

METSÄ GROUP

INTERIM REPORT

JANUARY–SEPTEMBER 2016



METSÄ GROUP'S COMPARABLE OPERATING RESULT IN JANUARY–SEPTEMBER 2016 WAS EUR 332 MILLION

JANUARY–SEPTEMBER 2016 (1–9/2015)

- Sales were EUR 3,483 million (EUR 3,811 million).
- Operating result was EUR 333 million (414). Comparable operating result was EUR 332 million (415).
- Result before taxes was EUR 275 million (355). Comparable result before taxes was EUR 275 million (358).
- Comparable return on capital employed was 10.5 per cent (14.2). Comparable return on capital employed excluding assets under construction related to strategic investment projects was 11.9 per cent (14.6).
- Cash flow from operations was EUR 298 million (626).

JULY–SEPTEMBER 2016 (7–9/2015)

- Sales were EUR 1,143 million (EUR 1,225 million).
- Operating result was EUR 107 million (142). Comparable operating result was EUR 103 million (149).
- Result before taxes was EUR 89 million (121). Comparable result before taxes was EUR 85 million (128).
- Comparable return on capital employed was 9.8 per cent (14.6). Comparable return on capital employed excluding assets under construction related to strategic investment projects was 11.1 per cent (15.1).
- Cash flow from operations was EUR 177 million (293).

EVENTS DURING THE THIRD QUARTER OF 2016

- At the end of September, the bioproduct mill project was nearly 75 per cent complete
- The market price of long-fibre pulp increased by 2 per cent. The price of short-fibre pulp fell by 3 per cent.
- Delivery volumes of Kerto® LVL continued to grow strongly in Australia and North America.
- Metsä Board's production of uncoated fine paper ended in July.
- Metsä Board's wallpaper base machine PM3 at the Kyro mill was closed down in September.

- Metsä Group announced that its sawmills in Finland will transfer from Metsä Wood to Metsä Fibre through an internal group transaction on 1 November 2016.

PROFIT GUIDANCE FOR OCTOBER–DECEMBER 2016

Metsä Group's comparable operating result is in the last quarter of 2016 expected to be roughly at a similar level as in the third quarter of 2016.

President and CEO Kari Jordan:

“Compared to the previous year, Metsä Group's profitability in 2016 was impacted by the lower market price of pulp and the start-up phase of Husum's new folding boxboard machine. However, this year too we have surpassed the 10 per cent target we have set for comparable return on capital employed.

Husum's paperboard production has been determinedly increased in accordance with our plan. The new folding boxboard machine is already running at close to full capacity. The construction work on the new extrusion coating line, set to start up next year, has progressed according to plan.

The bioproduct mill under construction in Äänekoski is almost three quarters complete. We have made good progress, on schedule and within the budget. Test runs in the departments that will be completed first will begin the first quarter, and the entire mill will start up in the third quarter of 2017.

The approximately EUR 100 million development programme in our Wood Products Industry is likewise progressing in line with our objectives. The expansion of Lohja's Kerto® LVL mill has begun. The development programme includes investments in both Finland and Estonia, and it will be implemented by the end of 2018.

Metsä Group is investing heavily in the growth of its core businesses. Resource-efficient processing into products creates the most added value for Finnish wood. It serves as an excellent starting point for the circular economy.”

www.metsagroup.com

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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KEY FIGURES

	2016	2015	2016	2015	2015
Condensed income statement, EUR million	1–9	1–9	7–9	7–9	1–12
Sales	3 482.7	3 810.6	1 143.3	1 225.2	5 016.0
Other operating income	52.3	78.8	27.1	10.6	95.7
Operating expenses	-3 011.6	-3 277.5	-998.0	-1 032.4	-4 311.4
Depreciation and impairment losses	-190.8	-197.9	-65.0	-61.4	-258.2
Operating result	332.7	413.9	107.4	142.0	542.1
Share of results from associated companies and joint ventures	-1.4	8.5	-0.5	-0.8	11.2
Exchange gains and losses	0.8	-3.8	1.3	-0.6	-1.2
Other net financial items	-56.5	-63.7	-18.7	-20.0	-83.8
Result before income tax	275.5	355.0	89.5	120.7	468.4
Income tax	-63.8	-91.4	-21.7	-38.4	-112.6
Result for the period	211.7	263.6	67.8	82.3	355.7

	2016	2015	2016	2015	2015
Profitability	1–9	1–9	7–9	7–9	1–12
Operating result, EUR million	332.7	413.9	107.4	142.0	542.1
Comparable operating result	332.1	414.7	102.8	149.0	537.4
% of sales	9.5	10.9	9.0	12.2	10.7
Return on capital employed, %	10.6	14.2	10.2	13.9	13.7
Comparable return on capital employed	10.5	14.2	9.8	14.6	13.6
Return on equity, %	11.5	16.0	10.9	14.2	15.9
Comparable return on equity	11.5	16.2	10.2	15.4	15.8

	2016	2015	2016	2015	2015
Financial position	30.9.	30.9.	30.6.	30.6.	31.12.
Equity ratio, %	44.0	42.7	44.8	41.9	43.2
Net gearing ratio, %	40	29	38	34	25
Interest-bearing net liabilities, EUR million	991	682	945	779	610

SEGMENTS

Sales and Operating result 1–9/2016, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp Industry	Paperboard Industry	Tissue and Cooking Papers
Sales	1 135.2	631.6	962.9	1 298.5	741.6
Other operating income	5.4	7.0	20.5	28.6	2.5
Operating expenses	-1 116.0	-594.4	-762.0	-1 151.5	-670.0
Depreciation and impairment losses	-2.5	-23.3	-44.9	-81.9	-29.7
Operating result	22.0	20.9	176.6	93.8	44.5
Items affecting comparability	-	5.5	-11.7	10.9	-2.0
Comparable operating result	22.0	26.4	164.9	104.7	42.5
% of sales	1.9	4.2	17.1	8.1	5.7

From Q3 2016 Metsä Group has relabeled the previously referenced “excluding non-recurring items” non-IFRS financial measures with “comparable” performance measures. More information on page 12 “Comparable key ratios.”

THE INTERIM REPORT IS UNAUDITED**INTERIM REPORT 1 JANUARY–30 SEPTEMBER 2016****SALES AND RESULT**

Metsä Group's sales in January–September 2016 totalled EUR 3,482.7 million (1–9/2015: EUR 3,810.6 million).

The comparable operating result was EUR 332.1 million (414.7), or 9.5 per cent (10.9) of sales. The decrease in sales and operating result in comparison to the previous year is primarily attributable to the lower market price and sales volumes of pulp, as well as the commissioning of the new folding boxboard machine at Husum and the lower price of the start-up volumes.

Sales for the third quarter of the year totalled EUR 1,143.3 million, whereas the sales for the corresponding period last year were EUR 1,225.2 million. The comparable operating result was EUR 102.8 million (7–9/2015: 149.0).

Items affecting comparability in January–September totalled EUR +0.5 million (-0.8). Metsä Board recognised EUR 9.2 million net in costs and provisions related to the closure of the wallpaper base machine at the Kyro mill. In addition, 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.

In August, Metsä Fibre recognised a sales gain of EUR 11.7 million from the divestment of the entire share capital of Metsä-Botnia Metsät Oy. Metsä Tissue's comparable operating result was affected by the cancellation of EUR 2.0 million in the structuring provision related to the efficiency programme in the German napkin business. Metsä Wood's additional costs in relation to the divestment of Metsä Wood France S.A.S. were EUR 0.4 million.

Metsä Group's operating result (IFRS) was EUR 332.7 million (413.9). The share of the results of associated companies and joint ventures was EUR -1.4 million (8.5), financial income was EUR 3.0 million (4.2), exchange rate differences in financing were EUR 0.8 million (-3.8), and financial expenses totalled EUR 59.5 million (67.8).

The result before taxes was EUR 275.5 million (355.0), and taxes including changes in deferred tax liabilities totalled EUR 63.8 million (91.4). The Group's effective tax rate was 23.1 per cent (25.8). The result for the review period was EUR 211.7 million (263.6).

The return on capital employed was 10.6 per cent (14.2), and the return on equity was 11.5 per cent (16.0).

The comparable return on capital employed was 10.5 per cent (14.2), and the comparable return on equity was 11.5 per cent (16.2). The Äänekoski bioproduct mill under construction reduced the return on capital employed by 1.4 percentage points (0.4).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity is excellent. Total liquidity at the end of September was EUR 1,632.6 million (31 December 2015: 1,952.6). This consisted of EUR 800.5 million (1,120.8) in liquid assets and investments, and EUR 832.1 million (831.8) in off-balance sheet committed credit facility agreements. In addition, the Group has EUR 720.9 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 September was 44.0 per cent, and the net gearing ratio was 40 per cent (31 December 2015: 43.2 per cent and 25 per cent, respectively). Interest-bearing net liabilities were EUR 991.4 million (31 December 2015: 609.6).

Cash flow from operations amounted to EUR 298.2 million (1–9/2015: 626.3). In January–September, EUR 181.3 million was tied up in working capital (53.8). Working capital was increased by the addition of EUR 90.1 million (23.2) in trade receivables as well as the addition of EUR 65.9 million (reduction of 27.1) in inventories. Working capital was also increased by a EUR 25.3 million decrease in trade payables (addition of 49.9).

The equity ratio of the parent company Metsäliitto Cooperative was 69.2 per cent at the end of September, and its net gearing ratio was 2 per cent (31 December 2015: 67.8 per cent and 3 per cent, respectively).

In January–September, Metsäliitto Cooperative's members' capital increased by a total of EUR 32.3 million (39.8). The value of participation shares grew by EUR 8.0 million (0.0), that of the additional shares A by EUR 17.6 million (27.9), and that of the additional shares B by EUR 6.7 million (11.9).

In June, Metsä Board agreed on extending its current syndicated credit agreement by two years. Following

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 in 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–September, Metsä Group had an average of 9,721 employees (10,280). Personnel expenses in January–September totalled EUR 473.1 million (516.3). At the end of September, the Group had 9,451 employees (31 December 2015: 9,599), of whom 5,082 (5,122) were based in Finland and 4,369 (4,477) abroad. The parent company Metsäliitto Cooperative employed 2,393 people at the end of September (31 December 2015: 2,449),

MEMBERS

At the end of September, Metsäliitto Cooperative had 112,370 members (31 December 2015: 116,290). During January–September, 2,950 new members joined the Cooperative, and 6,870 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 in January–September totalled EUR 540.2 million (295.6). Approximately EUR 377 million of the investments related to the bioproduct mill in Äänekoski.

Äänekoski bioproduct mill

The progress of Metsä Group's bioproduct mill project is following the target curve, and it was nearly 75 per cent at the end of the third quarter. The peak of the construction work was passed already in April 2016, and the focus of operations has shifted to installations. The project's planning and purchases are close to completion.

The average workforce on site during the third quarter was 1,700 people a day, with more than 2,000 people on site on the busiest days.

The preparations and planning concerning the testing, commissioning and start-up of the bioproduct mill have commenced. The next-generation bioproduct mill will start up in the third quarter of 2017.

Husum mill

At the end of the review period, the installation of the main equipment for extrusion converting line began in Husum. The coating line will be commissioned in 2017, and its paperboard coating capacity will be approximately 100,000 tonnes per year. The investment is valued at EUR 38 million, allocated primarily to 2016. The company will also continue to develop other barrier solutions.

BUSINESS AREAS

Wood Supply and Forest Services

Metsä Forest's sales in January–September totalled EUR 1,135.2 million (1–9/2015: 1,153.2) and its comparable operating result was EUR 22.0 million (22.7). Sales in the third quarter of the year amounted to EUR 356.2 million (7–9/2015: 348.0), and the comparable operating result was EUR 7.7 million (7.0).

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 was good throughout the Baltic Sea region. Some regions even experienced an oversupply of birch pulpwood. Poor weather made harvesting more difficult in Russia and the Baltic countries at the end of the period under review. The difficult market situation with regard to energy wood that has prevailed throughout the Baltic Sea region for some time now continued.

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

Sales of forestry services continued to grow favourably during the period under review. Sales in the third quarter 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 customers' production units were carried out according to plan. In January–September, Metsä Forest delivered a total of approximately 22.7 million cubic metres (22.8) of wood to its customers. Approximately 83 per cent of this amount went to industry in Finland.

In January–September, nearly 20 per cent of wood acquired by Metsä Forest from private forest owners was purchased electronically. Forest management services accounted for approximately 25 per cent of sales.

Wood Products Industry

Metsä Wood's sales in January–September totalled EUR 631.6 million (1–9/2015: 664.3). The comparable operating result was EUR 26.4 million (23.9).

Metsä Wood's sales in the third quarter were EUR 193.6 million (7–9/2015: 212.0) and the comparable operating result was EUR 6.2 million (5.9).

The oversupply in pine sawn timber was particularly visible in deliveries to North Africa, which remained clearly below the deliveries of the comparison period. The profitability of sawing operations continued to be weaker than during the comparison period due to a decline in prices.

The delivery volumes and sales of Kerto® LVL products grew markedly due to deliveries to Australia and North America, in particular. Demand for Kerto® LVL products was strong in other markets, too.

The delivery volumes and sales in both birch and softwood plywood products, on the other hand, decreased from the comparison period. The market balance of board products in Europe has been weakened by the increase in imports from outside the EU.

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

At the beginning of November, Metsä Wood's sawmills in Finland transferred to Metsä Fibre. The transfer concerned the sawmills in Vilppula, Lappeenranta, Renko, Merikarvia, Kyrö and Eskola, which have a total annual production volume of sawn timber of approximately 1.6 million cubic metres.

Pulp Industry

Metsä Fibre's sales in January–September were EUR 962.9 million (1–9/2015: 1,071.1). Compared to the corresponding period in the previous year, the currency-denominated market prices for long-fibre pulp fell by 8 per cent and the prices for short-fibre pulp by 9 per cent in January–September.

The sales volume of pulp was 1,687,000 tonnes, which is approximately 3 per cent less than in the corresponding period in the previous year (1,736,000).

Metsä Fibre's comparable operating result in January–September was EUR 164.9 million (256.7). Both the reduction in sales prices and the lower sales volumes decreased the result below the level of the corresponding period in the previous year. The review period included annual maintenance shutdowns at three mills, while the corresponding period included annual maintenance shutdowns at two mills.

Metsä Fibre's sales for the third quarter were EUR 314.1 million (7–9/2015: 349.6) and the comparable operating result was EUR 49.2 million (85.5).

The price of long-fibre pulp in Europe was USD 794 per tonne at the beginning of January and USD 810 at the end of the period under review. The price of short-fibre pulp was USD 781 and USD 664, respectively. The price difference between long- and short-fibre pulp at the end of the third quarter was USD 146, whereas the corresponding difference at the beginning of the year was USD 13.

Metsä Group's sawmills in Finland transferred to Metsä Fibre in an internal group arrangement on 1 November 2016. The reason for the transfer was to make full use of the industrial synergies of pulp and sawn timber.

In August, Metsä Fibre sold the entire share capital of Metsä-Botnia Metsät Oy to a fund managed by Dasos Capital Oy. Metsä-Botnia Metsät owns land and water areas totalling about 34,000 hectares. The long-term contracts on wood sales and forest management services between Metsä Group and Metsä-Botnia Metsät will remain in effect.

Paperboard Industry

Metsä Board's sales in January–September were EUR 1,298.5 million (1–9/2015: 1,545.3). Sales declined due to a considerable decrease in paper deliveries. The operating result was EUR 93.8 million (164.9), and the comparable operating result was EUR 104.7 million (144.8). Items affecting comparability were EUR 10.9 million net and related primarily to the discontinuation of the wallpaper business.

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. Deliveries to customers were delayed by a leak in the pulp mill's recovery boiler and the production-related challenges of the new folding boxboard machine. The result for the review period was also affected negatively by the markedly lower price of the start-up volumes of Husum's folding boxboard and the fluctuations in pulp prices.

Metsä Board's sales in the third quarter totalled EUR 440.0 million (7–9/2015: 497.6), and the comparable operating result was EUR 34.0 million (54.6).

The total delivery volume of Metsä Board's folding boxboard and white fresh fibre linerboards in January–September was 1,181,000 tonnes (1,049,000). The delivery volume of papers amounted to 33,000 tonnes (412,000). The delivery volume of market pulp was 385,000 tonnes (415,000). The volume of pulp deliveries declined due to the downtime attributable to the investment programme at Husum and the discontinued trading activity with Sappi.

Metsä Board's comparable return on capital employed was 8.3 per cent (12.1), and its comparable earnings per share were EUR 0.21 (0.27).

Metsä Board's equity ratio at the end of September was 47.6 per cent, and its net gearing ratio was 49 per cent

(31 December 2015: 46.5 per cent and 32 per cent, respectively).

Metsä Board's Interim Report was published on 2 November 2016.

Tissue and Cooking papers

Metsä Tissue's sales in January–September totalled EUR 741.6 million (1–9/2015: 751.9). The decrease in sales is mainly due to the discontinuation of the consumer business in Russia. The weakening of the exchange rates of the Norwegian krone, Polish zloty and British pound also reduced sales.

The comparable operating result was EUR 42.5 million (36.6). The operating result was increased by product distribution, which was better than in January–September of the previous year, as well as by lower production and transport costs.

Metsä Tissue's sales in the third quarter were EUR 246.6 million (7–9/2015: 249.2), and the comparable operating result was EUR 15.8 million (13.2).

During the third quarter, Metsä Tissue renewed a greaseproof paper machine in Mänttä.

Metsä Tissue introduced the SAGA Baking Form, made from corrugated board and baking paper, to the Finnish market. The product does not contain any plastic or aluminium and is suitable for baking.

RISKS AND UNCERTAINTIES

The estimates and statements in this interim 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, de-

manding 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 188 million, of which approximately EUR 61.4 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. Metsähallitus has appealed the District Court's judgment at the Court of Appeal.

In May 2014, Metsäliitto Cooperative and Metsä Board demanded the District Court of Helsinki to revoke the judgment issued by the Arbitral Tribunal on 11 February 2014 that ordered Metsäliitto Cooperative and Metsä Board to pay a total of EUR 67 million in damages to UPM-Kymmene Corporation. In the judgment issued in June 2015, the District Court rejected the demands by Metsäliitto Cooperative and Metsä Board. Metsäliitto Cooperative and Metsä Board appealed the District Court's judgment at the Court of Appeal. The Court of Appeal dismissed in its ruling issued in October 21, 2016 Metsäliitto Cooperative's and Metsä Board's demands for damages. The ruling by the Court of Appeal is not final.

In the autumn of 2015, the Finnish Tax Administration took a stand against the deductibility of certain losses in Metsä Board's 2014 taxation. 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 focus primarily on spruce logs, thinning sites to be harvested when the ground is unfrozen and, in terms of energy wood, on 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.

Competition in the wood products industry is intensifying as a result of new investments. In sawn timber, demand in Asia will support the market balance of spruce sawn timber, but the oversupply in pine sawn timber will continue. Demand for board products is expected to experience slight seasonal weakening. Construction in the UK market is expected to remain at a good level.

Global demand for pulp has remained stable, and there are no signs of considerable changes in market conditions. New capacity will enter the markets, but global demand for pulp is, correspondingly, expected to keep on growing. The capacity utilisation rates of Metsä Fibre's pulp mills are expected to be at a good level in the last quarter of the year.

Demand for high-quality fresh fibre paperboards is expected to remain good in both Europe and the Americas. Metsä Board's paperboard deliveries in October–

December are expected to remain at the same level as in the previous quarter.

The increased capacity of European folding boxboard producers has not had a negative effect on the demand for and prices of Metsä Board's products. The market prices of folding boxboard and white fresh fibre linerboards are expected to remain fairly stable or increase slightly.

Metsä Board's fourth-quarter result will be weakened by the annual maintenance shutdown at the Husum integrated mill, which was extended by approximately a week due to the problems discovered in the pulp mill's recovery boiler.

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

PROFIT GUIDANCE FOR OCTOBER–DECEMBER 2016

Metsä Group's comparable operating result is in the last quarter of 2016 expected to be roughly at a similar level as in the third quarter of 2016.

Espoo, Finland, 2 November 2016

BOARD OF DIRECTORS

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Metsä Group will publish its financial reports in 2017 as follows:

2 February 2017: Financial statements for 2016

4 May 2017: Interim report for January–March 2017

3 August 2017: Interim report for January–June 2017

1 November 2017: Interim report for January–September 2017

Metsä Group's Financial Statements 2016 including the Board of Director's report will be published as a pdf-file on Metsä Group's website at www.metsagroup.com in week 9. The Financial Statements include the financial statements, the report of the board of directors, the salary and remuneration report and the corporate governance statement.

SEGMENTS

	2016	2015	2016	2015	2015
Wood Supply and Forest Services	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	1 135.2	1 153.2	356.2	348.0	1 518.1
EBITDA, EUR million	24.5	25.4	8.5	7.9	32.5
Comparable EBITDA, EUR million	24.5	25.4	8.5	7.9	32.5
Operating result, EUR million	22.0	22.7	7.7	7.0	29.0
Comparable operating result, EUR million	22.0	22.7	7.7	7.0	29.0
% of sales	1.9	2.0	2.2	2.0	1.9
Comparable ROCE, %	23.7	24.7	23.9	21.6	26.4
Capital expenditure, EUR million	3.6	4.3	1.2	1.0	6.0
Personnel at end of period	876	906	876	906	877

	2016	2015	2016	2015	2015
Wood Products Industry	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	631.6	664.3	193.6	212.0	852.2
EBITDA, EUR million	44.2	25.0	12.3	12.4	40.4
Comparable EBITDA, EUR million	44.6	44.2	12.3	12.6	58.5
Operating result, EUR million	20.9	1.4	6.2	5.7	10.0
Comparable operating result, EUR million	26.4	23.9	6.2	5.9	31.4
% of sales	4.2	3.6	3.2	2.8	3.7
Comparable ROCE, %	13.0	10.4	9.2	7.7	10.7
Capital expenditure, EUR million	13.8	12.5	8.7	6.8	17.3
Personnel at end of period	1 966	2 169	1 966	2 169	2 018

	2016	2015	2016	2015	2015
Pulp Industry	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	962.9	1 071.1	314.1	349.6	1 444.6
EBITDA, EUR million	221.5	306.0	70.6	99.3	400.3
Comparable EBITDA, EUR million	209.8	306.0	58.9	99.3	400.3
Operating result, EUR million	176.6	256.7	60.9	85.5	337.2
Comparable operating result, EUR million	164.9	256.7	49.2	85.5	337.2
% of sales	17.1	24.0	15.7	24.5	23.3
Comparable ROCE, %	21.9	45.4	19.1	44.1	41.9
Capital expenditure, EUR million	402.0	140.6	163.7	93.2	250.6
Personnel at end of period	888	860	888	860	857

	2016	2015	2016	2015	2015
Paperboard Industry	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	1 298.5	1 545.3	440.0	497.6	2 007.5
EBITDA, EUR million	175.7	243.4	60.6	80.8	302.5
Comparable EBITDA, EUR million	178.0	223.6	59.4	80.8	283.3
Operating result, EUR million	93.8	164.9	26.6	54.6	199.0
Comparable operating result, EUR million	104.7	144.8	34.0	54.6	179.9
% of sales	8.1	9.4	7.7	11.0	9.0
Comparable ROCE, %	8.3	12.1	8.0	13.0	11.3
Capital expenditure, EUR million	119.0	117.0	16.4	44.8	177.8
Personnel at end of period	2 493	2 642	2 493	2 642	2 601

	2016	2015	2016	2015	2015
Tissue and Cooking Papers	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	741.6	751.9	246.6	249.2	1 015.8
EBITDA, EUR million	74.2	48.5	27.7	15.9	82.1
Comparable EBITDA, EUR million	72.2	65.3	25.7	22.9	94.0
Operating result, EUR million	44.5	17.7	17.8	6.5	41.6
Comparable operating result, EUR million	42.5	36.6	15.8	13.2	55.1
% of sales	5.7	4.9	6.4	5.3	5.4
Comparable ROCE, %	8.5	7.4	9.7	7.8	8.2
Capital expenditure, EUR million	15.7	11.7	7.2	4.5	29.4
Personnel at end of period	2 739	2 762	2 739	2 762	2 754

	2016	2015	2016	2015	2015
Other operations	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	3.9	3.6	1.2	0.8	4.1
EBITDA, EUR million	9.7	28.4	5.0	4.7	23.8
Comparable EBITDA, EUR million	9.7	7.9	5.0	4.7	3.3
Operating result, EUR million	8.1	26.8	4.4	4.2	21.8
Comparable operating result, EUR million	8.1	6.3	4.4	4.2	1.3
Capital expenditure, EUR million	7.5	8.3	1.1	2.9	13.3
Personnel at end of period	489	485	489	485	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	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	-1 291.0	-1 378.7	-408.4	-432.0	-1 826.4
EBITDA, EUR million	-26.4	-64.8	-12.3	-17.7	-81.2
Comparable EBITDA, EUR million	-24.6	-64.8	-10.5	-17.7	-81.2
Operating result, EUR million	-33.2	-76.3	-16.2	-21.5	-96.5
Comparable operating result, EUR million	-36.4	-76.3	-14.4	-21.5	-96.5

	2016	2015	2016	2015	2015
Metsä Group	1–9	1–9	7–9	7–9	1–12
Sales, EUR million	3 482.7	3 810.6	1 143.3	1 225.2	5 016.0
EBITDA, EUR million	523.4	611.8	172.4	203.4	800.3
Comparable EBITDA, EUR million	514.2	607.7	159.3	210.6	790.7
Operating result, EUR million	332.7	413.9	107.4	142.0	542.1
Comparable operating result, EUR million	332.1	414.7	102.8	149.0	537.4
% of sales	9.5	10.9	9.0	12.2	10.7
Comparable ROCE, %	10.5	14.2	9.8	14.6	13.6
Capital expenditure, EUR million	540.2	295.6	202.4	155.4	491.6
Personnel at end of period	9 450	9 824	9 450	9 824	9 599

RECONCILIATION OF OPERATING RESULT

EUR million	2016 1–9	2015 1–9	2016 7–9	2015 7–9	2015 1–12
OPERATING RESULT (IFRS)	332.7	413.9	107.4	142.0	542.1
Items affecting comparability:					
Wood Supply and Forest Services	-	-	-	-	-
Wood Products Industry	5.5	22.5	-	0.2	21.4
Pulp Industry	-11.7	-	-11.7	-	-
Paperboard Industry	10.9	-20.1	7.3	0.0	-19.2
Tissue and Cooking Papers	-2.0	18.9	-2.0	6.7	13.5
Other operations	-3.2	-20.5	1.8	-	-20.5
Total	-0.5	0.8	-4.5	7.0	-4.7
COMPARABLE OPERATING RESULT	332.1	414.7	102.8	149.0	537.4

EUR million	2016 1–9	2015 1–9	2016 7–9	2015 7–9	2015 1–12
OPERATING RESULT (IFRS)	332.7	413.9	107.4	142.0	542.1
Items affecting comparability:					
Other operating income	-18.2	-38.5	-18.2	-0.2	-40.2
Change in inventories	2.4	12.9	2.4	-1.3	12.4
Employee costs	4.6	9.6	2.4	8.5	7.9
Depreciation	8.7	-	8.5	-	-
Impairment charges	-	5.0	-	-0.2	4.9
Other operating expenses	2.0	11.9	0.3	0.2	10.2
Total	-0.5	0.8	-4.5	7.0	-4.7
COMPARABLE OPERATING RESULT	332.1	414.7	102.8	149.0	537.4

Items with “+” sign = expenses affecting comparability

Items with “-” sign = income affecting comparability

Items affecting comparability totalled EUR +0.5 million in January–September 2016. Metsä Board recognised expenses and provisions of net EUR 9.2 million due to the close down of its wallpaper base machine in Kyro, 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 Fibre recognised a sales profit of EUR 11.7 million due to the sale of all the shares in Metsä-Botnia Metsät Oy. Metsä Tissue’s comparable operating result was affected by the EUR 2.0 million provision reversal regarding the efficiency program in the German napkin business. 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 as well as Metsä Board’s share, EUR 1.8 million, of the sale of Metsä-Botnia Metsät Oy have been eliminated on Metsä Group level.

Metsä Group’s operating result in January–September 2015 included items affecting comparability of EUR -0.8 million. The most significant positive 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 loss of EUR 22.5 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 17.1 million.

Metsä Group’s operating result in 2015 included items affecting comparability of EUR +4.7 million. The most significant income 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 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 7–9	2016 4–6	2016 1–3	2015 10–12	2015 7–9	2015 4–6	2015 1–3
Sales							
Wood Supply and Forest Services	356.2	377.8	401.2	364.9	348.0	393.5	411.8
Wood Products Industry	193.6	229.2	208.7	188.0	212.0	242.8	209.4
Pulp Industry	314.1	325.5	323.4	373.5	349.6	391.1	330.4
Paperboard Industry	440.0	422.9	435.6	462.2	497.6	522.0	525.7
Tissue and Cooking Papers	246.6	248.8	246.2	263.8	249.2	249.0	253.7
Other operations	1.2	1.1	1.6	0.5	0.8	0.9	1.9
Internal sales	-408.4	-421.4	-461.2	-447.7	-432.0	-469.1	-477.7
Sales	1 143.3	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	7.7	6.5	7.8	6.3	7.0	6.9	8.7
Wood Products Industry	6.2	9.4	5.4	8.6	5.7	-12.2	7.9
Pulp Industry	60.9	52.0	63.7	80.5	85.5	92.5	78.7
Paperboard Industry	26.6	34.5	32.7	34.1	54.6	67.2	43.1
Tissue and Cooking Papers	17.8	13.2	13.5	23.9	6.5	6.1	5.1
Other operations	4.4	4.6	-0.9	-5.1	4.2	23.3	-0.6
Eliminations	-16.2	-1.6	-15.3	-20.2	-21.5	-29.8	-25.0
Operating result	107.4	118.5	106.8	128.2	142.0	154.0	117.8
% of sales	9.4	10.0	9.2	10.6	11.6	11.6	9.4
Share of results from associated companies and joint ventures	-0.5	-0.8	-0.1	2.7	-0.8	3.2	6.1
Exchange gains and losses	1.3	0.5	-1.0	2.6	-0.6	-6.7	3.5
Other net financial items	-18.7	-20.0	-17.8	-20.1	-20.0	-22.4	-21.3
Result before income tax	89.5	98.2	87.8	113.4	120.7	128.2	106.1
Income tax	-21.7	-22.6	-19.5	-21.2	-38.4	-35.5	-17.5
Result for the period	67.8	75.7	68.3	92.2	82.3	92.7	88.6
Comparable operating result							
Wood Supply and Forest Services	7.7	6.5	7.8	6.3	7.0	6.9	8.7
Wood Products Industry	6.2	14.4	5.8	7.5	5.9	10.2	7.9
Pulp Industry	49.2	52.0	63.7	80.5	85.5	92.5	78.7
Paperboard Industry	34.0	35.8	35.0	35.1	54.6	47.0	43.2
Tissue and Cooking Papers	15.8	13.2	13.5	18.6	13.2	7.6	15.8
Other operations and eliminations	-10.0	-2.1	-16.2	-25.3	-17.3	-27.0	-25.7
Comparable operating result	102.8	119.8	109.5	122.7	149.0	137.1	128.6
% of sales	9.0	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

COMPARABLE KEY RATIOS

New European Securities and Markets Authority (ESMA) guidelines on Alternative Performance Measures are effective for the financial year 2016. From Q3 2016 Metsä Group has relabeled the previously referenced “excluding non-recurring items” non-IFRS financial measures with “comparable” performance measures. Exceptional and material items outside the ordinary course of business have been eliminated from the comparable operating result, and they have been allocated to the operating segments. The change in terminology does not affect the definition of items affecting comparability and therefore no restatement of historical data is necessary.

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

None of these key figures with items affecting comparability eliminated are key figures used in IFRS reporting, and they cannot be compared with other companies' key figures identified with the same names. Typical items affecting comparability include material gains and losses on disposals of assets, impairments and impairment reversals in accordance with IAS 36 Impairment of Assets, restructuring costs and their adjustments as well as items arising from legal proceedings.

FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	2016 1–9	2015 1–9	Change	2016 7–9	2015 7–9	2015 1–12
Sales	2	3 482.7	3 810.6	-327.8	1 143.3	1 225.2	5 016.0
Change in stocks of finished goods and work in progress		45.4	-14.8	60.2	1.4	-8.5	-48.0
Other operating income		52.3	78.8	-26.5	27.1	10.6	95.7
Material and services		-2 333.4	-2 466.0	132.5	-771.6	-777.0	-3 212.5
Employee costs		-473.1	-516.3	43.2	-149.3	-163.1	-678.2
Depreciation and impairment losses		-190.8	-197.9	7.1	-65.0	-61.4	-258.2
Other operating expenses		-250.5	-280.5	30.0	-78.5	-83.8	-372.7
Operating result	2	332.7	413.9	-81.3	107.4	142.0	542.1
Share of results from associated companies and joint ventures		-1.4	8.5	-9.9	-0.5	-0.8	11.2
Exchange gains and losses		0.8	-3.8	4.5	1.3	-0.6	-1.2
Other net financial items	2	-56.5	-63.7	7.1	-18.7	-20.0	-83.8
Result before income tax		275.5	355.0	-79.5	89.5	120.7	468.4
Income tax	3	-63.8	-91.4	27.7	-21.7	-38.4	-112.6
Result for the period		211.7	263.6	-51.8	67.8	82.3	355.7
Other comprehensive income							
Items that will not be reclassified to profit and loss							
Items relating to adjustments of defined benefit plans		-38.4	7.6	-46.0	-28.5	-2.2	19.5
Income tax relating to items that will not be reclassified		8.2	-2.4	10.7	5.9	0.6	-5.6
Total		-30.2	5.1	-35.3	-22.6	-1.7	13.9
Items that may be reclassified subsequently to profit and loss							
Cash flow hedges		-6.8	8.9	-15.7	4.8	-12.2	-0.1
Available for sale financial assets	8	-34.1	-5.9	-28.1	-8.3	-11.0	-30.6
Currency translation differences		-24.5	5.1	-29.6	-10.5	-13.9	8.9
Share of comprehensive income of joint venture		0.7	-0.1	0.8	0.1	-0.9	-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		7.0	-1.7	8.6	0.5	2.2	7.4
Total		-57.7	6.3	-64.1	-13.5	-35.9	-15.0
Other comprehensive income, net of tax		-87.9	11.5	-99.4	-36.1	-37.5	-1.0
Total comprehensive income for the period		123.8	275.1	-151.2	31.7	44.8	354.7
Result for the period attributable to:							
Members of parent company		138.2	155.1	-16.9	45.6	51.4	216.9
Non-controlling interests		73.5	108.5	-34.9	22.2	30.9	138.8
Total		211.7	263.6	-51.8	67.8	82.3	355.7
Total comprehensive income attributable to:							
Members of parent company		76.5	162.7	-86.2	19.3	27.6	221.1
Non-controlling interests		47.3	112.4	-65.1	12.4	17.2	133.6
Total		123.8	275.1	-151.2	31.7	44.8	354.7

The notes are an integral part of this interim report.

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2016 30.9.	2015 30.9.	2015 31.12.
ASSETS				
Non-current assets				
Goodwill		516.7	520.0	522.8
Other intangible assets		229.4	234.3	234.5
Tangible assets	4	2 377.7	1 917.1	2 059.0
Biological assets		3.1	13.1	13.4
Investments in associated companies and joint ven-		41.9	43.2	43.4
Available for sale investments	8	192.8	252.0	227.1
Non-current financial assets	8	7.4	21.9	28.0
Deferred tax receivables		41.6	39.1	37.9
		3 410.5	3 040.7	3 166.1
Current assets				
Inventories		742.1	719.1	686.8
Accounts receivables and other receivables		686.6	723.7	640.5
Tax receivables based on the taxable income for the period		16.1	0.6	0.6
Cash and cash equivalents	8	800.5	1 009.4	1 120.8
		2 245.3	2 452.7	2 448.7
Assets classified as held for sale		3.6	5.7	1.6
Total assets		5 659.4	5 499.1	5 616.4
MEMBERS' FUNDS AND LIABILITIES				
Members' funds				
Members' funds		1 863.9	1 752.8	1 805.6
Non-controlling interests		617.4	589.6	611.3
		2 481.3	2 342.3	2 416.9
Non-current liabilities				
Deferred tax liabilities		205.5	221.2	225.6
Post-employment benefit obligations		101.5	84.8	77.9
Provisions	5	21.5	32.1	23.0
Borrowings	8	1 378.7	1 248.7	1 303.5
Other liabilities		44.6	19.9	22.3
		1 752.0	1 606.8	1 652.3
Current liabilities				
Provisions	5	8.5	22.4	20.3
Current borrowings	8	418.3	434.7	442.3
Accounts payable and other liabilities		986.6	1 021.2	1 063.3
Tax liabilities based on the taxable income for the pe-		10.2	39.6	20.3
		1 423.6	1 517.9	1 546.2
Liabilities classified as held for sale		2.6	32.1	1.1
Total liabilities		3 178.1	3 156.8	3 199.5
Total members' funds and liabilities		5 659.4	5 499.1	5 616.4

The notes are an integral part of this interim 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				155.1	155.1	108.5	263.6
Other comprehensive income, net after tax		2.2	0.9	4.6	7.8	4.1	11.9
Total comprehensive income		2.2	0.9	159.7	162.9	112.6	275.5
Transactions with owners:							
Dividends paid				-38.6	-38.6	-48.3	-86.9
Change in members' capital	39.8			-1.1	38.6		38.6
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				0.2	0.2	0.2	0.4
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 30.9.2015	758.9	-4.9	210.1	788.7	1 752.8	589.6	2 342.3

<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				138.2	138.2	73.5	211.7
Other comprehensive income, net after tax		-16.9	-20.6	-24.2	-61.7	-26.2	-87.9
Total comprehensive income		-16.9	-20.6	114.0	76.5	47.3	123.8
Transactions with owners:							
Dividends paid				-41.9	-41.9	-68.9	-110.8
Change in members' capital	32.2			-8.3	24.0		24.0
Change in other equity					0.0	24.9	24.9
Share based payments				-0.9	-0.9	-0.1	-1.0
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 30.9.2016	777.9	-19.6	176.9	928.6	1 863.9	617.4	2 481.3

The notes are an integral part of this interim report.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2016 1–9	2015 1–9	2015 1–12
Result for the period	7	211.7	263.6	355.7
Total adjustments	7	267.8	308.9	387.2
Change in working capital		-181.3	53.8	221.3
Cash flow arising from operations		298.2	626.3	964.3
Net financial items		-23.6	-50.7	-71.0
Income taxes paid		-98.2	-65.0	-97.3
Net cash flow arising from operating activities		176.4	510.6	796.0
Acquisitions		0.0	-0.8	-2.4
Investments in tangible and intangible assets		-540.2	-295.6	-491.6
Disposals and other items	7	49.2	38.9	38.6
Net cash flow arising from investing activities		-491.0	-257.6	-455.4
Change in members' funds		24.0	38.6	50.9
Change in other equity		24.9	55.6	55.6
Change in long-term loans and other financial items		64.9	-190.6	-179.2
Dividends paid		-120.2	-94.9	-94.9
Net cash flow arising from financing activities		-6.4	-191.3	-167.7
Change in cash and cash equivalents		-321.0	61.7	172.8
Cash and cash equivalents at beginning of period		1 120.8	947.9	947.9
Translation difference		0.7	-0.4	-0.1
Change in cash and cash equivalents		-321.0	61.7	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		800.5	1 009.4	1 120.8

The notes are an integral part of this interim report.

NOTES TO THE UNAUDITED CONDENSED INTERIM 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 interim 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 interim report was authorised for issue by the Board of Directors of Metsäliitto Cooperative on 2 November 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	1–9/2016			1–9/2015		
	External	Internal	Total	External	Internal	Total
Wood Supply and Forest Services	293.6	841.6	1 135.2	286.9	866.3	1 153.2
Wood Products Industry	588.6	43.0	631.6	623.7	40.6	664.3
Pulp Industry	612.7	350.3	962.9	659.4	411.7	1 071.1
Paperboard Industry	1 247.1	51.4	1 298.5	1 489.9	55.4	1 545.3
Tissue and Cooking Papers	740.7	1.0	741.6	751.4	0.5	751.9
Other operations	0.1	3.8	3.9	-0.6	4.2	3.6
Elimination of internal sales	-	-1 291.0	-1 291.0	-	-1 378.7	-1 378.7
Total sales	3 482.7	0.0	3 482.7	3 810.6	0.0	3 810.6

EUR million	1–12/2015		
	External	Internal	Total
Wood Supply and Forest Services	386.9	1 131.3	1 518.1
Wood Products Industry	799.4	52.9	852.2
Pulp Industry	883.2	561.4	1 444.6
Paperboard Industry	1 932.7	74.8	2 007.5
Tissue and Cooking Papers	1 014.9	0.9	1 015.8
Other operations	-1.0	5.2	4.1
Elimination of internal sales	-	-1 826.4	-1 826.4
Total sales	5 016.0	0.0	5 016.0

OPERATING RESULT BY SEGMENTS

EUR million	2016		2015	
	1–9	1–12	1–9	1–12
Wood Supply and Forest Services	22.0	22.7	29.0	
Wood Products Industry	20.9	1.4	10.0	
Pulp Industry	176.6	256.7	337.2	
Paperboard Industry	93.8	164.9	199.0	
Tissue and Cooking Papers	44.5	17.7	41.6	
Other operations	8.1	26.8	21.8	
Eliminations	-33.2	-76.3	-96.5	
Operating result total	332.7	413.9	542.1	
Share of results from associated companies and joint ventures	-1.4	8.5	11.2	
Financial costs, net	-55.8	-67.4	-84.9	
Income taxes	-63.8	-91.4	-112.6	
Result for the period	211.7	263.3	355.7	

ASSETS AND LIABILITIES BY SEGMENTS

Assets	2016	2015	2015
EUR million	30.9.	30.9.	31.12.
Wood Supply and Forest Services	278.5	259.4	223.8
Wood Products Industry	343.8	377.2	359.7
Pulp Industry	1 255.0	798.6	879.0
Paperboard Industry	1 893.7	1 902.6	1 889.5
Tissue and Cooking Papers	860.9	896.0	896.3
Other operations	230.7	230.6	261.7
Assets classified as held for sale	3.6	5.7	1.6
Eliminations	-222.4	-204.0	-223.2
Unallocated assets	1 015.6	1 233.0	1 328.0
Total	5 659.4	5 499.1	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	30.9.	30.9.	31.12.
Wood Supply and Forest Services	179.2	166.6	177.9
Wood Products Industry	128.1	120.9	105.9
Pulp Industry	332.9	249.1	292.8
Paperboard Industry	336.3	440.3	441.2
Tissue and Cooking Papers	293.2	295.5	300.2
Other operations	95.5	87.8	102.5
Liabilities classified as held for sale	2.6	32.1	1.1
Eliminations	-222.4	-204.0	-223.2
Unallocated liabilities	2 032.7	1 968.5	2 001.1
Total	3 178.1	3 156.8	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
	1–9	1–9	1–12
Taxes for the period	65.8	78.9	91.3
Taxes for previous periods	0.4	10.2	10.7
Change in deferred taxes	-2.4	2.3	10.6
Total income taxes	63.8	91.4	112.6

NOTE 4 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2016	2015	2015
	1–9	1–9	1–12
Book value at beginning of period	2 059.1	1 831.2	1 831.2
Investments	531.7	288.4	482.9
Decreases	-13.4	-11.7	-12.6
Assets classified as held for sale	-4.8	-2.0	-2.0
Depreciation and impairment losses	-177.6	-183.8	-239.6
Translation differences and other changes	-17.2	-5.0	-0.7
Book value at end of period	2 377.7	1 917.1	2 059.0

Depreciation and impairment losses include in 2016 an impairment loss of EUR 8.5 million due to the close down of Metsä Board's wallpaper base production. 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	-0.5	-0.0	-0.1	-0.6
Increases	0.1	2.9	0.8	3.8
Utilised during the year	-12.4	-0.2	-1.5	-14.1
Unused amounts reversed	-2.5		-0.0	-2.5
At 30 September 2016	5.3	17.7	7.1	30.1

The increase in environmental obligations EUR 2.4 million is due to the landscaping of Metsä Tissue's tip. Of the unused amounts reversed EUR 2.0 million is due to Metsä Tissue's efficiency program in the German napkin business.

Of the Metsä Group's total provisions of EUR 30.1 million, the non-current portion was EUR 21.5 million and the current portion EUR 8.5 million. The non-current portion will mostly be paid during 2025.

NOTE 6 – TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2016 1–9	2015 1–9	2015 1–12
Sales	6.9	6.6	9.4
Purchases	60.8	65.0	90.4
Non-current receivables	1.0	1.0	1.0
Current receivables	3.8	3.5	3.7
Non-current liabilities	0.0	0.0	0.0
Current liabilities	5.2	5.6	6.6

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

EUR million	2016 1–9	2015 1–9	2015 1–12
Taxes	63.8	91.4	112.6
Depreciation and impairment charges	190.8	197.9	258.2
Biological assets	-1.8	-1.3	-1.4
Share of results from associated companies	1.4	-8.5	-11.2
Gains and losses on sale of non-current financial assets	-26.6	-45.9	-51.0
Financial costs, net	55.8	67.4	84.9
Pension liabilities and provisions	-15.6	7.8	-4.9
Total	267.8	308.9	387.2

Disposals and other items

Disposals and other items include in January–September 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, the sale of Metsä Fibre's subsidiary Metsä-Botnia Metsät Oy for EUR 24.4 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 7.5 million. In addition, disposals and other items include sales of fixed assets of EUR 8.3 million and other items of EUR 5.5 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 September, 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		192.8				192.8	192.8
Other non-current financial assets			7.4			7.4	7.4
Account receivables and others			684.7			684.7	684.7
Cash and cash equivalents	79.8		720.7			800.5	800.5
Derivative financial instruments	0.0			0.2		0.2	0.2
Assets classified as held for sale							
Total	79.8	192.8	1 412.8	0.2	0.0	1 685.6	1 685.6

Financial liabilities 30 September, 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					1 378.7	1 378.7	1 413.2
Other non-current liabilities					1.9	1.9	1.9
Current interest-bearing liabilities					418.3	418.3	421.2
Accounts payable and others					862.1	862.1	862.1
Derivative financial instruments	-0.5			50.6		50.1	50.1
Liabilities classified as held for sale					2.6	2.6	2.6
Total	-0.5	0.0	0.0	50.6	2 663.6	2 713.7	2 751.1

Financial assets 30 September, 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		252.0				252.0	252.0
Other non-current financial assets	5.0		16.9			21.9	21.9
Accounts receivables and others			713.6			713.6	713.6
Cash and cash equivalents	32.3		977.1			1 009.4	1 009.4
Derivative financial instruments	2.6			4.1		6.7	6.7
Assets classified as held for sale			3.5			3.5	3.5
Total	39.9	252.0	1 711.2	4.1	0.0	2 007.1	2 007.1

Financial liabilities 30 September, 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					1 248.7	1 248.7	1 288.0
Other non-current liabilities					4.1	4.1	4.1
Current interest-bearing liabilities					434.7	434.7	441.3
Accounts payable and others					889.6	889.6	889.6
Derivative financial instruments	1.6			33.7		35.4	35.4
Liabilities classified as held for sale					31.5	31.5	31.5
Total	1.6	0.0	0.0	33.7	2 608.7	2 644.1	2 690.0

Fair value hierarchy of financial assets and liabilities 30 September, 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		192.8	192.8
Current financial assets through profit and loss at fair value	70.9	8.9		79.8
Derivative financial assets	0.2	0.0		0.2
Financial liabilities measured at fair value				
Derivative financial liabilities	4.7	45.4		50.1
Financial assets not measured at fair value				
Financial assets		720.7		720.7
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities			1 413.2	1 413.2
Current interest-bearing liabilities			421.2	421.2

Fair value hierarchy of financial assets and liabilities 30 September, 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		5.0		5.0
Available for sale financial assets	0.1		251.9	252.0
Current financial assets through profit and loss at fair value	32.3			32.3
Derivative financial assets		6.7		6.7
Financial liabilities measured at fair value				
Derivative financial liabilities	28.9	6.5		35.4
Financial assets not measured at fair value				
Financial assets		977.1		977.1
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 288.0		1 288.0
Current interest-bearing liabilities		441.3		441.3

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	0.6
Gains and losses in other comprehensive income	-34.0	-5.6
Purchases	0.0	0.8
Settlements	-0.4	-0.6
Closing balance 30 September	192.8	251.9

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 1.53 per cent on 30 September 2016 and for the Olkiluoto 3 power plant under construction 4.53 per cent. The acquisition cost of the Pohjolan Voima Oy shares is EUR 43.1 million and their fair value is EUR 185.1 million.

The carrying amount of available-for-sale financial assets as of 30.9.2016 is estimated to change by EUR 4.4 million lower should the rate used for discounting the cash flows change by 10 per cent from the rate estimated by the management. The carrying amount of available-for-sale financial assets is estimated to change by EUR 35.9 million should the energy prices applied in the fair value calculation differ by 10 per cent from the rate estimated by the management.

Derivatives 30 September, 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	937.6		39.3	-39.3		-38.8		-0.5
Total	937.6	0.0	39.3	-39.3	0.0	-38.8	0.0	-0.5
Currency forwards	1 158.7	0.0	2.3	-2.3		-3.2		0.9
Currency options	152.3		-0.1	0.1				0.1
Total	1 311.0	0.0	2.2	-2.2	0.0	-3.2	0.0	1.0
Electricity derivatives	73.6	0.2	0.8	-0.6		-0.6		
Pulp derivatives	40.4		3.9	-3.9		-3.9		
Oil derivatives	11.2		2.0	-2.0		-2.0		
Commodity derivatives	12.1		1.9	-1.9		-1.9		
Total	137.3	0.2	8.6	-8.4	0.0	-8.4	0.0	0.0
Derivatives total	2 386.0	0.2	50.1	-49.9	0.0	-50.4	0.0	0.5

Derivatives 30 September, 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	1 050.2		6.5	-6.5	3.6	-8.5		-1.6
Total	1 050.2	0.0	6.5	-6.5	3.6	-8.5	0.0	-1.6
Currency forwards	1 132.0	6.3		6.3		1.7	1.7	2.9
Currency options	264.4	-0.3		-0.3				-0.3
Total	1 396.4	6.0	0.0	6.0	0.0	1.7	1.7	2.6
Electricity derivatives	80.6		18.5	-18.5		-18.5		
Pulp derivatives	55.3	0.7		0.7		0.7		
Oil derivatives	25.7		5.8	-5.8		-5.8		
Commodity derivatives	20.9		4.6	-4.6		-4.5		-0.1
Total	182.4	0.7	28.9	-28.2	0.0	-28.1	0.0	-0.1
Derivatives total	2 629.1	6.7	35.4	-16.0	3.6	-34.9	1.7	1.0

NOTE 9 – COMMITMENTS AND CONTINGENCIES

EUR million	30.9.2016	30.9.2015	31.12.2015
Own liabilities for which commitments granted	497.3	561.1	529.5
Pledges granted	423.3	450.2	464.5
Floating charges	2.8	5.9	5.9
Real estate mortgages	369.6	382.3	381.4
Chattels mortgage	4.0	4.0	4.0
Commitments for own liabilities, total	799.8	842.3	855.7
Other commitments on own behalf	50.2	61.6	57.0
On behalf of associated companies	0.9	1.2	1.0
On behalf of others	5.1	5.8	4.8
Total	855.9	910.9	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 26.7 million (31.12.2015: 33.8).

COMMITMENTS RELATED TO INVESTMENTS

EUR million	30.9.2016	30.9.2015	31.12.2015
Payments due under 1 year	262.6	279.1	409.9
Payments due in subsequent years	150.3	192.1	165.7
Total	412.9	471.2	575.6