

METSÄ GROUP

INTERIM REPORT

JANUARY–SEPTEMBER 2018



Metsä

METSÄ GROUP'S COMPARABLE OPERATING RESULT IN JANUARY–SEPTEMBER 2018 WAS EUR 641 MILLION

JANUARY–SEPTEMBER 2018 (1–9/2017)

- Sales were EUR 4,290 million (3,712).
- Operating result was EUR 635 million (397). Comparable operating result was EUR 641 million (381).
- Result before tax was EUR 576 million (345). Comparable result before tax was EUR 582 million (330).
- Comparable return on capital employed was 17.1% (11.2).
- Cash flow from operations was EUR 591 million (611).

JULY–SEPTEMBER 2018 (7–9/2017)

- Sales were EUR 1,386 million (1,260).
- Operating result was EUR 223 million (143). Comparable operating result was EUR 223 million (134).
- Result before tax was EUR 208 million (109). Comparable result before tax was EUR 208 million (100).
- Comparable return on capital employed was 18.3% (10.8).
- Cash flow from operations was EUR 314 million (420).

EVENTS DURING THE THIRD QUARTER OF 2018

- The market prices of long-fibre and short-fibre pulp continued to rise.
- Bioproduct mill in Äänekoski reached its nominal capacity in August.
- Metsä Board's profitability improved due to the higher average prices of paperboard and market pulp as well as increased pulp production and delivery volumes of the associated company Metsä Fibre.
- Planned maintenance shutdowns took place at the Kemi and Husum integrated mills. The maintenance shutdown at Husum began in September and ended in October.
- Production at Metsä Wood's birch plywood mill in Pärnu began officially at the end of August.

- Metsäliitto Cooperative made an early repayment of its EUR 56 million loan to the European Investment Bank.

EVENTS AFTER THE REVIEW PERIOD

Metsä Group's innovation company Metsä Spring and Itochu Corporation from Japan announced the establishment of a joint venture, which will invest approximately EUR 40 million in an industrial demo plant producing textile fibre. The facility will be built in Äänekoski, Finland.

RESULT GUIDANCE FOR OCTOBER–DECEMBER 2018

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

President and CEO Ilkka Hämmälä:

"Strong demand for our products continued in the third quarter. The prices of different product groups remained stable or rose slightly. The market situation, combined with the high sales volume enabled by our development investments, led to an excellent financial result."

In terms of the Group's development path, we completed our birch plywood investments in Äänekoski and Pärnu, and immediately after the review period, we decided on a new industrial demo plant to produce wood-based textile fibres to be built at Äänekoski. We are continuing the LVL mill investment at Punkaharju and exploring development options for our pulp mill in Kemi."

Converting Finnish wood into diverse carbon-storing products and the combined development of forest management services that support the sustainable growth of forests represent Metsä Group's actions to combat climate change."

www.metsagroup.com

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

Metsä Group's sales totalled EUR 5.0 billion in 2017, and it employs approximately 9,100 people. The Group operates in some 30 countries. Metsäliitto Cooperative is the parent company of Metsä Group and owned by approximately 104,000 Finnish forest owners.

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KEY FIGURES

	2018	2017	2018	2017	2017
Condensed income statement, EUR million	1–9	1–9	7–9	7–9	1–12
Sales	4 290.2	3 711.8	1 385.8	1 260.4	5 040.0
Other operating income	34.9	43.4	14.0	17.7	60.3
Operating expenses	-3 473.3	-3 179.2	-1 110.1	-1 070.1	-4 269.7
Depreciation and impairment losses	-216.3	-179.3	-66.7	-64.7	-249.7
Operating result	635.4	396.7	223.1	143.3	581.0
Share of results from associated companies and joint ventures	4.5	15.9	3.7	-3.0	17.1
Exchange gains and losses	-5.9	-3.3	-1.4	-0.7	-3.3
Other net financial items	-57.8	-64.1	-17.3	-30.9	-88.5
Result before income tax	576.3	345.2	208.2	108.6	506.2
Income tax	-117.4	-65.8	-38.3	-22.0	-102.3
Result for the period	458.9	279.4	169.9	86.6	403.9

	2018	2017	2018	2017	2017
Profitability	1–9	1–9	7–9	7–9	1–12
Operating result, EUR million	635.4	396.7	223.1	143.3	581.0
Comparable operating result	641.0	381.2	223.0	134.3	566.1
% of sales	14.9	10.3	16.1	10.7	11.2
Return on capital employed, %	17.0	11.6	18.3	11.5	12.6
Comparable return on capital employed	17.1	11.2	18.3	10.8	12.3
Return on equity, %	19.0	13.7	20.1	12.4	14.5
Comparable return on equity	19.2	13.0	20.1	11.1	14.0

	2018	2017	2018	2017	2017
Financial position	30.9.	30.9.	30.6.	30.6.	31.12.
Equity ratio, %	52.7	43.4	51.2	45.3	45.0
Net gearing ratio, %	18	41	26	45	34
Interest-bearing net liabilities, EUR million	622	1 165	841	1 252	993

SEGMENTS

Sales and Operating result 1–9/2018, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp and Sawn Timber Industry	Paperboard Industry	Tissue and Cooking Papers
Sales	1 457.0	333.9	1 839.0	1 486.1	769.4
Other operating income	5.6	5.0	17.9	9.6	3.3
Operating expenses	-1 436.0	-314.7	-1 265.7	-1 238.7	-715.0
Depreciation and impairment losses	-3.3	-9.9	-94.5	-70.7	-27.5
Operating result	23.4	14.4	496.7	186.3	30.2
Items affecting comparability	-	-	-	5.6	-
Comparable operating result	23.4	14.4	496.7	191.9	30.2
% of sales	1.6	4.3	27.0	12.9	3.9

THE INTERIM REPORT IS UNAUDITED**INTERIM REPORT 1 JANUARY–30 SEPTEMBER 2018****SALES AND RESULT**

Metsä Group's sales in January–September 2018 were EUR 4,290.2 million (1–9/2017: 3,711.8). Sales increased mainly due to greater delivery volumes, and higher pulp and paperboard prices.

The comparable operating result was EUR 641.0 million (381.2), or 14.9% (10.3%) of sales. The operating result improved, mainly due to an increase in pulp prices and positive development in the paperboard business. Exchange rate fluctuations after hedging had a negative effect of approximately EUR 120 million on the operating result in the review period, compared to the corresponding period last year. The effect was mainly attributable to the US dollar weakening against the euro by approximately 7%.

Sales in the third quarter of the year totalled EUR 1,385.8 million, whereas sales for the corresponding period last year were EUR 1,260.4 million. The comparable operating result was EUR 223.0 million (7–9/2017: 134.3).

The items affecting comparability recognised in January–September totalled EUR -5.6 million (1–9/2017: +15.4). The items consisted of cost provisions related to the efficiency programme at the Husum mill in Sweden and compensation to be paid to Pohjolan Voima with regard to the divestment of Teollisuuden Voima's Meri-Pori coal-fired power plant.

Metsä Group's operating result (IFRS) was EUR 635.4 million (396.7). The share of the results of associated companies and joint ventures was EUR 4.5 million (15.9), financial income was EUR 2.1 million (3.3), exchange rate differences in financing were EUR -5.9 million (-3.3), and financial expenses totalled EUR 59.9 million (67.4).

The result before taxes was EUR 576.3 million (345.2), and taxes including changes in deferred tax liabilities totalled EUR 117.4 million (65.8). The Group's effective tax rate was 20.4% (19.1). The result for the review period was EUR 458.9 million (279.4).

The return on capital employed was 17.0% (11.6), and the return on equity was 19.0% (13.7).

The comparable return on capital employed was 17.1% (11.2), and the comparable return on equity was 19.2% (13.0).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity has remained strong. Total liquidity at the end of September was EUR 1,747.3 million (31 December 2017: 1,928.3). This consisted of

EUR 941.4 million (1,072.4) in liquid assets and investments, and EUR 805.9 million (855.9) in off-balance sheet committed credit facility agreements.

The Group's liquidity reserve is complemented by uncommitted commercial paper programmes and credit facilities amounting to EUR 160.8 million (31 December 2017: 160.8).

Cash flow from operations amounted to EUR 590.6 million (1–9/2017: 610.7). EUR 277.6 million was tied up in working capital (53.4 released). Working capital increased with the addition of EUR 120.5 million in trade and other receivables, the addition of EUR 107.8 million in inventories, and a decrease of EUR 49.4 million in trade payables and other liabilities.

The Group's equity ratio at the end of September was 52.7%, and its net gearing was 18% (31 December 2017: 45.0 and 34, respectively). Net interest-bearing liabilities were EUR 621.5 million (31 December 2017: 992.6).

In February and June, Metsäliitto Cooperative made early repayments of EUR 100 million of its EUR 200 million loan maturing in 2019. In September, Metsäliitto Cooperative made an early repayment of its EUR 56 million long-term loan.

In April, Metsä Board made an early repayment of EUR 100 million of its syndicated credit facility maturing in 2020. The agreement consisted of a EUR 150 million term loan and an undrawn revolving credit facility of EUR 100 million. In conjunction with the loan repayment, the credit facility was increased by EUR 50 million.

At the end of September, the equity ratio of the parent company Metsäliitto Cooperative was 86.5%, and net gearing was -16% (31 December 2017: 76.7 and -14, respectively).

On 3 May 2018, Metsäliitto Cooperative's Representative Council decided to transfer EUR 250 million of retained earnings to the reserve for invested unrestricted equity. Correspondingly, the share of members' capital recognised as a financial liability in the consolidated financial statements in accordance with IFRS decreased by EUR 83.3 million.

In January–September, Metsäliitto Cooperative's members' capital increased by a total of EUR 86.8 million (49.1). The value of participation shares grew by EUR 9.6 million (6.8) and that of additional shares A by EUR 83.8 million (45.5). The value of additional shares B decreased by EUR 6.6 million (-3.2).

PERSONNEL

In January–September, Metsä Group had an average of 9,513 employees (9,484). Personnel expenses totalled EUR 477.0 million (459.8). At the end of September, the Group employed 9,348 people (31 December 2017: 9,126), of whom 4,893 (4,764) were based in Finland and 4,455 (4,362) abroad. The parent company Metsäliitto Cooperative employed 1,937 people at the end of September (31 December 2017: 1,878).

Esa Kaikkonen (LL.M.) was appointed CEO of Metsä Tissue Corporation. Prior to this appointment, Kaikkonen had worked as the Executive Vice President of Metsä Wood since 2013 and as Metsä Group's General Counsel during 2003–2013.

Juha Mäntylä, (M.Sc. Agriculture and Forestry) was appointed COO of Metsäliitto Cooperative. In addition to Metsä Forest, he is responsible for Metsä Wood. Mäntylä has been responsible for the Group's Wood Supply and Forest Services since 2008. Before that he worked in several management positions in wood supply since 1998.

MEMBERS

At the end of September, Metsäliitto Cooperative had 103,221 members (31 December 2017: 103,752). During January–September, 2,186 new members joined the Cooperative, and 2,717 members cancelled their memberships. At the end of the review period, the total amount of forest land owned by the members was 5.24 million hectares (30 September 2017: 5.14).

INVESTMENTS

Metsä Group's capital expenditure in January–September totalled EUR 158.7 million (530.1).

Metsä Tissue's ongoing investments progressed according to plan. Under construction at the moment are a new converting line for away-from-home products at the Raubach mill in Germany and a new converting line for consumer products at the Žilina mill in Slovakia, while the baking paper machine at the Düren mill in Germany is being renewed. The additional capacity will be in production use by the end of 2018.

The renewal of the deinking plant underway at the Mänttä mill since 2017, set to be carried out in phases over a period of three years, continued.

Metsä Board and Metsä Fibre's investments in January–September were mainly maintenance investments.

Metsä Wood's investment programme

The construction project concerning the birch plywood mill in Pärnu, Estonia, was completed, and production officially began at the end of August. The inauguration ceremony took place on 3 October 2018.

The mill's annual production capacity is 50,000 cubic metres, and the veneer it uses is manufactured at Äänekoski. The mill currently employs around 80 people.

The Suolahti converting mill will move to Pärnu by the end of January, in accordance with the original plan.

In December 2017, Metsä Wood announced the construction of a new Kerto® LVL line with a capacity of 65,000 cubic metres at its mill in Punkaharju. The value of the investment is approximately EUR 52 million. The industrial hall was completed on schedule, and the new line will start up during the first half of 2019. The mill recruited some 35 people for apprenticeship training.

Metsä Spring

In May, Metsä Group announced it had established Metsä Spring Oy, an innovation company. The company invests in new projects in cooperation with partners, aiming to identify and develop new business operations related to sustainable, forest-based bioeconomy and circular economy.

The plant will be built in Äänekoski, Finland. After the review period, Metsä Spring and Itochu Corporation from Japan announced the establishment of a joint venture, which will invest approximately EUR 40 million in a new industrial demo plant to produce wood-based textile fibres. Business Finland will participate in funding the project with a product development loan.

The wood based textile fibre demo plant, will be built next to Metsä Group's bioproduct mill. The construction of the facility, with an annual capacity of 500 tonnes, began in October 2018, and production is expected to commence at the end of 2019.

The test results will be used for a technical and financial assessment concerning the possible construction of a significantly bigger textile fibre mill in Finland.

BUSINESS AREAS

Wood Supply and Forest Services

The sales of Wood Supply and Forest Services, i.e. Metsä Forest, totalled EUR 1,457.0 million (1–9/2017: 1,205.8), and the operating result was EUR 23.4 million (18.9). Metsä Forest's sales in the third quarter were EUR 471.4 million (7–9/2017: 376.4), and the operating result was EUR 8.9 million (5.9).

Wood trade in Finland was brisk, and the purchasing volume for the year so far is clearly higher than in the corresponding period last year. Stumpage prices, which increased in the first half of the year, stabilised during the third quarter.

Wood harvesting conditions in the Baltic Sea region were good during the review period, even though

drought, particularly in Sweden, restricted felling activities due to the risk of forest fire. Demand for all grades of wood continued to be strong.

Metsä Forest buys all grades of wood across Finland through both standing and delivery sales. During the third quarter, demand focused particularly on felling sites to be harvested when the ground is unfrozen. The purchasing of energy wood continued to focus on crown wood. The majority of wood in Finland is purchased from members of Metsäliitto Cooperative. The sales of forest management services were in line with targets.

Wood was harvested according to targets, and deliveries to customers' production units were carried out smoothly. Wood stocks were at a normal level thanks to good harvesting and transport conditions.

In January–September 2018, Metsä Forest delivered a total of approximately 27.2 million cubic metres (23.7) of wood to its customers. Approximately 84% of this amount went to the Finnish industrial sector.

A total of 35% of the wood acquired from private forest owners in January–September was purchased through digital means. In the sale of forest management services, the figure was 41%.

An advance financing service for digital wood trade was introduced at the beginning of June 2018. The service enables forest owners to receive up to 80% in advance funding for their wood trade transaction.

Wood Products Industry

The sales of the Wood Products Industry, i.e. Metsä Wood, were EUR 333.9 million (1–9/2017: 351.6), and the comparable operating result was EUR 14.4 million (26.7).

Metsä Wood's sales in the third quarter were EUR 105.9 million (7–9/2017: 109.6), and the comparable operating result was EUR 2.8 million (7.6).

Sales in January–September 2018 declined by 5% from the comparison period. The sales of engineered wood products remained at last year's level, but the sales of the UK business clearly declined.

The average sales price of plywood products grew from last year due to price increases and a better product mix. Demand for engineered wood products in the main markets remained strong. The order book levels of spruce plywood in particular were higher than last year.

The profitability compared to the corresponding period was burdened by significant cost inflation, a decline in the profitability of the UK business and the costs of new mills. Production challenges in some mills were also reflected in delivery volumes and the operating result.

Pulp and Sawn Timber Industry

The sales of the Pulp and Sawn Timber Industry, i.e. Metsä Fibre, totalled EUR 1,839.0 million (1–9/2017:

1,323.7), and the comparable operating result was EUR 496.7 million (193.7). In addition to an increase in sales prices, sales and operating result improved due to pulp delivery volumes, which increased as a result of the bioproduct mill.

Metsä Fibre's sales in the third quarter were EUR 609.5 million (7–9/2017: 475.3), and the operating result was EUR 186.9 million (68.4).

Compared to the corresponding period last year, the currency-denominated market prices of long-fibre and short-fibre pulp increased by 34% and 33%, respectively, in January–September.

At the beginning of January, the average price of long-fibre pulp in Europe was USD 1,023 per tonne, as opposed to USD 1,230 per tonne at the end of the review period. At the beginning of January, the price of short-fibre pulp in Europe was USD 995 per tonne, as opposed to USD 1,050 per tonne at the end of September.

The sales volume of pulp was 2,127,000 tonnes, which is approximately 23% higher than in the corresponding period last year (1,735,000).

The delivery volumes of sawn timber were 1,290,000 cubic metres, which is approximately 11% lower than in the corresponding period last year. The average market prices of sawn timber in January–September increased by 11% compared to the corresponding period last year.

Paperboard Industry

The sales of the Paperboard Industry, i.e. Metsä Board, were EUR 1,486.1 million (1–9/2017: 1,397.3), and the comparable operating result was EUR 191.9 million (139.1).

Metsä Board's sales in the third quarter were EUR 475.1 million (7–9/2017: 478.6), and the comparable operating result was EUR 63.7 million (50.4).

The sales and comparable operating result of the review period improved due to the higher prices of paperboard and market pulp and the higher delivery volumes of paperboard. The increased pulp production and delivery volumes of the associated company Metsä Fibre had a clearly positive effect on results. The operating result also improved due to mills' improved cost-efficiencies and better sales mix.

The total production costs of paperboard rose from the corresponding period last year. Exceptional weather conditions made harvesting conditions more difficult at the beginning of the year and increased wood prices nearly everywhere in northern Europe. The price increase was particularly steep in terms of wood imported to Sweden from the Baltic countries. The result was further burdened by more expensive road transport costs in the United States and an acceleration in general cost inflation. Exchange rate fluctuations including hedges had a negative effect of around EUR 47 million on the

operating result in the review period, compared to the corresponding period last year.

Total deliveries of paperboard were 1,405,000 (1,375,000) tonnes in January–September. Deliveries of folding boxboard amounted to 922,000 (868,000) tonnes, and deliveries of white kraftliner totalled 481,000 (506,000) tonnes.

Metsä Board's comparable return on capital employed was 14.7% (10.6%), and its comparable earnings per share were EUR 0.44 (0.27).

The equity ratio at the end of September was 57.3% and net gearing was 27% (31 December 2017: 52.6% and 31%, respectively).

Metsä Board's Interim Report was published on 8 November 2018.

Tissue and Cooking Papers

The sales of Tissue and Cooking papers, i.e. Metsä Tissue, totalled EUR 769.4 million (1–9/2017: 753.1). The growth in sales was primarily due to increased sales volumes.

Metsä Tissue's operating result was EUR 30.2 million (50.7). The operating result was weakened by the price of fresh fibre, which was higher than in January–September last year. The weakening of the Norwegian krone, Swedish krona and UK pound against the euro also had a negative effect on the operating result.

Metsä Tissue's sales in the third quarter were EUR 254.3 million (7–9/2017: 249.6), and the comparable operating result was EUR 6.4 million (16.8).

RISKS AND UNCERTAINTIES

The estimates and statements in this report are based on current plans and estimates. They involve risks and uncertainties that may cause the results to differ from those expressed in such statements. In the short term, the price of and demand for end products, raw material costs, energy prices and the exchange rate development of the euro have an effect on the results of Metsä Group.

There are several geopolitical risks and crises around the world, and forecasting developments in them is difficult. Changes in these areas may be very sudden and unpredictable. There have been international sanctions related to the management of these international crises, and they may also have a direct or indirect impact on the demand for forest industry products and, therefore, on Metsä Group's result.

During 2018, various countries have imposed new import duties on each other's products, in addition to other trade restrictions, but these have not had a direct effect on Metsä Group's business operations so far. Negative developments in world trade could, if continued, weaken Metsä Group's result.

The risks related to the Group's business have been explained more extensively in Metsä Group's Financial Statements for 2017.

PENDING DISPUTES

In March 2011, the state enterprise Metsähallitus filed a claim for damages at the District Court of Helsinki, demanding that Metsäliitto Cooperative and two other forest industry companies jointly pay compensation for alleged damage caused by prohibited cooperation with regard to prices in the raw wood market. The claim is related to the 3 December 2009 decision by the Market Court which states that the aforementioned companies have violated the act on competition restrictions in the raw wood market. In addition, some municipalities, parishes and a group of individuals in Finland have instituted similar proceedings. The total amount of all claims directed at Metsäliitto Cooperative and the other aforementioned companies jointly is approximately EUR 63 million, of which approximately EUR 23 million is directed at Metsäliitto Cooperative alone. The aforementioned proceedings are associated with interest, value added tax claims and legal process expenses. Metsäliitto Cooperative's view is that the claims for damages are unfounded, and the company has not recognised any provisions regarding them.

The Court of Appeal dismissed in its ruling issued in May 2018 the claim for damages of EUR 125 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 39 million. Metsähallitus has requested a leave to appeal from the Supreme Court to change the ruling of the Court of Appeal and claimed the companies jointly for approximately EUR 62 million. The amount directed at Metsäliitto Cooperative is approximately EUR 22 million.

In its decisions given in August–November 2017 concerning the claims for damages filed by private individuals, the District Court of Helsinki dismissed the claimants' petitions and obligated the claimants to compensate the defendants in full for their legal costs. The ruling by the District Court regarding the private individuals is final.

The Helsinki District Court dismissed in its rulings issued in October 2017 the claim for damages of approximately EUR 5.7 million made by 30 municipalities against the defendant companies jointly and ruled that the municipalities are responsible for reimbursing the defendant companies for their legal expenses. Metsäliitto Cooperative's share of the municipalities' claim for damages in the district court was approximately EUR 1.9 million. The ruling by the District Court regarding the municipalities is 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 appealed the District Court's judgment at the Court of Appeal. The Court of Appeal dismissed in its ruling issued on 21 October 2016 Metsäliitto Cooperative's and Metsä Board's demands for damages. The ruling by the Court of Appeal is not final.

In the autumn of 2015, the Finnish Tax Administration took a stand against the deductibility of certain losses in Metsä Board's 2014 taxation. Metsä Board has appealed against the decision issued by the Tax Administration, as the company believes the losses are deductible. The Board of Adjustment dismissed the company's appeal in March 2018. Metsä Board will appeal the decision to the Administrative Court of Helsinki.

NEAR-TERM OUTLOOK

Demand for wood will focus on regeneration and thinning felling that can be harvested in the summer and, in terms of energy wood, primarily on crown wood. The sales of forest management services are expected to remain at a good level.

General market demand for wood products is expected to remain good, which improves order book levels, particularly for plywood products. The strong construction market is supporting demand for Kerto LVL products. In the UK market, the uncertainty caused by the Brexit negotiations will be reflected in the demand outlook, particularly in the distributor segment.

The balance in demand and supply in the pulp market is good at the moment. The situation is expected to remain stable in the fourth quarter of the year as well.

The demand for and price level of sawn timber has improved over the year. Demand is expected to remain stable in the main markets in Europe.

Growth in demand for high-quality consumer packaging paperboard made from fresh fibre is expected to continue. The market prices of folding boxboard and white kraftliner in local currencies are expected to remain mainly stable or to rise slightly.

Paperboard deliveries during the fourth quarter are expected to remain roughly at the level of the third quarter or to decline slightly. Delivery volumes in the fourth quarter are affected by the seasonally slower December.

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

RESULT GUIDANCE FOR OCTOBER–DECEMBER 2018

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

Espoo, Finland, 8 November 2018
BOARD OF DIRECTORS

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Metsä Group will publish its financial reports in 2019 as follows:

7 February 2019: Financial statements for 2018
26 April 2019: Interim report for January–March 2019
1 August 2019: Half Year Report for 2019
31 October 2019: Interim report for January–September 2019

SEGMENTS

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Wood Supply and Forest Services					
Sales, EUR million	1 457.0	1 205.8	471.4	376.4	1 634.4
EBITDA, EUR million	26.7	21.9	10.0	7.0	28.4
Comparable EBITDA, EUR million	26.7	21.9	10.0	7.0	28.4
Operating result, EUR million	23.4	18.9	8.9	5.9	24.3
Comparable operating result, EUR million	23.4	18.9	8.9	5.9	24.3
% of sales	1.6	1.6	1.9	1.6	1.5
Comparable ROCE, %	20.5	18.5	23.5	16.6	17.6
Capital expenditure, EUR million	2.7	3.0	0.9	0.9	4.2
Personnel at end of period	849	855	849	855	848

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Wood Products Industry					
Sales, EUR million	333.9	351.6	105.9	109.6	459.9
EBITDA, EUR million	24.3	37.4	6.0	9.2	47.3
Comparable EBITDA, EUR million	24.3	35.5	6.0	10.6	45.5
Operating result, EUR million	14.4	28.5	2.8	6.3	35.3
Comparable operating result, EUR million	14.4	26.7	2.8	7.6	33.5
% of sales	4.3	7.6	2.6	6.9	7.3
Comparable ROCE, %	8.0	19.0	4.1	15.4	17.6
Capital expenditure, EUR million	65.6	35.1	17.9	16.3	57.3
Personnel at end of period	1 496	1 432	1 496	1 432	1 428

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Pulp and Sawn Timber Industry					
Sales, EUR million	1 839.0	1 323.7	609.5	475.3	1 875.7
EBITDA, EUR million	591.2	250.9	216.1	90.8	406.1
Comparable EBITDA, EUR million	591.2	251.0	216.1	90.8	406.2
Operating result, EUR million	496.7	193.6	186.9	68.4	319.5
Comparable operating result, EUR million	496.7	193.7	186.9	68.4	319.7
% of sales	27.0	14.6	30.7	14.4	17.0
Comparable ROCE, %	35.3	18.0	39.3	17.5	20.9
Capital expenditure, EUR million	29.4	436.3	17.6	222.6	436.2
Personnel at end of period	1 224	1 247	1 224	1 247	1 215

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Paperboard Industry					
Sales, EUR million	1 486.1	1 397.3	475.1	478.6	1 848.6
EBITDA, EUR million	257.0	220.9	84.2	85.2	298.7
Comparable EBITDA, EUR million	262.6	211.2	84.2	75.0	289.1
Operating result, EUR million	186.3	152.7	63.7	60.6	207.1
Comparable operating result, EUR million	191.9	139.1	63.7	50.4	193.5
% of sales	12.9	10.0	13.4	10.5	10.5
Comparable ROCE, %	14.7	10.6	15.0	11.5	11.2
Capital expenditure, EUR million	36.4	38.7	10.7	7.3	65.4
Personnel at end of period	2 375	2 369	2 375	2 369	2 351

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Tissue and Cooking Papers					
Sales, EUR million	769.4	753.1	254.3	249.6	1 013.6
EBITDA, EUR million	57.7	79.6	15.6	26.3	112.0
Comparable EBITDA, EUR million	57.7	79.6	15.6	26.2	112.4
Operating result, EUR million	30.2	50.7	6.4	16.9	73.5
Comparable operating result, EUR million	30.2	50.7	6.4	16.8	73.9
% of sales	3.9	6.7	2.5	6.7	7.3
Comparable ROCE, %	6.3	10.3	3.7	10.0	11.5
Capital expenditure, EUR million	23.7	13.4	12.2	5.7	39.1
Personnel at end of period	2 896	2 825	2 896	2 825	2 795

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Other operations					
Sales, EUR million	3.7	3.2	1.2	1.0	4.9
EBITDA, EUR million	0.9	9.4	2.3	2.9	-0.6
Comparable EBITDA, EUR million	0.9	9.4	2.3	2.9	-0.6
Operating result, EUR million	-1.2	7.7	1.6	2.5	-3.2
Comparable operating result, EUR million	-1.2	7.7	1.6	2.5	-3.2
Capital expenditure, EUR million	3.4	4.7	1.9	1.8	6.2
Personnel at end of period	508	495	508	495	490

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.

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Internal sales and eliminations					
Sales, EUR million	-1 599.0	-1 323.0	-531.4	-430.2	-1 796.9
EBITDA, EUR million	-106.0	-44.1	-44.4	-13.4	-61.2
Comparable EBITDA, EUR million	-106.0	-44.1	-44.4	-13.4	-61.2
Operating result, EUR million	-114.4	-55.5	-47.2	-17.2	-75.6
Comparable operating result, EUR million	-114.4	-55.5	-47.2	-17.2	-75.6

	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
Metsä Group					
Sales, EUR million	4 290.2	3 711.8	1 385.8	1 260.4	5 040.0
EBITDA, EUR million	851.7	576.0	289.8	208.0	830.7
Comparable EBITDA, EUR million	857.3	564.5	289.7	199.0	819.7
Operating result, EUR million	635.4	396.7	223.1	143.3	581.0
Comparable operating result, EUR million	641.0	381.2	223.0	134.3	566.1
% of sales	14.9	10.3	16.1	10.7	11.2
Comparable ROCE, %	17.1	11.2	18.3	10.8	12.3
Capital expenditure, EUR million	158.7	530.1	61.0	254.7	607.7
Personnel at end of period	9 348	9 223	9 348	9 223	9 126

RECONCILIATION OF OPERATING RESULT AND EBITDA

EUR million	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
OPERATING RESULT (IFRS)	635.4	396.7	223.1	143.3	581.0
Depreciation and impairment charges	216.3	179.3	66.7	64.7	249.7
EBITDA	851.7	576.0	289.8	208.0	830.7
Items affecting comparability:					
Wood Products Industry	-	-1.9	-	1.3	-1.8
Pulp and Sawn Timber Industry	-	0.1	-	-	0.1
Paperboard Industry	5.6	-9.7	0.0	-10.2	-9.7
Tissue and Cooking Papers	-	-0.1	-	-0.1	0.5
Total	5.6	-11.5	0.0	-9.0	-10.9
COMPARABLE EBITDA	857.3	564.5	289.8	199.0	819.7
Depreciation and impairment charges	-216.3	-179.3	-66.7	-64.7	-249.7
Items affecting comparability:					
Depreciation:					
Wood Products Industry	-	0.1	-	-	0.1
Impairment charges and reversals:					
Paperboard Industry	-	-3.9	-	-	-3.9
COMPARABLE OPERATING RESULT	641.0	381.2	223.0	134.3	566.1

EUR million	2018 1–9	2017 1–9	2018 7–9	2017 7–9	2017 1–12
OPERATING RESULT (IFRS)	635.4	396.7	223.1	143.3	581.0
Depreciation and impairment charges	216.3	179.3	66.7	64.7	249.7
EBITDA	851.7	576.0	289.8	208.0	830.7
Items affecting comparability:					
Other operating income	-	-13.6	-	-10.2	-13.6
Change in inventories	-	0.0	-	-	0.0
Employee costs	4.1	0.0	0.0	-	0.0
Other operating expenses	1.5	2.0	-	1.2	2.6
Total	5.6	-11.5	0.0	-9.0	-10.9
COMPARABLE EBITDA	857.3	564.5	289.8	199.0	819.7
Depreciation and impairment charges	-216.3	-179.3	-66.7	-64.7	-249.7
Items affecting comparability:					
Depreciation	-	0.1	-	-	0.1
Impairment charges	-	-3.9	-	-	-3.9
COMPARABLE OPERATING RESULT	641.0	381.2	223.0	134.3	566.1

Items with “+” sign = expenses affecting comparability

Items with “-” sign = income affecting comparability

Items affecting comparability in January–September 2018 amounted to EUR -5.6 million and consisted of EUR 4.1 million employee costs arising from efficiency improvement programme at Husum mill in Sweden as well as other costs affecting comparability of EUR 1.5 million, mainly comprising a compensation to be paid to Pohjolan Voima with regard to the divestment of Teollisuuden Voima’s Meri-Pori coal-fired power plant.

Metsä Group’s items affecting comparability in January–September 2017 totalled EUR +15.4 million. The most significant items consisted of the recognition of translation differences accumulated by the subsidiaries dissolved in England, the reversal of an impairment carried out in connection with the sale of Kyro’s terminated paper machine, and the divestment of Metsä Wood’s project business.

Metsä Group’s items affecting comparability in 2017 totalled EUR +14,8 million. The most significant items consisted of the recognition of translation differences accumulated by the subsidiaries dissolved in England, the reversal of an impairment carried out in connection with the sale of Metsä Board Kyro’s terminated paper machine, and the divestment of Metsä Wood’s project business.

QUARTERLY DATA

EUR million	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Sales							
Wood Supply and Forest Services	471.4	495.7	489.9	428.6	376.4	396.7	432.6
Wood Products Industry	105.9	119.4	108.7	108.3	109.6	121.8	120.2
Pulp and Sawn Timber Industry	609.5	629.0	600.5	551.9	475.3	426.5	422.0
Paperboard Industry	475.1	518.7	492.3	451.3	478.6	474.2	444.5
Tissue and Cooking Papers	254.3	256.3	258.8	260.5	249.6	251.4	252.0
Other operations	1.2	1.2	1.3	1.7	1.0	1.1	1.1
Internal sales	-531.4	-543.8	-523.7	-474.0	-430.2	-436.5	-456.3
Sales	1 385.8	1 476.5	1 427.8	1 328.2	1 260.4	1 235.2	1 216.1
Operating result							
Wood Supply and Forest Services	8.9	5.8	8.7	5.4	5.9	4.4	8.5
Wood Products Industry	2.8	5.5	6.2	6.8	6.3	8.3	14.0
Pulp and Sawn Timber Industry	186.9	164.9	144.9	125.9	68.4	70.7	54.5
Paperboard Industry	63.7	53.6	69.0	54.4	60.6	46.9	45.2
Tissue and Cooking Papers	6.4	11.5	12.3	22.7	16.9	16.3	17.6
Other operations	1.6	-1.8	-0.9	-11.0	2.5	0.8	4.4
Eliminations	-47.2	-34.9	-32.2	-20.1	-17.2	-25.2	-13.0
Operating result	223.1	204.5	207.9	184.3	143.3	122.2	131.2
% of sales	16.1	13.8	14.6	13.9	11.4	9.9	10.8
Share of results from associated companies and joint ventures	3.7	0.0	0.7	1.2	-3.0	4.9	14.0
Exchange gains and losses	-1.4	-1.0	-3.5	-0.0	-0.7	-4.0	1.4
Other net financial items	-17.3	-19.9	-20.6	-24.4	-30.9	-16.1	-17.1
Result before income tax	208.2	183.6	184.5	161.0	108.6	107.1	129.5
Income tax	-38.3	-40.8	-38.3	-36.5	-22.0	-20.9	-22.9
Result for the period	169.8	142.8	146.3	124.5	86.6	86.1	106.7
Comparable operating result							
Wood Supply and Forest Services	8.9	5.8	8.7	5.4	5.9	4.4	8.5
Wood Products Industry	2.8	5.5	6.2	6.9	7.6	8.4	10.7
Pulp and Sawn Timber Industry	186.9	164.9	144.9	125.9	68.4	70.8	54.5
Paperboard Industry	63.7	59.2	69.0	54.4	50.4	43.5	45.2
Tissue and Cooking Papers	6.4	11.5	12.3	23.3	16.8	16.3	17.6
Other operations and eliminations	-45.7	-36.8	-33.2	-31.0	-14.8	-24.4	-8.6
Comparable operating result	223.0	210.1	207.9	184.9	134.3	119.1	127.9
% of sales	16.1	14.2	14.6	13.9	10.7	9.6	10.5

CALCULATION OF KEY RATIOS

Return on capital employed (%) ROCE	=	(Result before tax + exchange gains/losses and other net financial expenses) per (Balance total – non-interest-bearing liabilities) (average))
Return on equity (%) ROE	=	(Result before tax – income tax) per (Members' funds (average))
Equity ratio (%)	=	(Members' funds) per (Balance total – advance payments received)
Net gearing ratio (%)	=	(Interest-bearing borrowings – cash and cash equivalents – interest-bearing receivables) per (Members' funds)
EBITDA	=	Operating result before depreciation and impairment losses
Operating result	=	Result before income tax, financial income and -expenses, exchange gains and losses and share of results from associated companies and joint ventures

COMPARABLE KEY RATIOS

European Securities and Markets Authority (ESMA) guidelines on Alternative Performance Measures define alternative performance measures as a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined in the applicable financial reporting framework, in Metsä Group's case International Financial Reporting Standards as adopted in the EU pursuant to Regulation (EC) No 1606/2002. Performance measures presented in this half year financial report qualify as alternative performance measures under the ESMA guidelines.

Metsä Group sees the presentation of alternative performance measures as providing users of financial statements with an improved view of the company's financial performance and position, including among other things the efficiency of its capital utilization, operational profitability and debt servicing capabilities.

Reconciliation of operating result under IFRS and comparable operating result as well as EBITDA and comparative EBITDA is presented in this 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. In Metsä Group's view, comparable performance measures better reflect the underlying operational performance of the company by eliminating the result effect arising from items and transactions outside ordinary course of business.

FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	2018 1–9	2017 1–9	Change	2018 7–9	2017 7–9	2017 1–12
Sales	2, 3	4 290.2	3 711.8	578.4	1 385.8	1 260.4	5 040.0
Change in stocks of finished goods and work in progress		-8.8	-9.8	1.0	59.1	-9.6	14.6
Other operating income		34.9	43.4	-8.5	14.0	17.7	60.3
Material and services		-2 717.4	-2 450.3	-267.1	-934.9	-828.2	-3 308.4
Employee costs		-477.0	-459.8	-17.2	-149.4	-146.9	-620.5
Depreciation and impairment losses		-216.3	-179.3	-37.0	-66.7	-64.7	-249.7
Other operating expenses		-270.2	-259.3	-10.9	-84.9	-85.5	-355.3
Operating result	2	635.4	396.7	238.7	223.1	143.3	581.0
Share of results from associated companies and joint ventures		4.5	15.9	-11.4	3.7	-3.0	17.1
Exchange gains and losses		-5.9	-3.3	-2.6	-1.4	-0.7	-3.3
Other net financial items	2	-57.8	-64.1	6.3	-17.3	-30.9	-88.5
Result before income tax		576.3	345.2	231.1	208.2	108.6	506.2
Income tax	4	-117.4	-65.8	-51.5	-38.3	-22.0	-102.3
Result for the period		458.9	279.4	179.6	169.9	86.6	403.9
Other comprehensive income							
Items that will not be reclassified to profit and loss							
Items relating to adjustments of defined benefit plans		8.9	1.6	7.3	2.5	1.4	9.4
Fair value of financial assets through other comprehensive income		36.3	22.4	13.9	21.6	-2.1	54.2
Income tax relating to items that will not be reclassified		-8.8	-4.8	-4.0	-4.8	0.2	-12.5
Yhteensä		36.4	19.2	17.1	19.3	-0.5	51.1
Items that may be reclassified subsequently to profit and loss							
Cash flow hedges		5.1	44.4	-39.3	19.9	-6.1	33.0
Currency translation differences		-22.4	-14.8	-7.6	4.6	-12.0	-25.6
Share of comprehensive income of joint venture		0.0	0.4	-0.4	0.0	0.0	3.8
Income tax relating to items that may be reclassified		-1.2	-8.4	7.3	-3.9	1.6	-6.2
Total		-18.5	21.6	-40.0	20.7	-16.4	5.0
Other comprehensive income, net of tax		17.9	40.8	-22.9	40.0	-17.0	56.1
Total comprehensive income for the period		476.8	320.2	156.7	209.9	69.6	460.0
Result for the period attributable to:							
Members of parent company		279.3	183.2	96.1	102.9	52.6	261.0
Non-controlling interests		179.6	96.1	83.5	67.0	34.0	142.9
Total		458.9	279.4	179.6	169.9	86.6	403.9
Total comprehensive income attributable to:							
Members of parent company		286.0	206.6	79.4	122.0	45.1	293.2
Non-controlling interests		190.8	113.5	77.3	87.9	24.5	166.8
Total		476.8	320.2	156.7	209.9	69.6	460.0

The notes are an integral part of this interim report.

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2018 30.9.	2017 30.9.	2017 31.12.
ASSETS				
Non-current assets				
Goodwill		508.1	516.3	513.8
Other intangible assets		244.3	272.4	260.2
Tangible assets	5	2 803.2	2 854.9	2 867.0
Biological assets		3.1	3.3	3.1
Investments in associated companies and joint ventures		53.3	50.2	50.7
Available for sale investments	9	290.3	222.5	254.3
Non-current financial assets	9	43.7	24.3	28.3
Deferred tax receivables		24.5	29.2	26.4
		3 970.5	3 973.1	4 003.6
Current assets				
Inventories		884.7	750.3	782.3
Accounts receivables and other receivables		827.5	770.8	705.9
Tax receivables based on the taxable income for the period		11.2	32.0	21.6
Cash and cash equivalents	9	941.4	993.8	1 072.4
		2 664.9	2 546.8	2 582.2
Assets classified as held for sale		1.4	3.1	2.4
Total assets		6 636.8	6 523.0	6 588.2
MEMBERS' FUNDS AND LIABILITIES				
Members' funds				
Members' funds		2 644.8	2 149.0	2 233.8
Non-controlling interests		844.4	673.4	726.8
		3 489.3	2 822.4	2 960.7
Non-current liabilities				
Deferred tax liabilities		279.1	239.9	260.9
Post-employment benefit obligations		77.5	82.1	78.8
Provisions	6	20.0	20.2	19.6
Borrowings	9	1 153.0	1 438.8	1 642.5
Other liabilities		12.5	18.3	17.3
		1 542.1	1 799.3	2 019.2
Current liabilities				
Provisions	6	7.8	3.0	2.5
Current borrowings	9	417.8	724.0	428.7
Accounts payable and other liabilities		1 131.1	1 159.2	1 164.6
Tax liabilities based on the taxable income for the period		48.0	13.1	11.0
		1 604.7	1 899.3	1 606.9
Liabilities classified as held for sale		0.8	2.1	1.5
Total liabilities		3 147.5	3 700.6	3 627.6
Total members' funds and liabilities		6 636.8	6 523.0	6 588.2

The notes are an integral part of this interim report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' FUNDS

Equity attributable to members of parent company							
EUR million	Members' capital	Translation differences	Fair value and other reserves	Re-tained earnings	Total	Non-controlling interest	Total
Members' funds 1.1.2017	769.4	-10.9	193.5	989.6	1 941.6	658.4	2 600.0
Result for the period				183.2	183.2	96.1	279.4
Other comprehensive income, net after tax		-4.9	27.6	0.7	23.4	17.4	40.8
Total comprehensive income		-4.9	27.6	183.9	206.6	113.5	320.2
Transactions with owners:							
Dividends paid				-41.4	-41.4	-70.6	-112.0
Change in members' capital	49.1		0.0	-8.3	40.9		40.9
Share based payments				-1.2	-1.2	-0.2	-1.4
Acquired shares from non-controlling interests, which did not change the controlling right				1.5	1.5	-32.3	-30.7
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	0.9	0.9	4.5	5.4
Members' funds 30.9.2017	818.5	-15.8	221.1	1 125.2	2 149.0	673.4	2 822.4

Equity attributable to members of parent company							
EUR million	Members' capital	Translation differences	Fair value and other reserves	Re-tained earnings	Total	Non-controlling interest	Total
Members' funds 31.12.2017	813.4	-19.5	228.6	1 211.3	2 233.8	726.8	2 960.7
IFRS 2 change in accounting principle				18.1	18.1	2.4	20.5
IFRS 9 change in accounting principle				-0.4	-0.4	-0.1	-0.5
Members' funds 1.1.2018	813.4	-19.5	228.6	1 229.1	2 251.6	729.1	2 980.7
Result for the period				279.3	279.3	179.6	458.9
Other comprehensive income, net after tax		-15.2	16.6	5.3	6.7	11.2	17.9
Total comprehensive income		-15.2	16.6	284.6	286.0	190.8	476.8
Transactions with owners:							
Dividends paid				-54.0	-54.0	-78.9	-132.9
Change in members' capital	170.1		0.0	-6.8	163.4		163.4
Transfer from retained earnings to the reserve for invested unrestricted equity			250.0	-250.0	0.0		0.0
Share based payments				-2.0	-2.0	0.2	-1.9
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	-0.2	-0.2	3.3	3.1
Members' funds 30.9.2018	983.5	-34.7	495.2	1 200.7	2 644.8	844.4	3 489.3

The notes are an integral part of this interim report.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2018 1–9	2017 1–9	2017 1–12
Result for the period	8	458.9	279.4	403.9
Total adjustments	8	409.3	278.0	405.7
Change in working capital		-277.6	53.4	95.4
Cash flow arising from operations		590.6	610.7	905.0
Net financial items		-31.0	-54.7	-90.2
Income taxes paid		-55.7	-57.2	-65.3
Net cash flow arising from operating activities		503.8	498.8	749.4
Acquisitions		0.0	-2.5	-2.6
Investments in tangible and intangible assets		-158.7	-530.1	-607.7
Disposals and other items	8	4.4	29.3	30.8
Net cash flow arising from investing activities		-154.2	-503.3	-579.5
Change in members' funds		80.1	40.9	58.5
Change in other equity		0.0	0.0	0.0
Change in non-controlling interest		0.0	-27.7	-27.7
Change in long-term loans and other financial items		-417.9	212.9	99.6
Dividends paid		-142.1	-122.1	-122.1
Net cash flow arising from financing activities		-479.9	103.9	8.3
Change in cash and cash equivalents		-130.3	99.4	178.2
Cash and cash equivalents at beginning of period		1 072.4	895.1	895.1
Translation difference		-0.7	-0.8	-0.9
Change in cash and cash equivalents		-130.3	99.4	178.2
Cash and cash equivalents of assets classified as held for sale		0.0	0.0	0.0
Cash and cash equivalents at end of period		941.4	993.8	1 072.4

The notes are an integral part of this interim report.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

NOTE 1 – BACKGROUND AND ACCOUNTING POLICIES

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

This unaudited interim report has been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the 2017 IFRS financial statements. The effects of foreign exchange changes on review period operating result vs. comparison period have been calculated based on estimated review period net cash flows in relevant currencies and taking into account the realized effects of foreign exchange hedges.

The same accounting policies have been applied as in the 2017 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 2018 Metsä Group has adopted the following new and amended standards and interpretations:

- *IFRS 15 Revenue from Contracts with Customers.*

The new standard will replace the current IAS 18 and IAS 11 standards and the related interpretations. IFRS 15 includes five-step guidelines on recognising revenue in terms of amount and timing. Revenue is recognised as control is passed, either over time or at a point in time. The standard also increases the amount of information to be presented in the notes to the financial statements.

The adoption of IFRS 15 Revenue from Contracts with Customers will have no impact on the principles applied by the Group to the amount and timing of revenue recognition.

- *IFRS 9 Financial instruments.* The new standard replaces IAS 39.

IFRS 9 includes revised guidance on the recognition and measurement of financial instruments and new guidelines on hedge accounting. It also includes a new expected credit loss model for calculating impairment of financial assets. IAS 39 guidelines regarding assets

recognition of financial instruments have been remained.

The Group’s recognition and measurement of financial assets will change only slightly, and the change will not have a material effect on the consolidated financial statements. In accordance with IFRS 9, the Group measures at fair value its Pohjolan Voima shares, which it has included in available-for-sale financial assets in accordance with IAS 39, to be recognised in financial assets under other items of comprehensive income, and it measures its other available-for-sale equity financial assets at fair value to be recognised as financial assets through profit and loss.

Bringing hedge accounting principles closer to the Group’s risk management practices is seen as a positive development, and IFRS 9 will make it possible to apply hedge accounting to new hedging items and instruments. The change in hedge accounting will not have a material effect in conjunction with the adoption of IFRS 9.

As of 1 January 2018, the Group will apply a model based on expected credit losses to the determination of impairment of financial assets. Impairment of sales receivables, cash and cash equivalents and investments will be recognised in accordance with this model and the requirements of IFRS 9. The Group has recognised in retained earnings an adjustment of EUR -0.4 million due to impairment of financial assets and an adjustment of EUR -0.1 million in non-controlling interest.

- *Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions.*

The amendments clarify the accounting of certain types of business transactions that involve share-based payments. With the amendments, Metsä Group’s share-based compensation arrangements will be processed as arrangements settled in shares. On the date of transition, the carrying amount of liabilities arising from share-based payments will be transferred to members’ funds. As of 1 January 2018, the Group has recognised in retained earnings an adjustment of EUR 18.1 million due to share-based payments and an adjustment of EUR 2.4 million in non-controlling interest.

In 2019 Metsä Group will adopt the following new standard:

- *IFRS 16 Leases.* The new standard replaces IAS 17 and the related interpretations. IFRS 16 requires lessees to recognise lease agreements on the balance

sheet as a lease obligation and an asset related to the lease obligation. Asset recognition resembles the recognition of financial lease liabilities according to IAS 17.

With the amendment, Metsä Group will recognise its currently valid lease agreements on the balance sheet, with the exception of the exemptions provided in the standard that concern short-term lease agreements and assets of insignificant value. Current rental payments related to non-terminable other lease agreements are presented as lease liabilities at nominal value. At the end of the 2017 financial year, these lease liabilities stood at EUR 77.5 million.

Metsä Group will apply the definition of new leases in accordance with IFRS 16 to new and amended agreements signed during or after the transition period. The company will apply a simplified approach to the adoption of the standard, meaning that the accumulated effect of the adoption will be recognised as an adjustment to retained earnings. The comparison information will not be adjusted. The new rules will have an effect on the Group's balance sheet and key figures, and on classifications concerning the income statement and cash flow.

Other new or amended standards and interpretations do not have an effect on the consolidated financial statements.

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 November 8, 2018.

NOTE 2 – SEGMENT INFORMATION

The Group's operating segments are comprised of the Group's business areas. The business areas produce different products and services, and they are managed as separate units. The operating segments are reported uniformly with internal reporting submitted to the chief operational decision-maker.

The President and CEO has been appointed as the chief operational decision-maker in charge of allocating resources to the operating segments and evaluating their performance.

The same accounting policies are applied in segment reporting as for the Group as a whole. Transactions between segments are based on market prices.

SALES BY SEGMENT

EUR million	1–9/2018 External	1–9/2018 Internal	1–9/2018 Total	1–9/2017 External	1–9/2017 Internal	1–9/2017 Total
Wood Supply and Forest Services	380.2	1 076.8	1 457.0	319.5	886.3	1 205.8
Wood Products Industry	316.4	17.5	333.9	334.3	17.3	351.6
Pulp and Sawn Timber Industry	1 404.6	434.4	1 839.0	955.7	368.1	1 323.7
Paperboard Industry	1 420.2	65.9	1 486.1	1 350.2	47.1	1 397.3
Tissue and Cooking Papers	768.8	0.6	769.4	752.1	1.0	753.1
Other operations	0.1	3.6	3.7	0.0	3.2	3.2
Elimination of internal sales		-1 599.0	-1 599.0		-1 323.0	-1 323.0
Total sales	4 290.2	0.0	4 290.2	3 711.8	0.0	3 711.8

EUR million	1–12/2017 External	1–12/2017 Internal	1–12/2017 Total
Wood Supply and Forest Services	434.6	1 199.8	1 634.4
Wood Products Industry	436.3	23.6	459.9
Pulp and Sawn Timber Industry	1 375.1	500.5	1 875.7
Paperboard Industry	1 781.4	67.1	1 848.6
Tissue and Cooking Papers	1 012.5	1.1	1 013.6
Other operations	0.1	4.8	4.9
Elimination of internal sales		-1 796.9	-1 796.9
Total sales	5 040.0	0.0	5 040.0

OPERATING RESULT BY SEGMENTS

EUR million	2018 1–9	2017 1–9	2017 1–12
Wood Supply and Forest Services	23.4	18.9	24.3
Wood Products Industry	14.4	28.5	35.3
Pulp and Sawn Timber Industry	496.7	193.6	319.5
Paperboard Industry	186.3	152.7	207.1
Tissue and Cooking Papers	30.2	50.7	73.5
Other operations	-1.2	7.7	-3.2
Eliminations	-114.4	-55.5	-75.6
Operating result total	635.4	396.7	581.0
Share of results from associated companies and joint ventures	4.5	15.9	17.1
Financial costs, net	-63.6	-67.4	-91.8
Income taxes	-117.4	-65.8	-102.3
Result for the period	458.9	279.4	403.9

ASSETS AND LIABILITIES BY SEGMENTS

Assets	2018	2017	2017
EUR million	30.9.	30.9.	31.12.
Wood Supply and Forest Services	316.9	274.7	268.4
Wood Products Industry	325.2	225.9	247.1
Pulp and Sawn Timber Industry	2 007.9	1 985.7	1 970.0
Paperboard Industry	2 094.6	1 981.9	2 002.3
Tissue and Cooking Papers	911.3	878.8	887.6
Other operations	184.0	210.1	161.1
Assets classified as held for sale	1.4	3.1	2.4
Eliminations	-243.9	-234.7	-199.4
Unallocated assets	1 039.4	1 197.5	1 248.6
Total	6 636.8	6 523.0	6 588.2

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	2018	2017	2017
EUR million	30.9.	30.9.	31.12.
Wood Supply and Forest Services	225.7	202.9	209.0
Wood Products Industry	68.4	66.1	65.9
Pulp and Sawn Timber Industry	418.5	485.3	427.6
Paperboard Industry	377.0	344.2	381.6
Tissue and Cooking Papers	303.9	304.9	302.4
Other operations	79.5	91.3	82.4
Assets classified as held for sale	0.8	2.1	1.5
Eliminations	-243.9	-234.7	-199.4
Unallocated assets	1 917.6	2 438.5	2 356.6
Total	3 147.5	3 700.6	3 627.6

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

NOTE 3 – SALES BY MARKET AREA

EUR million	2018	2017	2017
	1–9	1–9	1–12
EMEA	3 200.8	2 859.5	3 843.2
APAC	790.9	559.0	811.3
Americas	298.5	293.4	385.5
Total	4 290.2	3 711.8	5 040.0

NOTE 4 – INCOME TAX

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

EUR million	2018	2017	2017
	1–9	1–9	1–12
Taxes for the period	102.7	42.9	58.1
Taxes for previous periods	0.8	0.7	1.5
Change in deferred taxes	13.8	22.2	42.7
Total income taxes	117.4	65.8	102.3

NOTE 5 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2018 1–9	2017 1–9	2017 1–12
Book value at beginning of period	2 867.0	2 542.5	2 542.5
Investments	158.5	493.8	576.6
Decreases	-0.8	-14.7	-14.8
Assets classified as held for sale	-0.5	-2.0	-2.0
Depreciation and impairment losses	-198.3	-164.4	-228.2
Translation differences and other changes	-22.8	-0.4	-7.2
Book value at end of period	2 803.2	2 854.9	2 867.0

Metsä Fibre announced on June 12, 2018 that it will sell its Eskola sawmill to Haapajärvi Ha-Sa Oy. The deal was closed on July 2, 2018. Assets classified as held for sale in 2018 include Eskola sawmill's fixed assets.

NOTE 6 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 January 2018	1.3	15.9	4.9	22.2
Translation differences		-0.0	-0.1	-0.1
Increases	4.1	0.2	2.6	6.9
Utilised during the year	-0.1	-0.1	-0.8	-1.0
Unused amounts reversed	-0.2			-0.2
At 30 September 2018	5.1	16.1	6.6	27.8

The increase in the restructuring provision of EUR 4.1 million arises from efficiency improvement programme at Metsä Board's Husum mill in Sweden. The increase in other provisions include Metsä Board's recognition of EUR 1.7 million from the divestment of coal fired TVO power plant in Meri-Pori.

Of the Metsä Group's total provisions of EUR 27.8 million, the non-current portion was EUR 20.0 million and the current portion EUR 7.8 million. Most of the non-current portion will be paid by the end of 2025.

NOTE 7 – TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2018 1–9	2017 1–9	2017 1–12
Sales	8.3	10.1	9.4
Purchases	70.2	63.1	88.0
Non-current receivables	-	1.0	0.9
Current receivables	5.9	3.0	3.4
Non-current liabilities	-	0.0	0.0
Current liabilities	6.9	7.5	6.5

NOTE 8 – NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Adjustments to the result for the financial period

Milj. euroa	2018 1–9	2017 1–9	2017 1–12
Taxes	117.4	65.8	102.3
Depreciation and impairment charges	216.3	179.3	249.7
Biological assets	0.0	-0.2	-0.0
Share of results from associated companies	-4.5	-15.9	-17.1
Gains and losses on sale of non-current financial assets	-2.2	-16.0	-18.4
Financial costs, net	63.6	67.4	91.8
Pension liabilities and provisions	5.5	-2.6	-2.6
Other adjustments	13.2	-	-
Total	409.3	278.0	405.7

Disposals and other items

Disposals and other items in January–September 2018 include sales of intangible and tangible assets of EUR 3.5 million and other items of EUR 0.9 million.

NOTE 9 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial assets and liabilities and fair values.

Financial assets 30.9.2018

EUR million	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount	Fair value
Other non-current investments	7.3	283.0		290.3	290.3
Other non-current financial assets			32.3	32.3	32.3
Accounts receivables and others			805.1	805.1	805.1
Cash and cash equivalents	149.6		791.8	941.4	941.4
Derivative financial instruments	0.3	28.9		29.2	29.2
Assets classified as held for sale					
Total	157.2	311.9	1 629.2	2 098.3	2 098.3

Financial liabilities 30.9.2018

EUR million	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount	Fair value
Non-current interest-bearing liabilities			1 153.0	1 153.0	1 169.6
Other non-current liabilities			0.7	0.7	0.7
Current interest-bearing liabilities			417.8	417.8	420.8
Accounts payable and others			1 007.4	1 007.4	1 007.4
Derivative financial instruments	2.3	17.5		19.8	19.8
Liabilities classified as held for sale			0.8	0.8	0.8
Total	2.3	17.5	2 579.6	2 599.4	2 619.0

Financial assets 30.9.2017

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Carrying amount	Fair value
Other non-current investments		222.5				222.5	222.5
Other non-current financial assets			19.7			19.7	19.7
Account receivables and others			739.7			739.7	739.7
Cash and cash equivalents	131.4		862.3			993.8	993.8
Derivative financial instruments	-1.8			34.5		32.7	32.7
Assets classified as held for sale						0.0	0.0
Total	129.6	222.5	1 621.7	34.5	0.0	2 008.3	2 008.3

Financial liabilities 30.9.2017

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Carrying amount	Fair value
Non-current interest-bearing liabilities					1 438.8	1 438.8	1 452.0
Other non-current liabilities					0.4	0.4	0.4
Current interest-bearing liabilities					724.0	724.0	728.2
Accounts payable and others					1 055.2	1 055.2	1 055.2
Derivative financial instruments	0.7			17.3		18.0	18.0
Liabilities classified as held for sale					2.1	2.1	2.1
Total	0.7	0.0	0.0	17.3	3 220.6	3 238.5	3 255.8

Fair value hierarchy of financial assets and liabilities 30 September, 2018

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other non-current investments	0.0		290.3	290.3
Current financial assets through profit and loss at fair value	149.6			149.6
Derivative financial assets	26.9	2.3		29.2
Financial liabilities measured at fair value				
Derivative financial liabilities		19.8		19.8
Financial assets not measured at fair value				
Financial assets		791.8		791.8
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 169.6		1 169.6
Current interest-bearing liabilities		420.8		420.8

Fair value hierarchy of financial assets and liabilities 30 September, 2017

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other non-current investments	0.0		222.5	222.5
Current financial assets through profit and loss at fair value	131.4			131.4
Derivative financial assets	8.3	24.3		32.7
Financial liabilities measured at fair value				
Derivative financial liabilities	0.4	17.6		18.0
Financial assets not measured at fair value				
Financial assets		862.3		862.3
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 452.0		1 452.0
Current interest-bearing liabilities		728.2		728.2

Financial assets measured at fair value based on level 3

EUR million	2018	2017
Opening balance 1 January	254.3	200.1
Gains and losses in income statement	0.0	0.0
Gains and losses in other comprehensive income	36.3	22.4
Purchases	0.0	0.0
Settlements	-0.2	0.0
Closing balance 30 September	290.3	222.5

Fair value of financial assets and liabilities have been categorised according to 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, propane, gas oil and heavy fuel 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 Oyj shares, reported under available-for-sale financial assets. The valuation method is described in the 2017 Financial Statements. The average weighed capital cost applied in the calculation was 2.14% on 30 September 2018 and for the Olkiluoto 3 power plant under construction 3.14%. The acquisition cost of the Pohjolan Voima Oyj shares is EUR 42.0 million and their fair value is EUR 283.0 million.

The carrying amount of Pohjolan Voima Oyj as of 30 September 2018 is estimated to change by EUR 4.3 million lower should the rate used for discounting the cash flows change by 10% from the rate estimated by the management. The carrying amount of the shares is estimated to change by EUR 39.4 million should the energy prices applied in the fair value calculation differ by 10% from the rate estimated by the management.

Derivatives 30 September 2018

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value through profit and loss	Fair value through other comprehensive income
Interest rate swaps	578.4		6.6	-6.6	-0.4	-6.2
Total	578.4	0.0	6.6	-6.6	-0.4	-6.2
Currency forwards	2 294.9	0.1	12.6	-12.5	-1.9	-10.6
Currency options	855.2		0.6	-0.6		-0.6
Total	3 150.1	0.1	13.2	-13.1	-1.9	-11.2
Electricity derivatives	48.8	20.6		20.6		20.6
Pulp derivatives	5.8	2.2		2.2		2.2
Oil derivatives	10.6	3.1		3.1		3.1
Commodity derivatives	7.4	3.2		3.2	0.2	3.0
Total	72.6	29.1	13.2	29.1	0.2	28.9
Derivatives total	3 801.1	29.2	19.8	9.4	-2.1	11.5

Derivatives 30 September 2017

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value through profit and loss	Fair value through other comprehensive income
Interest rate swaps	1 120.0		17.3	-17.3	-0.4	-16.9
Total	1 120.0	0.0	17.3	-17.3	-0.4	-16.9
Currency forwards	1 928.0	20.7	0.3	20.4	-2.1	22.6
Total	1 928.0	20.7	0.3	20.4	-2.1	22.6
Electricity derivatives	81.4	6.9		6.9		6.9
Pulp derivatives	32.6	3.6		3.6		3.6
Oil derivatives	8.2	0.0	0.2	-0.1	0.0	-0.2
Commodity derivatives	8.7	1.3	0.2	1.1		1.1
Total	130.8	11.9	0.4	11.6	0.0	11.5
Derivatives total	3 178.8	32.7	18.0	14.7	-2.5	17.2

NOTE 10 – COMMITMENTS AND CONTINGENCIES

EUR million	30.9.2018	30.9.2017	31.12.2017
Own liabilities for which commitments granted	112.4	425.6	403.2
Pledges granted	515.1	441.2	463.2
Floating charges	2.8	2.8	2.8
Real estate mortgages	268.2	270.2	269.5
Chattels mortgage	4.0	4.0	4.0
Commitments for own liabilities, total	790.0	718.2	739.4
Other commitments on own behalf	91.8	97.6	100.4
On behalf of associated companies	0.9	0.6	0.9
On behalf of others	0.0	0.1	0.0
Total	882.7	816.4	840.7

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 78.0 million (31.12.2017: 77.5).

COMMITMENTS RELATED TO INVESTMENTS

EUR million	30.9.2018	30.9.2017	31.12.2017
Payments due under 1 year	40.1	132.9	68.7
Payments due in subsequent years	-	0.2	0.3
Total	40.1	133.1	69.0