

**Conference Title: Metsä Board Interim report for January-March 2018**

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Mika Joukio:

Good afternoon, ladies and gentlemen, and welcome to this presentation of Metsä Board's Interim report for January to March 2018.

My name is Mika Joukio, and I am the CEO of Metsä Board.

Together here with me, I have our CFO, Mr. Jussi Noponen.

So let's start by looking at the first quarter in brief. All in all, our performance was at a very good level, and the quarter was the best in many years.

Market prices in both folding boxboard and white kraftliners improved, which fully compensated the unfavourable foreign exchange development of the US dollar.

Our production and delivery volumes increased, both in paperboard and in market pulp, compared to the previous quarter. I want to remind you, though, that our first quarter is always strong, production-wise, since this quarter – unlike all the other quarters – does not include any major maintenance shutdowns. Obviously, this is evident in our results too. Also, the fourth quarter – our comparison period here – often has lower delivery volumes due to seasonality.

Production efficiency was at a good level, and many of our production units set new records in their monthly production volumes. At the moment, the capacity utilisation rate of Husum's folding boxboard is nearly 90 per cent. And from now on, we won't be reporting that figure separately anymore. As we have earlier stated, we believe that full utilisation will be achieved by the end of this year.

The pulp market continued to go strong, and market prices kept rising. Obviously, we benefit from that, with our annual 500,000 tonnes long pulp position.

And good news is that the credit market also showed strong confidence in Metsä Board: in February, we were upgraded to investment grade by Standard and Poor's.

Then a closer look at top-line and profitability development.

Higher production and delivery volumes together with rising price levels increased our sales, which were nearly 500 million euros. Last November, we announced an increase in folding boxboard prices in Europe of 90 euros per tonne. On average, we achieved roughly half of the announced increase. In white kraftliners, we have announced three price increases during the past year.

Our comparable operating result in the first quarter improved by 27 per cent compared to Q4 and by 53 per cent compared to the corresponding quarter last year. At 69 million euros, it was on its highest level in many years.

In mid-March, we had to raise our previously given result guidance, mainly due to the stronger than expected pulp market development. But as earlier stated, the profitability was also boosted by the strong paperboard market and the high production efficiency rate of our mills. In addition, the tailwind in the first quarter, from being a maintenance-free quarter, was roughly 10 million euros. Even though our profitability is now developing in the right direction, we still have a lot of potential to improve it, especially in Husum. We will continue our work to improve the sales mix in folding boxboard in Husum.

Our total paperboard deliveries in the first quarter were roughly 470,000 tonnes. That is 9 per cent growth compared to the previous quarter and also compared to the same quarter last year. So, we are still growing faster than average market growth, which is 3-4 per cent.

Among all the European producers, folding boxboard deliveries in the first quarter increased by 5 per cent compared to the previous quarter and by 8 per cent compared to the same quarter in 2017. Correspondingly, white kraftliner deliveries grew by 3 per cent and 2 per cent.

The stronger European economy and discussion around the recyclability of packaging materials has driven paperboard demand growth. Moreover, demand for fresh fibre grades is supported by the concern over mineral oil migration from recycled fibre-based board into food.

In white kraftliners, increasing demand in point-of-sale solutions in retail and growing ecommerce are the main factors driving demand in the near future. Also, there are no major

capacity additions planned on the fresh containerboard side, and operating rates are expected to remain high.

During the first quarter, the negative impact from foreign exchange rates including hedges was 12 million euros compared to the previous quarter, and 15 million euros compared to the same quarter last year. The US dollar, which has the biggest impact on our total transaction exposure, will continue to cause headwind. The total currency impact after hedging will be quite small in the second quarter compared to the first, but will further increase in the third quarter.

Improved profitability was also reflected in the return on capital employed. In the first quarter, our ROCE was almost 16 per cent, and even though it's not shown in here, the 12-month rolling figure was 12.7 per cent. This was above our long-term annual target level of 12 per cent. Our capital employed at the end of review period was 1.8 billion euros.

Our 12-month rolling cash flow from operations was 241 million euros, and free cash flow was 183 million euros. During the first quarter, the cash flow from operations was 30 million euros. Together with our sales, the receivables grew compared to the fourth quarter, and resulted in a negative impact from working capital.

The first quarter cash flows also include advance payments of employment pension contributions in Finland, which always impairs January–March cash flows against the other quarters.

Our financial position is strong, and the amount of interest-bearing net debt is approaching equal to our 12-month EBITDA. Our net debt at the end of March was 335 million euros, which is more than 100 million euros less than a year ago.

For Metsä Board, lightweighting and new barrier solutions are the key focus areas for product development.

In January, we launched a biobased, fully recyclable and biodegradable eco-barrier paperboard especially for food service use. We will continue the development work to make our boards even lighter, but we are also focusing on new barrier solutions.

And then to the near-term outlook. We believe that the good momentum in the paperboard market will continue. A big part of the announced price increase announcements have gone through, and we expect the prices to be steady or even continue to rise in certain grades.

We also expect that our paperboard delivery volumes will be at a slightly higher level in the second quarter compared to the first one.

And again, I want to highlight that the second quarter, as well as the third and fourth quarters, will include maintenance shutdowns, which will impact on our results. In April–June, we will have maintenance shutdowns at nearly all our Finnish mills. Also, our associated company Metsä Fibre will have shutdowns at two of its pulp mills in Finland.

The negative impact from the weaker dollar against the euro will continue.

Production costs increased in the first quarter, especially driven by wood costs in Sweden and imported wood from the Baltics. Even though we don't see significant cost increases for the rest of the year, our full-year production costs will increase from 2017.

And then our result guidance. We expect, that our operating result in the second quarter of 2018 will weaken compared to the first quarter.

We have simplified our principles with regard to result guidance. The result guidance is issued on forecast changes in comparable operating result between the current quarter and the previous quarter, and there are three levels: weaker, roughly at the same level, and better. Previously, there were seven levels.

Then, to summarize.

We had an excellent start for the year 2018 and we expect the strong performance to continue. The pulp market has remained strong, and the market price of long-fibre pulp, which impacts

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on Metsä Board's result, has continued to rise. In addition, the paperboard market has good momentum, and the production efficiency of Metsä Board's mills has been high.

The weaker US dollar is still causing headwind, but at least during the first quarter, the higher sales prices of paperboards offset this negative impact.

We still have potential to improve the result especially in Husum - we will continue to improve our sales mix in folding boxboard by selling bigger volumes to the Americas.

And we expect the good market situation to continue: Demand for ecological paperboards is growing, and price levels are expected to stay stable or even rise.

This was the presentation of Metsä Board's first quarter results. Ladies and gentlemen. We are now happy and ready to answer any questions you may have.

Operator: Thank you. If you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. We'll pause for a moment to allow everyone an opportunity to signal for questions.

We will take our first question from Robin Santavirta. Please go ahead, sir. Your line is open.

Robin Santavirta: Yes, thank you and good afternoon. First of all, related to the maintenance stops you will have now in Q2, could you specify the rest of the earnings impact you expect those to have Q-on-Q and also year-on-year? So do you have now more maintenance work, maintenance stops this year in Q2 compared to last year in Q2?

Mika Joukio: Yes, so Mika Joukio here. So the tailwind in Q1 from being practically maintenance free quarter was roughly 10 million euros comparing to the other quarters. So second, third, and fourth. As far as the annual number of the maintenance shutdown for days, this is very normal year. Now, in the second quarter, all the mills in Finland except Kemi will have the maintenance shutdown normal length and then (Kemi) will have in quarter three and then Husum quarter four.

So nothing special as such, but the tailwind in Q1 was significant due to the fact that we didn't have any maintenance shutdowns.

Robin Santavirta: Okay. Good, thanks. And then related to the guidance of Q-on-Q declining earnings or comparable EBIT, do I get it right that you expect volumes to improve somewhat, then you expect prices to be at the same level or improve somewhat? And then with the better mix from Husum but you do expect earnings to decline. I do understand the maintenance but is there something underlying that I am missing, something that burdens your earnings now going into Q2? Because from your presentation, it seems as basically all the others of the operational businesses looks set to improve Q-on-Q in Q2. So could you comment on this?

Mika Joukio: You are right that volumes will slightly -- our estimation is that they will slightly improve and then prices will be at the same level or slightly higher in certain grades. But then we have this negative impact from maintenance shutdowns as well as then from U.S. dollar against Euro, comparing the first quarter. Not much but somewhat anyway. So as a result, then that is our guidance. But nothing special as such as something that we didn't expect.

Robin Santavirta: Okay, that is clear. Then related to FX. Could you comment on what is the impact the Swedish Krona has weakened significantly now in the past few weeks. So I assume you have some positive impact from that. Would you mind to perhaps comment on

what would the annual FX impact on EBIT be, if spot rates would remain at the current level?

Mika Joukio: Okay. So Jussi will open a little bit our hedging policy and so on concerning different currencies. So please.

Jussi Noponen: Yes, this is Jussi Noponen. Our hedging duration in average is about six months. So the recent weakening of Swedish Krona, we will start seeing the positive impacts of that only in the fourth quarter this year and especially we'll be getting a good start for next year. So no positive from that yet in the second quarter.

Robin Santavirta: Okay. Could you comment on the full year FX impact on EBIT if we would have the current spot rates for the full year?

Jussi Noponen: We have not hedged the full year yet and we are not giving full year guidance for anything. So the answer is no.

Robin Santavirta: Okay, thank you. And then finally on the wood raw material cost, if I recall correctly, you provided a sort of an estimate of the cost inflation for the full year in the fall of Q4. Is that what you expect now still or has that changed?

Mika Joukio: If we compare year-on-year, so 2017 to this year, and only wood costs, there is a remarkable increase and okay, even though we don't give any annual estimates, but still at this point, I can say that it seems to be more than 20 million euros the impact year-on-year. And then we need to remember that there is other cost inflation elements like salaries, for example, in Finland. So there is a slight increase also there. So inflation is clear this year, cost inflation I mean.

Robin Santavirta: Okay. But justwood costs, do you expect them to increase year-on-year, or Q-on-Q?

Mika Joukio: Slight increase in Q2 compared in Q1 but shouldn't be anything remarkable.

But Year-on-year the difference is clear.

Robin Santavirta: All right, thank you.

Operator: Thank you. And our next question is from the line of Linus Larsson from SEB. Please go ahead, your line is open.

Linus Larsson: Many thanks and a good day to everyone. I'd like to ask about the Husum ramp up and the profitability improvement potential that you previously outlined compared to 2019 versus 2016. You've said that 100 million euro result improvement could be achieved provided that you reach a 95% operating rate.

Now, I wonder how far we are in that ramp up and I wonder if you could help us also understand maybe what to expect in 2018 versus 2017 on a full year basis in terms of earnings, or volumes, or something else that you can help us with. Thank you.

Mika Joukio: So as you remember, there are three elements in this Husum profit improvement. First of all, the lost pulp production or the pulp production that we lost in 2016 when we had this investment shutdowns and startup issues. So that's roughly 25 million euros. Then we launched, then efficiency program concerning fixed costs. That was another 5 million euros. And then full capacity utilization at normal sales prices was the remaining 70 million.

So last year, we already reached the positive impact from pulp and so pulp volumes and efficiency program, but only slight improvement in sales. And now, we estimate that we



reach the rest of the 70 million. So remembering that last year we reached the 30 million. So reach the rest of the 70 million then during next year and this year quite evenly. So still this profit improvement year-on-year, 2016 versus 2019 is valid.

Linus Larsson: That's great. And I guess the pulp and the efficiency improvements came gradually during last year? And so my question is do you have a rough figure for the full year 2018 versus the full year 2017 as an improvement figure?

Mika Joukio: So as I said last year, roughly, we achieved one-thirds of that profit improvement and then rough estimation for this year is another third. And then the rest of the improvement next year. So this is just at this point very rough estimate. But that's the case at the moment.

Linus Larsson: Okay. That's very helpful. Thank you. And maybe if I then ask the Äänekoski ramp-up. You previously said it's been ahead of schedule. I think I read today that it was more like according to plan. How far has that ramp up come? How much improvement potential is there from the Q1 2018 level still?

Mika Joukio: That's too early to say. The ramp up this year has proceeded according to plans. As you said, last year, we were slightly ahead of the ramp up curve and this year, more or less precisely on the ramp up curve. But then what will be the final impact on our result that remains to be seen because we are not there yet. So remains to be seen. But so far, everything goes as planned.

Linus Larsson: And then just one final question, if I may, regarding folding boxboard pricing. We put quite a bit of attention on that in our last quarterly call. Now, in hindsight could maybe summarize for us how the folding boxboard price negotiations ended up in the beginning of 2018 please?

Mika Joukio: Yes. So as I said, announcement was 90 euros per tonne and we roughly, on the average, we achieved 50% of that. So let's say between 45 and 50 euros per tonne, depending on the customer of course. But on the average that was the result for European business.

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

Operator: Once again, if you would like to ask a question, please press star 1. We will take our next question now from Harri Taittonen from Nordea. Please go ahead, your line is open.

Harri Taittonen: Yes, thank you. Good afternoon. The - okay, where to start. There was news about Metsa Fibre examining potential investment in Kemi. I'm just wondering if the financing structure could be something similar to what you sort of did for Äänekoski, just theoretically, if these plans go ahead.

Mika Joukio: Mika here. So at this point, it's far too early to say anything. It's just a kind of pre-planning or pre-feasibility study depending on different options, two different options: a totally new pulp mill or then a modernized current pulp mill. And that's far too early to say anything concerning financing.

Harri Taittonen: Yes, I understand. Well, maybe the other one on the volume side, on the sort of folding boxboard and Americas, just wondering why did the America sort of delivery, or sales, or even in volume terms did not grow more than they did given that it's been kind of a core of the Husum expansion and looking at the EMEA growth that was more at least in absolute terms with year-on-year compared to what you achieved in the U.S.

So just sort of wondering if you could put some color on the development on that front?

Mika Joukio: In the U.S., of course growth continues, or in the Americas market, but also there, we put a lot of emphasis on sales mix that need to be remembered. And as far as the sales from Husum is concerned, production was really good. We had a production record in March. We had a production record in January and the whole production has been sold, and prices are increasing. So I have no worries concerning the Americas market and our story there.

Harri Taittonen: Okay, great. A final question on the market pulps and the deliveries . Just wondering what the potential for you with sort of current capacities, first of all, for your own sort of deliveries of market pulp. They were 124,000, a bit less than last year, and then also looking at the Metsa Fiber pulp deliveries at 177,000.

Obviously, they were up, but just wondering what the sort of volume potential with the currently existing capacity would roughly be for your deliveries of market pulp and also the production of Metsa Fibre pulp or your proportion of that.

Mika Joukio: So it's higher level mathematics so to say that in Husum, when the pulp mill already is running practically full. So we are not able to very much increase that capacity of course. But then the growth is coming from Äänekoski. So from Metsa Fibre side and then how quickly that ramp up will then be finalized to the target capacity, then of course we will get our share.

But all the other mills, both in Metsa Fibre as well as in Husum, they were running full.

Harri Taittonen: Okay, well, just one more if I may. Just quickly on the possibility to lengthen the maintenance intervals in the various mills. It sounds like, is it more so the maintenance is still based on annual cycle where it seems that sort of a - there are examples of more of longer periods between the maintenance stoppages?

Mika Joukio: Yes, during the course of the years, of course, the maintenance shutdowns all are shorter and shorter. But as far as interval is concerned then there are also some legislations that we need to check different issues at the mills. And that puts certain limits on that. But what has clearly happened during last, let's say five, ten years is that the length of one single maintenance shutdown is shorter today than back five years ago or ten years ago. And that is something our production management is working every day to get them as short as possible, but still keep the machinery in good shape and efficiencies as targeted.

Harri Taittonen: Okay. Very good, many things.

Operator: Our next questions come from Michael Jafs from Kepler Cheuvreux. Please go ahead, your line is open.

Michael Jafs: Thank you, everybody. Congratulations to a good result. I have a question regarding the balance sheet. You have a very strong net debt to EBITDA level currently at 1.1, clearly below your target of being below 2.5. So my question is really how should we think around this currently very strong balance sheet? That's the first part of the question. And then second part of the question, if you could perhaps give some color and flavor regarding potential new and additional investments. Thank you.

Mika Joukio: So I think these two questions are a bit combined. So as you said, our balance sheet is strong. Our net debt to EBITDA is 1.1 as you said and that of course gives opportunities to think different growth and investment options here. I also would like to highlight that this 2.5 maximum level should be the case also when we're having heavy investments, if we would have. So we need to be below 2.5 at all times. As I said previously, and I repeat it here that in management, we are planning different options. We are calculating different scenarios and our intention is to continue to grow

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over the market growth year-on-year. So we are working on that but no results yet. As far as new investment is concerned, probably you asked our investment plans and not competitors because competitors, I don't comment. But as far as our investment plans are concerned, I already mentioned that they are in the drawing board or planning board at the moment. And then if and when we have decisions then we of course tell about them.

Michael Jafs: Okay. Many thanks.

Operator: It appears that we've got no further questions at this time. I would like to turn the conference back to the presenter for any closing or additional remarks.

Mika Joukio: Okay. Thank you everybody for your attention and I wish you an excellent early summer and a nice continuation of the day. Thank you.