

Metsä Group

Half year financial report 2018

Ilkka Härmälä
President and CEO

2 August 2018



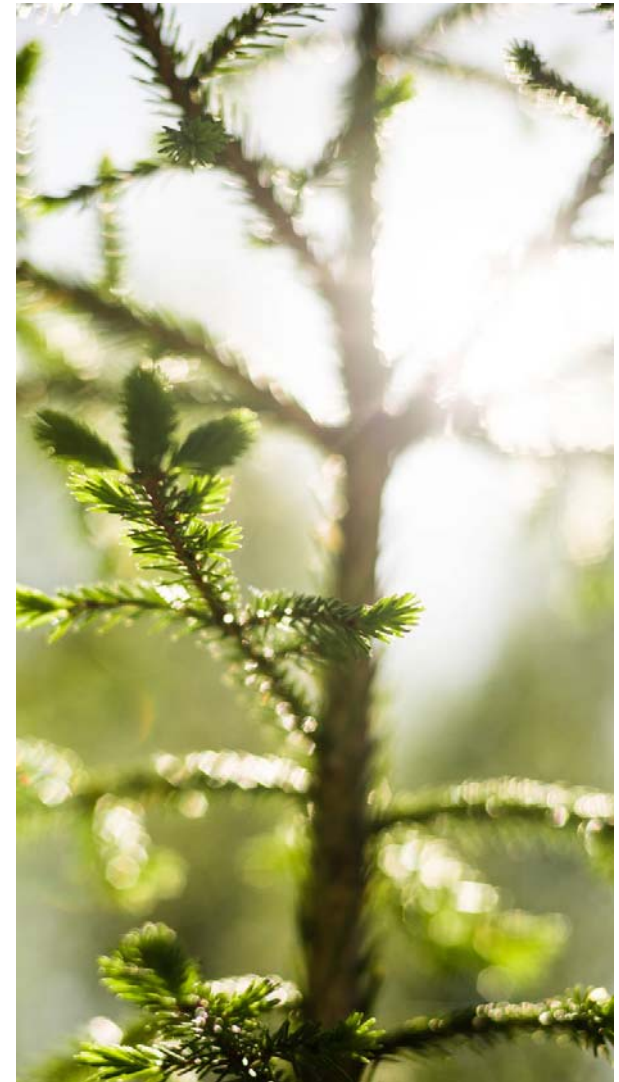
Metsä Group makes a strong result

- Sales EUR 2,904 million (1–6/2017: EUR 2,451 million)
- Operating result* EUR 418 million (EUR 247 million)
- Operating result of sales* 14.4% (10.1%)
- Return on capital employed* 16.9% (11.5%)
- The growth of sales was mainly due to higher delivery volumes and increase in pulp and paperboard prices
- The result improved thanks to increase in pulp prices and positive development of the paperboard business
- Exchange rate fluctuations had a negative effect of over EUR 80 million on the operating result compared to the first half of the previous year



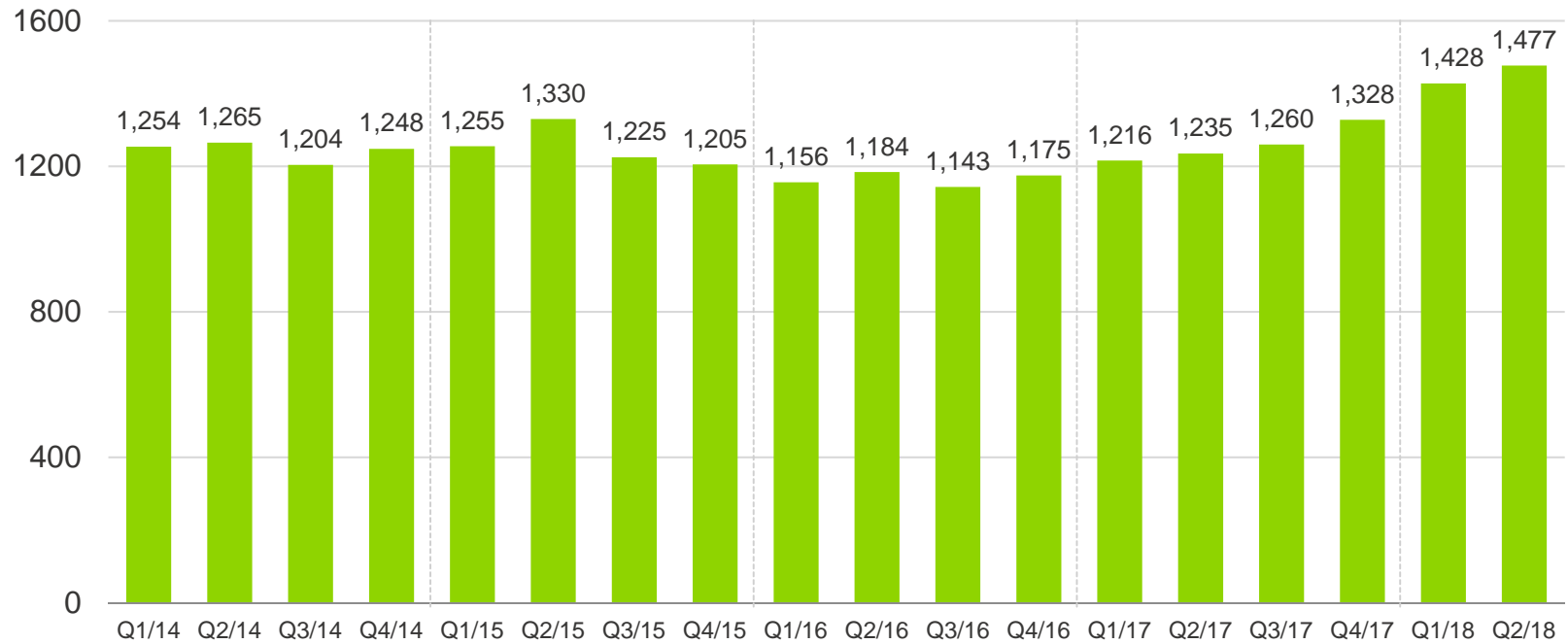
Events in the second quarter

- A prefeasibility study on renewal of Kemi pulp mill was launched
- An innovation company Metsä Spring was established. Textile fibre production the first concept to be included in the portfolio
- Investments of Wood Products Industry and of Tissue and Cooking Papers continued as planned
- The market prices of long-fibre and short-fibre pulp continued to increase
- Metsä Board's paperboard deliveries grew to a record level
- Metsäliitto Cooperative distributed an interest of EUR 63.2 million on members' capital



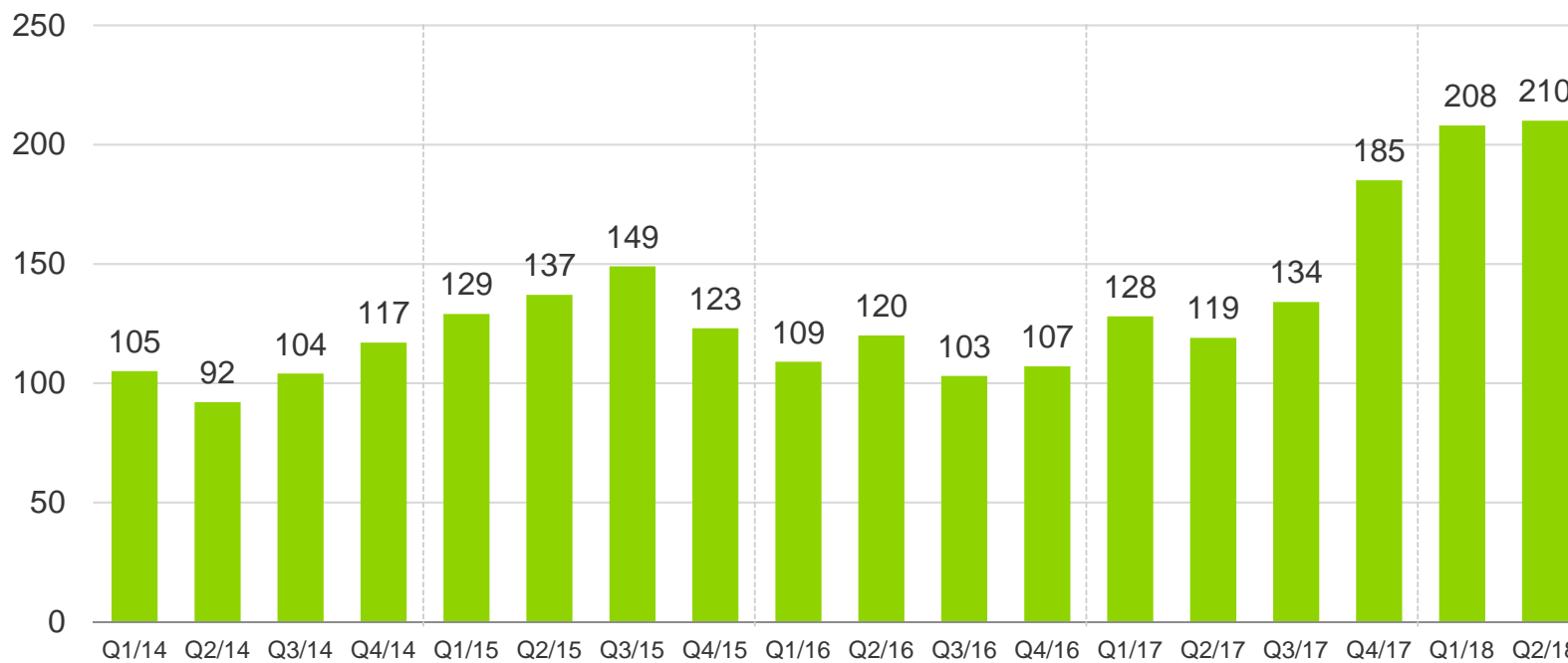
Sales quarterly

EUR million



Comparable operating result

EUR million



Change in comparable operating result

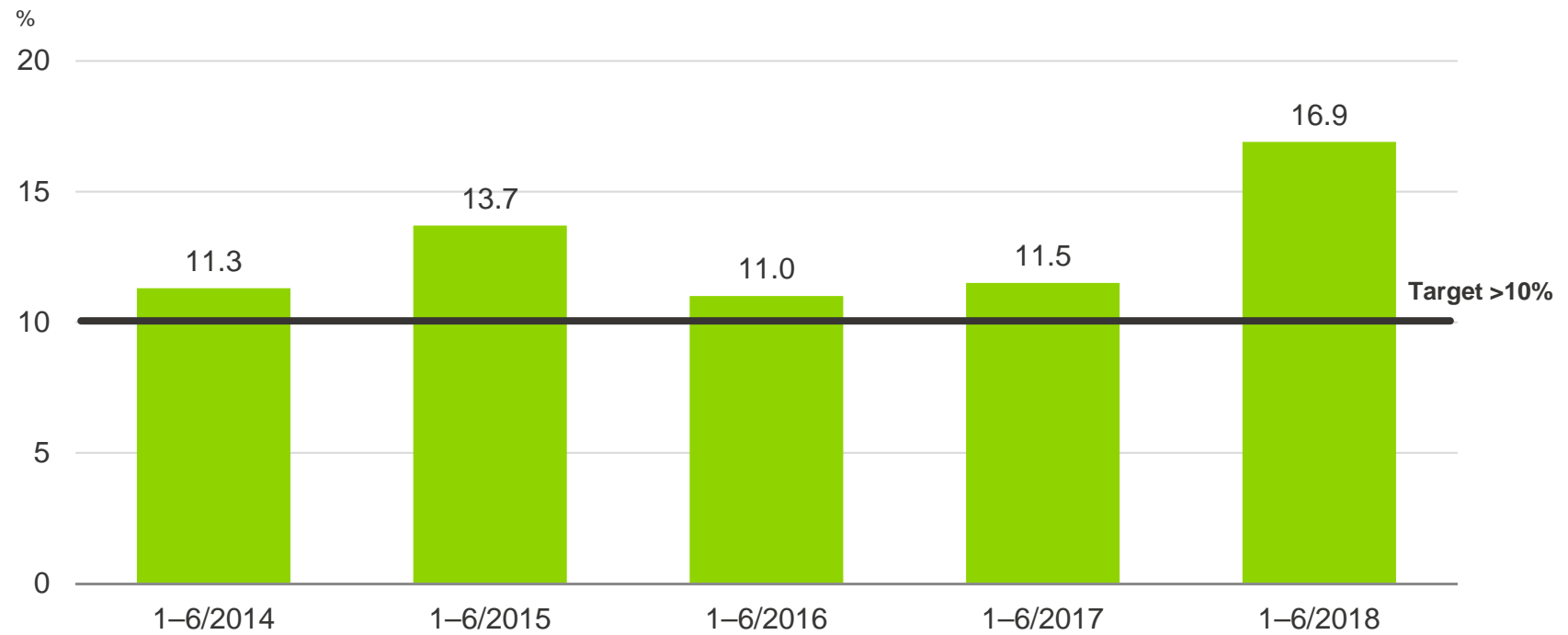
EUR million

Comparable operating result 1–6/2017	246.9
Sales prices	305.7
Sales volumes	84.7
Exchange rates	-81.4
Raw materials and energy	-63.4
Employee costs	-9.2
Maintenance and other fixed costs	-20.0
Depreciation	-31.1
Others	-14.2
Comparable operating result 1–6/2018	418.0

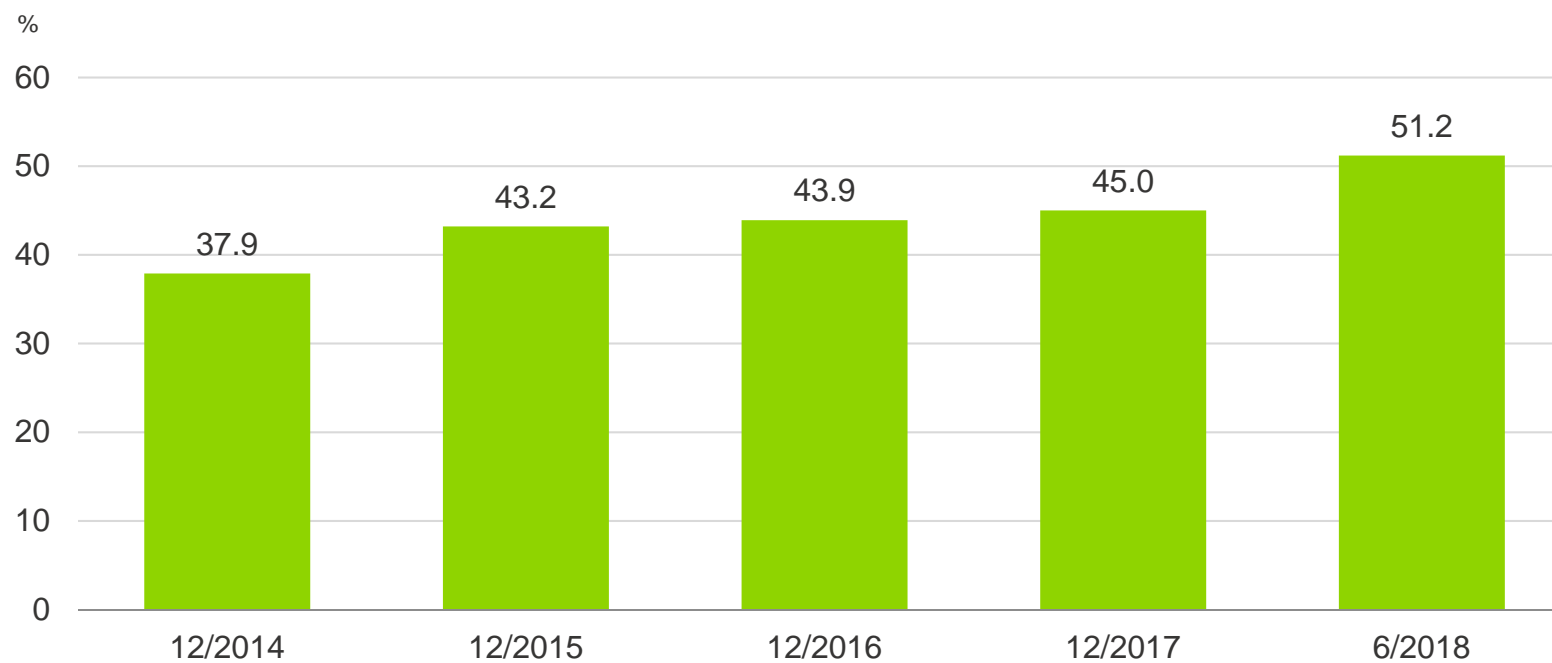
Items affecting comparability

EUR million	1–6/2018
Operating result (IFRS)	412.3
Items affecting comparability:	
Metsä Board / Efficiency improvement programme at Husum mills	-4.1
Metsä Board / Divestment of Teollisuuden Voima's Meri-Pori coal-fired power plant	-1.7
Metsä Board / other	+0.2
Items total	-5.6
Comparable operating result	418.0

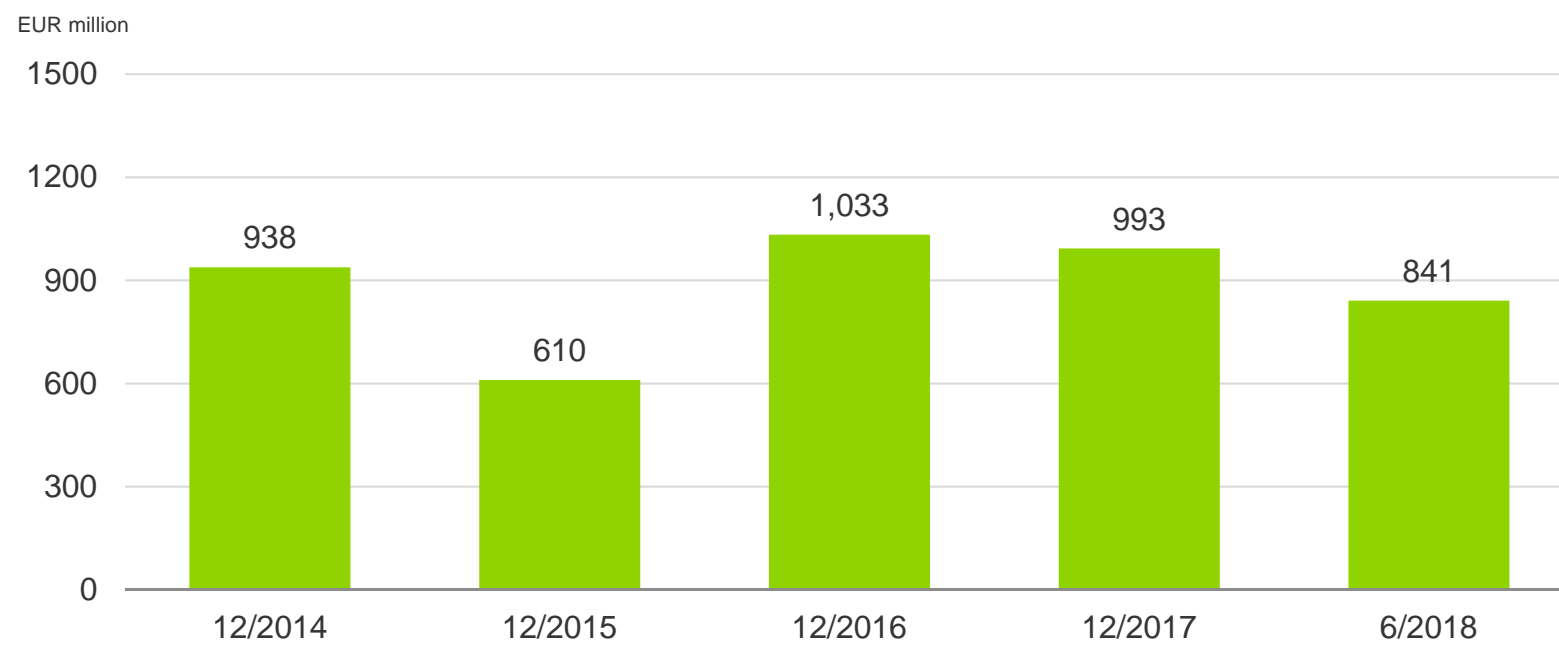
Comparable ROCE



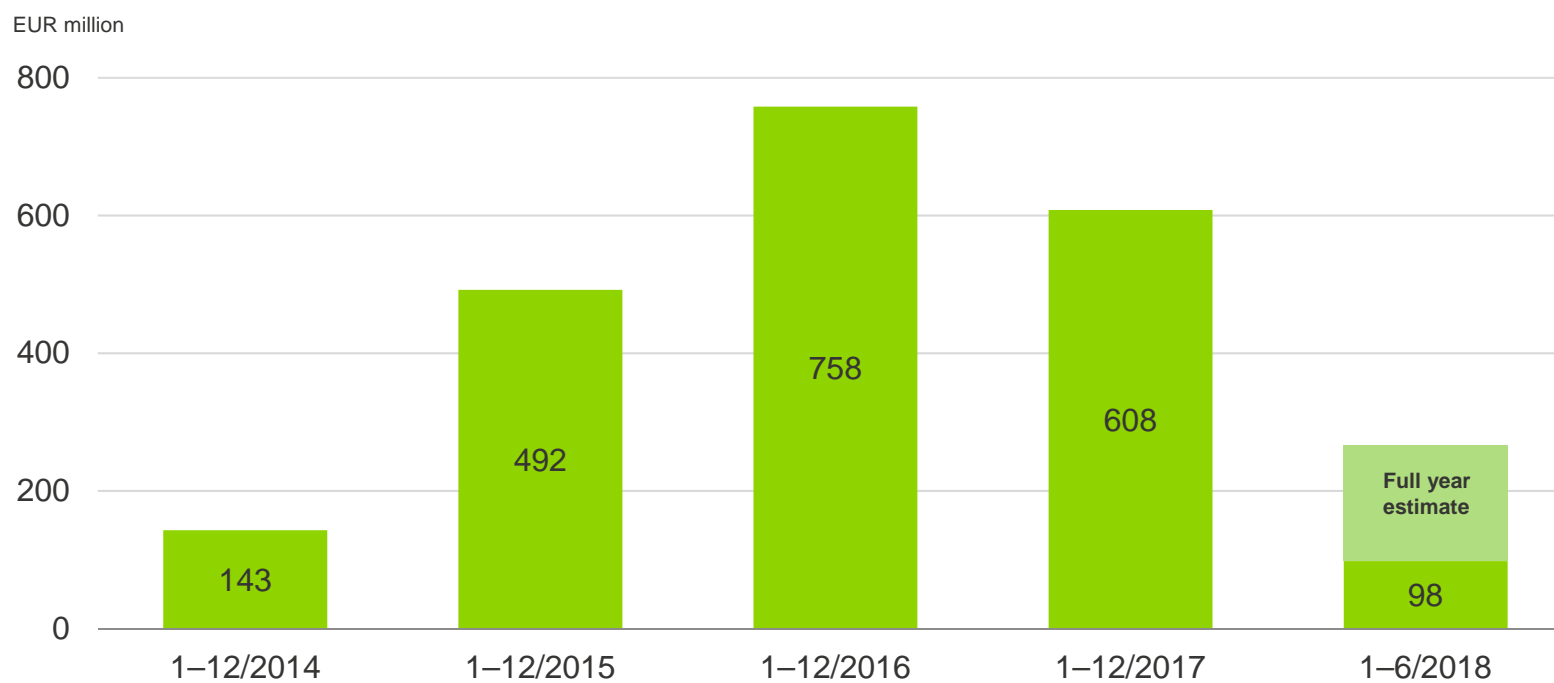
Equity ratio



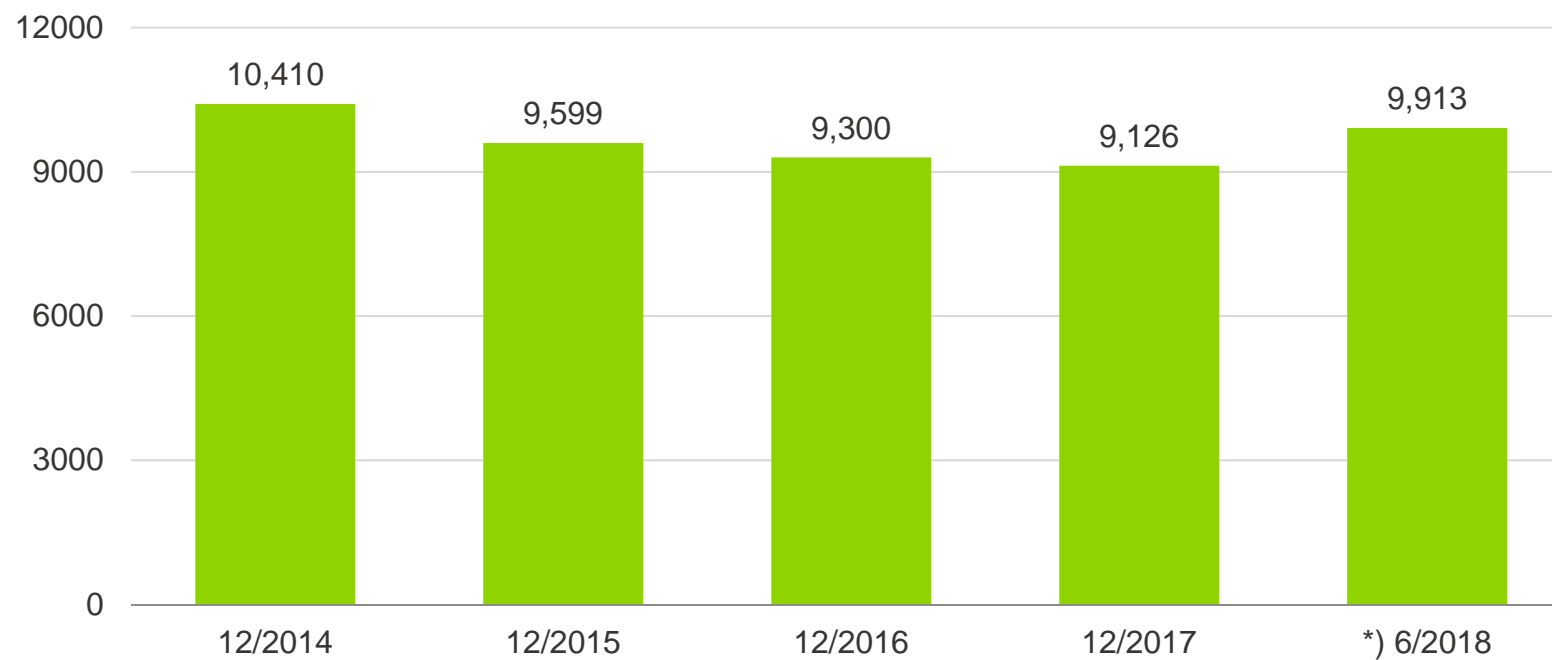
Interest-bearing net liabilities



Capital expenditure



Personnel



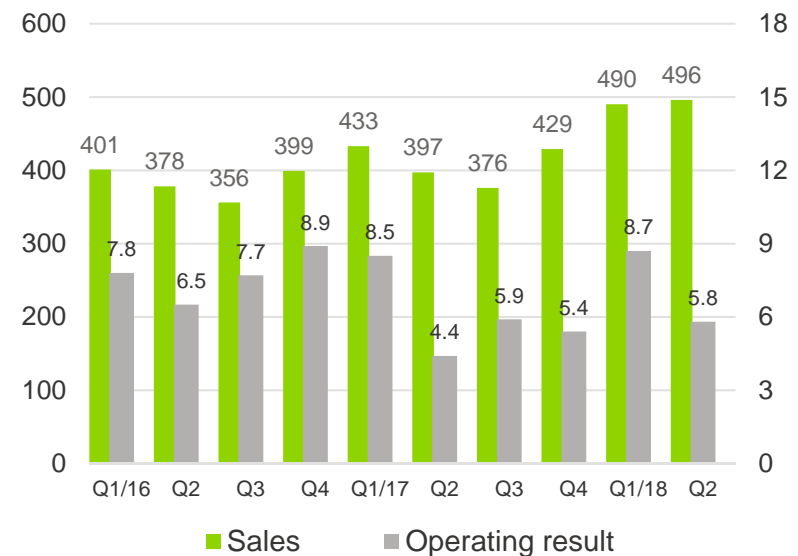
*including approximately 1,000 summer employees

Wood supply in line with the targets

- Wood was harvested according to targets, and deliveries to customers were smooth
- Due to good harvesting and transport conditions, the stocks of wood grew close to the normal levels
- Metsä Forest delivered a total of 18.7 million cubic metres (16.4) of wood
- A total of 37% of the wood was bought digitally. In the sale of forest management services, the figure was 43%
- Metsäliitto Cooperative paid a double bonus on pulpwood to its members between March and May 2018

Sales and comparable operating result

EUR million



Wood products demand good despite of the UK

- The sales of engineered wood products was at the previous year's level. Sales of the UK business declined
- The average prices of plywood products increased compared to the previous year
- The result was negatively affected by the decline in the profitability of the UK business, costs of the new mills and cost inflation
- The finishing works are ongoing at Äänekoski veneer line. At Pärnu plywood mill the ramp-up of lines continues
- Installation of the building's elements are progressing at the new Kerto line at Punkaharju

Sales and comparable operating result

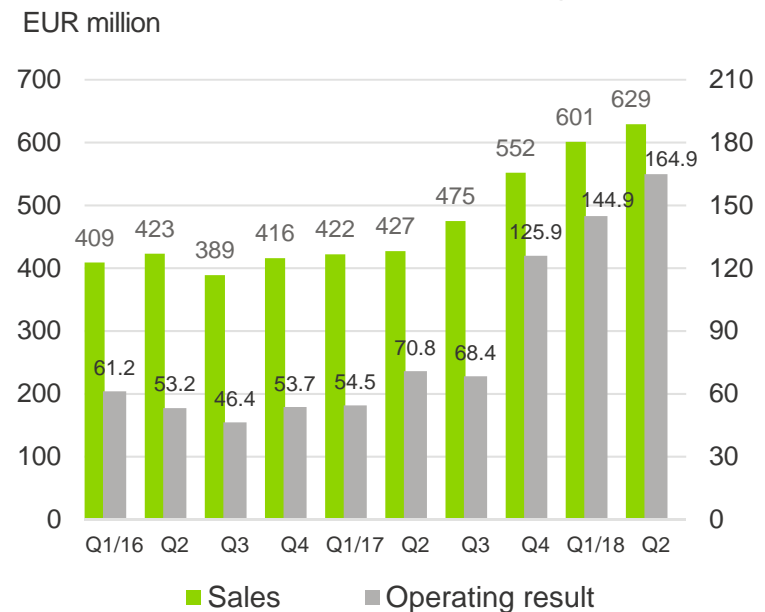
EUR million



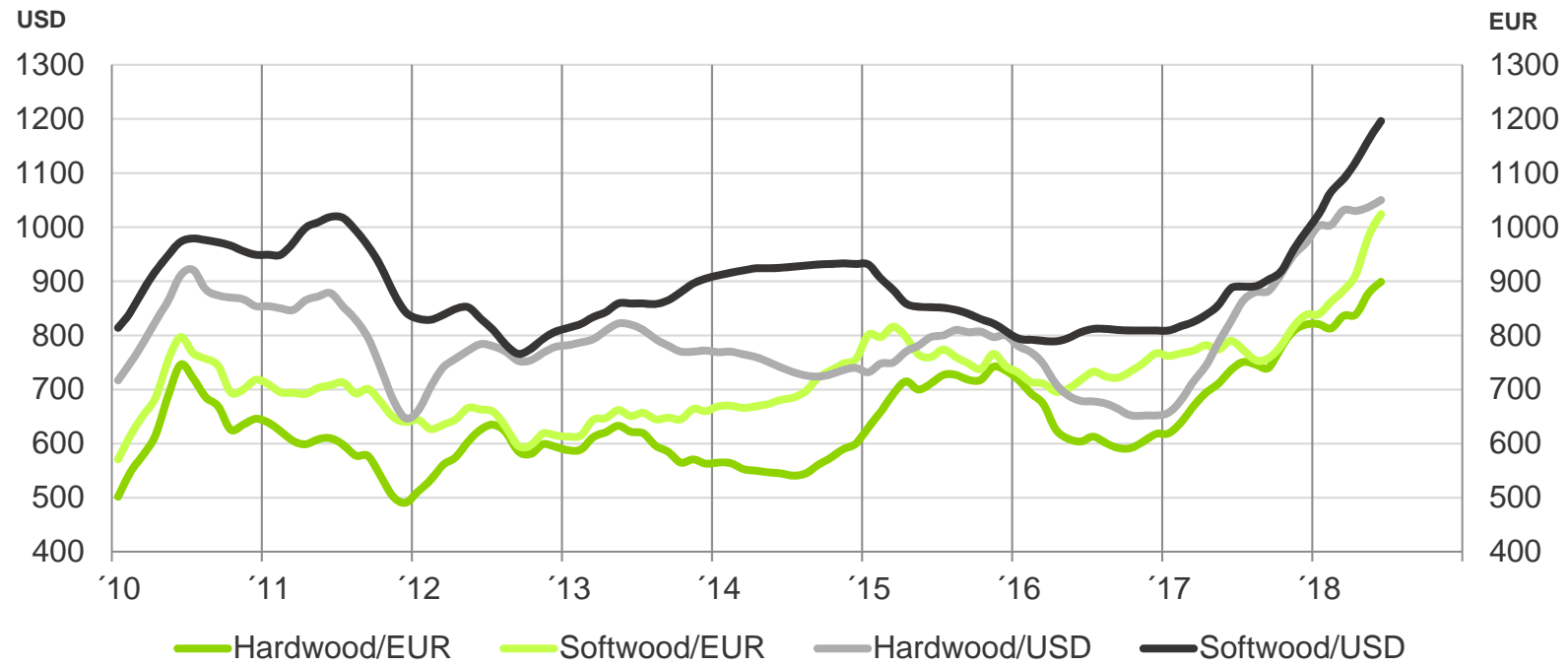
Strong result in Pulp Industry

- The demand for pulp remained strong
- The operating result of Metsä Fibre increased clearly due to higher sales volumes and favourable price development
- In the first half of the year, market price of long-fibre and short-fibre pulp increased by 32% and 40%, respectively, compared to last year
- The balance between supply and demand in sawn timber has improved clearly. The prices increased by 14% compared to last year

Sales and comparable operating result



Price of pulp (PIX) 2010–Q2/2018



Source: Foex

Paperboard deliveries at record level in the second quarter

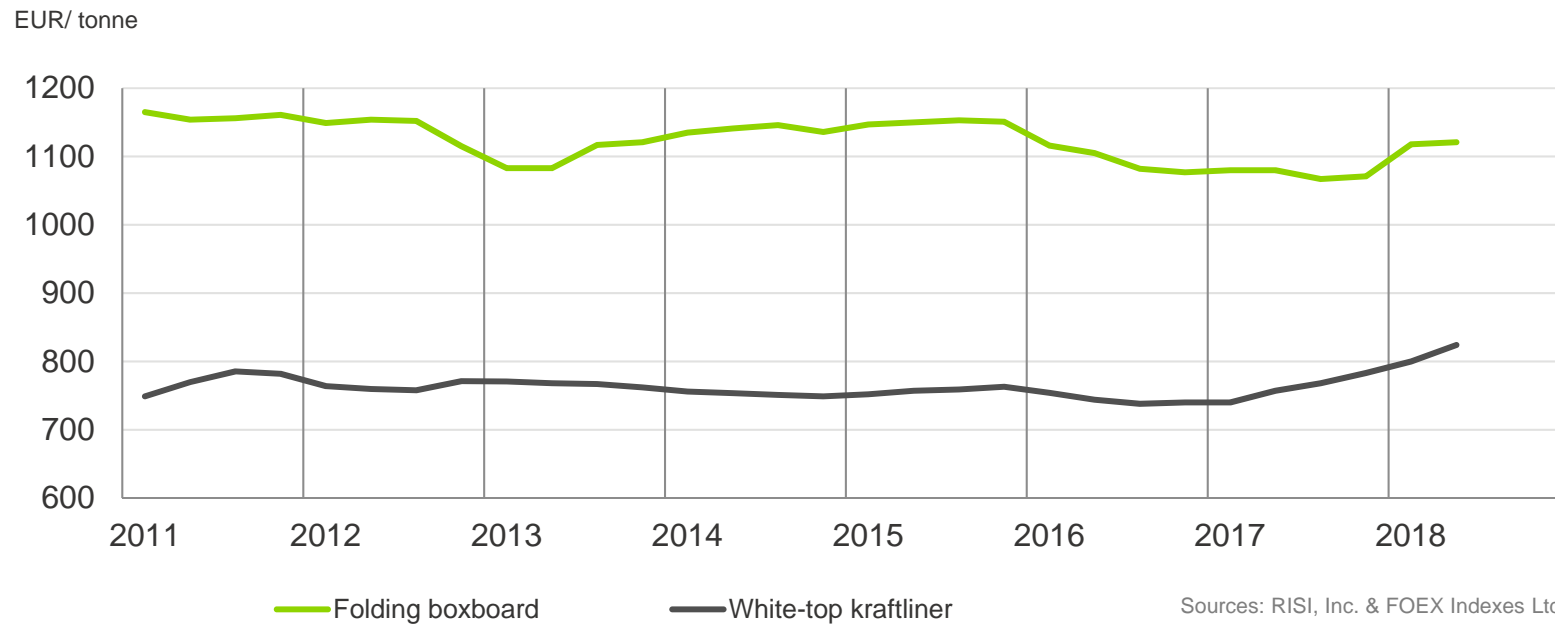
- Paperboard deliveries grew by 6% in the first half of the year
- Sales and profitability grew thanks to increased deliveries and prices of paperboard. Also, the higher pulp production and delivery volumes of Metsä Fibre improved profitability
- Several planned maintenance shutdowns weakened the result of the second quarter
- Cost inflation affected the result in the beginning of the year. Exchange rate fluctuations after hedging had a negative effect of almost EUR 30 million on the operating result

Sales and comparable operating result

EUR million



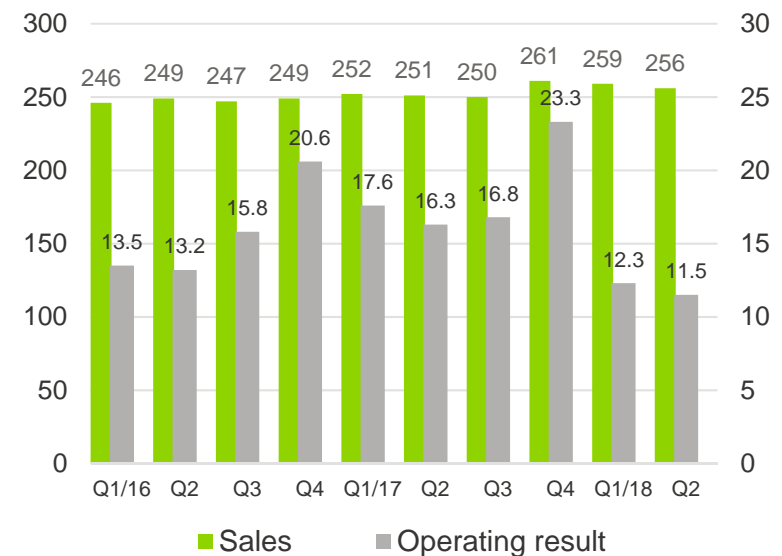
Prices of folding boxboard and white-top kraftliner in Europe 2011–Q2/2018



Tissue and Cooking Papers’ production efficiency is being improved

- The growth in Metsä Tissue’s sales was primarily due to increased sales volumes
- The result was weakened by the price of pulp and the weakening of the Norwegian krone, Swedish krona and UK pound
- A new converting line for consumer products is being built at the Žilina mill in Slovakia
- A new away-from-home converting line is under construction at the Raubach mill in Germany
- The modernisation of the baking paper machine in Düren, Germany, continues

Sales and comparable operating result
EUR million



Summary

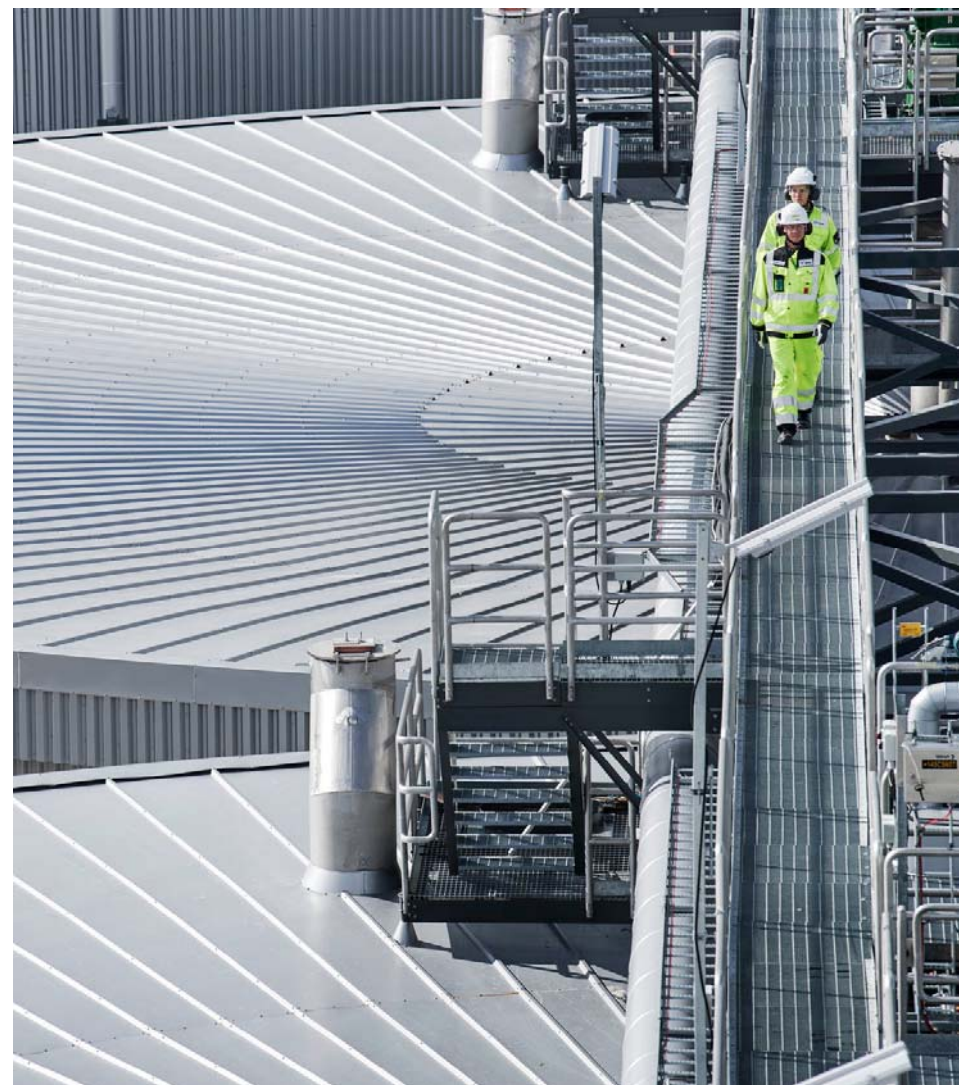
Outlook for the business areas

- Demand for wood focuses on regeneration and thinning felling that can be harvested in the summer and, in energy wood, on crown wood
- Demand for wood products is expected to remain strong, which improves order books of plywood in particular. Demand of the distributor customers in the UK is expected to decrease
- The pulp and sawn timber markets are expected to remain strong. Supply and demand of pulp are in balance, so any interruptions in production will have an immediate effect on the market situation
- Demand for the paperboard is expected to grow and the market prices remain stable in local currencies. Deliveries are expected to remain at the same level as in the second quarter
- In the tissue and cooking paper markets, demand is expected to remain stable in all market areas



Near-term outlook

- Metsä Group's comparable operating result in the third quarter of 2018 is expected to be roughly at the same level as in the second quarter of 2018

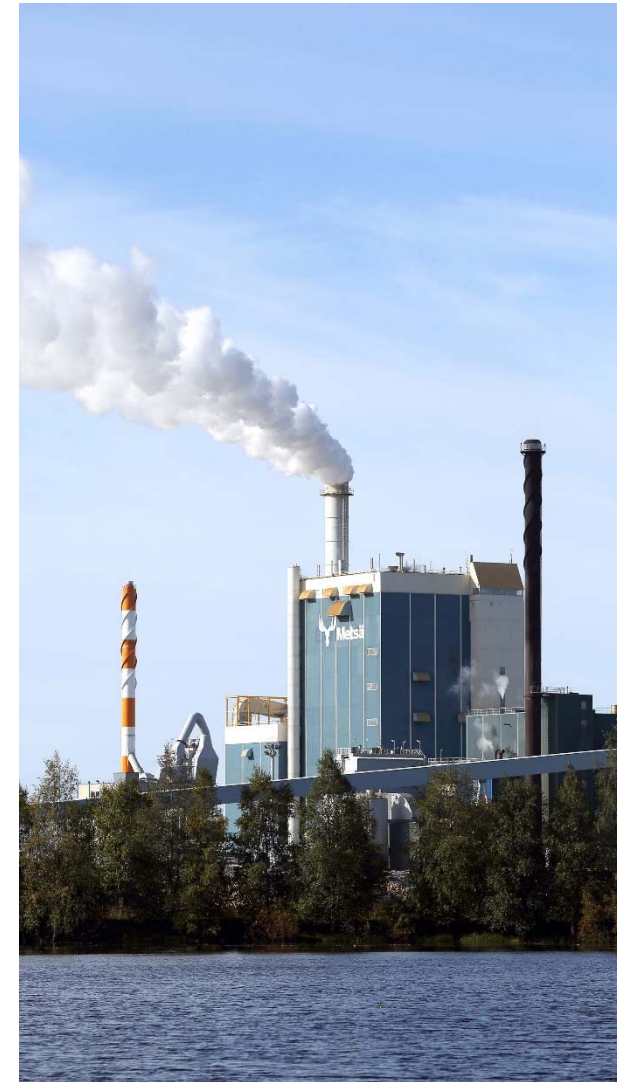


Prefeasibility study on renewal of Kemi pulp mill

- Replacing the current pulp mill with a new bioproduct mill
 - Clearly larger in terms of production capacity, wood consumption and impact on employment
 - The self-sufficiency in electricity would be considerably higher
 - The bioproduct range would be expanded

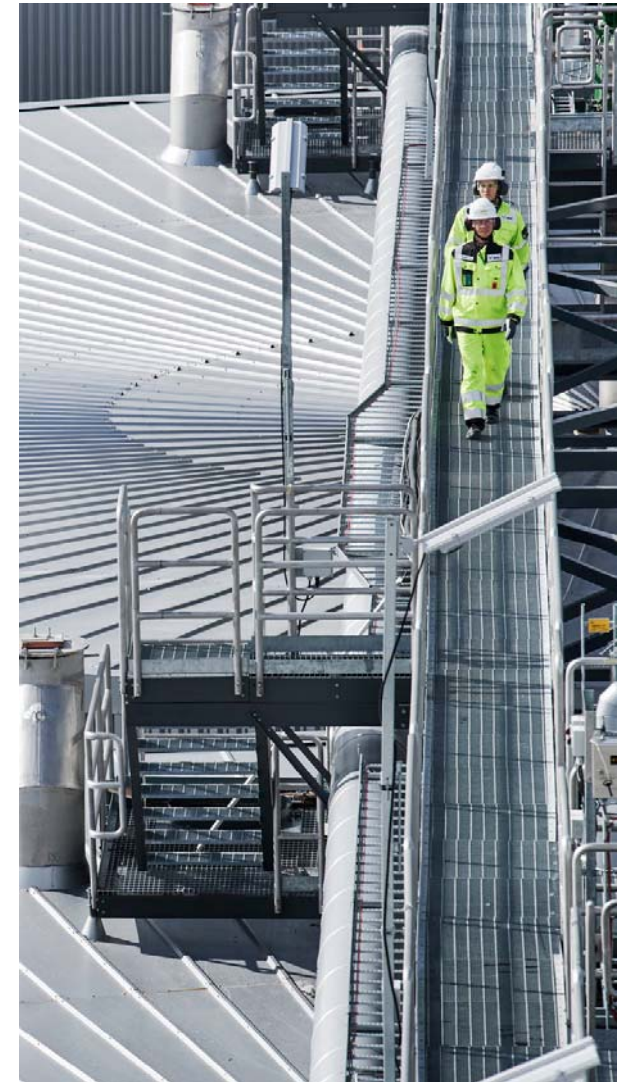
OR

- Extending the life cycle of the current mill
 - Modernising several departments
 - Maintaining production capacity roughly unchanged (620,000 t/a softwood and hardwood pulp)
 - Maintaining wood consumption roughly unchanged (3 million m³/a)



The prefeasibility study completed in summer 2019

- Availability of wood raw material and development potential of Kemi's infrastructure and logistic connections are in focus
- The prefeasibility study is led by Timo Merikallio, who was responsible for the planning and construction of the bioproduct mill in Äänekoski, started up in August 2017
- Decisions on a possible launch of the environmental impact assessment and environmental permit procedures would be made in summer 2019



Metsä Spring – A new innovation company

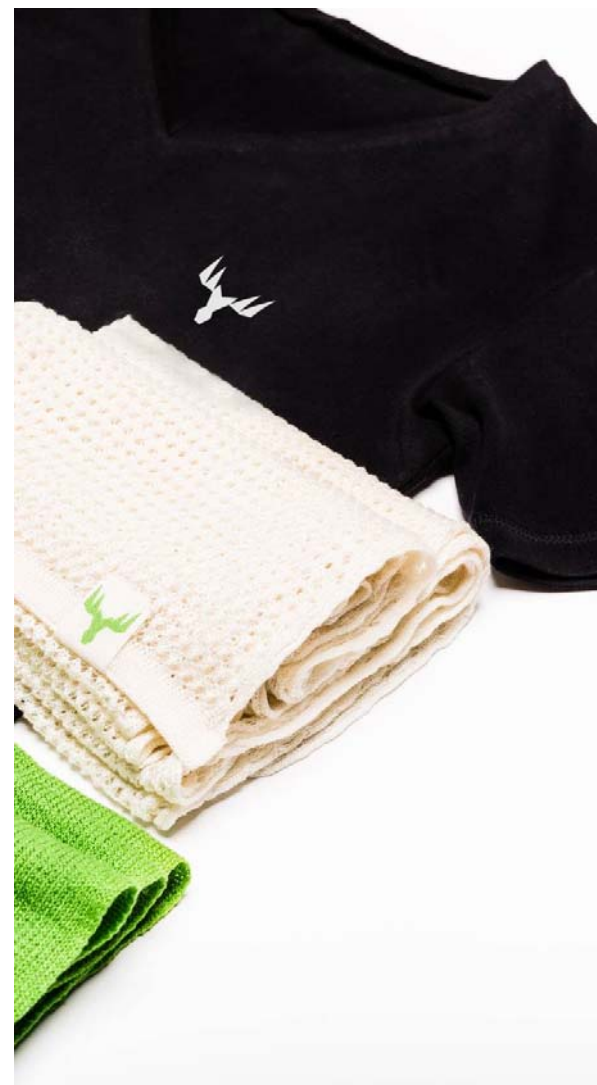
Extensive cooperation a prerequisite for innovations

- Metsä Group has moved to the new era in its innovation activity with the establishment of Metsä Spring
- Metsä Spring will, together with partner organisations, invest in new endeavours to identify and develop new business opportunities in sustainable forest-based bioeconomy and circular economy
- Niklas von Weymarn has been appointed CEO of the company. He transfers from the position of VP, Research in Metsä Fibre



Textile fibres the first concept in Metsä Spring's portfolio

- Metsä Spring is planning a greenfield demo plant of an industrial scale integrated to the bioproduct mill in Äänekoski
 - Capacity 500 tonnes per year
 - International planning team
 - Investment decision in 2018
- The environmentally-friendly production method is based on direct dissolution using novel compounds for the pulp dissolution stage
 - The raw material is a non-dried paper pulp
 - More sustainable production than current production methods of textile fibres



Make the most of **Metsä**

