

METSÄ GROUP

HALF YEAR FINANCIAL REPORT

JANUARY–JUNE 2018



Metsä

METSÄ GROUP'S COMPARABLE OPERATING RESULT IN JANUARY–JUNE 2018 WAS EUR 418 MILLION

JANUARY–JUNE 2018 (1–6/2017)

- Sales were EUR 2,904 million (1–6/2017: 2,451).
- Operating result was EUR 412 million (253). Comparable operating result was EUR 418 million (247).
- Result before tax was EUR 368 million (237). Comparable result before tax was EUR 374 million (230).
- Comparable return on capital employed was 16.9% (11.5).
- Cash flow from operations was EUR 276 million (190).

APRIL–JUNE 2018 (4–6/2017)

- Sales were EUR 1,477 million (1,235).
- Operating result was EUR 204 million (122). Comparable operating result was EUR 210 million (119).
- Result before tax was EUR 184 million (107). Comparable result before tax was EUR 189 million (104).
- Comparable return on capital employed was 17.0% (10.6).
- Cash flow from operations was EUR 242 million (192).

EVENTS DURING THE SECOND QUARTER OF 2018

- Metsä Group started a prefeasibility study on the renewal of its Kemi pulp mill.
- Metsä Group established Metsä Spring Oy, a new innovation company.
- The market prices of long-fibre and short-fibre pulp continued to rise.
- Metsä Board's paperboard deliveries increased and reached a record level.
- Metsä Board's operating result was burdened by several planned maintenance shutdowns at its mills in Finland.
- In February, Metsäliitto Cooperative made an early repayment of EUR 100 million of its EUR 200 million loan maturing in 2019, and paid the remaining EUR 100 million in June. In April, Metsä Board made an

early repayment of EUR 100 million of its EUR 150 million loan maturing in 2020.

- Metsäliitto Cooperative paid EUR 63.2 million in interest on the capital invested by its members.

RESULT GUIDANCE FOR JULY–SEPTEMBER 2018

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

President and CEO Ilkka Hämmälä:

"Metsä Group continued its strong performance in the second quarter. The good result was made possible by the increase in sales volumes and improvement in production efficiency facilitated by our development investments in recent years, combined with favourable global economic development.

The pulp and paperboard industry were in key role in Metsä Group's performance, but the markets developed favourably also in other business areas. Wood supply normalised after the start of the year, which was challenging in terms of the weather, and Metsäliitto Cooperative's members actively engaged in wood trade.

Metsä Group continues its development phase. In 2018, our investments focus on the wood products industry, and we are also increasing our converting capacity for tissue papers and our production of cooking papers. Established in May, Metsä Spring is an innovation company focusing on the development of new products of the future, as well as strengthening Metsä Group's position as a company that leads the way in the industry.

As a result of the good performance, Metsä Group's strong balance sheet provides favourable operating conditions, even during any disruption in international trade."

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 5.0 billion in 2017, and it employs approximately 9,100 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.

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KEY FIGURES

	2018	2017	2018	2017	2017
Condensed income statement, EUR million	1–6	1–6	4–6	4–6	1–12
Sales	2 904.3	2 451.4	1 476.5	1 235.2	5 040.0
Other operating income	20.9	25.7	10.6	11.7	60.3
Operating expenses	-2 363.3	-2 109.0	-1 215.6	-1 072.8	-4 269.7
Depreciation and impairment losses	-149.6	-114.6	-67.1	-51.9	-249.7
Operating result	412.3	253.4	204.5	122.2	581.0
Share of results from associated companies and joint ventures	0.8	18.9	0.0	4.9	17.1
Exchange gains and losses	-4.5	-2.6	-1.0	-4.0	-3.3
Other net financial items	-40.5	-33.2	-19.9	-16.1	-88.5
Result before income tax	368.1	236.6	183.6	107.1	506.2
Income tax	-79.1	-43.8	-40.8	-20.9	-102.3
Result for the period	289.0	192.8	142.8	86.1	403.9

	2018	2017	2018	2017	2017
Profitability	1–6	1–6	4–6	4–6	1–12
Operating result, EUR million	412.3	253.4	204.5	122.2	581.0
Comparable operating result	418.0	246.9	210.1	119.1	566.1
% of sales	14.4	10.1	14.2	9.6	11.2
Return on capital employed, %	16.7	11.8	16.5	10.9	12.6
Comparable return on capital employed	16.9	11.5	17.0	10.6	12.3
Return on equity, %	18.5	14.3	18.0	12.6	14.5
Comparable return on equity	18.7	13.9	18.7	12.2	14.0

	2018	2017	2018	2017	2017
Financial position	30.6.	30.6.	31.3.	31.3.	31.12.
Equity ratio, %	51.2	45.3	46.5	44.1	45.0
Net gearing ratio, %	26	45	34	46	34
Interest-bearing net liabilities, EUR million	841	1 252	1 039	1 226	993

SEGMENTS

Sales and Operating result 1–6/2018, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp and Sawn Timber Industry	Paperboard Industry	Tissue and Cooking Papers
Sales	985.6	228.0	1 229.5	1 011.1	515.1
Other operating income	2.9	2.9	11.4	6.6	1.4
Operating expenses	-971.9	-212.7	-865.9	-844.9	-474.4
Depreciation and impairment losses	-2.2	-6.6	-65.3	-50.2	-18.4
Operating result	14.5	11.6	309.8	122.6	23.7
Items affecting comparability	-	-	-	5.6	-
Comparable operating result	14.5	11.6	309.8	128.2	23.7
% of sales	1.5	5.1	25.2	12.7	4.6

THIS HALF YEAR FINANCIAL REPORT IS UNAUDITED**HALF YEAR FINANCIAL REPORT 2018****SALES AND RESULT**

Metsä Group's sales in January–June 2018 were EUR 2,904.3 million (1–6/2017: 2,451.4). The sales increased mainly due to greater delivery volumes and higher pulp and paperboard prices.

Comparable operating result was EUR 418.0 million (246.9), or 14.4% (10.1) of sales. Operating result improved, mainly due to an increase in pulp prices and the positive development of the paperboard business. Exchange rate fluctuations after hedging had a negative effect of approximately EUR 80 million on the operating result compared to the corresponding period last year. The effect was mainly attributable to the US dollar weakening against the euro by approximately 12%.

Sales in the second quarter of the year totalled EUR 1,476.5 million, whereas sales for the corresponding period last year were EUR 1,235.2 million. The comparable operating result was EUR 210.1 million (4–6/2017: 119.1).

The items affecting comparability recognised in January–June totalled EUR -5.6 million (1–6/2017: +6.5). The items consisted of cost provisions related to the efficiency programme at the Husum mill in Sweden and compensation to be paid to Pohjolan Voima with regard to the divestment of Teollisuuden Voima's Meri-Pori coal-fired power plant.

Metsä Group's operating result (IFRS) was EUR 412.3 million (253.4). The share of the results of associated companies and joint ventures was EUR 0.8 million (18.9), financial income was EUR 1.3 million (2.6), exchange rate differences in financing were EUR -4.5 million (-2.6), and financial expenses totalled EUR 41.8 million (35.7).

The result before taxes was EUR 368.1 million (236.6), and taxes including changes in deferred tax liabilities totalled EUR 79.1 million (43.8). The Group's effective tax rate was 21.5% (18.5). The result for the review period was EUR 289.0 million (192.8).

The return on capital employed was 16.7% (11.8), and the return on equity was 18.5% (14.3).

The comparable return on capital employed was 16.9% (11.5), and the comparable return on equity was 18.9% (13.9).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity has remained strong. Total liquidity at the end of June was EUR 1,591.8 million (31

December 2017: 1,928.3). This consisted of EUR 785.9 million (1,072.4) in liquid assets and investments, and EUR 805.9 million (855.9) in off-balance sheet committed credit facility agreements. In addition, the Group has no longer more than EUR 1.2 million in off-balance sheet committed credit facility agreements related to the bioproduct mill investment in Äänekoski.

The Group's liquidity reserve is complemented by uncommitted commercial paper programmes and credit facilities amounting to EUR 160.8 million (31 December 2017: 160.8).

Cash flow from operations amounted to EUR 276.2 million (1–6/2017: 190.4). EUR 301.5 million was tied up in working capital (169.8). Working capital increased by the addition of EUR 167.2 million (85.2) in trade and other receivables, the addition of EUR 65.0 million (20.5) in inventories, and a decrease of EUR 69.3 million (64.0) in trade payables and other liabilities.

The Group's equity ratio at the end of June was 51.2%, and its net gearing was 26% (31 December 2017: 45.0 and 34, respectively). Interest-bearing net liabilities were EUR 841.3 million (31 December 2017: 992.6).

In February, Metsäliitto Cooperative made an early repayment of EUR 100 million of its EUR 200 million loan maturing in 2019, and it made another repayment of EUR 100 million in June.

In April, Metsä Board made an early repayment of EUR 100 million of its syndicated credit facility maturing in 2020. The agreement consisted of a EUR 150 million term loan and an undrawn revolving credit facility of EUR 100 million. In conjunction with the loan repayment, the credit facility was increased by EUR 50 million.

At the end of June, the equity ratio of the parent company Metsäliitto Cooperative was 85.2%, and its net gearing was -15% (31 December 2017: 76.7 and -14, respectively).

On 3 May 2018, Metsäliitto Cooperative's Representative Council decided that interest of 7.0% (6.0 for 2016) be distributed on the participation shares of the members for 2017. Interest of 6.5% (5.5) was proposed on additional shares A, and interest of 2.5% (2.5) on additional shares B. The interest paid totalled EUR 63.2 million (51.5).

The Representative Council furthermore decided to transfer EUR 250 million of retained earnings to the reserve for invested unrestricted equity. Correspondingly, the share of members' capital recognised as a financial

liability in the consolidated financial statements in accordance with IFRS decreased by EUR 83.3 million.

In January–June, Metsäliitto Cooperative's members' capital increased by a total of EUR 93.9 million (72.5). The value of participation shares grew by EUR 5.7 million (5.3), that of the additional shares A by EUR 83.9 million (60.0), and that of the additional shares B by EUR 4.2 million (7.2). After the review period, on 2 July 2018, EUR 31.7 million (38.7) of the additional members' capital fell due for refund.

PERSONNEL

In January–June, Metsä Group had an average of 9,458 employees (9,469). Personnel expenses totalled EUR 327.6 million (312.9). At the end of June, the Group had 9,913 employees (31 December 2017: 9,126), of whom 5,403 (4,764) were based in Finland and 4,510 (4,362) abroad. The parent company Metsäliitto Cooperative had 2,076 employees at the end of June (31 December 2017: 1,878).

Ilkka Hämälä started as the President and CEO of Metsä Group on 1 April 2018, when Kari Jordan retired, having served as President and CEO since 2006.

MEMBERS

At the end of June, Metsäliitto Cooperative had 103,219 members (31 December 2017: 103,752). During January–June, 1,623 new members joined the Cooperative, and 2,156 members cancelled their membership.

INVESTMENTS

Metsä Group's capital expenditure in January–June totalled EUR 97.7 million (275.4).

Prefeasibility study on the renewal of the Kemi pulp mill

In May, Metsä Group started a prefeasibility study on the renewal of its Kemi pulp mill. The prefeasibility study involves an assessment of two options: replacing the existing pulp mill with a new bioproduct mill or extending the existing mill's life cycle by modernising several departments.

The prefeasibility study phase is expected to continue until summer 2019. Timo Merikallio, who was responsible for the planning and construction of the bioproduct mill in Äänekoski, is in charge of the study.

Metsä Wood's investment programme

In June 2016, Metsä Wood announced an investment programme of EUR 100 million in its plywood and Kerto® LVL operations. The programme will be carried out in phases and will be completed by the end of 2018.

The investments have progressed according to plan. The annual production capacity of the Kerto LVL mill in Lohja increased by approximately 20,000 cubic metres as the two oldest production lines were replaced with a new Kerto line, which started up in August 2017.

In Äänekoski, the investment in the birch veneer peeling and drying line progressed according to plan and the mill's finalising work is underway.

The construction project concerning the birch plywood mill in Pärnu, Estonia, has been completed, and the ramp-up of the lines continues with equipment suppliers. The feedback received on the quality of the first test deliveries has been positive. Production at the Pärnu mill will start in the second half of 2018.

In December 2017, Metsä Wood announced the construction of a new Kerto LVL line with a capacity of 65,000 cubic metres at its mill in Punkaharju. The value of the investment is approximately EUR 52 million. During the second quarter, the expansion of the mill hall progressed to the installation of the building's elements. The new line will start up during the first half of 2019.

Metsä Spring Oy

In May, Metsä Group announced it had established Metsä Spring Oy, an innovation company. The company invests in new projects in cooperation with partners, aiming to identify and develop new business operations related to a sustainable, forest-based bioeconomy and circular economy.

A concept developed by Metsä Fibre for the production of textile fibre was the first addition to Metsä Spring's portfolio. An industrial-scale demo plant is intended to be built at the bioproduct mill in Äänekoski to produce textile fibre from pulp, with an annual capacity of approximately 500 tonnes. The planning work is being carried out by an international team, and an investment decision on the plant is expected to be made during 2018.

Niklas von Weymar serves as the CEO of Metsä Spring, having previously worked as VP, Research at Metsä Fibre.

BUSINESS AREAS

Wood Supply and Forest Services

The sales of Wood Supply and Forest Services, i.e. Metsä Forest, totalled EUR 985.6 million (1–6/2017: 829.4), and the operating result was EUR 14.5 million (12.9). Metsä Forest's sales in the second quarter were EUR 495.7 million (4–6/2017: 396.7), and the operating result was EUR 5.8 million (4.4).

In Finland, the supply of wood was at a good level, and the stumpage prices of log wood and pulpwood increased. The purchasing volume of wood increased compared to the corresponding period last year.

The supply of wood was at a good level in the Baltic Sea region as well, supported by good harvesting conditions. Demand for nearly all grades of wood was strong, but the demand for hardwood pulpwood stabilised towards the end of the period.

Metsä Forest bought more wood than in the corresponding period last year. Demand focused particularly on felling sites to be harvested when the ground is unfrozen. The purchasing of energy wood continued to focus on crown wood. The majority of wood in Finland was purchased from members of Metsäliitto Cooperative. The sales of forest management services were in line with targets.

Wood was harvested according to targets, and deliveries to customers' production units were carried out smoothly. Due to good harvesting and transport conditions, mill and roadside stocks of wood increased close to their normal level.

Metsä Forest delivered a total of 18.7 million cubic metres (16.4) of wood to its customers. Approximately 84% of this amount went to the Finnish industrial sector. A total of 37% of the wood acquired from private forest owners in January–June was purchased through digital means. In the sale of forest management services, the figure was 43%. The sales of forest management services increased by 11% from the corresponding period last year.

Metsä Forest paid a double bonus on pulpwood purchased between 1 March and 31 May 2018 to those members of Metsäliitto Cooperative who were entitled to a bonus. An advance financing service for digital wood trade was introduced at the beginning of June 2018. The service enables forest owners to receive up to 80% in advance funding for their wood trade transaction.

Wood Products Industry

The sales of the Wood Products Industry, i.e. Metsä Wood, were EUR 228.0 million (1–6/2017: 242.0), and the comparable operating result was EUR 11.6 million (19.1).

Metsä Wood's sales in the second quarter were EUR 119.4 million (4–6/2017: 121.8), and the comparable operating result was EUR 5.5 million (8.4).

The sales of engineered wood products remained at last year's level, but the sales of the UK business declined by 12% year-on-year. The average sales price of plywood products increased year-on-year, particularly with regard to birch plywood, driven by price increases and an improved product mix.

The order book level for plywood products remained considerably higher than in the corresponding period last year.

Metsä Wood's profitability was affected by the decrease in the profitability of the UK operations, as well as costs related to new mills. In addition, its operating result was

burdened by cost inflation, particularly in wood raw material, and challenges related to production at some mills.

Pulp and Sawn Timber Industry

The sales of the Pulp and Sawn Timber Industry, i.e. Metsä Fibre, totalled EUR 1,229.5 million (1–6/2017: 848.5), and the comparable operating result was EUR 309.8 million (125.3).

Metsä Fibre's sales in the second quarter were EUR 629.0 million (4–6/2017: 426.5), and the comparable operating result was EUR 164.9 million (70.8).

Demand for pulp remained strong. Compared to the corresponding period last year, the currency-denominated market prices of long-fibre and short-fibre pulp increased by 32% and 40%, respectively, in January–June.

At the beginning of January, the average price of long-fibre pulp in Europe was USD 1,023 per tonne, as opposed to USD 1,196 per tonne at the end of the review period. At the beginning of January, the price of short-fibre pulp in Europe was USD 999 per tonne, as opposed to USD 1,050 per tonne at the end of June.

The sales volume of pulp was 1,438,000 tonnes, which is approximately 30% higher than in the corresponding period last year (1,107,000).

Delivery volumes of sawn timber were 942,000 cubic metres, which is approximately 6% lower than in the corresponding period last year. The market prices in January–June were 14% higher than in the corresponding period last year. The balance between supply and demand in sawn timber improved markedly year-on-year.

Paperboard Industry

The sales of the Paperboard Industry, i.e. Metsä Board, were EUR 1,011.1 million (1–6/2017: 918.7), and the comparable operating result was EUR 128.2 million (88.7).

Metsä Board's sales in the second quarter were EUR 518.7 million (4–6/2017: 474.2), and the comparable operating result was EUR 59.2 million (43.5).

The increase in sales and the comparable operating result was due to higher delivery volumes of paperboard and higher prices of paperboard and market pulp. Also the higher pulp production and delivery volumes of Metsä Board's associated company Metsä Fibre had a positive effect on profitability. The operating result in April–June was burdened by planned maintenance shutdowns at all mills in Finland, with the exception of Kemi.

The overall production costs of paperboard increased year-on-year. The increase in costs was due to the price of wood imported from the Baltic countries to the Husum mill in Sweden in particular. The result was also

burdened by the accelerated rate of general cost inflation. Exchange rate fluctuations including hedges had a negative effect of approximately EUR 28 million on the operating result compared to the corresponding period last year.

Total deliveries of paperboard in January–June increased by 6% year-on-year, totalling 957,000 (906,000) tonnes. Deliveries of folding boxboard amounted to 625,000 (570,000) tonnes, and deliveries of white kraftliner totalled 332,000 (336,000) tonnes.

Metsä Board's comparable return on capital employed was 15.1% (10.3), and its comparable earnings per share were EUR 0.28 (0.19).

Its equity ratio at the end of June was 54.9% and net gearing was 33% (31 December 2017: 52.6 and 31, respectively).

Metsä Board's half-year financial report was published on 2 August 2018.

Tissue and Cooking Papers

The sales of Tissue and Cooking Papers, i.e. Metsä Tissue, totalled EUR 515.1 million (1–6/2017: 503.4). The growth in sales was primarily due to increased sales volumes.

Metsä Tissue's operating result was EUR 23.7 million (33.9). The operating result was weakened by the price of fresh fibre, which was higher than in January–June last year. The weakening of the Norwegian krone, Swedish krona and UK pound against the euro also had a negative effect on the operating result.

Metsä Tissue's sales in the second quarter were EUR 256.3 million (4–6/2017: 251.4), and the operating result was EUR 11.5 million (16.3).

In the third quarter of 2017, Metsä Tissue decided on an investment project involving the construction of a new converting line for away-from-home products in Germany and a new converting line for consumer products in Slovakia.

A new away-from-home converting line will be built at the Raubach mill in Germany. The investment meets growing demand in Western European markets. The new capacity will be in use by the end of 2018.

A new converting line for consumer products will be built at the Žilina mill in Slovakia. The investment strengthens the profitability of the operations and the competitiveness of the Tento tissue paper in eastern Central European markets. The new capacity will be in use by the end of 2018.

In addition, the modernisation of baking paper machine PM 5 in Düren, Germany, continues. The additional volume will enter the market during the final quarter of 2018.

The renewal of the deinking plant underway at the Mänttä mill since 2017 will be carried out in phases over a period of three years.

RISKS AND UNCERTAINTIES

The estimates and statements in this report 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 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.

During 2018, various countries have imposed new import duties on each other's products, in addition to other trade restrictions, but these have not had a direct effect on Metsä Group's business operations so far. Negative developments in world trade could, if continued, weaken Metsä Group's result.

The risks related to the Group's business have been explained more extensively in Metsä Group's Financial Statements for 2017.

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 63 million, of which approximately EUR 23 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.

The Court of Appeal dismissed in its ruling issued in May 2018 the claim for damages of EUR 125 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 39 million. Metsähallitus has requested a

leave to appeal from the Supreme Court to change the ruling of the Court of Appeal and claimed the companies jointly for approximately EUR 62 million. The amount directed at Metsäliitto Cooperative is approximately EUR 22 million.

In its decisions given in August–November 2017 concerning the claims for damages filed by private individuals, the District Court of Helsinki dismissed the claimants' petitions and obligated the claimants to compensate the defendants in full for their legal costs. The ruling by the District Court regarding the private individuals is final.

The Helsinki District Court dismissed in its rulings issued in October 2017 the claim for damages of approximately EUR 5.7 million made by 30 municipalities against the defendant companies jointly and ruled that the municipalities are responsible for reimbursing the defendant companies for their legal expenses. Metsäliitto Cooperative's share of the municipalities' claim for damages in the district court was approximately EUR 1.9 million. The ruling by the District Court regarding the municipalities is final.

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 on 21 October 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. The Board of Adjustment dismissed the company's appeal in March 2018.

The company will now appeal the decision to the Administrative Court of Helsinki.

NEAR-TERM OUTLOOK

Demand for wood will focus on regeneration and thinning felling that can be harvested in the summer and, in energy wood, primarily on crown pulp. The sales of forest management services are expected to remain at good level.

General market demand for wood products is expected to remain strong, which improves order book levels, particularly for plywood products. The strong construction market supports demand for Kerto LVL products. In the UK market, demand is expected to decrease slightly, particularly in terms of distributor customers.

The pulp and sawn timber markets are expected to remain strong. There is a good balance between demand and supply at the moment, particularly in the pulp market, meaning that any interruptions in production will have an immediate effect on the market situation.

Demand for high-quality consumer packaging paperboard made from fresh fibre is expected to continue to grow. Metsä Board's paperboard deliveries in July–September are expected to remain roughly at the same level as in the second quarter. The market prices of folding boxboard and white kraftliner in local currencies are expected to remain stable.

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 JULY–SEPTEMBER 2018

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

Espoo, Finland, 2 August 2018

BOARD OF DIRECTORS

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Metsä Group will publish the interim report for January–September 2018 on 8 November 2018.

SEGMENTS

	2018	2017	2018	2017	2017
Wood Supply and Forest Services	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	985.6	829.4	495.7	396.7	1 634.4
EBITDA, EUR million	16.7	14.9	6.9	5.4	28.4
Comparable EBITDA, EUR million	16.7	14.9	6.9	5.4	28.4
Operating result, EUR million	14.5	12.9	5.8	4.4	24.3
Comparable operating result, EUR million	14.5	12.9	5.8	4.4	24.3
% of sales	1.5	1.6	1.2	1.1	1.5
Comparable ROCE, %	19.5	19.5	16.0	13.0	17.6
Capital expenditure, EUR million	1.8	2.1	0.9	1.1	4.2
Personnel at end of period	901	893	901	893	848

	2018	2017	2018	2017	2017
Wood Products Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	228.0	242.0	119.4	121.8	459.9
EBITDA, EUR million	18.2	28.1	8.4	11.2	47.3
Comparable EBITDA, EUR million	18.2	24.9	8.4	11.3	45.5
Operating result, EUR million	11.6	22.2	5.5	8.3	35.3
Comparable operating result, EUR million	11.6	19.1	5.5	8.4	33.5
% of sales	5.1	7.9	4.6	6.9	7.3
Comparable ROCE, %	9.8	20.6	8.4	17.5	17.6
Capital expenditure, EUR million	47.7	18.8	21.0	13.0	57.3
Personnel at end of period	1 604	1 550	1 604	1 550	1 428

	2018	2017	2018	2017	2017
Pulp and Sawn Timber Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	1 229.5	848.5	629.0	426.5	1 875.7
EBITDA, EUR million	375.1	160.1	190.5	84.2	406.1
Comparable EBITDA, EUR million	375.1	160.2	190.5	84.3	406.2
Operating result, EUR million	309.8	125.2	164.9	70.7	319.5
Comparable operating result, EUR million	309.8	125.3	164.9	70.8	319.7
% of sales	25.2	14.8	26.2	16.6	17.0
Comparable ROCE, %	34.3	17.9	36.8	19.9	20.9
Capital expenditure, EUR million	11.9	213.7	7.9	114.9	436.2
Personnel at end of period	1 348	1 402	1 348	1 402	1 215

	2018	2017	2018	2017	2017
Paperboard Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	1 011.1	918.7	518.7	474.2	1 848.6
EBITDA, EUR million	172.7	135.7	78.5	67.0	298.7
Comparable EBITDA, EUR million	178.4	136.2	84.1	67.5	289.1
Operating result, EUR million	122.6	92.1	53.6	46.9	207.1
Comparable operating result, EUR million	128.2	88.7	59.2	43.5	193.5
% of sales	12.7	9.7	11.4	9.2	10.5
Comparable ROCE, %	15.1	10.3	13.9	10.3	11.2
Capital expenditure, EUR million	25.7	31.4	15.3	12.4	65.4
Personnel at end of period	2 578	2 581	2 578	2 581	2 351

	2018	2017	2018	2017	2017
Tissue and Cooking Papers	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	515.1	503.4	256.3	251.4	1 013.6
EBITDA, EUR million	42.1	53.4	20.6	26.3	112.0
Comparable EBITDA, EUR million	42.1	53.4	20.6	26.3	112.4
Operating result, EUR million	23.7	33.9	11.5	16.3	73.5
Comparable operating result, EUR million	23.7	33.9	11.5	16.3	73.9
% of sales	4.6	6.7	4.5	6.5	7.3
Comparable ROCE, %	7.7	10.5	7.3	10.0	11.5
Capital expenditure, EUR million	11.4	7.7	5.4	4.8	39.1
Personnel at end of period	2 968	2 899	2 968	2 899	2 795

	2018	2017	2018	2017	2017
Other operations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	2.5	2.2	1.2	1.1	4.9
EBITDA, EUR million	-1.3	6.6	-1.1	1.6	-0.6
Comparable EBITDA, EUR million	-1.3	6.6	-1.1	1.6	-0.6
Operating result, EUR million	-2.8	5.3	-1.8	0.8	-3.2
Comparable operating result, EUR million	-2.8	5.3	-1.8	0.8	-3.2
Capital expenditure, EUR million	1.5	2.9	0.8	1.9	6.2
Personnel at end of period	514	499	514	499	490

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.

	2018	2017	2018	2017	2017
Internal sales and eliminations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	-1 067.5	-892.8	-543.8	-436.5	-1 796.9
EBITDA, EUR million	-61.6	-30.7	-32.1	-21.5	-61.2
Comparable EBITDA, EUR million	-61.6	-30.7	-32.1	-21.5	-61.2
Operating result, EUR million	-67.2	-38.3	-34.9	-25.2	-75.6
Comparable operating result, EUR million	-67.2	-38.3	-34.9	-25.2	-75.6

	2018	2017	2018	2017	2017
Metsä Group	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	2 904.3	2 451.4	1 476.5	1 235.2	5 040.0
EBITDA, EUR million	561.9	368.0	271.6	174.1	830.7
Comparable EBITDA, EUR million	567.6	365.5	277.2	174.9	819.7
Operating result, EUR million	412.3	253.4	204.5	122.2	581.0
Comparable operating result, EUR million	418.0	246.9	210.1	119.1	566.1
% of sales	14.4	10.1	14.2	9.6	11.2
Comparable ROCE, %	16.9	11.5	17.0	10.6	12.3
Capital expenditure, EUR million	97.7	275.4	51.3	147.9	607.7
Personnel at end of period	9 913	9 824	9 913	9 824	9 126

RECONCILIATION OF OPERATING RESULT AND EBITDA

EUR million	2018 1–6	2017 1–6	2018 4–6	2017 4–6	2017 1–12
OPERATING RESULT (IFRS)	412.3	253.4	204.5	122.2	581.0
Depreciation and impairment charges	149.6	114.6	67.1	51.9	249.7
EBITDA	561.9	368.0	271.6	174.1	830.7
Items affecting comparability:					
Wood Products Industry	-	-3.2	-	0.1	-1.8
Pulp and Sawn Timber Industry	-	0.1	-	0.1	0.1
Paperboard Industry	5.6	0.5	5.6	0.5	-9.7
Tissue and Cooking Papers	-	-	-	-	0.5
Total	5.6	-2.6	5.6	0.8	-10.9
COMPARABLE EBITDA	567.6	365.5	277.2	174.9	819.7
Depreciation and impairment charges	-149.6	-114.6	-67.1	-51.9	-249.7
Items affecting comparability:					
Depreciation:					
Wood Products Industry	-	0.1	-	-	0.1
Impairment charges and reversals:					
Paperboard Industry	-	-3.9	-	-3.9	-3.9
COMPARABLE OPERATING RESULT	418.0	246.9	210.1	119.1	566.1

EUR million	2018 1–6	2017 1–6	2018 4–6	2017 4–6	2017 1–12
OPERATING RESULT (IFRS)	412.3	253.4	204.5	122.2	581.0
Depreciation and impairment charges	149.6	114.6	67.1	51.9	249.7
EBITDA	561.9	368.0	271.6	174.1	830.7
Items affecting comparability:					
Other operating income	-	-3.4	-	-	-13.6
Change in inventories	-	0.0	-	-	0.0
Employee costs	4.1	0.0	4.1	-	0.0
Other operating expenses	1.5	0.8	1.5	0.8	2.6
Total	5.6	-2.6	5.6	0.8	-10.9
COMPARABLE EBITDA	567.6	365.5	277.2	174.9	819.7
Depreciation and impairment charges	-149.6	-114.6	-67.1	-51.9	-249.7
Items affecting comparability:					
Depreciation	-	0.1	-	-	0.1
Impairment charges	-	-3.9	-	-3.9	-3.9
COMPARABLE OPERATING RESULT	418.0	246.9	210.1	119.1	566.1

Items with “+” sign = expenses affecting comparability

Items with “-” sign = income affecting comparability

Items affecting comparability in January–June 2018 amounted to EUR -5.6 million and consisted of EUR 4.1 million employee costs arising from efficiency improvement programme at Husum mill in Sweden as well as other costs affecting comparability of EUR 1.5 million, mainly comprising a compensation to be paid to Pohjolan Voima with regard to the divestment of Teollisuuden Voima’s Meri-Pori coal-fired power plant.

Metsä Group’s items affecting comparability in January–June 2017 totalled EUR +6.5 million. The most significant items were the sale of Metsä Wood’s project business and an impairment reversal due to the sale of Metsä Board’s discontinued Kyro paper machine.

Metsä Group’s items affecting comparability in 2017 totalled EUR +14,8 million. The most significant items consisted of the recognition of translation differences accumulated by the subsidiaries dissolved in England, the reversal of an impairment carried out in connection with the sale of Metsä Board Kyro’s terminated paper machine, and the divestment of Metsä Wood’s project business.

QUARTERLY DATA

EUR million	2018 4-6	2018 1-3	2017 10-12	2017 7-9	2017 4-6	2017 1-3
Sales						
Wood Supply and Forest Services	495.7	489.9	428.6	376.4	396.7	432.6
Wood Products Industry	119.4	108.7	108.3	109.6	121.8	120.2
Pulp and Sawn Timber Industry	629.0	600.5	551.9	475.3	426.5	422.0
Paperboard Industry	518.7	492.3	451.3	478.6	474.2	444.5
Tissue and Cooking Papers	256.3	258.8	260.5	249.6	251.4	252.0
Other operations	1.2	1.3	1.7	1.0	1.1	1.1
Internal sales	-543.8	-523.7	-474.0	-430.2	-436.5	-456.3
Sales	1 476.5	1 427.8	1 328.2	1 260.4	1 235.2	1 216.1
Operating result						
Wood Supply and Forest Services	5.8	8.7	5.4	5.9	4.4	8.5
Wood Products Industry	5.5	6.2	6.8	6.3	8.3	14.0
Pulp and Sawn Timber Industry	164.9	144.9	125.9	68.4	70.7	54.5
Paperboard Industry	53.6	69.0	54.4	60.6	46.9	45.2
Tissue and Cooking Papers	11.5	12.3	22.7	16.9	16.3	17.6
Other operations	-1.8	-0.9	-11.0	2.5	0.8	4.4
Eliminations	-34.9	-32.2	-20.1	-17.2	-25.2	-13.0
Operating result	204.5	207.9	184.3	143.3	122.2	131.2
% of sales	13.8	14.6	13.9	11.4	9.9	10.8
Share of results from associated companies and joint ventures	0.0	0.7	1.2	-3.0	4.9	14.0
Exchange gains and losses	-1.0	-3.5	-0.0	-0.7	-4.0	1.4
Other net financial items	-19.9	-20.6	-24.4	-30.9	-16.1	-17.1
Result before income tax	183.6	184.5	161.0	108.6	107.1	129.5
Income tax	-40.8	-38.3	-36.5	-22.0	-20.9	-22.9
Result for the period	142.8	146.3	124.5	86.6	86.1	106.7
Comparable operating result						
Wood Supply and Forest Services	5.8	8.7	5.4	5.9	4.4	8.5
Wood Products Industry	5.5	6.2	6.9	7.6	8.4	10.7
Pulp and Sawn Timber Industry	164.9	144.9	125.9	68.4	70.8	54.5
Paperboard Industry	59.2	69.0	54.4	50.4	43.5	45.2
Tissue and Cooking Papers	11.5	12.3	23.3	16.8	16.3	17.6
Other operations and eliminations	-36.8	-33.2	-31.0	-14.8	-24.4	-8.6
Comparable operating result	210.1	207.9	184.9	134.3	119.1	127.9
% of sales	14.2	14.6	13.9	10.7	9.6	10.5

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
Operating result	=	Result before income tax, financial income and -expenses, exchange gains and losses and share of results from associated companies and joint ventures

COMPARABLE KEY RATIOS

European Securities and Markets Authority (ESMA) guidelines on Alternative Performance Measures define alternative performance measures as a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined in the applicable financial reporting framework, in Metsä Group's case International Financial Reporting Standards as adopted in the EU pursuant to Regulation (EC) No 1606/2002. Performance measures presented in this half year financial report qualify as alternative performance measures under the ESMA guidelines.

Metsä Group sees the presentation of alternative performance measures as providing users of financial statements with an improved view of the company's financial performance and position, including among other things the efficiency of its capital utilization, operational profitability and debt servicing capabilities.

Reconciliation of operating result under IFRS and comparable operating result as well as EBITDA and comparative EBITDA is presented in this report. 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. In Metsä Group's view, comparable performance measures better reflect the underlying operational performance of the company by eliminating the result effect arising from items and transactions outside ordinary course of business.

FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	2018 1–6	2017 1–6	Change	2018 4–6	2017 4–6	2017 1–12
Sales	2, 3	2 904.3	2 451.4	453.0	1 476.5	1 235.2	5 040.0
Change in stocks of finished goods and work in progress		-67.9	-0.3	-67.6	-11.4	-19.4	14.6
Other operating income		20.9	25.7	-4.9	10.6	11.7	60.3
Material and services		-1 782.5	-1 622.1	-160.3	-941.9	-805.1	-3 308.4
Employee costs		-327.6	-312.9	-14.7	-168.8	-162.7	-620.5
Depreciation and impairment losses		-149.6	-114.6	-35.0	-67.1	-51.9	-249.7
Other operating expenses		-185.3	-173.8	-11.6	-93.3	-85.6	-355.3
Operating result	2	412.3	253.4	158.9	204.5	122.2	581.0
Share of results from associated companies and joint ventures		0.8	18.9	-18.1	0.0	4.9	17.1
Exchange gains and losses		-4.5	-2.6	-1.9	-1.0	-4.0	-3.3
Other net financial items	2	-40.5	-33.2	-7.3	-19.9	-16.1	-88.5
Result before income tax		368.1	236.6	131.5	183.6	107.1	506.2
Income tax	4	-79.1	-43.8	-35.3	-40.8	-20.9	-102.3
Result for the period		289.0	192.8	96.2	142.8	86.1	403.9
Other comprehensive income							
Items that will not be reclassified to profit and loss							
Items relating to adjustments of defined benefit plans		6.5	0.2	6.3	1.2	0.3	9.4
Fair value of financial assets through other comprehensive income		14.7	24.5	-9.8	9.6	9.0	54.2
Income tax relating to items that will not be reclassified		-4.1	-5.0	0.9	-2.1	-1.8	-12.5
Yhteensä		17.1	19.8	-2.7	8.7	7.5	51.1
Items that may be reclassified subsequently to profit and loss							
Cash flow hedges		-14.9	50.5	-65.3	-12.5	41.7	33.0
Currency translation differences		-27.0	-2.8	-24.2	-8.5	-8.9	-25.6
Share of comprehensive income of joint venture		0.0	0.4	-0.4	0.0	0.0	3.8
Income tax relating to items that may be reclassified		2.7	-10.1	12.8	2.3	-8.4	-6.2
Total		-39.2	38.0	-77.2	-18.7	24.4	5.0
Other comprehensive income, net of tax		-22.0	57.8	-79.8	-10.0	31.9	56.1
Total comprehensive income for the period		267.0	250.6	16.4	132.7	118.0	460.0
Result for the period attributable to:							
Members of parent company		176.4	130.7	45.7	89.0	53.5	261.0
Non-controlling interests		112.6	62.1	50.5	53.7	32.6	142.9
Total		289.0	192.8	96.2	142.8	86.1	403.9
Total comprehensive income attributable to:							
Members of parent company		164.0	161.5	2.5	84.1	69.0	293.2
Non-controlling interests		103.0	89.1	13.9	48.6	49.0	166.8
Total		267.0	250.6	16.4	132.7	118.0	460.0

The notes are an integral part of this half year financial report.

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2018 30.6.	2017 30.6.	2017 31.12.
ASSETS				
Non-current assets				
Goodwill		506.5	516.4	513.8
Other intangible assets		242.6	225.2	260.2
Tangible assets	5	2 804.5	2 691.1	2 867.0
Biological assets		3.0	3.3	3.1
Investments in associated companies and joint ventures		49.5	53.2	50.7
Available for sale investments	9	268.8	224.7	254.3
Non-current financial assets	9	42.5	20.5	28.3
Deferred tax receivables		23.4	29.6	26.4
		3 940.7	3 764.1	4 003.6
Current assets				
Inventories		841.5	785.1	782.3
Accounts receivables and other receivables		843.0	776.7	705.9
Tax receivables based on the taxable income for the period		10.4	30.0	21.6
Cash and cash equivalents	9	785.9	775.9	1 072.4
		2 480.7	2 367.8	2 582.2
Assets classified as held for sale		2.2	3.7	2.4
Total assets		6 423.6	6 135.5	6 588.2
MEMBERS' FUNDS AND LIABILITIES				
Members' funds				
Members' funds		2 524.8	2 122.5	2 233.8
Non-controlling interests		755.9	647.7	726.8
		3 280.7	2 770.2	2 960.7
Non-current liabilities				
Deferred tax liabilities		267.4	238.7	260.9
Post-employment benefit obligations		77.6	83.2	78.8
Provisions	6	20.8	20.5	19.6
Borrowings	9	1 201.0	1 325.8	1 642.5
Other liabilities		20.6	17.0	17.3
		1 587.4	1 685.2	2 019.2
Current liabilities				
Provisions	6	7.0	3.2	2.5
Current borrowings	9	432.2	705.3	428.7
Accounts payable and other liabilities		1 087.6	958.1	1 164.6
Tax liabilities based on the taxable income for the period		27.7	10.9	11.0
		1 554.5	1 677.5	1 606.9
Liabilities classified as held for sale		1.0	2.6	1.5
Total liabilities		3 142.9	3 365.4	3 627.6
Total members' funds and liabilities		6 423.6	6 135.5	6 588.2

The notes are an integral part of this half year financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' FUNDS

Equity attributable to members of parent company							
EUR million	Members' capital	Translation differences	Fair value and other reserves	Re-tained earnings	Total	Non-controlling interest	Total
Members' funds 1.1.2017	769.4	-10.9	193.5	989.6	1 941.6	658.4	2 600.0
Result for the period				130.7	130.7	62.1	192.8
Other comprehensive income, net after tax		-0.0	31.0	-0.2	30.8	27.0	57.8
Total comprehensive income		-0.0	31.0	130.5	161.5	89.1	250.6
Transactions with owners:							
Dividends paid				-44.7	-44.7	-70.6	-115.4
Change in members' capital	72.5			-7.1	65.4		65.4
Share based payments				-1.9	-1.9	-0.3	-2.2
Acquired shares from non-controlling interests, which did not change the controlling right				1.5	1.5	-32.3	-30.7
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	-0.9	-0.9	3.3	2.4
Members' funds 30.6.2017	841.9	-10.9	224.5	1 066.9	2 122.5	647.7	2 770.2

Equity attributable to members of parent company							
EUR million	Members' capital	Translation differences	Fair value and other reserves	Re-tained earnings	Total	Non-controlling interest	Total
Members' funds 31.12.2017	813.4	-19.5	228.6	1 211.3	2 233.8	726.8	2 960.7
IFRS 2 change in accounting principle				18.1	18.1	2.4	20.5
IFRS 9 change in accounting principle				-0.4	-0.4	-0.1	-0.5
Members' funds 1.1.2018	813.4	-19.5	228.6	1 229.1	2 251.6	729.1	2 980.7
Result for the period				176.4	176.4	112.6	289.0
Other comprehensive income, net after tax		-17.5	1.3	3.8	-12.4	-9.6	-22.0
Total comprehensive income		-17.5	1.3	180.2	164.0	103.0	267.0
Transactions with owners:							
Dividends paid				-57.0	-57.0	-78.9	-136.0
Change in members' capital	177.2			-5.2	172.0		172.0
Transfer from retained earnings to the reserve for invested unrestricted equity			250.0	-250.0	0.0		0.0
Share based payments				-5.5	-5.5	-0.6	-6.1
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	-0.1	-0.2	3.3	3.1
Members' funds 30.6.2018	990.6	-37.0	479.9	1 091.4	2 524.8	755.9	3 280.7

The notes are an integral part of this half year financial report.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2018 1–6	2017 1–6	2017 1–12
Result for the period	8	289.0	192.8	403.9
Total adjustments	8	288.7	167.4	405.7
Change in working capital		-301.5	-169.8	95.4
Cash flow arising from operations		276.2	190.4	905.0
Net financial items		-23.8	-40.3	-90.2
Income taxes paid		-35.8	-38.3	-65.3
Net cash flow arising from operating activities		216.5	111.8	749.4
Acquisitions		0.0	-0.8	-2.6
Investments in tangible and intangible assets		-97.7	-275.4	-607.7
Disposals and other items	8	0.8	28.3	30.8
Net cash flow arising from investing activities		-96.9	-247.9	-579.5
Change in members' funds		88.6	65.4	58.5
Change in other equity		0.0	0.0	0.0
Change in non-controlling interest		0.0	-30.7	-27.7
Change in long-term loans and other financial items		-352.4	104.8	99.6
Dividends paid		-142.1	-122.1	-122.1
Net cash flow arising from financing activities		-405.8	17.4	8.3
Change in cash and cash equivalents		-286.2	-118.7	178.2
Cash and cash equivalents at beginning of period		1 072.4	895.1	895.1
Translation difference		-0.4	-0.5	-0.9
Change in cash and cash equivalents		-286.2	-118.7	178.2
Cash and cash equivalents of assets classified as held for sale		0.0	0.0	0.0
Cash and cash equivalents at end of period		785.9	775.9	1 072.4

The notes are an integral part of this half year financial report.

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 half year financial report has been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the 2017 IFRS financial statements. The same accounting policies have been applied as in the 2017 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 2018 Metsä Group has adopted the following new and amended standards and interpretations:

- *IFRS 15 Revenue from Contracts with Customers.*

The new standard will replace the current IAS 18 and IAS 11 standards and the related interpretations. IFRS 15 includes five-step guidelines on recognising revenue in terms of amount and timing. Revenue is recognised as control is passed, either over time or at a point in time. The standard also increases the amount of information to be presented in the notes to the financial statements.

The adoption of IFRS 15 Revenue from Contracts with Customers will have no impact on the principles applied by the Group to the amount and timing of revenue recognition.

- *IFRS 9 Financial instruments.* The new standard replaces IAS 39.

IFRS 9 includes revised guidance on the recognition and measurement of financial instruments and new guidelines on hedge accounting. It also includes a new expected credit loss model for calculating impairment of financial assets. IAS 39 guidelines regarding assets recognition of financial instruments have been remained.

The Group’s recognition and measurement of financial assets will change only slightly, and the change will not have a material effect on the consolidated financial statements. In accordance with IFRS 9, the Group measures at fair value its Pohjolan Voima shares,

which it has included in available-for-sale financial assets in accordance with IAS 39, to be recognised in financial assets under other items of comprehensive income, and it measures its other available-for-sale equity financial assets at fair value to be recognised as financial assets through profit and loss.

Bringing hedge accounting principles closer to the Group’s risk management practices is seen as a positive development, and IFRS 9 will make it possible to apply hedge accounting to new hedging items and instruments. The change in hedge accounting will not have a material effect in conjunction with the adoption of IFRS 9.

As of 1 January 2018, the Group will apply a model based on expected credit losses to the determination of impairment of financial assets. Impairment of sales receivables, cash and cash equivalents and investments will be recognised in accordance with this model and the requirements of IFRS 9. The Group has recognised in retained earnings an adjustment of EUR -0.4 million due to impairment of financial assets and an adjustment of EUR -0.1 million in non-controlling interest.

- *Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions.*

The amendments clarify the accounting of certain types of business transactions that involve share-based payments. With the amendments, Metsä Group’s share-based compensation arrangements will be processed as arrangements settled in shares. On the date of transition, the carrying amount of liabilities arising from share-based payments will be transferred to members’ funds. As of 1 January 2018, the Group has recognised in retained earnings an adjustment of EUR 18.1 million due to share-based payments and an adjustment of EUR 2.4 million in non-controlling interest.

In 2019 Metsä Group will adopt the following new standard:

- *IFRS 16 Leases.* The new standard replaces IAS 17 and the related interpretations. IFRS 16 requires lessees to recognise lease agreements on the balance sheet as a lease obligation and an asset related to the lease obligation. Asset recognition resembles the recognition of financial lease liabilities according to IAS 17.

With the amendment, Metsä Group will recognise its currently valid lease agreements on the balance sheet, with the exception of the exemptions provided in the

standard that concern short-term lease agreements and assets of insignificant value. Current rental payments related to non-terminable other lease agreements are presented as lease liabilities at nominal value. At the end of the 2017 financial year, these lease liabilities stood at EUR 77.5 million.

Metsä Group will apply the definition of new leases in accordance with IFRS 16 to new and amended agreements signed during or after the transition period. The company will apply a simplified approach to the adoption of the standard, meaning that the accumulated effect of the adoption will be recognised as an adjustment to retained earnings. The comparison information will not be adjusted. The new rules will have an effect on the Group's balance sheet and key figures, and on classifications concerning the income statement and cash flow.

Other new or amended standards and interpretations do not have an effect on the consolidated financial statements.

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

This half year financial report was authorised for issue by the Board of Directors of Metsäliitto Cooperative on August 2, 2018.

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 SEGMENT

EUR million	1–6/2018			1–6/2017		
	External	Internal	Total	External	Internal	Total
Wood Supply and Forest Services	258.7	726.9	985.6	223.7	605.6	829.4
Wood Products Industry	215.9	12.2	228.0	230.4	11.6	242.0
Pulp and Sawn Timber Industry	944.3	285.2	1 229.5	606.3	242.2	848.5
Paperboard Industry	970.7	40.3	1 011.1	888.1	30.6	918.7
Tissue and Cooking Papers	514.7	0.5	515.1	502.8	0.6	503.4
Other operations	0.0	2.5	2.5	0.0	2.1	2.2
Elimination of internal sales	-	-1 067.5	-1 067.5	-	-892.8	-892.8
Total sales	2 904.3	0.0	2 904.3	2 451.4	0.0	2 451.4

EUR million	1–12/2017		
	External	Internal	Total
Wood Supply and Forest Services	434.6	1 199.8	1 634.4
Wood Products Industry	436.3	23.6	459.9
Pulp and Sawn Timber Industry	1 375.1	500.5	1 875.7
Paperboard Industry	1 781.4	67.1	1 848.6
Tissue and Cooking Papers	1 012.5	1.1	1 013.6
Other operations	0.1	4.8	4.9
Elimination of internal sales	-	-1 796.9	-1 796.9
Total sales	5 040.0	0.0	5 040.0

OPERATING RESULT BY SEGMENTS

EUR million	2018	2017	2017
	1–6	1–6	1–12
Wood Supply and Forest Services	14.5	12.9	24.3
Wood Products Industry	11.6	22.2	35.3
Pulp and Sawn Timber Industry	309.8	125.2	319.5
Paperboard Industry	122.6	92.1	207.1
Tissue and Cooking Papers	23.7	33.9	73.5
Other operations	-2.8	5.3	-3.2
Eliminations	-67.2	-38.3	-75.6
Operating result total	412.3	253.4	581.0
Share of results from associated companies and joint ventures	0.8	18.9	17.1
Financial costs, net	-45.0	-35.7	-91.8
Income taxes	-79.1	-43.8	-102.3
Result for the period	289.0	192.8	403.9

ASSETS AND LIABILITIES BY SEGMENTS

Assets	2018	2017	2017
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	331.6	275.8	268.4
Wood Products Industry	310.8	221.2	247.1
Pulp and Sawn Timber Industry	1 971.1	1 782.1	1 970.0
Paperboard Industry	2 056.7	2 004.6	2 002.3
Tissue and Cooking Papers	893.6	872.5	887.6
Other operations	200.0	198.2	161.1
Assets classified as held for sale	2.2	3.7	2.4
Eliminations	-265.7	-216.0	-199.4
Unallocated assets	923.3	993.4	1 248.6
Total	6 423.6	6 135.5	6 588.2

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	2018	2017	2017
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	196.9	160.1	209.0
Wood Products Industry	65.8	69.5	65.9
Pulp and Sawn Timber Industry	411.3	335.7	427.6
Paperboard Industry	395.4	335.3	381.6
Tissue and Cooking Papers	287.1	287.5	302.4
Other operations	108.2	95.9	82.4
Assets classified as held for sale	1.0	2.6	1.5
Eliminations	-265.7	-216.0	-199.4
Unallocated assets	1 942.9	2 294.8	2 356.6
Total	3 142.9	3 365.4	3 627.6

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

NOTE 3 – SALES BY MARKET AREA

EUR million	2018	2017	2017
	1–6	1–6	1–12
EMEA	2 166.9	1 911.8	3 843.2
APAC	540.6	343.0	811.3
Americas	196.9	196.6	385.5
Total	2 904.3	2 451.4	5 040.0

NOTE 4 – INCOME TAX

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

EUR million	2018	2017	2017
	1–6	1–6	1–12
Taxes for the period	64.2	23.5	58.1
Taxes for previous periods	-0.2	1.0	1.5
Change in deferred taxes	15.1	19.3	42.7
Total income taxes	79.1	43.8	102.3

NOTE 5 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2018 1–6	2017 1–6	2017 1–12
Book value at beginning of period	2 867.0	2 542.5	2 542.5
Investments	104.8	271.1	576.6
Decreases	-0.5	-14.6	-14.8
Assets classified as held for sale	-0.5	-2.0	-2.0
Depreciation and impairment losses	-137.3	-105.6	-228.2
Translation differences and other changes	-29.0	-0.3	-7.2
Book value at end of period	2 804.5	2 691.1	2 867.0

Metsä Fibre announced on June 12, 2018 that it will sell its Eskola sawmill to Haapajärvi Ha-Sa Oy. The deal was closed on July 2, 2018. Assets classified as held for sale in 2018 include Eskola sawmill's fixed assets.

NOTE 6 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 January 2018	1.3	15.9	4.9	22.2
Translation differences		-0.0	-0.1	-0.1
Increases	4.0	0.2	2.3	6.5
Utilised during the year	-0.0	-0.0	-0.5	-0.5
Unused amounts reversed	-0.2			-0.2
At 30 June 2018	5.1	16.0	6.6	27.8

The increase in the restructuring provision of EUR 4.0 million arises from efficiency improvement programme at Metsä Board's Husum mill in Sweden. The increase in other provisions include Metsä Board's recognition of EUR 1.7 million from the divestment of coal fired TVO power plant in Meri-Pori.

Of the Metsä Group's total provisions of EUR 27.8 million, the non-current portion was EUR 20.8 million and the current portion EUR 7.0 million. Most of the non-current portion will be paid by the end of 2025.

NOTE 7 – TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2018 1–6	2017 1–6	2017 1–12
Sales	4.8	4.3	9.4
Purchases	46.9	42.1	88.0
Non-current receivables	0.9	1.0	0.9
Current receivables	3.7	3.1	3.4
Non-current liabilities	0.0	0.0	0.0
Current liabilities	5.7	4.8	6.5

NOTE 8 – NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
Adjustments to the result for the financial period

Milj. euroa	2018 1–6	2017 1–6	2017 1–12
Taxes	79.1	43.8	102.3
Depreciation and impairment charges	149.6	114.6	249.7
Biological assets	0.1	-0.2	-0.0
Share of results from associated companies	-0.8	-18.9	-17.1
Gains and losses on sale of non-current financial assets	0.9	-5.8	-18.4
Financial costs, net	45.0	35.7	91.8
Pension liabilities and provisions	5.8	-1.9	-2.6
Other adjustments	9.0	-	-
Total	288.7	167.4	405.7

Disposals and other items

Disposals and other items in January–June 2018 include sales of intangible and tangible assets of EUR 1.1 million and other items of EUR -0.3 million.

NOTE 9 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial assets and liabilities and fair values.

Financial assets 30.6.2018

EUR million	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount	Fair value
Other non-current investments	7.3	261.4		268.8	268.8
Other non-current financial assets			30.3	30.3	30.3
Accounts receivables and others			814.9	814.9	814.9
Cash and cash equivalents	169.5		616.4	785.9	785.9
Derivative financial instruments	0.0	35.7		35.7	35.7
Assets classified as held for sale					
Total	176.9	297.1	1 461.5	1 935.4	1 935.4

Financial liabilities 30.6.2018

EUR million	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount	Fair value
Non-current interest-bearing liabilities			1 201.0	1 201.0	1 213.1
Other non-current liabilities			0.7	0.7	0.7
Current interest-bearing liabilities			432.2	432.2	437.4
Accounts payable and others			942.4	942.4	942.4
Derivative financial instruments	1.8	44.1		46.0	46.0
Liabilities classified as held for sale			1.0	1.0	1.0
Total	1.8	44.1	2 577.4	2 623.3	2 640.5

Financial assets 30.6.2017

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Carrying amount	Fair value
Other non-current investments		224.7				224.7	224.7
Other non-current financial assets			19.0			19.0	19.0
Account receivables and others			734.3			734.3	734.3
Cash and cash equivalents	106.3		669.6			775.9	775.9
Derivative financial instruments	-1.2			42.0		40.8	40.8
Assets classified as held for sale							
Total	105.1	224.7	1 422.9	42.0	0.0	1 794.6	1 794.6

Financial liabilities 30.6.2017

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Carrying amount	Fair value
Non-current interest-bearing liabilities					1 325.8	1 325.8	1 343.0
Other non-current liabilities					0.4	0.4	0.4
Current interest-bearing liabilities					705.3	705.3	711.7
Accounts payable and others					851.4	851.4	851.4
Derivative financial instruments	0.6			18.1		18.8	18.8
Liabilities classified as held for sale					2.6	2.6	2.6
Total	0.6	0.0	0.0	18.1	2 885.6	2 904.3	2 927.9

Fair value hierarchy of financial assets and liabilities 30 June, 2018

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other non-current investments	0.0		268.7	268.8
Current financial assets through profit and loss at fair value	169.5			169.5
Derivative financial assets	31.5	4.1		35.7
Financial liabilities measured at fair value				
Derivative financial liabilities		46.0		46.0
Financial assets not measured at fair value				
Financial assets		616.4		616.4
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities			1 213.1	1 213.1
Current interest-bearing liabilities			437.4	437.4

Fair value hierarchy of financial assets and liabilities 30 June, 2017

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other non-current investments	0.0		224.7	224.7
Current financial assets through profit and loss at fair value	106.3			106.3
Derivative financial assets	2.8	38.0		40.8
Financial liabilities measured at fair value				
Derivative financial liabilities	2.2	16.5		18.8
Financial assets not measured at fair value				
Financial assets		669.6		669.6
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 343.0		1 343.0
Current interest-bearing liabilities		711.7		711.7

Financial assets measured at fair value based on level 3

EUR million	2018	2017
Opening balance 1 January	254.3	200.1
Gains and losses in income statement	0.0	0.0
Gains and losses in other comprehensive income	14.7	24.5
Purchases	0.0	0.0
Settlements	-0.2	0.0
Closing balance 30 June	268.7	224.7

Fair value of financial assets and liabilities have been categorised according to 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, propane, gas oil and heavy fuel 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 Oyj shares, reported under available-for-sale financial assets. The valuation method is described in the 2017 Financial Statements. The average weighed capital cost applied in the calculation was 2.09% on 30 June 2018 and for the Olkiluoto 3 power plant under construction 4.09%. The acquisition cost of the Pohjolan Voima Oyj shares is EUR 43.1 million and their fair value is EUR 261.4 million.

The carrying amount of Pohjolan Voima Oyj as of 30 June 2018 is estimated to change by EUR 3.3 million lower should the rate used for discounting the cash flows change by 10% from the rate estimated by the management. The carrying amount of the shares is estimated to change by EUR 37.0 million should the energy prices applied in the fair value calculation differ by 10% from the rate estimated by the management.

Derivatives 30 June 2018

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value through profit and loss	Fair value through other comprehensive income
Interest rate swaps	722.4		13.4	-13.4	-2.4	-11.0
Total	722.4	0.0	13.4	-13.4	-2.4	-11.0
Currency forwards	2 204.6	0.0	29.6	-29.6	0.6	-30.2
Currency options	463.2		2.9	-2.9		-2.9
Total	2 667.8	0.0	32.5	-32.5	0.6	-33.1
Electricity derivatives	56.9	26.1		26.1		26.1
Pulp derivatives	11.6	4.1		4.1		4.1
Oil derivatives	11.9	2.8		2.8		2.8
Commodity derivatives	7.7	2.6		2.6		2.6
Total	88.0	35.7	0.0	35.7	0.0	35.7
Derivatives total	3 478.2	35.7	46.0	-10.3	-1.8	-8.5

Derivatives 30 June 2017

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value through profit and loss	Fair value through other comprehensive income
Interest rate swaps	1 120.1		16.3	-16.3	-0.3	-15.9
Total	1 120.1	0.0	16.3	-16.3	-0.3	-15.9
Currency forwards	1 997.6	35.6	0.3	35.4	-1.5	36.9
Currency options						
Total	1 997.6	35.6	0.3	35.4	-1.5	36.9
Electricity derivatives	81.0	2.7	0.2	2.5		2.5
Pulp derivatives	18.9	2.4		2.4		2.4
Oil derivatives	10.5	0.1	1.2	-1.1	0.1	-1.2
Commodity derivatives	10.6		0.8	-0.8		-0.8
Total	120.9	5.2	2.2	2.9	0.1	2.9
Derivatives total	3 238.6	40.8	18.8	22.0	-1.8	23.8

NOTE 10 – COMMITMENTS AND CONTINGENCIES

EUR million	30.6.2018	30.6.2017	31.12.2017
Own liabilities for which commitments granted	124.0	426.8	403.2
Pledges granted	479.8	430.7	463.2
Floating charges	2.8	2.8	2.8
Real estate mortgages	268.6	271.0	269.5
Chattels mortgage	4.0	4.0	4.0
Commitments for own liabilities, total	755.1	708.5	739.4
Other commitments on own behalf	89.0	92.4	100.4
On behalf of associated companies	0.8	0.7	0.9
On behalf of others	0.0	0.1	0.0
Total	844.8	801.7	840.7

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 75.1 million (31.12.2017: 77.5).

COMMITMENTS RELATED TO INVESTMENTS

EUR million	30.6.2018	30.6.2017	31.12.2017
Payments due under 1 year	49.1	228.2	68.7
Payments due in subsequent years	-	4.3	0.3
Total	49.1	232.5	69.0