

METSÄ BOARD

HALF-YEAR FINANCIAL REPORT

JANUARY–JUNE 2020



METSÄ BOARD'S COMPARABLE OPERATING RESULT IN JANUARY–JUNE 2020 WAS EUR 94 MILLION

JANUARY–JUNE 2020 (compared to 1–6/2019)

- Sales were EUR 945.2 million (964.2).
- Comparable operating result was EUR 94.2 million (102.8), or 10.0% (10.7%) of sales. Operating result was EUR 100.3 million (118.3).
- Comparable earnings per share were EUR 0.19 (0.23), and earnings per share were EUR 0.21 (0.27).
- Comparable return on capital employed was 10.7% (11.7%).
- Net cash flow from operations was EUR 152.3 million (67.1).

APRIL–JUNE 2020 (compared to 4–6/2019)

- Sales were EUR 473.1 million (477.1).
- Comparable operating result was EUR 60.5 million (41.0), or 12.8% (8.6%) of sales. Operating result was EUR 66.5 million (46.4).
- Comparable earnings per share were EUR 0.13 (0.09), and earnings per share were EUR 0.15 (0.10).
- Comparable return on capital employed was 13.9% (9.7%).
- Net cash flow from operations was EUR 72.3 million (30.7).

IMPACT OF THE CORONAVIRUS ON METSÄ BOARD'S BUSINESS OPERATIONS

The coronavirus pandemic has increased demand for hygienic and safe packaging materials, particularly for end uses in the food, beverage and pharmaceutical industries. On the other hand, the pandemic has weakened demand in graphic end uses and packaging for luxury items. Metsä Board's paperboard order inflows grew rapidly with the outbreak of the pandemic in March–April, but returned to their normal level towards the end of the review period. Metsä Board's paperboard deliveries in the first half of the year increased year-on-year.

The coronavirus has not had an impact on production at Metsä Board's mills. To minimise close contacts, the scope of the annual maintenance of mills

scheduled for the second quarter of the year was scaled down and shutdowns were partly rescheduled to the second half of the year.

Metsä Board's financial position is good. The maturity profile of the loans is healthy, and the company has adequate liquidity. The company's paperboard portfolio is defensive in crisis situations, and thus the cash flow, which has remained strong, supports financial headroom. The pre-engineering phase of the renewal of the Husum pulp mill and the preparatory construction work related to the investment progressed as planned during the first half of the year.

The company has at its disposal substantial precautionary measures aiming to ensure health and safety of the personnel and the continuity of the business operations. Despite the precautionary measures, a prolonged pandemic could lead to disruptions in production and/or the supply chain. Furthermore, the weakening of the world economy attributable to the pandemic is also likely to reduce demand for Metsä Board's products and thereby have a negative impact on the company's profitability.

EVENTS IN APRIL–JUNE 2020

- Demand for Metsä Board's fresh fibre paperboards and market pulp was at a good level, and price levels remained fairly stable.
- Paperboard production volume was at a record high, totalling 489,000 tonnes.
- Net cash flow from operations remained strong at EUR 72.3 million.
- The Excellence Centre for paperboard and packaging design was completed on schedule in Äänekoski.
- The processing of the environmental permit for the new recovery boiler at the Husum pulp mill has progressed slightly slower than expected. Metsä Board expects the new recovery boiler to start up during the first half of 2022 at the earliest; the previous estimate was during the fourth quarter of 2021 at the earliest.
- The 2020 Annual General Meeting was held on 11 June 2020 in accordance with exceptional procedures. The Annual General Meeting decided to distribute a dividend of EUR 0.10 per share and a capital repayment of EUR 0.14 per share, totalling EUR 0.24 per share. The dividend payment and capital repayment date was 24 June 2020.

RESULT GUIDANCE FOR JULY–SEPTEMBER 2020

Metsä Board's comparable operating result for the third quarter of 2020 is expected to weaken compared to the second quarter of 2020.

Metsä Board's CEO Mika Joukio:

"Metsä Board's business operations performed well in the second quarter. At the beginning of the coronavirus pandemic in March–April, demand for fresh fibre paperboards used in food and pharmaceutical packaging in particular was exceptionally strong, and our order backlog increased to a high level. This rapid growth is explained not only by the pandemic, but also by the Finnish paper industry strike in early 2020. However, demand normalised towards the end of the review period. Our paperboard delivery volumes in April–June were higher than in the first quarter and in the corresponding period last year.

Our comparable operating result in the second quarter improved year-on-year and was EUR 60.5 million (41.0). Profitability was supported by lower production costs, particularly in the paperboard business, and favourable foreign exchange development. The price development of our paperboards has remained relatively stable, but the sales prices of market pulp were clearly lower than in the previous year.

Our cash flow from operations has remained strong for three consecutive quarters. In the first half of 2020, our cash flow from operations was clearly higher than in previous years, at EUR 152.3 million. This further supports our good liquidity. Our profit distribution from 2019 was in line with the original proposal of the Board of Directors, and our strong financial position also enables us to proceed with our investments as planned.

I have also observed with great pleasure the excellent performance of our mills during the coronavirus pandemic. Our total paperboard production volume was a record high in April–June. We also succeeded in improving safety at work during the first half of the year. We are heading in the right direction, although our long-term safety target, zero accidents, is still quite far away.

We will continue our close cooperation with our customers in product development and packaging design. The Excellence Centre for paperboard and packaging design in Äänekoski was completed in June, and it will boost our joint development projects. By centralising expertise in various fields in a coordinated entity, we will be better able to meet our customers' needs and respond to development challenges."

KEY FIGURES

	2020 Q2	2019 Q2	2020 Q1	2020 Q1-Q2	2019 Q1-Q2	2019 Q1-Q4
Sales, EUR million	473.1	477.1	472.1	945.2	964.2	1,931.8
EBITDA, EUR million	92.6	73.6	59.3	151.9	172.9	294.5
comparable, EUR million	86.6	68.1	59.3	145.9	157.5	279.0
EBITDA, % of sales	19.6	15.4	12.6	16.1	17.9	15.2
comparable, % of sales	18.3	14.3	12.6	15.4	16.3	14.4
Operating result, EUR million	66.5	46.4	33.8	100.3	118.3	180.8
comparable, EUR million	60.5	41.0	33.8	94.2	102.8	184.4
Operating result, % of sales	14.1	9.7	7.2	10.6	12.3	9.4
comparable, % of sales	12.8	8.6	7.2	10.0	10.7	9.5
Result before taxes, EUR million	63.9	41.9	28.9	92.7	109.8	165.6
comparable, EUR million	57.8	36.4	28.9	86.7	94.3	169.2
Result for the period, EUR million	51.7	36.3	22.1	73.8	95.9	144.6
comparable, EUR million	46.9	31.9	22.1	69.0	82.2	145.8
Earnings per share, EUR	0.15	0.10	0.06	0.21	0.27	0.41
comparable, EUR	0.13	0.09	0.06	0.19	0.23	0.41
Return on equity, %	16.0	11.4	6.7	11.3	14.7	10.9
comparable, %	14.5	10.0	6.7	10.6	12.6	11.0
Return on capital employed, %	15.3	10.9	7.6	11.4	13.4	10.2
comparable, %	13.9	9.7	7.6	10.7	11.7	10.4
Equity ratio ¹ , %	58	57	59	58	57	59
Net gearing ¹ , %	24	30	20	24	30	23
Interest-bearing net liabilities/comparable EBITDA	1.1	1.2	1.0	1.1	1.2	1.1
Shareholders' equity per share ¹ , EUR	3.57	3.60	3.71	3.57	3.60	3.76
Interest-bearing net liabilities ¹ , EUR million	305.5	380.2	260.1	305.5	380.2	307.8
Total investments, EUR million	43.3	17.9	29.8	73.1	24.3	98.9
Net cash flow from operations, EUR million	72.3	30.7	80.0	152.3	67.1	200.5
Personnel ¹	2,662	2,591	2,376	2,662	2,591	2,351

1) At the end of the period

DELIVERY AND PRODUCTION VOLUMES

	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2020 Q1-Q2	2019 Q1-Q2	2019 Q1-Q4
1,000 tonnes								
Delivery volumes								
Folding boxboard	310	298	300	305	299	608	602	1,207
White kraftliner	148	152	139	161	146	300	283	584
Metsä Board's market pulp	126	130	137	104	109	256	218	460
Metsä Fibre's market pulp ¹	156	165	180	207	166	321	358	745
Production volumes								
Folding boxboard	333	288	313	311	308	621	618	1,242
White kraftliner	156	130	155	132	138	286	288	574
Metsä Board's pulp	348	329	332	343	352	677	698	1,373
Metsä Fibre's pulp ¹	193	148	186	182	186	341	366	734

1) Equal to Metsä Board's 24.9% holding in Metsä Fibre

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SALES AND RESULT

April–June 2020 (compared to 4–6/2019)

Metsä Board's sales amounted to EUR 473.1 million (477.1). Folding boxboard represented 60% of sales, while 25% of sales came from white kraftliners, 12% from market pulp and 3% from other operations.

The comparable operating result was EUR 60.5 million (41.0), and the operating result was EUR 66.5 million (46.4). Items affecting comparability during the period totalled EUR 6.0 million and consisted of the sale of a land area not related to business operations.

Total paperboard deliveries increased to 458,000 (445,000) tonnes. Metsä Board's market pulp deliveries increased as well, at 126,000 (109,000) tonnes.

Lower production costs for pulp and for paperboard in particular improved the comparable operating result. The all-time record achieved in paperboard production in the second quarter contributed to the improvement in the energy and material efficiency of the mills and thereby reduced production costs. In addition, the prices of raw materials and energy have decreased during the coronavirus pandemic.

Exchange rate fluctuations, including hedges, had a positive impact of around EUR 10 million on the operating result compared to the corresponding period in the previous year.

The paper industry strike in Finland in early 2020 had a negative impact of around EUR 5 million on the comparable operating result in April–June.

The associated company Metsä Fibre's share of Metsä Board's comparable operating result in April–June was EUR 1.6 million (15.6). Lower market pulp prices, weaker demand for mechanical wood products and a decline in price levels had a negative impact on Metsä Fibre's result.

Financial income and expenses totalled EUR -2.6 million (-4.6), including foreign exchange rate differences from trade receivables, trade payables, financial items and the valuation of currency hedging instruments, totalling EUR 0.2 million (-0.8).

The result before taxes was EUR 63.9 million (41.9). The comparable result before taxes was EUR 57.8 million (36.4). Income taxes amounted to EUR 12.1 million (5.6).

Earnings per share were EUR 0.15 (0.10). The return on equity was 16.0% (11.4%), and the comparable return on equity was 14.5% (10.0%). The return on capital

employed was 15.3% (10.9%), and the comparable return on capital employed was 13.9% (9.7%).

The operating result in April–June 2020 in brief (compared to 1–3/2020)

The comparable operating result in April–June was EUR 60.5 million (33.8). The paper industry strike in the first quarter resulted in a positive impact of around EUR 10 million on the result in April–June compared to the first quarter. In addition, profitability improved as a result of lower production costs for pulp and for paperboard in particular, as well as a positive impact of around EUR 3 million arising from exchange rate fluctuations.

January–June 2020 (compared to 1–6/2019)

Metsä Board's sales amounted to EUR 945.2 million (964.2). Folding boxboard represented 59% of sales, while 25% of sales came from white kraftliners, 12% from market pulp and 3% from other operations.

Total paperboard deliveries increased to 908,000 (886,000) tonnes. Deliveries of folding boxboard were 608,000 (602,000) tonnes, of which 71% was delivered in the EMEA region, 22% in the Americas, and 7% in the APAC region. Deliveries of white kraftliners were 300,000 (284,000) tonnes, of which 65% was delivered in the EMEA region, 33% in the Americas, and 2% in the APAC region. Metsä Board's market pulp deliveries increased and were 256,000 (218,000) tonnes.

The comparable operating result was EUR 94.2 million (102.8), and the operating result was EUR 100.3 million (118.3). Items affecting comparability during the review period totalled EUR 6.0 million and consisted of the sale of a land area not related to business operations.

The comparable operating result of the review period was weakened by lower market pulp prices.

The paper industry strike, which concerned all Metsä Board's mills in Finland and all Metsä Fibre's pulp mills, had a negative impact of around EUR 20 million on the comparable operating result in January–June.

Lower production costs for pulp and for paperboard in particular improved the result. The price of wood imported to Sweden decreased, and lower market prices of oil products caused energy costs to decline.

Exchange rate fluctuations, including hedges, had a positive impact of around EUR 18 million on the operating result compared to the comparison period.

Metsä Board's share of the comparable operating result of its associated company Metsä Fibre was EUR -2.6 million (38.5). In addition to the lower prices of market pulp and the strikes, Metsä Fibre's profitability was burdened by the decreasing demand for mechanical wood products and by a decline in price levels. Demand for

mechanical wood products has been weakened particularly by the decline of the construction and transport industries.

Financial income and expenses totalled EUR -7.5 million (-8.6), including foreign exchange rate differences from trade receivables, trade payables, financial items and the valuation of currency hedging instruments, totalling EUR -1.8 million (-1.2).

The result before taxes was EUR 92.7 million (109.8). The comparable result before taxes was EUR 86.7 million (94.3). Income taxes amounted to EUR 18.9 million (13.9).

Earnings per share were EUR 0.21 (0.27). The comparable earnings per share were EUR 0.19 (0.23). The return on equity was 11.3% (14.7%), and the comparable return on equity was 10.6% (12.6%). The return on capital employed was 11.4% (13.4%), and the comparable return on capital employed was 10.7% (11.7%).

MARKET DEVELOPMENT

Sources: Fastmarkets FOEX, Fastmarkets RISI, CEPI Cartonboard, CEPI Containerboard, AFPA

April–June 2020 (compared to 4–6/2019)

Deliveries by European folding boxboard producers within Europe increased by 1%, and market prices declined from the corresponding period last year. Deliveries by European producers of white kraftliner increased by 2%, and market prices declined. In the United States, the production of solid bleached boxboard for local consumption increased, while the production of food service paperboard decreased clearly. The market prices of solid bleached boxboard declined, while the market prices of food service paperboard remained stable.

In Europe, the dollar-denominated market price of long-fibre pulp declined by 19%, calculated from the difference of the average quarterly prices. The dollar-denominated market price of short-fibre pulp declined by 27%. In China, the dollar-denominated market price of long-fibre pulp declined by 14%, and that of short-fibre pulp by 28%.

January–June 2020 (compared to 1–6/2019)

Deliveries by European producers of folding boxboard within Europe increased by 3%, while market prices declined from the corresponding period last year. Correspondingly, deliveries by producers of white kraftliner increased by 4%, and market prices declined.

Metsä Board's share of the total deliveries by European folding boxboard producers was 34% (36%), and 55% (59%) of exports from Europe.

In the United States, the production of solid bleached boxboard for local consumption increased, while the

production of food service paperboard decreased clearly. The market prices of solid bleached boxboard declined, while the market prices of food service paperboard remained stable.

In Europe, the dollar-denominated market price of long-fibre pulp declined by 24%, calculated from the difference of the average half-year prices. The dollar-denominated market price of short-fibre pulp declined by 30%. In China, the dollar-denominated market price of long-fibre pulp declined by 17%, and that of short-fibre pulp by 30%.

CASH FLOW

Net cash flow from operations was strong in the review period, at EUR 152.3 million (1–6/2019: 67.1). Working capital increased by EUR 5.4 million (89.0). Working capital typically increases during the first half of the year. However, such an increase did not materialise this year because of production losses caused by the paper industry strike. The lower price of pulp has increased the share of Metsä Board's own paperboard mills and decreased associated company Metsä Fibre's share of cash flow generation during 2020.

INVESTMENTS

Total investments during the review period were EUR 73.1 million (24.3), of which investments in owned property, plant and equipment were EUR 70.0 million (24.1) and investments in leased property, plant and equipment were EUR 3.1 million (0.2).

Metsä Board estimates that its total investments in 2020 will be around EUR 200 million, of which investments in the first phase of the renewal of the Husum pulp mill represent around EUR 140 million. The time of approval of the amendment to the environmental permit affects the distribution of the investment amount between different years.

BALANCE SHEET AND FINANCING

Metsä Board's equity ratio at the end of the review period was 58% (31 December 2019: 59%) and the net gearing ratio was 24% (23%). The ratio of interest-bearing net liabilities to comparable EBITDA in the previous 12 months was 1.1 (1.1).

At the end of the review period, interest-bearing liabilities totalled EUR 461.5 million (31 December 2019: 444.9). Loans in foreign currency accounted for 1.8% of loans and floating-rate loans for 14.3%, with the rest being fixed-rate loans. The average interest rate on liabilities was 2.3% (2.5%), and the average maturity of non-current liabilities was 6.1 years (6.4). The interest rate maturity of loans was 53.4 months (56.0).

At the end of the review period, net interest-bearing liabilities totalled EUR 305.5 million (31 December 2019: 307.8).

Metsä Board's liquidity has remained strong. At the end of the review period, the available liquidity was EUR 353.2 million (31 December 2019: 334.2), consisting of the following items: liquid assets and investments of EUR 153.2 million and a syndicated credit facility (revolving credit facility) of EUR 200.0 million. As of 2020, the company will no longer include undrawn pension premium (TyEL) funds in available liquidity. Of the liquid assets, EUR 145.1 million consisted of short-term deposits with Metsä Group Treasury, and EUR 8.1 million were cash funds and investments. Other interest-bearing receivables amounted to EUR 2.9 million. In addition, Metsä Board's liquidity reserve is complemented by Metsä Group's internal undrawn short-term credit facility of EUR 150.0 million and undrawn pension premium (TyEL) funds of EUR 190.1 million

The fair value of long-term investments was EUR 193.9 million at the end of the review period (31 December 2019: 255.1). The change in the fair value is related to the decrease in the fair value of Pohjolan Voima Oyj's shares. The change in the fair value of Pohjolan Voima Oyj's shares (EUR -67.9 million) in the second quarter was larger than usual. This was mainly due to changes in the valuation model. Metsä Board discontinued the use of previous benchmark transactions in Pohjolan Voima Oyj's shares as a valuation basis and increased the discount rates used in the valuation model based on projected cash flows to reflect prevailing circumstances.

At the end of the review period, an average of 8.1 months of the net foreign currency exposure was hedged, including the hedging of the balance sheet position of trade receivables and trade payables (31 December 2019: 7.8). The degree of hedging during the period varied between seven and nine months, on average. In addition to the balance sheet position, half of the projected annual net foreign currency exposure at the normal level is hedged. The amount of hedging may deviate from the normal level by 40% in either direction. When hedging is at the normal level, the aim is to allocate the hedges primarily to the following two quarters.

Metsä Board has investment grade credit ratings by S&P Global and Moody's Investor Service. The company's rating by S&P Global is BBB-, with a stable outlook. The company's rating by Moody's is Baa3, with a stable outlook.

PERSONNEL

At the end of the review period, the number of personnel was 2,662 (30 June 2019: 2,591), of whom 1,624 (1,563) were based in Finland. In January–June, Metsä Board had an average of 2,459 employees (1–6/2019: 2,441). Personnel expenses in January–June totalled

EUR 97.0 million (98.6).

BUSINESS DEVELOPMENT

Development of paperboard sales

Metsä Board is Europe's largest producer of folding boxboard and white kraftliner. Metsä Board's folding boxboard is mainly used in consumer product packaging, particularly in food and food service packaging. Correspondingly, the end uses of white kraftliner are mainly related to the various packaging needs of the retail sector.

The paper industry strike at Finnish mills and the increased demand for packaging materials attributable to the coronavirus outbreak improved the balance between paperboard supply and demand during the first half of the year. Demand for end uses involving large volumes, such as food and pharmaceutical packaging, has been strong. However, the pandemic has weakened demand in graphic end uses and packaging for luxury items. Paperboard order inflows grew rapidly with the outbreak of the coronavirus pandemic in March–April, but returned to their normal level towards the end of the review period.

Metsä Board's total paperboard deliveries in the EMEA region increased from the comparison period, and average prices remained fairly stable.

Metsä Board's deliveries to the Americas consist of folding boxboard and coated white kraftliner. In the review period, Metsä Board's paperboard delivery volumes and average euro prices were higher than in the previous year. As in Europe, demand growth in certain end uses, attributable to the coronavirus pandemic, increased the sales of folding boxboard. The growth in e-commerce increased demand for white kraftliner.

In the APAC region, Metsä Board focuses on demanding end uses in cooperation with international brand owners, primarily in folding boxboard. Metsä Board's delivery volumes of folding boxboard in the APAC region during the review period were lower than in the previous year.

Development of market pulp sales

Metsä Board's market pulp position consists of the difference between its own pulp production and consumption, as well as of its 24.9% holding in Metsä Fibre. On an annual level, the total position shows a surplus of around 600,000 tonnes and consists mostly of long-fibre pulp.

Market pulp prices decreased clearly from the comparison period. This had a negative impact on Metsä Board's profitability. Metsä Board's own market pulp deliveries increased year-on-year. The paper industry strike early in the year did not concern Metsä Board's Husum pulp mill in Sweden.

While the worldwide increase in demand for tissue paper increased demand for pulp and high-yield pulp early in the year, the production of printing papers decreased significantly at the same time. Towards the end of the review period, demand for market pulp decreased because of the seasonality typical of the industry.

The pulp delivery volumes of Metsä Board's associated company Metsä Fibre decreased year-on-year. Around 50% of Metsä Fibre's market pulp is sold in the EMEA region and 50% in the APAC region, where China makes up a significant share.

Production

As expected, the paper industry strike decreased the production volumes of paperboard and pulp in the first quarter. However, in the second quarter, Metsä Board's paperboard production volume was a record high, totaling 489,000 tonnes. The Kemi linerboard mill recorded its all-time highest monthly production volume in May.

In January–June, Metsä Board's paperboard production volume totalled 907,000 tonnes (906,000), while the combined production volume of pulp and high-yield pulp amounted to 677,000 tonnes (698,000).

MAJOR INVESTMENTS

Metsä Board: Renewal of the Husum pulp mill

In 2019, Metsä Board launched a pre-engineering project related to the renewal of the Husum pulp mill in Sweden in phases. The final investment decision on the first phase of the renewal will be made once the environmental permit has been secured.

The first phase of the investment will involve the modernisation of the pulp mill's recovery boiler and turbine. The total value of the first phase is around EUR 320 million, which will be spread over 2019–2022. The second phase of the investment, during the 2020s, is planned to involve the replacement of the existing fibre lines with a new fibre line.

Permission for initiating the construction of the new recovery boiler was granted in March. On the construction site, the pile driving work related to the main departments has been completed, and the casting work related to the foundations has progressed as planned. The recovery boiler cannot be erected until the amendment to the environmental permit has been approved. The processing of the environmental permit has progressed slightly slower than expected, and the company expects the new recovery boiler to be started during the first half of 2022 at the earliest (the previous estimate was during the fourth quarter of 2021 at the earliest). The company and the authorities involved in the permit process have had no substantial differences of opinion on the permit conditions at any stage.

The renewal of the pulp mill will enable the long-term development and growth of competitive paperboard business operations at the Husum integrated mill over the coming years. In addition, the investment aims to develop Metsä Board's pulp and energy production and promote a shift towards fossil-free mills.

Metsä Fibre: New bioproduct mill and pine sawmill

The pre-engineering project concerning the Kemi bioproduct mill of Metsä Fibre, associated company of Metsä Board, continues, and decision on this approximately EUR 1.5 billion mill is expected to be made in the autumn of 2020. The Kemi bioproduct mill would annually produce some 1.5 million tonnes of pulp and other bioproducts. The new mill would replace the current pulp mill in Kemi, with an annual capacity of about 620,000 tonnes.

Metsä Fibre has made an investment decision to build a pine sawmill next to the Rauma pulp mill. The construction work began in the spring of 2020, and production is set to begin in the third quarter of 2022. The value of the investment is approximately EUR 200 million.

Metsä Board holds 24.9% of Metsä Fibre.

SUSTAINABILITY

Metsä Board aims to be a leader in sustainability and create packaging solutions that respect nature. Climate change mitigation and the efficient use of resources are strong drivers of the company's operations.

The Science Based Targets Initiative (SBTi) has approved Metsä Board's emission reduction targets. The company's emission reduction targets concerning direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) correspond with the reduction requirements necessary to limit global warming to 1.5 degrees. Metsä Board's reduction targets for the emissions of the company's value chain (Scope 3) also meet SBTi's strictest criteria and accord with the current best practices.

In the spring, the company achieved the highest level, Platinum, in the EcoVadis sustainability and social responsibility evaluation. According to the evaluation, Metsä Board is among the top 1% of paper, paperboard and packaging manufacturers.

The CDP has included Metsä Board on its Climate A list in recognition of the company's work to mitigate climate change. The company has achieved the A- level in the CDP's water and forest programmes and in the Supplier Engagement Rating category. Metsä Board has also achieved good scores in several environmental, social and governance (ESG) assessments carried out by MSCI, Sustainalytics and ISS ESG, among other parties.

Metsä Board has very ambitious sustainability targets, extending to 2030. Its key goal is to abandon the use of

fossil energy by 2030. At that point, the company's mills will use only fossil-free fuels (Scope 1), and all purchased energy must also be fossil-free (Scope 2). The raw materials used by Metsä Board must likewise be fossil-free. Metsä Board will further improve its water and energy efficiency, as well as seeking to increase the proportion of certified fibre of all the fibre it uses. More information about company's sustainability targets and actuals in 2019 is available on its website at www.metsaboard.com/sustainability.

R&D AND INNOVATIONS

Metsä Board's Excellence Centre in Äänekoski was completed on schedule. The new excellence centre will combine expertise in packaging design with research and development, facilitating the development of future paperboards and packaging solutions.

RESOLUTIONS OF 2020 ANNUAL GENERAL MEETING

The Annual General Meeting held on 11 June 2020 approved the company's financial statements for the financial year 2019, and decided to distribute a dividend of EUR 0.10 per share and a capital repayment of EUR 0.14 per share from the unrestricted equity reserve, totalling EUR 0.24 per share.

The Annual General Meeting resolved to keep the Board of Directors' annual remuneration unchanged that the Chairman of the Board of Directors be paid annual remuneration of EUR 95,000, the Vice Chairman is paid EUR 80,000 and ordinary member of the Board be paid EUR 62,500, and that a meeting fee of EUR 700 is paid for each attended meeting of the Board of Directors and its committees. The Annual General Meeting decided to pay approximately half of the remuneration in the form of the company's B shares acquired through public trading. Furthermore, the Annual General Meeting decided to pay the Chairman of the Audit Committee monthly remuneration of EUR 800.

The Annual General Meeting confirmed the number of Board members as nine (9) and elected the following persons as members of the Board of Directors: Hannu Anttila, M.Sc. (Economics); Ilkka Härmälä, M.Sc. (Technology); Kirsi Komi, LL.M.; Kai Korhonen, M.Sc. (Technology); Liisa Leino, M. Ed.; Jussi Linnaranta, M.Sc. (Agriculture); Jukka Moisio M.Sc. (Economics); Timo Saukkonen M.Sc. (Agriculture); and Veli Sundbäck, LL.M. The Board members' term of office continues until the end of the next Annual General Meeting. More information about the decisions made by the Annual General Meeting and materials related to the meeting are available on the company's website at www.metsaboard.com/agm2020.

LEGAL PROCEEDINGS

In the autumn of 2015, the Finnish Tax Administration, in its assessment of the 2014 taxation, refused the deductibility of certain losses related to the cross-border merger of a French subsidiary in Metsä Board Corporation's 2014 taxation. Metsä Board believes the losses to be deductible and has appealed the Tax Administration's decision. The Board of Adjustment dismissed the company's appeal in March 2018. The company has appealed the decision to the Administrative Court of Helsinki.

SHARES

The price for Metsä Board's B share on the Nasdaq Helsinki was EUR 6.00 at the start of the review period and EUR 6.02 at the end of it. The share's highest and lowest prices were EUR 6.54 and EUR 4.47, respectively. Correspondingly, the price for Metsä Board's A share was EUR 6.14 at the start of the review period and EUR 6.16 at the end of it.

In January–June, the average daily trading volumes of the B and A shares on the Nasdaq Helsinki were 836,000 shares and 3,700 shares, respectively. The total trading volumes of the B and A shares were EUR 572.4 million and EUR 2.8 million, respectively.

In addition to the Nasdaq Helsinki, Metsä Board's shares are also traded on other marketplaces. The Nasdaq Helsinki's share of total trading during the review period was 84%.

At the end of the review period, there were 322,425,099 Metsä Board B shares and 33,087,647 Metsä Board A shares.

At the end of the review period, the market value of all Metsä Board shares was EUR 2.1 billion, of which the market value of the B shares and the A shares accounted for EUR 1.9 billion and EUR 0.2 billion, respectively.

At the end of the review period, Metsäliitto Cooperative's holding in Metsä Board was 48% of all shares and 67% of all votes. Foreign and nominee-registered investors held 15% of all shares. The company does not hold any treasury shares.

NEAR-TERM RISKS AND UNCERTAINTIES

A prolongation of the coronavirus pandemic may cause disruptions in Metsä Board's production and supply chains. The slowdown of the global economy resulting from the pandemic may reduce demand for Metsä Board's products and have a negative impact on the company's profitability in the near future. In addition,

customers' weaker cash position or slower payment behaviour may have an impact on Metsä Board's cash flow and lead to credit losses.

There are also other considerable uncertainties in the global economy. If realised, they may result in weakened demand and reduced prices for paperboard and pulp products. An imbalance in supply and demand may impact the prices of end products and Metsä Board's profitability.

Various countries have imposed import duties and other trade restrictions on each other's products, but these have not had a direct impact on Metsä Board's business operations so far. Negative developments in world trade could, if continued, weaken Metsä Board's result.

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

Metsä Board is focusing on the active development and growth of its paperboard business. The growth of the paperboard business and the introduction of new products to the markets depend on the success of sales. Increasing sales on a global scale also involves cost and exchange rate risks. In addition, the acceptability and taxation of various packaging materials involve regulatory risks.

A majority of Metsä Board's production is located in Finland. Finland has a history of labour disputes in both the forest industry and the distribution chain of forest industry products. These may have a negative impact on production volumes and customer deliveries, and weaken the company's competitiveness and profitability.

Wood accounts for more than a quarter of Metsä Board's total costs. The availability of the wood raw material becoming more difficult or a sudden increase in prices would have a weakening effect on Metsä Board's result.

Metsä Board's climate risks concern particularly forests, as well as the use of energy and water. Regulation may steer the future use of forests. Increased regulation aiming to mitigate climate change and reduce greenhouse gas emissions may, furthermore, increase costs and result in substantial change requirements applicable to production technology. The supply and demand of products in a low-carbon economy may differ from the current situation. Climate change may cause an increasing number of extreme weather phenomena, such as storms, floods and drought, and weaken the availability of the process water and electricity required by mills and result in breaks in production. Extreme

weather conditions may also limit the availability of the wood raw material. Should they materialise, climate risks could have a negative impact on Metsä Board's profitability.

Changes in the market price of pulp have a significant impact on Metsä Board's profitability. Metsä Board's annual overall pulp position shows a surplus of roughly 600,000 tonnes. A 10% decline (increase) in the price of market pulp would have an approximately EUR 30 million negative (positive) impact on the company's annual operating result.

The US dollar strengthening by 10% against the euro would have a positive impact of approximately EUR 61 million on Metsä Board's annual operating result. Correspondingly, the Swedish krona strengthening by 10% would have a negative impact of approximately EUR 37 million. The British pound strengthening by 10% would have a positive impact of approximately EUR 8 million. The impact of weakened exchange rates would be the opposite. The sensitivities do not include the impact of hedging.

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

Further information on long-term risks and risk management is available on pages 44–47 of Metsä Board's 2019 Annual Report.

NEAR-TERM OUTLOOK

The duration of the coronavirus pandemic and the scope of its negative impact on the world economy and on Metsä Board's business operations continue to be difficult to estimate.

Metsä Board's paperboard deliveries in the third quarter are expected to decrease slightly compared to the second quarter of 2020.

The market prices of folding boxboard and white kraftliner in local currencies are expected to remain stable.

Annual maintenance shutdowns at integrated mills in the third quarter are scheduled for Kemi in September and Husum in September-October. In addition, some minor maintenance work has been moved from the second quarter to the third.

In the second half of the year, production curtailments announced by some pulp producers, as well as maintenance shutdowns, will decrease the supply of long-fibre

market pulp. Metsä Board's market pulp deliveries in the third quarter are expected to decrease compared to the second quarter.

Changes in exchange rates, including the impact of hedges, will have a neutral impact on the result in July–September 2020 compared to the second quarter of 2020 and a positive impact compared to the third quarter of 2019.

The production costs of paperboard and pulp are not expected to decrease significantly from the second quarter.

RESULT GUIDANCE FOR JULY–SEPTEMBER 2020

Metsä Board's comparable operating result for the third quarter of 2020 is expected to weaken compared to the second quarter of 2020.

METSÄ BOARD CORPORATION

Espoo, Finland, 29 July 2020
BOARD OF DIRECTORS

Further information:

Jussi Noponen, CFO
tel. +358 10 465 4913

Katri Sundström, VP, Investor Relations,
tel. +358 10 462 0101

Further information will be available as of 1 p.m. on 30 July 2020.

A conference call held for investors and analysts in English will begin at 3 p.m. Conference call participants are requested to dial in and register a few minutes earlier on the following numbers:

Finland: +358 981 710 310

Sweden: +46 856 642 651

The United Kingdom: +44 333 300 0804

The United States: + 1 855 857 0686

The conference ID is 47309172#.

Metsä Board's financial reporting in 2020:

29 October 2020: Interim Report for January–September 2020

Other events:

1 September 2020: Capital Markets Day, virtual event

CALCULATION OF KEY RATIOS

Return on equity (%)	=	(Result before tax - income tax) per (Members' funds (average))
Return on capital employed (%)	=	(Result before tax + interest expenses, net exchange differences and other financial expenses) per (Members' funds + interest-bearing borrowings)
Equity ratio (%)	=	(Members' funds) per (Balance total - advance payments received)
Net gearing ratio (%)	=	(Interest-bearing borrowings - liquid assets - interest-bearing receivables) per (Members' funds)
Earnings per share	=	(Result for the period belonging to parent company shareholders) per (Average number of adjusted shares)
Shareholders' equity per share	=	(Members' funds belonging to parent company shareholders) per (Average number of adjusted shares at the end of the period)
Total investments	=	Investments in intangible and tangible assets, investments in leased property, plant and equipment and investments in business combinations

COMPARABLE KEY RATIOS

According to the guidelines of the European Securities and Markets Authority (ESMA), alternative performance measures are key figures concerning historical or future financial performance, financial standing or cash flows that are not determined by the financial reporting framework applied by the company. Metsä Board's financial reporting framework consists of the IFRS standards in the form in which they were adopted by the EU in line with Regulation (EC) No. 1606/2002. With the exception of earnings per share, which have been defined in standard IAS 33 (Earnings per Share), the key figures presented in this half-year financial report meet ESMA's criteria for alternative performance measures.

Metsä Board believes that the presentation of alternative performance measures provides users of financial statements with a better understanding of the company's financial performance and standing, including its use of equity, operational profitability and ability to service debt.

Extraordinary and material items not included in ordinary business operations have been eliminated in the comparable operating result. The Group defines the operating result as follows: The financial period's result before income taxes, financial income and expenses, exchange gains/losses and the share of results from

associated companies and joint ventures presented in the IFRS profit and loss account.

The reconciliation of the operating result and the comparable operating result as well as the EBITDA and the comparable EBITDA is presented in this half-year financial report. The comparable return on capital employed has been calculated using the same adjustments as the comparable operating result, and has been further adjusted for financial items affecting comparability when applicable. Metsä Board considers that the key figures derived in this manner improve the comparability of 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 by the same names. Typical items affecting comparability include material gains and losses on disposals of assets, impairment and impairment reversals in accordance with IAS 36 "Impairment of Assets", restructuring costs and their adjustments, as well as items arising from legal proceedings.

Metsä Board considers comparable key figures to better reflect its operational performance, as they eliminate the effect on the result of items and business transactions arising from outside normal business operations.

HALF-YEAR FINANCIAL REPORT

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	Q2 2020	Q2 2019	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
Sales	2, 6	473.1	477.1	945.2	964.2	1,931.8
Change in stocks of finished goods and work in progress		14.2	12.0	-7.5	25.0	3.8
Other operating income	2, 6	8.8	8.5	10.9	28.4	51.7
Material and services	6	-321.2	-350.0	-627.7	-707.0	-1,389.8
Employee costs		-51.0	-51.5	-97.0	-98.6	-194.9
Share of result of associated company	6	1.6	15.6	-2.6	36.2	43.1
Depreciation, amortisation and impairment losses		-26.1	-27.2	-51.7	-54.6	-113.7
Other operating expenses		-32.8	-38.1	-69.4	-75.4	-151.1
Operating result	2	66.5	46.4	100.3	118.3	180.8
Share of results of associated companies and joint ventures		0.0	0.1	-0.1	0.1	0.1
Net exchange gains and losses		0.2	-0.8	-1.8	-1.2	-1.6
Other net financial items	2, 6	-2.8	-3.8	-5.7	-7.4	-13.8
Result before income tax		63.9	41.9	92.7	109.8	165.6
Income taxes	3	-12.1	-5.6	-18.9	-13.9	-21.0
Result for the period		51.7	36.3	73.8	95.9	144.6

EUR million	Note	Q2 2020	Q2 2019	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Actuarial gains/losses on defined pension plans		-1.6	-2.9	0.5	-3.7	-3.5
Financial assets valued at fair value through other comprehensive income	8	-67.9	-26.2	-61.0	-16.7	-14.7
Share of other comprehensive income of associated company		0.3	-0.4	0.3	0.0	0.2
Income tax relating to items that will not be reclassified		13.8	5.8	12.1	4.1	2.8
Total		-55.4	-23.7	-48.0	-16.2	-15.1
Items that may be reclassified to profit or loss						
Cash flow hedges		32.0	1.4	-2.9	-14.0	-10.1
Translation differences		15.0	-6.2	-2.7	-8.9	-3.4
Share of other comprehensive income of associated company		2.6	2.0	-0.6	0.8	1.7
Income tax relating to components of other comprehensive income		-6.4	-0.3	0.7	2.9	2.2
Total		43.1	-3.1	-5.5	-19.1	-9.6
Other comprehensive income, net of tax		-12.3	-26.8	-53.6	-35.4	-24.8
Total comprehensive income for the period		39.4	9.5	20.3	60.5	119.8
Result for the period attributable to						
Shareholders of parent company		51.7	36.3	73.8	95.9	144.6
Non-controlling interests					0.0	0.0
Total comprehensive income for the period attributable to						
Shareholders of parent company		39.4	9.5	20.3	60.5	119.8
Non-controlling interests					0.0	0.0
Total		39.4	9.5	20.3	60.5	119.8
Earnings per share for result attributable to shareholders of parent company (EUR/share)		0.15	0.10	0.21	0.27	0.41

The notes are an integral part of the condensed half-year financial report.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

EUR million	Note	30 Jun 2020	30 Jun 2019	31 Dec 2019
ASSETS				
Non-current assets				
Goodwill		12.4	12.4	12.4
Other intangible assets		7.8	9.1	8.8
Tangible assets	4	759.7	723.2	742.0
Investments in associated companies and joint ventures		367.3	384.9	392.4
Other investments	8	193.9	253.2	255.1
Other non-current financial assets	6, 8	14.5	21.3	16.6
Deferred tax receivables	2	7.6	4.1	6.7
		1,363.2	1,408.2	1,434.0
Current assets				
Inventories		363.7	400.9	379.5
Accounts receivables and other receivables	6, 8	319.6	338.1	322.8
Cash and cash equivalents	6, 8	153.2	83.1	134.2
		836.5	822.2	836.4
Total assets		2,199.7	2,230.4	2,270.4
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Equity attributable to shareholders of parent company		1,270.4	1,279.3	1,338.0
Total equity		1,270.4	1,279.3	1,338.0
Non-current liabilities				
Deferred tax liabilities		92.4	102.4	105.6
Post-employment benefit obligations	2	13.3	14.0	13.8
Provisions	5	4.2	6.4	4.2
Borrowings	8	445.2	274.0	412.9
Other liabilities	8	5.8	5.7	4.9
		560.9	402.5	541.5
Current liabilities				
Provisions	5	0.6	2.4	1.6
Current borrowings	6, 8	16.3	192.3	32.0
Accounts payable and other liabilities	6, 8	351.5	354.0	357.4
		368.4	548.7	391.0
Total liabilities		929.3	951.1	932.4
Total shareholders' equity and liabilities		2,199.7	2,230.4	2,270.4

The notes are an integral part of the condensed half-year financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR million	Note	Share capital	Translation differences	Fair value and other reserves	Reserve for invested un-restricted equity	Retained earnings	Total	Non-controlling interests	Equity Total
Shareholders' equity, 1 January 2019		557.9	-26.4	194.0	383.1	214.4	1,322.9	0.0	1,322.9
Comprehensive income for the period									
Result for the period						95.9	95.9	0.0	95.9
Other comprehensive income net of tax total			-8.1	-24.3		-2.9	-35.4		-35.4
Comprehensive income total			-8.1	-24.3		93.0	60.5	0.0	60.5
Share based payments						-1.1	-1.1		-1.1
Related party transactions									
Dividend and capital distribution					-67.5	-35.6	-103.1		-103.1
Shareholders' equity, 30 June 2019		557.9	-34.5	169.6	315.5	270.7	1,279.3		1,279.3

EUR million	Note	Share capital	Translation differences	Fair value and other reserves	Reserve for invested un-restricted equity	Retained earnings	Total	Non-controlling interests	Equity Total
Shareholders' equity, 1 January 2020		557.9	-29.1	175.5	315.5	318.2	1,338.0		1,338.0
Comprehensive income for the period									
Result for the period						73.8	73.8		73.8
Other comprehensive income net of tax total			-3.7	-50.3		0.4	-53.6		-53.6
Comprehensive income total			-3.7	-50.3		74.2	20.3		20.3
Share based payments						-2.6	-2.6		-2.6
Related party transactions									
Dividend and capital distribution					-49.8	-35.6	-85.3		-85.3
Shareholders' equity, 30 June 2020		557.9	-32.8	125.2	265.8	354.3	1,270.4		1,270.4

The notes are an integral part of the condensed half-year financial report.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019	Q2 2020
Result for the period		73.8	95.9	144.6	51.7
Total adjustments	7	73.3	15.8	70.6	31.5
Change in working capital		-5.4	-89.0	-43.0	-3.4
Net financial items	7	18.3	58.6	46.4	-5.3
Income taxes paid		-7.7	-14.1	-18.1	-2.3
Net cash flow from operations		152.3	67.1	200.5	72.3
Investments in intangible and tangible assets		-69.1	-24.1	-94.3	-38.6
Disposals and other items	6, 7	8.0	16.8	28.0	7.1
Net cash flow from investing		-61.1	-7.3	-66.3	-31.5
Changes in non-current loans and in other financial items	6	14.1	16.8	-7.5	15.4
Paid dividend and capital distribution		-85.3	-103.1	-103.1	-85.3
Net cash flow from financing		-71.3	-86.3	-110.6	-69.9
Changes in cash and cash equivalents		19.9	-26.5	23.6	-29.1
Cash and cash equivalents at beginning of period	6	134.2	109.7	109.7	180.0
Translation difference in cash and cash equivalents		-0.9	-0.1	0.9	2.2
Changes in cash and cash equivalents		19.9	-26.5	23.6	-29.1
Cash and cash equivalents at end of period	6	153.2	83.1	134.2	153.2

The notes are an integral part of the condensed half-year financial report.

NOTES TO THE UNAUDITED HALF-YEAR FINANCIAL REPORT**NOTE 1 – BACKGROUND AND BASIS OF PREPARATION**

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

This unaudited half-year financial report has been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the unaudited 2019 IFRS financial statements. The effects of foreign exchange changes on review period operating result vis-à-vis comparison period result 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 unaudited 2019 IFRS financial statements with the following exception:

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

The amendments to the standards that came into force at the beginning of 2020 will not have a material effect on the Group's half-year financial report.

The impact of the coronavirus on Metsä Board's business is described in more detail in the explanatory part of this half-year financial report.

All amounts in the half-year financial report are presented in millions of euros, unless otherwise stated.

This half-year financial report was authorised for issue by the Board of Directors of Metsä Board on 29 July 2020.

NOTE 2 – SEGMENT INFORMATION

The Corporate Management Team is the chief operational decision-maker monitoring business operations performance based on the operating segments. Metsä

Board's business operations consist solely of folding boxboard, fresh fibre linerboard and market pulp businesses. Metsä Board reports on its financial performance in one reporting segment.

GEOGRAPHICAL DISTRIBUTION OF SALES

EUR million	Q2 2020	Q2 2019	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
EMEA	325.1	338.7	647.0	688.0	1,369.1
Americas	107.2	96.4	218.7	200.3	403.5
APAC	40.9	42.0	79.5	76.0	159.3
Total	473.1	477.1	945.2	964.2	1,931.8

RECONCILIATION OF OPERATING RESULT AND EBITDA

EUR million	Q2 2020	Q2 2019	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
Operating result	66.5	46.4	100.3	118.3	180.8
Depreciation, amortisation and impairment losses	26.1	27.2	51.7	54.6	113.7
EBITDA	92.6	73.6	151.9	172.9	294.5
Items affecting comparability:					
Gains and losses on disposal in other operating income and expenses	-6.0	-5.5	-6.0	-17.7	-17.8
Share of results of associated companies				2.2	2.2
Total	-6.0	-5.5	-6.0	-15.5	-15.5
EBITDA, comparable	86.6	68.1	145.9	157.5	279.0
Depreciation, amortisation and impairment losses	-26.1	-27.2	-51.7	-54.6	-113.7
Items affecting comparability:					
Impairment charges and reversals of impairments					19.1
Operating result, comparable	60.5	41.0	94.2	102.8	184.4

"+" sign items = expense affecting comparability

"-" sign items = income affecting comparability

Items affecting comparability in the review period totaled EUR 6.0 million and comprised disposal gains from sold non-business related land area.

Items affecting comparability in the comparison period totaled EUR 15.5 million and comprised disposal gains from shares in Liaison Technologies Inc. reported under other investments (EUR 3.3 million), Äänevoima Oy shares sold to Metsä Fibre (net effect on operating result EUR 6.8 million) as well as disposal gains from sold non-business related land area (EUR 5.5 million).

Items affecting comparability in 2019 totaled EUR -3.6 million and comprised disposal gains from shares in Liaison Technologies Inc. reported under other investments (EUR 3.3 million), Äänevoima Oy shares sold to Metsä Fibre (net effect on operating result EUR 6.8 million), disposal gains from sold non-business related land area (EUR 5.5 million) as well as the EUR -19.1 million impairment recognised in the assets of the Husum pulp mill.

NOTE 3 – INCOME TAXES

EUR million	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
Taxes for the current period	19.5	7.1	16.9
Taxes for the prior periods	-0.1	0.0	0.1
Change in deferred taxes	-0.6	6.8	4.1
Total income taxes	18.9	13.9	21.0

NOTE 4 – CHANGES IN PROPERTY, PLANT AND EQUIPMENT

EUR million	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
Carrying value at beginning of period	742.0	753.2	753.2
IFRS 16 implementation		16.9	16.9
Investments to owned property, plant and equipment	70.0	23.6	93.4
Investments to leased property, plant and equipment	3.1	0.2	4.1
Decreases	-2.8	-7.0	-7.1
Depreciation, amortization and impairment losses	-50.6	-53.4	-111.2
Translation difference	-1.9	-10.2	-7.3
Carrying value at end of the period	759.7	723.2	742.0

There were no impairment losses recognised in the review period.

In late 2019 Metsä Board started to invest in modernisation of the Husum pulp mill where the company plans to replace the recovery boiler and turbine. When the in-

vestment is completed, some of the pulp mill's old machinery and equipment will be taken out of service. The company recognised a EUR 19.1 million impairment in the old assets of the Husum pulp mill to the 2019 financial statements.

NOTE 5 – PROVISIONS

EUR million	Restructuring	Environmental obligations	Other provisions	Total
1 January 2020	1.2	3.5	1.2	5.8
Translation differences	0.0		0.0	0.0
Increases				
Utilised during the year	-1.0		-0.1	-1.0
Unused amounts reversed				
30 June 2020	0.2	3.5	1.1	4.8

The non-current part of provisions was EUR 4.2 million and the current part EUR 0.6 million, total provisions

amount to EUR 4.8 million. Non-current provisions are estimated to be utilised mainly by the end of 2025.

NOTE 6 – RELATED PARTY TRANSACTIONS

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

Metsä Board enters into a significant number of transactions with related parties for the purchases of inventories, sale of goods, corporate services as well as financial transactions. Arm's length pricing has been followed in product and service transactions undertaken and interest rates set between Metsä Board and the related parties.

Transactions with parent and sister companies

EUR million	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
Sales	38.0	52.0	101.1
Other operating income	2.2	12.4	14.2
Purchases	301.6	363.3	682.5
Share of result from associated company	-2.6	36.2	43.1
Interest income	0.0	0.0	0.1
Interest expenses	0.4	1.3	1.9
Accounts receivables and other receivables	28.9	33.3	32.8
Cash and cash equivalents	145.1	75.4	127.1
Accounts payable and other liabilities	59.5	141.9	54.6

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

Metsä Fibre paid a dividend of EUR 21.8 million to Metsä Board in the review period.

In the comparison period Metsä Board recognised a gain of EUR 9.0 million in other operating income on

disposal to Metsä Fibre of shares in Äänevoima Oy and a related adjustment of EUR -2.2 million to share of result from associated company.

Cash and cash equivalents include interest-bearing receivables comparable to cash funds and available from Metsä Group's internal bank Metsä Group Treasury Oy.

Transactions with associated companies and joint ventures

EUR million	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019
Sales	0.3	0.3	0.5
Purchases	0.7	2.9	5.3
Other non-current financial assets			
Accounts receivables and other receivables	0.0	0.0	0.4
Accounts payable and other liabilities	0.6	1.1	0.6

NOTE 7 – NOTES TO CONSOLIDATED CASH FLOW STATEMENT

ADJUSTMENTS TO THE RESULT FOR THE PERIOD

EUR million	Q1-Q2 2020	Q1-Q2 2019	Q1-Q4 2019	Q2 2020
Taxes	18.9	13.9	21.0	12.1
Depreciation, amortization and impairment charges	51.7	54.6	113.7	26.1
Share of result from associated companies and joint ventures	2.7	-36.3	-43.2	-1.6
Gains and losses on sale of fixed assets	-7.2	-22.2	-33.3	-6.9
Finance costs, net	7.5	8.6	15.5	2.6
Pension liabilities and provisions	-0.7	-2.6	-3.5	-1.2
Other adjustments	0.5	-0.2	0.5	0.4
Total	73.3	15.8	70.6	31.5

Net financial items

Net financial items in consolidated cash flow statement for the review period include a dividend of EUR 21.8 million paid by Metsä Fibre (1–12/2019: EUR 63.3 million).

Disposals and other items

Disposals and other items reported for the review period were EUR 8.0 million in total. They consisted of sales proceeds of EUR 7.1 million from sale of non-business related land area as well as other sale proceeds amounting to EUR 0.9 million.

Disposals and other items reported for the comparison period were EUR 16.8 million in total. They consisted of sales proceeds of EUR 5.6 million from sale of non-business related land area, EUR 3.3 million from sale of

Liaison Technologies Inc. shares reported as other investments, proceeds amounting to EUR 3.0 million from emission right sales, cash flow effect of EUR 4.5 million from divestment of Äänevoima Oy shares as well as other sale proceeds amounting to EUR 0.2 million.

In 2019 disposals and other items reported for the review period were EUR 27.9 million in total. They consisted of proceeds amounting to EUR 14.1 million from emission right sales, sales proceeds of EUR 5.6 million from sale of non-business related land area, cash flow effect of EUR 4.2 million from divestment of Äänevoima Oy shares, EUR 3.3 million from sale of Liaison Technologies Inc. shares reported as other investments as well as other sale proceeds amounting to EUR 0.7 million.

NOTE 8 – FINANCIAL INSTRUMENTS

Financial assets and liabilities and their fair values classified according to IFRS 9 at 30 June 2020:

Financial assets 30 June 2020

EUR million	Fair value through profit and loss	Fair value through other comprehen- sive income	Amortised cost	Total carrying amount
Other non-current investments	3.5	190.5		194.0
Other non-current financial assets			14.1	14.1
Accounts receivables and other receivables			305.2	305.2
Cash and cash equivalent	0.0		153.2	153.2
Derivative financial instruments	0.2	14.5		14.7
Total carrying amount	3.7	204.9	472.5	681.1
Total fair value	3.7	204.9	472.5	681.1

Financial liabilities 30 June 2020

EUR million	Fair value through profit and loss	Fair value through other comprehen- sive income	Amortised cost	Total carrying amount
Non-current interest-bearing financial liabilities			445.2	445.2
Other non-current financial liabilities			0.3	0.3
Current interest-bearing financial liabilities			16.3	16.3
Accounts payable and other financial liabilities			298.6	298.6
Derivative financial instruments	0.4	9.8		10.2
Total carrying amount	0.4	9.8	760.3	770.6
Total fair value	0.4	9.8	776.1	786.3

Financial assets and liabilities and their fair values classified according to IFRS 9 at 30 June 2019:

Financial assets 30 June 2019

EUR million	Fair value through profit and loss	Fair value through other comprehen- sive income	Amortised cost	Total carrying amount
Other non-current investments	3.7	249.5		253.2
Other non-current financial assets			16.6	16.6
Accounts receivables and other receivables			327.6	327.6
Cash and cash equivalent			83.1	83.1
Derivative financial instruments		10.4		10.4
Total carrying amount	3.7	259.8	427.3	690.9
Total fair value	3.7	259.8	427.3	690.9

Financial liabilities 30 June 2019

EUR million	Fair value through profit and loss	Fair value through other comprehen- sive income	Amortised cost	Total carrying amount
Non-current interest-bearing financial liabilities			274.0	274.0
Other non-current financial liabilities			0.2	0.2
Current interest-bearing financial liabilities			192.3	192.3
Accounts payable and other financial liabilities			324.7	324.7
Derivative financial instruments	1.0	5.6		6.6
Total carrying amount	1.0	5.6	791.2	797.8
Total fair value	1.0	5.6	804.8	811.4

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

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

In Metsä Board, all interest-bearing liabilities are valued in the balance sheet at amortised cost based on effective interest method.

Fair values in the table are based on present value of cash flow of each liability or assets calculated by market rate. The discount rates applied are between 0.3–2.2 per cent (30 June 2019: 0.1–2.2). The fair values of accounts and other receivables and accounts payable and other liabilities do not materially deviate from their carrying amounts in the balance sheet.

Fair value hierarchy of financial assets and liabilities as of 30 June 2020

EUR million	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Other non-current investments	0.0		193.9	193.9
Derivative financial assets	1.4	13.3		14.7
Financial liabilities measured at fair value				
Derivative financial liabilities	3.2	7.0		10.2
Financial assets not measured at fair value				
Cash and cash equivalent		153.1		153.1
Financial liabilities not measured at fair value				
Non-current interest-bearing financial liabilities		460.9		460.9
Current interest-bearing financial liabilities		16.4		16.4

Fair value hierarchy of financial assets and liabilities as of 30 June 2019

EUR million	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Other non-current investments	0.0		253.2	253.2
Derivative financial assets	10.4			10.4
Financial liabilities measured at fair value				
Derivative financial liabilities	0.4	6.1		6.6
Financial assets not measured at fair value				
Cash and cash equivalent		83.1		83.1
Financial liabilities not measured at fair value				
Non-current interest-bearing financial liabilities		286.9		286.9
Current interest-bearing financial liabilities		193.0		193.0

Other non-current investments at fair value based on Level 3

	Q1-Q2	Q1-Q2	Q1-Q4
EUR million	2020	2019	2019
Carrying value at beginning of period	255.1	270.1	270.1
Total gains and losses in profit or loss	-0.1	3.2	3.2
Total gains and losses in other comprehensive income	-61.0	-16.7	-14.7
Purchases		0.0	0.0
Disposals	-0.1	-3.5	-3.5
Carrying value at end of the period	193.9	253.2	255.1

Financial assets and liabilities measured at fair value 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 determined by using valuation techniques that use observable price information from market.

Level 3

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

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

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

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

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

The most significant asset at fair value not traded on an active market is the investment in Pohjolan Voima Oyj shares classified as a financial asset at fair value through other comprehensive income. The valuation technique applied to Pohjolan Voima shares is described in more detail in the 2019 Annual report. The WACC used in Pohjolan Voima share valuation on 30 June 2020 was 3.01 per cent (31 December 2019: 1.37) and 4.01 percent (2.37) for the Olkiluoto 3 under construction. The acquisition cost of shares in Pohjolan Voima Oyj on 30 June 2020 is EUR 38.0 million (38.0) and fair value EUR 190.5 million (251.4). The change in the fair value of Pohjolan Voima Oyj's shares (EUR - 67.9 million) in the second quarter was larger than usual. This was mainly due to changes in the valuation model. Metsä Board discontinued the use of previous benchmark transactions in Pohjolan Voima Oyj's shares as a valuation basis and increased the discount rates used in the valuation model based on projected cash flows to reflect prevailing circumstances.

The carrying value of other investments as of 30 June 2020 is estimated to change by EUR -8.6 million and EUR 9.3 million should the rate used for discounting the cash flows change by 0.5 percentage points from the rate estimated by management. The carrying value of other investments is estimated to change by EUR 74.0 million should the energy prices used in calculating the fair value differ by 10 percent from the prices estimated by management.

Derivatives 30 June 2020

EUR million	Nominal value	Fair value			Fair value	
		Derivative Assets	Liab.	Fair value Net	Fair value through profit and loss	Fair value through other comprehensive income
Interest rate swaps	100.0		3.6	-3.6		-3.6
Interest rate derivatives	100.0		3.6	-3.6		-3.6
Currency forward contracts	864.8	13.2	1.8	11.4	-0.2	11.6
Currency option contracts	215.6	0.1	0.1			
Currency derivatives	1,080.5	13.3	1.8	11.4	-0.2	11.6
Electricity derivatives	14.7	0.7	1.8	-1.2		-1.2
Oil derivatives	15.3	0.7	0.9	-0.2		-0.2
Other commodity derivatives	8.8	0.0	2.1	-2.0		-2.0
Commodity derivatives	38.8	1.4	4.8	-3.4		-3.4
Derivatives total	1,219.2	14.7	10.2	4.5	-0.2	4.7

Derivatives 30 June 2019

EUR million	Nominal value	Fair value			Fair value	
		Derivative Assets	Liab.	Fair value Net	Fair value through profit and loss	Fair value through other comprehensive income Assets
Interest rate swaps	100.0		3.8	-3.8	-1.4	-2.4
Interest rate derivatives	100.0		3.8	-3.8	-1.4	-2.4
Currency forward contracts	990.1		2.5	-2.5	0.4	-2.9
Currency option contracts	474.5		-0.2	0.2		0.2
Currency derivatives	1,464.7		2.3	-2.3	0.4	-2.6
Electricity derivatives	22.5	10.1	0.0	10.1		10.1
Oil derivatives	10.5	0.3	0.2	0.1		0.1
Other commodity derivatives	2.9		0.3	-0.3		-0.3
Commodity derivatives	36.0	10.4	0.5	9.9		9.9
Derivatives total	1,600.6	10.4	6.6	3.8	-1.0	4.8

NOTE 9 – COMMITMENTS AND GUARANTEES

EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
Liabilities secured by collateral	7.8	40.4	24.1
Pledges granted	129.9	136.0	138.7
Real estate mortgages	232.8	232.8	232.8
Total pledges and mortgages	362.6	368.8	371.5
Guarantees and counter-indemnities	2.8	14.0	9.1
Commitments on behalf of associated companies and joint ventures	0.1		0.1
Off-balance sheet rent and leasing commitments	1.6	1.7	1.6
Total	367.1	384.5	382.1

Securities and guarantees include pledges, real estate mortgages and guarantee liabilities.

OPEN DERIVATIVE CONTRACTS

EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
Interest rate derivatives	100.0	100.0	100.0
Currency derivatives	1,080.5	1,464.7	1,440.2
Other derivatives	38.8	36.0	33.2
Total	1,219.2	1,600.6	1,573.4

COMMITMENTS RELATED TO PROPERTY, PLANT AND EQUIPMENT

EUR million	30 Jun 2020	30 Jun 2019	31 Dec 2019
Payments due in following 12 months	39.8	0.0	60.2
Payments due later			
Total	39.8	0.0	60.2

Investment commitments relate to the first phase of the modernisation of the Husum pulp mill.