

METSÄ GROUP

FINANCIAL STATEMENTS BULLETIN

2017



METSÄ GROUP'S COMPARABLE OPERATING RESULT IN 2017 WAS EUR 566 MILLION

JANUARY–DECEMBER 2017 (1–12/2016)

- Sales were EUR 5,040 million (4,658).
- Operating result was EUR 581 million (442). Comparable operating result was EUR 566 million (439).
- Result before tax was EUR 506 million (361). Comparable result before tax was EUR 491 million (357).
- Comparable return on capital employed was 12.3 per cent (10.2). Comparable return on capital employed excluding investments related to the bioproduct mill was 15.3 per cent (11.6).
- Cash flow from operations was EUR 905 million (504).

OCTOBER–DECEMBER 2017 (10–12/2016)

- Sales were EUR 1,328 million (1,175).
- Operating result was EUR 184 million (110). Comparable operating result was EUR 185 million (107).
- Result before tax was EUR 161 million (85). Comparable result before tax was EUR 162 million (82).
- Comparable return on capital employed was 14.9 per cent (9.8).
- Cash flow from operations was EUR 294 million (206).

EVENTS DURING THE FOURTH QUARTER OF 2017

- In December, Metsä Group and Metsä Board raised their result guidance for the fourth quarter due to the stronger-than-expected pulp market.
- The foreign currency-denominated market price of long-fibre pulp and the market price of short-fibre pulp increased by 7 per cent and 8 per cent, respectively, compared to the previous quarter.
- Metsä Wood decided to construct a new Kerto® LVL line at its Punkaharju mill in Finland.
- Sales prices of paperboard rose, but deliveries were at a lower level than in the previous quarter, mainly due to the seasonal decline in December.
- Difficult weather conditions had an effect on Metsä Forest's fourth quarter result.
- Metsä Group announced its intention to build a visitor centre at the Äänekoski mill site.

- Metsäverkko, an online service for Metsä Group's owner-members, was recognised by an innovation award from European agricultural cooperatives.
- The President of Finland, Sauli Niinistö, inaugurated the Äänekoski bioproduct mill on 18 October 2017.
- Metsä Group's future President and CEO, Ilkka Hämmälä, was elected Chairman of the Finnish Forest Industries Federation.

EVENTS AFTER THE PERIOD

Due to suspected information security breach, Metsä Group and Metsä Board announced preliminary information of their sales and comparable operating result and Metsä Board's earnings per share for the fourth quarter of 2017 on 9 January 2018.

The suspected information security breach has not had financial impacts.

RESULT GUIDANCE FOR JANUARY–MARCH 2018

Metsä Group's comparable operating result is in the first quarter of 2018 expected to be roughly at the same level as in the fourth quarter of 2017.

THE BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

Metsäliitto Cooperative's Board of Directors has decided to propose that, due to the good result in 2017, 7.0 (6.0 per cent in 2016) per cent interest be paid on the statutory capital invested by its members for 2017, on additional members' capital A 6.5 per cent (5.5) and on additional members' capital B 2.5 per cent (2.5).

The Board of Directors has furthermore proposed that EUR 250 million of retained earnings be transferred to the reserve for invested unrestricted equity.

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

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.

President and CEO Kari Jordan:

"Metsä Group' profitability in 2017 was good. Our result compared to the previous year improved particularly due to an increase in the price of pulp and positive development in the paperboard business. Our growth phase achieved many important milestones in 2017.

The world's first next-generation bioproduct mill started up at Äänekoski, Finland, in August 2017. We followed the schedule and budget exactly. The mill's start-up phase has progressed even better than we expected.

Last summer, we laid the foundation stone of the plywood mill in Estonia, set to be completed in the summer of 2018, and started up a new Kerto® LVL line at Lohja and an extrusion coating line at Husum paperboard mill. Converting the old paper machine hall at Äänekoski into a birch veneer mill and the renewal of the baking paper machine at the Düren mill proceeded well. Late last year, we also made the decision to increase Kerto® LVL production at the Punkaharju mill. The new line at Punkaharju will start up during the first half of 2019.

The volume of wood purchased has grown according to our plans. In 2017, we delivered approximately 32 million cubic metres of wood. We set another record in

forest owners' customer satisfaction and made plenty of new forest asset management agreements. In 2017, more than a quarter of wood trade and an even higher proportion of orders for forest management were made through digital channels. The value of the wood trade conducted in Metsä Group's digital Metsäverkko service over a period of roughly two years totals more than EUR 200 million.

The responsibility for Metsä Group's profit transferred to Ilkka Härmälä at the beginning of 2018. I will retire in April 2018, when Härmälä will take over as the President and CEO of Metsä Group. I began my work in Metsä Group in 2005. The transformation we began at the time translated into exiting printing and writing paper fully and, over the past five years or so, increasing investments in selected business operations. The transformation process has been significant, even on a global scale, and has resulted in a clear improvement in profitability and a strong balance sheet.

Thanks to our growth investments, annual demand for Finnish wood has increased by roughly six million cubic metres.

The current outlook for the global economy is good. Finland's economy has also picked up. The forest industry's role as the backbone of the Finnish economy remains strong."

KEY FIGURES

	2017	2016	2017	2016
Condensed income statement, EUR million	1–12	1–12	10–12	10–12
Sales	5 040.0	4 657.9	1 328.2	1 175.2
Other operating income	60.3	70.5	16.9	18.2
Operating expenses	-4 269.7	-4 041.8	-1 090.5	-1 030.2
Depreciation and impairment losses	-249.7	-244.3	-70.4	-53.5
Operating result	581.0	442.3	184.3	109.7
Share of results from associated companies and joint ventures	17.1	-1.1	1.2	0.3
Exchange gains and losses	-3.3	-5.7	-0.0	-6.5
Other net financial items	-88.5	-74.9	-24.4	-18.4
Result before income tax	506.2	360.6	161.0	85.1
Income tax	-102.3	-80.7	-36.5	-16.9
Result for the period	403.9	279.9	124.5	68.2

	2017	2016	2017	2016
Profitability	1–12	1–12	10–12	10–12
Operating result, EUR million	581.0	442.3	184.3	109.7
Comparable operating result	566.1	438.6	184.9	106.5
% of sales	11.2	9.4	13.9	9.1
Return on capital employed, %	12.6	10.2	14.9	10.1
Comparable return on capital employed	12.3	10.2	14.9	9.8
Return on equity, %	14.5	11.2	17.2	10.7
Comparable return on equity	14.0	11.0	17.3	10.2

	2017	2016	2017	2016
Financial position	31.12.	31.12.	30.9.	30.9.
Equity ratio, %	45.0	43.9	43.4	44.0
Net gearing ratio, %	34	40	41	40
Interest-bearing net liabilities, EUR million	993	1 033	1 165	991

SEGMENTS

Sales and Operating result 1–12/2017, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp and Sawn Timber Industry	Paperboard Industry	Tissue and Cooking Papers
Sales	1 634.4	459.9	1 875.7	1 848.6	1 013.6
Other operating income	3.8	6.8	22.6	29.3	3.8
Operating expenses	-1 609.9	-419.4	-1 492.2	-1 579.1	-905.4
Depreciation and impairment losses	-4.1	-12.0	-86.5	-91.6	-38.5
Operating result	24.3	35.3	319.5	207.1	73.5
Items affecting comparability	-	-1.8	0.1	-13.6	0.5
Comparable operating result	24.3	33.5	319.7	193.5	73.9
% of sales	1.5	7.3	17.0	10.5	7.3

THIS FINANCIAL STATEMENTS BULLETIN IS UNAUDITED**FINANCIAL STATEMENTS 2017****SALES AND RESULT**

Metsä Group's sales in 2017 totalled EUR 5,040.0 million (2016: 4,657.9). Sales grew by 8 per cent from 2016. The growth was mainly due to higher delivery volumes and the higher sales price of pulp.

The comparable operating result grew by 29 per cent from the previous year and was EUR 566.1 million (438.6), or 11.2 per cent (9.4) of sales. The operating result improved compared to the corresponding period in the previous year due to the positive development in the pulp and paperboard operations. Higher sales volumes improved the operating result in tissue and cooking papers. Exchange rate fluctuations including hedges had a positive effect of approximately EUR 15 million on the operating result for the financial period.

Sales in the fourth quarter of 2017 totalled EUR 1,328.2 million, whereas sales for the corresponding period last year were EUR 1,175.2 million. The comparable operating result was EUR 184.9 million (10–12/2016: 106.5). In December, both Metsä Group and Metsä Board raised their result guidance for the fourth quarter due to the stronger-than-expected pulp market.

Items affecting the comparability of the operating result in 2017 amounted to EUR +14.8 million (+3.7). The largest 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 Kyro's terminated paper machine, and the divestment of Metsä Wood's project business.

Metsä Group's operating result (IFRS) was EUR 581.0 million (442.3). The share in the results of associated companies and joint ventures was EUR 17.1 million (-1.1), financial income was EUR 3.9 million (4.2), exchange rate differences in financing were EUR -3.3 million (-5.7), and financial expenses totalled EUR 92.4 million (79.1). The financial expenses in 2017 include EUR 11.2 million in costs related to the early repurchase of Metsä Board's bond maturing in 2019.

The result before taxes was EUR 506.2 million (360.6), and taxes including changes in deferred tax liabilities totalled EUR 102.3 million (80.7). The Group's effective tax rate was 20.2 per cent (22.4). The net result for the financial period was EUR 403.9 million (279.9).

The return on capital employed was 12.6 per cent (10.2), and the return on equity was 14.5 per cent (11.2).

The comparable return on capital employed was 12.3 per cent (10.2), and the comparable return on equity was 14.0 per cent (11.0). The comparable return on capital employed excluding investments related to the bioproduct mill was 15.3 per cent (11.6).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity is good. Total liquidity at the end of December was EUR 1,928.3 million (31 December 2016: 1,801.4). This consisted of EUR 1,072.4 million (895.1) in liquid assets and investments, and EUR 855.9 million (906.3) in off-balance sheet committed credit facility agreements. In addition, the Group has EUR 163.0 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 2016: 160.8).

The Group's equity ratio at the end of December was 45.0 per cent and net gearing was 34 per cent (31 December 2016: 43.9 and 40, respectively). Interest-bearing net liabilities were EUR 992.6 million (31 December 2016: 1,032.6).

Cash flow from operations was EUR 905.0 million (2016: 504.3). EUR 95.4 million was released from working capital during the year. Working capital was increased by the addition of EUR 11.4 million in trade and other receivables, as well as the addition of EUR 20.9 million in inventories. Working capital was decreased by the addition of EUR 127.7 million in trade payables and other liabilities.

At the end of the year, the equity ratio of the parent company Metsäliitto Cooperative was 76.7 per cent, and its net gearing was -14 per cent (31 December 2016: 69.6 and -7, respectively).

In 2017, Metsäliitto Cooperative's members' capital increased by a total of EUR 68.0 million (51.5). The value of participation shares grew by EUR 8.7 million (11.8) and that of additional shares A by EUR 60.1 million (26.6). The value of additional shares B declined by EUR 0.8 million (+13.1).

In September, Metsä Board issued an unsecured bond of EUR 250 million, maturing in 2027, and simultaneously repurchased a loan maturing in 2019 for a nominal value of EUR 157.7 million. Following the repurchases made in 2017, a portion with a nominal value of EUR 60.4 million remains of the original EUR 225 million loan.

In November, Metsäliitto Cooperative paid back its EUR 175 million bond.

In August, Moody's Investors Service upgraded Metsä Board's credit rating from Ba2 to Ba1. The outlook of the rating is stable.

PERSONNEL

Metsä Group employed an average of 9,399 people in 2017 (9,626). Personnel expenses totalled EUR 620.5 million (626.3). At the end of December, the number of personnel in the Group was 9,126 (9,300), of whom 4,764 (4,927) were based in Finland and 4,362 (4,373) abroad. Metsäliitto Cooperative employed 1,878 people at the end of December (1,934).

Ilkka Hämmälä started as the CEO of Metsäliitto Cooperative on 1 January 2018. He will become the President and CEO of Metsä Group on 1 April 2018.

Kari Jordan, President and CEO of Metsä Group since 2006, was responsible for the Group's result until the end of 2017 and will retire on 1 April 2018.

In August, Vesa-Pekka Takala, CFO of Metsä Group, was appointed Deputy Managing Director of Metsäliitto Cooperative. Takala has been Metsä Group's CFO since 2010 and will continue to work in this position as well.

Ismo Nousiainen became the CEO of Metsä Fibre and a member of Metsä Group's Executive Management Team on 1 January 2018.

MEMBERS

At the end of December, Metsäliitto Cooperative had 103,752 members (31 December 2016: 104,037). In 2017, 2,943 new members joined the Cooperative, and 3,228 members cancelled their membership. The total forest area owned by the members increased slightly in 2017.

INVESTMENTS AND DIVESTMENTS

Metsä Group's capital expenditure in January–December totalled EUR 607.7 million (757.9). Approximately EUR 407 million of the investments related to the bioproduct mill at Äänekoski. In November 2017, Metsä Group announced its intention to build a visitor centre at the mill site, set to be completed in the summer of 2018.

At the end of January, Metsä Wood sold its project business located in Pälkäne, Finland, to Lapwall Oy.

In February 2017, Metsäliitto Cooperative acquired a 9 per cent share in Metsä Tissue Corporation from Jozef Antošík. As a result of the arrangement, the entire share capital of Metsä Tissue Corporation is now held by Metsäliitto Cooperative.

In May, Metsä Forest divested its share in its Russian joint venture ZAO HK Vologodskie Lesopromyshlennik.

In June, Metsä Forest acquired the wood supply business of Metsäkolmio Oy and Harvestia Oy's wood supply business in south-east Finland.

In June, Metsä Tissue announced the modernisation of the baking paper machine at the Düren mill in Germany. The value of the investment is approximately EUR 15 million.

Äänekoski bioproduct mill

In April 2015, Metsä Fibre announced plans to build a bioproduct mill costing approximately EUR 1.2 billion at Äänekoski. The mill project was completed according to the set schedule and budget. The total investment in the project in 2015–2017 was EUR 1,137 million. The project's degree of Finnish content is more than 70 per cent.

The mill started up on 15 August 2017, and the President of Finland, Sauli Niinistö, inaugurated the mill on 18 October 2017.

The mill's start-up phase has proceeded well, and the production volumes have remained above the planned start-up curve. The next-generation bioproduct mill will increase annual pulp production at Äänekoski to 1.3 million tonnes from the previous level of approximately 0.5 million tonnes. Once the bioproduct mill reaches its nominal capacity – which is expected to occur in mid-2018 – Metsä Fibre will be the world's biggest producer of softwood market pulp.

Metsä Wood's investment programme

In June 2016, Metsä Wood announced the launch of a EUR 100 million investment programme in plywood and Kerto® LVL operations.

The programme has proceeded according to plan. The annual production capacity of Lohja's Kerto® LVL mill increased by approximately 20,000 cubic metres as the two oldest production lines were replaced with a new one. The new Kerto line started up in August 2017.

At Äänekoski, the work of converting the old paper machine hall into a birch veneer peeling and drying line is progressing according to plan. The mill's output will be processed at the plywood mill under construction in Estonia.

The construction of Metsä Wood's birch plywood mill in Pärnu, Estonia, began in the spring of 2017. The Pärnu mill will start production 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. The expansion of the mill hall began in January 2018, and the new line will start up during the first half of 2019.

BUSINESS AREAS

Wood Supply and Forest Services

The sales of Wood Supply and Forest Services, i.e. Metsä Forest, in 2017 totalled EUR 1,634.4 million (2016: 1,534.4) and the operating result was EUR 24.3 million (30.9).

Sales for the fourth quarter of the year amounted to EUR 428.6 million (10–12/2016: 399.2) and the operating result was EUR 5.4 million (8.9). Difficult weather conditions had an effect on the fourth quarter results.

In Finland, the supply of wood was steady, and stumpage prices remained stable. In 2017, the forest industry purchased some 3 million cubic metres more wood than in the previous year.

The supply of wood and the winter harvesting conditions were good throughout the Baltic Sea region at the beginning of 2017. The harvesting conditions turned challenging towards the end of the year, making winter felling sites difficult to reach. The market situation became tougher across the entire area in nearly all grades of wood during the year. The oversupply in energy wood evened out during the second half of the year, compared to the first half. During the last quarter of the year, the delivery situation of all grades of wood was challenging, and interruptions were not altogether avoided.

Metsä Forest bought all grades of wood through both standing and delivery sales. The purchase volumes were at a clearly higher level than last year.

The sale of forest management services grew by about a fifth in comparison to the previous year. The growth was particularly strong in forest fertilising.

In Finland, wood was harvested in line with the targets. Wood deliveries to customers demanded a great deal of special arrangements to secure the operations of production units. In 2017, Metsä Forest delivered a total of approximately 32.0 million cubic metres (30.5) of wood to its customers. Approximately 83 per cent of this amount went to Finnish industry.

A total of 25 per cent of the wood acquired by Metsä Forest from private forest owners was purchased through digital means. In the sale of forest management services, the figure was 35 per cent.

Wood Products Industry

In 2017, the sales of the Wood Products Industry, i.e. Metsä Wood, totalled EUR 459.9 million (2016: 481.6). The decline in the sales from the comparison period is the result of the divestment of the glulam and project businesses. The comparable operating result in 2017 was EUR 33.5 million (38.7).

Metsä Wood's profitability declined from the previous year, mainly due to the UK business. Profitability weakened clearly as a result of unfavourable exchange rate development and the uncertainty in the markets. The euro-denominated sales of the UK business decreased by 9 per cent from the previous year.

In 2017, the sales of engineered wood products increased by 5 percent from the previous year, particularly due to the higher delivery volumes of birch and spruce plywood.

Demand for Kerto® LVL remained strong throughout the year, and deliveries grew markedly from the comparison period, particularly in Australia. The delivery volumes of Kerto® LVL products decreased slightly, because the Lohja investment limited capacity temporarily.

Metsä Wood's sales in the fourth quarter were EUR 108.3 million (10–12/2016: 115.3), and the comparable operating result was EUR 6.9 million (10–12/2016: 8.3).

Pulp and Sawn Timber Industry

In 2017, the sales of the Pulp and Sawn Timber Industry, i.e. Metsä Fibre, totalled EUR 1,875.7 million (2016: 1,636.0), and the comparable operating result was EUR 319.7 million (214.6).

Metsä Fibre's sales and operating result grew compared to the previous year, due to growth in pulp deliveries and a rise in the dollar-denominated sales prices of pulp. The price increases were influenced by various technical problems among pulp producers and the import restrictions imposed on recycled fibre in China, for example.

The USD-denominated market prices of softwood pulp during 2017 rose by 10 per cent and those of hardwood pulp by 18 per cent compared to the average prices of the previous year.

Total demand for spruce and pine sawn timber was also good last year, and prices developed positively.

Metsä Fibre's sales in the fourth quarter were EUR 551.9 million (10–12/2016: 416.0) and the operating result was EUR 125.9 million (53.7).

Deliveries of pulp amounted to 2,414,000 tonnes (2,274,000). Of the deliveries, 789,000 tonnes were to shareholders and 1,625,000 tonnes to market customers. Metsä Fibre's annual pulp production was 2,487,400 tonnes (2,317,400).

Metsä Fibre's use of wood totalled 16.7 million cubic metres (13.1), of which softwood accounted for 13.8 million cubic metres (10.8) and hardwood for 2.9 million cubic metres (2.3).

Paperboard Industry

In 2017, the sales of the Paperboard Industry, i.e. Metsä Board, totalled EUR 1,848.6 million (2016: 1,720.3), and the comparable operating result was EUR 193.5 million (137.5).

Sales and the comparable operating result improved due to the increased delivery volumes of paperboards and market pulp, and the discontinuation of paper operations. The result also improved due to the strong pulp market and the successful start-up of the new bioproduct mill of Metsä Board's associated company Metsä Fibre in the second half of the year. The positive momentum in the linerboard market globally increased the price of white kraftliners in local currencies. Exchange rate fluctuations including hedges had a positive effect of approximately EUR 13 million on the operating result for the financial period.

Deliveries of Metsä Board's folding boxboard and white kraftliners in the financial period increased by 16 per cent and 14 per cent, respectively, compared to the previous year.

Metsä Board's sales in the fourth quarter were EUR 451.3 million (10-12/2016: 421.8) and the operating result was EUR 54.4 million (32.8). The comparable operating result for October–December improved due to increased paperboard deliveries and strong pulp market.

Metsä Board's comparable return on capital employed in 2017 was 11.2 per cent (8.1). Earnings per share were EUR 0.42 (0.25), and comparable earnings per share were EUR 0.39 (0.26).

The company's equity ratio at the end of December was 52.6 per cent and its net gearing was 31 per cent (31 December 2016: 48.2 and 44, respectively).

Metsä Board's financial statements were published on 8 February 2018.

Tissue and Cooking papers

In 2017, the sales of Tissue and Cooking Papers, i.e. Metsä Tissue, totalled EUR 1,013.6 million (2016: 990.8). The comparable operating result was EUR 73.9 million (63.1). The growth in sales and the operating result was primarily due to higher sales volumes.

Metsä Tissue's sales in the fourth quarter were EUR 260.5 million (10–12/2016: 249.2), and the comparable operating result was EUR 23.3 million (20.6).

In March, Metsä Tissue launched an investment project to renew the deinking plant at the Mänttä mill in Finland. The investment will increase production efficiency and prolong the pulp plant's life-cycle to a significant degree. The investment also enables the utilisation of deinking sludge briquettes as fuel in energy production. The value of the investment is approximately EUR 5 million, and the renewal work will be carried out in phases over a period of three years.

During the second quarter, the company launched an investment project to renew the baking paper machine at the Düren mill in Germany. The value of the investment is approximately EUR 15 million, and it will increase production capacity by 10,000 tonnes. The additional volume will enter the market during the final quarter of 2018.

In the third quarter, Metsä Tissue decided to build a new converting line for away-from-home products in Germany and a new converting line for consumer products in Slovakia.

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.

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

The risks related to the Group's business have been explained more extensively in Metsä Group's Financial Statements for 2016.

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 132 million, of which approximately EUR 43 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 Helsinki District Court dismissed in its ruling issued in June 2016 the claim for damages of EUR 159.4 million made by Metsähallitus against the defendant companies jointly and ruled that Metsähallitus is responsible for reimbursing the defendant companies for their legal expenses. Metsäliitto Cooperative's share of Metsähallitus' claim for damages in the district court was EUR 49.5 million. Metsähallitus has appealed the District Court's judgment at the Court of Appeal and demanded the companies jointly to pay about EUR 125 million for damage of which approximately EUR 39 million is directed at Metsäliitto Cooperative.

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 claimants have informed the District Court on January 12, 2018 that they will not appeal the decision at the Court of Appeal.

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 not final. The appeal to the Court of Appeal must be made by February 28, 2018.

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 21 2016 Metsäliitto Cooperative's and Metsä Board's demands for damages. The ruling by the Court of Appeal is not final.

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

NEAR-TERM OUTLOOK

Wood demand will focus on felling sites to be harvested when the ground is unfrozen and, in terms of energy wood, on crown wood. Difficult weather conditions will have an effect on the wood supply in the entire Baltic Sea area. This will increase the mill prices of wood at the beginning of the year.

Demand for forest management services is expected to remain good.

The demand for wood products is expected to remain good, which is reflected in order book levels higher than last year in both Kerto® LVL products and plywood products. The UK market is marked by uncertainty due to the effects of Brexit.

Global demand for, and the global prices of, pulp have continued to rise in January 2018, and there are no signs of significant negative changes to the market situation in the near future.

Overall demand for sawn timber is expected to remain good in most markets.

Growth in the demand for high-quality consumer packaging paperboard made from fresh fibre is expected to continue in market areas important for Metsä Board.

Metsä Board's paperboard deliveries in January–March are expected to grow from the previous quarter. The market prices of folding boxboard and white kraftliners in local currencies are expected to rise as a result of the announced price increases in 2017.

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.

The weakening of the US dollar against the euro, including the impact of hedges, will have a negative effect on Metsä Group's operating result in at least the first half of the year. Production costs in 2018 are expected to rise from the previous year.

EVENTS AFTER THE PERIOD

Due to suspected information security breach, Metsä Group and Metsä Board announced preliminary information of their sales and comparable operating result and Metsä Board's earnings per share for the fourth quarter of 2017 on 9 January 2018.

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Metsä Group's comparable operating result is in the first quarter of 2018 expected to be roughly at the same level as in the fourth quarter of 2017.

THE BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

Metsäliitto Cooperative's Board of Directors has decided to propose that, due to the good result in 2017, 7.0 (6.0 per cent in 2016) per cent interest be paid on the statutory capital invested by its members for 2017, on additional members' capital A 6.5 per cent (5.5) and on additional members' capital B 2.5 per cent (2.5).

The Board of Directors has furthermore proposed that EUR 250 million of retained earnings be transferred to the reserve for invested unrestricted equity.

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

Espoo, Finland, 8 February 2018

BOARD OF DIRECTORS

For further information, please contact:

Vesa-Pekka Takala, CFO, Metsä Group, and Deputy Managing Director of Metsäliitto Cooperative,
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Juha Laine, SVP, Communications, Metsä Group, tel. +358 10 465 4541

Metsä Group will publish its financial reports in 2018 as follows:

3 May 2018: Interim report for January–March 2018

2 August 2018: Half Year Report for 2018

8 November 2018: Interim report for January–September 2018

SEGMENTS

	2017	2016	2017	2016
Wood Supply and Forest Services	1–12	1–12	10–12	10–12
Sales, EUR million	1 634.4	1 534.4	428.6	399.2
EBITDA, EUR million	28.4	34.3	6.5	9.8
Comparable EBITDA, EUR million	28.4	34.3	6.5	9.8
Operating result, EUR million	24.3	30.9	5.4	8.9
Comparable operating result, EUR million	24.3	30.9	5.4	8.9
% of sales	1.5	2.0	1.3	2.2
Comparable ROCE, %	17.6	26.1	14.7	27.0
Capital expenditure, EUR million	4.2	5.1	1.2	1.5
Personnel at end of period	848	855	848	855

	2017	2016	2017	2016
Wood Products Industry	1–12	1–12	10–12	10–12
Sales, EUR million	459.9	481.6	108.3	115.3
EBITDA, EUR million	47.3	53.6	10.0	13.2
Comparable EBITDA, EUR million	45.5	52.2	10.0	11.3
Operating result, EUR million	35.3	40.0	6.8	10.0
Comparable operating result, EUR million	33.5	38.7	6.9	8.3
% of sales	7.3	8.0	6.3	7.2
Comparable ROCE, %	17.6	17.1	13.6	15.2
Capital expenditure, EUR million	57.3	18.0	22.3	9.2
Personnel at end of period	1 428	1 521	1 428	1 521

	2017	2016	2017	2016
Pulp and Sawn Timber Industry	1–12	1–12	10–12	10–12
Sales, EUR million	1 875.7	1 636.0	551.9	416.0
EBITDA, EUR million	406.1	293.1	155.2	67.8
Comparable EBITDA, EUR million	406.2	281.8	155.2	68.2
Operating result, EUR million	319.5	220.8	125.9	53.3
Comparable operating result, EUR million	319.7	214.6	125.9	53.7
% of sales	17.0	13.1	22.8	12.9
Comparable ROCE, %	20.9	19.6	29.8	18.1
Capital expenditure, EUR million	436.2	553.4	-0.1	146.4
Personnel at end of period	1 215	1 231	1 215	1 231

	2017	2016	2017	2016
Paperboard Industry	1–12	1–12	10–12	10–12
Sales, EUR million	1 848.6	1 720.3	451.3	421.8
EBITDA, EUR million	298.7	234.6	77.8	58.9
Comparable EBITDA, EUR million	289.1	231.1	77.8	53.1
Operating result, EUR million	207.1	132.3	54.4	38.5
Comparable operating result, EUR million	193.5	137.5	54.4	32.8
% of sales	10.5	8.0	12.0	7.8
Comparable ROCE, %	11.2	8.1	12.4	7.7
Capital expenditure, EUR million	65.4	162.4	26.7	43.3
Personnel at end of period	2 351	2 466	2 351	2 466

	2017	2016	2017	2016
Tissue and Cooking Papers	1–12	1–12	10–12	10–12
Sales, EUR million	1 013.6	990.8	260.5	249.2
EBITDA, EUR million	112.0	101.0	32.3	26.8
Comparable EBITDA, EUR million	112.4	102.8	32.9	30.6
Operating result, EUR million	73.5	61.3	22.7	16.8
Comparable operating result, EUR million	73.9	63.1	23.3	20.6
% of sales	7.3	6.4	8.9	8.3
Comparable ROCE, %	11.5	9.3	14.4	12.6
Capital expenditure, EUR million	39.1	37.6	25.7	21.9
Personnel at end of period	2 795	2 741	2 795	2 741

	2017	2016	2017	2016
Other operations	1–12	1–12	10–12	10–12
Sales, EUR million	4.9	5.0	1.7	1.1
EBITDA, EUR million	-0.6	2.1	-10.0	-7.5
Comparable EBITDA, EUR million	-0.6	2.3	-10.0	-7.4
Operating result, EUR million	-3.2	0.0	-11.0	-8.1
Comparable operating result, EUR million	-3.2	0.1	-11.0	-8.0
Capital expenditure, EUR million	6.2	9.9	1.5	2.4
Personnel at end of period	490	486	490	486

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.

	2017	2016	2017	2016
Internal sales and eliminations	1–12	1–12	10–12	10–12
Sales, EUR million	-1 796.9	-1 710.0	-474.0	-427.3
EBITDA, EUR million	-61.2	-32.1	-17.2	-5.8
Comparable EBITDA, EUR million	-61.2	-30.4	-17.2	-5.8
Operating result, EUR million	-75.6	-42.9	-20.1	-9.7
Comparable operating result, EUR million	-75.6	-46.2	-20.1	-9.7

	2017	2016	2017	2016
Metsä Group	1–12	1–12	10–12	10–12
Sales, EUR million	5 040.0	4 657.9	1 328.2	1 175.2
EBITDA, EUR million	830.7	686.6	254.6	163.2
Comparable EBITDA, EUR million	819.7	674.1	255.3	159.9
Operating result, EUR million	581.0	442.3	184.3	109.7
Comparable operating result, EUR million	566.1	438.6	184.9	106.5
% of sales	11.2	9.4	13.9	9.1
Comparable ROCE, %	12.3	10.2	14.9	9.8
Capital expenditure, EUR million	607.7	757.9	77.6	217.7
Personnel at end of period	9 126	9 300	9 126	9 300

RECONCILIATION OF OPERATING RESULT AND EBITDA

EUR million	2017 1–12	2016 1–12	2017 10–12	2016 10–12
OPERATING RESULT (IFRS)	581.0	442.3	184.3	109.7
Depreciation and impairment charges	249.7	244.3	70.4	53.5
EBITDA	830.7	686.6	254.6	163.2
Items affecting comparability:				
Wood Products Industry	-1.8	-1.4	0.1	-1.8
Pulp and Sawn Timber Industry	0.1	-11.2	-	0.5
Paperboard Industry	-9.7	-3.5	0.0	-5.8
Tissue and Cooking Papers	0.5	1.7	0.5	3.7
Other operations	-	1.9	-	0.1
Total	-10.9	-12.5	0.6	-3.3
COMPARABLE EBITDA	819.7	674.1	255.3	159.9
Depreciation and impairment charges	-249.7	-244.3	-70.4	-53.5
Items affecting comparability:				
Depreciation:				
Wood Products Industry	0.1	0.1	-	0.1
Paperboard Industry	-	0.1	-	-8.5
Impairment charges and reversals:				
Pulp and Sawn Timber Industry	-	5.0	-	-
Paperboard Industry	-3.9	8.5	-	8.5
Eliminations	-	-5.0	-	-
COMPARABLE OPERATING RESULT	566.1	438.6	184.9	106.5

EUR million	2017 1–12	2016 1–12	2017 10–12	2016 10–12
OPERATING RESULT (IFRS)	581.0	442.3	184.3	109.7
Depreciation and impairment charges	249.7	244.3	70.4	53.5
EBITDA	830.7	686.6	254.6	163.2
Items affecting comparability:				
Other operating income	-13.6	-24.5	-	-6.3
Change in inventories	0.0	1.2	-	-1.2
Employee costs	-	2.5	-	-2.0
Other operating expenses	2.6	8.3	0.6	6.3
Total	-10.9	-12.5	0.6	-3.3
COMPARABLE EBITDA	819.7	674.1	255.3	159.9
Depreciation and impairment charges	-249.7	-244.3	-70.4	-53.5
Items affecting comparability:				
Depreciation	0.1	0.3	-	-8.4
Impairment charges	-3.9	8.5	-	8.5
COMPARABLE OPERATING RESULT	566.1	438.6	184.9	106.5

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

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 Kyro's terminated paper machine, and the divestment of Metsä Wood's project business.

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

QUARTERLY DATA

EUR million	2017 10–12	2017 7–9	2017 4–6	2017 1–3	2016 10–12	2016 7–9	2016 4–6	2016 1–3
Sales								
Wood Supply and Forest Services	428.6	376.4	396.7	432.6	399.2	356.2	377.8	401.2
Wood Products Industry	108.3	109.6	121.8	120.2	115.3	115.1	129.9	121.4
Pulp and Sawn Timber Industry	551.9	475.3	426.5	422.0	416.0	388.7	422.5	408.8
Paperboard Industry	451.3	478.6	474.2	444.5	421.8	440.0	422.9	435.6
Tissue and Cooking Papers	260.5	249.6	251.4	252.0	249.2	246.6	248.8	246.2
Other operations	1.7	1.0	1.1	1.1	1.1	1.2	1.1	1.6
Internal sales	-474.0	-430.2	-436.5	-456.3	-427.3	-404.5	-419.0	-459.2
Sales	1 328.2	1 260.4	1 235.2	1 216.1	1 175.2	1 143.3	1 183.9	1 155.6
Operating result								
Wood Supply and Forest Services	5.4	5.9	4.4	8.5	8.9	7.7	6.5	7.8
Wood Products Industry	6.8	6.3	8.3	14.0	10.0	9.0	13.1	7.8
Pulp and Sawn Timber Industry	125.9	68.4	70.7	54.5	53.3	58.1	48.2	61.2
Paperboard Industry	54.4	60.6	46.9	45.2	38.5	26.6	34.5	32.7
Tissue and Cooking Papers	22.7	16.9	16.3	17.6	16.8	17.8	13.2	13.5
Other operations	-11.0	2.5	0.8	4.4	-8.1	4.4	4.6	-0.9
Eliminations	-20.1	-17.2	-25.2	-13.0	-9.7	-16.2	-1.6	-15.3
Operating result	184.3	143.3	122.2	131.2	109.7	107.4	118.5	106.8
% of sales	13.9	11.4	9.9	10.8	9.3	9.4	10.0	9.2
Share of results from associated companies and joint ventures	1.2	-3.0	4.9	14.0	0.3	-0.5	-0.8	-0.1
Exchange gains and losses	-0.0	-0.7	-4.0	1.4	-6.5	1.3	0.5	-1.0
Other net financial items	-24.4	-30.9	-16.1	-17.1	-18.4	-18.7	-20.0	-17.8
Result before income tax	161.0	108.6	107.1	129.5	85.1	89.5	98.2	87.8
Income tax	-36.5	-22.0	-20.9	-22.9	-16.9	-21.7	-22.6	-19.5
Result for the period	124.5	86.6	86.1	106.7	68.2	67.8	75.7	68.3
Comparable operating result								
Wood Supply and Forest Services	5.4	5.9	4.4	8.5	8.9	7.7	6.5	7.8
Wood Products Industry	6.9	7.6	8.4	10.7	8.3	9.0	13.2	8.2
Pulp and Sawn Timber Industry	125.9	68.4	70.8	54.5	53.7	46.4	53.2	61.2
Paperboard Industry	54.4	50.4	43.5	45.2	32.8	34.0	35.8	35.0
Tissue and Cooking Papers	23.3	16.8	16.3	17.6	20.6	15.8	13.2	13.5
Other operations and eliminations	-31.0	-14.8	-24.4	-8.6	-17.7	-10.0	-2.1	-16.2
Comparable operating result	184.9	134.3	119.1	127.9	106.5	102.8	119.8	109.5
% of sales	13.9	10.7	9.6	10.5	9.1	9.0	10.1	9.5

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

New European Securities and Markets Authority (ESMA) guidelines on Alternative Performance Measures are effective for the financial year 2016. ESMA guidelines 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 the financial statements 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.

From Q3 2016 Metsä Group has relabeled the previously referenced "excluding non-recurring items" non-IFRS financial measures with "comparable" performance measures. Exceptional and material items outside the ordinary course of business have been eliminated from the comparable operating result. The change in terminology does not affect the definition of items affecting comparability and therefore no restatement of historical data is necessary.

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

None of these key figures with items affecting comparability eliminated are key figures used in IFRS reporting, and they cannot be compared with other companies' key figures identified with the same names. Typical items affecting comparability include material gains and losses on disposals of assets, impairments and impairment reversals in accordance with IAS 36 Impairment of Assets, restructuring costs and their adjustments as well as items arising from legal proceedings. 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	2017 1–12	2016 1–12	Change	2017 10–12	2016 10–12
Sales	2	5 040.0	4 657.9	382.1	1 328.2	1 175.2
Change in stocks of finished goods and work in progress		14.6	64.8	-50.2	24.4	19.4
Other operating income		60.3	70.5	-10.2	16.9	18.2
Material and services		-3 308.4	-3 132.7	-175.7	-858.1	-799.3
Employee costs		-620.5	-626.3	5.8	-160.7	-153.2
Depreciation and impairment losses		-249.7	-244.3	-5.4	-70.4	-53.5
Other operating expenses		-355.3	-347.5	-7.8	-96.0	-97.0
Operating result	2	581.0	442.3	138.6	184.3	109.7
Share of results from associated companies and joint ventures		17.1	-1.1	18.2	1.2	0.3
Exchange gains and losses		-3.3	-5.7	2.4	-0.0	-6.5
Other net financial items	2	-88.5	-74.9	-13.6	-24.4	-18.4
Result before income tax		506.2	360.6	145.6	161.0	85.1
Income tax	3	-102.3	-80.7	-21.6	-36.5	-16.9
Result for the period		403.9	279.9	124.0	124.5	68.2
Other comprehensive income						
Items that will not be reclassified to profit and loss						
Items relating to adjustments of defined benefit plans		9.4	-12.3	21.8	7.8	26.1
Income tax relating to items that will not be reclassified		-1.7	3.1	-4.8	-1.3	-5.2
Total		7.7	-9.3	17.0	6.4	20.9
Items that may be reclassified subsequently to profit and loss						
Cash flow hedges		33.0	17.2	15.9	-11.3	24.0
Available for sale financial assets	8	54.2	-26.7	80.9	31.8	7.4
Currency translation differences		-25.6	-14.0	-11.6	-10.9	10.5
Share of comprehensive income of joint venture		3.8	1.2	2.6	3.4	0.5
Other items		0.0	0.0	0.0	0.0	0.0
Income tax relating to items that may be reclassified		-17.1	0.5	-17.6	-4.1	-6.5
Total		48.4	-21.8	70.2	8.9	35.9
Other comprehensive income, net of tax		56.1	-31.1	87.2	15.3	56.8
Total comprehensive income for the period		460.0	248.9	211.1	139.8	125.1
Result for the period attributable to:						
Members of parent company		261.0	182.6	78.4	77.7	44.4
Non-controlling interests		142.9	97.3	45.6	46.8	23.8
Total		403.9	279.9	124.0	124.5	68.2
Total comprehensive income attributable to:						
Members of parent company		293.2	160.6	132.5	86.6	84.1
Non-controlling interests		166.8	88.2	78.6	53.3	40.9
Total		460.0	248.9	211.1	139.8	125.1

The notes are an integral part of the financial statements.

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2017 31.12.	2016 31.12.
ASSETS			
Non-current assets			
Goodwill		513.8	517.6
Other intangible assets		260.2	231.5
Tangible assets	4	2 867.0	2 542.5
Biological assets		3.1	3.1
Investments in associated companies and joint ventures		50.7	42.1
Available for sale investments	8	254.3	200.1
Non-current financial assets	8	28.3	21.5
Deferred tax receivables		26.4	37.9
		4 003.6	3 596.2
Current assets			
Inventories		782.3	767.2
Accounts receivables and other receivables		705.9	670.3
Tax receivables based on the taxable income for the period		21.6	14.3
Cash and cash equivalents	8	1 072.4	895.1
		2 582.2	2 346.8
Assets classified as held for sale		2.4	2.8
Total assets		6 588.2	5 945.8
MEMBERS' FUNDS AND LIABILITIES			
Members' funds			
Members' funds		2 233.8	1 941.6
Non-controlling interests		726.8	658.4
		2 960.7	2 600.0
Non-current liabilities			
Deferred tax liabilities		260.9	213.4
Post-employment benefit obligations		78.8	83.9
Provisions	5	19.6	20.2
Borrowings	8	1 642.5	1 265.3
Other liabilities		17.3	28.5
		2 019.2	1 611.4
Current liabilities			
Provisions	5	2.5	5.0
Current borrowings	8	428.7	667.2
Accounts payable and other liabilities		1 164.6	1 051.3
Tax liabilities based on the taxable income for the period		11.0	9.0
		1 606.9	1 732.5
Liabilities classified as held for sale		1.5	1.9
Total liabilities		3 627.6	3 345.8
Total members' funds and liabilities		6 588.2	5 945.8

The notes are an integral part of the financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' FUNDS

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

<u>Equity attributable to members of parent company</u>							
EUR million	Members' capital	Translation differences	Fair value and other reserves	Re-tained earnings	Total	Non-control-ling 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				261.0	261.0	142.9	403.9
Other comprehensive income, net after tax		-8.6	35.1	5.7	32.2	23.9	56.1
Total comprehensive income		-8.6	35.1	266.7	293.2	166.8	460.0
Transactions with owners:							
Dividends paid				-37.7	-37.7	-70.6	-108.3
Change in members' capital	44.0		0.0	-9.5	34.5		34.5
Change in other equity					0.0		0.0
Share based payments				-0.1	-0.1	-0.0	-0.2
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	4.5	5.4
Members' funds 31.12.2017	813.4	-19.5	228.6	1 211.3	2 233.8	726.8	2 960.7

The notes are an integral part of the financial statements.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2017 1–12	2016 1–12
Result for the period	7	403.9	279.9
Total adjustments	7	405.7	350.5
Change in working capital		95.4	-126.2
Cash flow arising from operations		905.0	504.3
Net financial items		-90.2	-41.0
Income taxes paid		-65.3	-115.5
Net cash flow arising from operating activities		749.4	347.8
Acquisitions		-2.6	0.0
Investments in tangible and intangible assets		-607.7	-757.9
Omaisuuuden myynnit ja muut erät	7	30.8	67.9
Investointien nettorahavirrat		-579.5	-690.0
Change in members' funds		58.5	41.0
Change in other equity		0.0	24.9
Change in non-controlling interest		-27.7	0.0
Change in long-term loans and other financial items		99.6	169.6
Dividends paid		-122.1	-120.2
Net cash flow arising from financing activities		8.3	115.4
Rahavarojen muutos		178.2	-226.8
Cash and cash equivalents at beginning of period		895.1	1 120.8
Translation difference		-0.9	1.1
Change in cash and cash equivalents		178.2	-226.8
Cash and cash equivalents of assets classified as held for sale		0.0	0.0
Cash and cash equivalents at end of period		1 072.4	895.1

The notes are an integral part of the financial statements.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

NOTE 1 – BACKGROUND AND ACCOUNTING POLICIES

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

This unaudited financial statements bulletin has been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the 2016 IFRS financial statements. The same accounting policies have been applied as in the 2016 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 2017 Metsä Group has adopted the following new and amended standards and interpretations:

- Amendments to IAS 7 *Statement of Cash Flows – Disclosure Initiative*. The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have an impact on the disclosures in consolidated financial statements.
- Amendments to IAS 12 *Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses*. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have no significant impact on Group’s consolidated financial statements.
- *Annual Improvements to IFRSs, 2014–2016 cycle*. The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The cycle contains amendments to one standard in 2017. The standard has no significant impact on Group’s consolidated financial statements.

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

This financial statements bulletin was authorised for issue by the Board of Directors of Metsäliitto Cooperative on 8 February 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	1–12/2017	1–12/2017	1–12/2017	1–12/2016	1–12/2016	1–12/2016
	External	Internal	Total	External	Internal	Total
Wood Supply and Forest Services	434.6	1 199.8	1 634.4	407.3	1 127.1	1 534.4
Wood Products Industry	436.3	23.6	459.9	460.8	20.7	481.6
Pulp and Sawn Timber Industry	1 375.1	500.5	1 875.7	1 148.5	487.4	1 636.0
Paperboard Industry	1 781.4	67.1	1 848.6	1 651.7	68.6	1 720.3
Tissue and Cooking Papers	1 012.5	1.1	1 013.6	989.5	1.3	990.8
Other operations	0.1	4.8	4.9	0.1	4.9	5.0
Elimination of internal sales		-1 796.9	-1 796.9	-	-1 710.0	-1 710.0
Total sales	5 040.0	0.0	5 040.0	4 657.9	0.0	4 657.9

OPERATING RESULT BY SEGMENTS

EUR million	2017	2016
	1–12	1–12
Wood Supply and Forest Services	24.3	30.9
Wood Products Industry	35.3	40.0
Pulp and Sawn Timber Industry	319.5	220.8
Paperboard Industry	207.1	132.3
Tissue and Cooking Papers	73.5	61.3
Other operations	-3.2	0.0
Eliminations	-75.6	-42.9
Operating result total	581.0	442.3
Share of results from associated companies and joint ventures	17.1	-1.1
Financial costs, net	-91.8	-80.6
Income taxes	-102.3	-80.7
Result for the period	403.9	279.9

ASSETS AND LIABILITIES BY SEGMENTS

Assets EUR million	2017	2016
	31.12.	31.12.
Wood Supply and Forest Services	268.4	274.4
Wood Products Industry	247.1	191.5
Pulp and Sawn Timber Industry	1 970.0	1 556.8
Paperboard Industry	2 002.3	1 959.8
Tissue and Cooking Papers	887.6	866.3
Other operations	161.1	225.1
Assets classified as held for sale	2.4	2.8
Eliminations	-199.4	-227.8
Unallocated assets	1 248.6	1 096.8
Total	6 588.2	5 945.8

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	2017	2016
EUR million	31.12.	31.12.
Wood Supply and Forest Services	209.0	207.0
Wood Products Industry	65.9	74.8
Pulp and Sawn Timber Industry	427.6	360.6
Paperboard Industry	381.6	365.4
Tissue and Cooking Papers	302.4	289.8
Other operations	82.4	103.9
Liabilities classified as held for sale	1.5	1.9
Eliminations	-199.4	-227.8
Unallocated liabilities	2 356.6	2 170.2
Total	3 627.6	3 345.8

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

NOTE 3 – INCOME TAX

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

EUR million	2017	2016
	1–12	1–12
Taxes for the period	58.1	83.3
Taxes for previous periods	1.5	0.0
Change in deferred taxes	42.7	-2.6
Total income taxes	102.3	80.7

NOTE 4 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2017	2016
	1–12	1–12
Book value at beginning of period	2 542.5	2 059.0
Investments	576.6	747.9
Decreases	-14.8	-17.3
Assets classified as held for sale	-2.0	-4.8
Depreciation and impairment losses	-228.2	-226.5
Translation differences and other changes	-7.2	-15.9
Book value at end of period	2 867.0	2 542.5

Assets classified as held for sale in 2017 include unsold apartments and parking places of Asunto Oy Tapiolan Tammi. Depreciation and impairment losses include an impairment reversal of EUR 3.9 million due to the sale of Metsä Board's discontinued Kyro paper machine.

NOTE 5 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 January 2017	3.4	16.2	5.6	25.2
Translation differences	-0.0	0.0	-0.1	-0.1
Increases	0.0	0.4	1.0	1.4
Utilised during the year	-2.0	-0.4	-1.6	-4.0
Unused amounts reversed	-0.1	-0.3	-0.0	-0.4
At 31 December 2017	1.3	15.9	4.9	22.2

Of the Metsä Group's total provisions of EUR 22.2 million, the non-current portion was EUR 19.6 million and the current portion EUR 2.5 million. Most of the non-current portion will be paid by the end of 2025.

NOTE 6 – TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2017 1–12	2016 1–12
Sales	9.4	9.8
Purchases	88.0	86.5
Non-current receivables	0.9	1.0
Current receivables	3.4	3.3
Non-current liabilities	0.0	0.0
Current liabilities	6.5	6.0

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

EUR million	2017 1–12	2016 1–12
Taxes	102.3	80.7
Depreciation and impairment charges	249.7	244.3
Biological assets	-0.0	-1.7
Share of results from associated companies	-17.1	1.1
Gains and losses on sale of non-current financial assets	-18.4	-34.1
Financial costs, net	91.8	80.6
Pension liabilities and provisions	-2.6	-20.4
Total	405.7	350.5

Disposals and other items

Disposals and other items in 2017 include EUR 4.9 million for the divestment of Metsä Wood's project business, a total of EUR 7.7 million related to sales of apartments and parking places of Asunto Oy Tapiolan Jalava, Asunto Tapiolan Pyökki, Asunto Oy Tapiolan Saarni and Asunto Oy Tapiolan Tammi as well as the sale of Metsäliitto Cooperative's joint venture ZAO HK Vologodskie Lesopromyshlenniki. Disposals and other

items furthermore include sales of intangible and tangible assets of EUR 9.4 million and other items of EUR -1.6 million. Most significant were the sale of Metsä Board's discontinued Kyro paper machine for EUR 3.9 million, the sale of Metsä Fibre's old machinery and equipment in Äänekoski for EUR 2.4 million and the sales of Metsä Board's electricity certificates for EUR 1.3 million.

NOTE 8 – FINANCIAL INSTRUMENTS

Classification of financial assets and liabilities and fair values.

Financial assets 31 December, 2017

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Available for sale investments		254.3				254.3	254.3
Other non-current financial assets			22.5			22.5	22.5
Account receivables and others			682.2			682.2	682.2
Cash and cash equivalents	131.6		940.9			1 072.4	1 072.4
Derivative financial instruments	4.2			20.6		24.8	24.8
Assets classified as held for sale							
Total	135.8	254.3	1 645.6	20.6	0.0	2 056.2	2 056.2

Financial liabilities 31 December, 2017

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Non-current interest-bearing liabilities					1 642.5	1 642.5	1 658.3
Other non-current liabilities					0.6	0.6	0.6
Current interest-bearing liabilities					428.7	428.7	431.3
Accounts payable and others					1 050.8	1 050.8	1 050.8
Derivative financial instruments	0.3			14.8		15.2	15.2
Liabilities classified as held for sale					1.5	1.5	1.5
Total	0.3	0.0	0.0	14.8	3 124.2	3 139.3	3 157.7

Financial assets 31 December, 2016

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

Financial liabilities 31 December, 2016

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

Fair value hierarchy of financial assets and liabilities 31 December, 2017

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-current financial assets through profit and loss at fair value				
Available for sale financial assets	0.0		254.3	254.3
Current financial assets through profit and loss at fair value	131.6			131.6
Derivative financial assets	9.5	15.3		24.8
Financial liabilities measured at fair value				
Derivative financial liabilities	0.0	15.1		15.2
Financial assets not measured at fair value				
Financial assets		940.9		940.9
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities			1 658.3	1 658.3
Current interest-bearing liabilities			431.3	431.3

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

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

Financial assets measured at fair value based on level 3

EUR million	2017	2016
Opening balance 1 January	200.1	227.0
Gains and losses in income statement	-0.2	0.1
Gains and losses in other comprehensive income	54.2	-26.6
Purchases	0.2	0.0
Settlements	-0.1	-0.3
Closing balance 31 December	254.3	200.1

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

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

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

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

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

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

The most significant item at fair value not traded on an open market is the investment in Pohjolan Voima Oy shares, reported under available-for-sale financial assets. The valuation method is described in the 2016 Financial Statements. The average weighed capital cost applied in the calculation was 2.34 per cent on 31 December 2017 and for the Olkiluoto 3 power plant under construction 4.34 per cent. The acquisition cost of the Pohjolan Voima Oy shares is EUR 43.1 million and their fair value is EUR 246.7 million.

The carrying amount of Pohjolan Voima Oy as of 31 December 2017 is estimated to change by EUR 3.4 million lower should the rate used for discounting the cash flows change by 10 per cent from the rate estimated by the management. The carrying amount of the shares is estimated to change by EUR 34.9 million should the energy prices applied in the fair value calculation differ by 10 per cent from the rate estimated by the management.

Derivatives 31 December, 2017

EUR million	Nominal value	Assets	Liabilities	Fair value total	Cash flow hedges	Hedge accounting not applied
Interest rate swaps	1 115.3		15.1	-15.1	-14.8	-0.3
Total	1 115.3	0.0	15.1	-15.1	-14.8	-0.3
Currency forwards	2 307.5	11.3	0.0	11.3	7.1	4.2
Total	2 307.5	11.3	0.0	11.3	7.1	4.2
Electricity derivatives	72.9	6.7	0.0	6.7	6.7	
Pulp derivatives	23.1	4.1		4.1	4.1	
Oil derivatives	7.5	0.8		0.8	0.8	
Commodity derivatives	8.6	1.9		1.9	1.9	
Total	112.1	13.5	0.0	13.5	13.5	0.0
Derivatives total	3 534.9	24.8	15.2	9.6	5.8	3.9

Derivatives 31 December, 2016

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

NOTE 9 – COMMITMENTS AND CONTINGENCIES

EUR million	31.12.2017	31.12.2016
Own liabilities for which commitments granted	403.2	469.0
Pledges granted	463.2	433.1
Floating charges	2.8	2.8
Real estate mortgages	269.5	368.5
Chattels mortgage	4.0	4.0
Commitments for own liabilities, total	739.4	808.5
Other commitments on own behalf	100.4	98.9
On behalf of associated companies	0.9	0.8
On behalf of others	0.0	5.0
Total	840.7	913.2

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 77.5 million (31.12.2016: 78.7).

COMMITMENTS RELATED TO INVESTMENTS

EUR million	31.12.2017	31.12.2016
Payments due under 1 year	68.7	335.3
Payments due in subsequent years	0.3	20.0
Total	69.0	355.3