

METSÄ GROUP

HALF YEAR FINANCIAL REPORT

JANUARY–JUNE 2017



METSÄ GROUP'S COMPARABLE OPERATING RESULT IN JANUARY–JUNE 2017 WAS EUR 247 MILLION

JANUARY–JUNE 2017 (1–6/2016)

- Sales were EUR 2,451 million (2,339).
- Operating result was EUR 253 million (225). Comparable operating result was EUR 247 million (229).
- Result before tax was EUR 237 million (186). Comparable result before tax was EUR 230 million (190).
- Comparable return on capital employed was 11.5 per cent (11.0). Comparable return on capital employed excluding assets under construction related to strategic investment projects was 14.0 per cent (12.2).
- Cash flow from operations was EUR 190 million (121).

APRIL–JUNE 2017 (4–6/2016)

- Sales were EUR 1,235 million (1,184).
- Operating result was EUR 122 million (119). Comparable operating result was EUR 119 million (120).
- Result before tax was EUR 107 million (98). Comparable result before tax was EUR 104 million (100).
- Comparable return on capital employed was 10.6 per cent (11.5). Comparable return on capital employed excluding assets under construction related to strategic investment projects was 13.1 per cent (12.6).
- Cash flow from operations was EUR 192 million (152).

EVENTS DURING THE SECOND QUARTER OF 2017

- The market prices of long-fibre and short-fibre pulp increased.
- Paperboard deliveries grew by 11 per cent from the previous quarter. The average price of folding boxboard was burdened by Husum mill's geographical sales mix.
- Metsä Board's extrusion coating line at the Husum mill in Sweden started up in April.
- Metsä Fibre announced that the start-up of its new bioproduct mill in Äänekoski, Finland, will begin in mid-August. Pulp deliveries will start at the beginning of September.

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 4.7 billion in 2016, and it employs approximately 9,300 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.

- Metsä Tissue announced the rebuild of the baking paper machine at the Düren mill in Germany. The value of the investment is approximately EUR 15 million.
- Metsä Wood announced its intention to build a birch plywood mill in Pärnu, Estonia. The construction work began in April, and the mill will start production in the second half of 2018.
- Metsä Forest acquired the wood supply business of Metsäkolmio Oy and Harvestia Oy's wood supply business in southeast Finland.
- Metsä Forest divested its share in its Russian associated company ZAO HK Vologodskie Lesopromyshlennik.
- Metsä Fibre's CEO Ilkka Hämälä, M.Sc. (Eng.), was appointed CEO of Metsäliitto Cooperative as of 1 January 2018. He starts as the President and CEO of Metsä Group on 1 April 2018.
- Ismo Nousiainen, M.Sc. (Eng.), was appointed Deputy CEO of Metsä Fibre as of 1 August 2017 and CEO as of 1 January 2018.

RESULT GUIDANCE FOR JULY–SEPTEMBER 2017

Metsä Group's comparable operating result in the third quarter of 2017 is expected to be roughly at the same level as in the second quarter of 2017.

President and CEO Kari Jordan:

"Metsä Group's profitability in 2017 has improved from the previous year. The most significant reasons for the improved result are the clearly higher volumes in paperboard deliveries and the increased price of pulp."

Metsä Group's key development projects aiming for profitable growth are progressing according to plan. The construction of the bioproduct mill in Äänekoski, which has proceeded on schedule and on budget, is nearly completed, and the mill's start-up will begin in mid-August. Pulp deliveries to customers will start at the beginning of September. The new production line at the Kerto® LVL mill in Lohja will likewise start up in August. The construction of the birch plywood mill in Pärnu, Estonia, and the work of converting the old paper machine hall at Äänekoski into a birch veneer mill

are proceeding well. The Husum paperboard mill's new extrusion coating line started up in April, and the related quality feedback from customers has been good. In June, we began work on rebuilding the baking paper machine at the Düren mill in Germany. The new machine will also allow us to expand our cooking paper business in the future.

After years of stagnation, Finland's economy has started to pick up. For this growth to continue, our country needs investments. Metsä Group and Finland's forest industry in general have met this need. According to the National Forest Inventory figures published by the Natural Resources Institute Finland

(Luke) in June, the growth of our forests has continued to accelerate. This means that the raw material base is good. Uncertainty with regard to future investments is nevertheless increasing due to the EU's climate and land use policies. If implemented in its current form, the LULUCF Regulation, which regulates the levels of carbon sinks, would be detrimental to Finland. Combating climate change is of utmost importance, and Metsä Group is committed to it. However, restricting a sector based on sustainable forest management and a renewable natural resource is not the right way to go forward."

KEY FIGURES

	2017	2016	2017	2016	2016
Condensed income statement, EUR million	1-6	1-6	4-6	4-6	1-12
Sales	2 451.4	2 339.5	1 235.2	1 183.9	4 657.9
Other operating income	25.7	25.2	11.7	16.8	70.5
Operating expenses	-2 109.0	-2 013.6	-1 072.8	-1 022.8	-4 041.8
Depreciation and impairment losses	-114.6	-125.8	-51.9	-59.5	-244.3
Operating result	253.4	225.8	122.2	118.5	442.3
Share of results from associated companies and joint ventures	18.9	-0.9	4.9	-0.8	-1.1
Exchange gains and losses	-2.6	-0.5	-4.0	0.5	-5.7
Other net financial items	-33.2	-37.9	-16.1	-20.0	-74.9
Result before income tax	236.6	186.0	107.1	98.2	360.6
Income tax	-43.8	-42.1	-20.9	-22.6	-80.7
Result for the period	192.8	143.9	86.1	75.7	279.9

	2017	2016	2017	2016	2016
Profitability	1-6	1-6	4-6	4-6	1-12
Operating result, EUR million	253.4	225.8	122.2	118.5	442.3
Comparable operating result	246.9	229.3	119.1	119.8	438.6
% of sales	10.1	9.8	9.6	10.1	9.4
Return on capital employed, %	11.8	10.8	10.9	11.4	10.2
Comparable return on capital employed	11.5	11.0	10.6	11.5	10.2
Return on equity, %	14.3	11.8	12.6	12.4	11.2
Comparable return on equity	13.9	12.1	12.2	12.6	11.0

	2017	2016	2017	2016	2016
Financial position	30.6.	30.6.	31.3.	31.3.	31.12.
Equity ratio, %	45.3	44.8	44.1	42.8	43.9
Net gearing ratio, %	45	38	46	35	40
Interest-bearing net liabilities, EUR million	1 252	945	1 226	847	1 033

SEGMENTS

Sales and Operating result 1-6/2017, EUR million	Wood Supply and Forest Services	Wood Products Industry	Pulp and Sawn Timber Industry	Paperboard Industry	Tissue and Cooking Papers
Sales	829.4	242.0	848.5	918.7	503.4
Other operating income	1.5	4.6	10.7	8.6	1.2
Operating expenses	-816.0	-218.5	-699.1	-791.6	-451.3
Depreciation and impairment losses	-1.9	-5.9	-34.9	-43.6	-19.5
Operating result	12.9	22.2	125.2	92.1	33.9
Items affecting comparability	-	-3.2	0.1	-3.4	-
Comparable operating result	12.9	19.1	125.3	88.7	33.9
% of sales	1.6	7.9	14.8	9.7	6.7

THIS HALF YEAR FINANCIAL REPORT IS UNAUDITED**HALF YEAR FINANCIAL REPORT 2017****SALES AND RESULT**

Metsä Group's sales in January–June were EUR 2,451.4 million (1–6/2016: EUR 2,339.5 million). The growth in sales is primarily the result of greater delivery volumes.

The comparable operating result was EUR 246.9 million (229.3), or 10.1 per cent (9.8) of sales. The operating result improved compared to the previous year, mainly due to the positive development in Finland's paperboard business and the increase in pulp prices.

Sales in the second quarter of the year totalled EUR 1,235.2 million, whereas sales for the corresponding period last year were EUR 1,183.9 million. The comparable operating result was EUR 119.1 million (4–6/2016: 119.8).

Items affecting comparability in January–June amounted to EUR +6.5 million (-4.0). The largest items were related to the divestment of Metsä Wood's project business and the sale of Metsä Board's paper machine at Kyro.

Metsä Group's operating result (IFRS) was EUR 253.4 million (225.3). The share of the results of associated companies and joint ventures was EUR 18.9 million (-0.9), financial income was EUR 2.6 million (2.0), exchange rate differences in financing were EUR -2.6 million (-0.5), and financial expenses totalled EUR 35.7 million (39.9).

The result before taxes was EUR 236.6 million (186.0), and taxes including changes in deferred tax liabilities totalled EUR 43.8 million (42.1). The Group's effective tax rate was 18.5 per cent (22.6). The result for the review period was EUR 192.8 million (143.9).

The return on capital employed was 11.8 per cent (10.8), and the return on equity was 14.3 per cent (11.8).

The comparable return on capital employed was 11.5 per cent (11.0), and the comparable return on equity was 13.9 per cent (12.1). Metsä Group's bioproduct mill under construction at Äänekoski reduced the return on capital employed by 2.5 percentage points (1.2).

BALANCE SHEET AND FINANCING

Metsä Group's liquidity is good. Total liquidity at the end of June was EUR 1,682.1 million (31 December 2016: 1,801.4). This consisted of EUR 775.9 million (895.1) in liquid assets and investments, and EUR 906.2 million (906.3) in off-balance sheet committed credit facility agreements. In addition, the Group has EUR 258.1 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 2016: 160.8).

The Group's equity ratio at the end of June was 45.3 per cent and net gearing was 45 per cent (31 December 2016: 43.9 and 40, respectively). Interest-bearing net liabilities were EUR 1,251.6 million (31 December 2016: 1,032.6).

Cash flow from operations amounted to EUR 190.4 million (1–6/2016: 120.7). EUR 169.8 million (213.8) has been tied up in working capital during the year. Working capital increased by the addition of EUR 85.2 million in trade and other receivables, the addition of EUR 20.5 million in inventories, and a decrease of EUR 64.0 million in trade payables and other liabilities.

At the end of June, the equity ratio of the parent company Metsäliitto Cooperative was 73.1 per cent, and its net gearing was -9 per cent (31 December 2016: 69.6 and -7, respectively).

On 4 May 2017, Metsäliitto Cooperative's Representative Council decided that interest of 6.0 per cent (6.0 for 2015) be paid on the participation shares of the members for 2016. Interest of 5.5 per cent (5.5) was proposed on additional shares A, and interest of 2.5 per cent (3.0) on additional shares B. The interest paid totalled EUR 51.5 million (50.4).

In January–June, Metsäliitto Cooperative's members' capital increased by a total of EUR 72.5 million (62.8). The value of participation shares grew by EUR 5.3 million (5.6), that of the additional shares A by EUR 60.0 million (47.0), and that of the additional shares B by EUR 7.2 million (10.2). After the review period, on 3 July 2017, EUR 38.7 million (44.1) of the additional members' capital fell due for refund.

PERSONNEL

In January–June, Metsä Group had an average of 9,469 employees (9,698). Personnel expenses totalled EUR 312.9 million (323.8). At the end of June, the Group employed 9,824 people (31 December 2016: 9,300), of whom 5,396 (5,127) were based in Finland and 4,428 (4,385) abroad. The parent company Metsäliitto Cooperative employed 2,049 people at the end of June (31 December 2016: 1,934).

In its meeting of 4 May 2017, the Supervisory Board of Metsäliitto Cooperative appointed Ilkka Hämälä, M.Sc. (Eng.), CEO of Metsäliitto Cooperative as of 1 January 2018. He starts as the President and CEO of Metsä Group on 1 April 2018.

Ilkka Hämälä has worked at Metsä Group since 1988 and, as of 2008, as the CEO of Metsä Fibre.

Kari Jordan, President and CEO of Metsä Group since 2006, will be responsible for the Group's result until the end of 2017 and will retire on 1 April 2018.

Ismo Nousiainen, M.Sc. (Eng.), has been appointed Deputy CEO of Metsä Fibre as of 1 August 2017, and will become CEO of Metsä Fibre and a member of Metsä Group's Executive Management Team as of 1 January 2018. Ismo Nousiainen has worked at Metsä Fibre since 2001 and has been the company's Senior Vice President in charge of production since 2008.

MEMBERS

At the end of June, Metsäliitto Cooperative had 104,042 members (31 December 2016: 104,037). During January–June, 1,547 new members joined the Cooperative, and 1,542 members cancelled their membership.

INVESTMENTS

Metsä Group's capital expenditure in January–June totalled EUR 275.4 million (337.9). Approximately EUR 203 million of the investments related to the bioproduct mill at Äänekoski.

Äänekoski bioproduct mill

The Äänekoski bioproduct mill project is close to completion, and is currently going through a commissioning and test run phase. The mill start-up will begin in mid-August, and pulp deliveries from the new mill to customers will begin in early September. The shutdown and dismantling of the old mill at Äänekoski will start as soon as the new mill has started up.

Metsä Wood's investment programme

In June 2016, Metsä Wood announced its intention to launch an investment programme of EUR 100 million in its plywood and Kerto® LVL operations. The programme will be carried out in phases and completed by the end of 2018.

In April, Metsä Wood announced its intention to build a birch plywood mill in Pärnu, Estonia, as part of the investment programme. The mill's annual production capacity will be 50,000 cubic metres. The construction of the mill began immediately, and the piling at the mill site was completed at the beginning of July. The new mill will begin production in the second half of 2018, and it will create approximately 200 jobs in Pärnu.

The new Kerto line at Lohja is being prepared for testing, and the work of converting the old paper machine hall at Äänekoski into a birch veneer mill is underway.

BUSINESS AREAS

Wood Supply and Forest Services

The sales from Wood Supply and Forest Services, i.e. Metsä Forest, in January–June 2017 totalled EUR 829.4 million (1–6/2016: 779.0) and the operating result was EUR 12.9 million (14.3).

The sales in the second quarter were EUR 396.7 million (4–6/2016: 377.8) and the operating result was EUR 4.4 million (6.5).

In Finland, the supply of wood was steady, and stumpage prices remained stable. The purchasing volume of wood was higher than during the corresponding period in the previous year. The harvesting conditions throughout the Baltic Sea region were good during both winter and spring.

The markets for softwood pulpwood were in balance, but there was an oversupply of birch pulpwood. The oversupply in energy wood that has prevailed throughout the Baltic Sea region for quite some time is continuing, even though the situation has improved slightly compared to the previous quarter.

Metsä Forest bought all timber grades through both standing and delivery sales, and purchasing volumes were higher than last year. Demand for wood focused particularly on stands for summer harvesting.

The sale of forest management services grew exceptionally robustly in January–June, by approximately 25 per cent compared to the corresponding period a year ago.

In Finland, wood was harvested according to the targets, and deliveries to customers' production units were carried out according to plan. In January–June, Metsä Forest delivered a total of approximately 16.4 million cubic metres (15.7) of wood to its customers. Approximately 82 per cent of this amount went to the industrial sector in Finland.

A total of 28 per cent of the wood acquired by Metsä Forest from private forest owners was purchased through digital means. In the sale of forest management services, the figure was 37 per cent.

In May, Metsä Forest divested its share in its associated company ZAO HK Vologodskie Lesopromyshlennik. In June, Metsä Forest acquired the wood supply business of Metsäkolmio Oy and Harvestia Oy's wood supply business in southeast Finland.

Wood Products Industry

The sales of the Wood Products Industry, i.e. Metsä Wood, in the first half of 2017 were EUR 242.0 million (1–6/2016: 251.2). The comparable operating result was EUR 19.1 million (21.4). The operating result (IFRS) was EUR 22.2 million (21.0), including the sales gain from the divestment of Metsä Wood's project business.

Metsä Wood's sales in the second quarter were EUR 121.8 million (4–6/2016: 129.9), and the comparable operating result was EUR 8.4 million (13.2).

Metsä Wood's comparable deliveries grew by 1 per cent compared to the previous year. Demand for Kerto® LVL products has continued to be strong, but delivery volumes declined by 4 per cent due to the shutdown of one line at Lohja at the end of 2016. The delivery volumes and sales of both birch and spruce plywood products grew from the comparison period, particularly due to strong demand in Northern and Central Europe.

Pulp and Sawn Timber Industry

The sales of the Pulp and Sawn Timber Industry, i.e. Metsä Fibre, totalled EUR 848.5 million (1–6/2016: 831.3). Compared to the corresponding period in the previous year, the currency-denominated market prices of long-fibre and short-fibre pulp were 6 per cent and 1 per cent higher, respectively, in January–June. The sales volume of pulp was 1,107,000 tonnes (1,129,000).

Metsä Fibre's comparable operating result in January–June was EUR 125.3 million (114.4). The US dollar strengthened by approximately 3 per cent compared to the corresponding period in the previous year, which had a positive effect on the operating result. The annual maintenance shutdown at one mill took place during both the review and comparison period.

Metsä Fibre's sales in the second quarter were EUR 426.5 million (4–6/2016: 422.5), and the comparable operating result was EUR 70.8 million (53.2).

The demand for pulp grew more than expected during the first half of the year. At the beginning of the period, the price of long-fibre pulp in Europe was USD 809 per tonne, and at the end of the period USD 887. The prices of short-fibre pulp were USD 655 and USD 824, respectively.

The production and sales volumes of sawn timber continued to grow throughout the first half of the year in comparison to the corresponding period in the previous year. The prices of sawn timber also increased, but are still at a low level.

Efforts to achieve synergies between the pulp and sawn timber industries include, for example, regular joint shipments to China's growing markets.

Paperboard Industry

The sales of the Paperboard Industry, i.e. Metsä Board, were EUR 918.7 million (1–6/2016: 858.5), and the comparable operating result was EUR 88.7 million (70.8).

The comparable operating result improved due to positive developments in the paperboard business in Finland and market pulp business. Exchange rate fluctuations after hedging had a positive impact on the operating result of the review period. The average prices of paperboards produced in Finland remained roughly at the level of the comparison period.

Metsä Board's sales in the second quarter were EUR 474.2 million (4–6/2016: 422.9), and the comparable operating result was EUR 43.5 million (35.8). The improved operating result is primarily due to the increase in production and delivery volumes of paperboard and pulp.

Demand for Metsä Board's fresh fibre paperboards remained good in all of the company's main market areas during the first half of the year. In January–June, deliveries of folding boxboard and white fresh fibre linerboards increased by 19 per cent and 16 per cent, respectively, from the corresponding period in the previous year. The total delivery volume of folding boxboard and white fresh

fibre linerboards in January–June was 906,000 tonnes (767,000).

In May, Metsä Board launched its renewed product and service portfolio. The product names of all paperboards were brought under the Metsä Board product family. The 'Better with Less' concept serves to promote packaging solutions that create better consumer experiences with less environmental impact.

Metsä Board's comparable return on capital employed in January–June was 10.3 per cent (8.4), and its comparable earnings per share were EUR 0.19 (0.14).

The company's equity ratio at the end of June was 50.6 per cent and its net gearing was 45 per cent (31 December 2016: 48.2 and 44, respectively).

Metsä Board's Half Year Financial Report was published on 3 August 2017.

Tissue and Cooking papers

The sales of tissue and cooking papers, i.e. Metsä Tissue, in January–June totalled EUR 503.4 million (1–6/2016: 495.1). The growth in sales was primarily due to increased sales volumes.

The operating result was EUR 33.9 million (26.7). The operating result was positively impacted by the sales volume, which was higher than in January–June the year before, and the strengthening of the Norwegian krone in comparison to the euro. The result was impacted negatively by the price increase in fresh and recycled fibre, as well as the weakening of the Swedish krona and the British pound.

Metsä Tissue's sales in the second quarter were EUR 251.4 million (4–6/2016: 248.8), and the operating result was EUR 16.3 million (13.2).

In the second quarter of the year, Metsä Tissue started an investment project to rebuild the baking paper machine at the Düren mill in Germany. The value of the investment is approximately EUR 15 million, and it will increase the mill's production capacity by 10,000 tonnes. The additional volume will be available on the market during the last quarter of 2018.

RISKS AND UNCERTAINTIES

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

There are several geopolitical 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, and will continue to be, international sanctions related to the management of these in-

ternational 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.

Possible changes in the industrial and trade policies of leading industrialised countries may lead to increased trade restrictions and thereby subdue growth in the world economy. Increased protectionism may also have an effect on the demand for forest industry products and thereby the results of Metsä Group.

The risks related to the Group's business have been explained more extensively in Metsä Group's Financial Statements for 2016.

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 151 million, of which approximately EUR 49 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 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

Espoo, Finland, 3 August 2017

BOARD OF DIRECTORS

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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. 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 on felling sites to be harvested when the ground is unfrozen and, in terms of energy wood, on crown wood.

Demand for wood products will remain good, and this will be reflected in the order book level, which will be higher than in the previous year, particularly in Kerto® LVL products. The outlook for plywood products is likewise positive. Construction in the UK is expected to remain at a good level, but delivery volumes in the third quarter are expected to suffer slight seasonal decline.

Demand for and supply of market pulp in Europe and Asia are in balance, with normal seasonal variation.

Demand for spruce sawn timber is expected to remain good in most markets. Demand for pine sawn timber has improved, and the market balance strengthened.

The growth in the demand for high-quality consumer packaging paperboard made from fresh fibre is expected to continue in market areas important for Metsä Board. Delivery volumes in July–September are expected to remain roughly at the level of the second quarter.

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

RESULT GUIDANCE FOR JULY–SEPTEMBER 2017

Metsä Group's comparable operating result in the third quarter of 2017 is expected to be roughly at the same level as in the second quarter of 2017.

SEGMENTS

	2017	2016	2017	2016	2016
Wood Supply and Forest Services	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	829.4	779.0	396.7	377.8	1 534.4
EBITDA, EUR million	14.9	16.0	5.4	7.4	34.3
Comparable EBITDA, EUR million	14.9	16.0	5.4	7.4	34.3
Operating result, EUR million	12.9	14.3	4.4	6.5	30.9
Comparable operating result, EUR million	12.9	14.3	4.4	6.5	30.9
% of sales	1.6	1.8	1.1	1.7	2.0
Comparable ROCE, %	19.5	24.3	13.0	21.3	26.1
Capital expenditure, EUR million	2.1	2.4	1.1	1.7	5.1
Personnel at end of period	893	931	893	931	855

	2017	2016	2017	2016	2016
Wood Products Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	242.0	251.2	121.8	129.9	481.6
EBITDA, EUR million	28.1	27.7	11.2	16.3	53.6
Comparable EBITDA, EUR million	24.9	28.1	11.3	16.3	52.2
Operating result, EUR million	22.2	21.0	8.3	13.1	40.0
Comparable operating result, EUR million	19.1	21.4	8.4	13.2	38.7
% of sales	7.9	8.5	6.9	10.1	8.0
Comparable ROCE, %	20.6	15.5	17.5	18.8	17.1
Capital expenditure, EUR million	18.8	2.5	13.0	1.5	18.0
Personnel at end of period	1 550	1 652	1 550	1 652	1 521

	2017	2016	2017	2016	2016
Pulp and Sawn Timber Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	848.5	831.3	426.5	422.5	1 636.0
EBITDA, EUR million	160.1	155.1	84.2	69.0	293.1
Comparable EBITDA, EUR million	160.2	155.1	84.3	69.0	281.8
Operating result, EUR million	125.2	109.4	70.7	48.2	220.8
Comparable operating result, EUR million	125.3	114.4	70.8	53.2	214.6
% of sales	14.8	13.8	16.6	12.6	13.1
Comparable ROCE, %	17.9	24.5	19.9	23.6	19.6
Capital expenditure, EUR million	213.7	240.9	114.9	159.7	553.4
Personnel at end of period	1 402	1 377	1 402	1 377	1 231

	2017	2016	2017	2016	2016
Paperboard Industry	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	918.7	858.5	474.2	422.9	1 720.3
EBITDA, EUR million	135.7	115.2	67.0	59.6	234.6
Comparable EBITDA, EUR million	136.2	118.6	67.5	60.7	231.1
Operating result, EUR million	92.1	67.2	46.9	34.5	132.3
Comparable operating result, EUR million	88.7	70.8	43.5	35.8	137.5
% of sales	9.7	8.2	9.2	8.5	8.0
Comparable ROCE, %	10.3	8.4	10.3	8.5	8.1
Capital expenditure, EUR million	31.4	102.6	12.4	48.3	162.4
Personnel at end of period	2 581	2 762	2 581	2 762	2 466

	2017	2016	2017	2016	2016
Tissue and Cooking Papers	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	503.4	495.1	251.4	248.8	990.8
EBITDA, EUR million	53.4	46.5	26.3	23.3	101.0
Comparable EBITDA, EUR million	53.4	46.5	26.3	23.3	102.8
Operating result, EUR million	33.9	26.7	16.3	13.2	61.3
Comparable operating result, EUR million	33.9	26.7	16.3	13.2	63.1
% of sales	6.7	5.4	6.5	5.3	6.4
Comparable ROCE, %	10.5	8.0	10.0	8.0	9.3
Capital expenditure, EUR million	7.7	8.5	4.8	5.3	37.6
Personnel at end of period	2 899	2 862	2 899	2 862	2 741

	2017	2016	2017	2016	2016
Other operations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	2.2	2.8	1.1	1.1	5.0
EBITDA, EUR million	6.6	4.7	1.6	5.1	2.1
Comparable EBITDA, EUR million	6.6	4.7	1.6	5.1	2.3
Operating result, EUR million	5.3	3.7	0.8	4.6	0.0
Comparable operating result, EUR million	5.3	3.7	0.8	4.6	0.1
Capital expenditure, EUR million	2.9	6.5	1.9	3.3	9.9
Personnel at end of period	499	492	499	492	486

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.

	2017	2016	2017	2016	2016
Internal sales and eliminations	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	-892.8	-878.3	-436.5	-419.1	-1 710.0
EBITDA, EUR million	-30.7	-14.1	-21.5	-2.6	-32.1
Comparable EBITDA, EUR million	-30.7	-14.1	-21.5	-2.6	-30.4
Operating result, EUR million	-38.3	-17.0	-25.2	-1.6	-42.9
Comparable operating result, EUR million	-38.3	-22.0	-25.2	-6.7	-46.2

	2017	2016	2017	2016	2016
Metsä Group	1-6	1-6	4-6	4-6	1-12
Sales, EUR million	2 451.4	2 339.5	1 235.2	1 183.9	4 657.9
EBITDA, EUR million	368.0	351.1	174.1	178.0	686.6
Comparable EBITDA, EUR million	365.5	354.9	174.9	179.2	674.1
Operating result, EUR million	253.4	225.3	122.2	118.5	442.3
Comparable operating result, EUR million	246.9	229.3	119.1	119.8	438.6
% of sales	10.1	9.8	9.6	10.1	9.4
Comparable ROCE, %	11.5	11.0	10.6	11.5	10.2
Capital expenditure, EUR million	275.4	337.9	147.9	194.9	757.9
Personnel at end of period	9 824	10 075	9 824	10 075	9 300

RECONCILIATION OF OPERATING RESULT

EUR million	2017 1-6	2016 1-6	2017 4-6	2016 4-6	2016 1-12
OPERATING RESULT (IFRS)	253.4	225.3	122.2	118.5	442.3
Items affecting comparability:					
Wood Supply and Forest Services	-	-	-	-	-
Wood Products Industry	-3.2	5.5	0.1	5.1	-1.3
Pulp and Sawn Timber Industry	0.1	-	0.1	-	-6.2
Paperboard Industry	-3.4	3.6	-3.4	1.3	5.2
Tissue and Cooking Papers	-	-	-	-	1.7
Other operations	-	-5.0	-	-5.0	-3.1
Total	-6.5	4.0	-3.2	1.3	-3.7
COMPARABLE OPERATING RESULT	246.9	229.3	119.1	119.8	438.6

EUR million	2017 1-6	2016 1-6	2017 4-6	2016 4-6	2016 1-12
OPERATING RESULT (IFRS)	253.4	225.3	122.2	118.5	442.3
Items affecting comparability:					
Other operating income	-3.4	-	0.0	-	-24.5
Change in inventories	0.0	-	0.0	-	1.2
Employee costs	-	2.1	-	-0.2	2.5
Depreciation	0.1	0.2	0.0	0.2	0.3
Impairment charges	-3.9	-	-3.9	-	8.5
Other operating expenses	0.8	1.7	0.8	1.3	8.3
Total	-6.5	4.0	-3.2	1.3	-3.7
COMPARABLE OPERATING RESULT	246.9	229.3	119.1	119.8	438.6

Items with “+” sign = expenses affecting comparability
Items with “-” sign = income affecting comparability

Metsä Group’s items affecting comparability in January–June 2017 totalled EUR +6.5 million. The most significant items were the sale of Metsä Wood’s project business and an impairment reversal due to the sale of Metsä Board’s discontinued Kyro paper machine.

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

Metsä Group’s items affecting comparability in 2016 totalled EUR +3.7 million. Metsä Board recognised EUR 7.8 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. Metsä Board received an additional sales price of EUR 4.4 million for M-real Hallein GmbH, sold in 2011.

QUARTERLY DATA

EUR million	2017 4–6	2017 1–3	2016 10–12	2016 7–9	2016 4–6	2016 1–3
Sales						
Wood Supply and Forest Services	396.7	432.6	399.2	356.2	377.8	401.2
Wood Products Industry	121.8	120.2	115.3	115.1	129.9	121.4
Pulp and Sawn Timber Industry	426.5	422.0	416.0	388.7	422.5	408.8
Paperboard Industry	474.2	444.5	421.8	440.0	422.9	435.6
Tissue and Cooking Papers	251.4	252.0	249.2	246.6	248.8	246.2
Other operations	1.1	1.1	1.1	1.2	1.1	1.6
Internal sales	-436.5	-456.3	-427.3	-404.5	-419.0	-459.2
Sales	1 235.2	1 216.1	1 175.2	1 143.3	1 183.9	1 155.6
Operating result						
Wood Supply and Forest Services	4.4	8.5	8.9	7.7	6.5	7.8
Wood Products Industry	8.3	14.0	10.0	9.0	13.1	7.8
Pulp and Sawn Timber Industry	70.7	54.5	53.3	58.1	48.2	61.2
Paperboard Industry	46.9	45.2	38.5	26.6	34.5	32.7
Tissue and Cooking Papers	16.3	17.6	16.8	17.8	13.2	13.5
Other operations	0.8	4.4	-8.1	4.4	4.6	-0.9
Eliminations	-25.2	-13.0	-9.7	-16.2	-1.6	-15.3
Operating result	122.2	131.2	109.7	107.4	118.5	106.8
% of sales	9.9	10.8	9.3	9.4	10.0	9.2
Share of results from associated companies and joint ventures	4.9	14.0	0.3	-0.5	-0.8	-0.1
Exchange gains and losses	-4.0	1.4	-6.5	1.3	0.5	-1.0
Other net financial items	-16.1	-17.1	-18.4	-18.7	-20.0	-17.8
Result before income tax	107.1	129.5	85.1	89.5	98.2	87.8
Income tax	-20.9	-22.9	-16.9	-21.7	-22.6	-19.5
Result for the period	86.1	106.7	68.2	67.8	75.7	68.3
Comparable operating result						
Wood Supply and Forest Services	4.4	8.5	8.9	7.7	6.5	7.8
Wood Products Industry	8.4	10.7	8.3	9.0	13.2	8.2
Pulp and Sawn Timber Industry	70.8	54.5	53.7	46.4	53.2	61.2
Paperboard Industry	43.5	45.2	32.8	34.0	35.8	35.0
Tissue and Cooking Papers	16.3	17.6	20.6	15.8	13.2	13.5
Other operations and eliminations	-24.4	-8.6	-17.7	-10.0	-2.1	-16.2
Comparable operating result	119.1	127.9	106.5	102.8	119.8	109.5
% of sales	9.6	10.5	9.1	9.0	10.1	9.5

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

COMPARABLE KEY RATIOS

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.

Reconciliation of operating result under IFRS and comparable operating result is presented in this half year financial 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	2017 1–6	2016 1–6	Change	2017 4–6	2016 4–6	2016 1–12
Sales	2	2 451.4	2 339.5	111.9	1 235.2	1 183.9	4 657.9
Change in stocks of finished goods and work in progress		-0.3	44.0	-44.3	-19.4	15.0	64.8
Other operating income		25.7	25.2	0.6	11.7	16.8	70.5
Material and services		-1 622.1	-1 561.8	-60.3	-805.1	-788.4	-3 132.7
Employee costs		-312.9	-323.8	10.9	-162.7	-160.0	-626.3
Depreciation and impairment losses		-114.6	-125.8	11.2	-51.9	-59.5	-244.3
Other operating expenses		-173.8	-172.0	-1.8	-85.6	-89.4	-347.5
Operating result	2	253.4	225.3	28.1	122.2	118.5	442.3
Share of results from associated companies and joint ventures		18.9	-0.9	19.8	4.9	-0.8	-1.1
Exchange gains and losses		-2.6	-0.5	-2.1	-4.0	0.5	-5.7
Other net financial items	2	-33.2	-37.9	4.7	-16.1	-20.0	-74.9
Result before income tax		236.6	186.0	50.6	107.1	98.2	360.6
Income tax	3	-43.8	-42.1	-1.7	-20.9	-22.5	-80.7
Result for the period		192.8	143.9	48.9	86.1	75.7	279.9
Other comprehensive income							
Items that will not be reclassified to profit and loss							
Items relating to adjustments of defined benefit plans		0.2	-10.0	10.2	0.3	-2.5	-12.3
Income tax relating to items that will not be reclassified		-0.1	2.3	-2.4	-0.0	0.5	3.1
Total		0.1	-7.6	7.8	0.2	-2.1	-9.3
Items that may be reclassified subsequently to profit and loss							
Cash flow hedges		50.5	-11.6	62.1	41.8	-0.1	17.2
Available for sale financial assets	8	24.5	-25.7	50.2	9.0	-17.7	-26.7
Currency translation differences		-2.8	-14.0	11.2	-8.9	-11.3	-14.0
Share of comprehensive income of joint venture		0.4	0.6	-0.2	0.0	0.3	1.2
Other items		0.0	0.0	0.0	0.0	0.0	0.0
Income tax relating to items that may be reclassified		-15.0	6.4	-21.4	-10.2	3.2	0.5
Total		57.7	-44.2	101.9	31.6	-25.6	-21.8
Other comprehensive income, net of tax		57.8	-51.9	109.7	31.9	-27.7	-31.1
Total comprehensive income for the period		250.6	92.1	158.5	118.0	48.0	248.9
Result for the period attributable to:							
Members of parent company		130.7	95.6	38.1	53.5	49.7	182.6
Non-controlling interests		62.1	51.4	10.8	32.6	26.0	97.3
Total		192.8	143.9	48.9	86.1	75.7	279.9
Total comprehensive income attributable to:							
Members of parent company		161.5	57.2	104.3	69.0	32.2	160.6
Non-controlling interests		89.1	34.9	54.2	49.0	15.8	88.2
Total		250.6	92.1	158.5	118.0	48.0	248.9

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

UNAUDITED CONSOLIDATED BALANCE SHEET

EUR million	Note	2017 30.6.	2016 30.6.	2016 31.12.
ASSETS				
Non-current assets				
Goodwill		516.4	519.4	517.6
Other intangible assets		225.2	230.8	231.5
Tangible assets	4	2 691.1	2 247.6	2 542.5
Biological assets		3.3	3.1	3.1
Investments in associated companies and joint ventures		53.2	42.4	42.1
Available for sale investments	8	224.7	201.2	200.1
Non-current financial assets	8	20.5	18.6	21.5
Deferred tax receivables		29.6	31.2	37.9
		3 764.1	3 294.3	3 596.2
Current assets				
Inventories		785.1	748.9	767.2
Accounts receivables and other receivables		776.7	719.9	670.3
Tax receivables based on the taxable income for the period		30.0	14.2	14.3
Cash and cash equivalents	8	775.9	753.3	895.1
		2 367.8	2 236.2	2 346.8
Assets classified as held for sale		3.7	18.5	2.8
Total assets		6 135.5	5 549.1	5 945.8
MEMBERS' FUNDS AND LIABILITIES				
Members' funds				
Members' funds		2 122.5	1 873.1	1 941.6
Non-controlling interests		647.7	605.0	658.4
		2 770.2	2 478.0	2 600.0
Non-current liabilities				
Deferred tax liabilities		238.7	205.2	213.4
Post-employment benefit obligations		83.2	83.7	83.9
Provisions	5	20.5	20.9	20.2
Borrowings	8	1 325.8	1 281.9	1 265.3
Other liabilities		17.0	44.4	28.5
		1 685.2	1 636.0	1 611.4
Current liabilities				
Provisions	5	3.2	15.4	5.0
Current borrowings	8	705.3	425.4	667.2
Accounts payable and other liabilities		958.1	980.3	1 051.3
Tax liabilities based on the taxable income for the period		10.9	9.2	9.0
		1 677.5	1 430.4	1 732.5
Liabilities classified as held for sale		2.6	4.7	1.9
Total liabilities		3 365.4	3 071.1	3 345.8
Total members' funds and liabilities		6 135.5	5 549.1	5 945.8

The notes are an integral part of this half year financial 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 1.1.2016	745.7	-2.7	197.4	865.1	1 805.6	611.3	2 416.9
Result for the period				92.6	92.6	51.4	143.9
Other comprehensive income, net after tax		-10.0	-19.0	-6.3	-35.4	-16.5	-51.9
Total comprehensive income		-10.0	-19.0	86.2	57.2	34.9	92.1
Transactions with owners:							
Dividends paid				-45.0	-45.0	-68.9	-113.9
Change in members' capital	62.8			-6.3	56.5		56.5
Change in other equity					0.0	24.9	24.9
Share based payments				-1.9	-1.9	-0.1	-2.0
Acquired shares from non-controlling interests, which did not change the controlling right					0.0		0.0
Sold shares from non-controlling interests, which did not change the controlling right			-0.0	0.7	0.7	2.8	3.5
Members' funds 30.6.2016	808.5	-12.7	178.4	898.9	1 873.1	605.0	2 478.0

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				130.7	130.7	62.1	192.8
Other comprehensive income, net after tax		-0.0	31.0	-0.2	30.8	27.0	57.8
Total comprehensive income		-0.0	31.0	130.5	161.5	89.1	250.6
Transactions with owners:							
Dividends paid				-44.7	-44.7	-70.6	-115.4
Change in members' capital	72.5			-7.1	65.4		65.4
Change in other equity					0.0		0.0
Share based payments				-1.9	-1.9	-0.3	-2.2
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	3.3	2.4
Members' funds 30.6.2017	841.9	-10.9	224.5	1 066.9	2 122.5	647.7	2 770.2

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2017 1–6	2016 1–6	2016 1–12
Result for the period	7	192.8	143.9	279.9
Total adjustments	7	167.4	190.6	350.5
Change in working capital		-169.8	-213.8	-126.2
Cash flow arising from operations		190.4	120.7	504.3
Net financial items		-40.3	-21.4	-41.0
Income taxes paid		-38.3	-75.7	-115.5
Net cash flow arising from operating activities		111.8	23.6	347.8
Acquisitions		-0.8	0.0	0.0
Investments in tangible and intangible assets		-275.4	-337.9	-757.9
Omaisuuuden myynnit ja muut erät	7	28.3	21.4	67.9
Investointien nettorahavirrat		-247.9	-316.4	-690.0
Change in members' funds		65.4	56.5	41.0
Change in other equity		0.0	24.9	24.9
Change in non-controlling interest		-30.7	0.0	0.0
Change in long-term loans and other financial items		104.8	-36.3	169.6
Dividends paid		-122.1	-120.2	-120.2
Net cash flow arising from financing activities		17.4	-75.0	115.4
Rahavarojen muutos		-118.7	-367.9	-226.8
Cash and cash equivalents at beginning of period		895.1	1 120.8	1 120.8
Translation difference		-0.5	0.4	1.1
Change in cash and cash equivalents		-118.7	-367.9	-226.8
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		775.9	753.3	895.1

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

NOTES TO THE UNAUDITED CONDENSED HALF YEAR FINANCIAL REPORT

NOTE 1 – BACKGROUND AND ACCOUNTING POLICIES

Metsäliitto Cooperative and its subsidiaries comprise a forest industry group (“Metsä Group” or “Group”), which operations are organised into five business segments: Wood Supply and Forest Services, Wood Products Industry, Pulp 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 half year financial report has been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the 2016 IFRS financial statements. The same accounting policies have been applied as in the 2016 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 2017 Metsä Group has adopted the following new and amended standards and interpretations:

- Amendments to IAS 7 *Statement of Cash Flows – Disclosure Initiative*. The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have an impact on the disclosures in consolidated financial statements.
- Amendments to IAS 12 *Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses*. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have no significant impact on Group’s consolidated financial statements.
- *Annual Improvements to IFRSs, 2014–2016 cycle*. The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The cycle contains amendments to one standard in 2017. The standard has no significant impact on Group’s consolidated financial statements.

All amounts are presented in millions of euros, unless otherwise stated.

This half year financial report was authorised for issue by the Board of Directors of Metsäliitto Cooperative on 3 August 2017.

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	1–6/2017	1–6/2017	1–6/2017	1–6/2016	1–6/2016	1–6/2016
	External	Internal	Total	External	Internal	Total
Wood Supply and Forest Services	223.7	605.6	829.4	205.7	573.2	779.0
Wood Products Industry	230.4	11.6	242.0	242.3	8.9	251.2
Pulp and Sawn Timber Industry	606.3	242.2	848.5	574.2	257.1	831.3
Paperboard Industry	888.1	30.6	918.7	822.8	35.7	858.5
Tissue and Cooking Papers	502.8	0.6	503.4	494.4	0.6	495.1
Other operations	0.0	2.1	2.2	0.1	2.7	2.8
Elimination of internal sales	-	-892.8	-892.8	-	-878.3	-878.3
Total sales	2 451.4	0.0	2 451.4	2 339.5	0.0	2 339.5

EUR million	1–12/2016	1–12/2016	1–12/2016
	External	Internal	Total
Wood Supply and Forest Services	407.3	1 127.1	1 534.4
Wood Products Industry	460.8	20.7	481.6
Pulp and Sawn Timber Industry	1 148.5	487.4	1 636.0
Paperboard Industry	1 651.7	68.6	1 720.3
Tissue and Cooking Papers	989.5	1.3	990.8
Other operations	0.1	4.9	5.0
Elimination of internal sales	-	-1 710.0	-1 710.0
Total sales	4 657.9	0.0	4 657.9

OPERATING RESULT BY SEGMENTS

EUR million	2017	2016	2016
	1–6	1–6	1–12
Wood Supply and Forest Services	12.9	14.3	30.9
Wood Products Industry	22.2	21.0	40.0
Pulp and Sawn Timber Industry	125.2	109.4	220.8
Paperboard Industry	92.1	67.2	132.3
Tissue and Cooking Papers	33.9	26.7	61.3
Other operations	5.3	3.7	0.0
Eliminations	-38.3	-17.0	-42.9
Operating result total	253.4	225.3	442.3
Share of results from associated companies and joint ventures	18.9	-0.9	-1.1
Financial costs, net	-35.7	-38.4	-80.6
Income taxes	-43.8	-42.1	-80.7
Result for the period	192.8	143.9	279.9

ASSETS AND LIABILITIES BY SEGMENTS

Assets	2017	2016	2016
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	275.8	266.0	274.4
Wood Products Industry	221.2	200.3	191.5
Pulp and Sawn Timber Industry	1 782.1	1 257.0	1 556.8
Paperboard Industry	2 004.6	1 948.4	1 959.8
Tissue and Cooking Papers	872.5	866.0	866.3
Other operations	198.2	221.6	225.1
Assets classified as held for sale	3.7	18.5	2.8
Eliminations	-216.0	-202.7	-227.8
Unallocated assets	993.4	974.0	1 096.8
Total	6 135.5	5 549.1	5 945.8

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	2017	2016	2016
EUR million	30.6.	30.6.	31.12.
Wood Supply and Forest Services	160.1	154.5	207.0
Wood Products Industry	69.5	73.9	74.8
Pulp and Sawn Timber Industry	335.7	384.6	360.6
Paperboard Industry	335.3	340.4	365.4
Tissue and Cooking Papers	287.5	284.2	289.8
Other operations	95.9	102.6	103.9
Liabilities classified as held for sale	2.6	4.7	1.9
Eliminations	-216.0	-202.7	-227.8
Unallocated liabilities	2 294.8	1 928.8	2 170.2
Total	3 365.4	3 071.0	3 345.8

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	2017	2016	2016
	1–6	1–6	1–12
Taxes for the period	23.5	42.3	83.3
Taxes for previous periods	1.0	0.3	0.0
Change in deferred taxes	19.3	-0.5	-2.6
Total income taxes	43.8	42.1	80.7

NOTE 4 – CHANGE IN PROPERTY, PLANT AND EQUIPMENT

EUR million	2017	2016	2016
	1–6	1–6	1–12
Book value at beginning of period	2 542.5	2 059.0	2 059.0
Investments	271.1	333.2	747.9
Decreases	-14.6	-12.4	-17.3
Assets classified as held for sale	-2.0	-4.8	-4.8
Depreciation and impairment losses	-105.6	-116.7	-226.5
Translation differences and other changes	-0.3	-10.6	-15.9
Book value at end of period	2 691.1	2 247.6	2 542.5

Assets classified as held for sale in 2017 include unsold apartments and parking places of Asunto Oy Tapiolan Tammi. Depreciation and impairment losses include an impairment reversal of EUR 3.9 million due to the sale of Metsä Board's discontinued Kyro paper machine.

NOTE 5 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 January 2017	3.4	16.2	5.6	25.2
Translation differences	-0.0	0.0	-0.0	-0.0
Increases	0.0	0.2	0.8	0.9
Utilised during the year	-1.6	-0.0	-0.5	-2.1
Unused amounts reversed	-0.1	-0.3	-0.0	-0.4
At 30 June 2017	1.7	16.1	5.8	23.6

Of the Metsä Group's total provisions of EUR 23.6 million, the non-current portion was EUR 20.5 million and the current portion EUR 3.2 million. Most of the non-current portion will be paid by the end of 2025.

NOTE 6 – TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2017 1–6	2016 1–6	2016 1–12
Sales	4.3	4.3	9.8
Purchases	42.1	41.8	86.5
Non-current receivables	1.0	1.0	1.0
Current receivables	3.1	3.1	3.3
Non-current liabilities	0.0	0.0	0.0
Current liabilities	4.8	4.5	6.0

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

EUR million	2017 1–6	2016 1–6	2016 1–12
Taxes	43.8	42.1	80.7
Depreciation and impairment charges	114.6	125.8	244.3
Biological assets	-0.2	-1.8	-1.7
Share of results from associated companies	-18.9	0.9	1.1
Gains and losses on sale of non-current financial assets	-5.8	-5.3	-34.1
Financial costs, net	35.7	38.4	80.6
Pension liabilities and provisions	-1.9	-9.5	-20.4
Total	167.4	190.6	350.5

Disposals and other items

Disposals and other items in January–June 2017 include EUR 4.9 million for the divestment of Metsä Wood's project business, a total of EUR 6.8 million related to sales of apartments and parking places of Asunto Oy Tapiolan Jalava and Asunto Oy Tapiolan Tammi as well as the sale of Metsäliitto Cooperative's

joint venture ZAO HK Vologodskie Lesopromyshlenniki. Disposals and other items furthermore include sales of intangible and tangible assets of EUR 6.2 million and other items of EUR -0.2 million. Most significant were the sale of Metsä Board's discontinued Kyro paper machine for EUR 3.9 million and the sales of Metsä Board's electricity certificates for EUR 1.3 million.

NOTE 8 – FINANCIAL INSTRUMENTS

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

Financial assets 30 June, 2017

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		224.7				224.7	224.7
Other non-current financial assets			19.0			19.0	19.0
Account receivables and others			734.3			734.3	734.3
Cash and cash equivalents	106.3		669.6			775.9	775.9
Derivative financial instruments	-1.2			42.0		40.8	40.8
Assets classified as held for sale							
Total	105.1	224.7	1 422.9	42.0	0.0	1 794.6	1 794.6

Financial liabilities 30 June, 2017

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					1 325.8	1 325.8	1 343.0
Other non-current liabilities					0.4	0.4	0.4
Current interest-bearing liabilities					705.3	705.3	711.7
Accounts payable and others					851.4	851.4	851.4
Derivative financial instruments	0.6			18.1		18.8	18.8
Liabilities classified as held for sale					2.6	2.6	2.6
Total	0.6	0.0	0.0	18.1	2 885.6	2 904.3	2 927.9

Financial assets 30 June, 2016

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Available for sale investments		201.2				201.2	201.2
Other non-current financial assets			18.6			18.6	18.6
Account receivables and others	5.7		711.4			717.1	717.1
Cash and cash equivalents	74.0		679.3			753.3	753.3
Derivative financial instruments	1.0			0.1		1.1	1.1
Assets classified as held for sale			0.5			0.5	0.5
Total	80.7	201.2	1 409.9	0.1	0.0	1 691.9	1 691.9

Financial liabilities 30 June, 2016

EUR million	Fair value through profit and loss	Available for sale financial assets	Loans and other receivables	Derivatives at hedge accounting	Amortised cost	Book value	Fair value
Non-current interest-bearing liabilities					1 281.9	1 281.9	1 317.9
Other non-current liabilities					2.0	2.0	2.0
Current interest-bearing liabilities					425.4	425.4	429.1
Accounts payable and others					853.0	853.0	853.0
Derivative financial instruments	1.5			54.6		56.1	56.1
Liabilities classified as held for sale					2.9	2.9	2.9
Total	1.5	0.0	0.0	54.6	2 565.3	2 621.5	2 661.1

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

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		224.7	224.7
Current financial assets through profit and loss at fair value				
Derivative financial assets	106.3	38.0		144.3
Financial liabilities measured at fair value				
Derivative financial liabilities				
	2.2	16.5		18.7
Financial assets not measured at fair value				
Financial assets				
		669.6		669.6
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities				
			1 343.0	1 343.0
Current interest-bearing liabilities				
			711.7	711.7

Fair value hierarchy of financial assets and liabilities 30 June, 2016

EUR million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-current financial assets through profit and loss at fair value				
Available for sale financial assets	0.0		201.2	201.2
Current financial assets through profit and loss at fair value				
Derivative financial assets	70.7	9.0		79.7
		1.1		1.1
Financial liabilities measured at fair value				
Derivative financial liabilities	16.8	39.4		56.1
Financial assets not measured at fair value				
Financial assets		679.3		679.3
Financial liabilities not measured at fair value				
Non-current interest-bearing liabilities		1 317.9		1 317.9
Current interest-bearing liabilities		429.1		429.1

Financial assets measured at fair value based on level 3

EUR million	2017	2016
Opening balance 1 January	200.1	227.0
Gains and losses in income statement	0.0	0.2
Gains and losses in other comprehensive income	24.5	-25.7
Purchases	0.0	0.0
Settlements	0.0	-0.3
Closing balance 30 June	224.7	201.2

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 2016 Financial Statements. The average weighed capital cost applied in the calculation was 2.38 per cent on 30 June 2017 and for the Olkiluoto 3 power plant under construction 4.38 per cent. The acquisition cost of the Pohjolan Voima Oy shares is EUR 43.1 million and their fair value is EUR 217.0 million.

The carrying amount of Pohjolan Voima Oy as of 30 June 2017 is estimated to change by EUR 3.9 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 the shares is estimated to change by EUR 37.1 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 June, 2017

EUR million	Nominal value	Assets	Liabilities	Fair value total	Fair value hedges	Cash flow hedges	Equity hedges	Hedge accounting not applied
Interest rate swaps	1 120.1		16.3	-16.3		-15.9		-0.3
Total	1 120.1	0.0	16.3	-16.3	0.0	-15.9	0.0	-0.3
Currency forwards	1 997.6	35.6	0.3	35.4		36.9		-1.5
Currency options								
Total	1 997.6	35.6	0.3	35.4	0.0	36.9	0.0	-1.5
Electricity derivatives	81.0	2.7	0.2	2.5		2.5		
Pulp derivatives	18.9	2.4		2.4		2.4		
Oil derivatives	10.5	0.1	1.2	-1.1		-1.2		0.1
Commodity derivatives	10.6		0.8	-0.8		-0.8		
Total	120.9	5.2	2.2	2.9	0.0	2.9	0.0	0.1
Derivatives total	3 238.6	40.8	18.8	22.0	0.0	23.8	0.0	-1.8

Derivatives 30 June, 2016

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

NOTE 9 – COMMITMENTS AND CONTINGENCIES

EUR million	30.6.2017	30.6.2016	31.12.2016
Own liabilities for which commitments granted	426.8	496.9	469.0
Pledges granted	430.7	413.8	433.1
Floating charges	2.8	2.9	2.8
Real estate mortgages	271.0	370.0	368.5
Chattels mortgage	4.0	4.0	4.0
Commitments for own liabilities, total	708.5	790.7	808.5
Other commitments on own behalf	92.4	70.4	98.9
On behalf of associated companies	0.7	0.9	0.8
On behalf of others	0.1	5.0	5.0
Total	801.7	867.0	913.2

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 72.9 million (31.12.2016: 78.7).

COMMITMENTS RELATED TO INVESTMENTS

EUR million	30.6.2017	30.6.2016	31.12.2016
Payments due under 1 year	228.2	382.5	335.3
Payments due in subsequent years	4.3	114.3	20.0
Total	232.5	496.8	355.3