

**Company:** Metsä Board

**Conference Title:** Metsä Board – Financial Statements Bulletin 2016

**Moderator:** N/A

**Date:** Thursday 2<sup>nd</sup> February 2017

Mika Joukio: Good afternoon everybody and welcome to Metsä Board 2016 Fourth Quarter and Full Year Results Conference Call and webcast. My name is Mika Joukio and I'm the CEO of Metsä Board. Here with me, I have also our CFO, Jussi Noponen, and Head of Investor Relations, Katri Sundström.

So let's first have a look at what happened in the fourth quarter. Our sales declined somewhat and our comparable EBIT remains roughly at the same level as in the third quarter, exactly as our guidance stated then. Delivery volumes in both paperboard and market pulp were lower compared to the previous quarter. This is quite normal and partly explained by seasonality. As we early mentioned, the annual maintenance shutdown of our Husum integrated mill in Sweden was extended by one week. This extension was needed in order to repair the pulp mills recovery boiler. Of course, this generated extra costs in the fourth quarter. After this repair work, pulp production has been operating normally.

The average price level in our paperboard business increased compared to the previous quarter. The obvious reason for this was the improved price level of Husum's new folding boxboard. Also the liner board business developed favourable, with increased price levels and a strong dollar supported our sales to the US demand and price levels in fresh fibre paperboards remains stable in our main market areas.

On slide three, you can see the key financials for Q4 and the full-year 2016. Here, I'd like to highlight the first and last rows. I will return to most of these figures and the development later in my presentation. So, in 2016 sales declined 14% from last year. The main reason for this was a sharp decline in paper deliveries according to [inaudible]. We delivered our last paper reels from

Husum in the fourth quarter, which was the end of our paper store. In 2015, the paper business still represented some 20% of our total sales.

Then to the dividend. The board will propose a growing dividend to the AAGM[?] 90% per share, whereas last year we paid \$0.17. Despite the weakened result in 2016, we want to pay steady, and preferably, growing dividends over time. The pay-out ratio for this dividend will pay 76%, clearly above our target level, which is to pay a dividend of at least one third of EPS.

Next, a closer look at profitability, starting with the operating result. Our 2016 operating result was €137 million. Let's start with the positive impacts. Development of our Finish mills was good throughout the year 2016. Five of our seven units in Finland made annual production records. Tako, Kyro, Kemi, Simpele and Kaskinen. For[?] our next rate changes, after hedges, had a positive impact on the full-year operating result. In 2016, operating result was weakened by the start of the new folding box production line in Husum mill in Sweden.

In the first half of the year, production volumes of both paperboard and pulp were low, which burdened the result. Also the start of grades of new folding box board decreased the total average price in 2016. During in the second and third quarter we faced unexpected technical problems in the finishing area of the production line. And there was a leak in the recovery boiler at the pulp mill. These together delayed the deliveries. Also, the decline in market pulp prices, compared to the previous year, weakened the full year result. And all this is evident in the return on capital employed as well. Comparable return of capital employed has remained at the level of 8% for five quarters in a row. Our strategic long-term target for [inaudible] is to exceed 12% from this year onwards.

Then to the paperboard deliveries. As seen on the slide six, the drop in the deliveries in the fourth quarter is quite normal. One reason for this is seasonality; in other words, the impact of Christmas holidays. However, if we look at the full year, our paperboard deliveries grew by 12%,

14% in folding boxboard, and 8% in linerboards. This are excellent growth figures. In the big picture, total deliveries among all European folding boxboard producers grew by 3% year-on-year, and in white fresh fibre linerboards by 5% respectively.

Husum's new folding boxboard production lines started up in February. By the end of the year, 120,000 tons of folding boxboard have been delivered to the customers. Total deliveries were below our old initial expectations, mainly due to the unexpected technical challenges that we faces during the ramp-up. In May last year, we launched an efficiency improvement programme at the Husum integrated Mill, that aim to annual cost savings of €10 million. This programme has proceeded, as planned, and total savings in 2016 were roughly €5 million.

To broaden our paperboard offering, we will start up our own extrusion coating line in Husum with an annual capacity of 100,000 tons. Because[?] this paperboard is especially used for food service packaging, we will continue to develop other [inaudible] solutions and closely monitor the commercial feasibility in the future. Our foreign exchange exposure has risen to €1.2 billion, mainly due to the English sales in the US. We have also lengthened our normal hedging level from 2017 onwards.

Next, to CAPEX. In 2016 total gross investments were €162 million, of which roughly two-thirds were growth investments, such as Husum investment programme, the extrusion coating line, and the equity investment in Metsä fibres by a product mill. After two years of heavy investments, we still estimate that CAPEX in 2017 will drop to around €65-70 million. This two years of peak investments can be seen in our free cash flow, represented in grey in this chart. Cash flow from operations in 2016 remain clearly positive at €77 million. The difference from the 2015 level, which was almost €250 million, is explained by changes in working capital and the weakened result.

Moving on to the balance sheet. Interest-bearing net debt decreased to €464 million and net gearing to 44%. Our financial sale target for net gearing is a maximum of 70%. The ratio of interest-bearing net debt to comparable EBITDA was 2.0 at the end of December. We are planning to reduce our interest-bearing net debt by €100 million during 2017 through improved cash flow.

Then to the outlook. We expect our paperboard delivery volumes to increase in the first quarter of 2017, compared to the last quarter of 2016. Also, no planned shutdowns will take place in January to March, which will benefit the first quarter results compared to other quarters. We expect the demand and price levels in fresh fibre paperboard to remain stable. And, based on these assumptions, we expect that our comparable operating result in the first quarter of 2017 will improve compared to the last quarter of 2016.

And then the summary. In 2016, we had a drop in our profitability, mainly due to the ramp-up of new folding boxboard production line in Husum Sweden. Also, a decline in market pulp prices weakened the result compared to previous year. We expect our paperboard deliveries to grow both in the first quarter, and in the year as a whole. In 2017, our investments will be roughly €100 million lower than in 2016 and 2015. Also we expect our profitability to improve. This, together with stabilised working capital, improve our cash flow and enable us to reduce our indebtedness.

Demand for high quality fresh fibre paperboard is expected to remain good in all of our main market areas. In North America, demand for folding boxboard and food service board is strong and non-integrated converters are looking for alternative suppliers. Here, in Europe, we expect the demand and price levels in paperboards to remain stable. Asia is a rather small market for us, but still important. We continue to serve the big [inaudible] there with our premium quality paperboards. Dear participants, thank you very much for your attention. We are now ready for your questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing \*1 your telephone key pad. If you are using a speakerphone, please make sure your mute button is turned off to allow your signal to reach our equipment. Again, press \*1 to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions. We will take our first question from Mikael Doepel from Handelsbanken. Please go ahead.

Mikael Doepel: Hi, good afternoon everybody. A couple of questions to start with. First of all, what is the impact of the Husum maintenance or extended maintenance in Q4?

Mika Joukio: Okay. Impact of Husum shutdown all together was somewhere between €8 – 10 million, as we said earlier.

Mikael Doepel: Okay. And then, there will be no maintenance in Q1, right?

Mika Joukio: No, with no major shutdowns.

Mikael Doepel: And in terms of deliveries, regarding the deliveries higher in Q1 compared to Q4, could you quantify, roughly speaking how much higher?

Mika Joukio: That is difficult to quantify but normally Q1 is relatively strong, except January, where we have these Chinese New Year's and all the still holidays. But all in all, it will be slightly better than Q4.

Mikael Doepel: Okay.

Mika Joukio: It's difficult to estimate how much.

Mikael Doepel: Then in terms of the anticipated restructuring benefits from Husum in 2017, now you said that out of the total cost programme in Husum you reached €5 million in savings in 2016. And you, I guess, expected incremental €5 million in 2017. But the whole €50 million savings programme, how much out of that would you expect to achieve in 2017?

Mika Joukio: As we said already earlier, that the full impact will be seen in 2018 and then lion share of that result should be seen already in 2017 or this year 2017. So there is no reason to change that statement. So lion share of that €50 million will be seen over this year.

Mikael Doepel: Okay. Good. Then just finally, I guess there are some worries about what will happen in the US, now with the new President there. And then you have, obviously, a lot of exports going into that market and hopefully also growing those exports. What's your view on this? Do you see this as a significant risk for your business, that there might come some import duties in the US?

Mika Joukio: This is a question I didn't expect at all. Okay, joking. We have been in the US market decades, especially with our linerboards. And our strategic target is to continue to grow there. We have been there, even though the dollar/euro rate has been higher than 1.5. So whether there has been good days or bad days, we have been there, and our intention is to do that also in the future. So, of course, in our back pocket we have some plans, if something drastic and dramatic would happen, but at the moment we do not see any reason to change our directions. Our target is to continue to grow. But, of course, we look very carefully around and listen to all possible channels in order to be ready to act. But at the moment, no reason to do anything drastic.

Mikael Doepel: Good. Then as a final question on costs. You said that you don't see any major cost changes going into the first quarter. What about the full-year? What's your anticipation of cost inflation?

Mika Joukio: Cost inflation, concerning our raw materials, is quite flat. So, that is our kind of estimation at the moment, no reason to believe something else. But what is good to understand here is that during the first quarter, we don't have any major shutdowns, but during second quarter, third quarter and fourth quarter we will have. That is the fact.

Mikael Doepel: Okay good. Thank you very much.

Mika Joukio: Thanks.

Operator: We will take our next question from Linus Larsson from Seb Bank. Please go ahead.

Linus Larsson: Many thanks, and good day to everyone. Could you update just a bit on the run rate, the production and deliveries from Husum? And most importantly, how much incremental production and/or shipments do you expect from Husum in 2017, please?

Mika Joukio: So run rate, of course, varies because the beginning of the year is a bit slower, compared to the end of the year, because the machine is still improving all the time. But here we need to remember that the production is not the limitation at the moment. It's sales and we have very clear plans to grow our – continue to grow our sales, both from Husum as well as from Finland. So the run rate is very difficult to say a precise figure but – what would I say? – it will be at least – if you think about the whole year, it will be around 75-80%, as a whole year. But, of course, the quarters will obviously be different.

Linus Larsson: How do you mean – 75-80%, do you mean of the folding boxboard machine's full capacity? That's how you mean?

Mika Joukio: Yeah, if the full capacity, as we have said, is 400,000 tons, so 75% is then 300,000 tons.

Linus Larsson: Excellent, thank you for clarifying that. In terms of pricing, I guess you've probably had some negotiations with your customers recently. Any price changes? And could you describe how those negotiations have gone?

Mika Joukio: If I take first the folding boxboard in Europe, which is the main market for us here, as you might remember, we announced price increase last year. And then during the negotiations we were able to get through something – not the price increase whole as we announced, but anyway partly. And now we see that the prices will be stable, or moderately increasing, but nothing drastic. We do not see any decreased prices during the coming months. So the negotiations have been okay, and the prices are stable or slightly increasing.

Linus Larsson: Great. And on the linerboard side?

Mika Joukio: The linerboard side, the situation is likely better. We announced last year price increase, and that went through better than the folding boxboard. And also then we increased prices in the US for linerboard. So linerboard side situation is likely better.

Linus Larsson: Okay. And that's excellent. And if you look at the European folding box board competitive landscape, how would you describe it currently, given recent capacity, distance[?], and what your competitors are doing?

Mika Joukio: Yes, competitors, of course, are trying to get their share of their volumes, but at the moment we cannot see any problems. Our mills are running practically full and all the inflows are okay. As I have said, we just need to take care that we don't give any excuses to customers to look around. So quality needs to be okay and deliveries need to be okay, customer service excellent as always. So we concentrate on our sales, but of course we look around and see what the competitor are doing. But at the moment I'm not too worried about that.



Linus Larsson: That sounds good. Then just one final question, if I may, on longer term strategic growth plans. Can you talk a bit about your main – your framework, in terms of potential organic growth going forward? Would that be on existing mills? Should we expect any kind of announcement during the 12 months ahead? Is there anything you can say on that topic?

Mika Joukio: I can say, as I did last time, that, of course, as the management we calculating different options, we are comparing different scenarios. This year the month important thing is to get this big coating line up and running – if you think about technical side, the most important thing is to get new coating line up and running, as targeted, and then stabilise the production there. And as we have stated earlier, is that if and when everything goes as we have planned, then our capacity is more or less fully utilised, let's say, by end of 2018 or early 2019, which means then, at that point, of course we would need more capacity. But then, of course, comparing with what competitors are doing, that also has an effect on our plans.

Then also, I have said that as far as the organic growth is concerned, we will focus on our integrated mills, so whether it's Husum, whether it's Äänekoski, whether it's Kemi. So if and when we are planning something new capacity, those sites will be then kind of compared. But it's no reason to believe that there would be new or clear higher production capacity in, let's say, [inaudible], [inaudible] or [inaudible] or those non-integrated sites. But, as I said, we are looking for different options at the moment and calculating with a very sharp pens. And if and when we are ready, then we tell what the plans are.

Linus Larsson: That sounds great. Thank you very much.

Operator: Once again, if you would like to ask a question, please press \*1 to signal. As a reminder, if you are using a phone with a mute function, please be sure your mute function is turned off to allow your signal to reach our equipment. We will take our next question from Mikko Ervasti from DNB Bank. Please go ahead.

Mikko Ervasti: Thank you very much and good afternoon. Actually, most of my questions have been answered, but just one more of the US market. The current administration is talking about certain types of border taxes for importers there, at the moment. What do you think your circumstances here are? Would you be a target company for these kind of border taxes, if they were put in place? And if not, why so? Can you please elaborate on that? That would be great.

Mika Joukio: At the moment, we do not see ourselves as a target company. I think this is a bigger question as such. I know about this issue, more or less, as much as you do. We look around, we listen to different kind of bodies and then draw our conclusions. But at the moment there is no reason to kind of do any drastic or dramatic things or actions, as I said earlier. We will see what will happen. I mean, unfavourable taxes are more or less unfavourable for exchange rates. So simple it is. They go up and down, and then let's see what will happen. But at the moment I can't give you any more precise answer, unfortunately.

Mikko Ervasti: Okay, that's fine. And then on the EBIT and volume guidance, it's quite easy to achieve growth in Q1 when you look at the volumes, because of seasonality, and when you look at the EBIT, because of this lack of maintenance. Why don't you set a number, or at least a range? What are the uncertainty factors there, that you only say growth, which is quite vague at this point?

Mika Joukio: I think that is our policy, that we don't give any rates. At least, at the moment, we will continue to do so. We say whether it will be better, slightly better, or clearly better. So at this stage we say that it's better. And you can easily calculate the influence of this Husam shutdown, and then when the business will be better, as such sales higher during the first quarter. So that's extra for that. But unfortunately, from your perspective, our policy is not give any exact figures – at least not at this stage.

Linus Larsson: Okay. Thanks.

Operator: Final reminder, if you would like to ask a question today, please press \* followed by 1 on your telephone. It appears there are no further questions at this time. I would like to turn the call back over to today's speaker for any additional or closing remarks.

Mika Joukio: Okay. Thank you all. [Inaudible] and it's been good session. Good questions, hopefully good answers also. At this stage, I wish you excellent afternoon, and see you and hear you again. Thank you.