

Metsä Group

Interim report Q3/2018

Ilkka Härmälä
President and CEO

8 November 2018



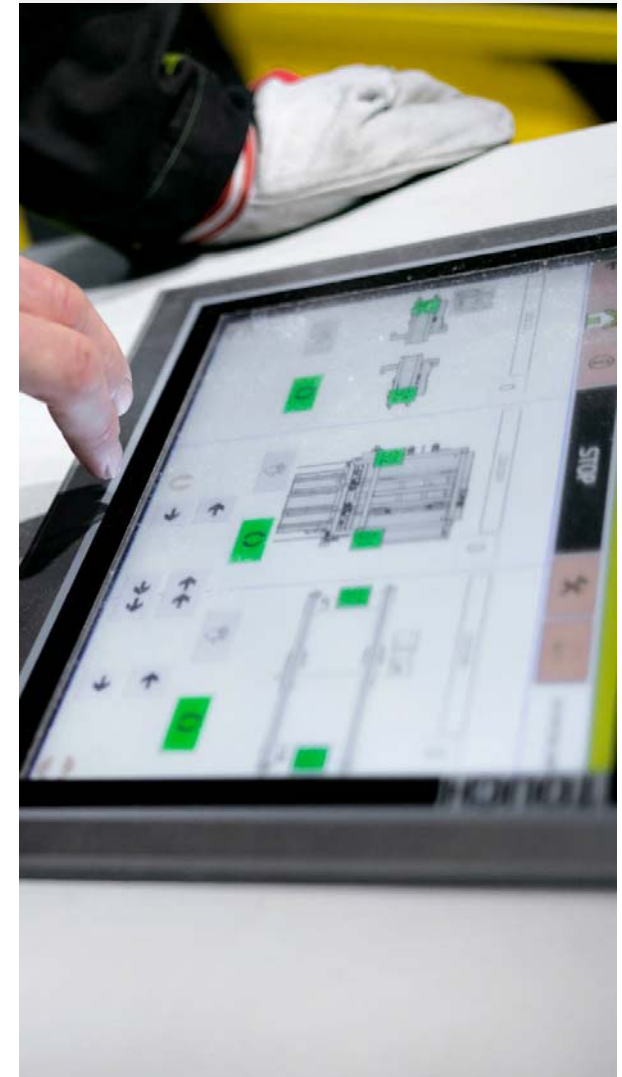
Excellent financial result

- Sales EUR 4,290 million (1–9/2017: EUR 3,712 million)
- Operating result* EUR 641 million (EUR 381 million)
- Operating result of sales* 14.9% (10.3%)
- Return on capital employed* 17.1 % (11.2%)
- Sales increased due to greater delivery volumes and higher pulp and paperboard prices
- The result improved thanks to increase in pulp prices and positive development of the paperboard business
- Exchange rate fluctuations had a negative effect of approximately EUR 120 million on the operating result compared to January–September of the previous year



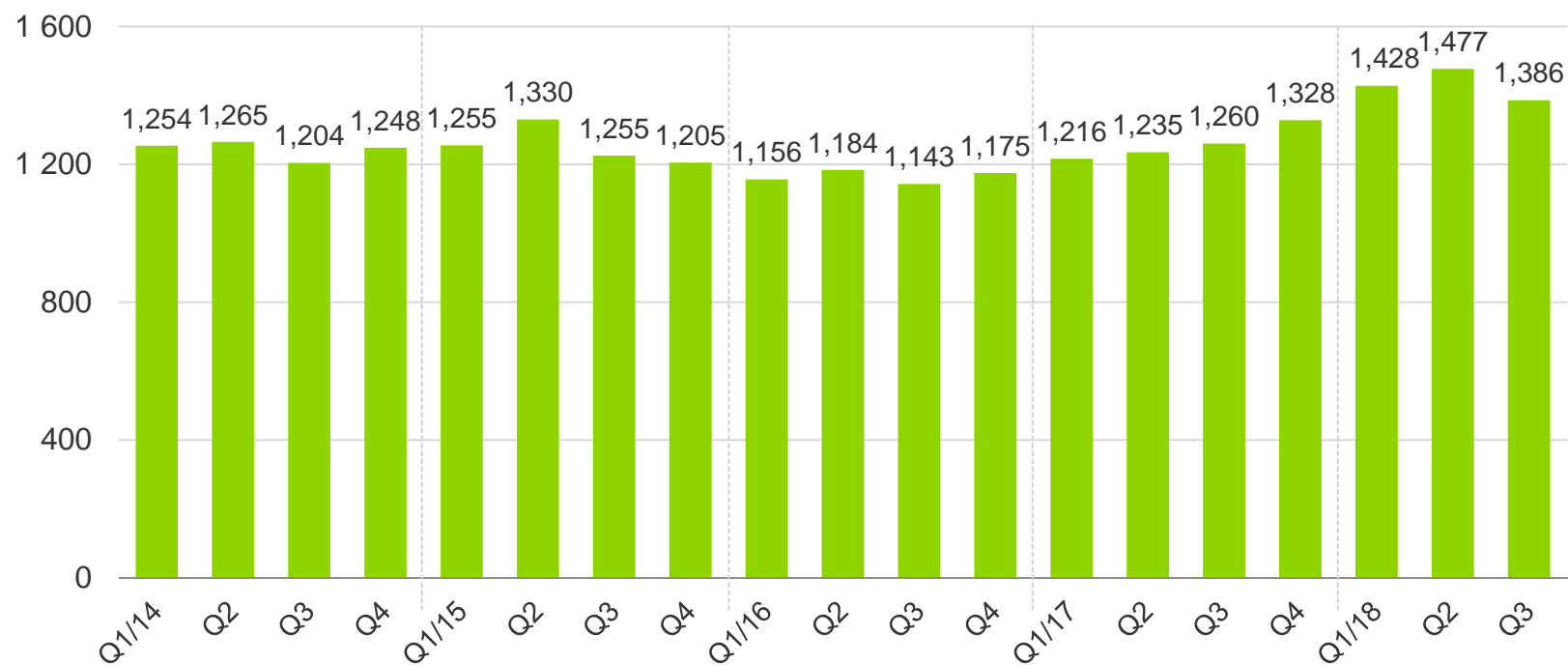
Events in the third quarter

- The market prices of long-fibre and short-fibre pulp continued to increase
- Production at Metsä Wood's birch plywood mill in Pärnu began
- Bioproduct mill reached full production capacity in August
- Metsäliitto Cooperative made an early repayment of its EUR 56 million loan to the European Investment Bank
- Investments in tissue and cooking papers progressed according to plan
- Juha Mäntylä was appointed COO of Metsäliitto Cooperative and Esa Kaikkonen CEO of Metsä Tissue Corporation
- After review period, it was decided to build a demo plant to manufacture new kind of pulp-based textile fibre at Äänekoski



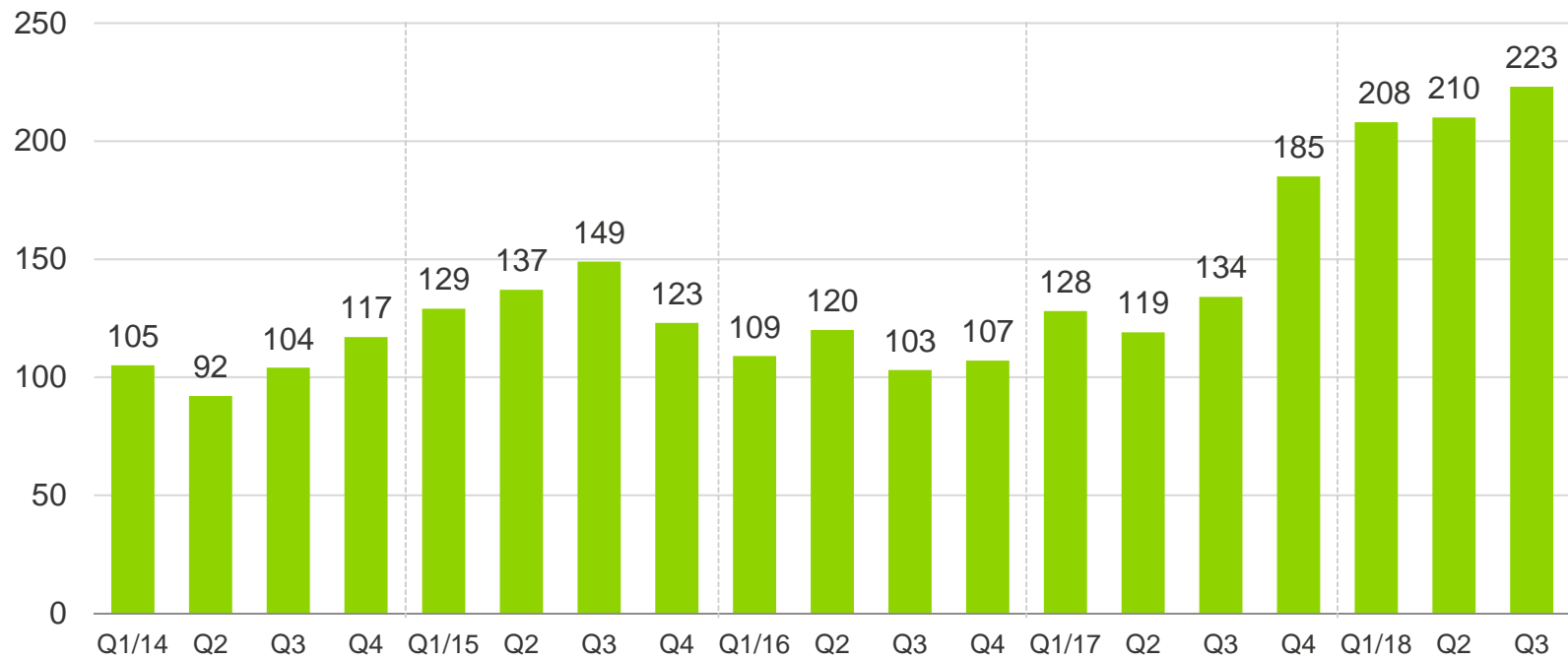
Sales quarterly

EUR million



Comparable operating result

EUR million



Change in comparable operating result

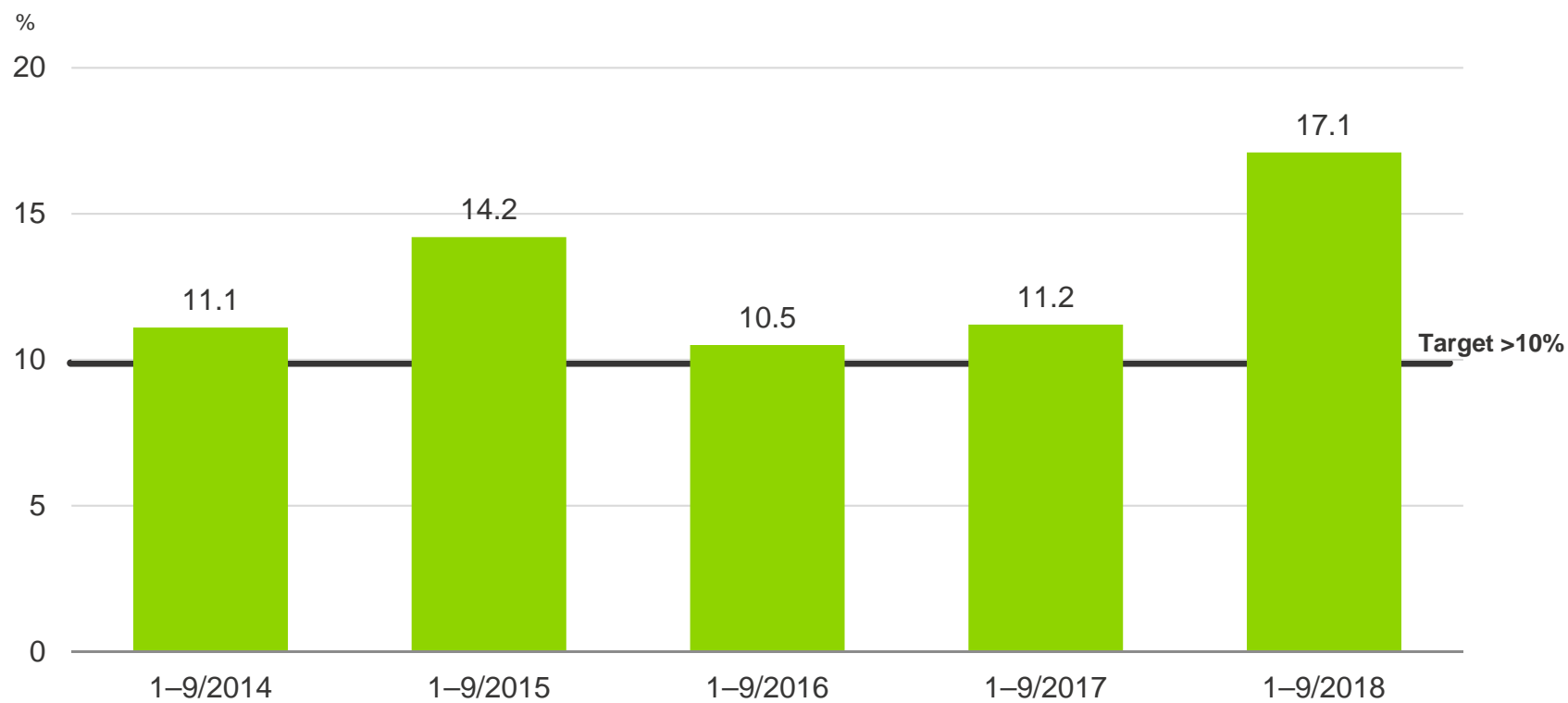
EUR million

Comparable operating result 1–9/2017	381
Sales prices	462
Sales volumes	90
Exchange rates	-121
Raw materials and energy	-111
Employee costs	-22
Maintenance and other fixed costs	-8
Depreciation	-33
Others	4
Comparable operating result 1–9/2018	641

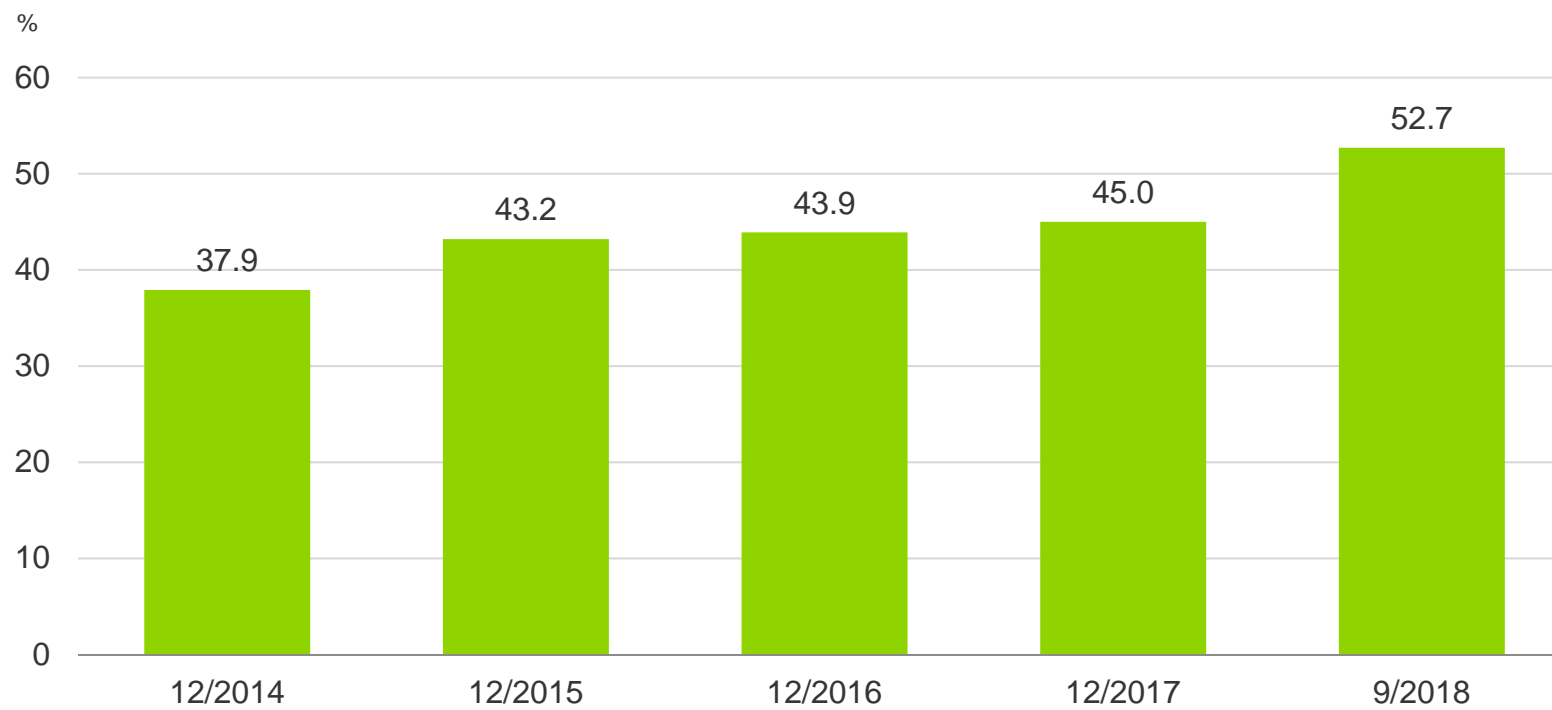
Items affecting comparability

EUR million	1–9/2018
Operating result (IFRS)	635.4
Items affecting comparability:	
Metsä Board / Efficiency improvement programme at Husum mill	-4.1
Metsä Board / Teollisuuden Voima divesting Meri-Pori coal-fired power plant	-1.7
Metsä Board / other	+0.2
Items total	-5.6
Comparable operating result	641.0

Comparable ROCE

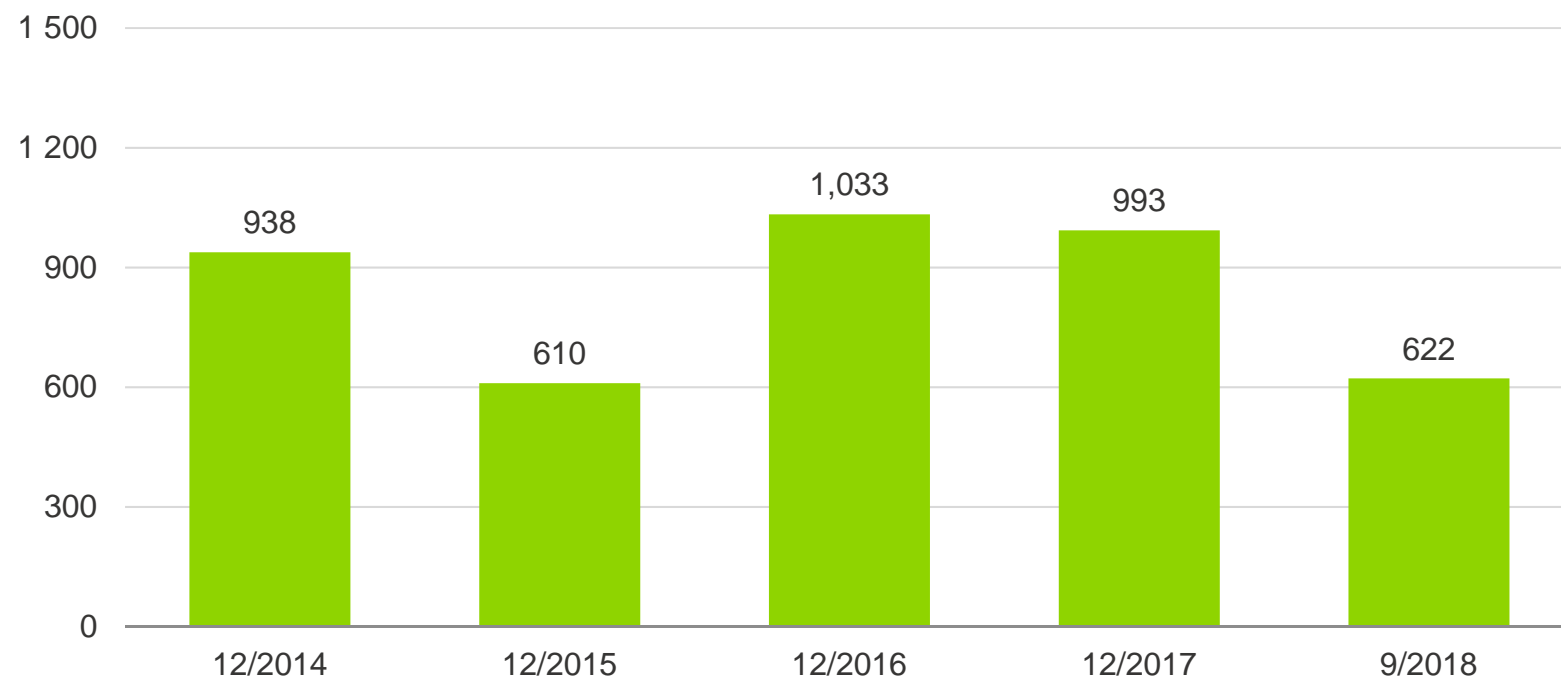


Equity ratio

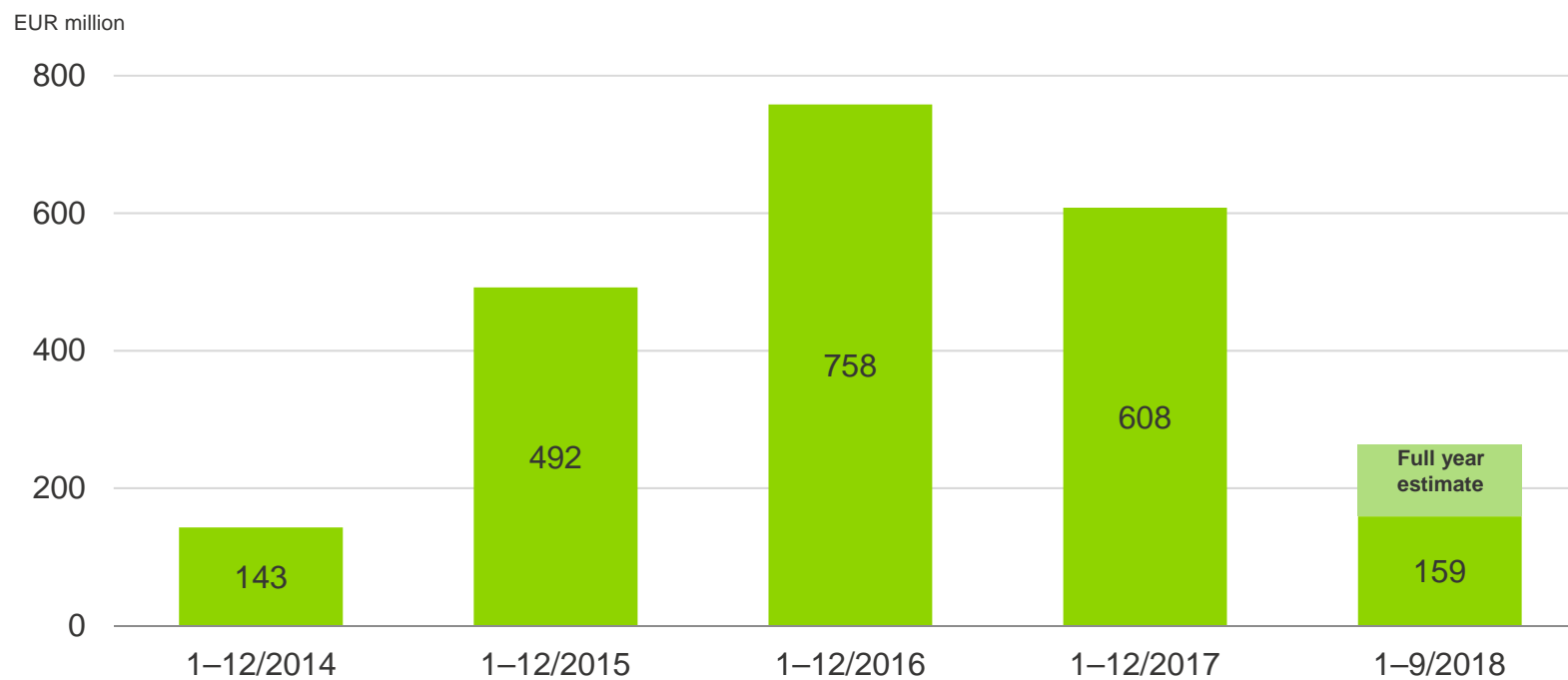


Interest-bearing net liabilities

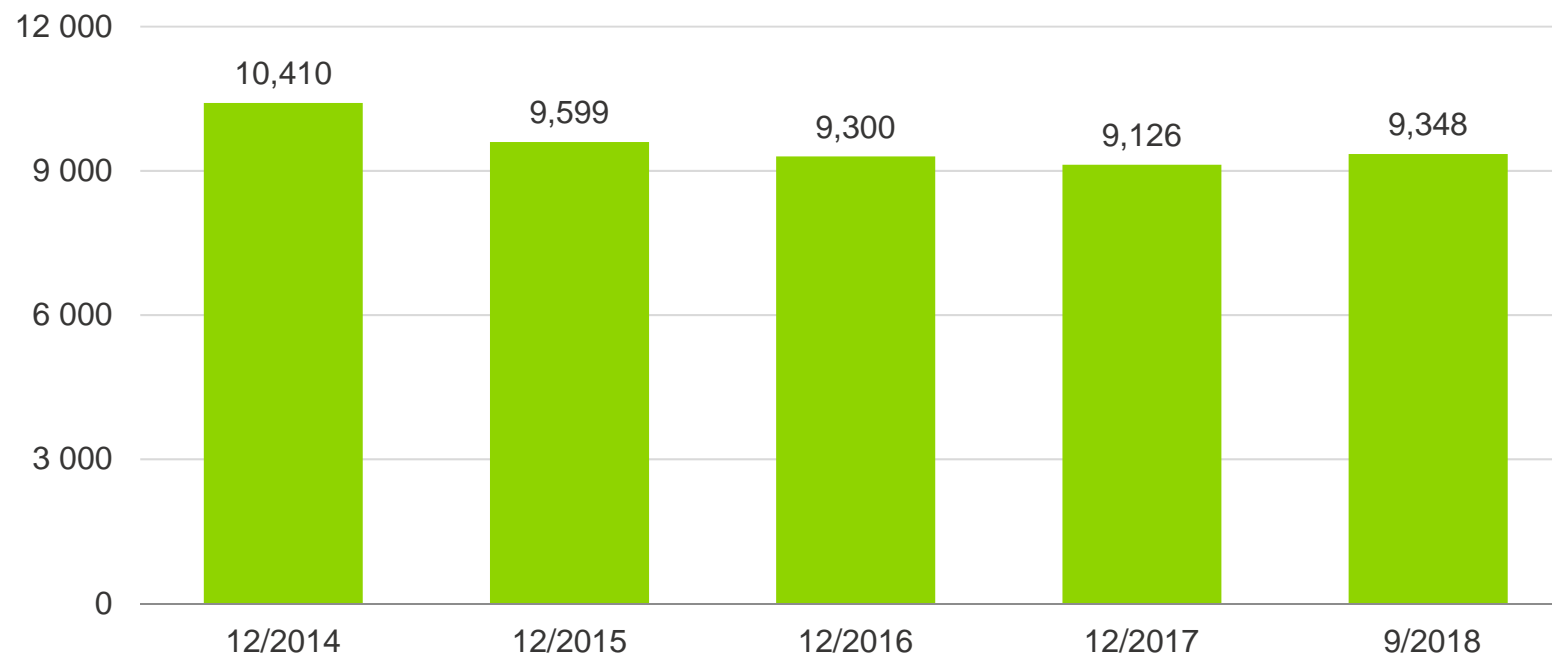
EUR million



Capital expenditure



Personnel



Wood supply in line with the targets

- Wood was harvested according to targets, and deliveries to customers were smooth
- Due to good harvesting and transport conditions, the stocks of wood were at normal levels
- Metsä Forest delivered a total of 27.2 million cubic metres (23.7) of wood
- 35% of the wood was bought digitally. In the sale of forest management services, the figure was 41%
- At the beginning of June 2018 an advance financing service for digital wood trade was introduced

Sales and comparable operating result

Milj. euroa

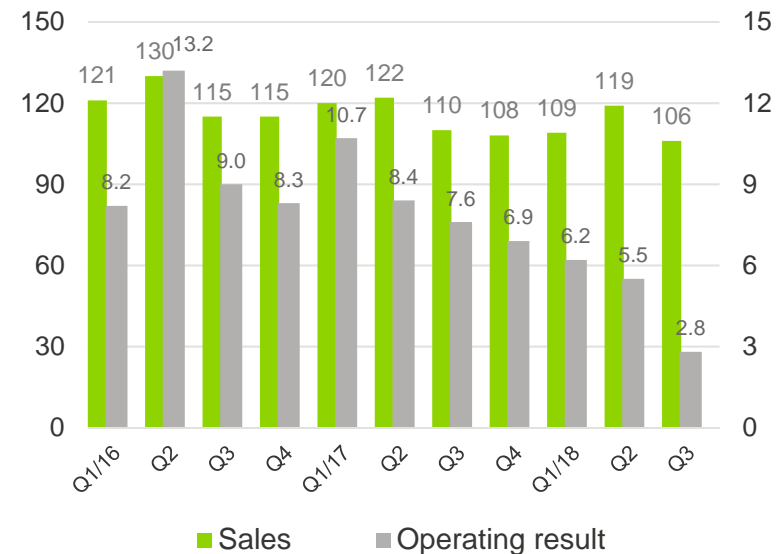


Wood products demand good except in the UK

- Sales of engineered wood products remained unchanged, but the sales of the UK business declined clearly
- Demand for engineered wood products in the main markets remained strong, in particular the order book levels of spruce plywood were higher than last year
- Cost inflation, a decline in the profitability of the UK business and the costs of new mills had a negative effect on the result. Production-related challenges were reflected in delivery volumes and result
- Production at Metsä Wood’s birch plywood mill in Pärnu began officially at the end of August

Sales and comparable operating result

EUR million

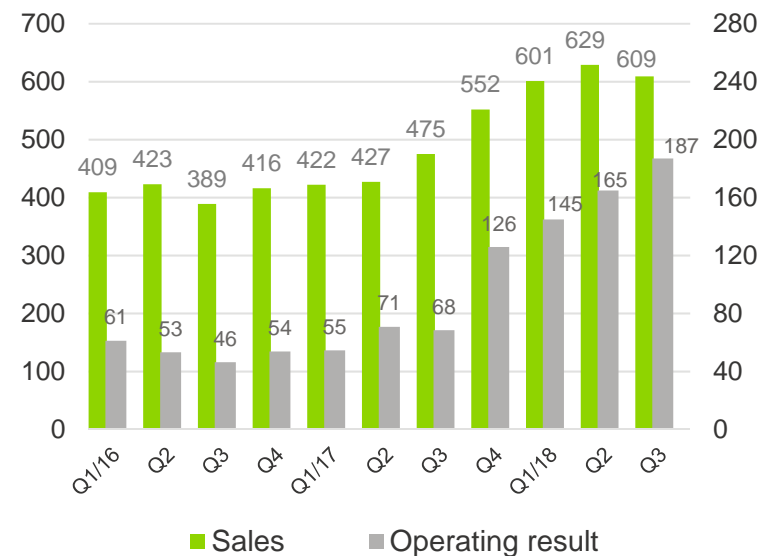


Demand for pulp remained strong and prices at a good level

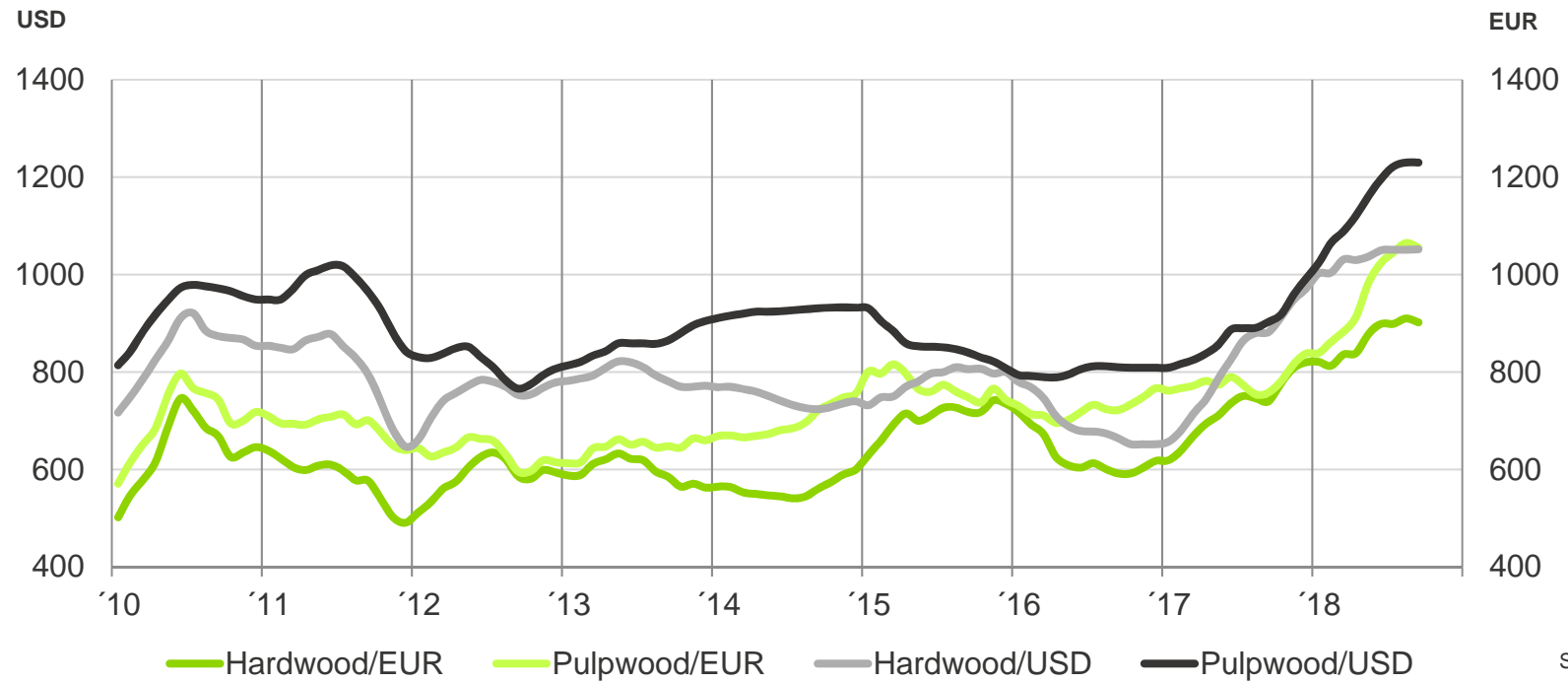
- Increase in sales prices and increased pulp delivery volumes as a result of the bioproduct mill improved sales and operating result for January–September
- Market price of long-fibre and short-fibre pulp increased by 34% and 33%, respectively, in January–September compared to corresponding period last year
- Delivery volumes of sawn timber decreased 11% and market prices increased by 11% in January–September
- Bioproduct mill in Äänekoski reached its full production capacity in August
- Prefeasibility study on renewal of Kemi pulp mill progressed as planned

Sales and comparable operating result

EUR million



Price of pulp (PIX) 2010–Q3/2018



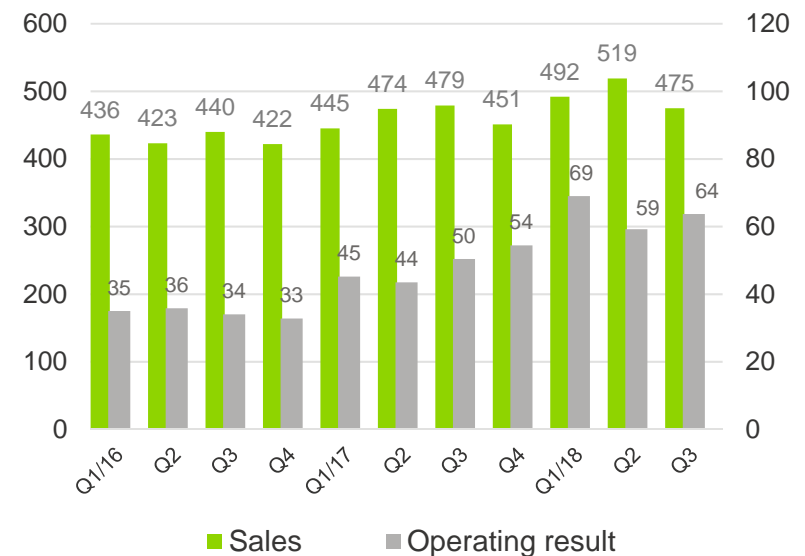
Source: Foex

Good development also in paperboard prices and volumes

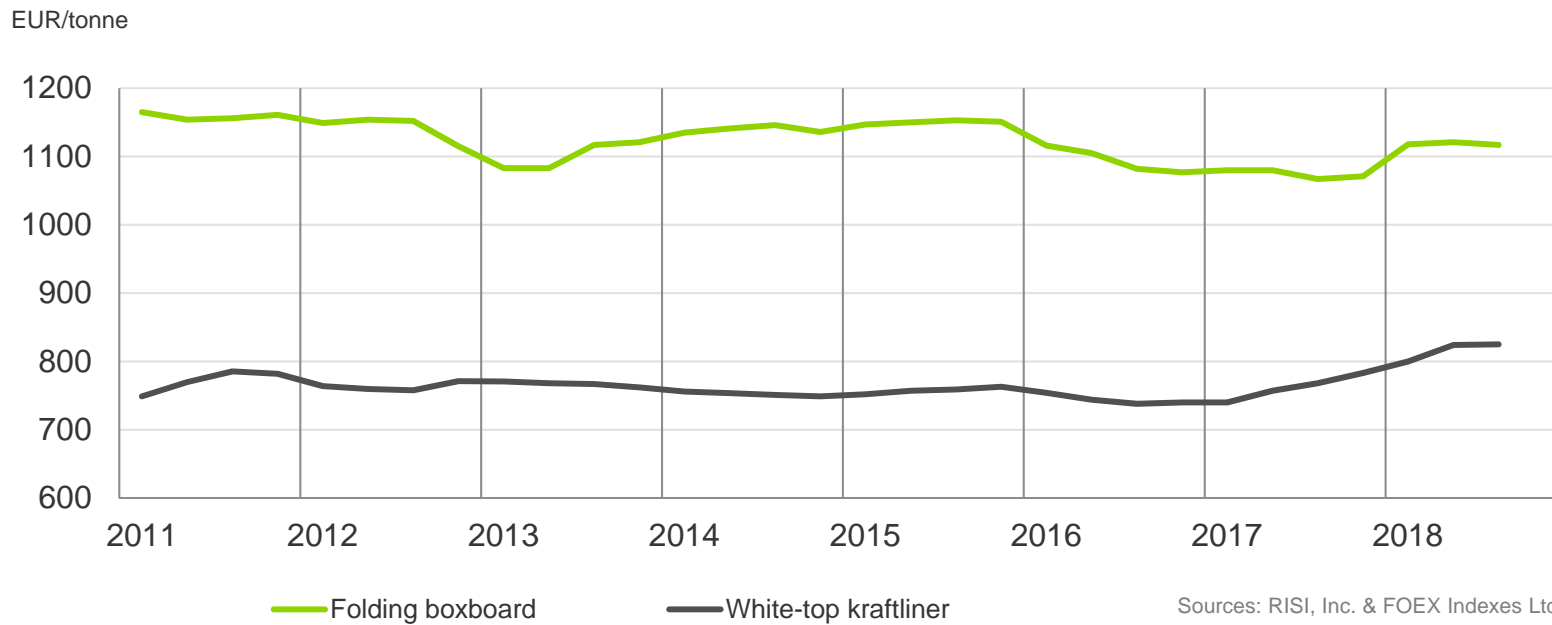
- The sales and comparable operating result improved due to the higher prices and delivery volumes of paperboard and pulp
- Metsä Fibre’s increased pulp production and delivery volumes had a clearly positive effect on result
- The operating result also improved due to mills’ improved cost-efficiencies and better sales mix
- Planned maintenance shutdowns took place at the Kemi and Husum mills during the third quarter
- The result was burdened by exceptional weather conditions, higher road transport costs in the United States and cost inflation
- Exchange rate fluctuations including hedges had a negative effect of EUR 47 million on the operating result compared to 1–9/2017

Sales and comparable operating result

EUR million



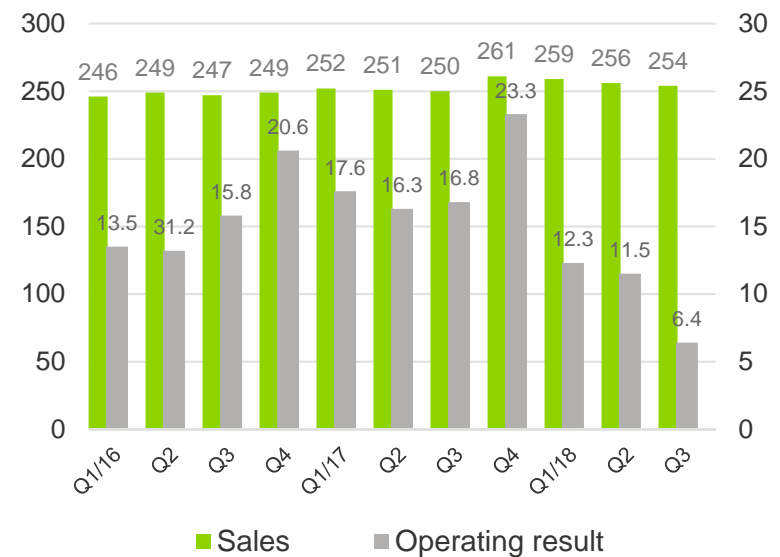
Prices of folding boxboard and white-top kraftliner in Europe 2011–Q3/2018



Tissue and Cooking Papers’ production is being developed

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

Sales and comparable operating result
EUR million



Summary

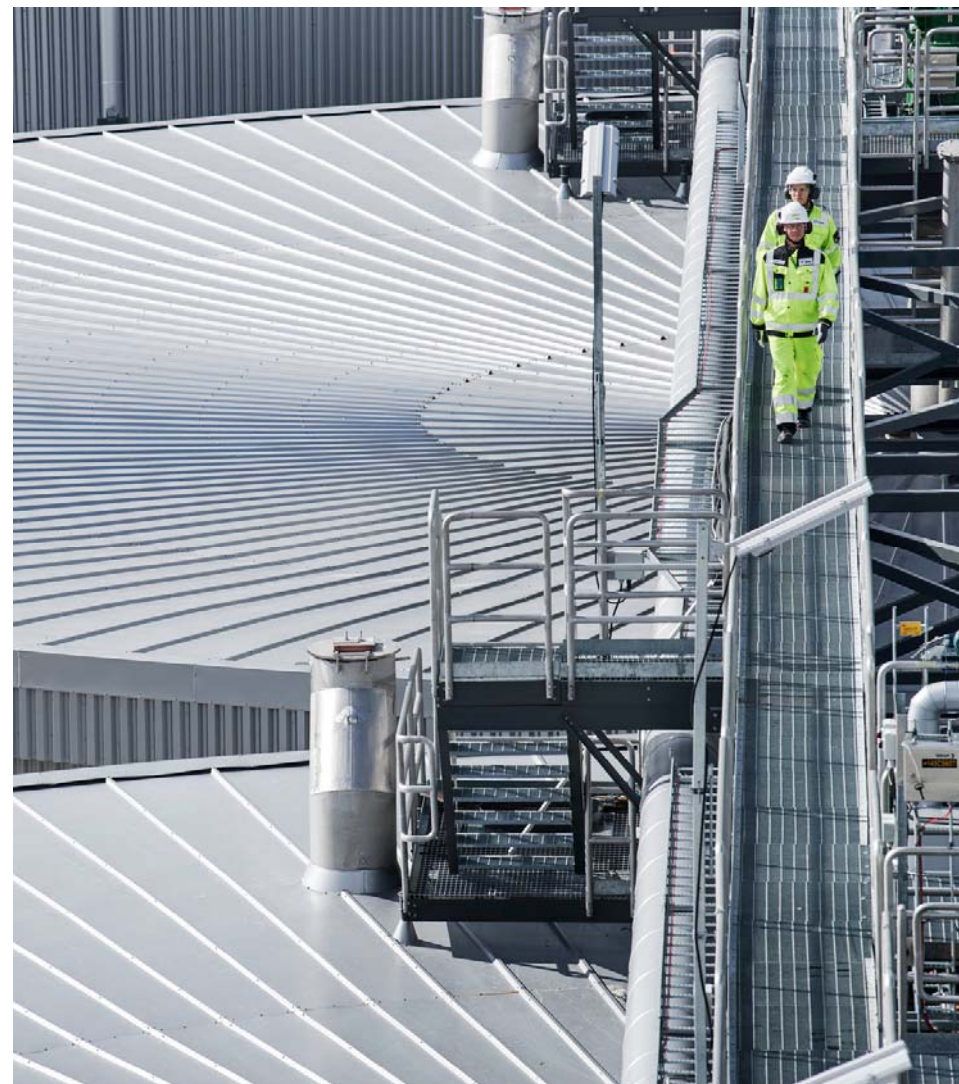
Outlook

- Demand for wood focuses on regeneration and thinning felling that can be harvested in the summer and for energy wood primarily on crown wood
- Demand for wood products is expected to remain good, which improves order book levels, particularly for plywood products. The construction market is supporting demand for Kerto LVL. In the UK, the uncertainty caused by the Brexit negotiations will be reflected in the demand outlook, particularly in the distributor segment
- Pulp and sawn timber markets are expected to remain stable in the last quarter of the year
- Growth in demand for paperboard is expected to continue and the market prices in local currencies are expected to remain mainly stable or to rise slightly. Delivery volumes in the fourth quarter are expected to remain stable or decline slightly seasonally
- The demand in the tissue and cooking paper markets is expected to continue stable in all market areas



Near-term outlook

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



Make the most of **Metsä**

