

**Conference Title: Metsä Board - Interim report for January-March 2017**

**Moderator: Mika Joukio**

**Date: Thursday, May 4th 2017**

**Conference Time: 3:00 PM**

Mika Joukio: Welcome to this presentation of Metsä Board's first quarter result of 2017. I am Mika Joukio, CEO of Metsä Board.

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

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

Global market conditions for high-quality paperboards remained good. A lot of the demand growth is concentrated in fresh fibre grades such as folding boxboard and food service boards. Despite the increase in capacities in Europe, the prices of folding boxboard have remained relatively stable during recent months. White-top kraftliner prices in Europe remained stable and increased in the US. Metsä Board announced a price increase of 50 euros per tonne in linerboards, valid from the first of April. Both short- and long-fibre market pulp prices rose.

Metsä Board's paperboard and market pulp deliveries grew from the previous quarter. Performance at our mills in Finland remained good. The demand for white linerboards made from fresh fibres has been strong and is mainly driven by demand growth in retail-ready applications. Metsä Board's delivery volumes in linerboards were at an all-time high in the first quarter.

We didn't have any major maintenance shutdowns in the first quarter, which also supported the profitability.

Husum still had a negative impact on our profitability, and I will return to the reasons later.

Metsä Board's total paperboard deliveries grew by 10 per cent from the previous quarter and by 16 per cent from the first quarter in 2016. I would say, these are strong growth figures.

According to Cepi, during the first quarter, the European producers' total delivery volumes in folding boxboard grew by 6 per cent compared to the previous quarter and by 8 per cent compared to the first quarter in 2016. In fresh fibre linerboards the corresponding growth rates were 7 and 9 per cent.

Slide 4 shows the quarterly development of our sales and operating result. Our sales grew due to the increased paperboard deliveries and the operating result improved.

Our operating result was 45 million euros in the first quarter. There were no items impacting the comparability.

Compared to the previous quarter, and starting with the positive impacts – the operating profit improved due to the growing delivery volumes in both paperboard and market pulp. January–March did not include any major maintenance shutdowns, whereas in the previous quarter we had an extended maintenance shutdown at the Husum integrated mill. Profitability was also supported by rising price levels in coated white-top kraftliner in the US as well as the price rise in market pulp.

On the negative side: Part of the sales of folding boxboard from Husum was directed to less profitable market areas such as the Middle East. Also, the deliveries in white linerboards were mainly uncoated grades with lower profitability. Expensive latex increased our production costs.

Then compared to the first quarter in 2016. The result improved due to the overall positive development at the Finnish mills, discontinued paper operations – which was a loss-making business for us – and the positive impact of foreign exchange rates after hedges.

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

Improved profitability was also seen in return on capital employed, which rose to over 10 per cent. Our target for ROCE is to exceed 12 per cent from this year onwards.

Our investments will be clearly lower this year compared to the years 2015 and 2016. Those two years included investments in Husum's new folding boxboard production line and extrusion coating line as well as the equity investment in Metsä Fibre's bioproduct mill. Investments in 2017 are mainly related to maintenance.

Improved profitability, gradually stabilizing working capital and lower investments are turning our cash flows upwards.

In the first quarter, our cash flow from operations was negatively impacted by increased inventories and employment pension contributions in Finland, paid in advance for 2017. On the positive side, we received a dividend from Metsä Fibre: 31 million euros.

Our balance sheet remained stable. Our net debt was 458 million euros – roughly at the same level as at the end of 2016.

Net gearing remained below 50 per cent, and net debt to EBITDA was also at a good level – below two.

There is still great potential to improve profitability at Husum. The capacity utilisation rate in the folding boxboard production line is now 70 per cent, which means that the production costs per tonne produced are still higher compared to other mills. We expect the folding boxboard production line to be fully utilised by the end of 2018.

The geographic sales mix in folding boxboard during the first quarter did not fully correspond to our long-term targets. Part of the sales were directed to less profitable market areas such as the Middle East. However, our delivery volumes to the Americas are growing, which proves that there is a strong demand for Metsä Board's lightweight folding boxboard. Also, the global growth especially in food service applications will boost our sales in PE-coated paperboards and open new markets for us.

And what comes to Husum's linerboard production, majority of that is still uncoated linerboard. In the coming years, we will be focusing more on coated grades, where the profitability is higher.

After the review period, we announced that our new extrusion coating line in Husum has started. The line will serve the global food and food service market and offer improved availability and competitive products in these customer segments. Metsä Board's PE-coated paperboards are a preferred alternative to plastics for cups, plates and other takeaway packaging. Currently, PE is the most common barrier against moisture and grease in food and food service packaging.

We will continue our development work on other barrier solutions, including the use of bio-based materials. We are in a position to offer new solutions, provided that there are profitable markets for them.

Then to the outlook.

The demand for high-quality paperboards made from fresh fibres is expected to grow. This demand is driven by growing consumer and food service packaging as well as retail-ready applications. In addition, packaging materials must meet strict safety, sustainability and quality requirements. Metsä Board's paperboards meet all these required features.

Pulp market we expect to remain healthy.

Price levels in folding boxboard are expected to remain stable. We expect steady or rising linerboard prices, as so many producers have announced price increases lately.

Metsä Board's total paperboard delivery volumes are expected to continue to grow. There will be several maintenance shutdowns in the second quarter in our Finnish mills – they will have a negative impact on our result compared to the first quarter. The rising latex price will still increase the paperboard production costs.

And based on these assumptions, we expect that our comparable operating result in the second quarter will remain roughly at the same level as in the first quarter of 2017.

And to summarize.

Our first quarter performance was good overall, and the operating result improved from the previous quarter – according to our guidance. Our delivery volumes in both paperboards and market pulp increased. We had solid development at all our Finnish mills, with high production volumes and operating rates. Strong demand for fresh fibre linerboards boosted our linerboard sales to an all-time high. Rising pulp prices supported our market pulp business.

At Husum, we still have a lot of potential to improve profitability. The rising capacity utilisation rate in the folding boxboard machine, growing delivery volumes to the Americas and our PE-coated paperboards will increase sales and improve profitability. In linerboard, we are focusing more on coated grades, where profitability is higher.

In 2017, our focus is on sales of the new folding boxboard capacity. We have excellent products, which we are constantly developing, and good underlying market demand is supporting our growth.

And before I finish my part, I want to remind you all about our upcoming Capital Markets Day, which will be held on the first of June here in Helsinki. You will find more information about this on our website.

Now, we are ready for your questions. Please, go ahead.

Operator: Ladies and gentlemen, if you would like to ask a question you can signal on your telephone keypad by pressing star one. We can take our first question from Mikko Ervasti, DNB Bank. Please go ahead, sir.

Mikko Ervasti: Thank you very much and good afternoon. So your comments on the folding boxboard destination where you mentioned Middle East as well, is that comments regarding the Finnish production or this new Husum production?

Mika Joukio: Yeah, so that is mainly from Husum.

Mikko Ervasti: Okay, and what's the reason for that? Are you not able to shift the vast majority of that new production to the United States?

Mika Joukio: Yeah so, as I said, the volumes are growing in Americas and also in the US, clearly, but the growth rate has not been as high as we originally estimated, or – and for that reason then we have sold also to Middle East and other markets. But growth is taking place in the US market, no question.

Mikko Ervasti: And is that target grade production or something below that?

Mika Joukio: Can you repeat?

Mikko Ervasti: Quality-wise. Is that – quality-wise, is that the target grade or something else?

Mika Joukio: What you mean quality-wise? For the US market?

Mikko Ervasti: I mean now that you're shipping to other destinations also than the US market, is this sort of A-grade board or is that something still – yeah? Okay.

Mika Joukio: No, no, no. It's A-grade.

Mikko Ervasti: Okay, and then also on the role of the latex. Of course there's been some big movements now and some kind of an impact, now and probably a bit bigger going forward. But it's quite a volatile sort of input there. Any visibility into the future, please?

Mika Joukio: Yeah, of course the volatility of the latex prices is quite high so they are going up and down, but if we compare, for example, January and March figures, it's roughly €1 million per month that we're talking about here. A couple of millions in quarter. Let's see where it goes, but now at the moment the prices are high.

Mikko Ervasti: But the other cost base you're seeing as relatively stable, is that right?

Mika Joukio: Yeah, yeah. That's so.

Mikko Ervasti: Okay, thank you very much.

Mika Joukio: Thanks.

Operator: We can now take our next question from Mikael Doepel, Handelsbanken. Please go ahead, sir.

Mikael Doepel: Thank you, a couple of questions here. First of all talking about the – or I was thinking about the restructuring benefits in Husum. Now when you started this whole project of restructuring your operations there building a new board machine you said that you expected to reach €50 million in restructuring benefits. A while back you said that you expect the majority of these restructuring benefits to show up in 2017 and fully in 2018. What is your view on this today?

Mika Joukio: No changes. The original target is still valid, no reason to change it.

Mikael Doepel: Okay, so the majority of the €50 million should show up in 2017.

Mika Joukio: Yes, and then in full scale 2018.

Mikael Doepel: Okay. That means –

Mika Joukio: Comparing 2014, that needs to be remembered.

Mikael Doepel: Exactly, exactly. And that's the interesting thing because you had quite big loss on Husum in 2016, which means that the delta from 2016 to 2017 will be huge if you deliver on that, is that correct?

Mika Joukio: I mean we're talking – what is huge, what is significant? But it will be clear [inaudible] –

Mikael Doepel: Over €50 million, at least.

Mika Joukio: No question.

Mikael Doepel: Okay.

Mika Joukio: Yeah, that will be improvement[?].

Mikael Doepel: And in terms of the return on capital employed that you mentioned, the target to reach, over 12%, is that target valid for the year 2017 as a whole?

Mika Joukio: When we talk about the whole year I think it's unrealistic to say that concerning the whole year we would be able to reach that at the correct run rate or even improved run rate. So – but my expectation is that by end of this year we should be at that level, but not so that it is full year, it's fair to say so. But of course target is target, but realistically speaking then not necessarily the whole year.

Mikael Doepel: Yeah, but you had already in the first quarter a ROC of almost 11%, but you still don't see that going above 12% for the full year?

Mika Joukio: Yeah, but we need to remember that the Q1 was not a normal quarter because in Q2, Q3 and Q4 we have these annual maintenance shutdowns and they will have an impact even though business as such is improving. [Inaudible] no question.

Mikael Doepel: Yeah. And then a question on Äänekoski, your new pulp mill that is about to start up there. I understand that there's been some test runs going on already in Q1 and the startup is scheduled for Q3. What kind of a cost, or let's say profit impact do you expect to see from this? What was the impact in Q1 and what it will be in the coming quarters? Which will then obviously show up in your share of associated income.

Mika Joukio: As we have said, we road check these proceeding according to plans and in budget as well as in time table-wise, but it's too early to speculate or even calculate what will be the negative or positive impact for Metsä Board. I think we know that better when the startup really has taken place in Q3, so I don't have any figures to share at this point.

Mikael Doepel: But is it fair to assume that there will be more costs in Q3 compared to Q2 and Q1 this year due to the startup?

Mika Joukio: I think that is quite clear and evident when you start up a huge, new pulp mill, no question, but what level, that needs to be seen – or will be seen.

Mikael Doepel: And the depreciations on that investment, will that start to run in Q3 as well?

Mika Joukio: Maybe Jussi Noponen, CFO, will [inaudible].

Jussi Noponen: Yes, it depends, of course, on the exact startup date which has not been announced.

Mikael Doepel: Okay. Good, thank you. I'll move back in the queue.

Mika Joukio: Okay.

Operator: We can now take our next question from Robin Santavirta, Carnegie. Please go ahead.

Robin Santavirta: Hi and thank you. Now in case of Husum, could you comment about the underlying profitability in Q1 now this year compared to Q4 if you would exclude maintenance?

Mika Joukio: You mean comparing last year Q4?

Robin Santavirta: Right.

Mika Joukio: So last year Q4 comparing this year Q1.

Robin Santavirta: Right.

Mika Joukio: Did you mean that?

Robin Santavirta: Yes.

Mika Joukio: I don't have that figure here, but no question the volumes are increasing both in production and in sales and efficiency. efficiencies are improving at the mill, the costs are getting down and the volumes are getting up, but I don't – I can't remember what is the clear number for that. Maybe you even have a –

Robin Santavirta: Didn't you have –

Mika Joukio: Sorry?



Robin Santavirta: Didn't you have quite significant maintenance cost in Husum in Q4 of last year?

Mika Joukio: Yes, we had, but that was – as we said those days, it was something between €8 and €9 million but you asked about underlying difference, or underlying profitability.

Robin Santavirta: Right, right. So the idea, I guess, what I'm targeting here if you should exclude that €8 plus plus million then you compare the underlying profitability – if it did improve clearly then I would assume you're breakeven in Husum now in Q1, is that correct?

Mika Joukio: The operating rate at the moment or capacity utilisation rate is about 70, and previously we have said that in order to reach the breakeven operating rate or capacity utilisation rate you need to be at the level of 75.

Robin Santavirta: 75.

Mika Joukio: We are not yet there. And then of course this Middle East business that had an impact on our average prices is also of course, a very important factor in this calculation. But not quite yet.

Robin Santavirta: Right – right. As I understand the production was 70, but what about deliveries in the quarter? Could you also comment a little bit more in detail the delivery growth into North America quarter on quarter?

Mika Joukio: So when you think about the deliveries or sales volumes, they are also at the level of 70% roughly. So pretty much similar production and sales figures in Q1 [inaudible] –

Robin Santavirta: Okay, so no [inaudible] in Husum.

Mika Joukio: Exactly, so last year we built up inventories especially in Husum in order to then serve the American market and now that that is stabilising a little bit.

Robin Santavirta: Right. And about deliveries to US quarter on quarter from Husum, is that growing in Q1 versus Q4?

Mika Joukio: Yeah, yeah. Quarter one was the highest ever. So they are growing. And March as such was the highest ever month, so it's growing.

Robin Santavirta: Right. But still you're selling to Middle East and other places so perhaps not exactly according to plan.

Mika Joukio: Exactly, in our plans we – of course we planned some sales to Middle East also and other regions, but not as much as we did.

Robin Santavirta: Right, good. And then finally on maintenance, what's 2017 compared to 2016 in terms of maintenance cost? Will it be roughly speaking the same amount? And then could you comment about Q2 maintenance, of course the expectations?

Mika Joukio: Yeah, so if you think about the whole year and all the mills of course maintenance costs are pretty much at the same level this year as well as in last year, they are quite stable. And then if you think about this or your question was about these maintenance costs in Q2 comparing Q1, so roughly €5 million higher because we have this maintenance shutdowns at all our Finnish mills. And that was not the case in Q2 – Q1. [Inaudible] rough figure.

Robin Santavirta: Thank you. Thank you very much.

Operator: We can now take our next question from Linus Larsson, Skandinaviska Enskilda Banken.  
Please go ahead.

Linus Larsson: Thank you very much and good afternoon to everyone. Just a follow up on the inventory situation. It looks as if production clearly exceeded shipments in the quarter, but you just said that you did not build inventory to any significant degree in Husum folding boxboard operations. Could you just explain where you have been building inventory in the first quarter, please?

Mika Joukio: Quite evenly for all the mills. Not that much anymore for Husum, as I said, but then that is quite typical for first quarter that we – because we running full, we were running full; we didn't have any maintenance shutdowns, so production was at a good level and for that reason then the inventories grew.

Linus Larsson: Okay.

Mika Joukio: But not – I can't tell at what particular mill because it came from all the mills, practically.

Linus Larsson: And if we just look at the working capital in the first quarter, it was a negative €46 million, should we expect that to – basically what's the full year figure, was that the same degree or completely reversed during the rest of the year?

Mika Joukio: Concerning Q2, of course we prepared ourselves for these maintenance shutdowns and for that reason we also then increased, slightly, our inventories, which won't be the case now in Q2 when we have the standstills and sales is anyway going on. So I can't give you any exact figure for the whole year now.

Linus Larsson: But it sounds as if you expect at least some of it to reverse then.

Mika Joukio: Okay, maybe Jussi Noponen will continue here.

Jussi Noponen: Yes, we can say is at the end of the fourth quarter last year, working capital was on a slightly lower level than normal. So part of this first quarter increase was a rebound from that low level. But also this prepayment of pension contributions for the full year in Finland, that was nearly €20 million in that in working capital.

Linus Larsson: Excellent, that's very clarifying, thank you. And just when it comes to Husum again, do I understand it correctly that you're now planning to have production in line with delivery for 2017 in Husum? So no inventory build as opposed to what we've seen in the past? And what is the risk that you might have to curtail production in order to keep pace with the right sales success and mix in your sales?

Mika Joukio: So if I first answer your first part of the question. The volumes and production on sales in Husum this year will be pretty much similar, so our target is not to increase inventories anymore. And then the second, of course depending on the sales, but if sales develops as we now see, then we should have – should not have any reason to have any curtailments at Husum if and when sales goes as we have planned.

Linus Larsson: Great, thank you very much.

Mika Joukio: Thanks.

Operator: We now take our next question from Mikael Doepel, Handelsbanken.

Mikael Doepel: Thank you. A couple of follow-up questions. First of all, what was the impact from Husum – the new board machine in Husum in Q1? What was the negative impact of that running at 70%, i.e. making a loss?

Mika Joukio: We don't – actually, okay, we haven't even calculated that precisely. We know that it's negative, still, the impact, but how much, I don't know, I don't tell.

Mikael Doepel: Okay. Then in terms of the utilisation going forward, what kind of a level would you expect to reach in the second quarter of this year on the new board machine in Husum?

Mika Joukio: We have said and our target still is that our sales from Husum would be 300,000 tonnes this year and that corresponds 75% production utilisation rate. And now during the first quarter, it has been roughly 70%. So we will estimate that production utilisation rate will gradually increase during the coming quarter so that the average by the end of the year will be 75. It will be slightly higher now in Q2 comparing to Q1.

Mikael Doepel: Okay. And what about the mix? You mentioned the sale to Middle East at low pricing or [inaudible] profitability. Do you expect the mix to improve Q2 compared to Q1? And when will we see the actual – because I think you said for a couple of quarters already that you are now producing and selling to the US at prices on par with Finland. But still a couple of quarters here already there's been some negative effects from this mix. What kind of an impact on the mix do you expect in Q2 compared to Q1?

Mika Joukio: As I said, the volumes to the US market from Husum, they are growing month after month. And if and when that will take place then of course the volumes to the less profitable markets will decline, so that is a gradual development. Originally that was also target, not so, that from day one we are selling everything to the States, no, because we need to have these customer approvals, etc. But now during the second quarter the volumes will be higher to the Americas market than in Q1, no doubt. Then the volumes to the less profitable markets will be lower. We don't have any major quality issues at the moment, we don't have any bottle necks at

the mill as we had last year and we are selling only A-grade quality. There's no reason to expect something else than growth in the Americas.

Mikael Doepel: Is there a significant price difference between the volumes sold to the US and those sold to the Middle East?

Mika Joukio: I don't – it's clear. I don't want to say precisely how many euros, but it's clear difference.

Mikael Doepel: Okay. Then just a final question on FX. The net impact from FX was €5 million positive, year over year, if I understood your writing in the report correctly. There was also a slight positive impact from FX Q1 compared to Q4. What should we expect in Q2 both year over year and compared to Q1?

Mika Joukio: Jussi Noponen will answer.

Jussi Noponen: Yes, our second quarter net exposure for US dollar has been hedged already and the exchange rate of those hedges is around 1.08/1.09 for the US dollar. So of course depends on how the currency develops going forward. Now it's too early to say for the second quarter.

Mikael Doepel: Okay, but would you expect to see some positive impact as things look today assuming current export rates prevail?

Mika Joukio: Well these hedging levels is roughly the same as the first quarter level, so no major impacts compared to the first quarter.

Mikael Doepel: Okay. Good, thank you very much.

Mikael Doepel: Thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, you can signal by pressing star one on your telephone keypad. We can now take our next question from Mikko Ervasti, DBN Bank, please go ahead.

Mikko Ervasti: Thanks for the second chance. So there's still some things that I don't quite understand. So you're saying that the underlined demand in main market is good, the prices have not been effected in Europe from this new capacity, the Americas is growing for you – perhaps slower, but still growing. Then you have to ship this top quality Husum folding boxboard to Middle East on the spot market. That actually has a role in this whole negative equation. So why is that? Are you trying to avoid all risks of oversupply in Europe to avoid cannibalisation, or what's driving this? Can you please give a little bit more detail.

Mika Joukio: Yeah, you got the point. Our interest really is not to – how would I say? I mean, intention is to be a responsible player in the European market where we are the market leader, and our Finnish mills are serving European territories or European market. I have said earlier and I repeat here that our intention is not to deliver from Husum to European markets. So that is simply not our target. Finnish mills are taking care of that and then Husum will take care of the US American market and then the less profitable market like Middle East, Africa markets. They are at this stage served from Husum because Finnish mills are running full. So it's so simple.

Mikko Ervasti: Thank you, that's great. My final question on the pulp demand and supply and prices. So on the Meta Group commentary there was something that the market is now in balance. Can you comment if this means that perhaps the prices should stabilise somewhere in these levels? Thank you.

Mika Joukio: Yeah. Our expectations are – yeah, you're right and our estimation also is that market is stable, or balanced as you said, but still we see that the market pulp prices are slightly – slightly – increasing during at least Q2 and Q3. In short [inaudible] –

Mikko Ervasti: Why is that, is that inventories or what?

Mika Joukio: Demand is quite healthy at the moment, especially for long-fibre.

Mikko Ervasti: Okay, yeah. All right, thanks.

Operator: We can now take our next question from Harri Taittonen, Nordea, please go ahead.

Harri Taittonen: Hi, yes. Hello, good afternoon. Just a couple of clarifications, if I may. One is just to understand the drivers for the change in the quarterly earnings. And I remember you said you should not be benefitting too much from the pulp price improvement, yet in Q1 – but was it at the end of the day so that you did get some sort of a boost from margins from there? And how – and if you compare the second quarter sequential impact compared to the first quarter, do you see a more pronounced impact from the pulp cycle in the second quarter than you did see already in the first quarter?

Then the other question that I had in mind was you mentioned about the coated linerboards and you have already earlier talked about the aim to move towards that. But is kind of the bottleneck for that? Is it capacity or market and what sort of speed do you anticipate that you can be moving towards coated in that linerboard side?

Mika Joukio: First to the pulp question and if you compare Q4 last year Q1 this year, the profitability impact was quite minor. And that most probably is also the case if you're comparing Q2 to Q1 this year. So not negative, yes, but not very significantly positive, either.



Then the coated linerboards, so as you surely know, we are selling our lion's share of operation from Kemi has already coated linerboards and now – now I would target this to grow both in linerboard sales also from Husum. But the development, it's unrealistic to estimate that the change would be quick. So very early, but steadily we are increasing our sales and business in coated linerboards, but still the major part of production in Husum will be uncoated for several months, or maybe next two years or so. So development is not that rapid. Direct –

Harri Taittonen: And it's more driven by the market acceptance rather than any sort of capacity constraint, yeah. And in part, what is the reason? I know it is long-fibre, you say it's positioned there, but is it impact less than one can see from list prices? It sounds a bit like that from the way you speak, that if it's a relatively minor impact, still we have seen fairly noticeable increase in the list prices. Why do you play down the impact so?

Mika Joukio: Of course our list prices, then there are also an annual [inaudible] –

Harri Taittonen: Yeah it is. Yeah.

Mika Joukio: – at the end of the day what really matters is the net price. They are increasing, yes, but not eventually as much as you can see in the list prices.

Harri Taittonen: Exactly, exactly. Okay, thank you very much.

Operator: We have no further questions via the telephone, so I would like to hand the call back over to our main speaker, Mr Joukio.

Mika Joukio: Okay, everybody. So thank you very much for your attention and here I also would like to remind our Capital Markets Day on 1<sup>st</sup> June. We'll be active and hopefully we can see as many

as possible in there, early, early June. So thank you very much and have a nice afternoon.

Thank you.

Operator: Ladies and gentlemen, that would conclude today's call. We appreciate your patience.

You may now disconnect.