

METSÄ GROUP

HALF YEAR FINANCIAL REPORT

JANUARY–JUNE 2016



METSÄ GROUP'S OPERATING RESULT EXCLUDING NON-RECURRING ITEMS IN JANUARY–JUNE 2016 WAS EUR 229 MILLION

JANUARY–JUNE 2016 (1–6/2015)

- Sales were EUR 2,339 million (EUR 2,585 million).
- Operating result excluding non-recurring items was EUR 229 million (266). Operating result including non-recurring items was EUR 225 million (272).
- Result before taxes excluding non-recurring items was EUR 190 million (230). Result before taxes including non-recurring items was EUR 186 million (234).
- Return on capital employed excluding non-recurring items was 11.0 per cent (13.7). Return on capital employed excluding non-recurring items and excluding assets under construction related to strategic investment projects was 12.2 per cent (13.9).
- Cash flow from operations was EUR 121 million (333).

APRIL–JUNE 2016 (4–6/2015)

- Sales were EUR 1,184 million (EUR 1,330 million).
- Operating result excluding non-recurring items was EUR 120 million (137). Operating result including non-recurring items was EUR 119 million (154).
- Result before taxes excluding non-recurring items was EUR 100 million (114). Result before taxes including non-recurring items was EUR 98 million (128).
- Return on capital employed excluding non-recurring items was 11.5 per cent (13.8). Return on capital employed excluding non-recurring items and excluding assets under construction related to strategic investment projects was 12.6 per cent (14.0).
- Cash flow from operations was EUR 152 million (266).

EVENTS DURING THE SECOND QUARTER OF 2016

- The bioproduct mill project proceeded according to the planned schedule and reached its halfway point in June.
- The market price of long-fibre pulp increased by one per cent. The price of short-fibre pulp decreased by 9 per cent compared to the previous quarter.
- 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

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Metsä Group is a forerunner in bioeconomy utilising renewable wood from sustainably managed northern forests. Metsä Group focuses on wood supply and forest services, wood products, pulp, fresh forest fibre paperboards and tissue and cooking papers.

Metsä Group's sales totalled EUR 5.0 billion in 2015, and it employs approximately 9,600 people. The Group operates in some 30 countries. Metsäliitto Cooperative is the parent company of Metsä Group and owned by approximately 116,000 Finnish forest owners.

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white fresh forest fibre linerboard and folding box-board in Europe.

- Metsä Wood announced it will launch an investment programme of approximately EUR 100 million in the plywood and Kerto® LVL operations. Metsä Group announced that its sawmills in Finland will be transferred from Metsä Wood to Metsä Fibre through an internal transaction by the end of 2016.

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.

PROFIT GUIDANCE FOR JULY–SEPTEMBER 2016

Metsä Group's operating result excluding non-recurring items in the third quarter of 2016 is expected to be slightly weaker than in the second quarter of 2016.

President and CEO Kari Jordan:

"Metsä Group's second quarter in 2016 was as we expected. The operating result compared to the previous year was affected by the lower market price of pulp and the start-up phase of the new folding boxboard production line at Husum.

The production volumes of Husum's new folding boxboard production line have increased and its operational reliability has clearly improved. Full production capacity is expected to be achieved by the end of this year. The printing paper production at the Husum mill and in the entire Metsä Group came to an end in its entirety in July.

The construction of the bioproduct mill in Äänekoski is progressing according to the planned schedule and on budget. More than half of the mill, to be started up in the third quarter of 2017, is currently complete.

In June, we announced a development programme of approximately EUR 100 million in the plywood and Kerto® LVL operations, which will enable us to better

meet the globally growing demand and improve our competitiveness. The programme includes investments in both Finland and Estonia, and it will be implemented in steps by the end of 2018.

As economic growth in Europe continues to be sluggish, our focus areas for sales growth are in North America, Asia, and Oceania.”

KEY FIGURES

Condensed income statement, EUR million	2016	2015	2016	2015	2015
	1–6	1–6	4–6	4–6	1–12
Sales	2 339.5	2 585.3	1 183.9	1 330.2	5 016.0
Other operating income	25.2	68.2	16.8	52.9	95.7
Operating expenses	-2 013.6	-2 245.1	-1 022.8	-1 161.9	-4 311.4
Depreciation and impairment losses	-125.8	-136.5	-59.5	-67.1	-258.2
Operating result	225.3	271.9	118.5	154.0	542.1
Share of results from associated companies and joint ventures	-0.9	9.3	-0.8	3.2	11.2
Exchange gains and losses	-0.5	-3.2	0.5	-6.7	-1.2
Other net financial items	-37.9	-43.7	-20.0	-22.4	-83.8
Result before income tax	186.0	234.3	98.2	128.2	468.4
Income tax	-42.1	-53.0	-22.6	-35.5	-112.6
Result for the period	143.9	181.3	75.7	92.7	355.7

Profitability	2016	2015	2016	2015	2015
	1–6	1–6	4–6	4–6	1–12
Operating result, EUR million	225.3	271.9	118.5	154.0	542.1
excluding non-recurring items	229.3	265.8	119.8	137.1	537.4
% of sales	9.8	10.3	10.1	10.3	10.7
Return on capital employed, %	10.8	14.0	11.4	15.5	13.7
excluding non-recurring items	11.0	13.7	11.5	13.8	13.6
Return on equity, %	11.8	16.6	12.4	16.5	15.9
excluding non-recurring items	12.1	16.3	12.6	13.9	15.8

Financial position	2016	2015	2016	2015	2015
	30.6.	30.6.	31.3.	31.3.	31.12.
Equity ratio, %	44.8	41.9	42.8	39.0	43.2
Net gearing ratio, %	38	34	35	41	25
Interest-bearing net liabilities, EUR million	945	779	847	887	610

SEGMENTS

Sales and Operating result 1–6/2016, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp Industry	Paperboard Industry	Tissue and Cooking Papers
	Sales	779.0	437.9	648.9	858.5
Other operating income	3.7	5.2	5.7	14.3	1.6
Operating expenses	-766.6	-411.3	-503.6	-757.7	-450.1
Depreciation and impairment losses	-1.7	-17.1	-35.3	-48.0	-19.8
Operating result	14.3	14.7	115.7	67.2	26.7
Non-recurring items	-	5.5	-	3.6	-
Operating result excluding non-recurring items	14.3	20.2	115.7	70.8	26.7
% of sales	1.8	4.6	17.8	8.2	5.4

THIS HALF YEAR FINANCIAL REPORT IS UNAUDITED**HALF YEAR FINANCIAL REPORT 2016****SALES AND RESULT**

Metsä Group's sales in January–June 2016 totalled EUR 2,339.5 million (1–6/2015: EUR 2,585.3 million). Compared to the corresponding period previous year, sales were reduced by the considerable decline in paper deliveries and the decrease in the market prices of pulp.

The operating result excluding non-recurring items was EUR 229.3 million (265.8), or 9.8 per cent of sales (10.3). The decrease in the operating result compared to the previous year is primarily attributable to the lower market price of pulp, start-up of the new folding boxboard production line at Husum, and the lower average price of the start-up volumes of folding boxboard.

Sales for the second quarter of the year totalled EUR 1,183.9 million, whereas the sales for the corresponding period last year were EUR 1,330.2 million. The operating result excluding non-recurring items was EUR 119.8 million (4–6/2015: 137.1).

Non-recurring items in January–June amounted to EUR -4.0 million (+6.1). Metsä Board recognised a cost provision of EUR 1.8 million related to the restructuring of the Simpele paperboard mill, a loss of EUR 1.1 million from the divestment of Alrec Boiler Oy, and expenses of EUR 0.7 million related to the reorganisation of the sales office in Belgium. Metsä Wood recognised additional expenses of EUR 0.4 million related to the divestment of Metsä Wood France S.A.S.

The operating result including non-recurring items was EUR 225.3 million (271.9). The share of the results of associated companies and joint ventures was EUR -0.9 million (9.3), financial income was EUR 2.0 million (3.1), exchange rate differences on financing items were EUR -0.5 million (-3.2) and financial expenses totalled EUR 39.9 million (46.8).

The result before taxes was EUR 186.0 million (234.3), and taxes, including changes in deferred tax liabilities, totalled EUR 42.1 million (53.0). The Group's effective tax rate was 22.6 per cent (22.6). The net result for the review period was EUR 143.9 million (181.3).

Excluding non-recurring items, the return on capital employed was 11.0 per cent (13.7), and the return on equity was 12.1 per cent (16.3). The Äänekoski bioproduct mill under construction reduced the return on capital employed by 1.2 percentage points (0.2).

Including non-recurring items, the Group's return on capital employed was 10.8 per cent (14.0) and the return on equity was 11.8 per cent (16.6).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity is excellent. Total liquidity at the end of June was EUR 1,585.4 million (31 December 2015: 1,952.6). This consisted of EUR 753.3 million (1,120.8) of liquid assets and investments and EUR 832.1 million (831.8) of off-balance sheet committed credit facility agreements. In addition, the Group has EUR 820.9 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 2015: 161.0).

The Group's equity ratio at the end of June was 44.8 per cent and the net gearing ratio was 38 per cent (31 December 2015: 43.2 per cent and 25 per cent, respectively). Interest-bearing net liabilities were EUR 944.8 million (31 December 2015: 609.6).

Cash flow from operations amounted to EUR 120.7 million (1–6/2015: 333.0). In January–June, EUR 213.8 million was tied up in working capital (34.9). Working capital was increased by the addition of EUR 107.4 million (33.8) in account receivables and advance payment of pension premiums as well as the addition of EUR 69.2 million (reduction of 7.7) in inventories. Working capital was also increased by the decrease of EUR 37.3 million (8.8) in account payables.

The equity ratio of the parent company Metsäliitto Cooperative was 69.8 per cent and net gearing was 1 per cent at the end of June (31 December 2015: 67.8 per cent and 3 per cent, respectively).

On 3 May 2016, Metsäliitto Cooperative's Representative Council decided that interest of 6.0 per cent (5.5 per cent for 2014) be paid on the participation shares of the members for 2015. Interest of 5.5 per cent (5.0) is paid on additional shares A, and interest of 3.0 per cent (4.5) on additional shares B. The interest paid totalled EUR 50.4 million (45.7).

In January–June, Metsäliitto Cooperative's members' capital increased by a total of EUR 62.8 million (53.6). The value of participation shares grew by EUR 5.6 million (1.0), that of the additional shares A by EUR 47.0 million (41.0), and that of the additional shares B by EUR 10.2 million (11.6). After the review period, on 1 July 2016, EUR 44.1 million (23.6) of the additional members' capital fell due for refund.

In June, Metsä Board agreed on extending 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.

In June, the shareholders of Metsä Fibre made an equity investment totalling EUR 100 million on the bioproduct mill under construction. The share of Metsäliitto Cooperative was EUR 50.2 million, that of Metsä Board EUR 24.9 million, and that of Itochu Corporation EUR 24.9 million.

PERSONNEL

In January–June, Metsä Group had an average of 9,698 employees (10,370). Personnel expenses totalled EUR 323.8 million in January–June (353.2). At the end of June, the Group employed 10,075 people (31 December 2015: 9,599), of whom 5,630 (5,122) were based in Finland and 4,445 (4,477) were based abroad.

Metsäliitto Cooperative employed 2,559 people at the end of June (31 December 2015: 2,449).

MEMBERS

At the end of June, Metsäliitto Cooperative had 113,235 members (31 December 2015: 116,290). During January–June, 2,172 new members joined the Cooperative, and 5,227 members cancelled their membership. The decrease in the number of members was mainly due to bringing the membership register up to date.

INVESTMENTS

Metsä Group's capital expenditure totalled EUR 337.9 million (140.2) in January–June. Approximately EUR 230 million of the expenditure was directed at the Äänekoski bioproduct mill.

Äänekoski bioproduct mill

The bioproduct mill project proceeded on schedule and reached the halfway point in June. The project progressed from construction to the equipment installation stage, and the workforce on site increased to 1,300 people.

In May 2016, Metsä Fibre signed an agreement with Valmet on the construction of a sulphuric acid plant at the bioproduct mill. The investment of approximately EUR 20 million will enable the bioproduct mill to manufacture sulphuric acid, needed for manufacturing tall oil, from the mill's odorous gases. The plant will start up at the same time as the bioproduct mill, in the third quarter of 2017. Thanks to the sulphuric acid plant, the bioproduct mill will be able to reduce the sulphate load on natural waterways and the transports of chemicals.

Husum mill

Metsä Board's EUR 170 million investment programme at the Husum mill in Sweden has been completed, and

the new folding boxboard production line 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 in all operations at the Husum integrate. At an annual level, the programme is targeting cost savings of a minimum of EUR 10 million.

Metsä Board will expand its range of paperboards for food service packaging and invest in an extrusion coating line at the Husum mill. 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.

BUSINESS AREAS

Wood Supply and Forest Services

Metsä Forest's sales in January–June totalled EUR 779.0 million (1–6/2015: 805.2) and the operating result totalled EUR 14.3 million (15.6). Sales in the second quarter of the year amounted to EUR 377.8 million (4–6/2015: 393.5) and the operating result totalled EUR 6.5 million (6.9).

In Finland, the supply of wood was steady and stumpage prices remained stable. The forest industry purchased more wood than in the corresponding period in the previous year. The weather conditions for harvesting were good.

The supply of wood and the winter harvesting conditions were good throughout the Baltic Sea region. During the review period, there was oversupply of pulpwood nearly throughout the region. The prolonged difficult market situation in energy wood continued.

Metsä Forest bought all timber grades through both standing and delivery sales. The purchase volumes were at a higher level than last year. Purchasing of energy wood focused on crown wood. Wood demand focused on stands for summer harvesting as well as logs, in particular.

The sales of forest management services continued to be brisk and increased by 20 per cent compared to the corresponding period previous year. Towards the end of the review period, sales were weakened by the decision made by the Ministry of Agriculture and Forestry to partly suspend subsidies based on the Act on the Financing of Sustainable Forestry.

Wood was harvested in Finland as targeted, and deliveries to production units were carried out according to plan. In January–June, Metsä Forest delivered a total of approximately 15.7 million cubic metres (15.9) of wood to its customers. Approximately 83 per cent of this amount went to industry in Finland.

In January–June, a total of almost 20 per cent of wood acquired by Metsä Forest from private forests was purchased electronically. The figure was almost 30 per cent in the sale of forest management services.

Wood Products Industry

Metsä Wood's sales in January–June totalled EUR 437.9 million (1–6/2015: 452.2). The operating result excluding non-recurring items was EUR 20.2 million (18.0). In January–June, Metsä Wood recognised a total of EUR -5.5 million of non-recurring items. The most essential of these items was the write-off of EUR -5.0 million on the goodwill of pine sawmills, related to the announcement made in June concerning the transfer of Metsä Wood's sawmills in Finland to Metsä Fibre.

Metsä Wood's sales in the second quarter were EUR 229.2 million (4–6/2015: 242.8) and operating result excluding non-recurring items was EUR 14.4 million (10.2).

The deliveries of spruce and pine sawn timber to North Africa increased markedly from the corresponding period in the previous year, and the deliveries of spruce sawn timber to Asia, and China in particular, were at a materially higher level than in the comparison period. The oversupply in pine sawn timber is gradually balancing out. However, the profitability of sawing operations weakened as a result of the considerably lower prices of sawn timber. Average prices were reduced due to the low price level in North Africa, in particular.

The delivery volumes and sales of Kerto® LVL products grew markedly due to deliveries to Australia and North America, in particular. The delivery volumes and sales of both birch and spruce plywood decreased from the comparison period. The market balance of board products in Europe has been weakened by the increase in imports from Russia. The production of birch and spruce plywood was adjusted in the second quarter.

At the end of June, the Group announced the transfer of Metsä Wood's sawmills in Finland to Metsä Fibre through an internal transaction. The transaction is estimated to be completed by the end of 2016. The transfer includes the sawmills in Vilppula, Lappeenranta, Renko, Merikarvia, Kyrö and Eskola, and their total annual production volume of sawn timber is approximately 1.6 million cubic metres. The transfer will not affect the Group's total number of personnel.

In June, Metsä Wood announced it would launch an investment programme of EUR 100 million, related to the Kerto® LVL and plywood operations. The plan is to implement the programme in steps by the end of 2018.

Metsä Wood sold its ThermoWood operations in Kaskinen to Oy Lunawood Ltd. at the beginning of June.

Pulp Industry

Metsä Fibre's sales for January–June were EUR 648.9 million (1–6/2015: 721.5). The production volume of pulp was 1,129,000 tonnes (1,175,000). Compared to the corresponding period in the previous year, the currency-denominated market prices of long-fibre pulp were 10 per cent lower and the prices of short-fibre pulp were 5 per cent lower in January–June.

Metsä Fibre's operating result in January–June totalled EUR 115.7 million (171.1). The reduction in sales prices, in particular, decreased the result below the level of the corresponding period in the previous year. In January–June, the exchange rate of the US dollar was, on average, at the same level compared to corresponding period previous year.

Metsä Fibre's sales for the second quarter of the year were EUR 325.5 million (4–6/2015: 391.1) and operating result totalled EUR 52.0 million (92.5).

The price of long-fibre pulp in Europe was USD 794 per tonne at the beginning of January and USD 806 at the end of the period under review. The price of short-fibre pulp was USD 781 and USD 680, respectively. The price difference between long- and short-fibre pulp at the end of the second quarter was USD 126, whereas the corresponding difference at the beginning of the year was USD 13.

Metsä Group's sawmills in Finland will become part of Metsä Fibre through an internal transaction by the end of 2016 in order to utilise the industrial synergies of pulp and sawn timber even better. Until now, the sawmills have been part of Metsä Wood.

Paperboard Industry

Metsä Board's sales in January–June were EUR 858.5 million (1–6/2015: 1,047.7). Sales were reduced by the considerable decrease in paper deliveries. The delivery volume of paper amounted to 26,000 tonnes (294,000). After the review period, paper production in Husum came to an end. The remaining inventory will be sold during the second half of the year.

The operating result in January–June was EUR 67.2 million (110.3), and the operating result excluding non-recurring items was EUR 70.8 million (90.2).

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

Metsä Board's sales in the second quarter were EUR 422.9 million (4–6/2015: 522.0) and operating result excluding non-recurring items was EUR 35.8 million (47.0).

The delivery volume of Metsä Board's folding boxboard and white fresh forest fibre linerboard in January–June was 767,000 tonnes (688,000).

Excluding non-recurring items, Metsä Board's return on capital employed was 8.4 per cent (11.6), and earnings per share were EUR 0.14 (0.19).

Metsä Board's equity ratio at the end of June was 47.3 per cent and the net gearing ratio was 54 per cent (31 December 2015: 46.5 per cent and 32 per cent, respectively).

Metsä Board's Half Year Financial Report was published on 4 August 2016.

Tissue and Cooking Papers

Metsä Tissue's sales in January–June totalled EUR 495.1 million (1–6/2015: 502.7). The reduction in sales is primarily due to the decrease in sales volumes, which was affected by the closure of tissue paper operations in Russia in summer 2015. In addition, the weakening of the exchange rates of the Norwegian krone, Polish zloty and British pound reduced sales.

The operating result excluding non-recurring items was EUR 26.7 million (23.4). The operating result was increased by a better product mix as well as lower costs of energy and transport.

Metsä Tissue's sales in the second quarter were EUR 248.8 million (4–6/2015: 249.0) and the operating result excluding non-recurring items was EUR 13.2 million (7.6).

In Germany, Metsä Tissue renewed a paper machine at the Raubach mill and commissioned a new warehouse in Kreuzau.

RISKS AND UNCERTAINTIES

The estimates and statements in this half year financial 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 risk concentrations around the world, and forecasting developments in them is difficult. The 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 forest industry products and, therefore, on Metsä Group's result.

The risks related to the Group's business have been explained more extensively in Metsä Group's Financial Statements for 2015.

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 that Metsäliitto Cooperative is aware of and that were directed at Metsäliitto Cooperative and the other aforementioned companies jointly is approximately EUR 192 million, of which approximately EUR 63.5 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.

In February 2016, the Supreme Court issued a decision stating that a compensation claim filed by a private forest owner has partially expired. Based on the Supreme Court decision concerning the expiration, the total amount of the damage claims is expected to reduce slightly.

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. The ruling by the Helsinki District Court is not final.

In May 2014, Metsäliitto Cooperative and Metsä Board demanded the District Court of Helsinki to revoke the judgment issued by the Arbitral Tribunal on 11 February 2014 that ordered Metsäliitto Cooperative and Metsä Board to pay a total of EUR 67 million in damages to UPM-Kymmene Corporation. In the judgment issued in June 2015, the District Court rejected the demands by Metsäliitto Cooperative and Metsä Board. Metsäliitto Cooperative and Metsä Board have appealed the District Court's judgment at the Court of Appeal.

In the autumn of 2015, the Finnish Tax Administration took a stand against the deductibility of certain losses in Metsä Board's 2014 taxation. The company recognised around EUR 9.5 million in previously unrecognised income taxes in its result for 2015. 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 target felling sites to be harvested when the ground is unfrozen and, in terms of energy wood, crown wood. The uncertainties related to the Act on the Financing of Sustainable Forestry will have a negative impact on the demand for forest management services.

The market balance and sales prices of sawn timber are expected to improve as a whole. The market situation in North Africa will create uncertainty in the demand for pine sawn timber. Demand in the Chinese market is expected to quiet down seasonally. The demand for Kerto® LVL wood products is expected to continue to be brisk, but competition in plywood products will remain fierce.

The demand for long-fibre pulp is expected to continue to grow moderately globally. The annual maintenance shutdowns of two of Metsä Fibre's pulp mills are scheduled for the third quarter.

Metsä Board's paperboard deliveries are expected to grow in July–September from the second quarter of 2016. Demand for paperboard is expected to remain stable in both Europe and the Americas.

The market prices of folding boxboard and white fresh forest fibre linerboard are expected to remain stable or increase slightly. Metsä Board has announced an increase in the price of white fresh forest fibre linerboard

and folding boxboard in Europe. The result development will continue to be affected by the start-up volumes of folding boxboard at Husum, which will reduce the average price of folding boxboard.

In the tissue and cooking paper markets, demand is expected to continue to be stable in all market areas. Demand for tissue paper is expected to increase in eastern Central Europe, in particular, and demand for cooking papers is expected to grow in Asia.

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.

PROFIT GUIDANCE FOR JULY–SEPTEMBER 2016

Metsä Group's operating result excluding non-recurring items in the third quarter of 2016 is expected to be slightly weaker than in the second quarter of 2016.

Espoo, Finland, 4 August 2016

BOARD OF DIRECTORS

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Metsä Group will publish its Interim Report for January–September 2016 on 2 November, 2016.

SEGMENTS

	2016	2015	2016	2015	2015
Wood Supply and Forest Services	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	779.0	805.2	377.8	393.5	1 518.1
EBITDA, EUR million	16.0	17.4	7.4	7.8	32.5
excl. non-rec. items, EUR million	16.0	17.4	7.4	7.8	32.5
Operating result, EUR million	14.3	15.6	6.5	6.9	29.0
excl. non-rec. items, EUR million	14.3	15.6	6.5	6.9	29.0
% of sales	1.8	1.9	1.7	1.8	1.9
ROCE excl. non-rec. items, %	24.3	25.9	21.3	21.9	26.4
Capital expenditure, EUR million	2.4	3.2	1.7	1.5	6.0
Personnel at end of period	931	945	931	945	877

	2016	2015	2016	2015	2015
Wood Products Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	437.9	452.2	229.2	242.8	852.2
EBITDA, EUR million	31.9	12.6	20.3	-2.2	40.4
excl. non-rec. items, EUR million	32.3	31.6	20.4	16.9	58.5
Operating result, EUR million	14.7	-4.3	9.4	-12.2	10.0
excl. non-rec. items, EUR million	20.2	18.0	14.4	10.2	31.4
% of sales	4.6	4.0	6.3	4.2	3.7
ROCE excl. non-rec. items, %	14.6	11.8	20.3	12.9	10.7
Capital expenditure, EUR million	5.1	5.7	3.3	3.3	17.3
Personnel at end of period	2 067	2 313	2 067	2 313	2 018

	2016	2015	2016	2015	2015
Pulp Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	648.9	721.5	325.5	391.1	1 444.6
EBITDA, EUR million	150.9	206.6	64.9	106.6	400.3
excl. non-rec. items, EUR million	150.9	206.6	64.9	106.6	400.3
Operating result, EUR million	115.7	171.1	52.0	92.5	337.2
excl. non-rec. items, EUR million	115.7	171.1	52.0	92.5	337.2
% of sales	17.8	23.7	16.0	23.6	23.3
ROCE excl. non-rec. items, %	24.8	47.2	23.1	52.4	41.9
Capital expenditure, EUR million	238.3	47.4	157.9	44.5	250.6
Personnel at end of period	962	931	962	931	857

	2016	2015	2016	2015	2015
Paperboard Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	858.5	1 047.7	422.9	522.0	2 007.5
EBITDA, EUR million	115.2	162.6	59.6	93.3	302.5
excl. non-rec. items, EUR million	118.6	142.8	60.7	73.1	283.3
Operating result, EUR million	67.2	110.3	34.5	67.2	199.0
excl. non-rec. items, EUR million	70.8	90.2	35.8	47.0	179.9
% of sales	8.2	8.6	8.5	9.0	9.0
ROCE excl. non-rec. items, %	8.4	11.6	8.5	11.6	11.3
Capital expenditure, EUR million	102.6	72.2	48.3	48.3	177.8
Personnel at end of period	2 762	2 850	2 762	2 850	2 601

	2016	2015	2016	2015	2015
Tissue and Cooking Papers	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	495.1	502.7	248.8	249.0	1 015.8
EBITDA, EUR million	46.5	32.6	23.3	17.6	82.1
excl. non-rec. items, EUR million	46.5	42.4	23.3	17.3	94.0
Operating result, EUR million	26.7	11.2	13.2	6.1	41.6
excl. non-rec. items, EUR million	26.7	23.4	13.2	7.6	55.1
% of sales	5.4	4.6	5.3	3.0	5.4
ROCE excl. non-rec. items, %	8.0	7.2	8.0	4.6	8.2
Capital expenditure, EUR million	8.5	7.2	5.3	5.1	29.4
Personnel at end of period	2 862	2 909	2 862	2 909	2 754

	2016	2015	2016	2015	2015
Other operations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	2.8	2.8	1.1	0.9	4.1
EBITDA, EUR million	4.7	23.7	5.1	23.8	23.8
excl. non-rec. items, EUR million	4.7	3.2	5.1	3.3	3.3
Operating result, EUR million	3.7	22.7	4.6	23.3	21.8
excl. non-rec. items, EUR million	3.7	2.1	4.6	2.8	1.3
Capital expenditure, EUR million	6.5	5.4	3.3	2.7	13.3
Personnel at end of period	492	494	492	494	492

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.

	2016	2015	2016	2015	2015
Internal sales and eliminations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	-882.6	-946.8	-421.4	-469.1	-1 826.4
EBITDA, EUR million	-14.1	-47.1	-2.6	-25.8	-81.2
excl. non-rec. items, EUR million	-14.1	-47.1	-2.6	-25.8	-81.2
Operating result, EUR million	-17.0	-54.8	-1.6	-29.8	-96.5
excl. non-rec. items, EUR million	-22.0	-54.8	-6.7	-29.8	-96.5

	2016	2015	2016	2015	2015
Metsä Group	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	2 339.5	2 585.3	1 183.9	1 330.2	5 016.0
EBITDA, EUR million	351.1	408.4	178.0	221.2	800.3
excl. non-rec. items, EUR million	354.9	397.0	179.2	199.2	790.7
Operating result, EUR million	225.3	271.9	118.5	154.0	542.1
excl. non-rec. items, EUR million	229.3	265.8	119.8	137.1	537.4
% of sales	9.8	10.3	10.1	10.3	10.7
ROCE excl. non-rec. items, %	11.0	13.7	11.5	13.8	13.6
Capital expenditure, EUR million	337.9	140.2	194.9	104.7	491.6
Personnel at end of period	10 075	10 442	10 075	10 442	9 599

RECONCILIATION OF OPERATING RESULT

EUR million	2016 1–6	2015 1–6	2016 4–6	2015 4–6	2015 1–12
OPERATING RESULT (IFRS)	225.3	271.9	118.5	154.0	542.1
Non-recurring items:					
Wood Supply and Forest Services	-	-	-	-	-
Wood Products Industry	5.5	22.3	5.1	22.3	21.4
Pulp Industry	-	-	-	-	-
Paperboard Industry	3.6	-20.1	1.3	-20.2	-19.2
Tissue and Cooking Papers	-	12.2	-	1.5	13.5
Other operations	-5.0	-20.6	-5.0	-20.5	-20.5
Total	4.0	-6.1	1.3	-16.9	-4.7
OPERATING RESULT EXCLUDING NON-RECURRING ITEMS	229.3	265.8	119.8	137.1	537.4

EUR million	2016 1–6	2015 1–6	2016 4–6	2015 4–6	2015 1–12
OPERATING RESULT (IFRS)	225.3	271.9	118.5	154.0	542.1
Non-recurring items:					
Other operating income	-	-38.3	-	-38.3	-40.2
Change in inventories	-	14.2	-	12.4	12.4
Employee costs	2.1	1.1	-0.2	0.0	7.9
Depreciation	0.2	0.0	0.2	-0.5	-
Impairment charges	-	5.2	-	5.5	4.9
Other operating expenses	1.7	11.7	1.3	4.0	10.2
Total	4.0	-6.1	1.3	-16.9	-4.7
OPERATING RESULT EXCLUDING NON-RECURRING ITEMS	229.3	265.8	119.8	137.1	537.4

Items with "+" sign = non-recurring expenses

Items with "-" sign = non-recurring income

Non-recurring items totalled EUR -4.0 million in January–June 2016. Metsä Board recognised a cost provision of EUR 1.8 million related to the restructuring of the Simpele paperboard mill, a loss of EUR 1.1 million due to the sale of Alrec Boiler Oy and costs of EUR 0.7 million due to the reorganisation of the sales office in Belgium. Metsä Wood recognised EUR 0.4 million additional expenses related to the divestment of Metsä Wood France S.A.S. Metsä Wood's impairment loss of EUR 5.0 million due to the transfer of the sawmills to the pulp industry segment has been eliminated on Metsä Group level.

Metsä Group's operating result in January–June 2015 included net non-recurring items of EUR +6.1 million. The most significant positive non-recurring items were the gain of EUR 20.8 million from the sale of the shares in Finsilva Oyj and the gain of EUR 17.5 million from the sale of the Gohrsmühle mill. The sale of the shares in Metsä Wood France S.A.S. generated a non-recurring loss of EUR 21.8 million. Provisions and write-offs related to Metsä Tissue's Russian operations and the efficiency programme regarding Metsä Tissue's napkin business in Germany were EUR 10.3 million.

Metsä Group's operating result in 2015 included net non-recurring items of EUR +4.7 million. The most significant positive non-recurring items were the gain of EUR 20.8 million from the sale of the shares in Finsilva Oyj and the gain of EUR 17.5 million from the sale of the Gohrsmühle mill. The sale of the shares in Metsä Wood France S.A.S. generated a non-recurring loss of EUR 21.4 million. Provisions and write-offs related to Metsä Tissue's Russian operations and the efficiency programme regarding Metsä Tissue's napkin business in Germany were EUR 13.5 million.

QUARTERLY DATA

EUR million	2016	2016	2015	2015	2015	2015
	4-6	1-3	10-12	7-9	4-6	1-3
Sales						
Wood Supply and Forest Services	377.8	401.2	364.9	348.0	393.5	411.8
Wood Products Industry	229.2	208.7	188.0	212.0	242.8	209.4
Pulp Industry	325.5	323.4	373.5	349.6	391.1	330.4
Paperboard Industry	422.9	435.6	462.2	497.6	522.0	525.7
Tissue and Cooking Papers	248.8	246.2	263.8	249.2	249.0	253.7
Other operations	1.1	1.6	0.5	0.8	0.9	1.9
Internal sales	-421.4	-461.2	-447.7	-432.0	-469.1	-477.7
Sales total	1 183.9	1 155.6	1 205.4	1 225.2	1 330.2	1 255.1
Operating result						
Wood Supply and Forest Services	6.5	7.8	6.3	7.0	6.9	8.7
Wood Products Industry	9.4	5.4	8.6	5.7	-12.2	7.9
Pulp Industry	52.0	63.7	80.5	85.5	92.5	78.7
Paperboard Industry	34.5	32.7	34.1	54.6	67.2	43.1
Tissue and Cooking Papers	13.2	13.5	23.9	6.5	6.1	5.1
Other operations	4.6	-0.9	-5.1	4.2	23.3	-0.6
Eliminations	-1.6	-15.3	-20.2	-21.5	-29.8	-25.0
Operating result total	118.5	106.8	128.2	142.0	154.0	117.8
% of sales	10.0	9.2	10.6	11.6	11.6	9.4
Share of results from associated companies and joint ventures	-0.8	-0.1	2.7	-0.8	3.2	6.1
Exchange gains and losses	0.5	-1.0	2.6	-0.6	-6.7	3.5
Other net financial items	-20.0	-17.8	-20.1	-20.0	-22.4	-21.3
Result before income tax	98.2	87.8	113.4	120.7	128.2	106.1
Income tax	-22.6	-19.5	-21.2	-38.4	-35.5	-17.5
Result for the period	75.7	68.3	92.2	82.3	92.7	88.6
Operating result excl. non-rec. items						
Wood Supply and Forest Services	6.5	7.8	6.3	7.0	6.9	8.7
Wood Products Industry	14.4	5.8	7.5	5.9	10.2	7.9
Pulp Industry	52.0	63.7	80.5	85.5	92.5	78.7
Paperboard Industry	35.8	35.0	35.1	54.6	47.0	43.2
Tissue and Cooking Papers	13.2	13.5	18.6	13.2	7.6	15.8
Other operations and eliminations	-2.1	-16.2	-25.3	-17.3	-27.0	-25.7
Operating result total	119.8	109.5	122.7	149.0	137.1	128.6
% of sales	10.1	9.5	10.2	12.2	10.3	10.2

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 and Return on capital employed excluding non-recurring items

Exceptional and material items outside the ordinary course of business have been eliminated from the operating result excluding non-recurring items, and they have been allocated to the operating segments. Reconciliation of operating result under IFRS and operating result excluding non-recurring items is presented in this half year financial report. The return on capital employed excluding non-recurring items has been calculated using the same adjustments as the operating result excluding non-recurring items, and it has been further adjusted with non-recurring items of financial income 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 non-recurring items eliminated are key figures used in IFRS reporting, and they cannot be compared with other companies' key figures identified with the same names.

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, restructuring costs and their adjustments as well as items arising from legal proceedings.

FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	2016 1–6	2015 1–6	Change	2016 4–6	2015 4–6	2015 1–12
Sales	2	2 339.5	2 585.3	-245.8	1 183.9	1 330.2	5 016.0
Change in stocks of finished goods and work in progress		44.0	-6.3	50.3	15.0	-30.6	-48.0
Other operating income		25.2	68.2	-43.1	16.8	52.9	95.7
Material and services		-1 561.8	-1 689.0	127.1	-788.4	-855.5	-3 212.5
Employee costs		-323.8	-353.2	29.5	-160.0	-181.7	-678.2
Depreciation and impairment losses		-125.8	-136.5	10.7	-59.5	-67.1	-258.2
Other operating expenses		-172.0	-196.7	24.7	-89.4	-94.2	-372.7
Operating result	2	225.3	271.9	-46.6	118.5	154.0	542.1
Share of results from associated companies and joint ventures		-0.9	9.3	-10.2	-0.8	3.2	11.2
Exchange gains and losses		-0.5	-3.2	2.7	0.5	-6.7	-1.2
Other net financial items	2	-37.9	-43.7	5.8	-20.0	-22.4	-83.8
Result before income tax		186.0	234.3	-48.3	98.2	128.2	468.4
Income tax	3	-42.1	-53.0	10.9	-22.5	-35.5	-112.6
Result for the period		143.9	181.3	-37.3	75.7	92.7	355.7
Other comprehensive income							
Items that will not be reclassified to profit and loss							
Items relating to adjustments of defined benefit plans		-10.0	9.8	-19.8	-2.5	18.0	19.5
Income tax relating to items that will not be reclassified		2.3	-3.0	5.3	0.5	-4.3	-5.6
Total		-7.6	6.8	-14.4	-2.1	13.8	13.9
Items that may be reclassified subsequently to profit and loss							
Cash flow hedges		-11.6	21.2	-32.8	-0.1	30.1	-0.1
Available for sale financial assets	8	-25.7	5.1	-30.8	-17.7	0.8	-30.6
Currency translation differences		-14.0	19.0	-33.0	-11.3	4.2	8.9
Share of comprehensive income of joint venture		0.6	0.9	-0.2	0.3	0.0	-0.6
Other items		0.0	0.0	0.0	0.0	0.0	0.0
Income tax relating to items that may be reclassified		6.4	-3.9	10.3	3.2	-5.8	7.4
Total		-44.2	42.2	-86.5	-25.6	29.3	-15.0
Other comprehensive income, net of tax		-51.9	49.0	-100.9	-27.7	43.1	-1.0
Total comprehensive income for the period		92.1	230.3	-138.2	48.0	135.8	354.7
Result for the period attributable to:							
Members of parent company		95.6	103.7	-11.2	49.7	47.2	216.9
Non-controlling interests		51.4	77.5	-26.2	26.0	45.5	138.8
Total		143.9	181.3	-37.3	75.7	92.7	355.7
Total comprehensive income attributable to:							
Members of parent company		57.2	135.1	-78.0	32.2	74.0	221.1
Non-controlling interests		34.9	95.2	-60.3	15.8	61.8	133.6
Total		92.1	230.3	-138.2	48.0	135.8	354.7

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

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2016 30.6.	2015 30.6.	2015 31.12.
ASSETS				
Non-current assets				
Goodwill		519.4	522.8	522.8
Other intangible assets		230.8	237.8	234.5
Tangible assets	4	2 247.6	1 833.5	2 059.0
Biological assets		3.1	13.2	13.4
Investments in associated companies and joint ven-		42.4	44.9	43.4
Available for sale investments	8	201.2	262.2	227.1
Non-current financial assets	8	18.6	27.8	28.0
Deferred tax receivables		31.2	43.2	37.9
		3 294.3	2 985.5	3 166.1
Current assets				
Inventories		748.9	743.1	686.8
Accounts receivables and other receivables		719.9	724.9	640.5
Tax receivables based on the taxable income for the period		14.2	0.1	0.6
Cash and cash equivalents	8	753.3	1 050.4	1 120.8
		2 236.2	2 518.5	2 448.7
Assets classified as held for sale		18.5	12.4	1.6
Total assets		5 549.1	5 516.4	5 616.4
MEMBERS' FUNDS AND LIABILITIES				
Members' funds				
Members' funds		1 873.1	1 736.5	1 805.6
Non-controlling interests		605.0	572.3	611.3
		2 478.0	2 308.8	2 416.9
Non-current liabilities				
Deferred tax liabilities		205.2	234.4	225.6
Post-employment benefit obligations		83.7	85.9	77.9
Provisions	5	20.9	26.8	23.0
Borrowings	8	1 281.9	1 255.8	1 303.5
Other liabilities		44.4	11.5	22.3
		1 636.0	1 614.4	1 652.3
Current liabilities				
Provisions	5	15.4	23.0	20.3
Current borrowings	8	425.4	561.1	442.3
Accounts payable and other liabilities		980.3	953.1	1 063.3
Tax liabilities based on the taxable income for the pe-		9.2	19.0	20.3
		1 430.4	1 556.2	1 546.2
Liabilities classified as held for sale		4.7	37.1	1.1
Total liabilities		3 071.1	3 207.6	3 199.5
Total members' funds and liabilities		5 549.1	5 516.4	5 616.4

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

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' FUNDS

<u>Equity attributable to members of parent company</u>							
EUR million	Members' capital	Trans-lation differ-ences	Fair value and other reserves	Re-tained earnings	Total	Non-control-ling interest	Total
Members' funds 1.1.2015	719.1	-7.1	206.7	671.6	1 590.3	467.0	2 057.3
Result for the period				103.7	103.7	77.5	181.3
Other comprehensive income, net after tax		14.2	11.4	5.9	31.4	17.6	49.0
Total comprehensive income		14.2	11.4	109.6	135.1	95.2	230.3
Transactions with owners:							
Dividends paid				-41.3	-41.3	-48.3	-89.6
Change in members' capital	53.7			-1.0	52.7		52.7
Change in other equity			-0.8		-0.8	56.8	56.0
Transfer from unrestricted to unrestricted			3.3	-3.3	0.0		0.0
Share based payments				0.1	0.1	0.2	0.3
Acquired shares from non-controlling interests, which did not change the controlling right							0.0
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	0.3	0.3	1.5	1.9
Members' funds 30.6.2015	772.8	7.1	220.5	736.1	1 736.5	572.3	2 308.8

<u>Equity attributable to members of parent company</u>							
EUR million	Members' capital	Trans-lation differ-ences	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				92.6	92.6	51.4	143.9
Other comprehensive income, net after tax		-10.0	-19.0	-6.3	-35.4	-16.5	-51.9
Total comprehensive income		-10.0	-19.0	86.2	57.2	34.9	92.1
Transactions with owners:							
Dividends paid				-45.0	-45.0	-68.9	-113.9
Change in members' capital	62.8			-6.3	56.5		56.5
Change in other equity					0.0	24.9	24.9
Share based payments				-1.9	-1.9	-0.1	-2.0
Acquired shares from non-controlling interests, which did not change the controlling right							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 30.6.2016	808.5	-12.7	178.4	898.9	1 873.1	605.0	2 478.0

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2016 1–6	2015 1–6	2015 1–12
Result for the period	7	143.9	181.3	355.7
Total adjustments	7	190.6	186.6	387.2
Change in working capital		-213.8	-34.9	221.3
Cash flow arising from operations		120.7	333.0	964.3
Net financial items		-21.4	-44.0	-71.0
Income taxes paid		-75.7	-45.0	-97.3
Net cash flow arising from operating activities		23.6	244.0	796.0
Acquisitions		0.0	0.0	-2.4
Investments in tangible and intangible assets		-337.9	-140.2	-491.6
Disposals and other items	7	21.4	37.1	38.6
Net cash flow arising from investing activities		-316.4	-103.1	-455.4
Change in members' funds		56.5	52.7	50.9
Change in other equity		24.9	55.6	55.6
Change in long-term loans and other financial items		-36.3	-52.9	-179.2
Dividends paid		-120.2	-94.9	-94.9
Net cash flow arising from financing activities		-75.0	-39.6	-167.7
Change in cash and cash equivalents		-367.9	101.4	172.8
Cash and cash equivalents at beginning of period		1 120.8	947.9	947.9
Translation difference		0.4	1.0	-0.1
Change in cash and cash equivalents		-367.9	101.4	172.8
Cash and cash equivalents of assets classified as held for sale		0.0	0.2	0.2
Cash and cash equivalents at end of period		753.3	1 050.4	1 120.8

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

NOTES TO THE UNAUDITED CONDENSED HALF YEAR FINANCIAL REPORT

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 Industry, Paperboard Industry and Tissue and Cooking Papers. Metsä Group’s parent company is Metsäliitto Cooperative. The parent company is domiciled in Helsinki and the registered address is Revontulenpuisto 2, 02100 Espoo, Finland.

This unaudited half year financial report has been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the 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 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 2016 Metsä Group has adopted the following new and amended standards and interpretations:

- Amendment to IAS 1 *Presentation of Financial Statements: Disclosure Initiative*: The purpose of the amendments is to encourage entities to exercise judgement in presenting their financial reports. For example, the amendments clarify the application of the concept of materiality and exercising judgement in determining the order and location of the notes to the financial statements. The amendments are not assessed to have a material impact on the consolidated financial statements.
- Amendments to IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*: The amendments provide new guidance in IFRS 11 concerning how the acquisition of a share in a joint operation is handled when the business operations are formed by the joint operations. In that case, the accounting procedure for merging of business operations should be used. The amendments are not assessed to have a material impact on the consolidated financial statements.
- *Annual Improvements to IFRS standards, the 2012–2014 cycle*: The annual improvements process provides a mechanism for minor and non-urgent amendments to the standards to be grouped together and issued in one package annually. The amendments cover four standards. Their impacts vary 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 Metsäliitto Cooperative on 4 August 2016.

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 SEGMENTS

EUR million	1–6/2016			1–6/2015		
	External	Internal	Total	External	Internal	Total
Wood Supply and Forest Services	205.7	573.2	779.0	204.1	601.1	805.2
Wood Products Industry	409.1	28.8	437.9	423.5	28.7	452.2
Pulp Industry	407.3	241.5	648.9	444.6	276.9	721.5
Paperboard Industry	822.8	35.7	858.5	1 011.0	36.8	1 047.7
Tissue and Cooking Papers	494.4	0.6	495.1	502.3	0.3	502.7
Other operations	0.1	2.7	2.8	-0.3	3.0	2.8
Elimination of internal sales	-	-882.6	-882.6	-	-946.8	-946.8
Total sales	2 339.5	0.0	2 339.5	2 585.3	0.0	2 585.3

EUR million	1–12/2015	
	External	Internal
Wood Supply and Forest Services	386.9	1 131.3
Wood Products Industry	799.4	52.9
Pulp Industry	883.2	561.4
Paperboard Industry	1 932.7	74.8
Tissue and Cooking Papers	1 014.9	0.9
Other operations	-1.0	5.2
Elimination of internal sales	-	-1 826.4
Total sales	5 016.0	0.0

OPERATING RESULT BY SEGMENTS

EUR million	2016	2015	2015
	1–6	1–6	1–12
Wood Supply and Forest Services	14.2	15.6	29.0
Wood Products Industry	14.7	-4.3	10.0
Pulp Industry	115.7	171.1	337.2
Paperboard Industry	67.2	110.3	199.0
Tissue and Cooking Papers	26.7	11.2	41.6
Other operations	3.7	22.7	21.8
Eliminations	-16.9	-54.8	-96.5
Operating result total	225.3	271.9	542.1
Share of results from associated companies and joint ventures	-0.9	9.3	11.2
Financial costs, net	-38.4	-46.9	-84.9
Income taxes	-42.1	-53.0	-112.6
Result for the period	143.9	181.3	355.7

ASSETS AND LIABILITIES BY SEGMENTS

Assets	2016	2015	2015
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	266.0	258.9	223.8
Wood Products Industry	353.1	400.8	359.7
Pulp Industry	1 107.3	735.2	879.0
Paperboard Industry	1 948.4	1 911.4	1 889.5
Tissue and Cooking Papers	866.0	901.4	896.3
Other operations	221.6	219.2	261.7
Assets classified as held for sale	18.5	12.4	1.6
Eliminations	-205.8	-214.8	-223.2
Unallocated assets	974.0	1 291.9	1 328.0
Total	5 549.1	5 516.4	5 616.4

Assets = intangible and tangible assets, investments in associated companies and joint ventures, inventories, accounts receivables and other non-interest-bearing receivables (excl. interest and tax items).

Liabilities	2016	2015	2015
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	154.5	155.2	177.9
Wood Products Industry	115.1	118.4	105.9
Pulp Industry	346.5	237.6	292.8
Paperboard Industry	340.4	432.8	441.2
Tissue and Cooking Papers	284.2	271.4	300.2
Other operations	102.6	82.0	102.5
Liabilities classified as held for sale	4.7	37.1	1.1
Eliminations	-205.8	-214.8	-223.2
Unallocated liabilities	1 928.8	2 087.9	2 001.1
Total	3 071.0	3 207.6	3 199.5

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	2016	2015	2015
	1–6	1–6	1–12
Taxes for the period	42.3	48.4	91.3
Taxes for previous periods	0.3	0.6	10.7
Change in deferred taxes	-0.5	4.0	10.6
Total income taxes	42.1	53.0	112.6

NOTE 4 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2016	2015	2015
	1–6	1–6	1–12
Book value at beginning of period	2 059.0	1 831.2	1 831.2
Investments	333.2	135.8	482.9
Decreases	-12.4	-11.1	-12.6
Assets classified as held for sale	-4.8	-2.0	-2.0
Depreciation and impairment losses	-116.7	-126.9	-239.6
Translation differences and other changes	-10.6	6.5	-0.7
Book value at end of period	2 247.6	1 833.5	2 059.0

Assets classified as held for sale include in 2016 the unsold apartments and parking places of Asunto Oy Tapiolan Saarni as well as land and water areas.

NOTE 5 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 January 2016	20.4	15.0	7.8	43.3
Translation differences	-0.2	-0.0	-0.0	-0.3
Increases	0.1	2.4	1.2	3.7
Utilised during the year	-7.8	-0.1	-1.4	-9.3
Unused amounts reversed	-1.1		-0.0	-1.1
At 30 June 2016	11.4	17.3	7.6	36.4

The increase in environmental obligations EUR 2.4 million is due to the landscaping of Metsä Tissue's tip. Of the Metsä Group's total provisions of EUR 36.4 million, the non-current portion was EUR 20.9 million and the current portion EUR 15.4 million. The non-current portion will mostly be paid during 2018.

NOTE 6 – TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2016 1–6	2015 1–6	2015 1–12
Sales	4.3	3.8	9.4
Purchases	41.8	44.4	90.4
Non-current receivables	1.0	1.0	1.0
Current receivables	3.1	3.1	3.7
Non-current liabilities	0.0	0.0	0.0
Current liabilities	4.5	7.1	6.6

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

EUR million	2016 1–6	2015 1–6	2015 1–12
Taxes	42.1	53.0	112.6
Depreciation and impairment charges	125.8	136.5	258.2
Biological assets	-1.8	-1.4	-1.4
Share of results from associated companies	0.9	-9.3	-11.2
Gains and losses on sale of non-current financial assets	-5.3	-41.5	-51.0
Financial costs, net	38.4	46.9	84.9
Pension liabilities and provisions	-9.5	2.4	-4.9
Total	190.6	186.6	387.2

Disposals and other items

Disposals and other items include in January–June 2016 additional expenses of EUR -0.4 million due to the sale of Metsäliitto Cooperative's subsidiary Metsä Wood France S.A.S. in 2015, the sale of Metsä Wood's thermowood business of EUR 6.8 million, the sale of Metsä Board's subsidiary Alrec Boiler Oy of EUR -2.8 million as well as sales of apartments and parking places in Asunto Oy Tapiolan Jalava, Asunto Oy Tapiolan Pyökki and Asunto Oy Tapiolan Saarni of EUR 7.2

million. In addition, disposals and other items include sales of fixed assets of EUR 5.3 million and other items of EUR 5.4 million.

Change in other equity

Change in other equity include the equity investment in Metsä Fibre Oy.

NOTE 8 – FINANCIAL INSTRUMENTS

Financial assets and liabilities classified according to IAS 39 and fair value.

Financial assets 30 June, 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		201.2				201.2	201.2
Other non-current financial assets			18.6			18.6	18.6
Account receivables and others	5.7		711.4			717.1	717.1
Cash and cash equivalents	74.0		679.3			753.3	753.3
Derivative financial instruments	1.0			0.1		1.1	1.1
Assets classified as held for sale			0.5			0.5	0.5
Total	80.7	201.2	1 409.9	0.1	0.0	1 691.9	1 691.9

Financial liabilities 30 June, 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					1 281.9	1 281.9	1 317.9
Other non-current liabilities					2.0	2.0	2.0
Current interest-bearing liabilities					425.4	425.4	429.1
Accounts payable and others					853.0	853.0	853.0
Derivative financial instruments	1.5			54.6		56.1	56.1
Liabilities classified as held for sale					2.9	2.9	2.9
Total	1.5	0.0	0.0	54.6	2 565.3	2 621.5	2 661.1

Financial assets 30 June, 2015

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		262.2				262.2	262.2
Other non-current financial assets	5.2		19.1			24.2	24.2
Account receivables and others			719.8			719.8	719.8
Cash and cash equivalents	30.5		1 019.9			1 050.4	1 050.4
Derivative financial instruments	0.5			4.9		5.3	5.3
Assets classified as held for sale			8.7			8.7	8.7
Total	36.1	262.2	1 767.5	4.9	0.0	2 070.7	2 070.7

Financial liabilities 30 June, 2015

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					1 255.8	1 255.8	1 296.9
Other non-current liabilities					4.1	4.1	4.1
Current interest-bearing liabilities					561.1	561.1	567.2
Accounts payable and others					827.5	827.5	827.5
Derivative financial instruments	-3.7			25.0		21.3	21.3
Liabilities classified as held for sale					36.4	36.4	36.4
Total	-3.7	0.0	0.0	25.0	2 684.9	2 706.2	2 753.5

Fair value hierarchy of financial assets and liabilities 30 June, 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		201.2	201.2
Current financial assets through profit and loss at fair value				
Derivative financial assets	70.7	9.0		79.7
		1.1		1.1
Financial liabilities measured at fair value				
Derivative financial liabilities	16.8	39.4		56.1
Financial assets not measured at fair value				
Financial assets		679.3		679.3
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities			1 317.9	1 317.9
Current interest-bearing liabilities			429.1	429.1

Fair value hierarchy of financial assets and liabilities 30 June, 2015

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		5.2		5.2
Available for sale financial assets	0.1		262,1	262.2
Current financial assets through profit and loss at fair value	30.5			30.5
Derivative financial assets		5.3		5.3
Financial liabilities measured at fair value				
Derivative financial liabilities	19.5	1.8		21.3
Financial assets not measured at fair value				
Financial assets		1 019.9		1 019.9
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 296.9		1 296.9
Current interest-bearing liabilities		567.2		567.2

Financial assets measured at fair value based on level 3

EUR million	2016	2015
Opening balance 1 January	227.0	256.8
Gains and losses in income statement	0.2	0.0
Gains and losses in other comprehensive income	-25.7	5.4
Purchases	0.0	0.0
Settlements	-0.3	0.0
Closing balance 30 June	201.2	262.1

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 2015 Financial Statements. The average weighed capital cost applied in the calculation was 1.46 per cent on 30 June 2016 and for the Olkiluoto 3 power plant under construction 4.46 per cent. The acquisition cost of the Pohjolan Voima Oy shares is EUR 43.1 million and their fair value is EUR 193.5 million.

The carrying amount of available-for-sale financial assets would be estimated to be EUR 2.3 million higher or EUR 3.6 million lower should the rate used for discounting the cash flows differ by 10 per cent from the rate estimated by the management. The carrying amount of available-for-sale financial assets would be estimated to be EUR 37.5 million higher or EUR 37.5 million lower should the energy prices applied in the fair value calculation differ by 10 per cent from the rate estimated by the management.

Derivatives 30 June, 2016

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value hedges	Cash flow hedges	Equity hedges	Hedge accounting not applied
Interest rate swaps	1 007.7		35.7	-35.7		-34.9		-0.8
Total	1 007.7	0.0	35.7	-35.7	0.0	-34.9	0.0	-0.8
Currency forwards	1 162.7	1.4	0.7	0.7		-0.5	0.6	0.6
Currency options	108.1	-0.4		-0.4				-0.4
Total	1 270.8	1.1	0.7	0.3	0.0	-0.5	0.6	0.2
Electricity derivatives	82.2		10.8	-10.8		-10.8		
Pulp derivatives	56.6		2.9	-2.9		-2.9		
Oil derivatives	12.9		2.9	-2.9		-2.9		
Commodity derivatives	17.4		3.1	-3.1		-3.1		
Total	169.1	0.0	19.7	-19.7	0.0	-19.7	0.0	0.0
Derivatives total	2 447.6	1.1	56.1	-55.1	0.0	-55.1	0.6	-0.6

Derivatives 30 June, 2015

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value hedges	Cash flow hedges	Equity hedges	Hedge accounting not applied
Interest rate swaps	1 125.7	1.9	0.6	1.3	3.5	-0.4		-1.8
Total	1 125.7	1.9	0.6	1.3	3.5	-0.4	0.0	-1.8
Currency forwards	1 240.9	1.7	1.7	0.0		-4.8	-0.8	5.6
Currency options	139.0		-0.4	0.4				0.4
Total	1 380.0	1.7	1.3	0.4	0.0	-4.8	-0.8	6.0
Electricity derivatives	80.4		14.8	-14.8		-14.8		
Pulp derivatives	11.9	1.8		1.8		1.8		
Oil derivatives	34.1		2.4	-2.4		-2.4		
Commodity derivatives	19.7		2.3	-2.3		-2.3		0.0
Total	146.2	1.8	19.5	-17.7	0.0	-17.7	0.0	0.0
Derivatives total	2 651.8	5.3	21.3	-16.0	3.5	-22.9	-0.8	4.2

NOTE 9 – COMMITMENTS AND CONTINGENCIES

EUR million	30.6.2016	30.6.2015	31.12.2015
Own liabilities for which commitments granted	496.9	556.2	529.5
Pledges granted	413.8	433.6	464.5
Floating charges	2.9	5.9	5.9
Real estate mortgages	370.0	370.4	381.4
Chattels mortgage	4.0	4.0	4.0
Commitments for own liabilities, total	790.7	813.8	855.7
Other commitments on own behalf	49.4	71.2	57.0
On behalf of associated companies	0.9	1.2	1.0
On behalf of others	5.0	6.1	4.8
Total	846.0	892.3	918.6

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 25.5 million (31.12.2015: 33.8).

COMMITMENTS RELATED TO INVESTMENTS

EUR million	30.6.2016	30.6.2015	31.12.2015
Payments due under 1 year	382.5	241.0	409.9
Payments due in subsequent years	114.3	156.1	165.7
Total	496.8	397.1	575.6