

METSÄ GROUP

FINANCIAL STATEMENTS BULLETIN

2016



METSÄ GROUP'S COMPARABLE OPERATING RESULT IN 2016 WAS EUR 439 MILLION

JANUARY–DECEMBER 2016 (1–12/2015)

- Sales were EUR 4,658 million (EUR 5,016 million).
- Operating result was EUR 442 million (542). Comparable operating result was EUR 439 million (537).
- Result before taxes was EUR 361 million (468). Comparable result before taxes was EUR 357 million (466).
- Comparable return on capital employed was 10.2 per cent (13.6). Comparable return on capital employed excluding assets under construction related to strategic investment projects was 11.6 per cent (14.3).
- Cash flow from operations was EUR 504 million (964).

OCTOBER–DECEMBER 2016 (10–12/2015)

- Sales were EUR 1,175 million (EUR 1,205 million).
- Operating result was EUR 110 million (128). Comparable operating result was EUR 107 million (123).
- Result before taxes was EUR 85 million (113). Comparable result before taxes was EUR 82 million (108).
- Comparable return on capital employed was 9.8 per cent (12.3). Comparable return on capital employed excluding assets under construction related to strategic investment projects was 11.6 per cent (13.2).
- Cash flow from operations was EUR 206 million (338).

EVENTS DURING THE FOURTH QUARTER OF 2016

- At the end of the year, the bioproduct mill project at Äänekoski was 84 per cent complete.
- The average price for orders of the new folding boxboard at Husum, Sweden, increased and deliveries remained roughly on par with the previous quarter.
- Metsä Wood divested its glulam business located in Hartola.
- Metsä Group's Finnish sawmills were transferred from Metsä Wood to Metsä Fibre in an internal transaction.

PROPOSAL FOR INTEREST ON MEMBERS' CAPITAL

Metsäliitto Cooperative's Board of Directors has decided to propose that interest of 6.0 per cent (6.0 per cent in 2015) be distributed on the participation shares of the members for 2016. Interest of 5.5 per cent (5.5) is proposed for additional shares A, and interest of 2.5 per cent (3.0) for additional shares B.

RESULT GUIDANCE FOR JANUARY–MARCH 2017

Metsä Group's comparable operating result is in the first quarter of 2017 expected to be roughly at a similar level as in the last quarter of 2016.

President and CEO Kari Jordan:

"Metsä Group's business operations developed according to expectations in 2016. Our profit-making ability continued to be good, and the balance sheet strong. Our profitability in comparison to the previous year was affected by the lower market price of pulp and the start-up phase of the new folding boxboard machine at Husum.

Our production capacity is growing. Metsä Group's investments in 2015–2017 amount to approximately two billion euros of which about 85 per cent is directed to Finland. The construction of the bioproduct mill at Äänekoski is progressing on schedule and according to budget. At the moment, the focus of the work is shifting from equipment installations to the testing and commissioning phase. The folding boxboard machine at Husum, which started up in early 2016, is operating at a good speed, and the construction work on the extrusion coating line is progressing according to target. The expansion of Kerto® LVL mill in Lohja is also progressing according to plan as part of the Wood Products Industry's investment programme.

Our starting point for 2017 is stable. We will continue our long-term work for profitable growth as well as efficiency and productivity improvement in all of our business areas. Metsä Group's year will culminate in the start-up of the bioproduct mill in the third quarter."

www.metsagroup.com

Metsä Group is a forerunner in sustainable bioeconomy utilising renewable wood from sustainably managed northern forests. Metsä Group focuses on wood supply and forest services, wood products, pulp, fresh fibre paperboards and tissue and cooking papers.

Metsä Group's sales totalled EUR 4.7 billion in 2016, and it employs approximately 9,300 people. The Group operates in some 30 countries. Metsäliitto Cooperative is the parent company of Metsä Group and owned by approximately 104,000 Finnish forest owners.

Follow Metsä Group: [Twitter](#) [LinkedIn](#) [Facebook](#) [YouTube](#) [Instagram](#) [Slideshare](#)

KEY FIGURES

Condensed income statement, EUR million	2016	2015	2016	2015
	1–12	1–12	10–12	10–12
Sales	4 657.9	5 016.0	1 175.2	1 205.4
Other operating income	70.5	95.7	18.2	16.9
Operating expenses	-4 041.8	-4 311.4	-1 030.2	-1 033.8
Depreciation and impairment losses	-244.3	-258.2	-53.5	-60.3
Operating result	442.3	542.1	109.7	128.2
Share of results from associated companies and joint ventures	-1.1	11.2	0.3	2.7
Exchange gains and losses	-5.7	-1.2	-6.5	2.6
Other net financial items	-74.9	-83.8	-18.4	-20.1
Result before income tax	360.6	468.4	85.1	113.4
Income tax	-80.7	-112.6	-16.9	-21.4
Result for the period	279.9	355.7	68.2	92.2

Profitability	2016	2015	2016	2015
	1–12	1–12	10–12	10–12
Operating result, EUR million	442.3	542.1	109.7	128.2
Comparable operating result	438.6	537.4	106.5	122.7
% of sales	9.4	10.7	9.1	10.2
Return on capital employed, %	10.2	13.7	10.1	12.9
Comparable return on capital employed	10.2	13.6	9.8	12.3
Return on equity, %	11.2	15.9	10.7	15.5
Comparable return on equity	11.0	15.8	10.2	14.6

Financial position	2016	2015	2016	2015
	31.12.	31.12.	30.9.	30.9.
Equity ratio, %	43.9	43.2	44.0	42.7
Net gearing ratio, %	40	25	40	29
Interest-bearing net liabilities, EUR million	1 033	610	991	682

SEGMENTS

Sales and Operating result 1–12/2016, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp and Sawn Timber Industry	Paperboard Industry	Tissue and Cooking Papers
Sales	1 534.4	481.6	1 636.0	1 720.3	990.8
Other operating income	7.3	12.2	25.8	40.2	3.5
Operating expenses	-1 507.4	-440.2	-1 368.7	-1 525.9	-893.3
Depreciation and impairment losses	-3.4	-13.6	-72.3	-102.3	-39.7
Operating result	30.9	40.0	220.8	132.3	61.3
Items affecting comparability	-	-1.3	-6.2	5.2	1.7
Comparable operating result	30.9	38.7	214.6	137.5	63.1
% of sales	2.0	8.0	13.1	8.0	6.4

On 1 November 2016, Metsä Group's Finnish sawmills transferred from the Wood Products Industry to the Group's Pulp Industry in a group internal transaction. As a result, the new name of the Pulp Industry segment is Pulp and Sawn Timber Industry. New historical figures have been calculated for the segments with regard to 2015 and 2016.

THE FINANCIAL STATEMENTS BULLETIN IS UNAUDITED**FINANCIAL STATEMENTS 2016****SALES AND RESULT**

Metsä Group's sales in 2016 totalled EUR 4,657.9 million (2015: EUR 5,016.0 million).

The comparable operating result in 2016 was EUR 438.6 million (537.4), or 9.4 per cent (10.7) of sales. The decrease in sales and operating result in comparison to the previous year is primarily due to the lower market price and sales volumes of pulp, as well as the start up phase of the new folding boxboard machine at Husum and the lower price of start-up volumes. In addition, the planned discontinuation of the remaining fine paper production had an impact on the decline of sales.

Sales for the last quarter of 2016 totalled EUR 1,175.2 million, whereas the sales for the corresponding period in 2015 were EUR 1,205.4 million. The comparable operating result was EUR 106.5 million (10–12/2015: 122.7).

Items affecting comparability in 2016 totalled EUR +3.7 million (+4.7). The major negative items were related to the shutdown of the wallpaper base machine at the Kyro mill and Metsä Tissue's decision to discontinue its operations in Russia. The biggest positive items consisted of the Metsä-Botnia Metsät Oy sales gain, the additional sales price received from the divestment of the Hallein mill, and the sales gain from the divestment of Metsä Wood's glulam business.

Metsä Group's operating result (IFRS) was EUR 442.3 million (542.1). The share of the results of associated companies and joint ventures was EUR -1.1 million (11.2), financial income was EUR 4.2 million (5.2), exchange rate differences in financing were EUR -5.7 million (-1.2), and financial expenses totalled EUR 79.1 million (89.0).

The result before taxes was EUR 360.6 million (468.4), and taxes including changes in deferred tax liabilities totalled EUR 80.7 million (112.6). The Group's effective tax rate was 22.4 per cent (24.0). The result for the financial period was EUR 279.9 million (355.7).

The return on capital employed was 10.2 per cent (13.7), and the return on equity was 11.2 per cent (15.9).

The comparable return on capital employed was 10.2 per cent (13.6), and the comparable return on equity was 11.0 per cent (15.8). Metsä Group's bioproduct mill under construction at Äänekoski reduced the return on capital employed by 1.5 percentage points (0.6).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity is excellent. Total liquidity at the end of December was EUR 1,801.4 million (31 December 2015: 1,952.6). This consisted of EUR 895.1 million (1,120.8) in liquid assets and investments, and EUR 906.3 million (831.8) in off-balance sheet committed credit facility agreements. In addition, the Group has EUR 501.2 million in off-balance sheet committed credit facility agreements related to the bioproduct mill investment at Äänekoski.

The Group's liquidity reserve is complemented by uncommitted commercial paper programmes and credit facilities amounting to EUR 160.8 million (31/12/2015: 161.0).

The Group's equity ratio at the end of December was 43.9 per cent and net gearing was 40 per cent (31 December 2015: 43.2 and 25, respectively). Interest-bearing net liabilities were EUR 1,032.6 million (31/12/2015: 609.6).

Cash flow from operations amounted to EUR 504.3 million (2015: 964.3). EUR 126.2 million was tied up in working capital (released 221.3). Working capital was increased by the addition of EUR 84.4 million in trade and other receivables as well as the addition of EUR 90.3 million in inventories. Working capital was decreased by the addition of EUR 48.6 million in trade payables and other liabilities. In 2015, the introduction of new instruments for working capital financing, among others, reduced the amount of working capital.

The equity ratio of the parent company Metsäliitto Cooperative was 69.6 per cent at the end of December and net gearing was -7 per cent (31 December 2015: 67.8 and 3, respectively).

During January–December 2016, Metsäliitto Cooperative's members' capital increased by a total of EUR 51.5 million (53.8). The value of participation shares grew by EUR 11.8 million (1.6), that of the additional shares A by EUR 26.6 million (33.1), and that of the additional shares B by EUR 13.1 million (19.1).

In February, Standard & Poor's Ratings Services raised Metsä Board's credit rating by one notch from BB to BB+. The rating outlook was raised from stable to positive.

In June, Metsä Board agreed on extending its current syndicated credit agreement by two years. Following the extension, the facility, which consists of a loan facility of EUR 150 million and a revolving credit facility of EUR 100 million, will mature in March 2020.

In June, the shareholders of Metsä Fibre made an equity investment totalling EUR 100 million in the bioproduct

uct mill under construction. The share of Metsäliitto Cooperative was EUR 50.2 million, that of Metsä Board EUR 24.9 million, and that of Itochu Corporation EUR 24.9 million.

PERSONNEL

Metsä Group employed an average of 9,626 people in 2016 (10,117). Personnel expenses totalled EUR 626.3 million (678.2). At the end of December, the number of personnel in the Group was 9,300 (31 December 2015: 9,599) of whom 4,927 (5,122) were based in Finland and 4,373 (4,477) abroad. The parent company Metsäliitto Cooperative employed 1,934 people at the end of December (2,449).

MEMBERS

At the end of December, Metsäliitto Cooperative had 104,037 members (2015: 116,290). The reduction in the number of members was the result of a project aiming to update the membership register, which included a review of the grounds for membership with regard to ownership of forestland and investments in participation shares. The forest area owned by members remained nearly unchanged, and members own approximately half of Finland's private forests.

INVESTMENTS

Metsä Group's capital expenditure totalled EUR 757.9 million in January–December (491.6). Approximately EUR 508 million of the investments related to the bioproduct mill at Äänekoski.

Äänekoski bioproduct mill

The construction of Metsä Fibre's bioproduct mill at Äänekoski is progressing according to plan. The mill's leading principle was to expand the product range to include numerous new bioproducts. In February 2016, the development of the product concept progressed to implementation decisions for biogas and biocomposite. In May, Metsä Fibre decided to build a sulphuric acid plant in conjunction with the mill. The plant will further improve the bioproduct mill's environmental performance.

The bioproduct mill was 84 per cent complete at the end of 2016. The project's degree of Finnish content is more than 70 per cent. The mill will start up in the third quarter of 2017.

Metsä Wood's investment programme

In June, Metsä Wood announced the launch of an investment programme of EUR 100 million in the plywood and Kerto® LVL operations. The investment programme will be carried out in phases and completed by the end of 2018.

A new birch veneer peeling and drying line will be built at Äänekoski, the production of which will be processed

in a new plywood mill to be built in Estonia. Suolahti mill's current processing line for birch veneer will be transferred to Estonia. A preliminary agreement on the purchase of an industrial site in Pärnu, Estonia, was signed in October.

The customer test runs concerning the speciality veneer product planned for the Suolahti mill are already under-way.

The annual production capacity of Lohja's Kerto® LVL mill will be increased by approximately 20,000 cubic metres as the oldest two production lines are replaced with a new one. Kerto line 1 was closed at the end of November, and the preparatory work for the investment in the new line commenced.

Husum mill

At the end of September 2016, the installation of the main equipment for the extrusion coating line began in Husum. The coating line will be commissioned in 2017, and its paperboard coating capacity will be approximately 100,000 tonnes per year. The investment value, approximately EUR 38 million, was allocated primarily to 2016.

DIVESTMENTS AND PRODUCTION ARRANGEMENTS

In June, Metsä Wood sold its ThermoWood operations in Kaskinen to Oy Lunawood Ltd.

Paper production in Metsä Group came to an end in July when fine paper production at Metsä Board's Husum mill ended.

In August, Metsä Fibre sold the entire share capital of Metsä-Botnia Metsät Oy to a fund managed by Dasos Capital Oy. Metsä-Botnia Metsät owns approximately 34,000 hectares of land and water areas.

In September, Metsä Board closed the wallpaper base machine at the Kyro mill, located in Hämeenkyrö, Finland. A folding boxboard machine that produces 190,000 tonnes of packaging board a year will remain at the mill.

In November, Metsä Wood sold its glulam business located in Hartola, Finland, to Versowood Oy.

After the financial period, in January 2017, Metsä Wood sold its project business located in Pälkäne, Finland, to Lapwall Oy.

BUSINESS AREAS

Wood Supply and Forest Services

In 2016, the sales of Wood Supply and Forest Services, i.e. Metsä Forest, totalled EUR 1,534.4 million (2015: 1,518.1), and the comparable operating result was EUR 30.9 million (29.0).

Sales in the fourth quarter amounted to EUR 399.2 million (10–12/2015: 364.9), and the comparable operating result was EUR 8.9 million (6.3).

In Finland, the supply of wood in 2016 was steady, and stumpage prices remained stable. The Finnish forest industry purchased approximately 44 million cubic metres of wood, equal to approximately 10 per cent more than in 2015. The weather conditions for harvesting were good throughout the year. In the Baltic Sea area, there was oversupply of birch pulpwood in 2016. The markets for softwood pulpwood and woodchips were fairly balanced. Demand for both softwood and birch logs was active throughout the year in the Baltic countries, Sweden and Russia. Towards the end of the year, demand for pine logs nevertheless grew slightly weaker. The oversupply of energy wood continued in the Baltic Sea area.

Metsä Forest's wood demand focused on spruce-intensive final fellings and summer-harvestable thinning stands. The majority of wood in Finland was purchased from the members of Metsäliitto Cooperative. The purchasing of energy wood continued to focus on crown wood.

Wood was harvested in Finland as targeted, and deliveries to customers' production units were carried out according to plan. In 2016, Metsä Forest delivered a total of approximately 30.5 million cubic metres (30.0) of wood to its customers. Approximately 84 per cent of this amount went to industry in Finland.

In 2016, Metsä Forest bought nearly 20 per cent of the wood it sourced from private forests electronically. In the sale of forest management services, the figure was about 25 per cent.

The sale of forest services grew in comparison to the previous year. Due to uncertainties related to the Act on the Financing of Sustainable Forestry, the sales of forest management services remained at the level of the previous year.

In the autumn, Metsä Forest adopted a new nature management measure, in which the trunk of some trees is cut at a height of 2–4 metres to leave a biodiversity stump. The measure is implemented in connection with fellings.

Wood Products Industry

In 2016, the sales of the Wood Products Industry, i.e. Metsä Wood, totalled EUR 481.6 million (2015: 533.6). The comparable operating result was EUR 38.7 million (27.9).

Sales in the fourth quarter amounted to EUR 115.3 million (10–12/2015: 117.4), and the comparable operating result was EUR 8.3 million (8.4).

The delivery volumes and sales of Kerto® LVL products grew markedly, particularly due to deliveries to Northern Europe, Australia and North America. Demand for Kerto® LVL products was strong in other markets, too.

The delivery volumes and sales in both birch and softwood plywood products, on the other hand, decreased from the previous year. The market balance of plywood sheet products in Europe has been weakened by the increase in imports from outside the EU.

On 8 June 2016, Metsä Wood announced the launch of an approximately EUR 100 million investment programme related to the Kerto® LVL and plywood operations and the increase of production efficiency. The plan is to implement the programme in steps by the end of 2018.

On 1 November 2016, Metsä Group's Finnish sawmills were transferred from Metsä Wood to Metsä Fibre in an internal transaction of the Group. The transfer concerned the Vilppula, Lappeenranta, Renko, Merikarvia, Kyrö and Eskola sawmills, which have a total annual production volume of sawn timber of approximately 1.6 million cubic metres.

On 30 November 2016, Metsä Wood sold its glulam business in Hartola, Finland, to Versowood Oy. The sale of the project business in Pälkäne, Finland, to Lapwall Oy took place after the review period, on 31 January 2017.

Pulp and Sawn Timber Industry

In 2016, the sales of the Pulp and Sawn Timber Industry, i.e. Metsä Fibre, totalled EUR 1,636.0 million (2015: 1,771.8). The demand and supply balance of long-fibre pulp remained good. In short-fibre pulp, an increase in supply brought prices down. The exchange rate of the US dollar in relation to the euro remained, on average, at the level of the previous year, even though it grew stronger towards the end of the year.

Metsä Fibre's comparable operating result was EUR 214.6 million (340.7). Metsä Fibre's sales and operating result decreased in comparison to the previous year. This was mainly due to the decrease in sales volumes and the dollar-denominated sales prices of pulp. The dollar-denominated market prices of softwood pulp decreased by 6 per cent and those of hardwood pulp by 11 per cent on average.

Metsä Fibre's sales in the fourth quarter of the year were EUR 416.0 million (10–12/2015: 442.3), and the comparable operating result was EUR 53.7 million (79.7).

In 2016, the delivery volume of pulp was 2,274,000 tonnes, which is approximately 3.5 per cent less than in the corresponding period in the previous year (2,356,000). Softwood pulp accounted for 1,738,000 tonnes (1,783,000) and hardwood pulp for 536,000 tonnes (573,000) of sales. Pulp production amounted to 2,317,400 tonnes (2,352,600).

The investment in the bioproduct mill under construction at Äänekoski amounted to EUR 508 million in 2016. The most significant investments at the mills in operation included the new reception station for

sawmill chips at the Kemi mill, the expansion of heat recovery for the drying machine at the Rauma mill, and the modification of the air system of the recovery boiler at the Kemi mill.

Metsä Group's sawmills in Finland transferred to Metsä Fibre in an internal group arrangement on 1 November 2016. The transfer was done to fully utilise the industrial synergies between pulp production and sawmilling.

In August, Metsä Fibre sold the entire share capital of Metsä-Botnia Metsät Oy to a fund managed by Dasos Capital Oy. Metsä-Botnia Metsät owns land and water areas totalling about 34,000 hectares. The long-term contracts on wood sales and forest management services between Metsä Group and Metsä-Botnia Metsät will remain in effect.

Paperboard Industry

The sales of the Paperboard Industry, i.e. Metsä Board, were EUR 1,720.3 million (2015: 2,007.5). Sales declined due to a considerable decrease of paper deliveries. The operating result was EUR 132.3 million (199.0), and the comparable operating result was EUR 137.5 million (179.9). Items affecting comparability were EUR -5.2 million net and related primarily to the discontinuation of the wallpaper base business.

The operating result, particularly in the first half of the year, was weakened by the start-up of the new folding boxboard machine at Husum, which affected the production volumes of pulp and paperboard. A leak in the pulp mill's recovery boiler and technical problems in the finishing part of the new folding boxboard line delayed customer deliveries in the second and third quarters. The result for the financial period was also negatively impacted by the clearly lower price of the start-up volumes of Husum's folding boxboard and the fall in market pulp prices in comparison to the previous year. All in all, the profit development of Metsä Board's Finnish mills was stable. Five Finnish mills set new annual production records. Exchange rate fluctuations after hedging had a clearly positive total impact on the operating result of the financial period.

Metsä Board's sales in the fourth quarter of the year were EUR 421.8 million (10–12/2015: 462.2), and the comparable operating result was EUR 32.8 million (35.0).

In January–December, the total delivery volume of Metsä Board's folding boxboard and white fresh fibre linerboards was 1,568,000 tonnes (1,404,000). The delivery volume of papers amounted to 35,000 tonnes (478,000). Deliveries of market pulp amounted to 500,000 tonnes (549,000). The volume of pulp deliveries declined due to the downtime attributable to the investment programme at Husum and the discontinued trading activity with Sappi.

Metsä Board's comparable return on capital employed was 8.1 per cent (11.3), and its comparable earnings per share were EUR 0.26 (0.34).

Metsä Board's equity ratio at the end of December was 48.2 per cent, and its net gearing ratio was 44 per cent (31 December 2015: 46.5 and 32, respectively).

Metsä Board's financial statements were published on 2 February 2017.

Tissue and Cooking papers

In 2016, the sales of Tissue and Cooking Papers, i.e. Metsä Tissue, totalled EUR 990.8 million (2015: 1,015.8), and the comparable operating result was EUR 63.1 million (55.1). The decline in sales was the result of the consumer business in Russia, which was discontinued in 2015, and the weakening exchange rates of the Norwegian krone, Polish zloty and British pound. The operating result improved due to a better product mix than in the previous year, increased efficiency, and lower production and transport costs.

Sales in the fourth quarter of 2016 amounted to EUR 249.2 million (10–12/2015: 263.8), and the comparable operating result was EUR 20.6 million (18.6).

Items affecting the comparability of the operating result in 2016 amounted to EUR -1.7 million net (2015: -13.5). The items related to the shutdown of the consumer business in Russia and the efficiency programme of the napkin business carried out in Germany.

Lambi gained allergy and asthma labels from the Finnish and Swedish allergy and asthma federations for its toilet papers and household towels in Finland and Sweden. Early in the year, Serla brought to the market an even longer-lasting white toilet paper, each roll of which contains 30 per cent more sheets than before. The sales of the new, three-ply Sensitive toilet paper products launched by Mola and Tento boosted the strengthening of market shares in Poland, Slovakia and the Czech Republic.

Katrin continued the launches of the new dispenser series in various market areas. The new dispensers gained recognition for their design and innovativeness. SAGA introduced the SAGA Baking Form – made from corrugated board and baking paper – to the Finnish market. The product does not contain any plastic or aluminium and is suitable for baking. It can be used in temperatures up to 220 °C and is entirely biodegradable.

In Germany, Metsä Tissue renewed the paper machine at the Raubach mill and commissioned a new warehouse in Kreuzau. The greaseproof paper machine at the Mänttä mill was renewed during the third quarter.

RISKS AND UNCERTAINTIES

The estimates and statements in this financial statements bulletin are based on current plans and estimates. They involve risks and uncertainties that may

cause the results to differ from those expressed in such statements. In the short term, the price of and demand for end products, raw material costs, energy prices and the exchange rate development of the euro have an effect on the results of Metsä Group.

There are several geopolitical risks and crises around the world, and forecasting developments in them is difficult. Changes in these areas may be very sudden and unpredictable. There have been, and will continue to be, international sanctions related to the management of these international crises, and they may also have a direct or indirect impact on the demand for forest industry products and, therefore, on Metsä Group's result.

Possible changes in the industrial and trade policies of leading industrialised countries may lead to increased trade restrictions and thereby subdue growth in the world economy. Increased protectionism may also have an effect on the demand for forest industry products and thereby the results of Metsä Group.

The risks related to the Group's business have been explained more extensively in Metsä Group's Financial Statements for 2015.

PENDING DISPUTES

In March 2011, the state enterprise Metsähallitus filed a claim for damages at the District Court of Helsinki, demanding that Metsäliitto Cooperative and two other forest industry companies jointly pay compensation for alleged damage caused by prohibited cooperation with regard to prices in the raw wood market. The claim is related to the 3 December 2009 decision by the Market Court which states that the aforementioned companies have violated the act on competition restrictions in the raw wood market. In addition, some municipalities, parishes and a group of individuals in Finland have instituted similar proceedings. The total amount of all claims directed at Metsäliitto Cooperative and the other aforementioned companies jointly is approximately EUR 185 million, of which approximately EUR 59 million is directed at Metsäliitto Cooperative alone. The aforementioned proceedings are associated with interest, value added tax claims and legal process expenses. Metsäliitto Cooperative's view is that the claims for damages are unfounded, and the company has not recognised any provisions regarding them.

In February 2016, the Supreme Court issued a decision stating that a compensation claim filed by a private forest owner has partially expired. Based on the Supreme Court decision concerning the expiration, the total amount of the damage claims is expected to reduce slightly.

The Helsinki District Court dismissed in its ruling issued in June 2016 the claim for damages of EUR 159.4 million made by Metsähallitus against the defendant companies jointly and ruled that Metsähallitus is responsible for reimbursing the defendant companies for their legal

expenses. Metsäliitto Cooperative's share of Metsähallitus' claim for damages in the district court was EUR 49.5 million. Metsähallitus has appealed the District Court's judgment at the Court of Appeal.

In May 2014, Metsäliitto Cooperative and Metsä Board demanded the District Court of Helsinki to revoke the judgment issued by the Arbitral Tribunal on 11 February 2014 that ordered Metsäliitto Cooperative and Metsä Board to pay a total of EUR 67 million in damages to UPM-Kymmene Corporation. In the judgment issued in June 2015, the District Court rejected the demands by Metsäliitto Cooperative and Metsä Board. Metsäliitto Cooperative and Metsä Board appealed the District Court's judgment at the Court of Appeal. The Court Of Appeal dismissed in its ruling issued in October 21, 2016 Metsäliitto Cooperative's and Metsä Board's demands for damages. The ruling by the Court of Appeal is not final.

In the autumn of 2015, the Finnish Tax Administration took a stand against the deductibility of certain losses in Metsä Board's 2014 taxation. Metsä Board has appealed against the decision issued by the Tax Administration, as the company believes the losses are deductible.

NEAR-TERM OUTLOOK

Wood demand will be focused on regeneration and thinning sites to be harvested when the ground is unfrozen and, in terms of energy wood, crown wood.

Market demand for wood products is picking up, improving the order book for all sheet products in comparison to the previous year. Construction in the UK market is expected to remain at a good level.

Uncertainty and changes in the currency market will impact Metsä Fibre's operating environment. The global demand for pulp has continued to increase slightly, and there are no signs of considerable negative changes in the market conditions.

In sawn timber, demand in Asia will support the market balance of spruce sawn timber, but the oversupply in pine sawn timber will continue, particularly due to the market situation in North Africa.

Demand for premium fresh fibre paperboards is expected to remain good in both Europe and the Americas. The market prices of folding boxboard and white fresh fibre linerboard are expected to remain stable.

Metsä Board's paperboard deliveries in January–March 2017 are expected to grow from the previous quarter. The growth is supported by Husum's new folding boxboard production, marketed primarily to the Americas.

In the tissue and cooking paper markets, demand is expected to remain stable in all market areas. Demand for tissue paper is expected to increase particularly in eastern Central Europe, and demand for cooking papers is expected to grow in Asia.

RESULT GUIDANCE FOR JANUARY–MARCH 2017

Metsä Group's comparable operating result is in the first quarter of 2017 expected to be roughly at a similar level as in the last quarter of 2016.

PROPOSAL FOR INTEREST ON MEMBERS' CAPITAL

Metsäliitto Cooperative's Board of Directors has decided to propose that interest of 6.0 per cent (6.0 per cent in 2015) be distributed on the participation shares of the members for 2016. Interest of 5.5 per cent (5.5) is proposed for additional shares A, and interest of 2.5 per cent (3.0) for additional shares B.

The Board's proposal will be discussed in March by Metsäliitto Cooperative's Supervisory Board, which will issue a statement on the matter to the Representative Council convening in May.

Espoo, Finland, 2 February 2017

BOARD OF DIRECTORS**For further information, please contact:**

Vesa-Pekka Takala, CFO, Metsä Group, tel. +358 10 465 4260

Juha Laine, SVP, Communications, Metsä Group, tel. +358 10 465 4541

Metsä Group will publish its financial reports in 2017 as follows:

4 May 2017: Interim report January–March 2017

3 August 2017: Half year financial report January–June 2017

1 November 2017: Interim report January–September 2017

Metsä Group's Financial Statements 2016 including the Board of Director's report will be published as a pdf-file on Metsä Group's website at www.metsagroup.com in week 9. The Financial Statements include the financial statements, the report of the board of directors, the salary and remuneration report and the corporate governance statement.

SEGMENTS

	2016	2015	2016	2015
	1–12	1–12	10–12	10–12
Wood Supply and Forest Services				
Sales, EUR million	1 534.4	1 518.1	399.2	364.9
EBITDA, EUR million	34.3	32.5	9.8	7.1
Comparable EBITDA, EUR million	34.3	32.5	9.8	7.1
Operating result, EUR million	30.9	29.0	8.9	6.3
Comparable operating result, EUR million	30.9	29.0	8.9	6.3
% of sales	2.0	1.9	2.2	1.7
Comparable ROCE, %	26.1	26.4	27.0	21.6
Capital expenditure, EUR million	5.1	6.0	1.5	1.7
Personnel at end of period	855	877	855	877

	2016	2015	2016	2015
	1–12	1–12	10–12	10–12
Wood Products Industry				
Sales, EUR million	481.6	533.6	115.3	117.4
EBITDA, EUR million	53.6	25.5	13.2	13.5
Comparable EBITDA, EUR million	52.2	43.6	11.3	12.4
Operating result, EUR million	40.0	6.5	10.0	9.5
Comparable operating result, EUR million	38.7	27.9	8.3	8.4
% of sales	8.0	5.2	7.2	7.1
Comparable ROCE, %	17.1	9.8	15.2	11.6
Capital expenditure, EUR million	18.0	12.2	9.2	4.0
Personnel at end of period	1 521	1 600	1 521	1 600

	2016	2015	2016	2015
	1–12	1–12	10–12	10–12
Pulp and Sawn Timber Industry				
Sales, EUR million	1 636.0	1 771.8	416.0	442.3
EBITDA, EUR million	293.1	415.2	67.8	96.2
Comparable EBITDA, EUR million	281.8	415.2	68.2	96.2
Operating result, EUR million	220.8	340.7	53.3	79.7
Comparable operating result, EUR million	214.6	340.7	53.7	79.7
% of sales	13.1	19.2	12.9	18.0
Comparable ROCE, %	19.6	41.8	18.1	37.1
Capital expenditure, EUR million	553.4	255.6	146.4	110.8
Personnel at end of period	1 231	1 275	1 231	1 275

	2016	2015	2016	2015
	1–12	1–12	10–12	10–12
Paperboard Industry				
Sales, EUR million	1 720.3	2 007.5	421.8	462.2
EBITDA, EUR million	234.6	302.5	58.9	59.1
Comparable EBITDA, EUR million	231.1	283.3	53.1	59.7
Operating result, EUR million	132.3	199.0	38.5	34.1
Comparable operating result, EUR million	137.5	179.9	32.8	35.1
% of sales	8.0	9.0	7.8	7.6
Comparable ROCE, %	8.1	11.3	7.7	8.3
Capital expenditure, EUR million	162.4	177.8	43.3	60.8
Personnel at end of period	2 466	2 601	2 466	2 601

	2016	2015	2016	2015
Tissue and Cooking Papers	1–12	1–12	10–12	10–12
Sales, EUR million	990.8	1 015.8	249.2	263.8
EBITDA, EUR million	101.0	82.1	26.8	33.6
Comparable EBITDA, EUR million	102.8	94.0	30.6	28.7
Operating result, EUR million	61.3	41.6	16.8	23.9
Comparable operating result, EUR million	63.1	55.1	20.6	18.6
% of sales	6.4	5.4	8.3	7.0
Comparable ROCE, %	9.3	8.2	12.6	11.1
Capital expenditure, EUR million	37.6	29.4	21.9	17.6
Personnel at end of period	2 741	2 754	2 741	2 754

	2016	2015	2016	2015
Other operations	1–12	1–12	10–12	10–12
Sales, EUR million	5.0	4.1	1.1	0.5
EBITDA, EUR million	2.1	23.8	-7.5	-4.6
Comparable EBITDA, EUR million	2.3	3.3	-7.4	-4.6
Operating result, EUR million	0.0	21.8	-8.1	-5.1
Comparable operating result, EUR million	0.1	1.3	-8.0	-5.1
Capital expenditure, EUR million	9.9	13.3	2.4	4.1
Personnel at end of period	486	492	486	492

Other operations include the Metsä Group head office functions, the company Metsä Group Treasury Oy and the holding function of Metsäliitto Cooperative as well as a share of Metsätapiola's real estates.

	2016	2015	2016	2015
Internal sales and eliminations	1–12	1–12	10–12	10–12
Sales, EUR million	-1 710.0	-1 835.0	-427.3	-445.9
EBITDA, EUR million	-32.1	-81.2	-5.8	-16.4
Comparable EBITDA, EUR million	-30.4	-81.2	-5.8	-16.4
Operating result, EUR million	-42.9	-96.5	-9.7	-20.2
Comparable operating result, EUR million	-46.2	-96.5	-9.7	-20.2

	2016	2015	2016	2015
Metsä Group	1–12	1–12	10–12	10–12
Sales, EUR million	4 657.9	5 016.0	1 175.2	1 205.4
EBITDA, EUR million	686.6	800.3	163.2	188.5
Comparable EBITDA, EUR million	674.1	790.7	159.9	183.0
Operating result, EUR million	442.3	542.1	109.7	128.2
Comparable operating result, EUR million	438.6	537.4	106.5	122.7
% of sales	9.4	10.7	9.1	10.2
Comparable ROCE, %	10.2	13.6	9.8	12.3
Capital expenditure, EUR million	757.9	491.6	217.7	195.9
Personnel at end of period	9 300	9 599	9 300	9 599

RECONCILIATION OF OPERATING RESULT

EUR million	2016 1–12	2015 1–12	2016 10–12	2015 10–12
OPERATING RESULT (IFRS)	442.3	542.1	109.7	128.2
Items affecting comparability:				
Wood Supply and Forest Services	-	-	-	-
Wood Products Industry	-1.3	21.4	-6.8	-1.1
Pulp and Sawn Timber Industry	-6.2	-	5.5	-
Paperboard Industry	5.2	-19.2	-5.7	0.9
Tissue and Cooking Papers	1.7	13.5	3.7	-5.4
Other operations	-3.1	-20.5	0.1	-
Total	-3.7	-4.7	-3.2	-5.6
COMPARABLE OPERATING RESULT	438.6	537.4	106.5	122.7

EUR million	2016 1–12	2015 1–12	2016 10–12	2015 10–12
OPERATING RESULT (IFRS)	442.3	542.1	109.7	128.2
Items affecting comparability:				
Other operating income	-24.5	-40.2	-6.3	-1.7
Change in inventories	1.2	12.4	-1.2	-0.4
Employee costs	2.5	7.9	-2.1	-1.7
Depreciation	0.3	-	-8.4	-
Impairment charges	8.5	4.9	8.5	-0.1
Other operating expenses	8.3	10.2	6.3	-1.7
Total	-3.7	-4.7	-3.2	-5.6
COMPARABLE OPERATING RESULT	438.6	537.4	106.5	122.7

Items with “+” sign = expenses affecting comparability

Items with “-” sign = income affecting comparability

Metsä Group’s items affecting comparability in 2016 totalled EUR +3.7 million. Metsä Board recognised EUR 7.8 million net in costs and provisions related to the closure of the wallpaper base machine at the Kyro mill. In addition, Metsä Board recognised a cost provision of EUR 1.8 million related to the restructuring of the Simpele paperboard mill, a loss of EUR 1.1 million from the divestment of Alrec Boiler Oy, and expenses of EUR 0.7 million related to the reorganisation of the sales office in Belgium. Metsä Board received an additional sales price of EUR 4.4 million for M-real Hallein GmbH, sold in 2011.

In August, Metsä Fibre recognised a sales gain of EUR 11.7 million from the divestment of the entire share capital of Metsä-Botnia Metsät Oy. Metsä Tissue’s comparable operating result was affected by the reversion of EUR 2.7 million of the restructuring provision related to the efficiency programme in the German napkin business. From the discontinued business in Russia, Metsä Tissue recognised a loss of EUR 4.4 million. A gain of EUR 1.7 million was recognised due to the sale of Metsä Wood’s glulam business, and an additional cost of EUR 0.4 million was recognised in relation to the divestment of Metsä Wood France S.A.S. Metsä Wood’s goodwill impairment of EUR 5.0 million, related to the transfer of the sawmills to the Pulp Industry, and Metsä Board’s share, EUR 1.8 million, of the divestment of Metsä-Botnia Metsät Oy, have been eliminated on Group level.

Metsä Group’s operating result in 2015 included items affecting comparability of EUR +4.7 million. The most significant income were the gain of EUR 20.8 million from the sale of the shares in Finsilva Oyj and the gain of EUR 17.5 million from the sale of the Gohrsmühle mill. The sale of the shares in Metsä Wood France S.A.S. generated a loss of EUR 21.4 million. Provisions and write-offs related to Metsä Tissue’s Russian operations and the efficiency programme regarding Metsä Tissue’s napkin business in Germany were EUR 13.5 million.

QUARTERLY DATA

EUR million	2016 10–12	2016 7–9	2016 4–6	2016 1–3	2015 10–12	2015 7–9	2015 4–6	2015 1–3
Sales								
Wood Supply and Forest Services	399.2	356.2	377.8	401.2	364.9	348.0	393.5	411.8
Wood Products Industry	115.3	115.1	129.9	121.4	117.4	135.2	146.1	134.9
Pulp and Sawn Timber Industry	416.0	388.7	422.5	408.8	442.3	430.1	487.0	412.4
Paperboard Industry	421.8	440.0	422.9	435.6	462.2	497.6	522.0	525.7
Tissue and Cooking Papers	249.2	246.6	248.8	246.2	263.8	249.2	249.0	253.7
Other operations	1.1	1.2	1.1	1.6	0.5	0.8	0.9	1.9
Internal sales	-427.3	-404.5	-419.0	-459.2	-445.9	-435.6	-468.4	-485.2
Sales	1 175.2	1 143.3	1 183.9	1 155.6	1 205.4	1 225.2	1 330.2	1 255.1
Operating result								
Wood Supply and Forest Services	8.9	7.7	6.5	7.8	6.3	7.0	6.9	8.7
Wood Products Industry	10.0	9.0	13.1	7.8	9.5	7.8	-15.3	4.5
Pulp and Sawn Timber Industry	53.3	58.1	48.2	61.2	79.7	83.4	95.6	82.0
Paperboard Industry	38.5	26.6	34.5	32.7	34.1	54.6	67.2	43.1
Tissue and Cooking Papers	16.8	17.8	13.2	13.5	23.9	6.5	6.1	5.1
Other operations	-8.1	4.4	4.6	-0.9	-5.1	4.2	23.3	-0.6
Eliminations	-9.7	-16.2	-1.6	-15.3	-20.2	-21.5	-29.8	-25.0
Operating result	109.7	107.4	118.5	106.8	128.2	142.0	154.0	117.8
% of sales	9.3	9.4	10.0	9.2	10.6	11.6	11.6	9.4
Share of results from associated companies and joint ventures	0.3	-0.5	-0.8	-0.1	2.7	-0.8	3.2	6.1
Exchange gains and losses	-6.5	1.3	0.5	-1.0	2.6	-0.6	-6.7	3.5
Other net financial items	-18.4	-18.7	-20.0	-17.8	-20.1	-20.0	-22.4	-21.3
Result before income tax	85.1	89.5	98.2	87.8	113.4	120.7	128.2	106.1
Income tax	-16.9	-21.7	-22.6	-19.5	-21.2	-38.4	-35.5	-17.5
Result for the period	68.2	67.8	75.7	68.3	92.2	82.3	92.7	88.6
Comparable operating result								
Wood Supply and Forest Services	8.9	7.7	6.5	7.8	6.3	7.0	6.9	8.7
Wood Products Industry	8.3	9.0	13.2	8.2	8.4	8.0	7.1	4.5
Pulp and Sawn Timber Industry	53.7	46.4	53.2	61.2	79.7	83.4	95.6	82.0
Paperboard Industry	32.8	34.0	35.8	35.0	35.1	54.6	47.0	43.2
Tissue and Cooking Papers	20.6	15.8	13.2	13.5	18.6	13.2	7.6	15.8
Other operations and eliminations	-17.7	-10.0	-2.1	-16.2	-25.3	-17.3	-27.0	-25.7
Comparable operating result	106.5	102.8	119.8	109.5	122.7	149.0	137.1	128.6
% of sales	9.1	9.0	10.1	9.5	10.2	12.2	10.3	10.2

CALCULATION OF KEY RATIOS

Return on capital employed (%) ROCE	=	(Result before tax + exchange gains/losses and other net financial expenses) per (Balance total – non-interest-bearing liabilities) (average))
Return on equity (%) ROE	=	(Result before tax – income tax) per (Members' funds (average))
Equity ratio (%)	=	(Members' funds) per (Balance total – advance payments received)
Net gearing ratio (%)	=	(Interest-bearing borrowings – cash and cash equivalents – interest-bearing receivables) per (Members' funds)
EBITDA	=	Operating result before depreciation and impairment losses

COMPARABLE KEY RATIOS

New European Securities and Markets Authority (ESMA) guidelines on Alternative Performance Measures came effective for the financial year 2016. From Q3 2016 Metsä Group has relabeled the previously referenced “excluding non-recurring items” non-IFRS financial measures with “comparable” performance measures. Exceptional and material items outside the ordinary course of business have been eliminated from the comparable operating result, and they have been allocated to the operating segments. The change in terminology does not affect the definition of items affecting comparability and therefore no restatement of historical data is necessary.

Reconciliation of operating result under IFRS and comparable operating result is presented in these financial statements. Comparable return on capital employed has been calculated using the same adjustments as the comparable operating result, and it has been further adjusted with financial items affecting comparability when applicable. Metsä Group considers the key figures derived in this manner to improve the comparability between reporting periods.

None of these key figures with items affecting comparability eliminated are key figures used in IFRS reporting, and they cannot be compared with other companies' key figures identified with the same names. Typical items affecting comparability include material gains and losses on disposals of assets, impairments and impairment reversals in accordance with IAS 36 Impairment of Assets, restructuring costs and their adjustments as well as items arising from legal proceedings.

FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	2016 1–12	2015 1–12	Change	2016 10–12	2015 10–12
Sales	2	4 657.9	5 016.0	-358.1	1 175.2	1 205.4
Change in stocks of finished goods and work in progress		64.8	-48.0	112.7	19.4	-33.2
Other operating income		70.5	95.7	-25.2	18.2	16.9
Material and services		-3 132.7	-3 212.5	79.8	-799.3	-746.5
Employee costs		-626.3	-678.2	51.9	-153.2	-161.9
Depreciation and impairment losses		-244.3	-258.2	13.9	-53.5	-60.3
Other operating expenses		-347.5	-372.7	25.2	-97.0	-92.2
Operating result	2	442.3	542.1	-99.8	109.7	128.2
Share of results from associated companies and joint ventures		-1.1	11.2	-12.3	0.3	2.7
Exchange gains and losses		-5.7	-1.2	-4.6	-6.5	2.6
Other net financial items	2	-74.9	-83.8	8.9	-18.4	-20.1
Result before income tax		360.6	468.4	-107.7	85.1	113.4
Income tax	3	-80.7	-112.6	31.9	-16.9	-21.2
Result for the period		279.9	355.7	-75.8	68.2	92.2
Other comprehensive income						
Items that will not be reclassified to profit and loss						
Items relating to adjustments of defined benefit plans		-12.3	19.5	-31.8	26.1	11.9
Income tax relating to items that will not be reclassified		3.1	-5.6	8.6	-5.2	-3.1
Total		-9.3	13.9	-23.2	20.9	8.8
Items that may be reclassified subsequently to profit and loss						
Cash flow hedges		17.2	-0.1	17.3	24.0	-9.0
Available for sale financial assets	8	-26.7	-30.6	3.9	7.4	-24.7
Currency translation differences		-14.0	8.9	-22.9	10.5	3.8
Share of comprehensive income of joint venture		1.2	-0.6	1.8	0.5	-0.5
Other items		0.0	0.0	0.0	0.0	-0.4
Income tax relating to items that may be reclassified		0.5	7.4	-6.9	-6.5	9.1
Total		-21.8	-15.0	-6.8	35.9	-21.7
Other comprehensive income, net of tax		-31.1	-1.0	-30.0	56.8	-13.0
Total comprehensive income for the period		248.9	354.7	-105.8	125.1	79.2
Result for the period attributable to:						
Members of parent company		182.6	216.9	-34.3	44.4	61.8
Non-controlling interests		97.3	138.8	-41.5	23.8	30.4
Total		279.9	355.7	-75.8	68.2	92.2
Total comprehensive income attributable to:						
Members of parent company		160.6	221.1	-60.5	84.1	58.2
Non-controlling interests		88.2	133.6	-45.3	40.9	21.0
Total		248.9	354.7	-105.8	125.1	79.2

The notes are an integral part of these financial statements.

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2016 31.12.	2015 31.12.
ASSETS			
Non-current assets			
Goodwill		517.6	522.8
Other intangible assets		231.5	234.5
Tangible assets	4	2 542.5	2 059.0
Biological assets		3.1	13.4
Investments in associated companies and joint ven-		42.1	43.4
Available for sale investments	8	200.1	227.1
Non-current financial assets	8	21.5	28.0
Deferred tax receivables		37.9	37.9
		3 596.2	3 166.1
Current assets			
Inventories		767.2	686.8
Accounts receivables and other receivables		670.3	640.5
Tax receivables based on the taxable income for the period		14.3	0.6
Cash and cash equivalents	8	895.1	1 120.8
		2 346.8	2 448.7
Assets classified as held for sale		2.8	1.6
Total assets		5 945.8	5 616.4
MEMBERS' FUNDS AND LIABILITIES			
Members' funds			
Members' funds		1 941.6	1 805.6
Non-controlling interests		658.4	611.3
		2 600.0	2 416.9
Non-current liabilities			
Deferred tax liabilities		213.4	225.6
Post-employment benefit obligations		83.9	77.9
Provisions	5	20.2	23.0
Borrowings	8	1 265.3	1 303.5
Other liabilities		28.5	22.3
		1 611.4	1 652.3
Current liabilities			
Provisions	5	5.0	20.3
Current borrowings	8	667.2	442.3
Accounts payable and other liabilities		1 051.3	1 063.3
Tax liabilities based on the taxable income for the pe-		9.0	20.3
		1 732.5	1 546.2
Liabilities classified as held for sale		1.9	1.1
Total liabilities		3 345.8	3 199.5
Total members' funds and liabilities		5 945.8	5 616.4

The notes are an integral part of these financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' FUNDS

<u>Equity attributable to members of parent company</u>							
EUR million	Members' capital	Trans- lation differ- ences	Fair value and other reserves	Re- tained earnings	Total	Non- control- ling interest	Total
Members' funds 1.1.2015	719.1	-7.1	206.7	671.6	1 590.3	467.0	2 057.3
Result for the period				216.9	216.9	138.8	355.7
Other comprehensive income, net after tax		4.4	-11.8	11.6	4.2	-5.3	-1.0
Total comprehensive income		4.4	-11.8	228.5	221.1	133.6	354.7
Transactions with owners:							
Dividends paid				-35.3	-35.3	-48.3	-83.6
Change in members' capital	26.6		0.1	-3.0	23.6		23.6
Change in other equity			-0.8		-0.8	56.8	56.0
Transfer from unrestricted to unrestricted			3.3	-3.3	0.0		0.0
Share based payments				6.2	6.2	0.8	7.0
Acquired shares from non-controlling interests, which did not change the controlling right							0.0
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	0.3	0.3	1.5	1.9
Members' funds 31.12.2015	745.7	-2.7	197.4	865.1	1 805.6	611.3	2 416.9

<u>Equity attributable to members of parent company</u>							
EUR million	Members' capital	Trans- lation differ- ences	Fair value and other reserves	Re- tained earnings	Total	Non- control- ling interest	Total
Members' funds 1.1.2016	745.7	-2.7	197.4	865.1	1 805.6	611.3	2 416.9
Result for the period				182.6	182.6	97.3	279.9
Other comprehensive income, net after tax		-8.2	-3.9	-9.8	-21.9	-9.1	-31.1
Total comprehensive income		-8.2	-3.9	172.8	160.6	88.2	248.9
Transactions with owners:							
Dividends paid				-38.0	-38.0	-68.9	-106.9
Change in members' capital	23.7		0.0	-10.5	13.2		13.2
Change in other equity					0.0	24.9	24.9
Share based payments				-0.4	-0.4	0.0	-0.4
Acquired shares from non-controlling interests, which did not change the controlling right							0.0
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	0.7	0.7	2.8	3.5
Members' funds 31.12.2016	769.4	-10.9	193.5	989.6	1 941.6	658.4	2 600.0

The notes are an integral part of these financial statements.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2016 1–12	2015 1–12
Result for the period	7	279.9	355.7
Total adjustments	7	350.5	387.2
Change in working capital		-126.2	221.3
Cash flow arising from operations		504.3	964.3
Net financial items		-41.0	-71.0
Income taxes paid		-115.5	-97.3
Net cash flow arising from operating activities		347.8	796.0
Acquisitions		0.0	-2.4
Investments in tangible and intangible assets		-757.9	-491.6
Disposals and other items	7	67.9	38.6
Net cash flow arising from investing activities		-690.0	-455.4
Change in members' funds		41.0	50.9
Change in other equity		24.9	55.6
Change in long-term loans and other financial items		169.6	-179.2
Dividends paid		-120.2	-94.9
Net cash flow arising from financing activities		115.4	-167.7
Change in cash and cash equivalents		-226.8	172.8
Cash and cash equivalents at beginning of period		1 120.8	947.9
Translation difference		1.1	-0.1
Change in cash and cash equivalents		-226.8	172.8
Cash and cash equivalents of assets classified as held for sale		0.0	0.2
Cash and cash equivalents at end of period		895.1	1 120.8

The notes are an integral part of these financial statements.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

NOTE 1 – BACKGROUND AND ACCOUNTING POLICIES

Metsäliitto Cooperative and its subsidiaries comprise a forest industry group (“Metsä Group” or “Group”), which operations are organised into five business segments: Wood Supply and Forest Services, Wood Products Industry, Pulp and Sawn Timber Industry, Paperboard Industry and Tissue and Cooking Papers. Metsä Group’s parent company is Metsäliitto Cooperative. The parent company is domiciled in Helsinki and the registered address is Revontulenpuisto 2, 02100 Espoo, Finland.

This unaudited financial statements bulletin has been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the 2015 IFRS financial statements. The same accounting policies have been applied as in the 2015 IFRS financial statements with the following exception:

- Depreciation of machinery and equipment during the financial year has been specified further between the quarters where applicable in order to correspond with the allocation of the use of the economic benefit of the asset

In 2016 Metsä Group has adopted the following new and amended standards and interpretations:

- Amendment to IAS 1 *Presentation of Financial Statements: Disclosure Initiative*: The purpose of the amendments is to encourage entities to exercise judgement in presenting their financial reports. For example, the amendments clarify the application of the concept of materiality and exercising judgement in determining the order and location of the notes to the financial statements. The amendments are not assessed to have a material impact on the consolidated financial statements.
- Amendments to IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*: The amendments provide new guidance in IFRS 11 concerning how the acquisition of a share in a joint operation is handled when the business operations are formed by the joint operations. In that case, the accounting procedure for merging of business operations should be used. The amendments are not assessed to have a material impact on the consolidated financial statements.
- *Annual Improvements to IFRS standards, the 2012–2014 cycle*: The annual improvements process provides a mechanism for minor and non-urgent amendments to the standards to be grouped together and issued in one package annually. The amendments cover four standards. Their impacts vary by standard but are not significant.

All amounts are presented in millions of euros, unless otherwise stated.

This financial statements bulletin was authorised for issue by the Board of Directors of Metsäliitto Cooperative on 2 February 2017.

NOTE 2 – SEGMENT INFORMATION

The Group's operating segments are comprised of the Group's business areas. The business areas produce different products and services, and they are managed as separate units. The operating segments are reported uniformly with internal reporting submitted to the chief operational decision-maker.

The President and CEO has been appointed as the chief operational decision-maker in charge of allocating resources to the operating segments and evaluating their performance.

The same accounting policies are applied in segment reporting as for the Group as a whole. Transactions between segments are based on market prices.

SALES BY SEGMENTS

EUR million	1–12/2016			1–12/2015		
	External	Internal	Total	External	Internal	Total
Wood Supply and Forest Services	407.3	1 127.1	1 534.4	386.9	1 131.3	1 518.1
Wood Products Industry	460.8	20.7	481.6	516.4	17.2	533.6
Pulp and Sawn Timber Industry	1 148.5	487.4	1 636.0	1 166.1	605.6	1 771.8
Paperboard Industry	1 651.7	68.6	1 720.3	1 932.7	74.8	2 007.5
Tissue and Cooking Papers	989.5	1.3	990.8	1 014.9	0.9	1 015.8
Other operations	0.1	4.9	5.0	-1.0	5.2	4.1
Elimination of internal sales	-	-1 710.0	-1 710.0	-	-1 835.0	-1 835.0
Total sales	4 657.9	0.0	4 657.9	5 016.0	0.0	5 016.0

OPERATING RESULT BY SEGMENTS

EUR million	2016		2015	
	1–12		1–12	
Wood Supply and Forest Services	30.9		29.0	
Wood Products Industry	40.0		6.5	
Pulp and Sawn Timber Industry	220.8		340.7	
Paperboard Industry	132.3		199.0	
Tissue and Cooking Papers	61.3		41.6	
Other operations	0.0		21.8	
Eliminations	-42.9		-96.5	
Operating result total	442.3		542.1	
Share of results from associated companies and joint ventures	-1.1		11.2	
Financial costs, net	-80.6		-84.9	
Income taxes	-80.7		-112.6	
Result for the period	279.9		355.7	

ASSETS AND LIABILITIES BY SEGMENTS

Assets	2016	2015
EUR million	31.12.	31.12.
Wood Supply and Forest Services	274.4	223.8
Wood Products Industry	191.5	208.2
Pulp and Sawn Timber Industry	1 556.8	1 028.7
Paperboard Industry	1 959.8	1 889.5
Tissue and Cooking Papers	866.3	896.3
Other operations	225.1	261.7
Assets classified as held for sale	2.8	1.6
Eliminations	-227.8	-221.5
Unallocated assets	1 096.8	1 328.0
Total	5 945.8	5 616.4

Assets = intangible and tangible assets, investments in associated companies and joint ventures, inventories, accounts receivables and other non-interest-bearing receivables (excl. interest and tax items).

Liabilities	2016	2015
EUR million	31.12.	31.12.
Wood Supply and Forest Services	207.0	177.9
Wood Products Industry	74.8	74.6
Pulp and Sawn Timber Industry	360.6	322.5
Paperboard Industry	365.4	441.2
Tissue and Cooking Papers	289.8	300.2
Other operations	103.9	102.5
Liabilities classified as held for sale	1.9	1.1
Eliminations	-227.8	-221.5
Unallocated liabilities	2 170.2	2 001.1
Total	3 345.8	3 199.5

Liabilities = accounts payable, advance payments and other non-interest-bearing liabilities (excl. interest and tax items).

NOTE 3 – INCOME TAX

Tax expense in the income statement is comprised of the current tax and deferred taxes.

EUR million	2016	2015
	1–12	1–12
Taxes for the period	83.3	91.3
Taxes for previous periods	0.0	10.7
Change in deferred taxes	-2.6	10.6
Total income taxes	80.7	112.6

NOTE 4 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2016	2015
	1–12	1–12
Book value at beginning of period	2 059.0	1 831.2
Investments	747.9	482.9
Decreases	-17.3	-12.6
Assets classified as held for sale	-4.8	-2.0
Depreciation and impairment losses	-226.5	-239.6
Translation differences and other changes	-15.9	-0.7
Book value at end of period	2 542.5	2 059.0

Depreciation and impairment losses includes the EUR 8.5 million impairment related to the base wallpaper production discontinued at Metsä Board's Kyro mill in 2016 and the reversion of a EUR 2.0 million impairment for the paper machine sold by Metsä Board's Husum mill.

Assets available for sale in 2016 include the unsold apartments and parking spaces of Asunto Oy Tapiolan Jalava, as well as land and water areas.

NOTE 5 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 January 2016	20.4	15.0	7.8	43.3
Translation differences	-0.4	-0.0	-0.0	-0.4
Increases	0.8	3.2	1.7	5.7
Utilised during the year	-14.3	-0.1	-3.3	-17.7
Unused amounts reversed	-3.1	-1.9	-0.6	-5.7
At 31 December 2016	3.4	16.2	5.6	25.2

Of the restructuring provisions' unused amounts reversed, EUR 2.7 million relates to the reversion of provisions made for the efficiency programme of Metsä Tissue's napkin business in Germany. Of the increases in provisions made for environmental obligations, EUR 2.4 million relates to the landscaping of Metsä Tissue's landfill, and of the reversions of unused environmental provisions, EUR 1.4 million relates to the inspections of Metsä Fibre's landfill provisions.

Of the Metsä Group's total provisions of EUR 25.2 million, the non-current portion was EUR 20.2 million and the current portion EUR 5.0 million. The non-current portion will mostly be paid during 2025.

NOTE 6 – TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2016 1–12	2015 1–12
Sales	9.8	9.4
Purchases	86.5	90.4
Non-current receivables	1.0	1.0
Current receivables	3.3	3.7
Non-current liabilities	0.0	0.0
Current liabilities	6.0	6.6

NOTE 7 – NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
Adjustments to the result for the financial year

EUR million	2016 1–12	2015 1–12
Taxes	80.7	112.6
Depreciation and impairment charges	244.3	258.2
Biological assets	-1.7	-1.4
Share of results from associated companies	1.1	-11.2
Gains and losses on sale of non-current financial assets	-34.1	-51.0
Financial costs, net	80.6	84.9
Pension liabilities and provisions	-20.4	-4.9
Total	350.5	387.2

Disposals and other items

Disposals and other items in 2016 include additional cost in the amount of EUR 0.4 million, related to the divestment of Metsäliitto Cooperative's subsidiary Metsä Wood France S.A.S. in 2015; EUR 6.8 million for the divestment of Metsä Wood's ThermoWood business; EUR -2.8 for the divestment of Alrec Bolier Oy, a structured entity consolidated in the same way as a subsidiary of Metsä Board Corporation (the overall cash flow impact of Alrec Boiler Oy's divestment is EUR -5.5 million, of which EUR -2.7 million is presented in cash flow

from financing activities); EUR 24.4 million for the divestment of Metsä Fibre's subsidiary Metsä-Botnia Metsät Oy; and EUR 3.0 million for the divestment of Metsä Wood's glulam business. Disposals and other items also include the additional sales price of EUR 4.4 million related to the sale of the subsidiary receivables included in the divestment of Metsä Board's subsidiary M-real Hallein GmbH in 2011, and a total of EUR 8.4 million related to the sales of apartments and parking spaces of Asunto Oy Tapiolan Jalava, Asunto Oy Tapiolan Pyökki and Asunto Oy Tapiolan Saarni. Disposals

and other items furthermore include sales of fixed assets in the amount of EUR 18.5 million and other items in the amount of EUR 5.2 million. The most significant sales of fixed assets consisted of the amounts received from the sales of fixed asset items related to the discontinued paper business at Metsä Board's Kyro and Husum mills, EUR 8.5 million, and the sales of Metsä

Board's emission rights and electricity certificates, EUR 4.4 million.

Change in other equity

Change in other equity include the equity investment in Metsä Fibre Oy.

NOTE 8 – FINANCIAL INSTRUMENTS

Financial assets and liabilities classified according to IAS 39 and fair value.

Financial assets 31 December, 2016

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Available for sale investments		200.1				200.1	200.1
Other non-current financial assets			18.4			18.4	18.4
Account receivables and others			661.9			661.9	661.9
Cash and cash equivalents	97.2		797.9			895.1	895.1
Derivative financial instruments	0.1			8.3		8.5	8.5
Assets classified as held for sale							
Total	97.4	200.1	1 478.1	8.3	0.0	1 784.0	1 784.0

Financial liabilities 31 December, 2016

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Non-current interest-bearing liabilities					1 265.3	1 265.3	1 293.5
Other non-current liabilities					1.5	1.5	1.5
Current interest-bearing liabilities					667.2	667.2	677.3
Accounts payable and others					920.1	920.1	920.1
Derivative financial instruments	10.8			35.0		45.8	45.8
Liabilities classified as held for sale					1.9	1.9	1.9
Total	10.8	0.0	0.0	35.0	2 856.2	2 902.0	2 940.3

Financial assets 31 December, 2015

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Available for sale investments		227.1				227.1	227.1
Other non-current financial assets	5.8		22.2			28.0	28.0
Accounts receivables and others			633.9			633.9	633.9
Cash and cash equivalents	62.3		1 058.5			1 120.8	1 120.8
Derivative financial instruments	4.0			1.0		4.9	4.9
Assets classified as held for sale							
Total	72.1	227.1	1 714.5	1.0	0.0	2 014.7	2 014.7

Financial liabilities 31 December, 2015

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Non-current interest-bearing liabilities					1 303.5	1 303.5	1 344.3
Other non-current liabilities					4.4	4.4	4.4
Current interest-bearing liabilities					442.3	442.3	446.8
Accounts payable and others					921.0	921.0	921.0
Derivative financial instruments	-1.5			43.6		42.2	42.2
Liabilities classified as held for sale					1.1	1.1	1.1
Total	-1.5	0.0	0.0	43.6	2 672.2	2 714.4	2 759.7

Fair value hierarchy of financial assets and liabilities 31 December, 2016

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-current financial assets through profit and loss at fair value				
Available for sale financial assets	0.0		200.1	200.1
Current financial assets through profit and loss at fair value	91.0	6.2		97.2
Derivative financial assets	7.7	0.8		8.5
Financial liabilities measured at fair value				
Derivative financial liabilities	1.0	44.8		45.8
Financial assets not measured at fair value				
Financial assets		797.9		797.9
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities			1 293.5	1 293.5
Current interest-bearing liabilities			677.3	677.3

Fair value hierarchy of financial assets and liabilities 31 December, 2015

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-current financial assets through profit and loss at fair value		5.8		5.8
Available for sale financial assets	0.1		227.0	227.1
Current financial assets through profit and loss at fair value	62.3			62.3
Derivative financial assets		4.9		4.9
Financial liabilities measured at fair value				
Derivative financial liabilities	34.5	7.6		42.2
Financial assets not measured at fair value				
Financial assets		1 058.5		1 058.5
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 344.3		1 344.3
Current interest-bearing liabilities		446.8		446.8

Financial assets measured at fair value based on level 3

EUR million	2016	2015
Opening balance 1 January	227.0	256.8
Gains and losses in income statement	0.1	0.7
Gains and losses in other comprehensive income	-26.6	-30.3
Purchases	0.0	0.9
Settlements	-0.3	-1.0
Closing balance 31 December	200.1	227.0

Assets have been categorised according to paragraphs 27 A and 27 B in IFRS 7 Financial Instruments: Disclosures.

Level 1: Fair value is based on quoted prices in active markets.

Level 2: Fair value is based on inputs observable for the asset either directly or indirectly.

Level 3: Fair value is based on company estimates and not on market data.

The fair values of electric power, natural gas and gas oil derivatives are measured on the basis of publicly quoted market prices (Level 1). The fair values of currency forwards and options are determined on the basis of market prices at the closing date of the reporting period. The fair values of interest rate swaps are measured applying a method based on the present value of future cash flows, supported by market interest rates at the closing date of the reporting period and other market inputs (Level 2). The fair value of financial instruments not traded in an active market is determined using various measurement methods. Discretion is used in choosing the methods and making assumptions based primarily on the market conditions prevailing at the closing date of the reporting period (Level 3).

The accounting policies applied in preparing the financial statements include a more detailed description of the recognition and measurement principles applied.

The most significant item at fair value not traded on an open market is the investment in Pohjolan Voima Oy shares, reported under available-for-sale financial assets. The valuation method is described in the 2015 Financial Statements. The average weighed capital cost applied in the calculation was 2.06 per cent on 31 December 2016 and for the Olkiluoto 3 power plant under construction 4.06 per cent. The acquisition cost of the Pohjolan Voima Oy shares is EUR 43.1 million and their fair value is EUR 192.5 million.

The carrying amount of available-for-sale financial assets as of 31.12.2016 is estimated to change by EUR 8.6 million lower should the rate used for discounting the cash flows change by 10 per cent from the rate estimated by the management. The carrying amount of the shares is estimated to change by EUR 40.0 million should the energy prices applied in the fair value calculation differ by 10 per cent from the rate estimated by the management.

Derivatives 31 December, 2016

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value hedges	Cash flow hedges	Equity hedges	Hedge accounting not applied
Interest rate swaps	932.9		24.6	-24.6		-24.1		-0.4
Total	932.9	0.0	24.6	-24.6	0.0	-24.1	0.0	-0.4
Currency forwards	1 395.6	0.0	18.3	-18.3		-9.9		-8.5
Currency options	151.8		1.9	-1.9				-1.9
Total	1 547.3	0.0	20.3	-20.3	0.0	-9.9	0.0	-10.4
Electricity derivatives	104.0	4.9	0.1	4.9		4.9		
Pulp derivatives	37.7	0.8		0.8		0.8		
Oil derivatives	13.5	0.6		0.6		0.4		0.1
Commodity derivatives	11.4	2.2	0.9	1.3		1.3		
Total	166.6	8.5	1.0	7.5	0.0	7.3	0.0	0.1
Derivatives total	2 646.8	8.5	45.8	-37.3	0.0	-26.7	0.0	-10.7

Derivatives 31 December, 2015

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value hedges	Cash flow hedges	Equity hedges	Hedge accounting not applied
Interest rate swaps	1 044.2		7.3	-7.3		-9.1		1.8
Total	1 044.2	0.0	7.3	-7.3	0.0	-9.1	0.0	1.8
Currency forwards	1 151.1	4.4	0.3	4.1		-0.4	1.0	3.5
Currency options	176.3	0.1		0.1				0.1
Total	1 327.4	4.6	0.3	4.3	0.0	-0.4	1.0	3.7
Electricity derivatives	80.4		21.6	-21.6		-21.6		
Pulp derivatives	66.6	0.4		0.4		0.4		
Oil derivatives	18.7		7.2	-7.2		-7.2		
Commodity derivatives	24.7		5.7	-5.7		-5.7		
Total	190.4	0.4	34.5	-34.2	0.0	-34.2	0.0	0.0
Derivatives total	2 562.1	4.9	42.2	-37.2	0.0	-43.7	1.0	5.4

NOTE 9 – COMMITMENTS AND CONTINGENCIES

EUR million	31.12.2016	31.12.2015
Own liabilities for which commitments granted	469.0	529.5
Pledges granted	433.1	464.5
Floating charges	2.8	5.9
Real estate mortgages	368.5	381.4
Chattels mortgage	4.0	4.0
Commitments for own liabilities, total	808.5	855.7
Other commitments on own behalf	98.9	80.0
On behalf of associated companies	0.8	1.0
On behalf of others	5.0	4.8
Total	913.2	941.6

Securities and guarantees include pledges, floating charges, real estate mortgages, chattels mortgage and guarantee liabilities.

The future costs for non-cancellable operating lease contracts were EUR 78.7 million (31.12.2015: 56.8).

COMMITMENTS RELATED TO INVESTMENTS

EUR million	31.12.2016	31.12.2015
Payments due under 1 year	335.3	409.9
Payments due in subsequent years	20.0	165.7
Total	355.3	575.6