in the second quarter.

Line of board deliveries seem to continue at the very good level also in the second quarter. We are currently considering forwarding boxboard price increase to be announced during the second quarter. The main reason behind that is the increase in pulp costs.

As already mentioned, we have announced the white-top kraftliner price increase of about EUR50 per ton in all main markets. New prices became valid in April. We want also to note in this report that we have some negative result impact in second quarter compared to first quarter from planned maintenance shutdowns.

Paper and pulps performance remain stable also in the first quarter. Sales was EUR217 million and clean EBIT minus EUR2 million. Main headache is clearly the low paper prices that weakened the result further. Seasonally higher paper delivery volume had a positive result impact. In the second



quarter both uncoated fine paper and coated paper deliveries are expected to somewhat decrease. It is not possible to make profits with the current paper prices in Europe. We are at the moment trying increase uncoated fine paper prices. It is, however, not easy in such a fragmented market. I am disappointed by the development especially in the coated paper business. Volumes are weak and no improvement in pricing is in sight.

Pulp demand is strong and pulp price increase is expected to continue. A very interesting development at our Husum mill is the startup of the production of new lightweight uncoated linerboards. I will discuss this more later on in this presentation.

Our final situation improved third in the first quarter. Net debt reduced to EUR578 million. Net gearing was 69% and equity rates at 33.3% at the end of the first quarter. As already stated, at the remaining \$121 million private placement was prepaid in March which increased our financing costs in the first quarter.

We received EUR25 million dividend from Metsa Fiber in March. Our cash box was about EUR140 million at the end of the first quarter and the average interest rate went down to 4.1%.

After the reporting period in early April, the EUR500 million term loans were drawn and the remaining EUR450 million of the EUR500 million (inaudible) was repaid all according to the plans made in spring 2012 when we made the new refinancing package.

The outlook is stable. Metsa Board's operating result, excluding non-recurring items is in the second quarter of 2013 expected to be roughly in line with the first quarter of 2013.

I will next go through how our (inaudible) in the paperboard businesses is proceeding. I'm very happy how things have developed in forwarding boxboard. Our forwarding boxboard delivery volumes in the first quarter of 2013 were 12% higher than a year ago.

Every [census] of the forwarding boxboard matchings have developed according to plans and as the tab on the right indicates we have the targeted 20% increase in capacity in place. There is still room for improvement at all mills.

We are working hard to improve our current products offered. Our leading products have been developed even lighter in weight and we have simplified the product and service portfolios in order to serve our customers even better. We are actively developing also new products and end use areas. I'm sure one day I'm able to give you very interesting results from this [bet].

Europe remains our main market but new business is actively targeted also in North America and Asia where the share of modern folding boxboard is still very low. And as stated also earlier, we are able to increase our forwarding boxboard capacity further with moderate investments when market situations so requires in the future.

We have lately put a lot of emphasis to throw our linerboard business where the demand outlook is also very attractive. We have a great platform to build on. Metsa Board is world's leading producer of high quality coated white-top kraftliners. These fresh forest fiber linerboards are used in high quality corrugated boxes increasingly also in consumer packaging end uses.

Metsa Board has strong long time presence in this business both in Europe and in North America. Demand is increasing from three to four person globally. Main drivers are practically the same as in our forwarding boxboard, sustainability, safety and top class quality. We upgraded to Kemi linerboard mills coating section in 2011 and the production will focus mainly on coated crates.

As a result of our new double coated products and the positive market development Kemi mill's profitability has been improved to a very good level and its capacity is currently in full use.

To grow our linerboard business we are increasing our capacity. We have started the production of lightweight fully bleached uncoated linerboard at Husum in April. It is not a new thing. Linerboard was produced at Husum until early 2000s. Husum's new products replace partially the unprofitable paper production and complement Metsa Board's linerboard portfolio in an excellent way.



Now we have also fully placed lightweight products to offer our customers. Kemi mill is now thoroughly delegated to coated crates and part of the uncoated volumes so far produced there are moved to Husum.

Intensive actions have been started to sell increasing volumes of Husum linerboards to Metsä Board's existing and new white-top kraftliner customers. I see our growth potential very good during the coming years.

Ladies and gentlemen, this was my presentation. Thank you for your attention. Now it is time for your questions, please.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). Our first question comes from the line of [Henry Parkerman]. Please go ahead with your questions.

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### Henry Parkerman - - Analyst

Yes. Hi. Good afternoon. This is Henry Parkerman from [Pohala Bank]. I have three questions. First, start from your paperboard division. During the first quarter of this year and also last quarter of last year your production was significantly higher compared to your shipments. So it seems that you have bid up some inventory. What should we think about this?

And second question relates to this Husum and this production of this fully placed (inaudible) lightweight uncoated linerboard. Could you please give us some volume figures? What should we expect from this production when going forward this year? And maybe I'll call this third question later.

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### Mikko Helander - Metsä Board Corporation - CEO

Okay. Thank you. Thank you for your questions. First, about paperboard, you are right. Our inventories are now a little bit higher than what we had at the end of previous quarter.

Main reason is that segment customers have made home calls a little bit slower than originally was expected, but based on open discussions between us and secret segment customers we are very optimistic that those volumes, that they help (inaudible) and accrete up to end of this year they will fulfill and in that respect I'm not worried, not at all, about those inventories.

About linerboard share, this is very important step for Metsä Board and we have big expectations and we put lot of effort to launch Husum linerboards and to strengthen our position worldwide in linerboard share business. But I'm not ready to give any exact figures.

I can just confirm that we have made best runs we have made lot of products and trials, quality logs excellent and also first feedback coming from customers is very encouraging, but of course at the end of the day question is that how warmly customers worldwide will welcome this new crate. Anyhow, we have lot of capacity and potential to produce this type of linerboard in Husum. It depends on how market will react and accept this new crate.

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### Henry Parkerman - - Analyst

Okay. Thank you. And third question is about your numbers in other operations. During the first quarter it was a comparable operating profit in your other operations was minus near EUR0.2 million. Is this good ballpark figure in going forward?

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

Well, no. I think it was a result of the hedging operations which sort of made the other operations this time a positive number. The underlying sort of normal cost is about EUR5 million, as we have told you earlier. It's a result, of course, of something that is very difficult to predict and take into account in any sort of reasonable means when making forecast. It is something which varies from quarter to quarter.

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**Henry Parkerman** - *Analyst*

Okay. That's fair enough. Thank you very much for your answers. Thank you.

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**Operator**

Our next question comes from the line of [Linus Lawson]. Please go ahead with your question.

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**Linus Lawson** - *Analyst*

Yes. Thank you very much and good afternoon to everyone. On the mentioned folding boxboard price hike that you are contemplating, could you give a bit of additional color on that?

What would the timing of such an increase be, the magnitude, and would that apply to all of your folding boxboard sales or, if you could, give some idea of how much of the business area that would be affected? Thank you.

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

Yes. Once again I repeat that we have not yet decided price increase for folding boxboard. In linerboard business, as you have recognized, we have announced and we have started implementation of latest price increase. Folding boxboard, first, important to remember that our sales volumes deliveries are higher than what we had previous year same time and we have had a good demand, very strong demand in the first four months importing boxboard.

It depends on very much how market business share develop in the coming months and our intention is to take a final decision regarding folding boxboard price increase later this spring, early summer. But once again I repeat, final decision depends on how order inflows and market develop in the near future.

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**Linus Lawson** - *Analyst*

Okay. But in terms of the validity of the contract currently in place, could you say something about that to what extent do you have full year price contracts in place and to what extent is there a potential renegotiation by midyear or something like that?

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

No, roughly 60% of our folding boxboard sales volume is coming from annual contracts made between us and big global brand owners. 40% business is coming from merchanting customers and their converters and for these customers we can implement very fast price increases. But of course those annual contracts at their prices, volumes we have fixed meaning that the planned price increase would have impact on annual contract negotiations, but final sale impact we would see early next year.



**Linus Lawson** -- Analyst

That's excellent. And you do mention maintenance work. Could you elaborate a bit on that, how much maintenance costs were there in the first quarter and maybe, more interestingly, how much do you anticipate for the second quarter?

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

It's not such a big issue or big amount of money regarding maintenance costs, but we didn't have maintenance shut downs in paperboard machines or we had very minor amount of planned maintenance shutdowns in the first quarter.

In the second quarter, according to our long-term planning we will have more maintenance shutdowns, not long shutdowns, but from two to four days breaks to make some plant service and maintenance work. And those actions will have certain negative impact, but it is not a question of a huge amount of money.

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**Linus Lawson** -- Analyst

But would you care to give a very rough idea of how much that cost could be in the second quarter?

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

No, I'm not ready to give it.

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**Linus Lawson** -- Analyst

Okay.

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

It's a figure, but I repeat it is not a question of huge amount of money. But of course when we create this whole picture of the second quarter I will (inaudible) that you should also (inaudible) and remember also this element.

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**Linus Lawson** -- Analyst

And also coming back to the interesting development work at Husum to the extent that you do produce this lightweight uncoated linerboard, is that then reported in the paperboard division or will that continue to show in the paper and pulp division?

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

Yes, it will be reported paper and pulp division --

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**Linus Lawson** -- Analyst

Okay.



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

-- according to current structure because Husum is a major unit of paper and pulp division.

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**Linus Lawson** - *Analyst*

Which machine is, in fact, you're producing this linerboard on?

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

The M6.

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**Linus Lawson** - *Analyst*

Okay. Thank you very much.

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**Operator**

Our next question comes from the line of (inaudible). Please go ahead with your question.

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**Unidentified Participant**

Yes, thank you. Good afternoon. A few questions left. Firstly on the folding boxboard market and the strong development there, I'm just wondering whether you see the similar kind of development in all of your targeted markets or is this Europe specific trend, what we see now?

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

I must say that we have (inaudible) very well in Europe. Also in longer time period we have had very good development, good progress in Europe and it seems that also 2013 this trend continues, especially thanks to excellent well running cooperation between Metsa Board and the big global brand owners. Those brand owner customers seems to allocate more and more volumes to Metsa Board.

Asia also stable development, but not a big crowd as we have inside in Europe. North America, when we discuss about folding boxboard, maybe you remember 2010. We had to back off capacity and due to that reason we redraw some folding boxboard sales volumes from North America to Europe. Now we are going back to North America.

We have more active, more aggressive approach also in folding boxboard base machine in North America. And we expect in longer term much bigger production in North America, but to be honest we are still at the starting point and results in North America are not yet satisfactory.

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**Unidentified Participant**

Okay. Understood. The second question relates to Husum and the cost related to that operation. Do you see -- do price apparently coming down in Sweden quite nicely. Do you see that supporting your figures in the operations in Husum in 2013 going forward?

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

Yes, of course we support - - remember that we have huge wood consumption. It's more than 3 million cubic meters annually it supports. But at the same time we have some challenges, for example, Swedish Crown is a big challenge and, all in all, big paper market is the main challenge. But also we should remember that they are in the middle of implementation of many cost savings methods in Husum related to variable costs, related to fixed costs and we expect also improvement coming from those methods.

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**Unidentified Participant**

Okay. So follow-up question. Is the lower wood costs, is it already visible in your figures today or is it something that will be more reasonable going forward?

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

Maybe Matti knows better, but my understanding is that definitely not yet fully because we have, of course, quite big wood inventories and it takes always a while when those savings will come through.

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**Unidentified Participant**

All right. Thanks.

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**Matti Morsky** - *Metsa Board Corporation - CFO*

I have no different opinion on that matter, that it's not fully through yet.

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**Unidentified Participant**

All right. Understood. That was my questions. Thank you.

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**Operator**

(Operator Instructions). Our next question comes from the line of [Carrie Winthrop]. Please go ahead with your question.

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**Carrie Winthrop** - *Analyst*

Yes. Thanks. You've all got the paperboard division on the production of 335 thousand points in the first quarter. Is that in terms of capacity utilization, is that as good as it gets or is there still some incremental volume upside from the production levels that we saw in the first quarter?

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

Yes, definitely we have still room for improvements, but I'm satisfied that now after EUR120 million investment program all modernized machines are running well. But at the same time, together with my colleagues we can see still plenty of potential, especially to improve operating rates because of cost. When we have modernized machines. We have made lot of changes into the processes. It takes time. It takes a while to find all these parameters to maximize production. And on that side I can see still some quite big potential.



**Carrie Winthrop** -- Analyst

Okay. Thanks. That's helpful. And then if you can -- if looking at the paper and pulp, if you can give some indication of the -- somehow quantify the effects pressures that you felt in the first quarter when it comes to Husum and then if you had any significant costs in sort of non-Swedish paper operations, either the fire in Germany and so forth, that depressed the first quarter profitability and if you can quantify that to some extent, that would be helpful.

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

First, paper production outside of Sweden, (inaudible). All in all I must say that colleagues in Germany, they have done great job and they are getting closer and closer our short-term targets to make business cash flow positive.

Of course, this big fire in February a little bit complicated, this development, and cost us more delay, but the progress is good and it seems that the latest second half of this year we will see if this first target to turn business cash flow positive.

Another selling in paper production outside of Sweden is, of course, wallpaper business and in wallpaper business we are now optimistic because we are just now finishing production development related to non-woven crates and if and when we will succeed on that side we can expect also a nice positive impact, especially starting from next year. Sorry, what was your first question?

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**Matti Morsky** - Metsä Board Corporation - CFO

I think I got it. You I guess raised the question concerning the impact on Husum result of this strong or this (inaudible) general.

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**Carrie Winthrop** -- Analyst

Yes, that's correct.

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**Matti Morsky** - Metsä Board Corporation - CFO

Yes, no, well again estimate that the impact was around EUR4 million profit speaking.

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**Carrie Winthrop** -- Analyst

Okay. Thanks. Those were my questions. Thank you.

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**Operator**

Our next question comes from the line of [Lars Calbert]. Please go ahead with your question.

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**Lars Calbert** -- Analyst

Yes, hi. Most of my questions have been answered. Just had one detail question. What sort of CapEx levels are you looking for this year and next, if you have any guidance on that?

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

This year roughly about EUR60 million and next year we don't have any plans to exceed this EUR60 million level.

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**Lars Calbert** - *Analyst*

And just a bit of a follow-up on the paperboard. I know someone else asked a question about inventory build. It is indeed very, very significant. When do you start to sort of bring down capacity to actually lower those inventories? Is that not an issue for you?

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

I don't speculate with those things. We expect that the customers appreciate the annual contracts and the volume commitments, of course also we strongly motivate our mobile sales force to meet those targets. Actually last important to remember what we have mentioned to be. We will have some maintenance shutdowns in the second quarter and also due to that reason some extra inventories are needed. For the time being we are not worried, not at all, due to those reasons.

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**Lars Calbert** - *Analyst*

Final question, [Igasondas] has had some production problems and have been losing market shares. Has that been a benefit for you, the way you see things?

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

Very difficult to say because we don't know what kind of problems and how serious production problems they have had, but we know at least that their customers are very satisfied with Metsa Board new generation lightweight paperboard and my understanding is that (inaudible) customer service due to lightweight and due to high service and product quality we have been in position already since 2006 steadily to increase our volumes and market share.

I don't believe that it's so much related to some kind of shortened production issues and problems in the competition.

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**Lars Calbert** - *Analyst*

All right. Thank you.

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**Operator**

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

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

Okay, ladies and gentlemen. Thank you very much for your active participation and together with my colleagues I wish you a very pleasant afternoon and evening. Thank you. Bye, bye.

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**Operator**

Ladies and gentlemen, that does conclude our conference today. Thanks for participating. You may now all disconnect your lines.



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