

# METSÄ BOARD CORPORATION

HALF YEAR FINANCIAL REPORT

**JANUARY-JUNE 2016**



## METSÄ BOARD CORPORATION'S OPERATING RESULT EXCLUDING NON-RECURRING ITEMS FOR JANUARY–JUNE 2016 WAS EUR 70.8 MILLION

### JANUARY–JUNE 2016 (1–6/2015)

- Sales amounted to EUR 858.5 million (1,047.7).
- Operating result excluding non-recurring items was EUR 70.8 million (90.2), or 8.2 per cent of sales. Operating result including non-recurring items was EUR 67.2 million (110.3).
- Result before taxes excluding non-recurring items was EUR 56.8 million (72.3). Result before taxes including non-recurring items was EUR 53.3 million (90.2).
- Earnings per share excluding non-recurring items were EUR 0.14 (0.19), and earnings per share including non-recurring items were EUR 0.13 (0.24).

### APRIL–JUNE 2016 (1–3/2016)

- Sales amounted to EUR 422.9 million (435.6).
- Operating result excluding non-recurring items was EUR 35.8 million (35.0), or 8.5 per cent (8.0) of sales. Operating result including non-recurring items was EUR 34.5 million (32.7).
- Result before taxes excluding non-recurring items was EUR 26.8 million (30.0). Result before taxes including non-recurring items was EUR 25.5 million (27.7).
- Earnings per share excluding non-recurring items were EUR 0.07 (0.07), and earnings per share including non-recurring items were EUR 0.06 (0.07).

### EVENTS IN APRIL–JUNE 2016

- The demand for paperboards remained stable in both Europe and the Americas. Price levels were stable.
- Metsä Board announced it will increase the price of white fresh fibre linerboard in Europe by EUR 50 per tonne (as of 16 May 2016) and the price of folding boxboard by EUR 110 per tonne (as of 1 August 2016).
- Metsä Board Corporation agreed on the extension of its existing syndicated credit facility by two years. After the extension, the facility, which consists of a loan facility of EUR 150 million and a revolving credit facility of EUR 100 million, will mature in March 2020.

### EVENTS AFTER THE REVIEW PERIOD

- Metsä Board is planning to close down its wallpaper base machine PM3 and discontinue its loss-making wallpaper base manufacturing at the Kyro mill in Hämeenkyrö, Finland. In addition, the company adjusts and improves operations at the Kyro mill in order to increase its competitiveness. The company will commence related statutory labour negotiations covering all employees at the mill. The estimated personnel effect is up to 100 employees.
- The production of uncoated paper reels at Husum ended in July. The remaining inventory will be sold during the second half of the year.
- As the paper production ends, the company will modify its external reporting structure. The Non-core Operations segment and Other operations will be discontinued, and as of the third quarter, Metsä Board will use only one reporting segment externally for its financial reporting.

### PROFIT GUIDANCE FOR JULY–SEPTEMBER 2016

Metsä Board's operating result excluding non-recurring items in the third quarter of 2016 is expected to remain roughly at the same level as in the second quarter of 2016.

### Mika Joukio, CEO:

"The operating result for the second quarter of the year remained at the first-quarter level, as we expected. The development of our result was still affected by the start-up of the new paperboard production line at Husum and the lower prices of the start-up volumes of folding boxboard. The bottlenecks in the finishing area of production and a leak in the recovery boiler at the pulp mill at the end of the period decreased the production volumes of folding boxboard at Husum. In addition, they will slow down deliveries in the coming months. Due to these production challenges, we have revised our folding boxboard sales target for Husum from 200,000 tonnes to 150,000 tonnes in 2016. The bottlenecks have now been eliminated, and the production volumes of folding boxboard at Husum are growing. The operational reliability of the paperboard production line has also clearly improved. The efficiency improvement measures at the Husum integrated mill are progressing as planned."

Operations at our mills in Finland remained stable. However, maintenance shutdowns at several mills took place in the second quarter as planned, which weakened our result compared to the first quarter.

We announced price increases in fresh fibre linerboards and folding boxboard in Europe. We are already seeing clear signs of the success of the price increase in fresh fibre linerboards. The impact of the price increase in folding boxboard will become evident in the coming months.

After the review period, in July, our paper production at Husum finally came to an end. Thus, we have fully exited the unprofitable paper business. From now on, we will focus on the production of lightweight and ecological fresh fibre paperboards according to our strategy. The investment programme at Husum was the last significant step in our transformation from a paper company into a paperboard company. We are also planning

to close down our wallpaper base machine PM3 due to loss-making wallpaper base manufacturing at the Kyro mill in Hämeenkyrö, Finland.

At the moment, our most important task is to ensure success in the sales of Husum's new folding boxboard from Husum. However, while doing that, we must also keep our eye on the future. In order to meet the growth in demand for fresh fibre paperboards, we are continuously investigating options to further develop our mills in both Finland and Sweden. We want to continue to grow profitably together with our customers and to promote their sales by supplying them high-quality, ecological fresh fibre paperboard."

## KEY FIGURES

	2016	2016	2015	2015	2016	2015	2015
	Q2	Q1	Q2	Q1	Q1-Q2	Q1-Q2	Q1-Q4
Sales, EUR million	422.9	435.6	522.0	525.7	858.5	1,047.7	2,007.5
EBITDA, EUR million	59.6	55.5	93.3	69.3	115.2	162.6	302.5
excl. non-recurring items, EUR million	60.7	57.8	73.1	69.7	118.6	142.8	283.3
EBITDA, %	14.1	12.7	17.9	13.2	13.4	15.5	15.1
excl. non-recurring items, %	14.4	13.3	14.0	13.3	13.8	13.6	14.1
Operating result, EUR million	34.5	32.7	67.2	43.1	67.2	110.3	199.0
excl. non-recurring items, EUR million	35.8	35.0	47.0	43.2	70.8	90.2	179.9
EBIT, %	8.2	7.5	12.9	8.2	7.8	10.5	9.9
excl. non-recurring items, %	8.5	8.0	9.0	8.2	8.2	8.6	9.0
Result before taxes, EUR million	25.5	27.7	58.0	32.2	53.3	90.2	167.1
excl. non-recurring items, EUR million	26.8	30.0	40.0	32.3	56.8	72.3	150.2
Result for the period, EUR million	23.2	23.9	54.7	29.3	47.1	84.0	137.3
excl. non-recurring items, EUR million	24.6	25.7	36.9	29.4	50.3	66.3	120.2
Result per share, EUR	0.06	0.07	0.15	0.09	0.13	0.24	0.39
excl. non-recurring items, EUR	0.07	0.07	0.10	0.09	0.14	0.19	0.34
Return on equity, %	9.4	9.5	22.5	13.2	9.3	18.2	14.7
excl. non-recurring items, %	9.9	10.2	15.2	13.2	9.9	14.3	12.9
Return on capital employed, %	8.2	7.8	16.5	11.0	8.0	13.9	12.5
excl. non-recurring items, %	8.5	8.3	11.6	11.0	8.4	11.6	11.3
Equity ratio at end of period, %	47	44	46	41	47	46	46
Net gearing ratio at end of period, %	54	42	39	34	54	39	32
Interest-bearing net liabilities/EBITDA <sup>1)</sup>	2.1	1.5	1.5	1.3	2.1	1.5	1.2
Shareholders' equity per share at end of period, EUR	2.81	2.77	2.83	2.63	2.81	2.83	2.89
Interest-bearing net liabilities, EUR million	541.4	412.3	389.0	318.9	541.4	389.0	333.4
Gross investments, EUR million	48.3	54.3	48.3	23.9	102.6	72.2	177.8
Net cash flow from operating activities, EUR million	-22.2	-22.3	55.8	32.5	-44.5	88.3	246.7
Deliveries, 1,000 tonnes							
Paperboard	408	378	366	345	786	711	1,449
Non-core operations	11	15	138	156	26	294	478
Market pulp	113	144	142	150	257	292	549
Personnel at the end of period	2,762	2,573	2,850	3,158	2,762	2,850	2,601

EBITDA = Earnings before interest, taxes, depreciation and impairment charges

1) Ratio of end of period interest-bearing net liabilities to 12-month rolling EBITDA excluding non-recurring items

## HALF YEAR FINANCIAL REPORT 1 JANUARY–30 JUNE 2016

### APRIL–JUNE 2016 (1–3/2016)

#### SALES AND RESULT

Metsä Board's sales amounted to EUR 422.9 million (435.6). The operating result was EUR 34.5 million (32.7), and the operating result excluding non-recurring items was EUR 35.8 million (35.0). The non-recurring items were primarily due to the costs of reorganising sales companies located outside Finland.

The operating result excluding non-recurring items was at the same level as in the previous quarter, as expected. The operating result was weakened by the start-up of the new paperboard production line at Husum and the clearly lower price of the start-up volumes of folding boxboard. As planned, several maintenance shutdowns took place in the second quarter, unlike in the first quarter. A leak in the recovery boiler at Husum at the end of June restricted significantly the paperboard and pulp production for approximately one week. Part of this took place on the third quarter. Exchange rate fluctuations after hedging had a slight negative impact on the operating result of the second quarter. There were no significant changes in the total production costs.

In April–June, the combined delivery volume of Metsä Board's folding boxboard and white fresh fibre linerboard totalled 398,000 tonnes (369,000), and the delivery volume of papers reported in the Non-core Operations segment was 11,000 tonnes (15,000).

The net cash flow from operating activities was EUR -22.2 million (-22.3). The cash flow was weakened primarily by the investment programme at Husum and the resulting changes in working capital.

Financial income and expenses totalled EUR -9.1 million (-4.9) in the review period. Foreign exchange rate differences from trade receivables, trade payables, financial items and the valuation of currency hedging instruments were EUR -1.9 million (1.6).

The April–June result before taxes was EUR 25.5 million (27.7). The result before taxes excluding non-recurring items was EUR 26.8 million (30.0). Income taxes amounted to EUR -2.3 million (-3.9).

Earnings per share were EUR 0.06 (0.07). The return on equity was 9.4 per cent (9.5), and the return on equity excluding non-recurring items was 9.9 per cent (10.2). The return on capital employed was 8.2 per cent (7.8), and the return on capital employed excluding non-recurring items was 8.5 per cent (8.3).

### JANUARY–JUNE 2016 (1–6/2015)

#### SALES AND RESULT

Metsä Board's sales amounted to EUR 858.5 million (1,047.7). Sales were reduced by the considerable decrease in paper deliveries. The operating result was EUR 67.2 million (110.3), and the operating result excluding non-recurring items was EUR 70.8 million (90.2). The non-recurring items were primarily related to the adjustment measures at the Simpele mill and the costs of reorganising sales companies located outside Finland.

The operating result was weakened by the start-up of the new paperboard production line at Husum, which is why the production volumes of pulp and paperboard there were low. The result for the review period was also affected negatively by clearly lower price of the start-up volumes of folding boxboard at Husum as well as the fluctuations in the pulp prices. Exchange rate fluctuations after hedging had a positive impact on the operating result of the review period.

There were no significant changes in the total production costs.

In January–June, the combined delivery volume of Metsä Board's folding boxboard and white fresh fibre linerboard totalled 767,000 tonnes (688,000). The delivery volume of papers reported in the Non-core Operations segment was 26,000 tonnes (294,000).

Financial income and expenses totalled EUR -14.0 million (-20.2). Foreign exchange rate differences from trade receivables, trade payables, financial items and the valuation of currency hedging instruments were EUR -0.3 million (-4.7).

The result before taxes for the review period was EUR 53.3 million (90.2). The result before taxes excluding non-recurring items was EUR 56.8 million (72.3). The impact of income taxes was EUR -6.2 million (-6.2).

Earnings per share were EUR 0.13 (0.24). Earnings per share excluding non-recurring items were EUR 0.14 (0.19). The return on equity was 9.3 per cent (18.2), and the return on equity excluding non-recurring items was 9.9 per cent (14.3). The return on capital employed was 8.0 per cent (13.9), and the return on capital employed excluding non-recurring items was 8.4 per cent (11.6).

#### FINANCING

Metsä Board's equity ratio at the end of June was 47 per cent (30 June 2015: 46) and the net gearing ratio was 54 per cent (39). The ratio of net liabilities to 12-month rolling EBITDA excluding non-recurring items was 2.1 (1.5) at the end of the review period.

The fair value of investments available for sale was EUR 191.5 million at the end of the review period. The change in the fair value, EUR -18.6 million, was related to the decrease in the fair value of Pohjolan Voima Oy's shares.

The amount of defined-benefit pension obligations increased due to the decrease in the discount rate, and EUR -1.6 million after taxes was recognised in other comprehensive income items.

At the end of the review period, net interest-bearing liabilities amounted to EUR 541.4 million (389.0). Foreign currency-denominated loans accounted for 0.5 per cent of the loans and floating-rate loans for 38 per cent, with the rest being fixed-rate loans. At the end of June, the average interest rate on loans was 3.5 per cent (3.8), and the average maturity of long-term loans was 2.7 years (3.0). The interest rate maturity of loans was 19.3 months at the end of June (25.9). During the review period, the interest rate maturity has varied between 15 and 21 months.

The cash flow from operating activities in January–June was EUR -44.5 million (1–6/2015: 88.3). Working capital increased by EUR 119.7 million in January–June (increased by 15.6 in 1–6/2015). Working capital grew as a result of the increase in the finished products inventory of folding boxboard, reduced trade payables related to the investment programme at Husum, as well as the advance payments of (TyEL) pension premiums.

At the end of the review period, an average of 4.9 months of the net foreign currency exposure was hedged. The degree of hedging varied between three and five months, on average, during the period.

The financing agreement includes financial covenants concerning the Group's financial performance and capital structure. Other covenants related to the loan are regular conditions which, among other things, limit the issue of collateral, relinquishment and sale of property, subsidiaries' level of debt, material changes in the business operations, and changes in the statutory majority in shareholding. The company has considerable headroom in relation to covenants set in the credit agreements.

Metsä Board's liquidity is good. At the end of the review period, the available liquidity was EUR 322.0 million (423.8), consisting of the following items: liquid assets and investments of EUR 157.3 million, revolving credit facility of EUR 100.0 million, and undrawn pension premium (TyEL) funds of EUR 64.7 million. Of the liquid assets, EUR 146.8 million consisted of short-term deposits with Metsä Group Treasury, and EUR 10.5 million were cash funds and investments. Other interest-bearing receivables amounted to EUR 3.7 million. In addition, Metsä Board's liquidity reserve is complemented by Metsä Group's internal undrawn short-term credit facility of EUR 150.0 million.

Standard & Poor's Ratings Services raised Metsä Board Corporation's credit rating by one notch from BB to BB+ in February. The rating outlook was raised from

stable to positive. The raised credit rating does not have any impact on Metsä Board's current financial expenses. Metsä Board agreed on extending its existing syndicated credit facility by two years in June. After the extension, the facility, which consists of a loan facility of EUR 150 million and a revolving credit facility of EUR 100 million, will mature in March 2020.

## PERSONNEL

At the end of June, the number of personnel was 2,762 (2,850), of whom 1,724 (1,695) were based in Finland. In January–June, Metsä Board had an average of 2,632 employees (3,027). Personnel expenses totalled EUR 109.3 million (125.3).

## INVESTMENTS

Gross investments in January–June totalled EUR 102.6 million (72.2), primarily targeting the investment programme at Husum. These include the investment of EUR 24.9 million made in the second quarter in the new bioproduct mill being built by associated company Metsä Fibre.

## BUSINESS DEVELOPMENT

Demand for Metsä Board's lightweight and ecological fresh fibre paperboards continued to be strong at the beginning of the year. In Europe, the market situation remained stable despite the uncertain economic situation, and demand was at a good level in the Americas as well. The new folding boxboard capacity enables Metsä Board to better meet the increasing global demand for paperboards.

The EUR 170 million investment programme at Husum has been completed, and the new folding boxboard machine in Sweden was started up in February. The investment programme is targeting a result improvement of approximately EUR 50 million starting from 2018. In May, Metsä Board announced it will launch an efficiency programme at the Husum integrate. The programme will affect all operations. The efficiency programme is targeting cost savings of at least EUR 10 million at an annual level.

Metsä Board will expand its range of paperboards for food service packaging and invest in an extrusion coating line at the Husum mill in Sweden. The extrusion coating line will be started up in the first half of 2017, and its paperboard coating capacity will be approximately 100,000 tonnes per year. The company will also continue to develop other barrier solutions.

Metsä Board will invest EUR 24.9 million in the new bioproduct mill being built by its associated company Metsä Fibre. The investment was made in June 2016. Metsä Board's holding in Metsä Fibre will remain unchanged, at 24.9 per cent, after the investment. The company has no other financial commitments in the



project. The investment will increase Metsä Board's annual pulp capacity by approximately 200,000 tonnes starting from 2018.

## LEGAL PROCEEDINGS

In May 2014, Metsä Board petitioned the District Court of Helsinki to revoke the judgment issued by the Arbitral Tribunal on 11 February 2014 that orders Metsä Board to pay EUR 19.7 million in damages to UPM Kymmene Corporation. In the judgment issued in June 2015, the District Court rejected Metsä Board's petition. Metsä Board decided in September to appeal the District Court's judgment to the Court of Appeal.

In the autumn of 2015, the Finnish Tax Administration gave an opinion against the deductibility of certain losses in Metsä Board Corporation's 2014 taxation. The company recognised around EUR 15 million in previously unrecognised income taxes in its result for the third quarter in 2015. Metsä Board has appealed against the decision issued by the Tax Administration, as the company believes the losses are deductible.

## SHARES

In January–June, the highest price for Metsä Board's A share on the Nasdaq Helsinki was EUR 6.93, the lowest price was EUR 4.80 and the average price was EUR 5.72. At the end of June, the price of the A share was EUR 5.39. The average daily trading volume was 3,004 shares.

In January–June, the highest price for Metsä Board's B share was EUR 7.15, the lowest price was EUR 4.23 and the average price was EUR 5.30. At the end of June, the price of the B share was EUR 4.55. The average daily trading volume was 668,350 shares.

In January–June, the total trading volume of the A share was EUR 2.1 million, and the total trading volume of the B share was EUR 439.1 million. At the end of June, the market value of the A shares was EUR 193.5 million, and the market value of the B shares was EUR 1.45 billion.

At the end of June, Metsäliitto Cooperative owned 42 per cent of the shares, with 62 per cent of the voting rights. Foreign and nominee-registered investors held 17 per cent of the shares (30 June 2015: 17 per cent).

The company does not hold any treasury shares.

## NEAR-TERM RISKS AND UNCERTAINTIES

Considerable uncertainties exist in the global economy. If realised, they may result in weakened demand and reduced prices for paperboard and pulp products. The imbalance in supply and demand may impact the prices of end products and, therefore, Metsä Board's profitability.

Metsä Board is focusing on the active development and growth of its paperboard business. Growing the paperboard business and bringing new products to the market are contingent on successful growth in sales in Europe and, in particular, in the Americas. Growing sales globally is also associated with cost and exchange rate risks.

There are several geopolitical risk concentrations around the world, and forecasting developments in them is difficult. Changes in these areas may be very sudden and unpredictable. There have been, and will continue to be, international sanctions related to these crises, and they may also have a direct or indirect impact on the demand for paperboards and, therefore, on Metsä Board's result.

The forward-looking estimates and statements in this half year financial report are based on current plans and estimates. For this reason, they contain risks and other uncertainties that may cause the results to differ from the statements concerning them. In the short term, Metsä Board's result will be particularly affected by the price of and demand for finished products, raw material costs, the price of energy, and the exchange rate development of the euro compared to the company's main currencies.

The US dollar strengthening by 10 per cent compared to the euro has a positive impact of approximately EUR 60 million on Metsä Board's annual operating result. Correspondingly, the Swedish krona strengthening by 10 per cent has a negative impact of approximately EUR 30 million. The British pound strengthening by 10 per cent has a positive impact of approximately EUR 5 million. The impact of weakened exchange rates would be the opposite. These sensitivities are presented before the impact of hedging.

More information about longer-term risk factors can also be found on pages 23–25 of Metsä Board's 2015 Annual Report.

## NEAR-TERM OUTLOOK

Metsä Board's paperboard deliveries are expected to grow in July–September from the second quarter of 2016. The third quarter result will still be impacted by the start-up volumes of folding boxboard at Husum, which will reduce the average price of folding boxboard.

The company has revised its folding boxboard sales target for Husum due to the bottlenecks in the finishing area of the folding boxboard production and a leak in the recovery boiler at the pulp mill. The target is to sell approximately 150,000 tonnes of new folding boxboard from Husum to the Americas and for food service packaging globally in 2016. Previous sales target was 200,000 tonnes.

The company estimates that the full production capacity of Husum's new folding boxboard machine will be reached by the end of 2016.

Total production costs in July–September are expected to remain at approximately the level of the second quarter of 2016.

Demand for paperboard is expected to remain stable in both Europe and the Americas. European producers have increased their folding boxboard capacity, but a large part of this capacity targets the global market. The market prices of folding boxboard and white fresh fibre linerboard are expected to remain fairly stable or increase slightly. Metsä Board has announced that it will increase the price of white fresh fibre linerboard and folding boxboard in Europe.

The global demand for and supply of long- and short-fibre pulp are expected to remain stable.

### PLANNED EXTENSIVE MAINTENANCE SHUT-DOWNS IN 2016

- Q3/2016: Kemi mill
- Q4/2016: Husum mill

### EVENTS AFTER THE REVIEW PERIOD

- Metsä Board is planning to close down its wallpaper base machine PM3 and discontinue its loss-making wallpaper base manufacturing at the Kyro mill in Hämeenkyrö, Finland. In addition, the company adjusts and improves operations at the Kyro mill in order to increase its competitiveness. The company will commence related statutory labour negotiations covering all employees at the mill. The estimated personnel effect is up to 100 employees.
- The production of uncoated paper reels at Husum ended in July. The remaining inventory will be sold during the second half of the year.

- As the paper production ends, the company will modify its external reporting structure. The Non-core Operations segment and Other operations will be discontinued, and as of the third quarter, Metsä Board will use only one reporting segment externally for its financial reporting.

### PROFIT GUIDANCE FOR JULY–SEPTEMBER 2016

Metsä Board's operating result excluding non-recurring items in the third quarter of 2016 is expected to remain roughly at the same level as in the second quarter of 2016.

### METSÄ BOARD CORPORATION

Espoo, Finland, 4 August 2016

#### More information:

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More information will be available from 1 p.m. on 4 August 2016. A conference call for investors and analysts will be held in English and begin at 3 p.m. (EET). Conference call participants are requested to dial in and register a few minutes earlier on the following numbers:  
Europe: +44 (0)20 3427 1925  
US: +1 646 254 3370  
Conference ID: 1443353.

**In 2016, Metsä Board will publish the following financial report:**  
2 November 2016, January–September 2016 Interim report



## REPORTING SEGMENTS

### PAPERBOARD SEGMENT

	2016	2016	2015	2015	2015	2016	2015	2015
	Q2	Q1	Q4	Q3	Q2	Q1–Q2	Q1–Q2	Q1–Q4
Sales, EUR million	392.3	399.6	399.5	412.7	408.3	791.9	799.4	1,611.6
EBITDA, EUR million	58.3	59.9	66.5	81.0	75.9	118.3	152.2	299.7
excl. non-recurring items	58.9	62.2	66.5	81.0	75.9	121.2	152.2	299.7
Operating result, EUR million	35.3	39.7	51.0	64.9	59.8	75.0	120.7	236.6
excl. non-recurring items	35.9	42.0	51.0	64.9	59.8	77.8	120.4	236.3
excl. non-recurring items, %	9.1	10.5	12.8	15.7	14.6	9.8	15.1	14.7
Return on capital employed, %	9.5	11.8	16.6	21.4	20.2	10.8	20.7	20.0
excl. non-recurring items, %	9.7	12.5	16.6	21.4	20.2	11.2	20.6	19.9
Deliveries, Paperboard 1,000 t	408	378	365	373	366	786	711	1,449
Deliveries, Market Pulp 1,000 t	113	144	134	123	142	257	292	549
Production, Paperboard, 1,000 t	428	405	375	367	376	834	739	1,481
Production, Metsä Board Pulp 1,000 t	307	309	257	318	302	616	631	1,206
Personnel at the end of period	1,981	1,789	1,423	1,394	1,565	1,981	1,565	1,423

#### APRIL–JUNE 2016 (1–3/2016)

Sales in the Paperboard segment in April–June were EUR 392.3 million (399.6).

The segment's operating result excluding non-recurring items for April–June decreased and was EUR 35.9 million (42.0). The operating result was weakened by the start-up of the new paperboard production line at Husum and clearly lower price of the start-up volumes of folding boxboard. A leak in the recovery boiler at Husum at the end of June restricted significantly the paperboard and pulp production for approximately one week. Part of this took place on the third quarter. As planned, several maintenance shutdowns took place in the second quarter, unlike in the first quarter. Exchange rate fluctuations had a negative impact on the operating result of the second quarter.

The average prices of paperboards produced at Metsä Board's mills in Finland remained stable. The euro- and dollar-denominated market prices of long-fibre pulp were stable. The euro- and dollar-denominated market prices of short-fibre pulp decreased clearly.

The delivery volumes of Metsä Board's paperboards increased from the previous quarter. The delivery volumes of market pulp decreased, when the pulp trading activity with Sappi ended at the beginning of the year. The discontinuation of the trading activity will not impact the company's operating result, but annual sales will decrease by approximately EUR 60 million in 2016.

Deliveries by European folding boxboard producers increased by 7 per cent. Metsä Board's folding boxboard deliveries increased by 10 per cent.

#### JANUARY–JUNE 2016 (1–6/2015)

The operating result excluding non-recurring items for the Paperboard segment weakened from the corresponding period in the previous year and totalled EUR 77.8 million (120.4). The operating result for January–June included EUR 2.8 million (+0.3) of non-recurring items, which were related to the adjustment measures at the Simpele mill.

The operating result was weakened by the start-up of the new paperboard production line at Husum, which is why the production volumes of pulp and paperboard there were low. The result for the review period was also affected negatively by clearly lower price of the start-up volumes of folding boxboard at Husum and fluctuations in the pulp prices.

Due to the decreased paper production, some of the fixed costs and depreciations were re-allocated from the Non-core Operations segment to the Paperboard segment.

The average prices of paperboards produced at Metsä Board's mills in Finland decreased slightly. The euro- and dollar-denominated market prices of short-fibre pulp decreased. The euro- and dollar-denominated market prices of long-fibre pulp decreased clearly.

The total delivery volumes of Metsä Board's paperboards increased clearly from the corresponding period in the previous year. The volume of market pulp deliveries decreased due to the investment programme at Husum and the discontinued pulp trading activity with Sappi.

Deliveries by European folding boxboard producers decreased by 2 per cent. Metsä Board's folding boxboard deliveries increased by 14 per cent.

## NON-CORE OPERATIONS SEGMENT

	2016	2016	2015	2015	2015	2016	2015	2015
	Q2	Q1	Q4	Q3	Q2	Q1–Q2	Q1–Q2	Q1–Q4
Sales, EUR million	13.9	17.5	50.5	85.4	108.6	31.4	237.0	372.8
EBITDA, EUR million	0.1	2.1	-0.1	8.1	26.4	2.2	32.4	40.4
excl. non-recurring items	0.1	2.1	-0.1	8.2	6.2	2.2	12.7	20.7
Operating result, EUR million	-1.0	0.2	-8.8	-1.3	16.7	-0.8	13.1	3.0
excl. non-recurring items	-1.0	0.2	-8.4	-1.3	-3.4	-0.8	-6.6	-16.3
excl. non-recurring items, %	-7.4	1.1	-16.7	-1.5	-3.1	-2.6	-2.8	-4.4
Return on capital employed, %	-12.3	0.7	-17.5	-2.2	30.1	-1.6	11.4	1.5
excl. non-recurring items, %	-12.3	0.7	-16.8	-2.2	-6.2	-1.6	-5.8	-8.3
Deliveries, 1,000 t	11	15	65	118	138	26	294	478
Production, 1,000 t	9	12	38	113	126	21	280	430
Personnel at the end of period	76	113	546	631	646	76	646	546

### APRIL–JUNE 2016 (1–3/2016)

The considerable decline in paper deliveries reduced the segment's sales, which were EUR 13.9 million (17.5). The operating result excluding non-recurring items was EUR -1.0 million (0.2).

Fine paper production at Husum ended completely after the review period in July. The remaining inventory of fine paper reels will be sold during the second half of the year. External reporting in the Non-core Operations segment will end. As of the third quarter, Metsä Board will report on its performance in one reporting segment only.

### JANUARY–JUNE 2016 (1–6/2015)

The considerable decline in paper deliveries reduced the segment's sales, which were EUR 31.4 million (237.0). The operating result excluding non-recurring items was EUR -0.8 million (-6.6). The operating result was improved by the reduction of the unprofitable paper business and the divestment of the loss-making Gohrsmühle mill in the second quarter of 2015. Some of the fixed costs and depreciations were transferred to the Paperboard segment.

Delivery volumes of Metsä Board's uncoated fine paper amounted to 26,000 tonnes in the first half of the year (294,000).

The end of paper production at Husum has resulted in paper capacity of approximately 600,000 tonnes having been removed from the market compared to 2014.

## SALES AND RESULT BY SEGMENT

	2016	2016	2015	2015	2015	2016	2015	2015
EUR million	Q2	Q1	Q4	Q3	Q2	Q1-Q2	Q1-Q2	Q1-Q4
Paperboard	392.3	399.6	399.5	412.7	408.3	791.9	799.4	1,611.6
Non-core operations	13.9	17.5	50.5	85.4	108.6	31.4	237.0	372.8
Other operations	83.0	73.8	76.5	62.5	71.4	156.7	140.8	279.7
Internal sales	-66.2	-55.3	-64.3	-63.0	-66.3	-121.5	-129.5	-256.6
<b>Sales</b>	<b>422.9</b>	<b>435.6</b>	<b>462.2</b>	<b>497.6</b>	<b>522.0</b>	<b>858.5</b>	<b>1,047.7</b>	<b>2,007.5</b>
Paperboard	58.3	59.9	66.5	81.0	75.9	118.3	152.2	299.7
Non-core operations	0.1	2.1	-0.1	8.1	26.4	2.2	32.4	40.4
Other operations	1.2	-6.5	-7.3	-8.2	-9.0	-5.3	-22.0	-37.6
<b>EBITDA</b>	<b>59.6</b>	<b>55.5</b>	<b>59.1</b>	<b>80.9</b>	<b>93.3</b>	<b>115.2</b>	<b>162.6</b>	<b>302.5</b>
% of sales	14.1	12.7	12.8	16.2	17.9	13.4	15.5	15.1
Paperboard	35.3	39.7	51.0	64.9	59.8	75.0	120.7	236.6
Non-core operations	-1.0	0.2	-8.8	-1.3	16.7	-0.8	13.1	3.0
Other operations	0.3	-7.2	-8.1	-9.0	-9.3	-6.9	-23.5	-40.6
<b>Operating result</b>	<b>34.5</b>	<b>32.7</b>	<b>34.1</b>	<b>54.6</b>	<b>67.2</b>	<b>67.2</b>	<b>110.3</b>	<b>199.0</b>
% of sales	8.2	7.5	7.4	11.0	12.9	7.8	10.5	9.9
<b>Non-recurring items in operating result</b>								
Paperboard	-0.6	-2.3	0.0	0.0	0.0	-2.9	0.3	0.3
Non-core operations	0.0	0.0	-0.4	0.0	20.1	0.0	19.7	19.3
Other operations	-0.7	0.0	-0.5	0.0	0.1	-0.7	0.1	-0.5
<b>Group</b>	<b>-1.3</b>	<b>-2.3</b>	<b>-0.9</b>	<b>0.0</b>	<b>20.2</b>	<b>-3.6</b>	<b>20.1</b>	<b>19.2</b>
Paperboard	58.9	62.2	66.5	81.0	75.9	121.2	152.2	299.7
Non-core operations	0.1	2.1	-0.1	8.1	6.2	2.2	12.7	20.7
Other operations	1.7	-6.5	-6.7	-8.3	-9.0	-4.8	-22.1	-37.1
<b>EBITDA, excl. non-recurring items</b>	<b>60.7</b>	<b>57.8</b>	<b>59.7</b>	<b>80.8</b>	<b>73.1</b>	<b>118.6</b>	<b>142.8</b>	<b>283.3</b>
% of sales	14.4	13.3	12.9	16.2	14.0	13.8	13.6	14.1
Paperboard	35.9	42.0	51.0	64.9	59.8	77.8	120.4	236.3
Non-core operations	-1.0	0.2	-8.4	-1.3	-3.4	-0.8	-6.6	-16.3
Other operations	0.9	-7.2	-7.6	-9.0	-9.4	-6.3	-23.6	-40.2
<b>Operating result, excl. non-recurring items</b>	<b>35.8</b>	<b>35.0</b>	<b>35.1</b>	<b>54.6</b>	<b>47.0</b>	<b>70.8</b>	<b>90.2</b>	<b>179.9</b>
% of sales	8.5	8.0	7.6	11.0	9.0	8.2	8.6	9.0
<b>Operating result, excl. non-recurring items, % of sales</b>								
Paperboard	9.1	10.5	12.8	15.7	14.6	9.8	15.1	14.7
Non-core operations	-7.4	1.1	-16.7	-1.5	-3.1	-2.6	-2.8	-4.4
<b>Group</b>	<b>8.5</b>	<b>8.0</b>	<b>7.6</b>	<b>11.0</b>	<b>9.0</b>	<b>8.2</b>	<b>8.6</b>	<b>9.0</b>

	2016	2016	2015	2015	2015	2016	2015	2015
EUR million	Q2	Q1	Q4	Q3	Q2	Q1-Q2	Q1-Q2	Q1-Q4
<b>Return on capital employed %</b>								
Paperboard	9.5	11.8	16.6	21.4	20.2	10.8	20.7	20.0
Non-core operations	-12.3	0.7	-17.5	-2.2	30.1	-1.6	11.4	1.5
<b>Group</b>	<b>8.2</b>	<b>7.8</b>	<b>8.1</b>	<b>13.0</b>	<b>16.5</b>	<b>8.0</b>	<b>13.9</b>	<b>12.5</b>
<b>Return on capital employed excluding non-recurring items, %</b>								
Paperboard	9.7	12.5	16.6	21.4	20.2	11.2	20.6	19.9
Non-core operations	-12.3	0.7	-16.8	-2.2	-6.2	-1.6	-5.8	-8.3
<b>Group</b>	<b>8.5</b>	<b>8.3</b>	<b>8.3</b>	<b>13.0</b>	<b>11.6</b>	<b>8.4</b>	<b>11.6</b>	<b>11.3</b>
<b>Capital employed, EUR million</b>								
Paperboard	1,530.4	1,439.2	1,247.2	1,210.4	1,213.5	1,530.4	1,213.5	1,247.2
Non-core operations	20.6	45.8	181.7	218.8	246.0	20.6	246.0	181.7
Unallocated and eliminations	150.5	195.1	258.9	256.7	219.5	150.5	219.5	258.9
<b>Group</b>	<b>1,701.5</b>	<b>1,680.2</b>	<b>1,687.8</b>	<b>1,685.9</b>	<b>1,679.0</b>	<b>1,701.5</b>	<b>1,679.0</b>	<b>1,687.8</b>

The capital employed for a segment includes its assets: goodwill, other intangible assets, tangible assets, investments in associates, available for sale investments, inventories, accounts receivables, prepayments and accrued income (excluding interest and taxes), less the segment's liabilities (accounts payable, advance payments, accruals and deferred income (excluding interest and taxes)).

## DELIVERIES

	2016	2016	2015	2015	2015	2016	2015	2015
1000 t	Q2	Q1	Q4	Q3	Q2	Q1-Q2	Q1-Q2	Q1-Q4
Paperboard	408	378	365	373	366	786	711	1,449
Non-core operations	11	15	65	118	138	26	294	478
Market Pulp	113	144	134	123	142	257	292	549

## PRODUCTION

	2016	2016	2015	2015	2015	2016	2015	2015
1000 t	Q2	Q1	Q4	Q3	Q2	Q1-Q2	Q1-Q2	Q1-Q4
Paperboard	428	405	375	367	376	834	739	1,481
Non-core operations	9	12	38	113	126	21	280	430
Metsä Fibre pulp <sup>1)</sup>	139	146	148	143	147	284	295	586
Metsä Board pulp	307	309	257	318	302	616	631	1,206

<sup>1)</sup> Corresponds to Metsä Board's ownership share of 24.9% in Metsä Fibre.

## CALCULATION OF KEY RATIOS

Return on equity (%)	=	(Result before tax - direct taxes) per (Shareholders' equity (average))
Return on capital employed (%)	=	(Result before tax + interest expenses, net exchange gains/losses and other financial expenses) per (Shareholders' equity + interest-bearing borrowings (average))
Equity ratio (%)	=	(Shareholders' equity) per (Total assets - advance payments re- ceived)
Gearing ratio (%)	=	(Interest-bearing borrowings) per (Shareholders' equity)
Net gearing ratio (%)	=	(Interest-bearing borrowings - liquid funds - interest-bearing receivables) per (Shareholders' equity)
Earnings per share	=	(Profit attributable to shareholders of parent company) per (Adjusted number of shares (average))
Shareholders' equity per share	=	(Equity attributable to shareholders of parent company) per (Adjusted number of shares at the end of period)

### Operating result and Return on capital employed excluding non-recurring items

Exceptional and material items not incurred in ordinary course of business have been eliminated from operating result excluding non-recurring items, and they have been allocated to operating segments. Reconciliation of operating result under IFRS and operating result excluding non-recurring items has been provided in this half year financial report. Return on capital employed has been calculated with the same adjustments as the operating result excluding non-recurring items and has been further adjusted with non-recurring items of financial income when applicable.

It is Metsä Board's view that the key performance measures adjusted in this manner improve comparability between reporting periods. None of the performance measures calculated without non-recurring items constitute performance measures used in IFRS reporting and cannot be compared to performance measures with the same name provided by other companies.

Typical non-recurring items include material gains and losses on disposals of assets, impairments and impairment reversals in accordance with IAS 36 Impairment of Assets standard, restructuring costs and their adjustments as well as items arising from legal proceedings.



## FINANCIAL STATEMENTS

### UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
<b>Sales</b>	<b>2, 6</b>	<b>422.9</b>	<b>522.0</b>	<b>858.5</b>	<b>1,047.7</b>	<b>2,007.5</b>
Change in stocks of finished goods and work in progress		24.4	-4.9	40.7	-3.9	-15.1
Other operating income	<b>2, 6</b>	8.3	23.8	14.3	31.8	47.7
Material and services	<b>6</b>	-316.1	-363.4	-637.8	-737.1	-1,408.0
Employee costs		-52.2	-63.6	-109.3	-125.3	-234.5
Share of results of associated companies and joint ventures		11.6	16.4	23.8	31.2	61.3
Depreciation, amortisation and impairment losses		-25.1	-26.2	-48.0	-52.3	-103.5
Other operating expenses		-39.4	-36.9	-75.1	-81.8	-156.4
<b>Operating result</b>	<b>2</b>	<b>34.5</b>	<b>67.2</b>	<b>67.2</b>	<b>110.3</b>	<b>199.0</b>
Share of results of associated companies and joint ventures		0.0	0.0	0.0	0.1	0.1
Net exchange gains and losses		-1.9	-0.9	-0.3	-4.7	-3.4
Other net financial items	<b>2, 6</b>	-7.1	-8.3	-13.6	-15.5	-28.6
<b>Result before income tax</b>		<b>25.5</b>	<b>58.0</b>	<b>53.3</b>	<b>90.2</b>	<b>167.1</b>
Income taxes	<b>3</b>	-2.3	-3.3	-6.2	-6.2	-29.8
<b>Result for the period</b>		<b>23.2</b>	<b>54.7</b>	<b>47.1</b>	<b>84.0</b>	<b>137.3</b>

EUR million	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
<b>Other comprehensive income</b>						
<b>Items that will not be reclassified to profit or loss</b>						
Actuarial gains/losses on defined pension plans		0.3	6.2	-2.1	2.4	6.3
Income tax relating to items that will not be reclassified		-0.1	-1.6	0.5	-1.2	-2.7
<b>Total</b>		<b>0.2</b>	<b>4.6</b>	<b>-1.6</b>	<b>1.2</b>	<b>3.6</b>
<b>Items that may be reclassified to profit or loss</b>						
Cash flow hedges		7.5	10.9	18.0	4.0	-2.9
Available for sale financial assets	8	-7.9	-2.6	-18.6	9.4	-23.0
Translation differences		-6.1	2.5	-8.4	6.9	7.0
Share of other comprehensive income of associated companies		-3.9	5.0	-5.9	4.2	0.3
Income tax relating to components of other comprehensive income		0.0	-1.6	0.0	-2.6	5.5
<b>Total</b>		<b>-10.5</b>	<b>14.2</b>	<b>-14.8</b>	<b>21.9</b>	<b>-13.1</b>
<b>Other comprehensive income, net of tax</b>		<b>-10.3</b>	<b>18.8</b>	<b>-16.4</b>	<b>23.1</b>	<b>-9.5</b>
<b>Total comprehensive income for the period</b>		<b>13.0</b>	<b>73.5</b>	<b>30.7</b>	<b>107.1</b>	<b>127.8</b>
<b>Result for the period attributable to</b>						
Shareholders of parent company		23.2	54.7	47.1	84.0	137.3
Non-controlling interests		0.0	0.0	0.0	0.0	0.0
<b>Total comprehensive income for the period attributable to</b>						
Shareholders of parent company		13.0	73.5	30.7	107.1	127.8
Non-controlling interests		0.0	0.0	0.0	0.0	0.0
Total		13.0	73.5	30.7	107.1	127.8
<b>Earnings per share for result attributable to shareholders of parent company (EUR/share)</b>		<b>0.06</b>	<b>0.15</b>	<b>0.13</b>	<b>0.24</b>	<b>0.39</b>

The accompanying notes are an integral part of these unaudited interim condensed financial statements.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

EUR million	Note	As of 30 Jun 2016	As of 30 Jun 2015	As of 31 Dec 2015
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill		12.4	12.7	12.4
Other intangible assets		12.3	14.7	13.7
Tangible assets	4	834.8	756.7	812.3
Investments in associated companies and joint ventures		270.1	233.7	260.2
Available for sale investments	8	191.5	242.7	210.2
Other non-current financial assets	6, 8	13.1	11.7	14.6
Deferred tax receivables	2	4.4	5.7	4.5
		<b>1,338.5</b>	<b>1,277.9</b>	<b>1,327.9</b>
<b>Current assets</b>				
Inventories		335.2	315.2	299.3
Accounts receivables and other receivables	6, 8	292.3	328.6	271.1
Cash and cash equivalents	6, 8	157.3	278.3	321.8
		<b>784.8</b>	<b>922.1</b>	<b>892.2</b>
<b>Total assets</b>		<b>2,123.3</b>	<b>2,200.0</b>	<b>2,220.1</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Equity attributable to shareholders of parent company		999.1	1,007.7	1,028.9
Non-controlling interests		0.0	0.0	0.0
<b>Total equity</b>		<b>999.1</b>	<b>1,007.7</b>	<b>1,028.9</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities		73.7	79.4	80.2
Post-employment benefit obligations	2	15.5	17.8	14.6
Provisions	5	6.8	16.5	8.3
Borrowings	8	544.6	579.6	611.3
Other liabilities	8	7.3	6.4	11.5
		<b>648.0</b>	<b>699.7</b>	<b>725.9</b>
<b>Current liabilities</b>				
Provisions	5	6.4	12.7	13.8
Current borrowings	6, 8	157.7	91.6	47.6
Accounts payable and other liabilities	6, 8	312.1	388.3	403.9
		<b>476.2</b>	<b>492.6</b>	<b>465.3</b>
<b>Total liabilities</b>		<b>1,124.2</b>	<b>1,192.3</b>	<b>1,191.2</b>
<b>Total shareholders' equity and liabilities</b>		<b>2,123.3</b>	<b>2,200.0</b>	<b>2,220.1</b>

The accompanying notes are an integral part of these unaudited interim condensed financial statements.

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR million	Note	Share capital	Translation differences	Fair value and other reserves	Reserve for invested unrestricted equity	Retained earnings	Total	Non-controlling interests	Total
<b>Shareholders' equity, 1 January 2015</b>		557.9	6.9	132.1	284.8	-140.3	841.4	0.0	841.4
<b>Comprehensive income for the period</b>									
Result for the period						84.0	84.0	0.0	84.0
Other comprehensive income net of tax total			8.5	13.4		1.2	23.1		23.1
<b>Comprehensive income total</b>			<b>8.5</b>	<b>13.4</b>		<b>85.2</b>	<b>107.1</b>	<b>0.0</b>	<b>107.1</b>
Share based payments						0.3	0.3		0.3
<b>Related party transactions</b>									
Share issue net of transaction costs					98.3		98.3		98.3
Dividends paid						-39.4	-39.4		-39.4
<b>Shareholders' equity, 30 June 2015</b>		<b>557.9</b>	<b>15.4</b>	<b>145.5</b>	<b>383.1</b>	<b>-94.2</b>	<b>1,007.7</b>	<b>0.0</b>	<b>1,007.7</b>

EUR million	Note	Share capital	Translation differences	Fair value and other reserves	Reserve for invested unrestricted equity	Retained earnings	Total	Non-controlling interests	Total
Shareholders' equity, 1 January 2016		557.9	14.2	111.7	383.1	-38.0	1 028.9	0.0	1,028.9
<b>Comprehensive income for the period</b>									
Result for the period						47.1	47.1	0.0	47.1
Other comprehensive income net of tax total			-7.5	-7.3		-1.6	-16.4		-16.4
<b>Comprehensive income total</b>			<b>-7.5</b>	<b>-7.3</b>		<b>45.5</b>	<b>30.7</b>	<b>0.0</b>	<b>30.7</b>
Share based payments						-0.1	-0.1		-0.1
<b>Related party transactions</b>									
Dividends paid						-60.4	-60.4		-60.4
<b>Shareholders' equity, 30 June 2016</b>		<b>557.9</b>	<b>6.7</b>	<b>104.4</b>	<b>383.1</b>	<b>-53.0</b>	<b>999.1</b>	<b>0.0</b>	<b>999.1</b>

The accompanying notes are an integral part of these unaudited condensed financial statements.

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		Q1-Q2	Q1-Q2	Q1-Q4	Q2
		2016	2015	2015	2016
EUR million	Note				
Result for the period		47.1	84.0	137.3	23.2
Total adjustments	7	35.5	24.1	66.3	20.4
Change in working capital		-119.7	-15.6	72.2	-47.3
<b>Cash flow from operations</b>		<b>-37.1</b>	<b>92.5</b>	<b>275.8</b>	<b>-3.7</b>
Net financial items	7	18.8	-0.6	-7.8	-3.5
Income taxes paid		-26.2	-3.6	-21.3	-15.0
<b>Net cash flow from operating activities</b>		<b>-44.5</b>	<b>88.3</b>	<b>246.7</b>	<b>-22.2</b>
Acquisition of other shares				-1.5	
Investments in intangible and tangible assets		-103.5	-71.2	-175.0	-49.8
Disposals and other items	6,7	-0.9	-35.1	-30.6	-0.4
<b>Net cash flow from investing activities</b>		<b>-104.4</b>	<b>-106.3</b>	<b>-207.1</b>	<b>-50.2</b>
Right issue net of transaction costs			97.9	97.9	
Changes in non-current loans and in other financial items	6	45.8	-13.0	-27.7	12.0
Dividends paid		-60.4	-39.4	-39.4	-60.4
<b>Net cash flow from financing activities</b>		<b>-14.7</b>	<b>45.5</b>	<b>30.8</b>	<b>-48.5</b>
<b>Changes in cash and cash equivalents</b>		<b>-163.6</b>	<b>27.5</b>	<b>70.4</b>	<b>-120.8</b>
Cash and cash equivalents at beginning of period	6	321.8	250.4	250.4	278.3
Translation difference in cash and cash equivalents		-0.9	0.4	1.0	-0.2
Changes in cash and cash equivalents		-163.6	27.5	70.4	-120.8
<b>Cash and cash equivalents at end of period</b>	6	<b>157.3</b>	<b>278.3</b>	<b>321.8</b>	<b>157.3</b>

The accompanying notes are an integral part of these unaudited condensed financial statements

## NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

### NOTE 1 – BACKGROUND AND BASIS OF PREPARATION

Metsä Board Corporation and its subsidiaries comprise a forest industry group whose main product areas are fresh fibre cartonboards and linerboards. Metsä Board Corporation, the parent company, is domiciled in Helsinki and the registered address of the company is Revontulenpuisto 2, 02100 Espoo, Finland. Metsä Board's ultimate parent company is Metsäliitto Cooperative.

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 2015 IFRS financial statements. The same accounting policies have been applied as in the 2015 IFRS financial statements with the following exception:

Depreciation of machinery and equipment during the financial year has been adjusted between the quarters when applicable in order to correspond with the use of the economic benefit of the asset.

The Group has adopted the following new standards and amendments to existing standards on 1 January 2016:

*Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative:* The amendments are designed to encourage companies to apply judgement in determining what information to disclose in the financial statements. For example, the amendments clarify the application of the materiality concept and judgement when determining where and in what order information is presented in the financial disclosures. The amendments are not deemed to have a material impact on consolidated financial statements.

*Amendments to IFRS 11 Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations:* The amendments add new guidance to IFRS 11 on how to account for the acquisition of an interest in a joint operation that constitutes a business, i.e. business combination accounting is required to be applied. The amendment does not have an impact on consolidated financial statements.

*Annual Improvements to IFRSs, 2012–2014 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 amendments cover in four standards. Their impacts vary standard by standard but are not significant.

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 Metsä Board on 4 August 2016.

### NOTE 2 – SEGMENT INFORMATION

The Corporate Management Team is the chief operational decision-maker, which monitors the business operations based on the operating segments.

Metsä Board Corporation renewed its management and reporting structure as of 1 January 2015 to enable successful implementation of the company's growth strategy in paperboard businesses. Metsä Board's business operations are divided into two business areas which also constitute operating segments: Paperboard and Non-core operations.

Paperboard segment includes folding boxboard, fresh fibre linerboard, wallpaper base and market pulp businesses. Non-core operations include Husum's standard paper business which will likely end during 2016 as well as Gohrsmühle mill's cast coated and label paper businesses until May 2015. Capital employed related to Metsä Board's Pohjolan Voima Oy ownership is reported under Paperboard segment.

The 24.9 per cent ownership of and associate company result from Metsä Fibre is almost wholly allocated to Paperboard segment.

The sales of the reportable operating segments are mainly generated by sales of board, paper and pulp.

The accounting principles for the segment information are equal to those of the Group and all inter-segment sales are based on market prices.



### Sales by operating segments

EUR million	Q1–Q2/2016			Q1–Q2/2015		
	External	Internal	Total	External	Internal	Total
Paperboard	791.9	0.0	791.9	799.4	0.0	799.4
Non-core operations	24.4	6.9	31.4	231.5	5.5	237.0
Other operations	42.2	114.6	156.7	16.8	124.0	140.8
Elimination of intersegment sales		-121.5	-121.5		-129.5	-129.5
<b>Total sales</b>	<b>858.4</b>	<b>0.0</b>	<b>858.5</b>	<b>1 047.7</b>	<b>0.0</b>	<b>1 047.7</b>

EUR million	Q1–Q4 2015		
	External	Internal	Total
Paperboard	1,611.6	0.0	1,611.6
Non-core operations	364.8	7.9	372.8
Other operations	31.0	248.7	279.7
Elimination of intersegment sales		-256.6	-256.6
<b>Total sales</b>	<b>2,007.5</b>	<b>0.0</b>	<b>2,007.5</b>

### Operating result by operating segments

EUR million	Q1–Q2	Q1–Q2	Q1–Q4
	2016	2015	2015
Paperboard	75.0	120.7	236.6
Non-core operations	-0.8	13.1	3.0
Other operations	-6.9	-23.5	-40.6
<b>Operating result total</b>	<b>67.2</b>	<b>110.3</b>	<b>199.0</b>
Share of profit from associated companies	0.0	0.1	0.1
Finance costs, net	-14.0	-20.2	-32.0
Income taxes	-6.2	-6.2	-29.8
<b>Result for the period</b>	<b>47.1</b>	<b>84.0</b>	<b>137.3</b>

### Reconciliation of operating result

EUR million	Q1–Q2	Q1–Q2	Q1–Q4
	2016	2015	2015
<b>Operating result (IFRS)</b>	<b>67.2</b>	<b>110.3</b>	<b>199.0</b>
Non-recurring items:			
Paperboard	2.9	-0.3	-0.3
Non-core operations	0.0	-19.7	-19.3
Other operations	0.7	-0.1	0.5
<b>Total</b>	<b>3.6</b>	<b>-20.1</b>	<b>-19.2</b>
<b>Operating result excluding non-recurring items</b>	<b>70.8</b>	<b>90.2</b>	<b>179.9</b>

EUR million	Q1–Q2 2016	Q1–Q2 2015	Q1–Q4 2015
<b>Operating result (IFRS)</b>	<b>67.2</b>	<b>110.3</b>	<b>199.0</b>
Non-recurring items:			
Gains and losses on disposal in other operating income and expenses	1.1	-17.5	-17.5
Employee costs	2.1	-0.2	0.3
Impairment charges and reversals of impairments	0.1	-0.3	0.1
Other operating expenses	0.2	-2.1	-2.0
Total	3.6	-20.1	-19.2
<b>Operating result excluding non-recurring items</b>	<b>70.8</b>	<b>90.2</b>	<b>179.9</b>

“+” sign items = non-recurring expense

“-“ sign items = non-recurring income

Non-recurring expense of EUR 3.6 million in January–June 2016 consisted of personnel restructuring costs of EUR 2.1 million at Simpele board mill and Belgian sales office, disposal loss of EUR 1.1 million arising from sale of Alrec Boiler Oy, a structured entity previously owning the combustion facility in operation at Kaskinen pulp mill and consolidated to group accounts as a subsidiary, as well as other minor non-recurring impairments and expenses in Belgian sales office. As a result of the transactions concerning Alrec Boiler Oy, Metsä Board Oyj has become the direct owner of the combustion facility at Kaskinen while selling its shares in Alrec Boiler Oy to its partner company in accordance with the shareholder agreement between the parties. Non-recurring net income of EUR 20.1 million in comparison period of 2015 included among other things disposal gain of Gohrsmühle mill in Germany amounting to EUR 17.5 million and the result improving reversal of unused provisions valued at EUR 2.6 million originally recognized for closure of the Alizay mill in France as well as impairment reversal of a sold paper machine in Simpele mill amounting to EUR 0.3 million.

#### Assets by operating segments

EUR million	Q1–Q2 2016	Q1–Q2 2015	Q1–Q4 2015
Paperboard	1 833.6	1,503.2	1,574.4
Non-core operations	45.5	336.2	246.8
Other operations	139.4	146.5	144.1
Elimination	-69.5	-73.9	-75.2
Unallocated	174.3	288.0	330.0
Total	2,123.3	2,200.0	2,220.1

Segment assets include goodwill, other intangible assets, tangible assets, investments in associated companies and joint ventures, available for sale investments,

inventories, accounts receivables and prepayments and accrued income (excl. interest and income tax items).

#### NOTE 3 – INCOME TAXES

Tax expense in the interim condensed combined in-

come statement is comprised of the current tax and deferred taxes.

EUR million	Q1–Q2 2016	Q1–Q2 2015	Q1–Q4 2015
Taxes for the current period	10.1	8.6	14.4
Taxes for the prior periods	0.0	0.2	9.7
Change in deferred taxes	-4.0	-2.6	5.7
Total income taxes	6.2	6.2	29.8

## NOTE 4 – CHANGES IN PROPERTY, PLANT AND EQUIPMENT

EUR million	Q1–Q2 2016	Q1–Q2 2015	Q1–Q4 2015
Carrying value at beginning of period	812.3	737.7	737.7
Capital expenditure	77.5	71.1	176.1
Decreases	0.0	-6.5	-6.8
Depreciation, amortization and impairment losses	-46.3	-50.3	-99.4
Translation difference	-8.7	4.7	4.7
<b>Carrying value at end of period</b>	<b>834.8</b>	<b>756.7</b>	<b>812.3</b>

## NOTE 5 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
<b>1 Jan 2016</b>	<b>11.9</b>	<b>5.8</b>	<b>4.4</b>	<b>22.1</b>
Translation differences	-0.3	-0.0	-0.1	-0.4
Increases	0.1	0.0	0.5	0.7
Utilised during the year	-7.6	-0.1	-1.1	-8.8
Unused amounts reversed	-0.5	-	-	-0.5
<b>30 Jun 2016</b>	<b>3.7</b>	<b>5.7</b>	<b>3.8</b>	<b>13.2</b>

The non-current portion of provisions was EUR 6,8 million and the current portion EUR 6,4 million, total provisions amounting to EUR 13.2 million. The non-current

portion is estimated to be utilised mainly by the end of the year 2018.

## NOTE 6 – RELATED PARTY TRANSACTIONS

To related parties belong Metsä Board's ultimate parent company Finnish Metsäliitto Cooperative, other subsidiaries of Metsäliitto, associated companies and joint ventures as well as Metsäliitto Employees' Pension Foundation. The members of The Board of Directors and Metsä Group's Executive Management Team and Metsä Board's Corporate Management Team as well as their close family members also belong to related parties.

Metsä Board enters into a significant number of transactions with related parties for the purchases of inventory, sale of goods, corporate services as well as financial transactions. Product and service transfers and interest between Metsä Board and the related parties have been made at arm's length prices.

### Transactions with parent and sister companies

EUR million	Q1–Q2 2016	Q1–Q2 2015	Q1–Q4 2015
Sales	35.7	36.8	74.8
Other operating income	6.6	3.1	5.4
Purchases	318.3	361.9	700.3
Share of result from associated companies	23.8	31.2	61.3
Interest income	0.1	0.1	0.2
Interest expenses	4.0	0.8	2.4
Accounts receivables and other receivables	15.9	12.3	13.9
Cash and cash equivalents	146.8	266.9	311.3
Accounts payable and other liabilities	124.8	73.3	72.9

Metsä Fibre's net result is included within operating result line item "Share of result from associated companies" and transactions with Metsä Fibre are included in transactions with sister companies.

Metsä Fibre paid a dividend of EUR 32.9 million to Metsä Board during the six months ended 30 June

2016 (six months ended 30 June 2015: EUR 24.9 million). Cash and cash equivalents include interest-bearing receivables comparable to cash funds and available from Metsä Group's internal bank Metsä Group Treasury Oy.

#### Transactions with associated companies and joint ventures

EUR million	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Sales	0.3	0.3	0.6
Purchases	3.0	3.8	7.4
Other non-current financial assets	0.3	0.3	0.3
Accounts receivables and other receivables	0.1	0.1	0.2
Accounts payable and other liabilities	1.1	1.7	1.5

#### NOTE 7 – NOTES TO CONSOLIDATED CASH FLOW STATEMENT

##### Adjustments to the result for the period

EUR million	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015	Q2 2016
Taxes	6.2	6.2	29.8	2.3
Depreciation, amortization and impairment charges	48.0	52.3	103.5	25.1
Share of result from associated companies and joint ventures	-23.8	-31.4	-61.4	-11.7
Gains and losses on sale of fixed assets	-0.0	-18.4	-23.7	1.6
Finance costs, net	14.0	20.2	32.0	9.1
Provisions	-8.7	-4.8	-13.9	-6.0
Total	35.5	24.1	66.3	20.4

##### Disposals and other items

##### Net financial items

Net financial items in consolidated cash flow statement for six months ended 30 June 2016 include a dividend of EUR 32.9 million paid by Metsä Fibre (six months ended 30 June 2015: EUR 24.9 million).

Disposals and other items of EUR -0.9 million for the six months ended 30 June 2016 include EUR -2.8 million cash flow effect from disposal of structured entity Alrec Boiler Oy consolidated to group accounts as a subsidiary as well as cash inflow arising from sale of emission rights. The cash flow effect from the sale of Alrec Boiler Oy totalled EUR -5.5 million, of which EUR -2.7 million is recognised in the cash flow from financing activities.

Six months ended 30 June 2015 Disposals and other items, EUR -35.1 million, include EUR 1.3 million disposals of fixed assets, EUR 0.4 million disposals of other shares as well as EUR -37.0 million effect on cash flow statement related to disposal of Gohrsmühle mill in Germany.

## NOTE 8 – FINANCIAL INSTRUMENTS

Financial assets and liabilities and their fair values classified according to IAS 39 for the six months ended 30 June 2016:

### Financial assets 30 June 2016

EUR million	Fair value through profit & loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Total carrying amount	Fair value
Available for sale financial assets		191.5				191.5	191.5
Other non-current financial assets			13.1			13.1	13.1
Accounts receivables and other receivables			280.6			280.6	280.6
Cash and cash equivalent			157.3			157.3	157.3
Derivative financial instruments	0.3			2.2		2.5	2.5
<b>Total financial assets</b>	<b>0.3</b>	<b>191.5</b>	<b>450.9</b>	<b>2.2</b>	<b>-</b>	<b>644.9</b>	<b>644.9</b>

### Financial liabilities 30 June 2016

EUR million	Fair value through profit & loss	Derivatives at hedge accounting	Amortised cost	Total carrying amount	Fair value
Non-current interest-bearing financial liabilities			544.6	544.6	566.9
Other non-current financial liabilities			0.1	0.1	0.1
Current interest-bearing financial liabilities			157.7	157.7	159.8
Accounts payable and other financial liabilities			266.0	266.0	266.0
Derivative financial instruments		13.6		13.6	13.6
<b>Total financial liabilities</b>		<b>13.6</b>	<b>968.4</b>	<b>982.0</b>	<b>1,006.4</b>

Financial assets and liabilities and their fair values classified according to IAS 39 for the six months ended 30 June 2015:

#### Financial assets 30 June 2015

EUR million	Fair value through profit & loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Total carrying amount	Fair value
Available for sale financial assets		242.7				242.7	242.7
Other non-current financial assets			11.6			11.6	11.6
Accounts receivables and other receivables			327.4			327.4	327.4
Cash and cash equivalent			278.3			278.3	278.3
Derivative financial instruments				0.6		0.6	0.6
<b>Total financial assets</b>		<b>242.7</b>	<b>617.3</b>	<b>0.6</b>		<b>860.6</b>	<b>860.6</b>

#### Financial liabilities 30 June 2015

EUR million	Fair value through profit & loss	Derivatives at hedge accounting	Amortised cost	Total carrying amount	Fair value
Non-current interest-bearing financial liabilities			579.6	579.6	602.2
Other non-current financial liabilities			1.4	1.4	1.4
Current interest-bearing financial liabilities			91.6	91.6	93.5
Accounts payable and other financial liabilities			334.0	334.0	334.0
Derivative financial instruments	-0.5	19.9		19.5	19.5
<b>Total financial liabilities</b>	<b>-0.5</b>	<b>19.9</b>	<b>1,006.6</b>	<b>1,026.1</b>	<b>1,050.6</b>

Accounts receivables and other receivables do not include advance payments, deferred tax receivable and periodisations of employee costs.

Accounts payable and other financial liabilities do not include advance payments, deferred tax liability and periodisations of employee costs.

In Metsä Board all interest-bearing liabilities are valued in the balance sheet at amortised cost based on effective interest method. Interest bearing receivables are classified according to the IAS standards. Fair values in the table are based on present value of cash flow of each liability or assets calculated by market rate. The discount rates applied are between 0.3–2.8 per cent (30 June 2015: 0.8–2.4).



**Fair value hierarchy of financial assets and liabilities for the three months ended 30 June 2016**

EUR million	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Financial assets at fair value through profit or loss, non-current				
Available for sale financial assets	0.0		191.5	191.5
Financial assets at fair value through profit or loss, current				
Derivative financial assets		2.5		2.5
<b>Financial liabilities measured at fair value</b>				
Derivative financial liabilities	11.1	2.5		13.6
<b>Financial assets not measured at fair value</b>				
Cash and cash equivalent		157.3		157.3
<b>Financial liabilities not measured at fair value</b>				
Non-current interest-bearing financial liabilities		566.9		566.9
Current interest-bearing financial liabilities		159.8		159.8

**Fair value hierarchy of financial assets and liabilities for the three months ended 30 June 2015**

EUR million	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Financial assets at fair value through profit or loss, non-current				
Available for sale financial assets	0.1		242.6	242.7
Financial assets at fair value through profit or loss, current				0.0
Derivative financial assets		0.6		0.6
<b>Financial liabilities measured at fair value</b>				
Derivative financial liabilities	12.8	6.7		19.5
<b>Financial assets not measured at fair value</b>				
Cash and cash equivalent		278.3		278.3
<b>Financial liabilities not measured at fair value</b>				
Non-current interest-bearing financial liabilities		602.2		602.2
Current interest-bearing financial liabilities		93.5		93.5

### Financial assets and liabilities measured at fair value based on Level 3

	2016	2015
EUR million	30.6.	30.6.
Opening balance	210.1	232.9
Total gains and losses in profit or loss	0.1	
Total gains and losses in other comprehensive income	-18.6	9.7
Purchases		
Settlements	-0.1	
Closing balance	191.5	242.6

Financial assets and liabilities measured at fair value have been categorised according to IFRS 7

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

**Level 2** Fair value is determined by using valuation techniques that use observable price information from market.

**Level 3** Fair value are not based on observable market data, but company's own assumptions.

The fair values of electricity and natural gas derivatives are determined by using public price quotations in an active market (Level 1).

The fair values of currency forwards and options are determined by using the market prices of the closing date of the reporting period The fair values of interest rate swaps are determined by using the present value of expected payments, discounted using a risk adjusted discount rate, supported by market interest rates and other market data of the closing date of the reporting period (Level 2).

For financial instruments not traded on an open market, the fair value is determined by valuation techniques. Judgment is used when choosing the different techniques and making assumptions, which are mainly based on circumstances prevailing in the markets on each closing date of the reporting period (Level 3).

The valuation techniques are described in more detail in the Annual report.

The most significant item at fair value not traded on an open market is the investment in Pohjolan Voima shares, reported under available-for-sale financial assets. The valuation technique applied to Pohjolan Voima shares is described in more detail in the 2015 Annual report.

The WACC used in Pohjolan Voima share valuation on 30 June 2016 was 1.46 percent (30.6.2015: 2.81) and 4.46 percent (6.81) for the Olkiluoto 3 under construction. The acquisition cost of shares in Pohjolan Voima Oy is EUR 39.1 million (39.1) and the fair value EUR 187.4 million (238.4).

The carrying amount of available-for-sale financial assets as of 30.6.2016 is estimated to be EUR 1.4 million higher should the rate used for discounting the cash flows be 10 percent higher than the rate estimated by management. The carrying amount of available-for-sale financial assets as of 30.6.2016 is estimated to be EUR 2.4 million lower should the rate used for discounting the cash flows be 10 percent lower than the rate estimated by management. The carrying amount of available-for-sale financial assets is estimated to be EUR 34.1 million higher or EUR 34.1 million lower should the energy prices used for calculating the fair value differ by 10 percent from the prices estimated by management.

**Derivatives 30 June 2016**

EUR million	Nominal value	Fair value			Fair value		Derivatives with no hedge accounting
		Derivative Assets	Liab.	Fair value Net	Fair value	Cash flow hedges	
Interest forward agreements							
Interest rate options							
Interest rate swaps	150.0		2.5	-2.5		-2.5	
<b>Interest rate derivatives</b>	<b>150.0</b>		<b>2.5</b>	<b>-2.5</b>		<b>-2.5</b>	
Currency forward agreements	552.7	2.5		2.5		2.2	0.4
Currency option agreements	27.0	0.0		0.0			0.0
Currency swap agreements							
<b>Currency derivatives</b>	<b>579.8</b>	<b>2.5</b>		<b>2.5</b>		<b>2.2</b>	<b>0.3</b>
Electricity derivatives	65.8		8.1	-8.1		-8.1	
Pulp derivatives							
Oil derivatives	11.0		2.6	-2.6		-2.6	
Other commodity derivatives	3.9		0.4	-0.4		-0.4	
<b>Commodity derivatives</b>	<b>80.7</b>		<b>11.1</b>	<b>-11.1</b>		<b>-11.1</b>	
<b>Derivatives total</b>	<b>810.5</b>	<b>2.5</b>	<b>13.6</b>	<b>-11.1</b>		<b>-11.4</b>	<b>0.3</b>

**Derivatives 30 June 2015**

EUR million	Nominal value	Fair value			Fair value		Derivatives with no hedge accounting
		Derivative Assets	Liab.	Fair value Net	Fair value	Cash flow hedges	
Interest forward agreements							
Interest rate options							
Interest rate swaps	259.4		1.6	-1.6	3.5	-5.1	
<b>Interest rate derivatives</b>	<b>259.4</b>		<b>1.6</b>	<b>-1.6</b>	<b>3.5</b>	<b>-5.1</b>	
Currency forward agreements	419.9		5.2	-5.2		-5.5	0.4
Currency option agreements	88.2		-0.1	0.1			0.1
Currency swap agreements							
<b>Currency derivatives</b>	<b>508.1</b>		<b>5.0</b>	<b>-5.0</b>		<b>-5.5</b>	<b>0.5</b>
Electricity derivatives	60.6		11.1	-11.1		-11.1	
Pulp derivatives	12.1	0.6		0.6		0.6	
Oil derivatives	24.8		1.2	-1.2		-1.2	
Other commodity derivatives	4.9		0.5	-0.5		-0.5	0.0
<b>Commodity derivatives</b>	<b>102.5</b>	<b>0.6</b>	<b>12.8</b>	<b>-12.1</b>		<b>-12.1</b>	<b>0.0</b>
<b>Derivatives total</b>	<b>870.0</b>	<b>0.6</b>	<b>19.5</b>	<b>-18.8</b>	<b>3.5</b>	<b>-22.7</b>	<b>0.5</b>

## NOTE 9 – COMMITMENTS AND GUARANTEES

EUR million	30.6.2016	30.6.2015	31.12.2015
Liabilities secured by pledges, real estate mortgages and floating charges	138.0	169.0	157.2
Pledges granted	95.4	82.5	91.9
Floating charges	-	3.0	3.0
Real estate mortgages	232.8	232.8	232.8
Total pledges and mortgages	328.2	318.3	327.7
As security for other own commitments	7.9	16.3	8.5
On behalf of associated companies and joint ventures	0.1	0.1	0.1
On behalf of others	0.1	0.1	0.1
Total	336.3	334.8	336.4

Securities and guarantees include pledges, real estate mortgages, floating charges and guarantee liabilities. Metsä Board holds operating leases for certain vehicles and equipment. Leasing liabilities are included in the table above.

### Open derivative contracts

EUR million	30.6.2016	30.6.2015	31.12.2015
Interest rate derivatives	150.0	259.4	253.4
Currency derivatives	579.8	508.1	557.4
Other derivatives	80.7	102.5	84.3
Total	810.5	870.0	895.1

The fair value of open derivative contracts calculated at market value at the end of the review period was EUR -11.1 million (EUR -18.8 million 30 June 2015).

### Commitments related to property, plant and equipment

EUR million	30.6.2016	30.6.2015	31.12.2015
Payments due in following 12 months	19.3	53.1	30.7
Payments due later	1.6	6.9	5.9
Total	20.9	60.0	36.6