

METSÄ GROUP

HALF-YEAR FINANCIAL REPORT

JANUARY–JUNE 2019



Metsä

METSÄ GROUP'S COMPARABLE OPERATING RESULT IN JANUARY–JUNE 2019 WAS EUR 308 MILLION

JANUARY–JUNE 2019 (1–6/2018)

- Sales were EUR 2,809 million (2,904).
- Operating result was EUR 232 million (412). Comparable operating result was EUR 308 million (418).
- Result before tax was EUR 202 million (368). Comparable result before tax was EUR 279 million (374).
- Comparable return on capital employed was 12.1% (16.9).
- Cash flow from operations was EUR 183 million (276).

APRIL–JUNE 2019 (4–6/2018)

- Sales were EUR 1,372 million (1,477).
- Operating result was EUR 49 million (204). Comparable operating result was EUR 128 million (210).
- Result before tax was EUR 36 million (184). Comparable result before tax was EUR 115 million (189).
- Comparable return on capital employed was 10.2% (17.0).
- Cash flow from operations was EUR 142 million (242).

EVENTS DURING THE SECOND QUARTER OF 2019

- The prices of long-fibre pulp decreased by 9% and of short-fibre pulp by 6% in Europe compared with Q1. In China, the prices decreased by around 4%.
- The prices of folding boxboard were stable. Changes in the sales mix had a negative effect on the average price of white kraftliner.
- Total deliveries of paperboard increased slightly from the previous quarter.
- Metsä Board establishes an excellence centre in Äänekoski. The centre will focus on paperboard and packaging innovation.
- Metsä Fibre started pre-engineering projects related to a new bioproduct mill in Kemi and a new pine sawmill in Rauma. Metsä Board started pre-engineering related to the first phase of the renewal of the Husum pulp mill.
- Metsä Wood's new Kerto® LVL line, with an annual capacity of 65,000 cubic metres, started up at the

Punkaharju mill in April. The mill was inaugurated in May.

- Metsä Tissue recognised an impairment loss of around EUR 102 million. This was mainly related to goodwill.
- Metsä Group's new Nemus Futurum visitor centre was opened in Kirkniemi in Lohja in June.

EVENTS AFTER REPORTING PERIOD

Metsä Group's innovation company, Metsä Spring, made an equity investment in Woodio Ltd, a leading developer of waterproof wood composite products.

RESULT GUIDANCE FOR JULY–SEPTEMBER 2019

Metsä Group's comparable operating result is in the third quarter of 2019 expected to weaken from the second quarter of 2019.

President and CEO Ilkka Härmälä:

"Metsä Group's second-quarter result decreased from the first quarter, as expected. This was mainly due to the low price level in the Asian pulp market, which was also reflected in prices in Europe. The pulp market is expected to improve when the stock levels reach their normal level.

During the first half of the year, wood was harvested according to targets, and deliveries to customers' production units ran smoothly.

The markets for folding boxboard and tissue and greaseproof papers were strong, as expected. Demand for sawn timber and veneer products in the main markets was weaker than usual.

The pre-engineering of investments aiming for Metsä Group's growth and profitability at Husum, Kemi and Rauma has progressed as planned.

The operational restructuring of the tissue paper business has already begun to visibly improve the profitability of business operations.

The construction of the demo plant for textile fibre in Äänekoski has been completed, and the equipment will be installed during 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 greaseproof papers.

Metsä Group's sales totalled EUR 5.7 billion in 2018, and it employs approximately 9,300 people. Metsäliitto Cooperative is the parent company of Metsä Group and owned by approximately 103,000 Finnish forest owners.

KEY FIGURES

	2019	2018	2019	2018	2018
Condensed income statement, EUR million	1-6	1-6	4-6	4-6	1-12
Sales	2 809.4	2 904.3	1 371.7	1 476.5	5 709.1
Other operating income	27.8	20.9	10.8	10.6	58.1
Operating expenses	-2 378.2	-2 363.3	-1 179.6	-1 215.6	-4 639.5
Depreciation and impairment losses	-227.3	-149.6	-154.0	-67.1	-284.8
Operating result	231.8	412.3	48.8	204.5	843.0
Share of results from associated companies and joint ventures	2.4	0.8	2.8	0.0	7.0
Exchange gains and losses	-4.4	-4.5	-1.9	-1.0	-6.3
Other net financial items	-27.3	-40.5	-13.9	-19.9	-74.6
Result before income tax	202.5	368.1	35.9	183.6	769.1
Income tax	-55.2	-79.1	-21.3	-40.8	-156.4
Result for the period	147.3	289.0	14.6	142.8	612.7

	2019	2018	2019	2018	2018
Profitability	1-6	1-6	4-6	4-6	1-12
Operating result, EUR million	231.8	412.3	48.8	204.5	843.0
Comparable operating result	308.1	418.0	128.4	210.1	848.5
% of sales	11.0	14.4	9.4	14.2	14.9
Return on capital employed, %	9.1	16.7	4.1	16.5	16.6
Comparable return on capital employed	12.1	16.9	10.2	17.0	16.8
Return on equity, %	7.9	18.5	1.6	18.0	18.5
Comparable return on equity	12.1	18.7	10.1	18.7	18.7

	2019	2018	2019	2018	2018
Financial position	30.6.	30.6.	31.3.	31.3.	31.12.
Equity ratio, %	56.2	51.2	53.3	46.5	53.1
Net gearing ratio, %	15	26	18	34	13
Interest-bearing net liabilities, EUR million	562	841	646	1 039	463

SEGMENTS

Sales and Operating result 1-6/2019, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp and Sawn Timber Industry	Paperboard Industry	Tissue and Greaseproof Papers
Sales	1 034.1	230.2	1 178.8	964.2	533.4
Other operating income	6.5	4.0	5.3	28.4	2.4
Operating expenses	-1 019.7	-218.2	-924.5	-819.7	-497.4
Depreciation and impairment losses	-4.0	-8.8	-54.2	-54.6	-124.7
Operating result	16.8	7.2	205.5	118.3	-86.3
Items affecting comparability	-	-2.0	-	-15.5	110.2
Comparable operating result	16.8	5.2	205.5	102.8	24.0
% of sales	1.6	2.3	17.4	10.7	4.5

THIS HALF-YEAR FINANCIAL REPORT IS UNAUDITED**HALF-YEAR FINANCIAL REPORT 2019****SALES AND RESULT**

Metsä Group's sales in January–June 2019 were EUR 2,809.4 million (1–6/2018: 2,904.3). Sales decreased due to lower linerboard delivery volumes compared with last year, as well as lower pulp prices, among other reasons.

The comparable operating result was EUR 308.1 million (418.0), or 11.0% (14.4) of sales. The decrease was mainly due to higher raw material and production costs compared with the corresponding period last year, as well as lower sales prices of pulp, particularly in the Chinese market.

Exchange rate fluctuations after hedging had a positive effect of around EUR 49 million on the operating result in the review period, compared with the corresponding period in the previous year. The US dollar strengthened by around 7% against the euro.

Sales in the second quarter of the year totalled EUR 1,371.7 million, whereas sales for the corresponding period last year were EUR 1,476.5 million. The comparable operating result was EUR 128.4 million (4-6/2018: 210.1).

Items affecting comparability amounted to EUR -76.3 million (-5.6). The most significant item was an impairment loss of around EUR 102 million recognised by Metsä Tissue mainly with regard to goodwill. At the Group level, the impairment loss was around EUR 77 million after eliminations. Other items affecting comparability included a capital gain on shares in Liaison Technologies, Inc., that were included in Metsä Board's non-operating investments in shares, as well as the sale of plots in Niemenranta in Tampere and a cost provision related to Metsä Tissue's ongoing efficiency programme.

Metsä Group's operating result (IFRS) was EUR 231.8 million (412.3). The share of the results of associated companies and joint ventures was EUR 2.4 million (0.8), financial income was EUR 2.9 million (1.3), exchange rate differences in financing were EUR -4.4 million (-4.5), and financial expenses totalled EUR 30.2 million (41.8).

The result before taxes was EUR 202.5 million (368.1), and taxes including changes in deferred tax liabilities totalled EUR 55.2 million (79.1). The Group's effective tax rate was 27.3% (21.5). The result for the review period was EUR 147.2 million (289.0).

The return on capital employed was 9.1% (16.7), and the return on equity was 7.9% (18.5). The comparable

return on capital employed was 12.1% (16.9), and the comparable return on equity was 12.1% (18.9).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity has remained strong. Total liquidity at the end of June was EUR 1,711.8 million (31 December 2018: 1,940.1). This consisted of EUR 855.5 million (1,083.9) in liquid assets and investments, and EUR 856.3 million (856.3) in off-balance sheet committed credit facility agreements.

The Group's liquidity reserve is complemented by uncommitted commercial paper programmes and credit facilities amounting to EUR 160.8 million (31 December 2018: 160.8).

Cash flow from operations was EUR 182.9 million (276.2). EUR 269.6 million was tied up in working capital (301.5). Working capital increased with the addition of EUR 53.8 million in trade and other receivables, the addition of EUR 81.1 million in inventories, and a decrease of EUR 134.7 million in trade payables and other liabilities.

The Group's equity ratio at the end of June was 56.2%, and its net gearing was 15% (31 December 2018: 53.1 and 13, respectively). Net interest-bearing liabilities were EUR 561.6 million (31 December 2018: 463.3).

At the end of June, the equity ratio of the parent company Metsäliitto Cooperative was 88.1%, and the net gearing was -21% (31 December 2018: 85.2 and -18, respectively).

On 26 April 2019, Metsäliitto Cooperative's Representative Council decided that interest of 7.5% (7.0 for 2017) be paid on the participation shares of the members for 2018. Interest of 7.0% (6.5) was proposed on additional shares A, and interest of 2.5% (2.5) on additional shares B. The interest paid totalled EUR 74.1 million (63.2).

The Board of Directors has 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 the IFRS decreased by EUR 83.3 million.

In January–June, Metsäliitto Cooperative's members' capital increased by a total of EUR 123.2 million (93.9). The value of participation shares grew by EUR 6.1 million (5.7), that of the additional shares A by EUR 109.4 million (83.9), and that of the additional shares B by EUR 7.7 million (4.2).

PERSONNEL

In January–June, Metsä Group had an average of 9,695 employees (9,458). Personnel expenses were EUR 329.9 million (327.6). At the end of June, the Group had 10,156 employees (31 December 2018: 9,310), of whom 5,536 (4,834) were based in Finland and 4,620 (4,476) abroad. The parent company Metsäliitto Cooperative had 2,142 employees at the end of June (31 December 2018: 1,924).

Metsä Group employs around 1,000 young people during the summer. The Group has around 750 summer employees in Finland.

MEMBERS

At the end of June, Metsäliitto Cooperative had 103,458 members (31 December 2018: 103,420). During January–June, 1,578 new members joined the Cooperative, and 1,540 members cancelled their membership. At the end of June 2019, the forest area owned by the members totalled 5.328 million hectares (31 December 2018: 5.265).

INVESTMENTS

Metsä Group's increase in intangible and tangible fixed assets in January–June was EUR 97.3 million (100.4). This includes EUR 15.0 million (0.0) of acquired business operations' fixed assets.

INVESTMENT PRE-ENGINEERING

In April, Metsä Fibre started a pre-engineering project related to the construction of a bioproduct mill in Metsä Group's current mill site in Kemi. If implemented, the bioproduct mill will produce around 1.5 million tonnes of softwood and hardwood pulp annually, in addition to many other bioproducts. It will be the largest wood-processing facility in the Northern Hemisphere. The new mill is intended to replace the current pulp mill in Kemi, which has an annual capacity of around 620,000 tonnes. The value of the investment would be around EUR 1.5 billion.

The investment decision on the new bioproduct mill will be made in summer 2020 at the earliest, after which the construction of the mill would begin. The mill could start up in the first half of the 2020s.

In April, Metsä Fibre started a pre-engineering project related also to the construction of a new pine sawmill in its mill area in Rauma. The annual production volume of the sawmill would be 750,000 cubic metres. If implemented, the sawmill will be the world's most modern and efficient facility in its field. The value of the investment would be around EUR 200 million. The final investment decision on the construction of the sawmill is expected to be made in the first half of 2020.

In April, Metsä Board started a pre-engineering project related to the first phase of the renewal of its Husum pulp mill in Sweden. Metsä Board intends to build a new recovery boiler and a new turbine in order to replace the old ones. If implemented, the investment will be carried out between 2019 and 2022, and its total value would be around EUR 300 million. The second phase is scheduled to be implemented during the 2020s, and involves replacing the mill's two current fibre lines with one new line. The mill's annual pulp capacity of around 750,000 tonnes will remain unchanged after the investment, but its cost competitiveness will improve significantly. The final investment decision on the first phase of the renewal of the Husum pulp mill will be made in the fourth quarter of 2019 at the earliest.

SUSTAINABILITY

In February, Metsä Group renewed its strategic sustainability targets as part of the its strategy update. The targets for 2030 cover all of the Group's operations and are also reflected in its supply chain.

Metsä Group aims to increase for example the amount of carbon stored in forests and products, and achieve completely fossil-free production by 2030. Metsä Group's sustainable development goals are available in full on its website www.metsagroup.com/sustainability.

Metsä Group's new Nemus Futurum visitor centre was opened in Kirkniemi in Lohja in June. Nemus Futurum offers Metsä Group's customers and influencers an opportunity to learn in a new way about sustainable nature and forest management, the sustainable use of forests, and forest-based products. The visitor centre uses modern technology to link forest sites to current sustainability themes, from climate change to biodiversity.

Metsä Board will establish an excellence centre focusing on paperboard and packaging innovations in Äänekoski. It will combine expertise in packaging design with research and development, facilitating the development of future paperboards and packaging solutions. The new excellence centre is scheduled to start operation in 2020.

BUSINESS AREAS

Wood Supply and Forest Services

Sales from Wood Supply and Forest Services, i.e. from Metsä Forest, totalled EUR 1,034.1 million (1–6/2018: 985.6), and the operating result was EUR 16.8 million (14.5). The compensation for costs of court proceedings received in the first quarter of 2019 from Metsähalitus increased the result by EUR 3.3 million.

Metsä Forest's sales in the second quarter were EUR 508.3 million (4–6/2018: 495.7), and the operating result was EUR 5.6 million (5.8).

The supply of wood in Finland was slightly weaker than in the corresponding period of last year. Log prices declined slightly during the second quarter, while pulpwood prices were stable.

Thanks to the good harvesting conditions last winter, the supply of wood in the Baltic Sea region was at a strong level. The supply of pulpwood increased in the Baltic countries during the second quarter of the year, and there was an oversupply in the log market in certain places.

The market situation in Russia was very similar to that of the Baltic countries.

In Sweden, the supply and demand of pulpwood were mostly in balance. Large quantities of pulpwood were available in Germany and Poland for the Baltic Sea region due to damage caused by insects.

During the review period, Metsä Forest bought all timber grades through both standing and delivery sales throughout Finland. Metsä Forest bought slightly less 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. In January–June 2019, Metsä Forest delivered a total of approximately 18.2 million cubic metres (18.7) of wood to its customers. Around 85% of this went to the Finnish industrial sector. Around 34 million seedlings were delivered to forest owners.

In January–June, 43% of the wood acquired by Metsä Forest from private forest owners was purchased digitally. In the sale of forest management services, the figure was 48%.

Members of Metsäliitto Cooperative received 70% in advance funding for thinning fit for summer harvesting for wood trades carried out between 8 February and 30 April 2019. The campaign was implemented successfully and met its goals.

Wood Products Industry

The sales of the Wood Products Industry, i.e. Metsä Wood, were EUR 230.2 million (1–6/2018: 228.0), and the comparable operating result was EUR 5.2 million (11.6).

Metsä Wood's sales in the second quarter were EUR 118.9 million (4–6/2018: 119.4), and the comparable operating result was EUR 3.3 million (4–6/2018: 5.5).

The sales of its UK business increased slightly year-on-year, while its sales of veneer products remained at the same level as in the comparison period.

The delivery volumes of Kerto LVL products remained at the comparison period's level. The delivery volumes of plywood products decreased due to a weaker market situation. Production at Metsä Wood's birch plywood mills in Finland was adjusted following lower demand in the first quarter. Production-related challenges were also partly reflected in the delivery volumes of veneer products.

The average sales price of birch plywood was close to previous year's level, while the prices of spruce plywood and Kerto LVL products increased. Average prices in the UK business improved from the comparison period, while delivery volumes decreased year-on-year.

The profitability of business operations decreased compared with the corresponding period in the previous year. This was mainly due to adjustments to the production of birch plywood. In addition, costs arising from the ramp-up of strategic investments burdened profitability, along with production challenges and higher raw material costs. The profitability of the UK business improved from the comparison period.

The new Kerto LVL line at Metsä Wood's mill in Punnaharju was inaugurated on 28 May 2019. The Kerto line has an annual capacity of the 65,000 cubic metres. The investment decision was made in December 2017, and the project progressed on schedule. The new line started up in April 2019.

Pulp and Sawn Timber Industry

The sales of the Pulp and Sawn Timber Industry, i.e. Metsä Fibre, totalled EUR 1,178.8 million (1–6/2018: 1,229.5), and the operating result was EUR 205.5 million (309.8).

Metsä Fibre's sales in the second quarter were EUR 556.1 million (4–6/2018: 629.0), and the operating result was EUR 83.1 million (164.9).

The sales volume of pulp in January–June was 1,439,000 tonnes (1,438,000). The currency-denominated market prices of long-fibre pulp in Europe decreased by 1% and those of short-fibre pulp decreased by 6% compared with the corresponding period last year. In China, the market prices of long-fibre pulp were 23% lower and those of short-fibre pulp 14% lower than in the corresponding period last year.

Metsä Fibre's comparable operating result decreased by 34% compared with the corresponding period in the previous year. This was mainly due to lower sales prices and higher raw material prices. The US dollar strengthened in comparison with the corresponding period in the previous year, which had a positive effect on the result.

The price of market pulp decreased significantly during the first half of the year. At the beginning of January, the average price of long-fibre pulp in Europe was USD 1,180 per tonne, as opposed to USD 1,000 per

tonne at the end of the second quarter. At the beginning of January, the average price of short-fibre pulp was USD 1,010 per tonne, as opposed to USD 900 per tonne at the end of the review period.

Deliveries of sawn timber amounted to 943,000 cubic metres (942,000). The market prices in January–June were 5% lower than in the corresponding period last year.

Demand for spruce sawn timber has remained at a good level in all the European markets, while demand for pine sawn timber has decreased year-on-year. The supply of sawn timber has exceeded demand, which has caused prices to decrease.

Paperboard Industry

The sales of the Paperboard Industry, i.e. Metsä Board, in January–June were EUR 964.2 million (1–6/2018: 1,011.1). The decrease was due to lower white kraftliner and market pulp sales in comparison with last year. Folding boxboard represented 57% of sales (55), while 24% of sales (26) came from kraftliner and 17% (19) from market pulp.

Metsä Board's comparable operating result was EUR 102.8 million (128.2). The production costs of paperboard and pulp were higher than in the comparison period and had a significant negative effect on the result. Wood raw material costs, in particular, and logistics costs in North America increased. Towards the end of the review period, the price of wood raw material in the Baltic countries started to decline.

The higher sales prices of folding boxboard had a particularly strong positive effect on the operating result. The clearly lower deliveries of linerboard and market pulp, in particular, had a negative effect on profitability. Exchange rate fluctuations, including hedges, had a positive impact of around EUR 21 million on the result.

Metsä Board's total deliveries of paperboard were 886,000 (957,000) tonnes, of which deliveries of folding boxboard accounted for 602,000 tonnes (625,000) and deliveries of white kraftliner for 284,000 tonnes (332,000). Metsä Board's own market pulp deliveries were 218,000 tonnes (254,000).

Metsä Fibre's share of Metsä Board's January–June comparable operating result was EUR 38.5 million (57.6). Lower sales prices of pulp, particularly in China, together with higher raw material costs had a negative effect on the result.

Metsä Board's comparable return on capital employed was 11.7% (15.1), and its comparable earnings per share were EUR 0.23 (0.28).

The equity ratio at the end of June was 57.5% and net gearing was 30% (31 December 2018: 58.1 and 25, respectively).

Metsä Board's half-year financial report was published on 1 August 2019.

Tissue and Greaseproof Papers

The sales of tissue and greaseproof papers, i.e. Metsä Tissue, totalled EUR 533.4 million (1–6/2018: 515.1). The increase in sales was due to higher sales prices, which offset the slightly lower sales volumes compared with last year, as well as the weakening of the Swedish and Norwegian currencies against the euro.

Metsä Tissue's comparable operating result was EUR 24.0 million (23.7). Cost inflation had a negative effect on the operating result, but its impact was offset effectively by higher sales prices.

Metsä Tissue's sales in the second quarter were EUR 266.1 million (4–6/2018: 256.3), and the comparable operating result was EUR 13.5 million (11.5).

In February 2019, Metsä Tissue started a programme aiming for a reduction of EUR 25 million in fixed costs. The programme will be completed by the end of this year. Of the measures included in the programme, the review of mill operations is still in progress. The operational review process began in May, and its goals include improving internal efficiency, reducing complexity and focusing on the tissue business. The review was completed in June, with the exception of Metsä Tissue's mills in Sweden, where the process continues. The strategic review of the Stotzheim napkin mill and the related efficiency measures are also progressing as planned.

As part of the operational review, Metsä Tissue carried out impairment testing in accordance with IAS 36 during the second quarter. As a result, an impairment loss of EUR 102 million was recognised mainly with regard to goodwill. In addition, the company recognised a cost provision of around EUR 7 million related to completed cooperation negotiations and cooperation negotiations in progress.

Since June 2019, the Mänttä mill has used liquefied natural gas (LNG) instead of liquefied gas for the drying of tissue paper. This significantly reduces the mill's carbon dioxide emissions. At the same time, safety at work improves, energy costs decrease and the prospect of using biogas is one step closer.

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.

Various countries have imposed 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 2018 Annual Review.

PENDING DISPUTES

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. Metsä Board has appealed the decision to the Administrative Court of Helsinki.

EVENTS AFTER REPORTING PERIOD

Metsä Group's innovation company, Metsä Spring, made an equity investment in Woodio Ltd, a leading developer of waterproof wood composite products. The financing round totals approximately EUR 4 million, and Metsä Spring participates in the round together with selected current investors. The investment enables the valorisation of Metsä Group's underutilised side-streams, e.g. undersized wood chips generated in wood chipping at several Metsä Group mills, into long-lived, value-added products.

NEAR-TERM OUTLOOK

Wood demand will focus on thinning sites to be harvested when the ground is unfrozen and, in terms of energy wood, on crown wood. Demand for forest management services is expected to remain good.

Espoo, Finland, 1 August 2019
BOARD OF DIRECTORS

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In wood products, uncertainty has increased in of the demand for Kerto LVL products. Demand for spruce plywood is expected, in the main, to remain stable during the third quarter. The uncertainty in demand for birch plywood and the tough price competition in the distributor market are expected to continue.

In the UK market, delivery volumes will decrease due to seasonality in the third quarter.

The development of the global pulp market remains uncertain over the short term. However, the production curtailments announced by pulp producers, as well as annual maintenance shutdowns scheduled for the third quarter, will balance the demand and supply.

The increase in demand for Metsä Fibre's long-fibre market pulp and sawn timber is expected to continue during the second half of the year, particularly in emerging markets.

Metsä Board's paperboard deliveries in the third quarter are expected to be roughly at the same level as in the second quarter of the year.

The prices of folding boxboard are expected to remain stable. The market situation for linerboards is more uncertain which may have an impact on the average prices of Metsä Board's kraftliner in the third quarter.

Demand in the tissue and greaseproof paper markets is expected to remain stable in all market areas. Profitability is expected to improve during the second half of 2019 in comparison with 2018, due to efficiency measures, higher sales prices and a predicted decrease in raw material prices.

RESULT GUIDANCE FOR JULY–SEPTEMBER 2019

Metsä Group's comparable operating result is in the third quarter of 2019 expected to weaken from the second quarter of 2019.

SEGMENTS

	2019	2018	2019	2018	2018
	1-6	1-6	4-6	4-6	1-12
Wood Supply and Forest Services					
Sales, EUR million	1 034.1	985.6	508.3	495.7	1 983.4
EBITDA, EUR million	20.9	16.7	7.5	6.9	36.6
Comparable EBITDA, EUR million	20.9	16.7	7.5	6.9	36.6
Operating result, EUR million	16.8	14.5	5.6	5.8	32.3
Comparable operating result, EUR million	16.8	14.5	5.6	5.8	32.3
% of sales	1.6	1.5	1.1	1.2	1.6
Comparable ROCE, %	20.5	19.5	14.0	16.0	20.7
Capital expenditure, EUR million	4.1	1.7	1.0	0.9	4.1
Personnel at end of period	900	901	900	901	844

	2019	2018	2019	2018	2018
	1-6	1-6	4-6	4-6	1-12
Wood Products Industry					
Sales, EUR million	230.2	228.0	118.9	119.4	441.7
EBITDA, EUR million	15.9	18.2	9.9	8.4	30.2
Comparable EBITDA, EUR million	13.9	18.2	7.9	8.4	30.2
Operating result, EUR million	7.2	11.6	5.3	5.5	16.6
Comparable operating result, EUR million	5.2	11.6	3.3	5.5	16.6
% of sales	2.3	5.1	2.8	4.6	3.8
Comparable ROCE, %	3.6	9.8	4.5	8.4	7.0
Capital expenditure, EUR million	23.8	48.3	12.2	21.2	82.7
Personnel at end of period	1 678	1 604	1 678	1 604	1 506

	2019	2018	2019	2018	2018
	1-6	1-6	4-6	4-6	1-12
Pulp and Sawn Timber Industry					
Sales, EUR million	1 178.8	1 229.5	556.1	629.0	2 469.1
EBITDA, EUR million	259.7	375.1	112.0	190.5	792.4
Comparable EBITDA, EUR million	259.7	375.1	112.0	190.5	792.4
Operating result, EUR million	205.5	309.8	83.1	164.9	668.8
Comparable operating result, EUR million	205.5	309.8	83.1	164.9	668.8
% of sales	17.4	25.2	14.9	26.2	27.1
Comparable ROCE, %	20.3	34.3	17.0	36.8	34.7
Capital expenditure, EUR million	55.8	11.8	13.2	7.9	62.3
Personnel at end of period	1 438	1 348	1 438	1 348	1 210

	2019	2018	2019	2018	2018
	1-6	1-6	4-6	4-6	1-12
Paperboard Industry					
Sales, EUR million	964.2	1 011.1	477.1	518.7	1 944.1
EBITDA, EUR million	172.9	172.7	73.6	78.5	338.2
Comparable EBITDA, EUR million	157.5	178.4	68.1	84.1	343.8
Operating result, EUR million	118.3	122.6	46.4	53.6	246.3
Comparable operating result, EUR million	102.8	128.2	41.0	59.2	251.9
% of sales	10.7	12.7	8.6	11.4	13.0
Comparable ROCE, %	11.7	15.1	9.7	13.9	14.4
Capital expenditure, EUR million	24.3	25.7	17.9	15.3	70.3
Personnel at end of period	2 591	2 578	2 591	2 578	2 352

	2019	2018	2019	2018	2018
Tissue and Greaseproof Papers	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	533.4	515.1	266.1	256.3	1 039.8
EBITDA, EUR million	38.4	42.1	16.8	20.6	73.6
Comparable EBITDA, EUR million	46.2	42.1	24.5	20.6	73.6
Operating result, EUR million	-86.3	23.7	-96.8	11.5	36.3
Comparable operating result, EUR million	24.0	23.7	13.5	11.5	36.3
% of sales	4.5	4.6	5.1	4.5	3.5
Comparable ROCE, %	8.1	7.7	8.7	7.3	5.7
Capital expenditure, EUR million	8.5	11.3	4.4	5.4	48.0
Personnel at end of period	2 959	2 968	2 959	2 968	2 865

	2019	2018	2019	2018	2018
Other operations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	4.3	2.5	2.3	1.2	5.4
EBITDA, EUR million	-2.3	-1.3	-2.1	-1.1	-2.6
Comparable EBITDA, EUR million	-2.3	-1.3	-2.1	-1.1	-2.6
Operating result, EUR million	-4.7	-2.8	-3.3	-1.8	-5.6
Comparable operating result, EUR million	-4.7	-2.8	-3.3	-1.8	-5.6
Capital expenditure, EUR million	1.7	2.6	0.6	0.8	8.2
Personnel at end of period	590	514	590	514	533

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

	2019	2018	2019	2018	2018
Internal sales and eliminations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	-1 135.6	-1 067.5	-557.0	-543.8	-2 174.3
EBITDA, EUR million	-46.5	-61.6	-15.0	-32.1	-140.6
Comparable EBITDA, EUR million	-37.7	-61.6	-13.0	-32.1	-140.6
Operating result, EUR million	-25.0	-67.2	8.5	-34.9	-151.7
Comparable operating result, EUR million	-41.5	-67.2	-14.7	-34.9	-151.7

	2019	2018	2019	2018	2018
Metsä Group	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	2 809.4	2 904.3	1 371.7	1 476.5	5 709.1
EBITDA, EUR million	459.1	561.9	202.9	271.6	1 127.8
Comparable EBITDA, EUR million	458.2	567.6	205.2	277.2	1 133.4
Operating result, EUR million	231.8	412.3	48.8	204.5	843.0
Comparable operating result, EUR million	308.1	418.0	128.4	210.1	848.5
% of sales	11.0	14.4	9.4	14.2	14.9
Comparable ROCE, %	12.1	16.9	10.2	17.0	16.8
Capital expenditure, EUR million	97.1	100.4	47.1	51.4	274.5
Personnel at end of period	10 156	9 913	10 156	9 913	9 310

RECONCILIATION OF OPERATING RESULT AND EBITDA

EUR million	2019 1–6	2018 1–6	2019 4–6	2018 4–6	2018 1–12
OPERATING RESULT (IFRS)	231.8	412.3	48.8	204.5	843.0
Depreciation and impairment charges	227.3	149.6	154.0	67.1	284.8
EBITDA	459.1	561.9	202.9	271.6	1 127.8
Items affecting comparability:					
Wood Products Industry	-2.0	-	-2.0	-	-
Paperboard Industry	-15.5	5.6	-5.5	5.6	5.6
Tissue and Greaseproof Papers	7.8	-	7.8	-	-
Elimination	8.8	-	2.0	-	-
Total	-0.9	5.6	2.3	5.6	5.6
COMPARABLE EBITDA	458.2	567.6	205.2	277.2	1 133.4
Depreciation and impairment charges	-227.3	-149.6	-154.0	-67.1	-284.8
Items affecting comparability:					
Depreciation	-	-	-	-	-
Impairment charges and reversals	102.5	-	102.5	-	-
Elimination	-25.2	-	-25.2	-	-
COMPARABLE OPERATING RESULT	308.1	418.0	128.4	210.1	848.5

EUR million	2019 1–6	2018 1–6	2019 4–6	2018 4–6	2018 1–12
OPERATING RESULT (IFRS)	231.8	412.3	48.8	204.5	843.0
Depreciation and impairment charges	227.3	149.6	154.0	67.1	284.8
EBITDA	459.1	561.9	202.9	271.6	1 127.8
Items affecting comparability:					
Other operating income	-8.7	-	-5.5	-	-
Employee costs	6.8	4.1	6.8	4.1	4.1
Other operating expenses	1.0	1.5	1.0	1.5	1.5
Total	-0.9	5.6	2.3	5.6	5.6
COMPARABLE EBITDA	458.2	567.6	205.2	277.2	1 133.4
Depreciation and impairment charges	-227.3	-149.6	-154.0	-67.1	-284.8
Items affecting comparability:					
Depreciation	-	-	-	-	-
Impairment charges	102.5	-	102.5	-	-
Elimination	-25.2	-	-25.2	-	-
COMPARABLE OPERATING RESULT	308.1	418.0	128.4	210.1	848.5

Items with “+” sign = expenses affecting comparability
Items with “-” sign = income affecting comparability

Items affecting comparability during January–June 2019 amounted to EUR -76.3 million. The most significant item was Metsä Tissue’s recognition of an impairment of EUR 102.5 million, mainly related to goodwill. After elimination, the Metsä Group effect of the impairment was EUR 77.2 million. Other items affecting comparability were the capital gain on the shares in Liaison Technologies Inc., included in Metsä Board’s non-operative investments in shares, Metsä Board’s sales of plots in Niemenranta in Tampere and Metsä Tissue’s cost provision related to the ongoing efficiency programme.

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 did not recognise any items affecting comparability in July–December 2018.

QUARTERLY DATA

EUR million	2019 4–6	2019 1–3	2018 10–12	2018 7–9	2018 4–6	2018 1–3
Sales						
Wood Supply and Forest Services	508.3	525.8	526.4	471.4	495.7	489.9
Wood Products Industry	118.9	111.3	107.8	105.9	119.4	108.7
Pulp and Sawn Timber Industry	556.1	622.8	630.1	609.5	629.0	600.5
Paperboard Industry	477.1	487.1	458.0	475.1	518.7	492.3
Tissue and Greaseproof Papers	266.1	267.3	270.3	254.3	256.3	258.8
Other operations	2.3	2.0	1.7	1.2	1.2	1.3
Internal sales	-557.0	-578.6	-575.4	-531.4	-543.8	-523.7
Sales	1 371.7	1 437.7	1 419.0	1 385.8	1 476.5	1 427.8
Operating result						
Wood Supply and Forest Services	5.6	11.3	8.9	8.9	5.8	8.7
Wood Products Industry	5.3	1.8	2.2	2.8	5.5	6.2
Pulp and Sawn Timber Industry	83.1	122.4	172.1	186.9	164.9	144.9
Paperboard Industry	46.4	71.9	60.1	63.7	53.6	69.0
Tissue and Greaseproof Papers	-96.8	10.5	6.1	6.4	11.5	12.3
Other operations	-3.3	-1.4	-4.4	1.6	-1.8	-0.9
Eliminations	8.5	-33.6	-37.3	-47.2	-34.9	-32.2
Operating result	48.8	183.0	207.6	223.1	204.5	207.9
% of sales	3.6	12.7	14.6	16.1	13.8	14.6
Share of results from associated companies and joint ventures	2.8	-0.4	2.5	3.7	0.0	0.7
Exchange gains and losses	-1.9	-2.6	-0.4	-1.4	-1.0	-3.5
Other net financial items	-13.9	-13.4	-16.8	-17.3	-19.9	-20.6
Result before income tax	35.9	166.6	192.8	208.2	183.6	184.5
Income tax	-21.3	-33.9	-39.0	-38.3	-40.8	-38.3
Result for the period	14.6	132.7	153.8	169.8	142.8	146.3
Comparable operating result						
Wood Supply and Forest Services	5.6	11.3	8.9	8.9	5.8	8.7
Wood Products Industry	3.3	1.8	2.2	2.8	5.5	6.2
Pulp and Sawn Timber Industry	83.1	122.4	172.1	186.9	164.9	144.9
Paperboard Industry	41.0	61.8	60.1	63.7	59.2	69.0
Tissue and Greaseproof Papers	13.5	10.5	6.1	6.4	11.5	12.3
Other operations and eliminations	-18.0	-28.2	-41.7	-45.7	-36.8	-33.2
Comparable operating result	128.4	179.7	207.6	223.0	210.1	207.9
% of sales	9.4	12.5	14.6	16.1	14.2	14.6

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 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	2019 1–6	2018 1–6	Change	2019 4–6	2018 4–6	2018 1–12
Sales	2, 3	2 809.4	2 904.3	-94.9	1 371.7	1 476.5	5 709.1
Change in stocks of finished goods and work in progress		45.2	-67.9	113.1	42.8	-11.4	54.0
Other operating income		27.8	20.9	7.0	10.8	10.6	58.1
Material and services	-1	911.2	-1 782.5	-128.8	-954.3	-941.9	-3 688.0
Employee costs		-329.9	-327.6	-2.3	-175.8	-168.8	-634.7
Depreciation and impairment losses		-227.3	-149.6	-77.7	-154.0	-67.1	-284.8
Other operating expenses		-182.2	-185.3	3.1	-92.3	-93.3	-370.8
Operating result	2	231.8	412.3	-180.5	48.8	204.5	843.0
Share of results from associated companies and joint ventures		2.4	0.8	1.6	2.8	0.0	7.0
Exchange gains and losses		-4.4	-4.5	0.0	-1.9	-1.0	-6.3
Other net financial items	2	-27.3	-40.5	13.2	-13.9	-19.9	-74.6
Result before income tax		202.5	368.1	-165.6	35.9	183.6	769.1
Income tax	4	-55.2	-79.1	23.9	-21.3	-40.8	-156.4
Result for the period		147.2	289.0	-141.8	14.6	142.8	612.7
Other comprehensive income							
Items that will not be reclassified to profit and loss							
Items relating to adjustments of defined benefit plans		-14.1	6.5	-20.6	-9.8	1.2	4.2
Fair value of financial assets through other comprehensive income		-16.4	14.7	-31.1	-28.2	9.6	31.2
Income tax relating to items that will not be reclassified		6.2	-4.1	10.3	7.6	-2.1	-6.6
Yhteensä		-24.4	17.1	-41.5	-30.4	8.7	28.8
Items that may be reclassified subsequently to profit and loss							
Cash flow hedges		-23.5	-14.9	-8.6	8.3	-12.5	5.1
Currency translation differences		-7.8	-27.0	19.2	-9.4	-8.5	-21.3
Income tax relating to items that may be reclassified		4.8	2.7	2.1	-1.6	2.3	-1.2
Total		-26.5	-39.2	12.7	-2.7	-18.7	-17.4
Other comprehensive income, net of tax		-50.9	-22.0	-28.8	-33.1	-10.0	11.4
Total comprehensive income for the period		96.4	267.0	-170.6	-18.5	132.7	624.1
Result for the period attributable to:							
Members of parent company		57.3	176.4	-119.1	-21.8	89.0	371.8
Non-controlling interests		89.9	112.6	-22.7	36.4	53.7	240.9
Total		147.2	289.0	-141.8	14.0	142.8	612.7
Total comprehensive income attributable to:							
Members of parent company		26.5	164.0	-137.5	-40.7	84.1	373.6
Non-controlling interests		69.9	103.0	-33.1	22.1	48.6	250.5
Total		96.4	267.0	-170.6	-18.5	132.7	624.1

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

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2019 30.6.	2018 30.6.	2018 31.12.
ASSETS				
Non-current assets				
Goodwill		428.0	506.5	508.8
Other intangible assets		234.0	242.6	242.8
Tangible assets	5	2 865.5	2 804.5	2 847.6
Biological assets		3.0	3.0	3.0
Investments in associated companies and joint ventures		67.3	49.5	65.8
Other investments	9	268.3	268.8	285.1
Other non-current financial assets	9	25.7	42.5	38.6
Deferred tax receivables		27.4	23.4	26.9
		3 919.2	3 940.7	4 018.6
Current assets				
Inventories		1 070.8	841.5	990.8
Accounts receivables and other receivables		833.2	843.0	791.6
Tax receivables based on the taxable income for the period		12.6	10.4	7.6
Cash and cash equivalents	9	855.5	785.9	1 083.9
		2 772.0	2 480.7	2 873.7
Assets classified as held for sale		1.0	2.2	1.1
Total assets		6 692.2	6 423.6	6 893.4
MEMBERS' FUNDS AND LIABILITIES				
Members' funds				
Members' funds		2 901.6	2 524.8	2 750.5
Non-controlling interests		852.6	755.9	905.0
		3 754.2	3 280.7	3 655.6
Non-current liabilities				
Deferred tax liabilities		288.3	267.4	290.8
Post-employment benefit obligations		81.3	77.6	77.1
Provisions	6	19.7	20.8	21.4
Borrowings	9	1 053.4	1 201.0	1 098.8
Other liabilities		27.5	20.6	18.1
		1 470.1	1 587.4	1 506.2
Current liabilities				
Provisions	6	8.3	7.0	5.2
Current borrowings	9	368.3	432.2	453.4
Accounts payable and other liabilities		1 076.0	1 087.6	1 206.7
Tax liabilities based on the taxable income for the period		14.8	27.7	65.8
		1 467.5	1 554.5	1 731.1
Liabilities classified as held for sale		0.4	1.0	0.5
Total liabilities		2 938.0	3 142.9	3 237.8
Total members' funds and liabilities		6 692.2	6 423.6	6 893.4

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	Retained earnings	Total	Non-controlling interest	Total
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
Change in 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

Equity attributable to members of parent company							
EUR million	Members' capital	Translation differences	Fair value and other reserves	Retained earnings	Total	Non-controlling interest	Total
Members' funds 1.1.2019	994.7	-34.8	492.8	1 297.8	2 750.5	905.0	3 655.6
Result for the period				57.3	57.3	89.9	147.2
Other comprehensive income, net after tax		-3.8	-17.6	-9.5	-30.9	-20.0	-50.9
Total comprehensive income		-3.8	-17.6	47.8	26.5	69.9	96.4
Transactions with owners:							
Dividends paid				-69.4	-69.4	-84.5	-154.0
Change in members' capital	206.6			-6.1	200.5		200.5
Change in the reserve for invested unrestricted equity	0.0		250.0	250.0	0.0	-39.9	-39.9
Share based payments				-5.8	-5.8	-1.0	-6.8
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	-0.6	-0.7	3.1	2.4
Members' funds 30.6.2019	1 201.3	-38.6	481.7	1 013.7	2 901.6	852.6	3 754.2

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2019 1–6	2018 1–6	2018 1–12
Result for the period	8	147.2	289.0	612.7
Total adjustments	8	305.2	288.7	525.0
Change in working capital		-269.6	-301.5	-255.4
Cash flow arising from operations		182.9	276.2	882.2
Net financial items		-20.3	-23.8	-58.3
Income taxes paid		-101.2	-35.8	-62.7
Net cash flow arising from operating activities		61.4	216.5	761.3
Acquisitions		-7.9	0.0	-10.0
Investments in tangible and intangible assets		-76.1	-97.7	-271.9
Disposals and other items	8	13.4	0.8	17.7
Net cash flow arising from investing activities		-70.6	-96.9	-264.2
Change in members' funds		117.2	88.6	112.2
Change in non-controlling interest		0.0	0.0	0.0
Change in long-term loans and other financial items		-138.3	-352.4	-455.1
Capital distribution		-39.9	0.0	0.0
Dividends paid		-158.6	-142.1	-142.1
Net cash flow arising from financing activities		-219.7	-405.8	-484.9
Change in cash and cash equivalents		-228.9	-286.2	12.1
Cash and cash equivalents at beginning of period		1 083.9	1 072.4	1 072.4
Translation difference		0.5	-0.4	-0.7
Change in cash and cash equivalents		-228.9	-286.2	12.1
Cash and cash equivalents at end of period		855.5	785.9	1 083.9

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 Greaseproof 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 2018 IFRS financial statements. The effects of foreign

exchange changes on review period operating result vs. comparison period have been calculated based on estimated review period net cash flows in relevant currencies and taking into account the realized effects of foreign exchange hedges.

The same accounting policies have been applied as in the 2018 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 2019 Metsä Group has adopted 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.

As a result of the change, the Group has recognise currently valid leases related to lands, properties, equipment and vehicles on the balance sheet. An exception to this are the exemptions provided in the standard that concern short-term leases and low-value assets. Leases with a remaining lease term of 12 months or less on 1 January 2019 has been treated as short-term leases. The Group has applied the definition of new leases in accordance with IFRS 16 to new and amended agreements signed during or after the transition period. The Group has apply hindsight in the determination of a lease term when the lease includes extension or termination options. The company has applied a simplified approach to the adoption of the standard. The comparative information has not be adjusted.

Reconciliation of IFRS 16 Leases	EUR million
Operating lease commitments disclosed as at 31 December 2018 in Note 8.1 Commitments and Contingencies	86.6
Less: short-term leases recognised on a straight-line basis as expense	-5.4
Less: low-value ICT leases recognised on a straight-line basis as expense	-7.7
Less: service agreements recognised on a straight-line basis as expense	-5.6
	67.9
Discounted using the Group’s incremental borrowing rate of 2.76%	61.1
Add: finance lease liabilities recognised as at 31 December 2018	39.2
Add: adjustments as a result of different treatment of extension options	4.6
Add: adjustments as a result of different treatment of agreements with indefinite duration	9.8
Add/less: other adjustments	0.3
Lease liability recognised as at 1 January 2019	114.9

The change has only a minor effect on the Group’s result for the financial period and on the Group’s key figures. The new rules have an effect on the classification of expenses in the income statement and cash flow statement.

Other new or amended standards and interpretations do not have any significant effect on the 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 1, 2019.

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	1–6/2019	1–6/2019	1–6/2019	1–6/2018	1–6/2018	1–6/2018
	External	Internal	Total	External	Internal	Total
Wood Supply and Forest Services	267.9	766.2	1 034.1	258.7	726.9	985.6
Wood Products Industry	218.0	12.1	230.2	215.9	12.2	228.0
Pulp and Sawm Timber Industry	878.2	300.7	1 178.8	944.3	285.2	1 229.5
Paperboard Industry	912.2	52.0	964.2	970.7	40.3	1 011.1
Tissue and Greaseproof Papers	533.0	0.5	533.4	514.7	0.5	515.1
Other operations	0.2	4.2	4.3	0.0	2.5	2.5
Elimination of internal sales	-	-1 135.6	-1 135.6	-	-1 067.5	-1 067.5
Total sales	2 809.4	0.0	2 809.4	2 904.3	0.0	2 904.3

EUR million	1–12/2018	1–12/2018	1–12/2018
	External	Internal	Total
Wood Supply and Forest Services	524.7	1 458.7	1 983.4
Wood Products Industry	417.9	23.8	441.7
Pulp and Sawm Timber Industry	1 875.6	593.5	2 469.1
Paperboard Industry	1 852.0	92.1	1 944.1
Tissue and Greaseproof Papers	1 038.9	0.9	1 039.8
Other operations	0.1	5.3	5.4
Elimination of internal sales	-	-2 174.3	-2 174.3
Total sales	5 709.1	0.0	5 709.1

OPERATING RESULT BY SEGMENTS

EUR million	2019	2018	2018
	1–6	1–6	1–12
Wood Supply and Forest Services	16.8	14.5	32.3
Wood Products Industry	7.2	11.6	16.6
Pulp and Sawm Timber Industry	205.5	309.8	668.8
Paperboard Industry	118.3	122.6	246.3
Tissue and Greaseproof Papers	-86.3	23.7	36.3
Other operations	-4.7	-2.8	-5.6
Eliminations	-25.0	-67.2	-151.7
Operating result total	231.8	412.3	843.0
Share of results from associated companies and joint ventures	2.4	0.8	7.0
Financial costs, net	-31.8	-45.0	-80.9
Income taxes	-55.2	-79.1	-156.4
Result for the period	147.2	289.0	612.7

ASSETS AND LIABILITIES BY SEGMENTS

Assets	2019	2018	2018
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	371.5	331.6	327.4
Wood Products Industry	359.3	310.8	326.5
Pulp and Sawn Timber Industry	2 105.0	1 971.1	2 051.7
Paperboard Industry	2 135.9	2 056.7	2 164.4
Tissue and Greaseproof Papers	831.4	893.6	917.5
Other operations	189.0	200.0	211.1
Assets classified as held for sale	1.0	2.2	1.1
Eliminations	-245.8	-265.7	-247.3
Unallocated assets	945.0	923.3	1 141.0
Total	6 692.2	6 423.6	6 893.4

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	2019	2018	2018
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	213.2	196.9	274.3
Wood Products Industry	65.1	65.8	66.1
Pulp and Sawn Timber Industry	411.0	411.3	444.1
Paperboard Industry	376.6	395.4	400.9
Tissue and Greaseproof Papers	307.9	287.1	296.2
Other operations	72.4	108.2	86.1
Assets classified as held for sale	0.4	1.0	0.5
Eliminations	-245.8	-265.7	-247.3
Unallocated assets	1 737.3	1 942.9	1 916.8
Total	2 938.0	3 142.9	3 237.8

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

NOTE 3 – SALES BY MARKET AREA

EUR million	2019	2018	2018
	1–6	1–6	1–12
EMEA	2 017.4	2 166.9	4 251.2
APAC	518.3	540.6	1 062.0
Americas	219.8	196.9	395.9
Total	2 809.4	2 904.3	5 709.1

NOTE 4 – INCOME TAX

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

EUR million	2019	2018	2018
	1–6	1–6	1–12
Taxes for the period	44.7	64.2	130.7
Taxes for previous periods	0.3	-0.2	0.5
Change in deferred taxes	10.3	15.1	25.2
Total income taxes	55.2	79.1	156.4

NOTE 5 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2019 1–6	2018 1–6	2018 1–12
Book value at beginning of period	2 847.6	2 867.0	2 867.0
IFRS 16 change in accounting principles 1.1.2019	75.7	0.0	0.0
Acquired businesses	14.9	0.0	0.0
Investments	78.9	104.8	264.3
Decreases	-1.8	-0.5	-1.0
Assets classified as held for sale	0.0	-0.5	-0.5
Depreciation and impairment losses	-139.1	-137.3	-260.3
Translation differences and other changes	-10.6	-29.0	-21.9
Book value at end of period	2 865.5	2 804.5	2 847.6

Äänevoima Oy, situated on Metsä Group's industrial area in Äänekoski, was acquired by Metsä Fibre on 28, February 2019. After the acquisition the share ownership increased from 56.25% to 100%. Acquired businesses in 2019 include the effect of the deal on tangible assets.

NOTE 6 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 January 2019	5.0	16.1	5.4	26.6
Translation differences	-0.1	0.0	0.1	-0.0
Increases	3.9	0.2	0.6	4.7
Utilised during the year	-2.2	-0.0	-0.9	-3.2
Unused amounts reversed	-0.0	0.0	0.0	-0.0
At 30 June 2019	6.5	16.3	5.2	28.0

According to its updated strategy Metsä Tissue is commencing an operational review in order to improve internal efficiency, reduce complexity and focus on the tissue business. As a part of the implementation Metsä Tissue has recognised a total cost provision of EUR 6.8 million, of which EUR 3.9 million was recognised as a restructuring provision.

Of the Metsä Group's total provisions of EUR 28.0 million, the non-current portion was EUR 19.4 million and the current portion EUR 8.3 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	2019 1–6	2018 1–6	2018 1–12
Sales	5.0	4.8	12.1
Purchases	49.1	46.9	101.2
Non-current receivables	-	0.9	-
Current receivables	3.7	3.7	5.1
Current liabilities	20.6	5.7	26.3

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

EUR million	2019 1–6	2018 1–6	2018 1–12
Taxes	55.2	79.1	156.4
Depreciation and impairment charges	227.3	149.6	284.8
Biological assets	0.1	0.1	0.1
Share of results from associated companies	-2.4	-0.8	-7.0
Gains and losses on sale of non-current financial assets	-12.0	0.9	-12.8
Financial costs, net	31.8	45.0	80.9
Pension liabilities and provisions	0.6	5.8	3.0
Other adjustments	4.7	9.0	19.6
Total	305.2	288.7	525.0

Disposals and other items

Disposals and other items in January–June 2019 include a capital gain of EUR 3.3 million from Metsä Board's shares in Liaison Technologies Inc. included in other investments, and sales of intangible and tangible assets of EUR 10.2 million. Most significant items were the Metsä Board's sales of property in Tampere Niemenranta for a total of EUR 5.6 million and the sales of emission allowances of EUR 3.0 million by Metsä Board and EUR 0.9 million by Metsä Wood.

NOTE 9 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial assets and liabilities and fair values.

Financial assets 30.6.2019

EUR million	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount
Other non-current investments	6.9	261.4		268.3
Other non-current financial assets			19.6	19.6
Accounts receivables and others			821.8	821.8
Cash and cash equivalents	187.5		668.0	855.5
Derivative financial instruments	1.5	12.1		13.5
Assets classified as held for sale				
Total	195.8	273.5	1 509.4	1 978.7
Fair value total	195.8	273.5	1 509.4	1 978.7

Financial liabilities 30.6.2019

EUR million	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount
Non-current interest-bearing liabilities			1 053.4	1 053.4
Other non-current liabilities			0.9	0.9
Current interest-bearing liabilities			368.3	368.3
Accounts payable and others			988.7	988.7
Derivative financial instruments	1.6	24.1		25.8
Liabilities classified as held for sale			0.4	0.4
Total	1.6	24.1	2 411.7	2 437.5
Fair value total	1.6	24.1	2 429.4	2 455.2

Financial assets 30.6.2018

EUR million	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount
Other non-current investments	7.3	261.4		268.8
Other non-current financial assets			30.3	30.3
Accounts receivables and others			814.9	814.9
Cash and cash equivalents	169.5		616.4	785.9
Derivative financial instruments	0.0	35.7		35.7
Assets classified as held for sale				
Total	176.9	297.1	1 461.5	1 935.4
Fair value total	176.9	297.1	1 461.5	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
Non-current interest-bearing liabilities			1 201.0	1 201.0
Other non-current liabilities			0.7	0.7
Current interest-bearing liabilities			432.2	432.2
Accounts payable and others			942.4	942.4
Derivative financial instruments	1.8	44.1		46.0
Liabilities classified as held for sale			1.0	1.0
Total	1.8	44.1	2 577.4	2 623.3
Fair value total	1.8	44.1	2 594.6	2 640.5

Fair value hierarchy of financial assets and liabilities 30 June, 2019

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other non-current investments	0.0		268.3	268.3
Current financial assets through profit and loss at fair value	187.5			187.5
Derivative financial assets	13.2	0.3		13.5
Financial liabilities measured at fair value				
Derivative financial liabilities	0.8	25.0		25.8
Financial assets not measured at fair value				
Financial assets		668.0		668.0
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 069.8		1 069.8
Current interest-bearing liabilities		370.0		370.0

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

Financial assets measured at fair value based on level 3

EUR million	2019	2018
Opening balance 1 January	285.1	254.3
Gains and losses in income statement	3.2	0.0
Gains and losses in other comprehensive income	-16.5	14.7
Purchases	0.0	0.0
Settlements	-3.6	-0.2
Closing balance 30 June	268.3	268.7

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 2018 Financial Statements. The average weighed capital cost applied in the calculation was 1.35% on 30 June 2019 and for the Olkiluoto 3 power plant under construction 2.35%. The acquisition cost of the Pohjolan Voima Oyj shares is EUR 42.0 million and their fair value is EUR 261.4 million.

The carrying amount of Pohjolan Voima Oyj as of 30 June 2019 is estimated to change by EUR 1.7 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 42.3 million should the energy prices applied in the fair value calculation differ by 10% from the rate estimated by the management.

Derivatives 30 June, 2019

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value through profit and loss	Fair value through other comprehensive income
Interest rate swaps	553.9		24.9	-24.9	-1.6	-23.4
Total	553.9	0.0	24.9	-24.9	-1.6	-23.4
Currency forwards	2 314.6	-0.2	0.1	-0.3	1.2	-1.5
Currency options	790.9	0.5		0.5		0.5
Total	3 105.4	0.3	0.1	0.3	1.2	-1.0
Electricity derivatives	28.7	12.8	0.0	12.7		12.7
Oil derivatives	10.5	0.3	0.2	0.1		0.1
Commodity derivatives	7.0	0.2	0.5	-0.4	0.2	-0.5
Total	46.3	13.2	0.8	12.5	0.2	12.3
Derivatives total	3 705.6	13.5	25.8	-12.2	-0.2	-12.1

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES

EUR million	30.6.2019	30.6.2018	31.12.2018
Own liabilities for which commitments granted	72.1	124.0	90.0
Pledges granted	78.5	479.8	299.6
Floating charges	2.8	2.8	2.8
Real estate mortgages	267.7	268.6	267.8
Chattels mortgage	4.0	4.0	4.0
Commitments for own liabilities, total	352.9	755.1	574.1
Other commitments on own behalf	43.7	89.0	113.3
On behalf of associated companies	0.5	0.8	0.7
On behalf of others	0.0	0.0	0.0
Total	397.1	844.8	688.2

Securities and guarantees include pledges, floating charges, real estate mortgages, chattels mortgage and guarantee liabilities. Starting from 1 January 2019, rent

commitments included in other commitments on own behalf are recognised in the balance sheet as right of use assets and liabilities according to IFRS 16.

COMMITMENTS RELATED TO INVESTMENTS

EUR million	30.6.2019	30.6.2018	31.12.2018
Payments due under 1 year	7.6	49.1	37.5
Payments due in subsequent years	-	-	-
Total	7.6	49.1	37.5