

# UPM Q3 RESULTS 2011

Jussi Pesonen  
President and CEO  
26 October, 2011



## Q3 2011 highlights

- Myllykoski acquisition was completed – integration proceeds well
- A major restructuring plan was announced
- Q3 2011 EBITDA was EUR 331m (384m)
  - Pulp and fine paper deliveries were lower than expected
  - Stable demand continued in publication papers
  - Variable costs reached the peak in Q3
- Cash flow continued strong – operating cash flow EUR 285m (328m)
- Net debt only EUR 205m higher than last year, even after Myllykoski acquisition

## FINANCIALS

### Q3 2011 – lower delivery volumes and the peak in variable costs

#### Q3/2011 vs. Q3/2010

Sales

EUR 2,603 m  +13%

EBITDA

EUR 331 m  -14%

Operating profit (\*)

EUR 136 m  -33%

EPS (\*)

EUR 0.19  -32%

#### 9M/2011 vs. 9M/ 2010

EBITDA

EUR 1,082 m  +57 m

Operating cash flow

EUR 731 m  +92 m

Net debt

EUR 3,758 m  +205 m

Gearing

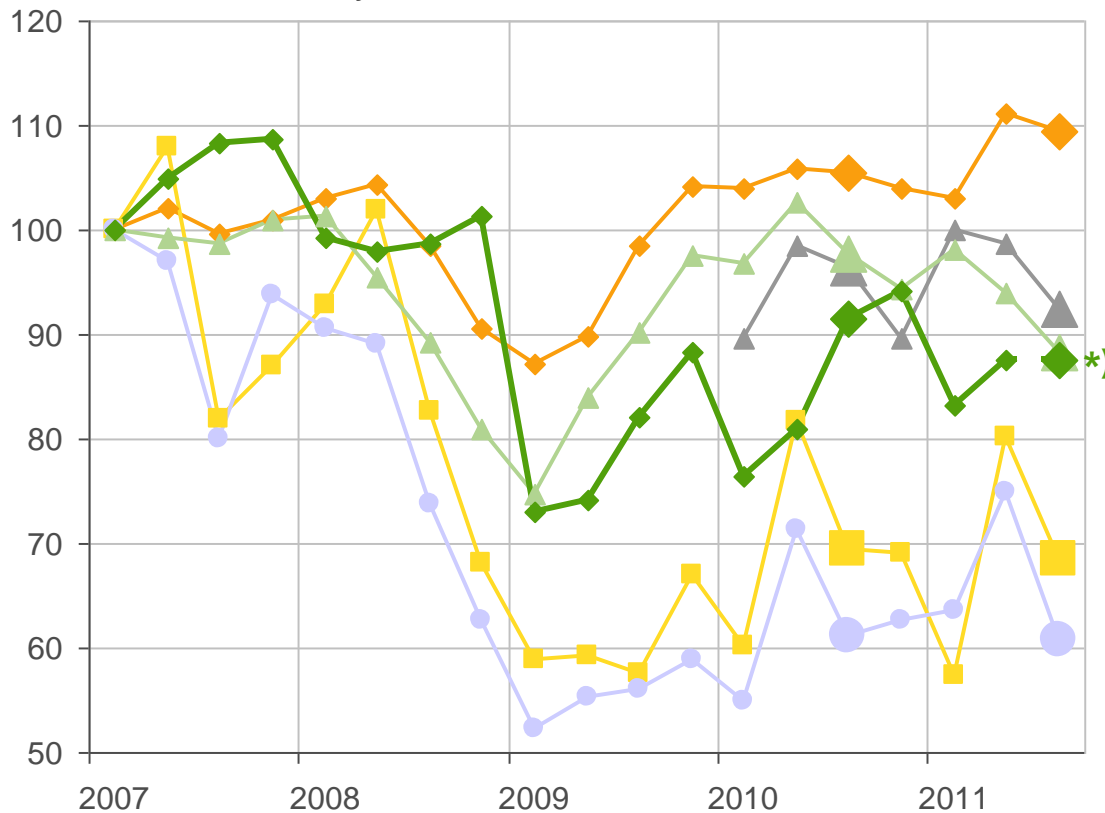
52%  +1 pp

\*) excluding special items

# Q3 2011 deliveries decreased in most businesses from last year – prices increased in publication papers, Label and Plywood



Delivery volumes, indexed Q107 = 100



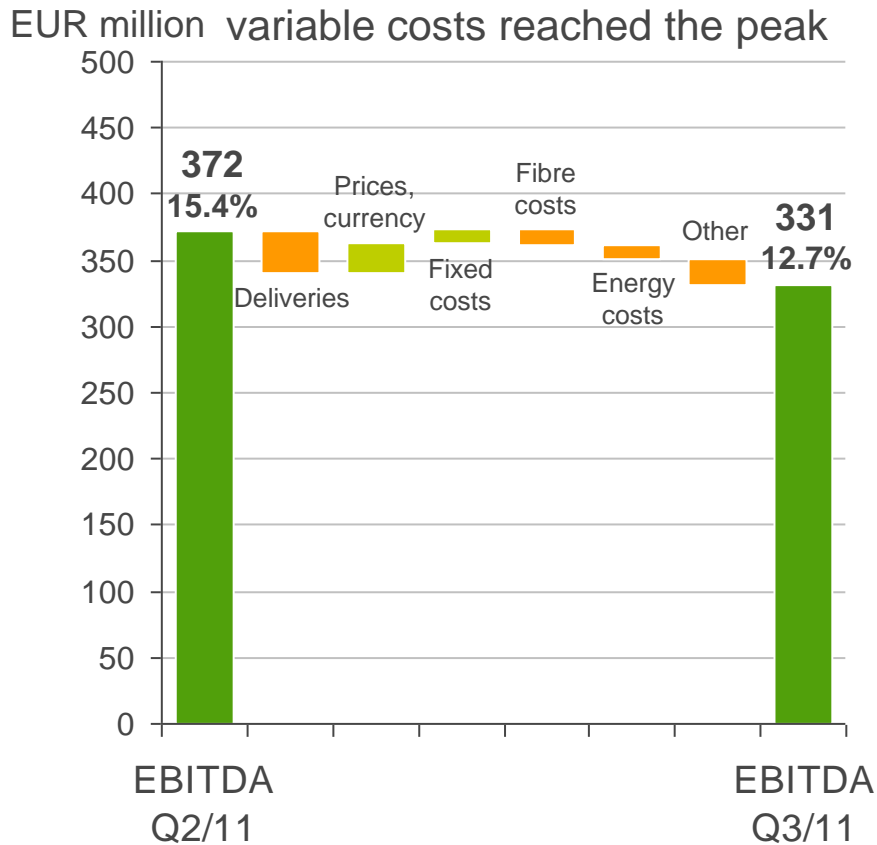
Change in deliveries, %	Q311/ Q310	Q311/ Q210
Label	4	-2
Pulp	-4	-6
Publication papers (*)	-5	0
Fine and speciality papers	-10	-6
Timber	-1	-15
Plywood	-1	-19

\*) publication paper development in Q3 vs. Q2 pro forma, including Myllykoski

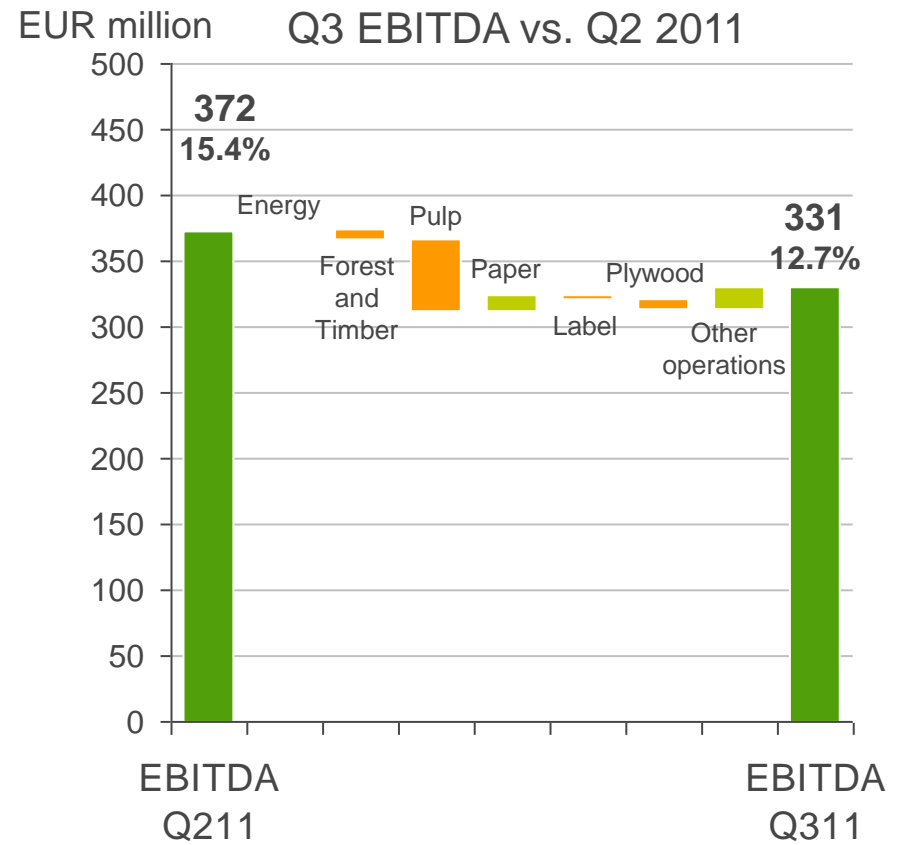
# FINANCIALS

## EBITDA decreased 11% in Q3 2011 from Q2 2011

Prices increased and deliveries decreased in Q3 vs. Q2 2011, variable costs reached the peak

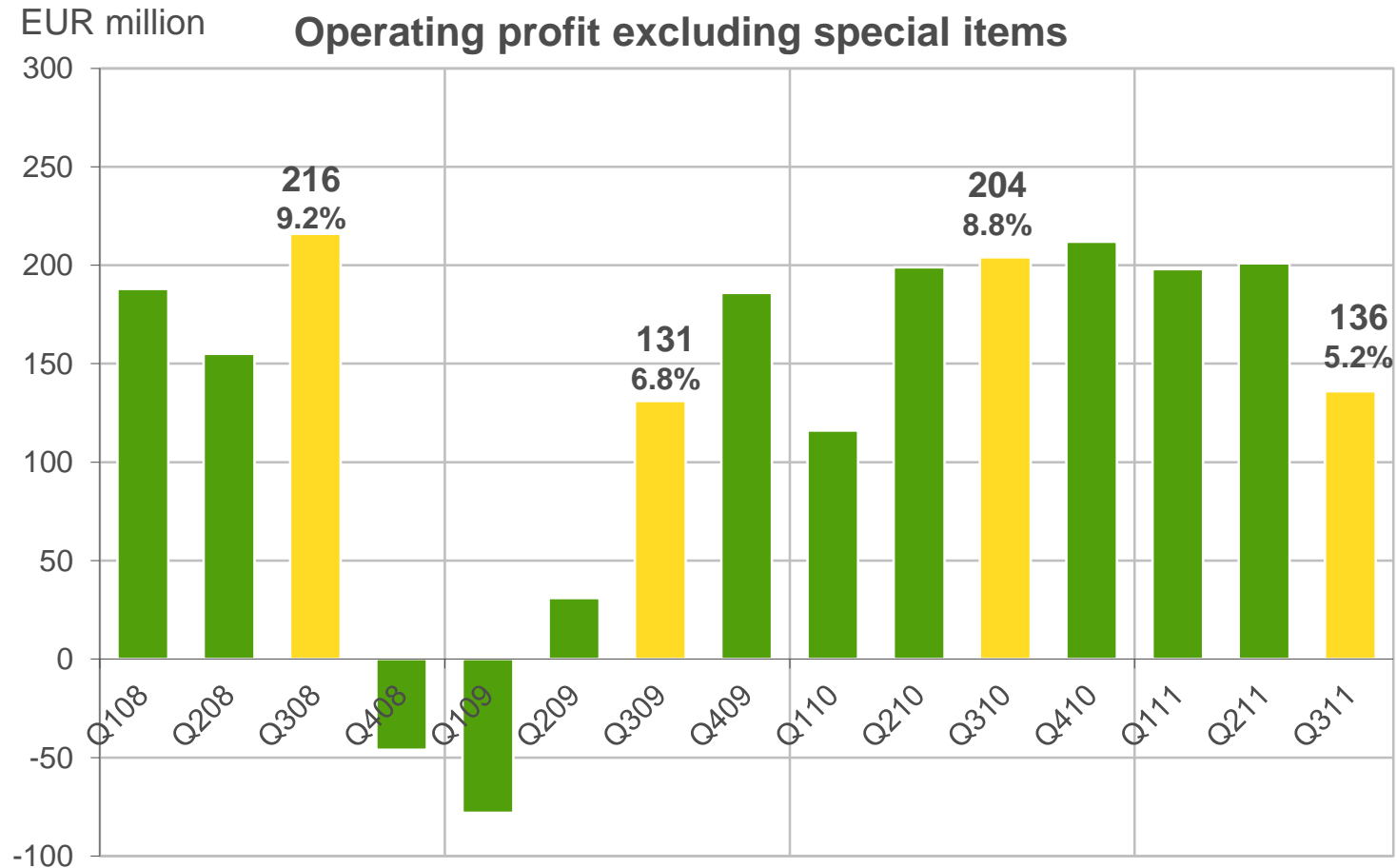


Lower pulp deliveries and fine paper deliveries in Europe affected Q3 EBITDA vs. Q2 2011



## FINANCIALS

# Operating profit was impacted by lower volumes and high costs

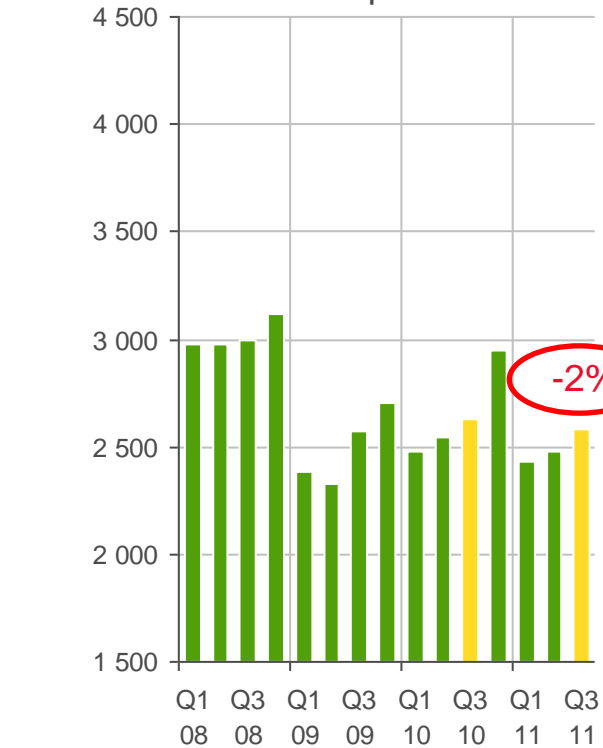


PAPER

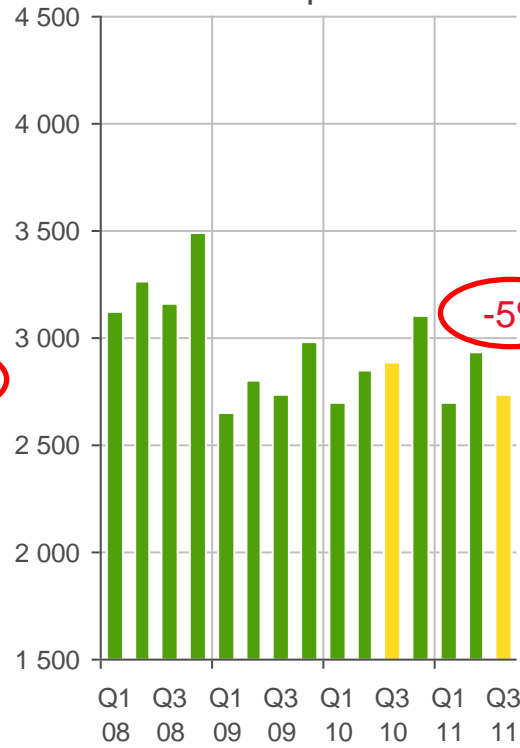
# Graphic papers demand in Europe decreased by 4% in Q3 2011 from last year



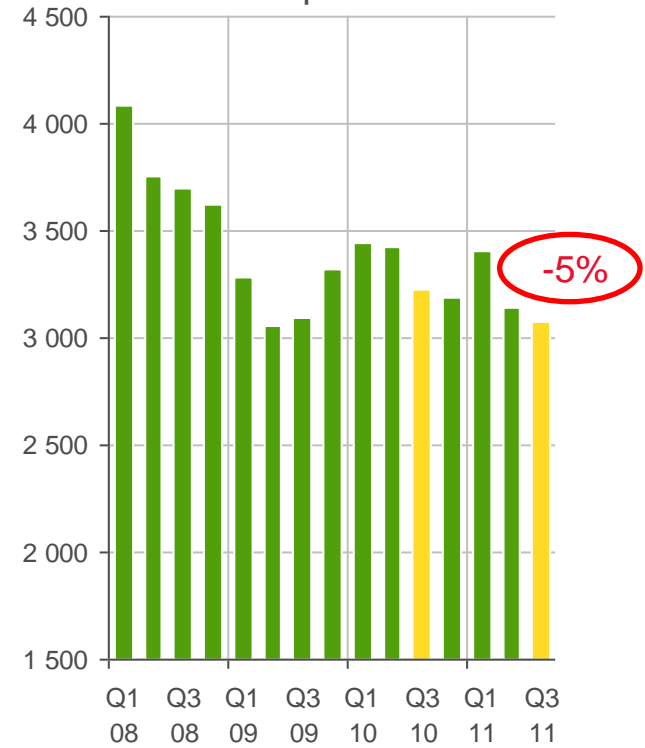
Magazine paper demand in Europe -2% YTD



Newsprint demand in Europe -1% YTD



Fine paper demand in Europe -5% YTD

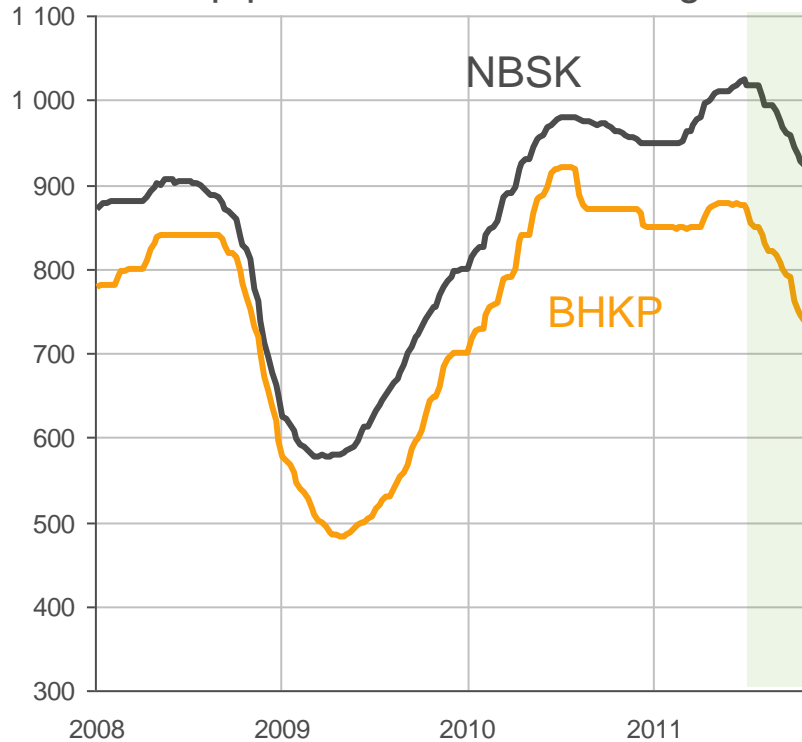


Source: Cepiprint/fine, PPPC

# PULP

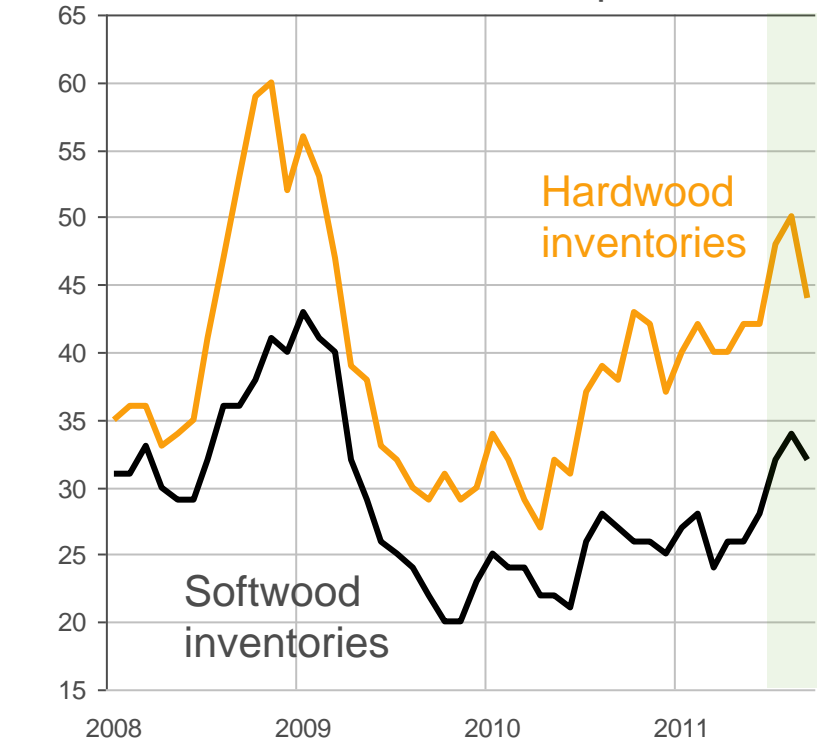
## Chemical pulp market turned weaker in Q3

USD/tonne Pulp prices decreased during Q3



Source: FOEX Indexes Ltd.

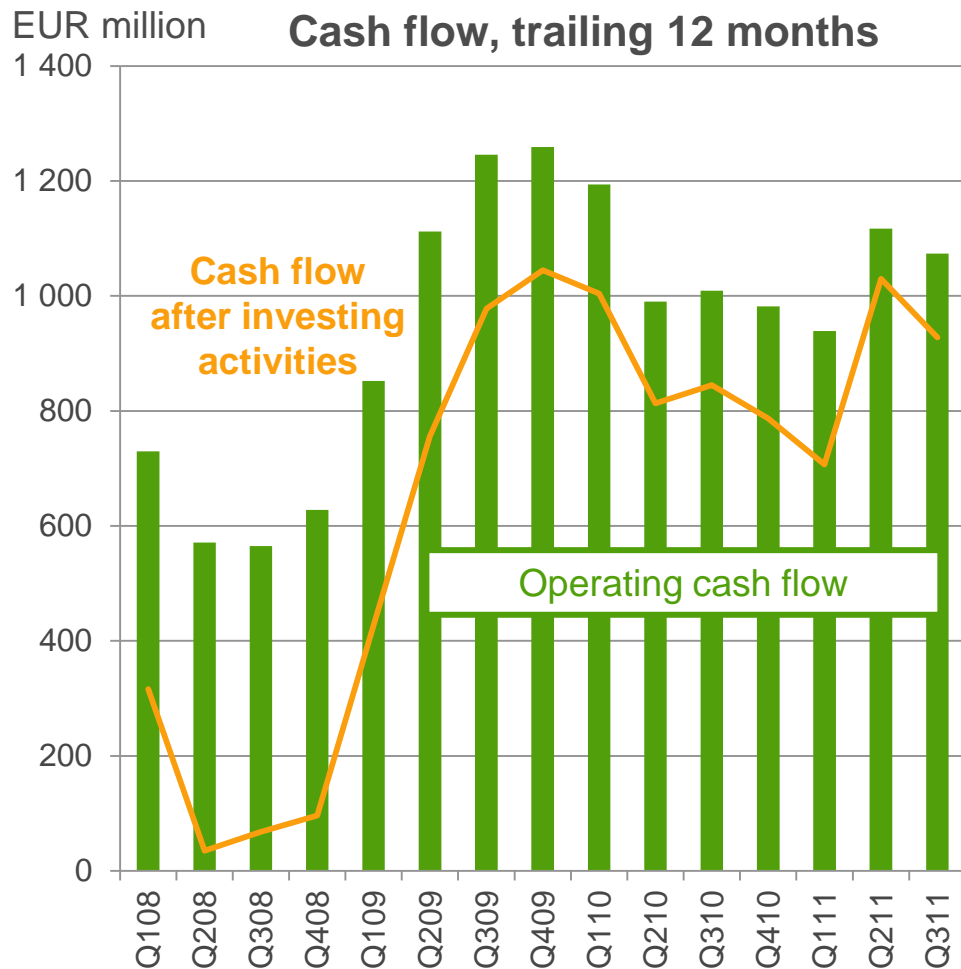
World chemical market pulp producer inventories high in Q3 but decreased in September



Source: PPPC / Total Shipments World-20



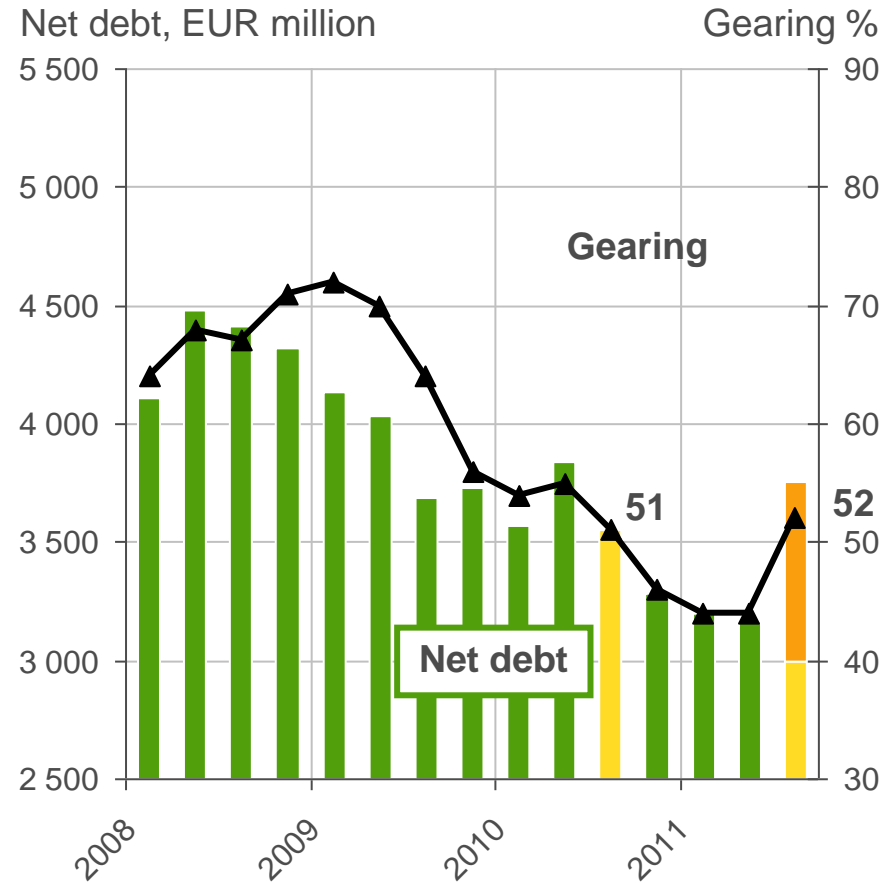
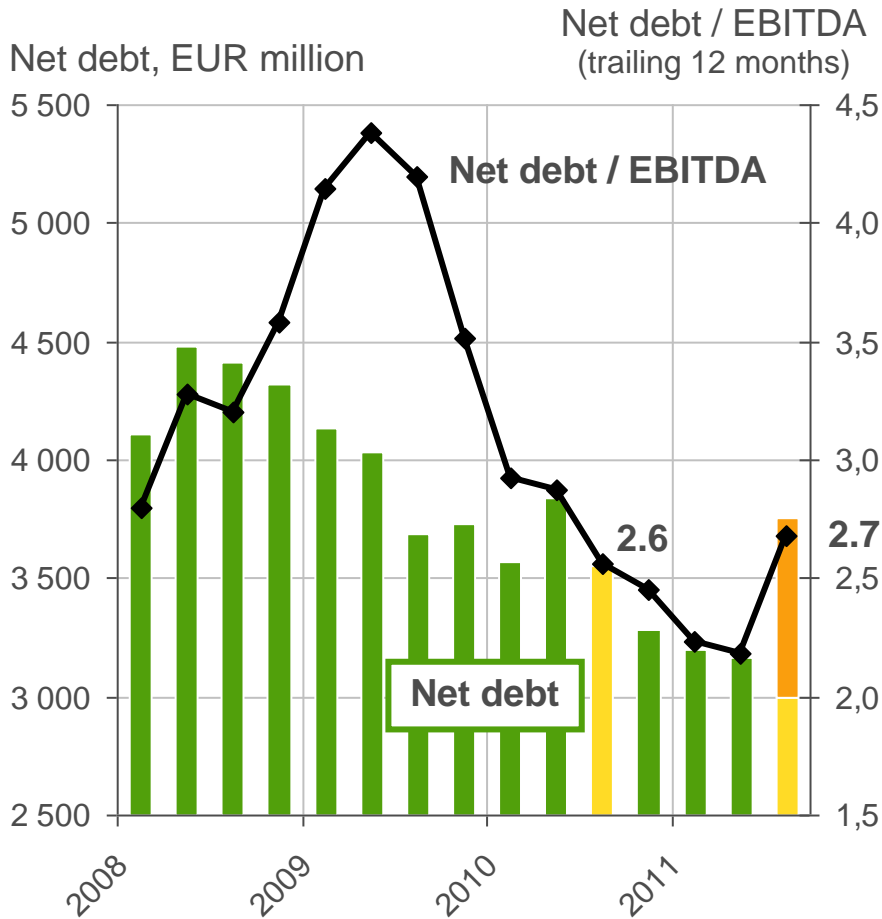
# Strong cash flow continued



- Q3 2011 operating cash flow was EUR 285m (328m)
- Cash flow after investing activities was EUR 928m in the past 12 months
- Fast digestion of the additional debt from the Myllykoski transaction
- Room for strategic actions
- Cash flow-based dividend

## FINANCIALS

# Strong balance sheet – net debt increased only by EUR 205m from last year



## Earnings guidance for 2011 (\*)

- 2011 operating profit excluding special items is expected to be somewhat lower than last year (2010 was EUR 731m)
- Economic outlook has turned weaker during the second half and demand for UPM's products is lower than earlier anticipated
- Variable costs are expected to start gradually decreasing
- Prices are mostly stable for the rest of the year from Q3:
  - Higher in Energy and Label
  - Stable in publication papers and plywood
  - Lower in fine and speciality papers on average, chemical pulp and sawn timber



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UPM IS IN  
STRONG POSITION

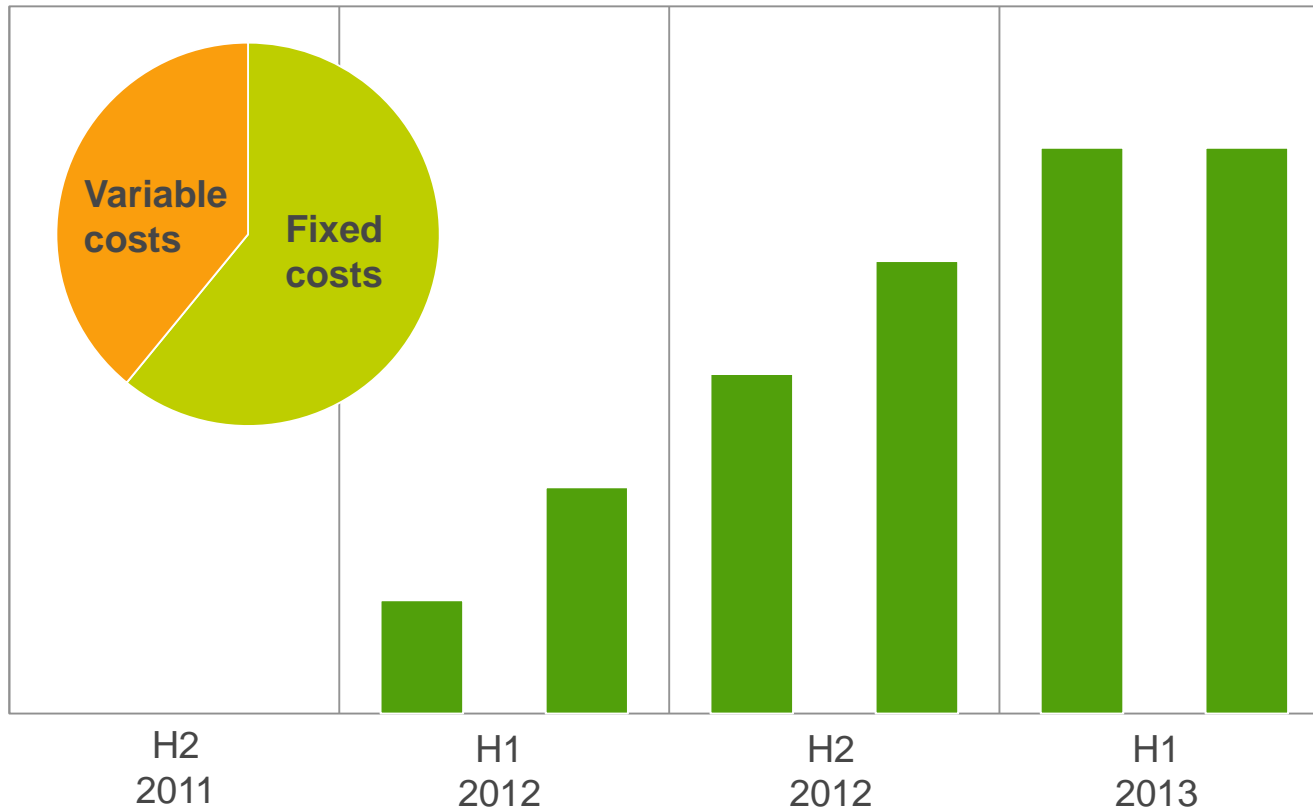


## UPM is in a strong position for any economic scenario

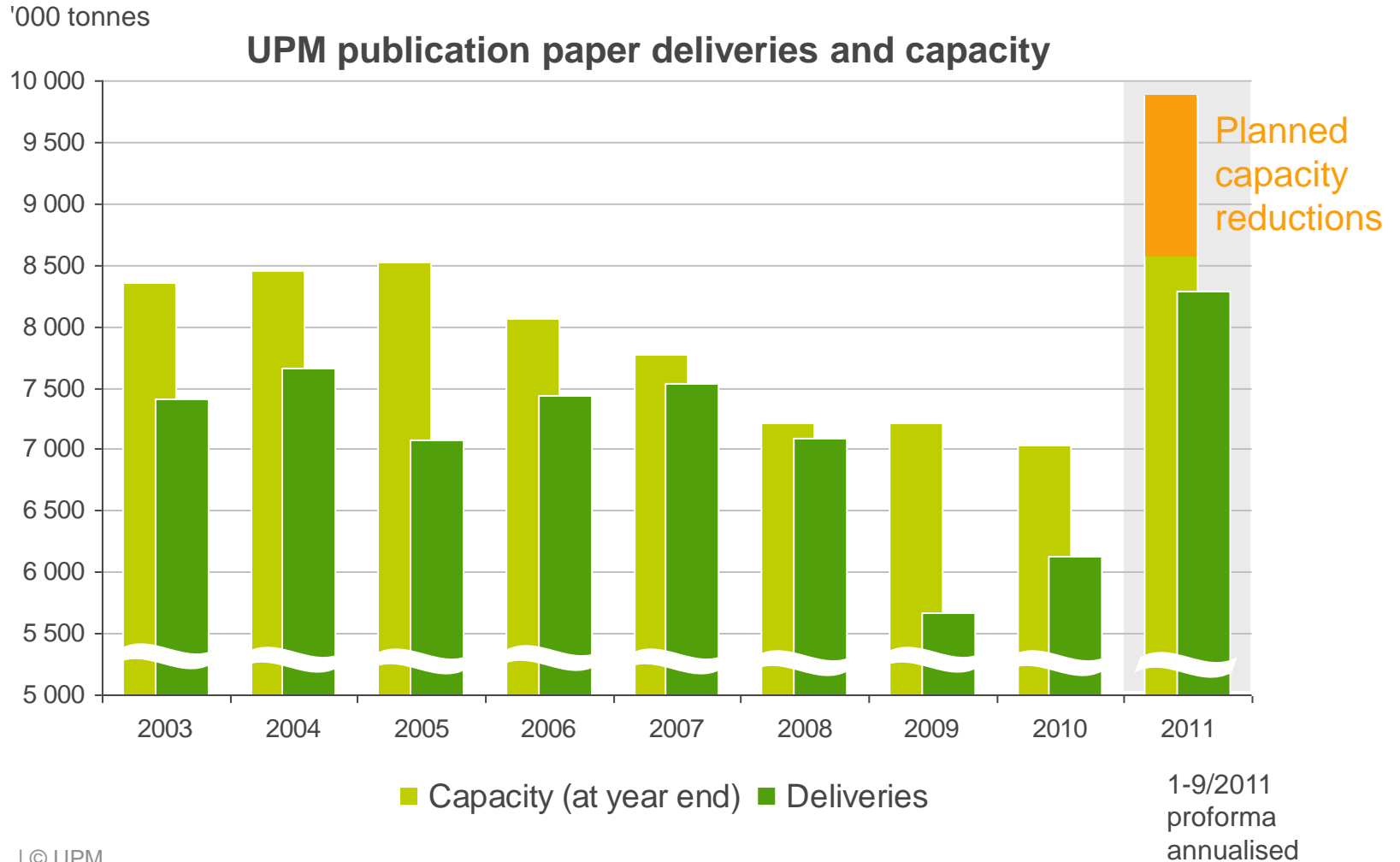
- UPM's has strengthened its position compared to 2008
  - Uruguay acquisition in 2009 – competitiveness and cash flow
  - Myllykoski acquisition in 2011 – competitiveness and cash flow
  - Stronger balance sheet – EUR 651m (15%) lower net debt than in Q3 2008, even after acquisitions
- Plans for further improvement in place
  - plan to reduce 1,3 million tonnes of paper capacity
  - expected cost synergies of EUR 200 million in Paper
  - ability to adopt flexible operations in production, if needed
- Strict cost control and investment policy continues

# Myllykoski acquisition annual cost synergies estimated to total EUR 200 million

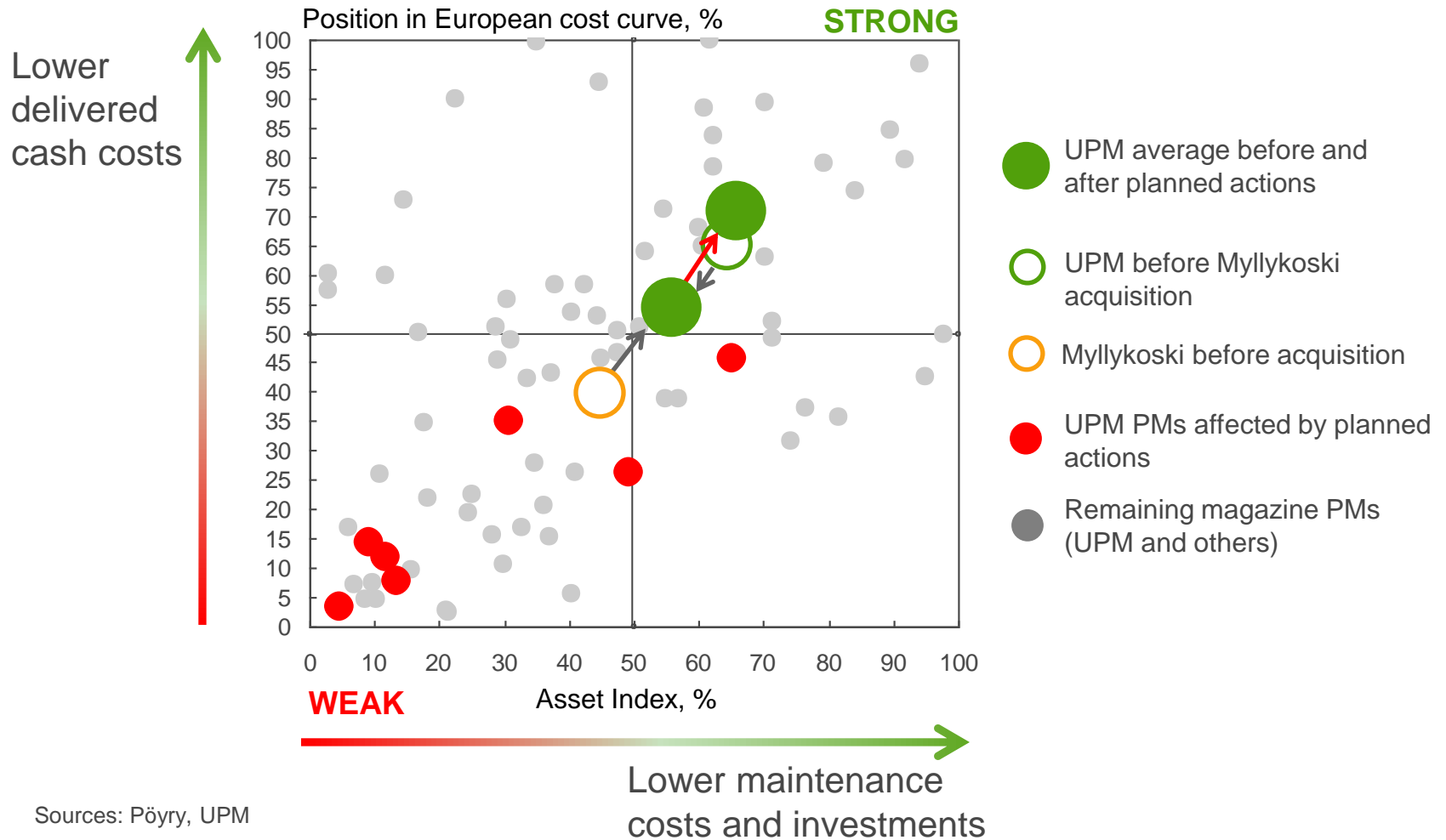
## Estimated timing and sources of planned EUR 200m cost synergies



# Planned capacity reductions would enable more efficient use of UPM's capacity



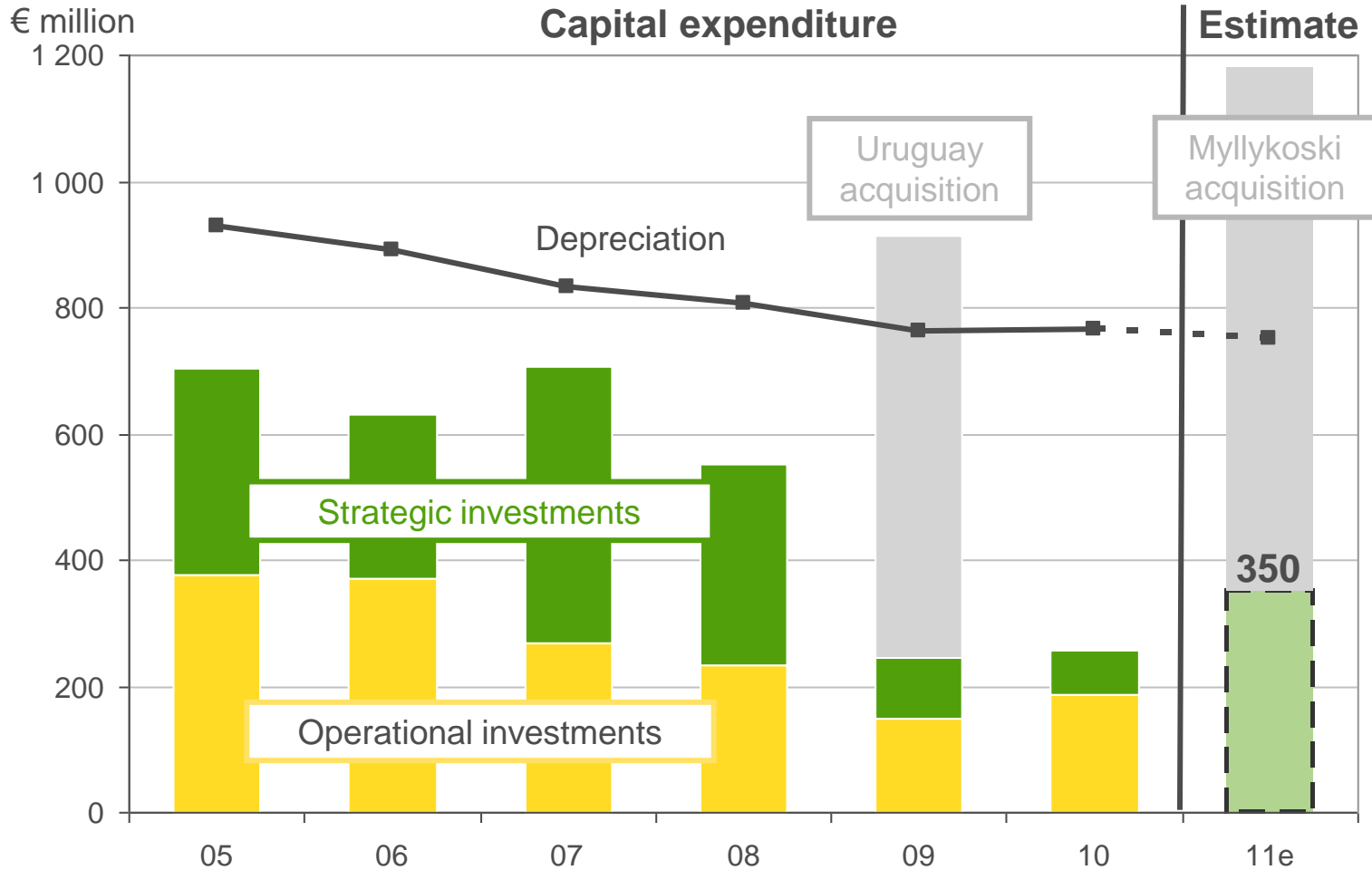
# Planned actions would strengthen UPM's competitiveness in European magazine paper



Sources: Pöyry, UPM



# Low needs for major investments to maintain existing assets





## Summary

- Q3 2011 results were impacted by coinciding peak of variable costs and decrease in delivery volumes
- Myllykoski integration is proceeding well and the magazine paper business shows solid performance
- Economic outlook has weakened during the second half of the year
- UPM's consistently strong cash flow over the cycle has enabled strategic acquisitions and strengthening of the balance sheet
- UPM is in strong position for any economic scenario and plans for next steps are in place

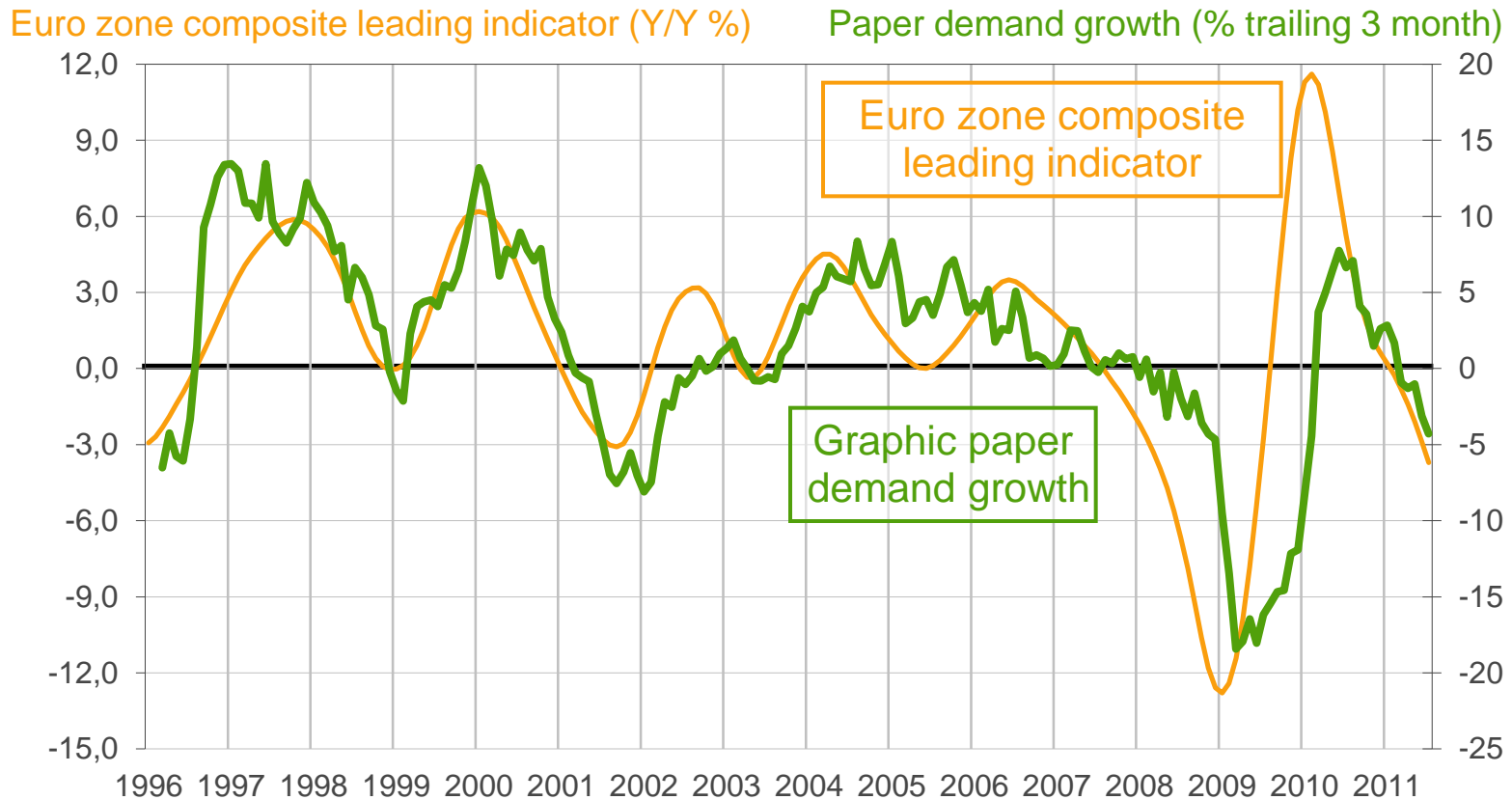


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## BUSINESS DRIVERS

# Economic outlook has turned weaker and is affecting demand for UPM's products

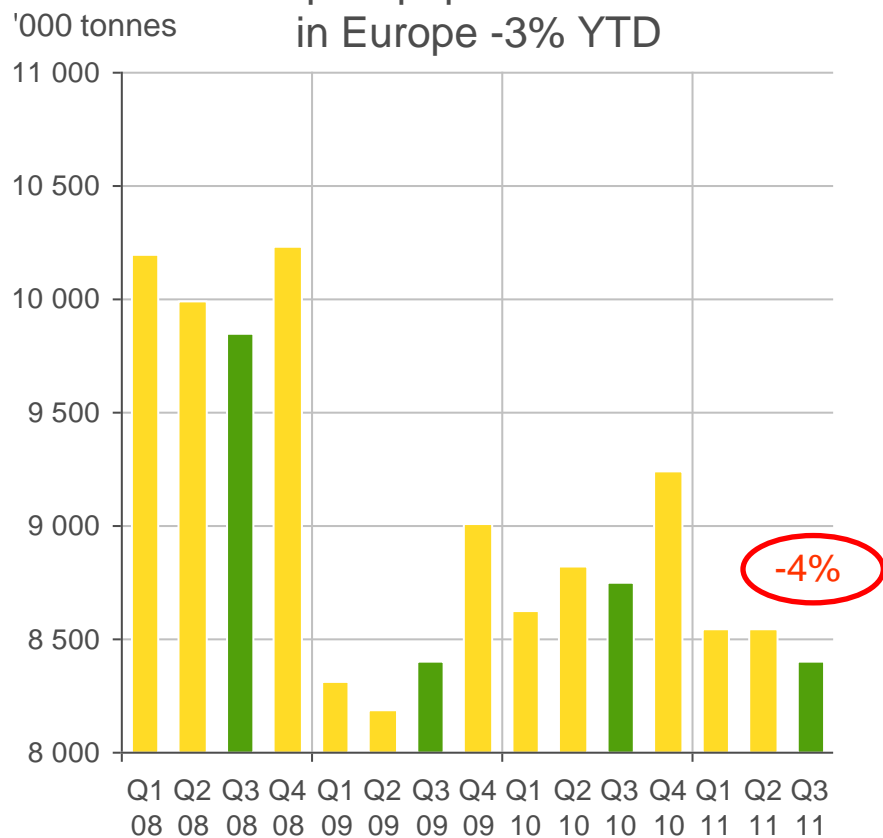


Sources: Cepiprint, Cepifine, OECD

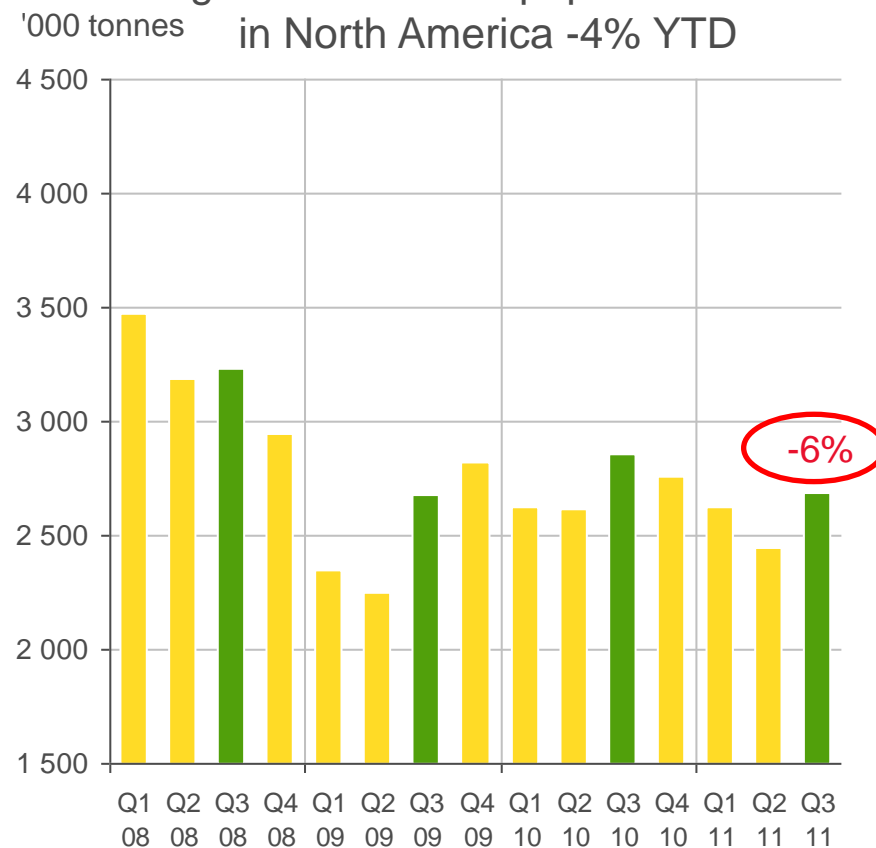
## BUSINESS DRIVERS

# Graphic papers demand

### Graphic papers demand in Europe -3% YTD



### Magazine and WFC papers demand in North America -4% YTD



Source: Cepiprint/fine, PPPC

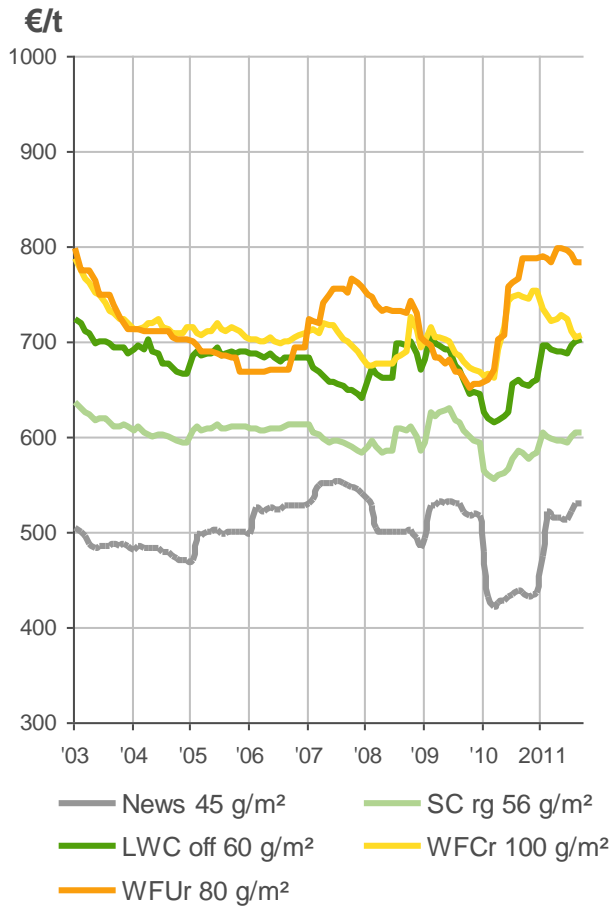
BUSINESS DRIVERS

Graphic paper prices

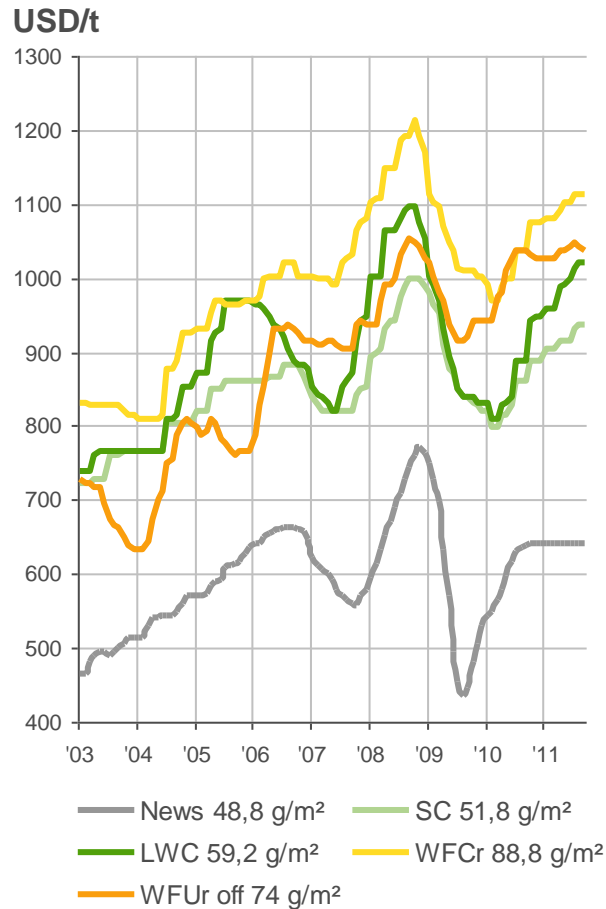


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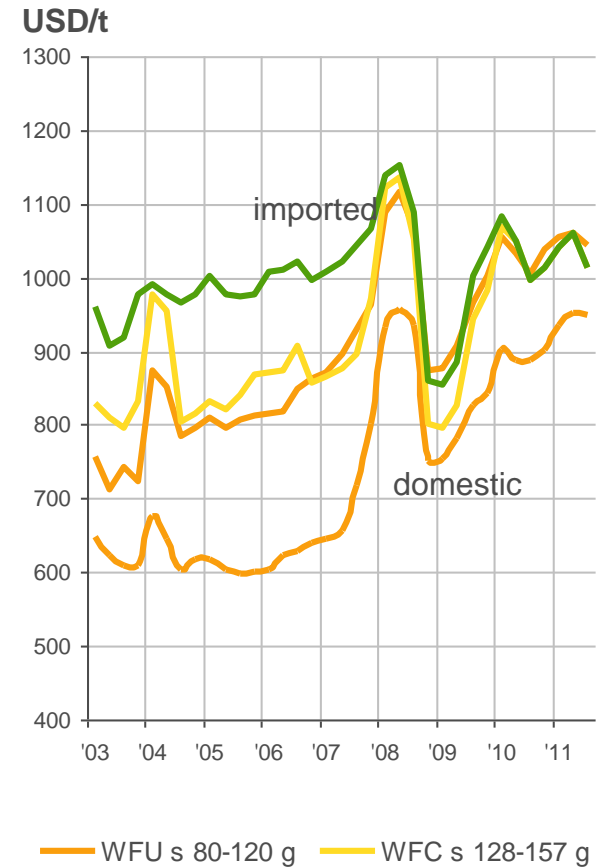
Europe



North America



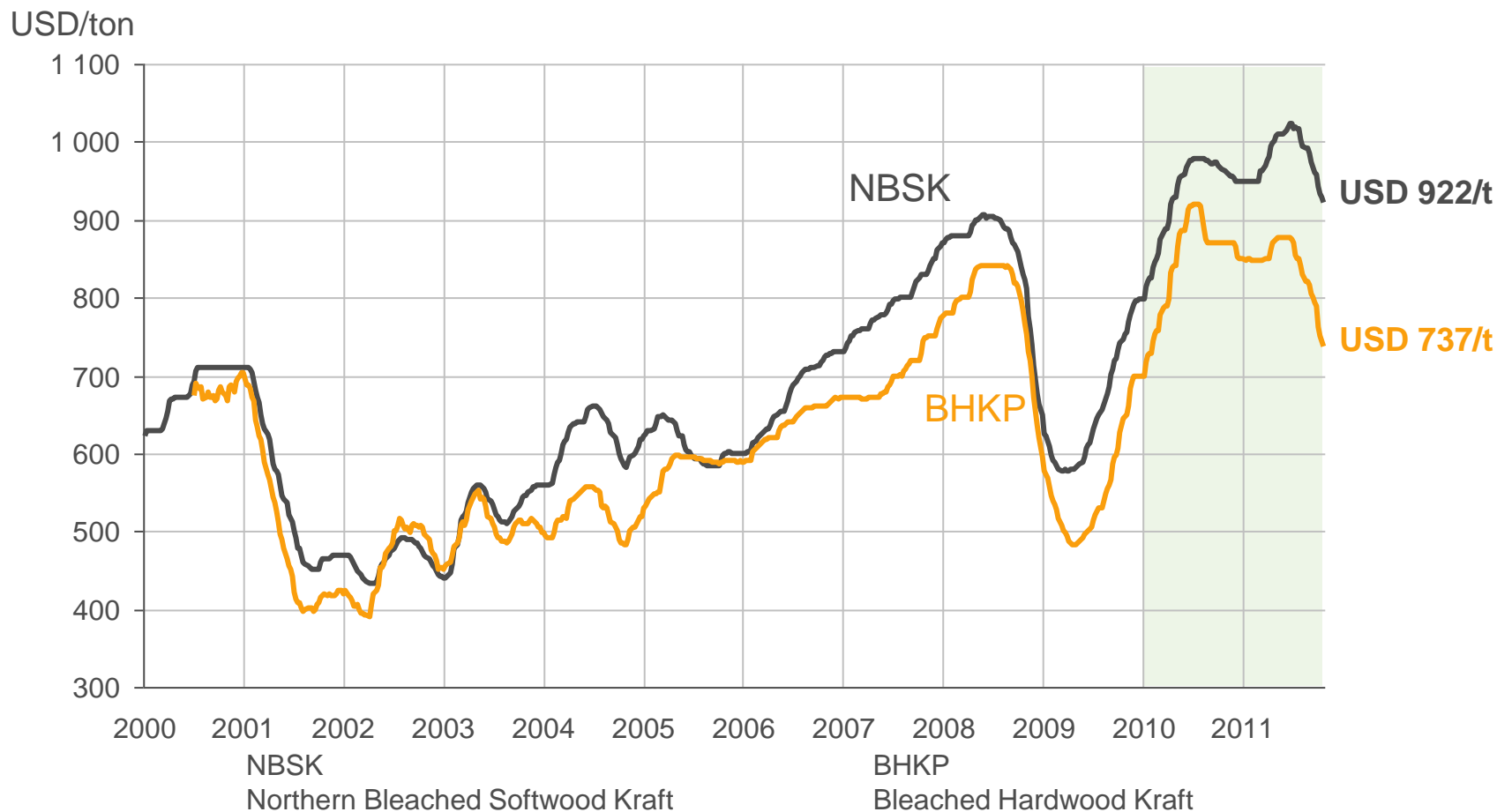
China



Source: PPI, RISI

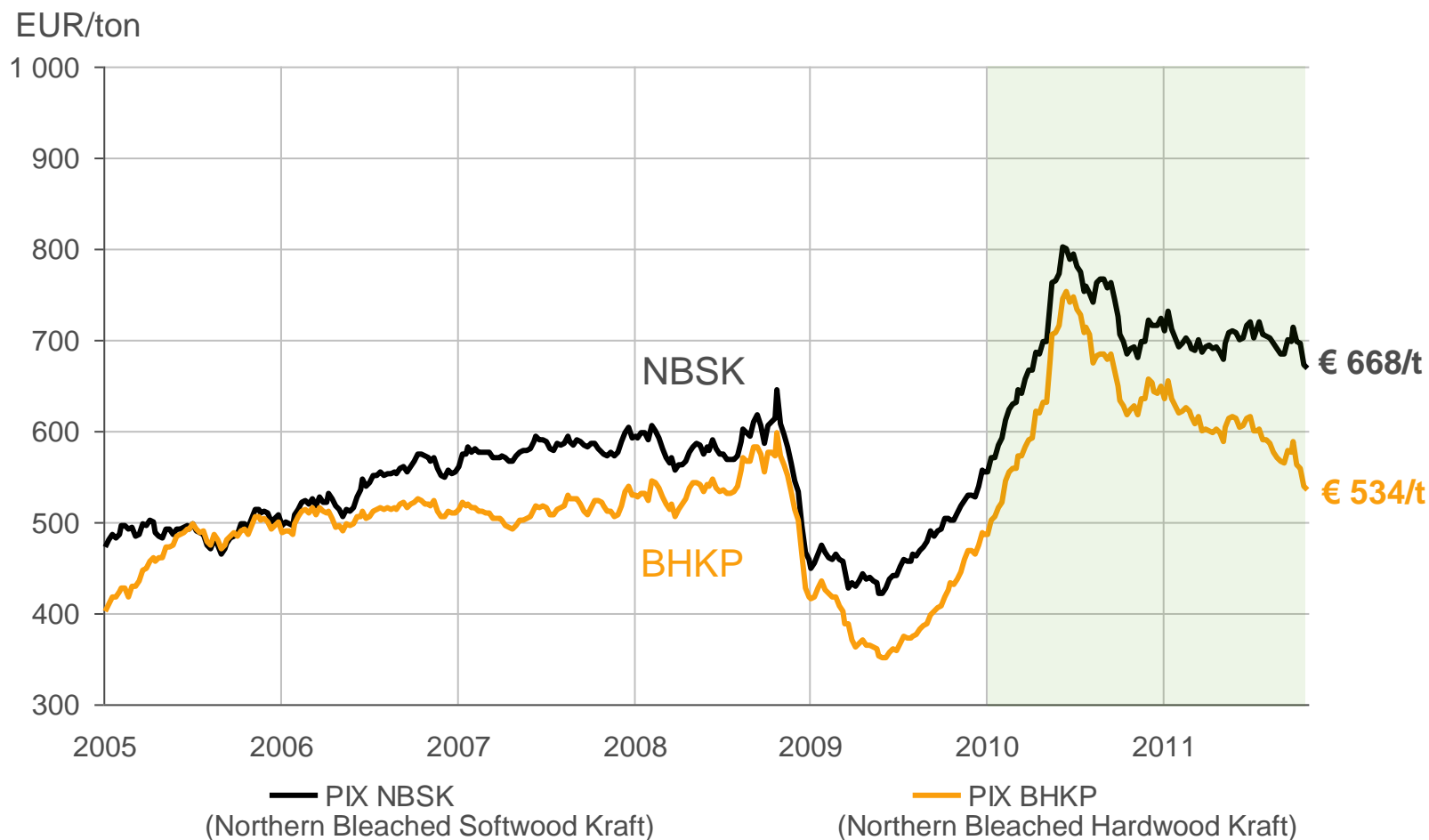
## BUSINESS DRIVERS

# Chemical pulp market prices



Source: FOEX Indexes Ltd.

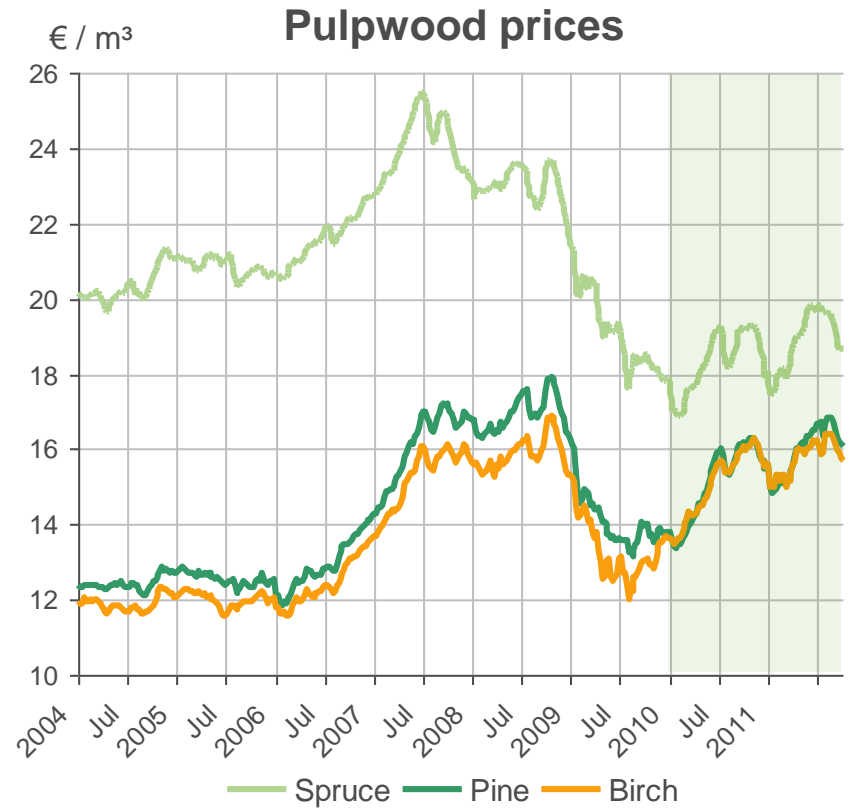
# Chemical pulp market prices



Source: FOEX Indexes Ltd.



# Stumpage prices in Finland



Source: Metla



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# FINANCIALS Q3 2011



## FINANCIALS

# Key financials

	Q3 2011	Q3 2010	Q1-Q3 2011	Q1-Q3 2010	2010
Sales, €m	2,603	2,312	7,382	6,567	8,924
Sales growth (%)	13%		12%		
EBITDA, €m	331	384	1,082	1,025	1,343
% of sales	12.7	16.6	14.7	15.6	15.0
Operating profit, excl. special items, €m	136	204	535	519	731
EPS excl. special items, €	0.19	0.28	0.77	0.72	0.99
Net cash from operating activities, €m	285	328	731	639	982

## Special items



EUR million	Q3 2011	Q1-Q3 2011
One-off gain from Myllykoski acquisition	28	28
Costs related to the Myllykoski transaction	-27	-27
Write-offs in Paper	-68	-68
Restructuring charges in Paper	-222	-222
Restructuring charges in other businesses	-6	-6
Special income	-	2
Pohjolan Voima's sale of Fingrid shares	-	86
<b>Total in operating profit</b>	<b>-295</b>	<b>-207</b>
Capital gain from sale of Metsä-Botnia shares	-	68
<b>Total in pre-tax profit</b>	<b>-295</b>	<b>-139</b>
Impact on taxes from special items	84	92
<b>Total in net profit</b>	<b>-211</b>	<b>-47</b>

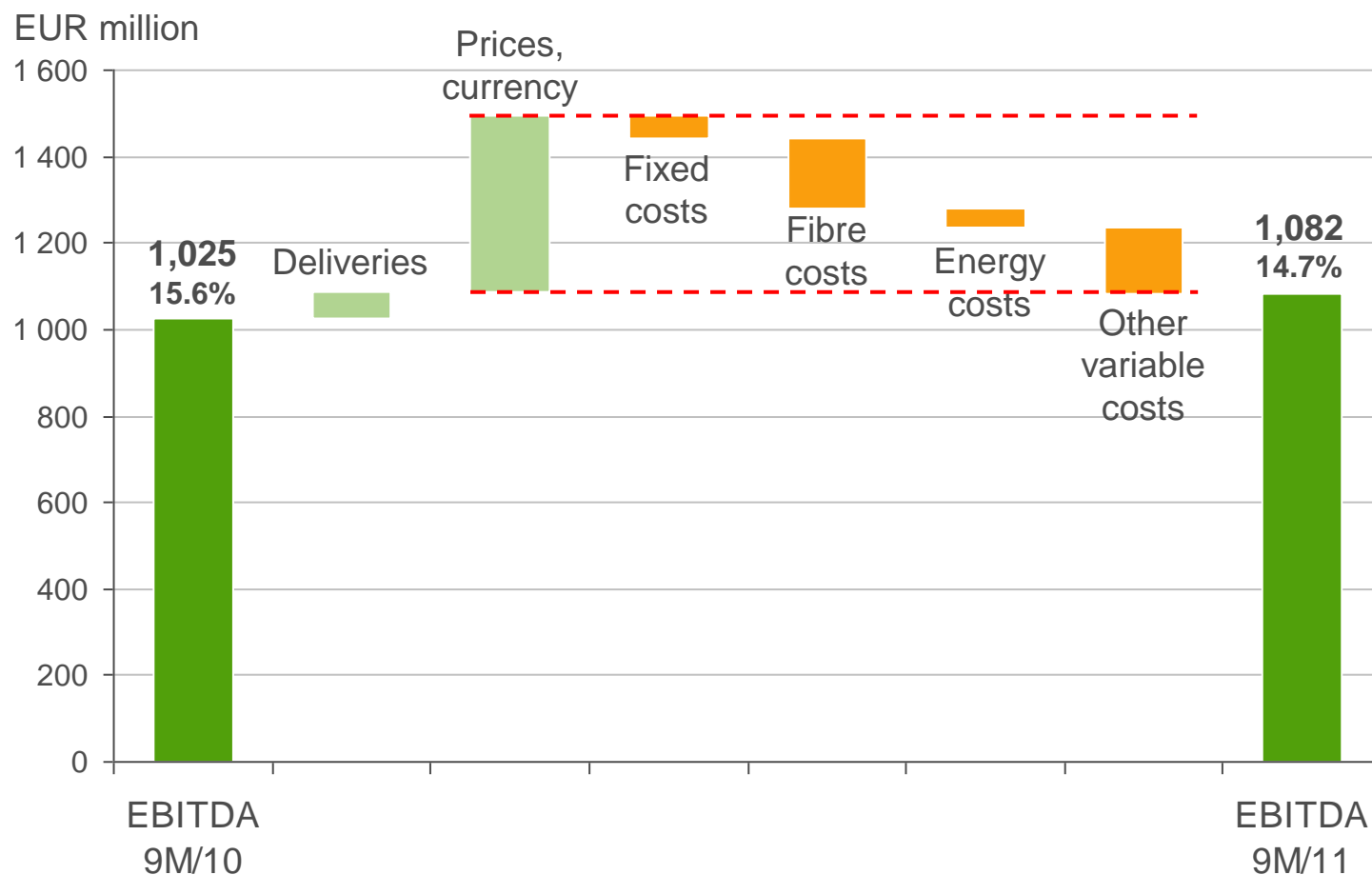
## MYLLYKOSKI ACQUISITION

# Pro forma financials – Group

	Reported 1-9/2011	Adjustments	Pro forma 1-9/2011
Sales, €m	7,382	780	8,162
EBITDA, €m	1,082	40	1,122
Operating profit, €m	328	-8	320
– <i>excl. special items, €m</i>	535	-8	527
Profit before tax, €m	323	-25	298
– <i>excl. special items, €m</i>	462	-25	437
Profit for the period	355	-18	337

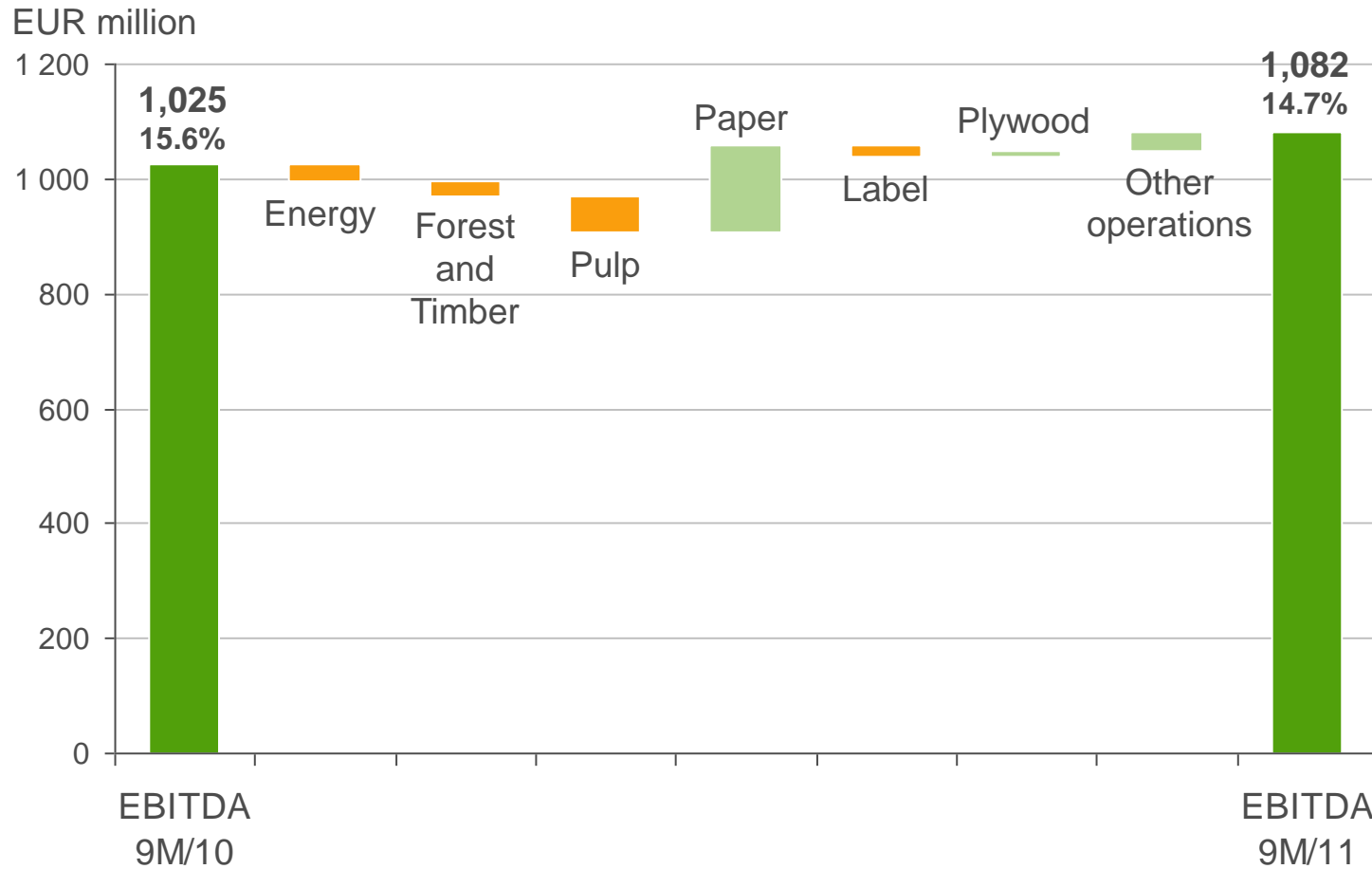
## FINANCIALS

# 9M 2011 EBITDA increased by 6% higher prices offset the rise in costs

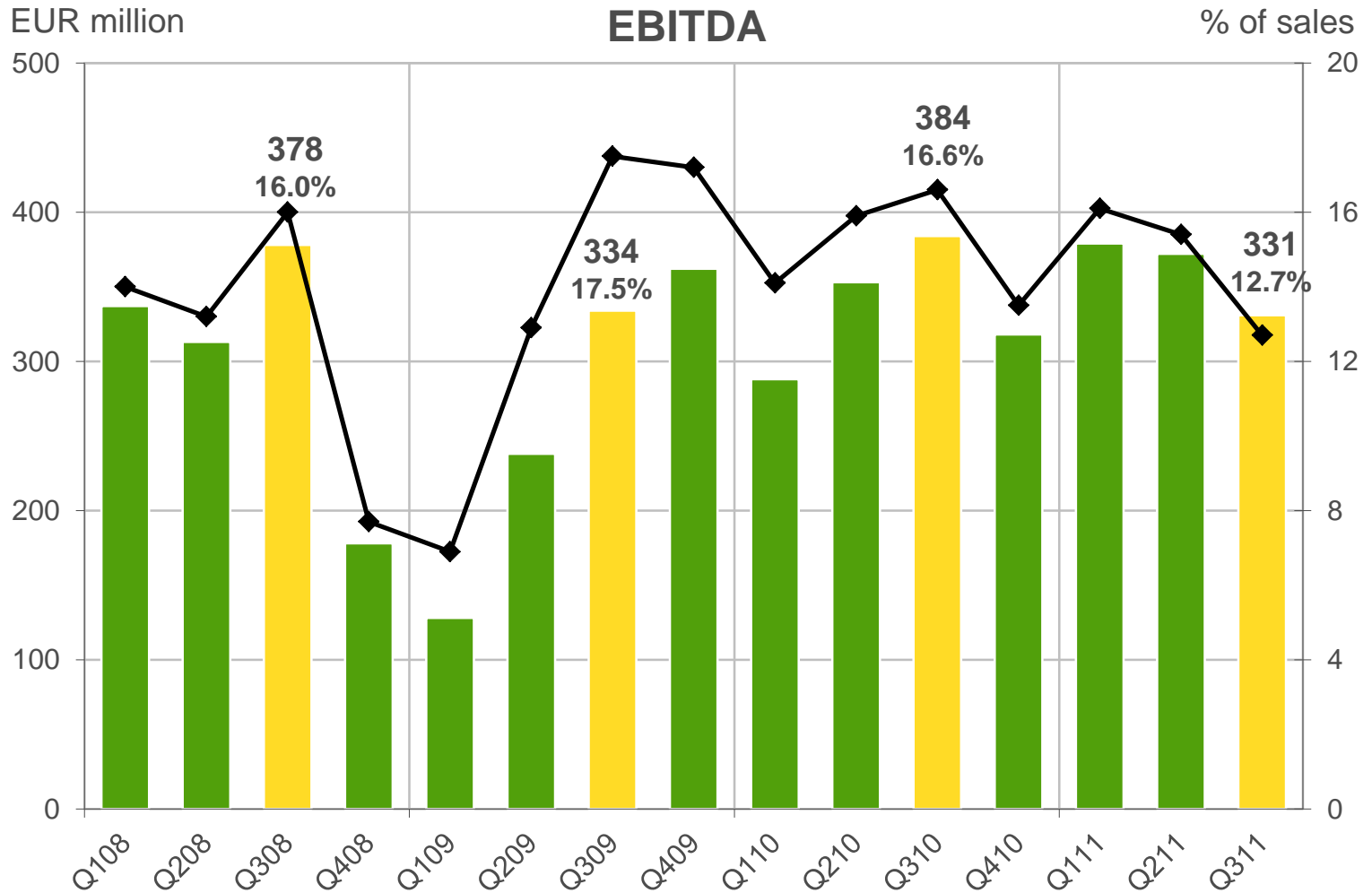


FINANCIALS

9M 2011 EBITDA – improvement in Paper



# Q3 2011 EBITDA decreased from last year



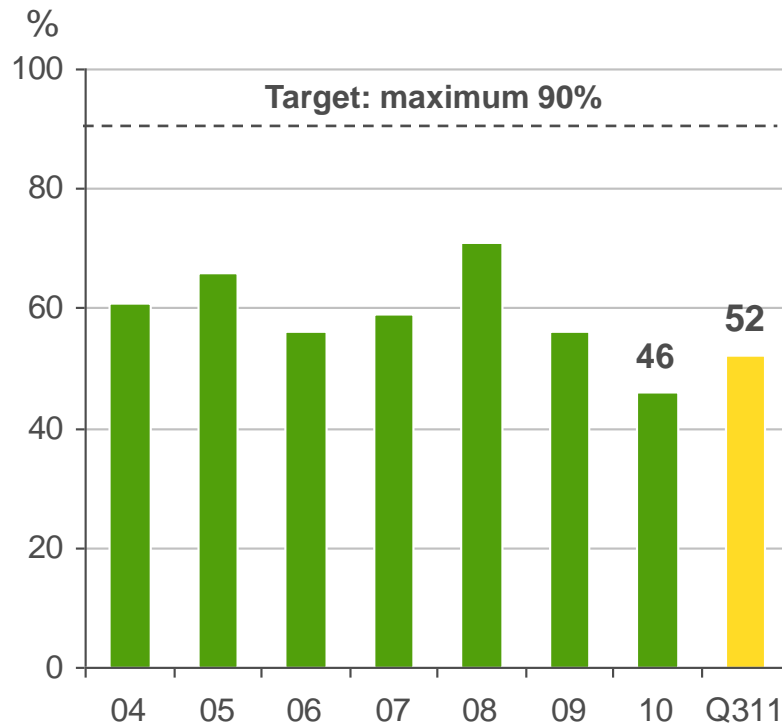


## FINANCIALS

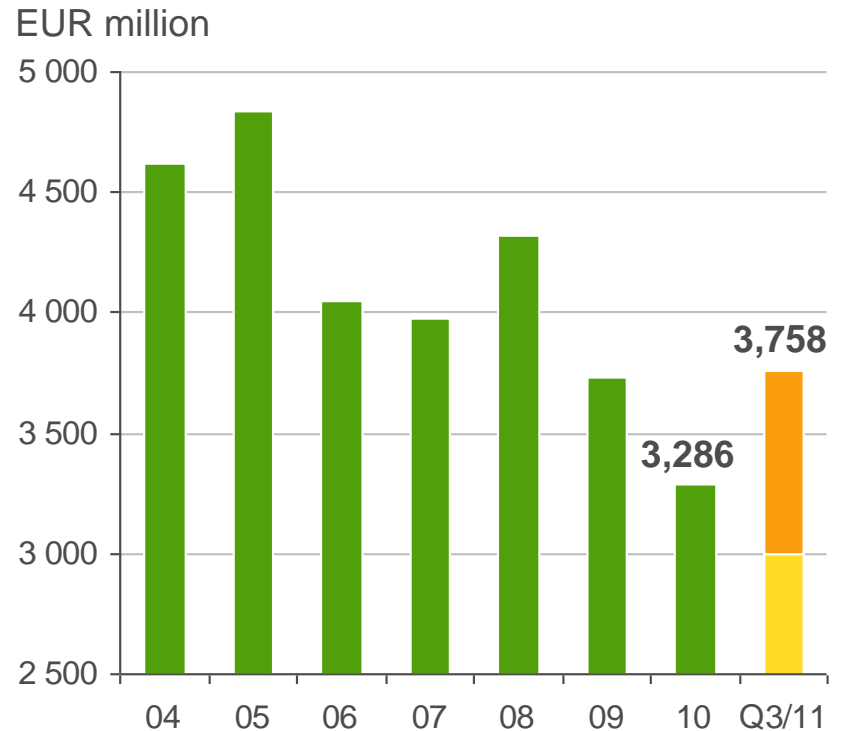
# Cash flow

€ million	Q3/11	Q3/10	Q1-Q3/11	Q1-Q3/10	2010
<b>EBITDA</b>	<b>331</b>	<b>384</b>	<b>1,082</b>	<b>1,025</b>	<b>1,343</b>
Cash flow before change in working capital	302	359	986	969	1,301
Change in working capital	45	5	-164	-237	-139
Finance costs and income taxes	-62	-36	-91	-93	-180
<b>Net cash from operating activities</b>	<b>285</b>	<b>328</b>	<b>731</b>	<b>639</b>	<b>982</b>
Capital expenditure	-62	-53	-193	-150	-241
Asset sales and acquisitions	-16	34	137	45	46
<b>Cash flow after investing activities</b>	<b>207</b>	<b>309</b>	<b>675</b>	<b>534</b>	<b>787</b>

Gearing ratio



Net debt



**Liquidity** was EUR 1.7bn  
 repayments EUR 0.9bn in 2011-12

# Maturity profile and liquidity

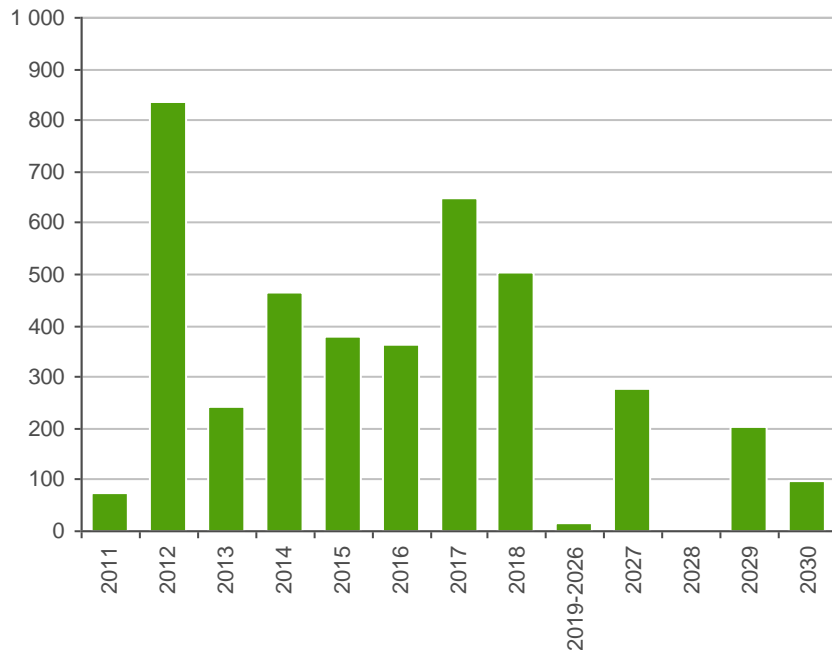
## Liquidity

Liquidity on 30 September 2011 was € 1.7bn (cash and unused credit facilities)

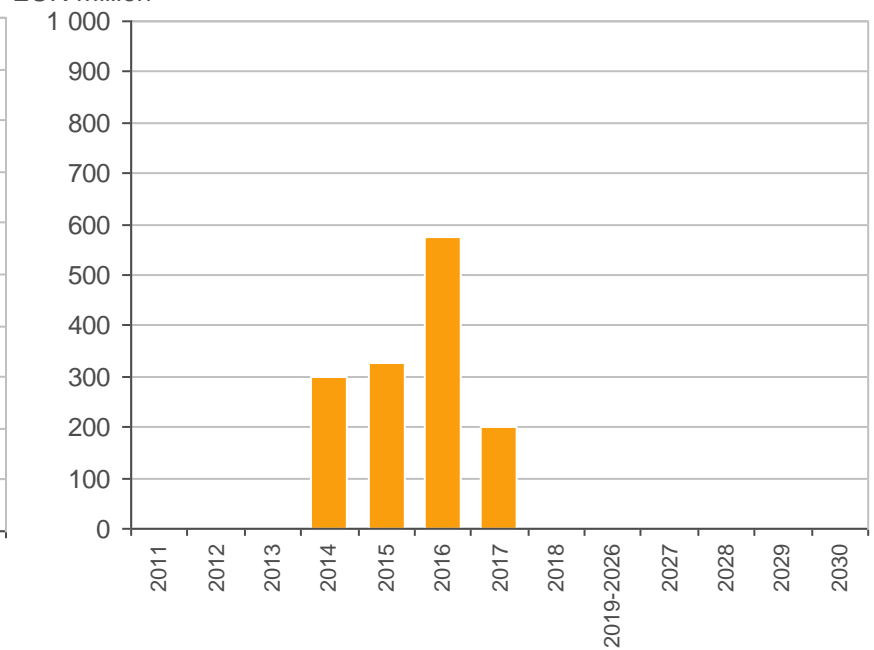
## Committed credit facilities EUR 1.4bn

- syndicated credit facility EUR 500 million
- bilateral committed credit facilities EUR 900 million

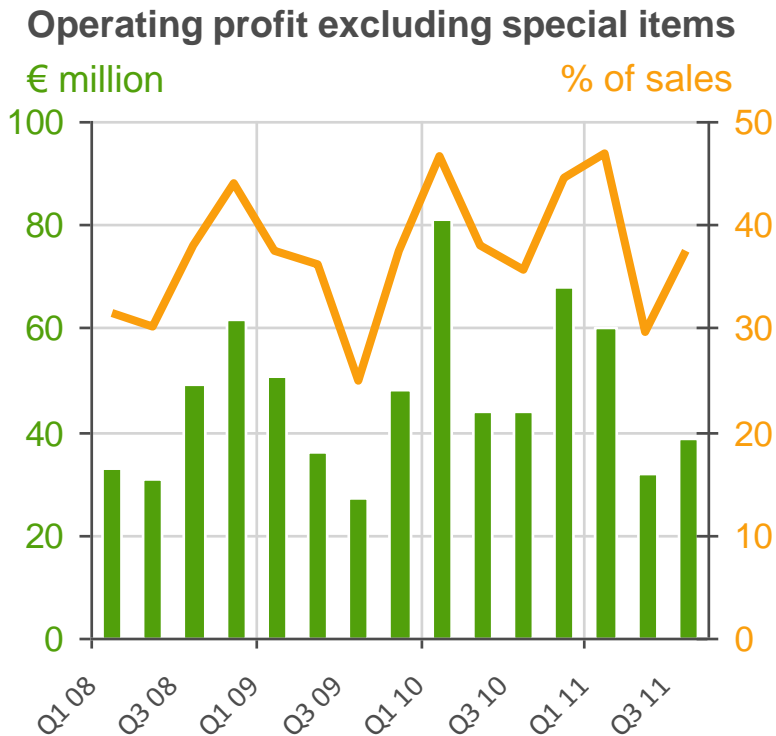
EUR million **Maturity profile of outstanding debt**



EUR million **Committed credit facilities' maturities**



# Energy Q1-Q3/11 vs. Q1-Q3/10 – operating profit decreased mainly due to the lower hydro power generation



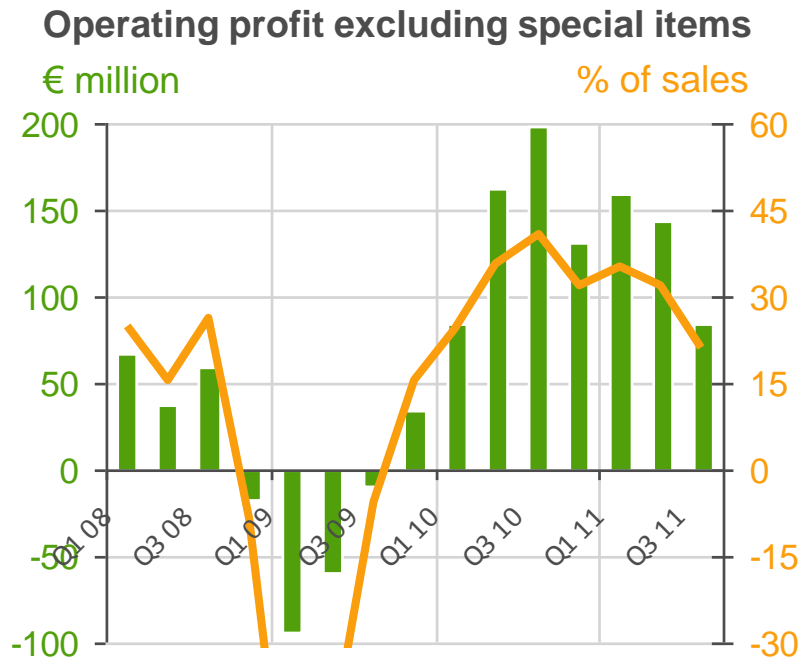
- Electricity sales volume was 6% lower mainly due to lower hydro production
- Average sales price for electricity decreased by 3%

Sales **Q1-Q3 2011 340** ▼ -18%  
 EUR million Q1-Q3 2010 414

Operating profit **Q1-Q3 2011 131** ▼ -38  
 EUR million\*) Q1-Q3 2010 169  
 \*) excluding special items


## FINANCIALS

# Pulp Q1-Q3/11 vs. Q1-Q3/10 – profitability weakened due to lower sales price and higher costs



- Operating profit decreased due to lower sales price
- Higher wood and other variable costs had a negative impact on profitability

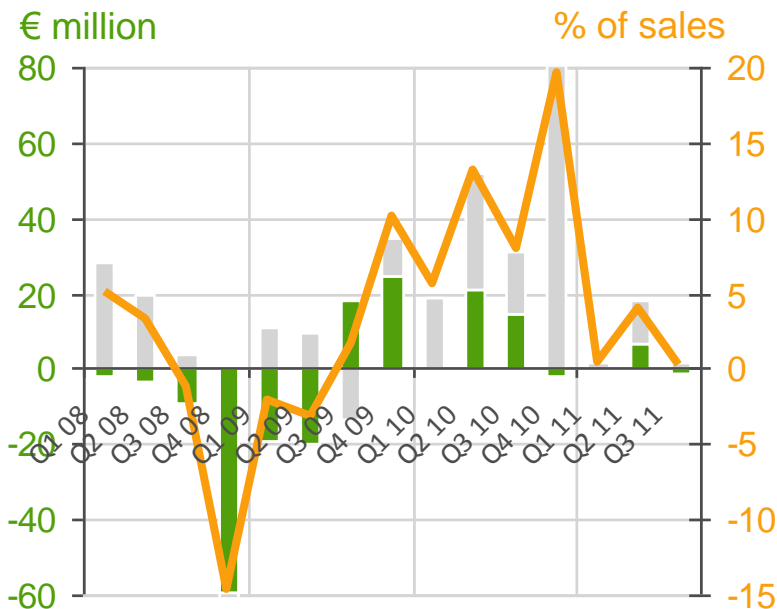
Sales **Q1-Q3 2011** 1,299  1%  
 EUR million Q1-Q3 2010 1,285

Operating profit **Q1-Q3 2011** 387  -57  
 EUR million\*) Q1-Q3 2010 445  
 \*) excluding special items

# Forest and Timber Q1-Q3/11 vs. Q1-Q3/10


– operating profit decreased due to smaller increase in the fair value of biological assets

## Operating profit excluding special items



- Operating profit decreased due to a smaller increase in the fair value of biological assets
- The fair value of biological assets less wood harvested increased by EUR 15 million (66 million)
- In sawn timber wood costs were higher and average sawn timber prices decreased

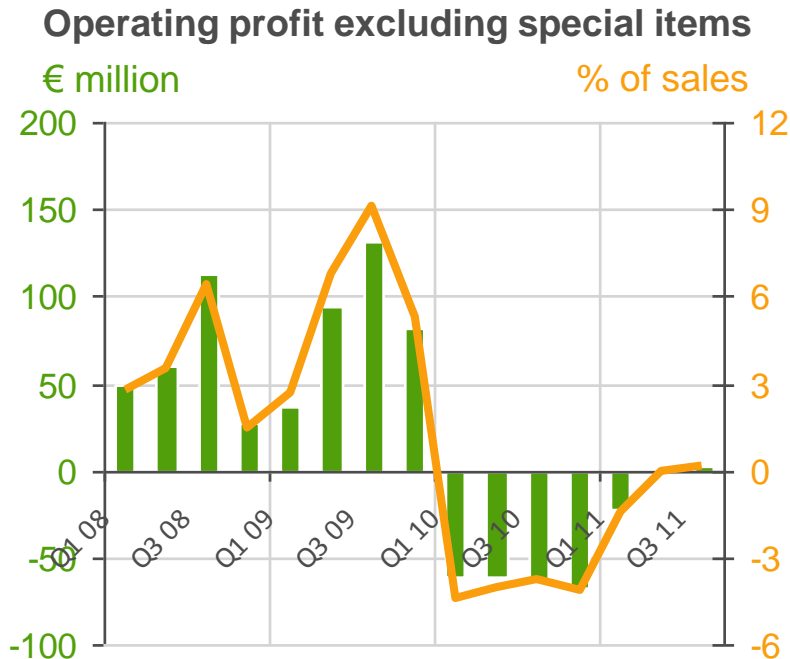
Sales **Q1-Q3 2011** 1,237  **11%**  
 EUR million Q1-Q3 2010 1,119

Operating profit **Q1-Q3 2011** 21  **-81**  
 EUR million\*) Q1-Q3 2010 102 EUR million


\*) excluding special items


## FINANCIALS

# Paper Q1-Q3/11 vs. Q1-Q3/10 – operating loss decreased due to higher paper prices



- Operating profit improved significantly
- Average paper price increased by 7%
- Variable costs increased

Sales **Q1-Q3 2011 5,208**  **13%**  
 EUR million Q1-Q3 2010 4,613

Operating profit **Q1-Q3 2011 -20**  **+166**  
 EUR million\*) Q1-Q3 2010 -186 EUR million

\*) excluding special items

## FINANCIALS

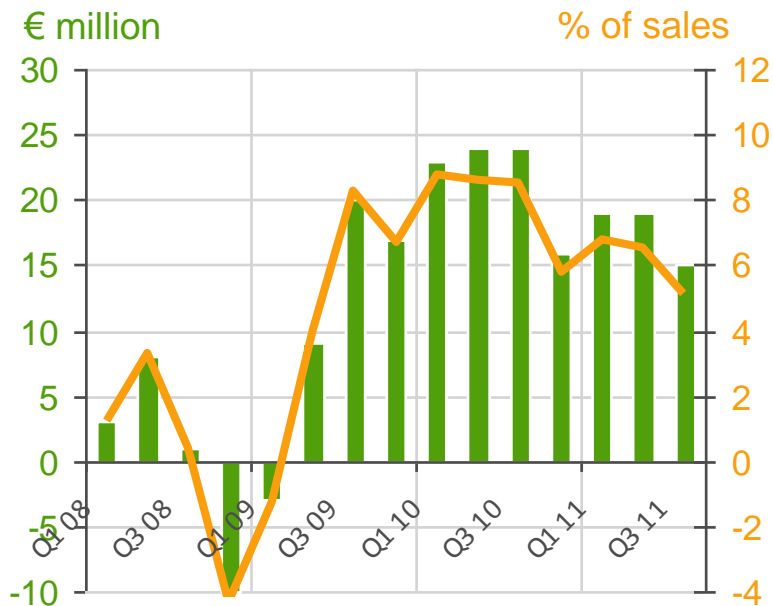
### Pro forma financials – Paper business area

	Reported 1-9/2011	Adjustments	Pro forma 1-9/2011
Sales, €m	5,208	780	5,988
EBITDA, €m	367	40	407
Operating profit, €m	-307	-8	-315
– <i>excl. special items, €m</i>	-20	-8	-28
Paper deliveries, 1,000 t	7,706	1,261	8,967




# Label Q1-Q3/11 vs. Q1-Q3/10 – operating profit decreased due to unfavourable sales mix and higher raw material costs

## Operating profit excluding special items



- Operating profit decreased due to unfavourable product and regional sales mix and significantly higher raw material costs
- Sales prices in local currencies increased clearly

Sales **Q1-Q3 2011 863**  **5%**  
 EUR million Q1-Q3 2010 824

Operating profit **Q1-Q3 2011 53**  **-18**  
 EUR million\*) Q1-Q3 2010 71 EUR million

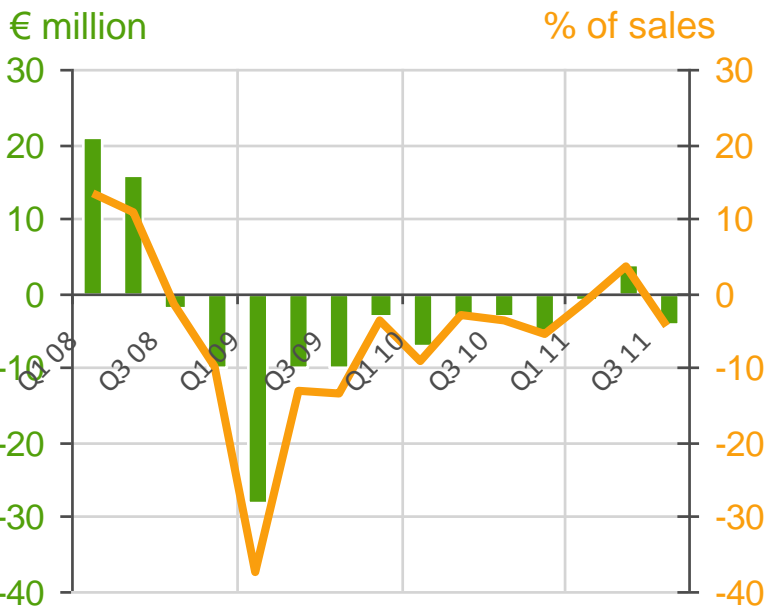
\*) excluding special items

## FINANCIALS

# Plywood Q1-Q3/11 vs. Q1-Q3/10 – operating loss decreased due to higher sales prices and deliveries



### Operating profit excluding special items



- Operating loss decreased mainly due to higher sales prices and delivery volumes
- Deliveries increased by 6% from last year

Sales **Q1-Q3 2011 288** **13%**  
 EUR million Q1-Q3 2010 256

Operating profit **Q1-Q3 2011 -1** **+12**  
 EUR million\*) Q1-Q3 2010 -13 EUR million

\*) excluding special items



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