

Conference Title: Metsä Board - Interim Report for January-September 2017

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Mika Joukio

Good afternoon, ladies and gentlemen, and welcome to the presentation of Metsä Board's results for January to September 2017.

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

Here with me, I have also Metsä Board's CFO, Jussi Noponen, and Head of Investor Relations, Kati Sundström.

So, let's start with the top-line development, which has moved nicely upwards. During the first nine months of 2017, our sales increased by 8 per cent and the operating result improved by one third compared to 2016. Our sales growth is mainly due to the increased delivery volumes in paperboard, but also in market pulp.

Our EBIT-margin during January to September improved to 10 per cent from last year's corresponding 8 per cent. Profitability was mainly improved by positive developments in linerboard and market pulp, as well as by the discontinued paper business.

Our paperboard deliveries have grown strongly: year-to-date growth was 17 per cent compared to last year. And as we already expected in August, the third quarter delivery volumes were roughly at the same level as in Q2. This is mainly because we have now focused more on increasing the average price of folding boxboard.

If we look at how the overall market has developed at the same time, according to CEPI, the total delivery volumes in folding boxboard from European producers increased by 5 per cent in January to September compared to the same period in 2016.

In fresh fibre linerboards, the corresponding CEPI growth rate was 7 per cent.

Then moving on to the summary of the third quarter.

Our production volumes in paperboards and pulp grew from the second quarter. And as I already mentioned, we delivered roughly the same volume as in the previous quarter, but with improved average prices, especially in folding boxboard.

Our cash flow from operations was strong, 68 million euros, thanks to the improved result and good working capital performance.

Demand for fresh fibre paperboards is now strong, and market prices in local currencies have been stable or even increased. The growth in demand has also been visible in the order books of our paperboard mills, which are now clearly longer than before.

We have announced price increases in Europe: 50 euros per tonne in white linerboards, valid from mid-September, and 90 euros per tonne in folding boxboard, valid from November. The impacts are expected to be seen mainly during the first quarter of 2018.

Metsä Fibre's new bioproduct mill, of which Metsä Board owns 24,9 per cent, started as planned in August, and customer deliveries started in September. The start-up phase of the new mill had only a minor negative impact on our result.

FX rate changes including hedges had still a small positive impact on Q3 result. The positive impact from hedging will start to dilute towards end of the year.

The weakened US dollar rate against the euro and its impact on Metsä Board's profitability has been a matter of interest to many this year. However, I want to emphasize that even with current exchange rates, we're seeing our business operations in the Americas attractive, and our goal is to further increase deliveries to the Americas. FX rates do not guide our strategic targets or decisions on which market areas we want to operate in. So, all in all, the current FX rates are not causing me any sleepless nights.

Return on capital employed has also clearly improved from last year's levels. We are gradually getting closer to our annual target level, which is over 12 per cent. In the third quarter, the return was at 11.5 per cent.

Then, an update on Husum's folding boxboard.

The capacity utilisation rate of folding boxboard in July to September was 76 per cent.

Our target to have the current capacity running full by the end of 2018 is still intact.

However, the fourth quarter production volumes of folding boxboard will be somewhat lower due to the annual maintenance shutdown in October.

The geographic sales mix improved as more deliveries were directed to the Americas. All in all, our deliveries to the Americas, in folding boxboard and food service board, have grown by 65 per cent this year compared to the same period last year. Quite rapid growth, I would say.

Due to the lower capacity utilisation rate, the production costs per tonne are still higher than at our mills in Finland.

And finally, I want to remind you of the potential we have in Husum to improve profitability – a total of 100 million euros from between 2016 and 2019. And this improvement is not only from the increase in production and deliveries of folding boxboard, but also from the increase in pulp production and cost savings.

Our cash flow from operations was strong in the third quarter, at 68 million euros. The increase was due to the improved profitability and release in working capital, which decreased by 23

million euros. Also the gap between free cash flow and operating cash flow is getting smaller due to the lower capital expenditure.

Our balance sheet is healthy. Due to the strong cash flow in Q3, our interest-bearing net debt came down to 437 million euros.

Lower net debt together with improved EBITDA had a positive impact on our leverage, which was 1.7.

In September, we issued a new 250-million-euro bond. The bond expires in 2027 and has an annual coupon of 2.75 per cent. At the same time, we bought back roughly two thirds of our old, 225-million-euro bond expiring in 2019. The new bond was clearly oversubscribed, which shows that debt capital markets also have strong trust in Metsä Board's performance in the coming years.

Metsä Board is a growth company. From 2012, our average annual growth in paperboard deliveries has been 10 per cent – exceeding clearly the average annual market growth, which according to our estimation is 3 to 4 per cent.

The strengthening economic conditions favour cartonboard consumption and increase demand for fresh fibre grades, such as folding boxboard and food service board. Demand is also supported by the public concern over mineral oil migration from recycled, fibre-based board into food and the narrowing price gap between fresh fibre and recycled cartonboard. Growth in e-commerce is increasing the demand for linerboard, among other things.

I am extremely delighted that Metsä Board was once again rated among the world's best performing companies by CDP. Sustainability actions should be initiated and driven by the company's top management to ensure engagement throughout the business. For Metsä Board, the reduction in CO2 emissions and water usage have also delivered overall cost efficiencies along with sustainability benefits.

A big event for Metsä Group and the whole Finnish forest industry was the start-up of Metsä Fibre's new bioproduct mill in Äänekoski in August. Start-up was as scheduled, total costs remained in the budget and production is now slightly above the ramp-up curve. The new mill makes Metsä Group the world's largest producer of softwood market pulp.

With an investment of 24,9 million euros, Metsä Board's annual pulp capacity will grow by 200 000 tonnes.

Then to the near-term outlook.

Due to seasonality, which basically points to the Christmas holidays, we expect our total deliveries to decline in the fourth quarter compared to the third quarter. Our focus is still to increase the average price, especially of folding boxboard.

In pulp, we don't expect to see any market imbalances. Metsä Fibre's ramp-up phase is progressing well, and should have a positive impact on our fourth-quarter result.

In October, we had an annual maintenance shutdown at the Husum mill, which will have a remarkable negative impact on our operating result.

And as we have earlier stated, the positive hedging impact from the US dollar will start to dilute towards year-end.

Impacts from the price increases are expected to be seen mainly in the first quarter of 2018.

Based on these assumptions and mainly because of the maintenance shutdown at the Husum integrated mill, we expect that our comparable operating result in the fourth quarter weakens slightly compared to the third quarter of 2017.

Then to summarize.

We had solid performance in the third quarter that met our expectations.

The market is healthy: we are seeing strong demand with stable or rising price levels. Metsä Board has recently announced price increases in both folding boxboard and white linerboard.

Our near-term target is to improve the average sales price of our folding boxboard, and by the end of 2018, we expect to have our current total paperboard capacity in full use.

This was the presentation part of Metsä Board's Results for January to September 2017. We are now happy to answer any questions you may have.

Operator: Thank you. If you would like to ask a question please signal by pressing star one 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, that is star one for questions.

We will go first to Linus Larson with SEB.

Linus Larson: Thank you very much and a good day to everyone. I'd like to start with the recent price announcement within the plater board segment. Could you describe why this would work? Could you maybe quantify order books as compared to the same time one year ago and what has the client response been so far please?

Mika Joukio: So the price announcement for liner board and for folding boxboard were made so that the prices for liner board or the new prices would be valid for mid-September and then in following ((inaudible)) early November. In real life, the prices for liner board have slightly already increased during the or starting from practically early October. But as part of the folding boxboard is concerned, it's not realistic to see any major increases this year because we have quite a lot of annual agreements. But then in the first quarter of next year, we will see then higher prices.

Of course, the reason for the price increases is very good demand, very strong demand. And if you compare the order books let's say a year ago, they are just a wild estimation at least two weeks longer now than a year ago. So they are healthy, all situation is healthy, and order books are long. And customers so far, of course there has been negotiations already and based on those negotiations, I'm pretty sure -- I'm confident that we will get these increases.

Linus Larson: And specifically on ((inaudible)) and just your commentary around operating rates and what you've commented before you're somewhat more cautious now compared to before. How should we interpret this? Looking at the falling box board production, is that slightly below breakeven still in ((inaudible)) or is there any way for you to describe the profitability level there?

Mika Joukio: Yes, so originally we estimated that the overall capacity utilization rate for ((inaudible)) folding boxboard production line would be 75% this year and now, we are at the level of a bit lower level and now, when we have this October shutdown of Husum mill it naturally was as planned, but it was a few days longer due to the issues at the pulp mill, not at the board mill. So that will have a small impact and then also then seasonality, what is the production and sales rate and especially in December. So that's why we estimate that the overall capacity utilization rate will be slightly lower than 75 some percent. We have to see if it's 1% or 2% lower ((inaudible)). But anyway, at that rate.

And then as far as the breakeven is concerned, the volumes are there but the problem has been a problem or the fact is that the prices are still lower than we target. So as far as the volumes are concerned that's okay. Of course, we will be looking for higher volumes still, but then the biggest driver, the breakeven of course is at the moment the ((inaudible)) price.

Linus Larson: Excellent. And just one final, you commented on the stop at Husum, what the impact in the fourth quarter of the Husum stop and what was the impact from the Kemi up in the third quarter?

Mika Joukio: Maybe Jussi will take this one.

Jussi Noponen: Jussi here. We don't quantify exactly in millions what was the impact but the burden from Husum shut down a significantly higher than that of Kemi in the third quarter. It's not only the maintenance course but more importantly, the lost income and most importantly in the pulp business.

Linus Larson: Those were my questions. Thank you.

Operator: We'll go next to Antti Koskivuori with Danske Bank.

Antti Koskivuori: Yes, thank you. I would have two questions. Firstly, on the -- if you could describe the geographical sales mix from Husum now in Q3 how that has developed and been an outlook going to Q4. Maybe also early 2018 would be very helpful. Then my second question would be around FX. I assume that you have now hedged 100% of your Q1 exposure. Could you give us any flavor how big of impact on EBIT we should expect from FX if we compare Q1 outlook and the Q3 actual numbers. Thank you.

Mika Joukio: Okay, I will take this geographical sale bit, or mix, and then Jussi will take this hedging issue. So in second quarter, the Husum or the volumes from Husum to Americas were roughly 50%. And in Q3, they were 70%. So clearly, higher and of course, now the estimation is that the fourth quarter they will be then again higher than the 70%. And then early next year, still higher.

Of course, then at the same time, we are speeding up and the volumes from the extension coating line will increase and part of that production course also, as we have said earlier to other regions than Americas. So in Europe and partly then to Asia-Pacific also. But deliveries from Husum to Americas especially in the U.S., they are growing nicely and the share of the overall volumes will be higher again in Q4 and Q1 compared to in Q3. Is that okay?

Antti Koskivuori: Just a question on that topic still. Should we expect volumes to the Middle East and Turkey in Q3 -- sorry Q4 and Q1 maybe still?

Jussi Noponen: Less and less. If 70% of the volumes already in Q3 were to Americas then of course, 30% went somewhere else. So it won't be 100% in Q4 or Q1 to Americas. It would still below 100% but higher than 70%, no question.

Okay ,then we take the question number two.

Jussi Noponen: Yes, first of all, your assumption that the first quarter is already hedged fully, that's correct and our annual ((inaudible)) 10% change in the dollar to euro rate is 64 million euros so that's 16 million per quarter. And there is six months delay in coming from hedging. So you can see the currency impacts with the six month delay. So from that, you can figure out the impact roughly. But it's fair to say that the headwind from

the dollar in the first quarter compared to the fourth quarter will be bigger impact than our fourth quarter compared to the third quarter.

Antti Koskivuori: Can you give us an indication what was the effective rate in Q3 please?

Jussi Noponen: Like I said, you can take six months older FX rates and assume that those were effective in the third quarter.

Antti Koskivuori: Thank you. Very helpful.

Operator: We'll go next to Mikael Doepel with Handelsbanken.

Mikael Doepel: Thank you. Still coming back to the Husum maintenance costs, you have previously said that there is actually no big maintenance delta Q4 compared to Q3. Now, you are saying that there is a very significant change Q4 versus Q3. Could you specify a bit -- I guess something has happened that you didn't really expect to happen. Could you elaborate a bit more on that please?

Mika Joukio: Yes, so Mika here. So the maintenance costs themselves, they are -- of course, they are slightly higher in Husum because it's bigger integrate than for example (Kemi). But then the also very, very impact factor is then the loss of sales in both paper board and especially in pulp because now, the situation is quite good. We need to remember that in both businesses. So it's coming from losses of the sales and then the costs themselves.

Mikael Doepel: And you mentioned that there the maintenance lasted a few days longer, which somehow related to the pulp mill.

Mika Joukio: The startup was delayed by a few days. And that will of course then have effect on the volumes. Not that much on the costs, but volumes. Volume ((inaudible)) sort of things.

Mikael Doepel: Okay, and then on terms of your growth strategy, as you said yourself, by the end of next year you should be running at full capacity and I guess if you want to do something about that to be able to continue to grow, you need to start to think about it basically now. What's your thinking about this at this point in time?

Mika Joukio: Yes, the answer is the same as three months ago. So we have different options, different scenarios on our planning board so to say and in management team, and we are calculating different options as management must do always. And our intention is to grow, as I have said, and say now also our intention is to grow also then from 2019 onwards. So we are calculating and comparing different options at the moment.

Mikael Doepel: Okay, and then just a final question. Would you dare to give some comment on the CAPEX outlook for 2018? I guess you're guiding for 65 to 70 for this year but should we assume a lower CAPEX next year?

Mika Joukio: So this year will be, as you said, max EUR70 million and at this very moment, we see more or less the same level next year.

Mikael Doepel: Good, thank you very much.

Operator: As a reminder, it is star one for questions. We'll go next to Harri Taittonen with Nordea.

Harri Taittonen: Yes, good afternoon. If you look at the materials and services cost, which amounted to EUR 333 million, it looks a bit higher against otherwise kind of lower volumes. Was there something in particular in the input cost side, which sort of changes the numbers also going forward?

Mika Joukio: You mean in Q4 -- Q3?

Harri Taittonen: Yes, in general. Just sort of wondering just sort of the materials looked a bit high compared to the volumes and whether you could talk about the inflation picture in that light?

Mika Joukio: So I think there is no inflation as such. We had a Kemi shut down. That always has some impact and then we have some minor shutdowns and after the shutdowns, of course, thee ((inaudible)) of course always there. So that might have an impact but Jussi will continue.

Jussi Noponen: Yes, if you look at that one P&L line alone, increased price of pulp is reasonable there but then you have to consider also the share of results from Metsa Fibre, which is increasing as well, although it was now burdened by the startup of the bioproduct mill but in a normal situation, those would be offsetting each other.

Harri Taittonen: Okay. That is helpful. Just one more question on the -- maybe when you talk about the Americas and how you have increased volumes there. But if you look at the North American market and the South American market, is there some sort of indication? Has that proportion changed or are you now identifying new markets in the Southern American markets rather than U.S.?

Mika Joukio: Yes, of course, the lion's share of the volumes are delivered in the U.S. and then South America of course play important part but I don't expect any changes between the share of the South America versus North America. Volumes will grow in both areas but no significant changes in the ratio of share.

Henri Parkkinen: Okay, that's helpful. Many thanks.

Operator: We'll go next Henri Parkkinen with OP Financial Group.

Henri Parkkinen: Yes, good afternoon. I have two questions. First of all, Page 7 in your presentation where you update on Husum's folding boxboard and you still say that there is potential to improve profitability in Husum by 100 million euros and then that stock is for 2019. When taking ((inaudible)) on, what happened in Husum during 2017, I wonder if you can give us some estimate that which part of this 70 million euros impact regarding higher folding boxboard ((inaudible)) rate should be reasonable in 2018 or if we want to compare 2017 and 2018 figures.

And then on the other hand, you say that 95% or higher utilization rate with normal sales price, what does this word normal mean in this context? Does it mean higher prices than now or what? Thank you very much.

Mika Joukio: So the first part of the question I would say no comment. So we don't give clear or exact figures on that, but as far as the normal prices are concerned, then we compare the prices in Husum to finished prices, which we keep as normal prices. So then there is a clear cap and that is at the moment remarkable cap and intention is to increase Husum prices to the level where the finish ones are today. Partly, we are there but not in all areas and not with all customers.

Henri Parkkinen: Okay, many thanks.

Operator: And there are no further questions at this time.

Mika Joukio: Okay, if that is the case then I thank you all for participation and wish you nice afternoon. Thank you.