

**Conference Title: Metsä Board – Half year financial report for January-June 2017**

**Moderator: Mika Joukio**

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**Conference Time: 3:00 PM**

#1

Welcome to the presentation of Metsä Board's half-year result of 2017.

I am Mika Joukio, CEO of Metsä Board.

Here with me, I have also our CFO Jussi Noponen and Head of Investor relations Kati Sundström.

#2

Let's start with a summary of the second quarter.

Economic prospects are good, and demand for fresh fibre paperboard is growing, especially in food and food service boards. The narrowing price gap between fresh fibre and recycled paperboard as well as the on-going discussion around mineral oil migration are also favoring demand for fresh fibre grades, primarily folding boxboard. Increasing demand for corrugated boxes in e-commerce has boosted demand for white kraftliners.

Since the beginning of this year, price levels have remained steady in folding boxboard and increased in white linerboards. Both short- and long-fibre market pulp prices have risen. However, the positive market outlook is somewhat diluted by weakening US dollar.

Metsä Board's paperboard deliveries continued to grow. Compared to the last quarter, they were up by 11 per cent.

The average price of our folding boxboard was still burdened by Husum's geographic sales mix, which had a negative impact on our profitability. Our cash flow was clearly positive, and working capital remained steady despite the strong sales growth.

In Husum, we started up our new extrusion coating line. Customer trials are now ongoing, and feedback has been positive.

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Metsä Board's paperboard deliveries were, once again, at all-time high levels. Slide number three shows that growth has been quite rapid during 2017.

During the second quarter, our total deliveries grew by 11 per cent from the previous quarter, and during the first half of the year we saw 18 per cent growth compared to the first half of 2016.

According to Cepi, total delivery volumes in folding boxboard from European producers grew by 4 per cent in the second quarter compared to the first quarter, and by 8 per cent in the first half of the year compared to the first half of 2016.

In fresh fibre linerboards, the corresponding growth rates were 0 and 7 per cent.

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Slide 4 shows the quarterly development of sales and operating result. Our sales have now been growing along with the increased paperboard deliveries, and year-to-date profitability has clearly improved compared to the first half of 2016.

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In the second quarter, our comparable operating result was 44 million euros.

Compared to the previous quarter, the operating result improved due to the growing delivery volumes in paperboard and positive development in market pulp. Profitability was also supported by rising price levels in coated white-top kraftliner, especially in the US, but the weakened dollar diluted the price increases.

On the negative side, part of the sales of folding boxboard from Husum was still directed to less profitable market areas, such as the Middle East. Also, the deliveries of white linerboards from Husum were mainly uncoated grades with lower profitability.

The second quarter included a lot of planned maintenance work, especially at the Finnish mills, which we didn't have in the first quarter.

During the first half of the year, our operating result improved 25 per cent from the first half of 2016. The result was improved by overall positive development at the Finnish paperboard mills and market pulp operations. The foreign exchange rates including hedges had also a positive impact on profitability.

On the negative side, we had higher production costs due to the increased latex price.

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Improved profitability has also been evident in return on capital employed. At the end of the period, our comparable return on capital employed was 10.3 per cent. Our target is to be above 12 per cent.

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Improved profitability, stabilizing working capital and lower investments have turned our cash flows clearly positive.

In the second quarter, our working capital remained nearly unchanged despite the strong growth.

#8

Our balance sheet remained stable. Our interest-bearing net debt grew a bit, and totalled 495 million euros. Second quarter includes the dividend payment, 68 million euros.

Our net debt to EBITDA ratio was also at a good level: 2.0.

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At the beginning of June, we updated our financial targets and renewed our dividend policy.

The target for Return on Capital Employed is above 12 per cent, and our intention is to keep this level, even if we decided on new investments.

We also replaced our previous net gearing target with leverage. Our target is to keep the net debt to EBITDA ratio below 2.5.

Then we set a new growth target. Our target is that the annual growth of our paperboard deliveries exceeds relevant market growth. The relevant market for us is the global fresh fibre paperboard market, which at the moment is growing at 3-4 per cent per year.

In addition, we raised our dividend payout target to 50 per cent of the result for the period.

#10

Then an update from Husum's folding boxboard after the first half of 2017.

The capacity utilisation rate of the folding boxboard production line in January–June was approximately 70 per cent. Due to this, the production costs per tonne were still higher compared to our mills in Finland. However, in June alone, both production and delivery volumes were over 85 per cent of monthly capacity. Our target of having the current paperboard capacity running full by the end of 2018 remains intact.

The geographic sales mix in folding boxboard did not fully correspond to our long-term targets during the first half of 2017. Part of the sales were directed to less profitable market areas such as the Middle East.

The deliveries of our own PE-coated paperboards to customers started in May. The global growth, especially in food service applications, will boost our sales in PE-coated paperboards and open new markets for us.

#11

Looking forward, there is great potential to improve profitability at Husum. We estimate that we will be able to improve our EBIT from the start-up year of 2016 to 2019 at least by 100 million euros. This improvement derives from increased pulp production, the ongoing efficiency improvement programme and increased deliveries in folding boxboard with normal sales price.

#12

In May, we renewed our key marketing messages and launched a unified product and service portfolio to support our sales. All our product names are now under one Metsä Board family.

At the same time, we launched the “Better with Less” concept, which aims to improve the consumer experience and make packaging even more sustainable.

Together with our customers, we want to create innovative packaging solutions fitting brands and demands of the future world.

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Then to the near-term outlook.

We expect that price levels in folding boxboard will remain stable. In linerboards, several producers have lately announced price increases, which supports the rising price trend. Pulp prices we expect to be stable.

Metsä Board’s paperboard delivery volumes have grown strongly during 2017. In the third quarter, we expect them to stay flat compared to the second quarter. At the same time, the slower growth rate enables us to improve the geographical sales mix of Husum’s folding boxboard and to increase the share of North American sales, in particular.

Metsä Fibre, of which Metsä Board owns 24,9 per cent, will start up its new bioproduct mill in Äänekoski, Finland, in August. The impact of the start-up phase on Metsä Board’s result is estimated to be only slightly negative.

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Based on these assumptions, we expect that our comparable operating result in the third quarter will improve slightly from the second quarter of 2017.

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Then to summarize.

Demand in high-quality paperboards, which fulfills the customer requirements for sustainable, safe and efficient packaging, is expected to remain good in all relevant market areas for Metsä Board.

Our performance during the first half of 2017 was good overall, and our paperboard delivery volumes grew strongly.

Our target of having the current paperboard capacity running full by the end of 2018 remains intact. In folding boxboard, this means that during the next 18 months, our annual growth in deliveries needs to be

around 6 per cent. This growth rate is much slower than our past performance and therefore enables us to improve the geographic sales mix at the same time.

Our near-term focus is on sales. To support this, we have renewed our key marketing messages and unified our offering of products and services. With this, we can provide even stronger support to our customers to jointly improve the sustainability and efficiency of packaging throughout the value chain.

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This was the presentation part of Metsä Board's half-year results for 2017.

Man 1: We are now happy to answer any questions you may have.

Operator: Thank you. If you'd like to ask a question, you may do so by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that's star 1 to signal for a question. And we'll pause of a moment to assemble the queue.

We'll take our first question from (Antti Koskivuori) with Danske Bank.

(Antti Koskivuori): Yes, thank you. And good afternoon. I would have three questions, first about the geographical mix. You say that the H2 outlook is improving, especially in the U.S. Is this already visible in Q3 in your view or is this more of a back end loaded issue in H2?

Secondly, about your EBIT guidance for Q3. You state that the volumes are going to be stable, mix is going to improve slightly, maybe higher prices for liner board and only minor impact from Äänekoski rampup compared to Q2. Is there negatives we should take into account that you are mentioning here because to me it sounds, you know, fairly cautious, your guidance.

And then thirdly about the Husum EBIT break-even. You have guided earlier that at 75% utilization rate that the machine is at EBIT break-even. Has that changed now with the weaker U.S. dollar? Thank you. Those were my questions.

(Mika Joukio): Okay so (Mika Joukio). First of all, the geographical sales mix. So that was already in Q2 better than in Q1 and our intention is to continue to grow in the North America market and America's market altogether, which has been the case so month after month. So already in Q3 we estimate and expect that the sales - geographical sales mix will be better for Husum than in Q2.

And then this EBIT guidance so question number two. So you put it quite right that we have these kind of positive impact from sales. So volume development flat but prices - average prices slightly higher. And then we have this negative minor impact from Äänekoski bioproduct mill startup. So we don't have anything else to - I mean, any other negatives, as you asked, at the moment in our minds.

(Antti Koskivuori): All right.

Man 1: You just summarized quite nicely. And (Mr. Noponen) will continue with the third question.

(Mr. Noponen): Yes. The Husum EBIT break-even was communicated earlier so that with 75% capacity utilization and normal sales price happening at the same time, we can reach break-even. And that still remains valid. So in terms of capacity utilization, we are roughly there now but in terms of sales price, we need to implement this improvement of geographic sales mix.

The U.S. dollar of course in short term may impact the equation but in long term the logic is still valid.

(Antti Koskivuori): All right. Thank you very much.

Operator: We'll go next to Linus Larsson with SEB.

Linus Larsson: Thank you very much. And good day to everyone. Maybe a follow-up on the previous question, if I may. Given what you said about your operating rate at Husum in the month of June, given the geographical mix at that point in time, were you actually EBIT positive in the month of June?

Mika Joukio: No, no comment on that at this point.

Linus Larsson: Okay, fair enough. And then just generally on paperboard production, you had a slowdown in production if you compare Q2 with Q1. I guess it's at least partly related to your maintenance schedule. But could you just for sake of clarity comment upon that slowdown in production that we saw Q2 on Q1? And relating to that, have you been taking any kind of market-related down time? Have you made any curtailments on that end?

Mika Joukio: Yes, so you are right. So in Q1 we didn't have any major maintenance shutdowns, not in Sweden and not in Finland. And as we told already earlier, in Q2, especially mainly in April and May we had these maintenance shutdowns at all the mills in Finland.

And as far as question concerned market-related downtime, we haven't taken any market-related downtime. We have just had these maintenance breaks.

Linus Larsson: Thanks for confirming that. And just one final question on Husum you've commented and guided that you're expecting 100 million euros of improvement in 2019 versus '16. Where are we in that improvement process? How much has been achieved in the first half of 2017 for instance?

(Mika Joukio): So (Mika Joukio) here. So you can use the estimation that for the full year this year we will get roughly one-third of that 100 million. I don't have the figure in my mind how much we have got by the end of June but for the full year our estimation is at roughly one-third will be the number.

Linus Larsson: That's very helpful. Thank you very much.

Operator: And we'll go next to (Robin Santavirta) with Carnegie.

(Robin Santavirta): Yes, thank you. Just still on Husum, so I assume you have been loss making now in both Q1 and Q2. But I assume your guidance then in Q3 is 75% of capacity utilization. I guess that reflects your

view that Husum paperboard production will be clearly positive in terms of raw sales profitability in H2. Is that correct?

Man 1: So this is quite simple mathematics. If the first half of this year is 70% and our estimation for the whole year is 75, then we should have the second part of this year roughly 80. So as (Mr. Noponen) already mentioned, that is enough to get the break-even but then the other part of course are the sales prices.

And now our intention is to really, really improve the sales mix - geographical sales mix for Husum in order to them increase or improve of the profitability of that production line.

(Robin Santavirta): Exactly. But essentially you're guiding for break-even for the full year.

Mika Joukio: Remains to be here what happens to prices.

(Robin Santavirta): Right. Then on hedging, could perhaps you clarify the current situation on cash flow hedges. Is it so that it's still six months out or what's the current situation with currency hedges?

Mika Joukio: Please continue with this.

Jussi Noponen: Yes, your assumption is correct. So currently our hedging is the balance sheet position plus estimated six months cash flows.

(Robin Santavirta): And no longer hedges than six months.

Jussi Noponen: No.

(Robin Santavirta): And is that 100% hedged in cash flow for six months?

Jussi Noponen: A hundred percent of our estimated cash flows. But of course the estimates are never 100% accurate.

(Robin Santavirta): No, no, exactly. And then two questions still. First of all, on the CAPEX of the - for this year, if I remember correctly, you are guided for 70 million this year. Is that still your estimate? And then can you shed some light for 2018 at this stage already?

(Mika Joukio): Yes, so (Mika Joukio) here. So CAPEX look for this year will be roughly 65 to 70 million, as we have put also or said earlier. And as far as next year is concerned, at this point we don't see any reason why it should be higher. So we don't have a precise figure yet but in that ballpark maximum as we are today over this year.

(Robin Santavirta): Roughly the same figure '18 compared to this year.

(Mika Joukio): Roughly yes.

(Robin Santavirta): Good. And then just finally, could you provide some kind of number for the maintenance-related costs now in Q2 and also for Q3? Is it around 5 million euros or?

(Mika Joukio): Yes, that's valid number.

(Robin Santavirta): Good. Thank you.

(Mika Joukio): So 5 million.

(Robin Santavirta): Good. Thank you. That's all from me.

Operator: And once again, it is star 1 to signal for a question. We'll go next to (Harri Taittonen) with Nordia.

(Harri Taittonen): Yes, good afternoon. Well just thinking about the development on the average price - realized price going forward, I mean, a couple of things. First thing is that as your deliveries was quite a lot higher than production, did you - was there still some volumes at sort of lower quality which you are now getting out of inventory in Q2 with this sort of higher deliveries compared to production because at least earlier, you had a bit of a sort of lower price mix in standing in the stocks.

Mika Joukio: Yes, we had some tons of old production so to say but nothing remarkable.

(Harri Taittonen): Not remarkable, okay. And the other probably quite small thing too is the PE coated business. I mean, how quickly could that - but it's probably not going to have a significant impact on the average sort of pricing for the whole group obviously.

Mika Joukio: No. Not yet, no.

(Harri Taittonen): No. On the sort of North American clients and sort of the marketing effort there, have you done additional resourcing or do you plan to do additional resourcing in that or is it the existing force that you are doing it?

Mika Joukio: Yes, this year we have added salespeople and also customer service resources there. So of course we understand that in order to grow, we need to have resources to grow. And we have put resources - more people there.

(Harri Taittonen): Yes. Is it sort of a - do you need to look into new segments or new types of clients or somehow look at additional market potential compared to the earlier plans? Or is it sort of going according to the plan?



Mika Joukio: It's really much according to the plan but we need to remember the delay from last year that we - when we... We had a delay in the startup of the board machine and then as we all remember, we were practically two quarters later than originally planned. And no reason to change any plans as such. So we are growing month after month in North American market. And by doing that, we are able to improve the average price of Husum production line.

(Harri Taittonen): Yes. Then as we're looking towards the end of the year, can you remind of the typical on the fourth quarter and if you already have sort of decided on any material maintenance for the fourth quarter?

Mika Joukio: Yes. In the fourth quarter this year as well as last year, we will have the Husum integrator shut down and of course that will have impact for fourth quarter. It will be in October.

(Harri Taittonen): Exactly.

Mika Joukio: Kemi's mill, we have to mention.

Mika Joukio: Kemi will have at the end of this quarter but then other mills won't.

(Harri Taittonen): Yes, sure. I know that this is - I mean, many people have asked you this separately but just in the public call, I mean, about the guidance. I mean, what does slightly mean, if you sort of... There is no sort of company, strict policy, what sort of numbers that might refer to if you talk about that quarter guidance being slightly better than Q2?

Mika Joukio: So our only comment is that it will be slightly better. Our estimation is slightly better.

(Harri Taittonen): Exactly. Okay. Well thank you very much.

Operator: And we'll go next to (inaudible) with - is a private investor.

(Yes, hello (Mika) and ((inaudible))). Nice to be part of this conference call. Regarding the PE extruder investment in Husum, I would like to know, do you have any plans of going further with - by your plastics on that machine because that seems to be a lot of in the public issue of non-plastic type of barrier boards that are in demand?

Mika Joukio: Yes, so as we have said earlier also that now this Husum line will concentrate on this PE coating and then we are working in our product development with other solutions including dispersion coating. We already have a product from (Kuromio) for example for that kind of product. And then we also have a project to develop the paya-based, fully paya-based barriers, but that of course takes time. But Husum production line won't have at this point anything else than PE coating.

Thank you.

Operator: And that will conclude our question and answer session. I'd like to turn the conference back over to management for any additional or closing remarks.

Mika Joukio: Okay, ladies and gentlemen, thank you very much for your questions. And that was it. So I wish you nice afternoon and good working week. Thank you.

Operator: That does conclude today's call. We thank you for your participation. You may now disconnect.