



The Biofore Company **UPM**

# UPM Q1 RESULTS 2012

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President and CEO  
26 April 2012





## Q1 2012 highlights

### Q1 2012 profitability improved from H2 2011

- Market conditions have stabilised in the early 2012
- Variable costs decreased and Myllykoski cost synergies started to be visible
- Paper profitability improved due to restructuring and variable cost savings, despite low delivery volumes

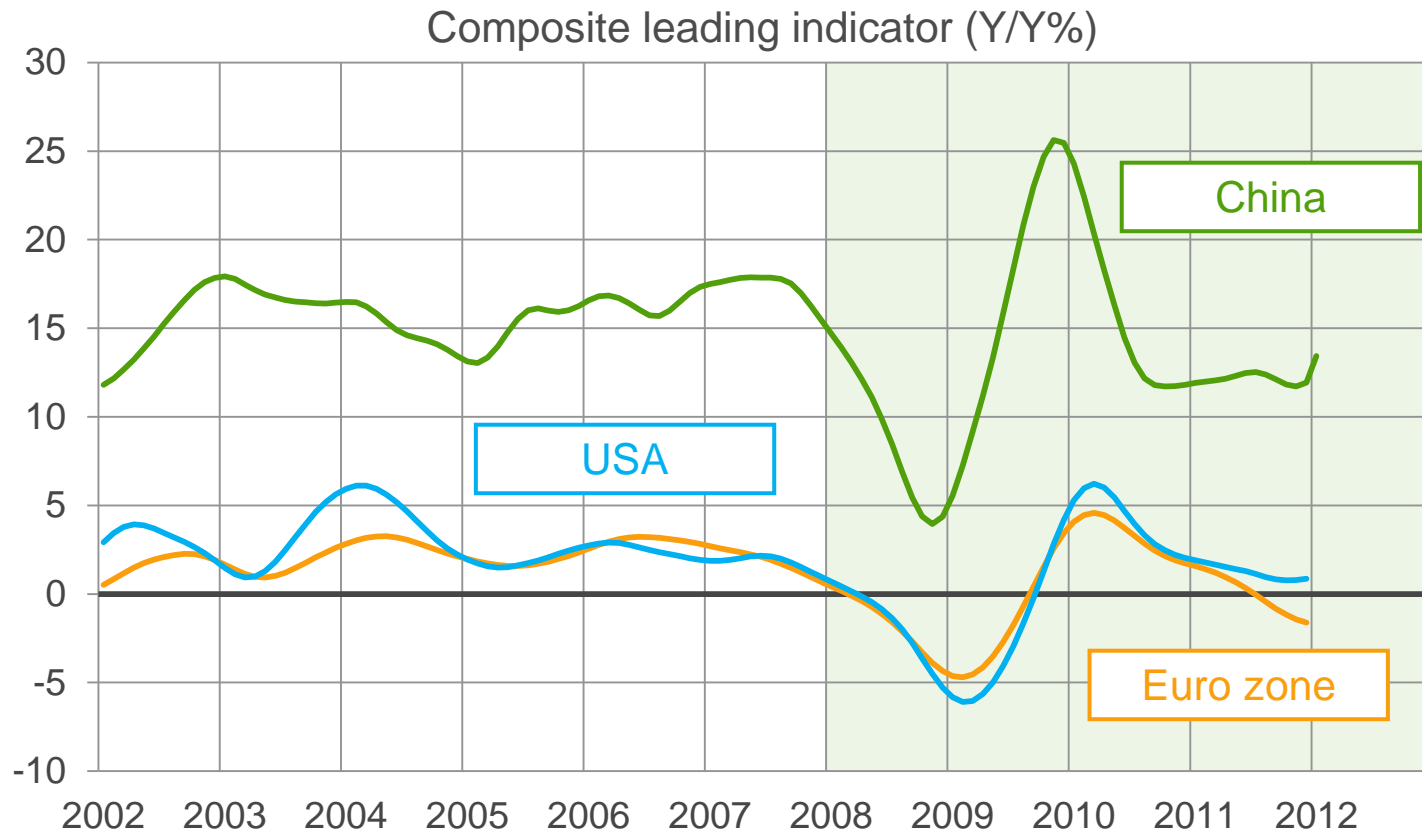
### Guidance for H1 2012 is adjusted upwards

- H1 2012 operating profit excluding special items expected to be slightly higher than in H2 2011

Solid operating cash flow of EUR 210 million (166 million in Q1 2011)

Strong balance sheet further supported by divestments and PVO dividends





# Second economic downturn in Europe in four years







Source: OECD

## Q1 2012 in figures

### Q1/2012 vs. Q1/2011

Sales			
EUR 2,591 m		+10%	
EBITDA			
EUR 347 m		-8%	
EPS *)			
EUR 0.22		-31%	
Operating cash flow			
EUR 210 m		+44 m	

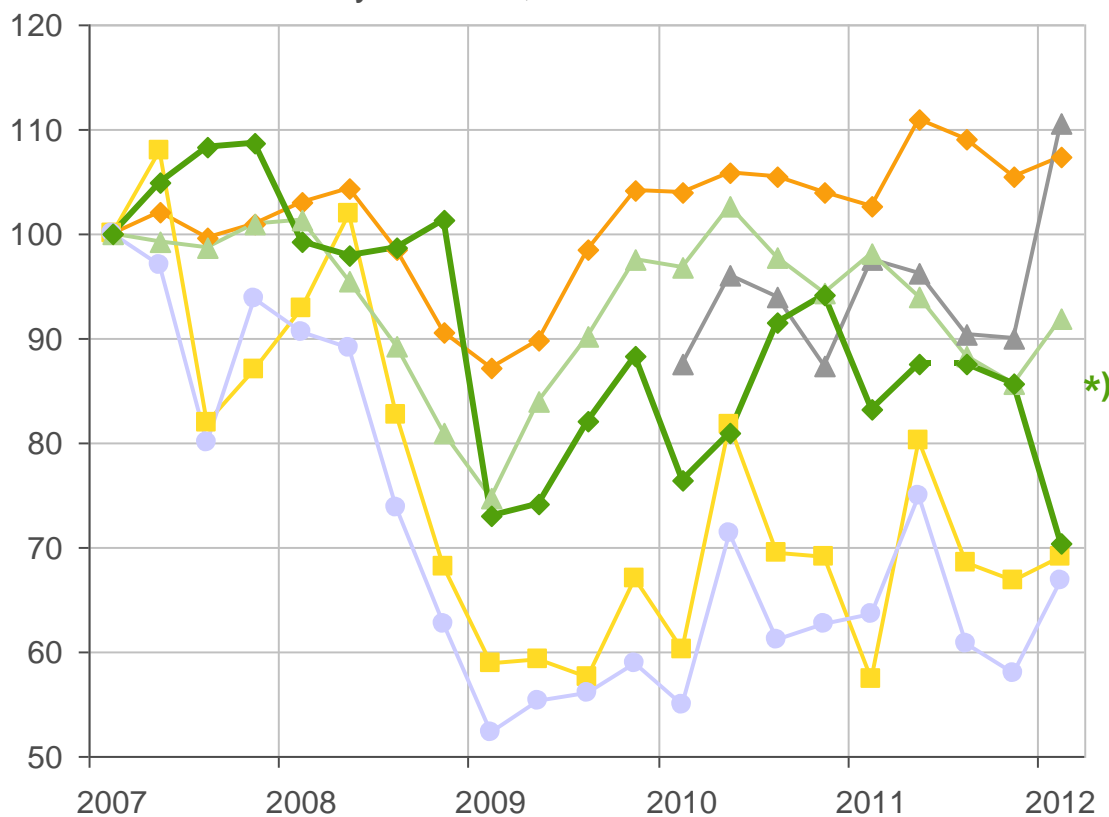
### Q1/2012 vs. Q4/2011

EBITDA			
EUR 347 m		+15%	
Operating profit *)			
EUR 151 m		+3%	
Net debt			
EUR 3,456 m		-136 m	
Gearing			
48%		0 pp	

\*) excluding special items

# Q1 2012 deliveries decreased in Paper on comparable basis, but increased in other businesses

Delivery volumes, indexed Q107 = 100



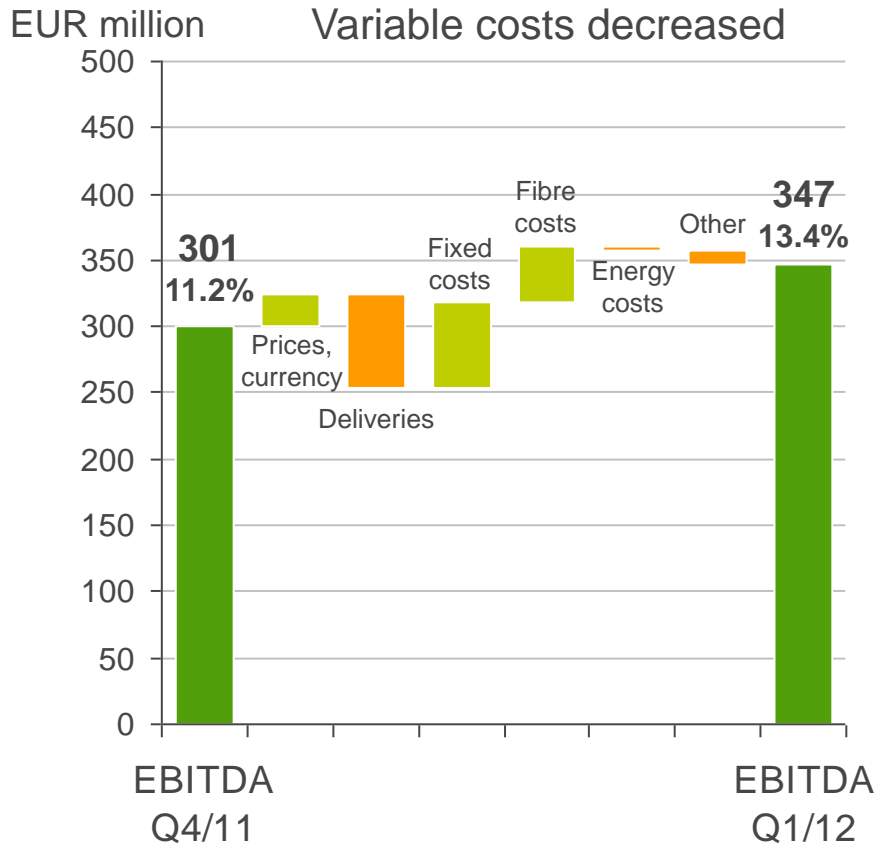
Change in deliveries, %	Q112/ Q111	Q112/ Q411
Label		
Pulp	+13	+23
Publication papers *)	-16	-18
Fine and spec. papers	-7	+7
Timber	+20	+3
Plywood	+5	+15

\*) publication paper development in Q311 - Q112 pro forma, including Myllykoski

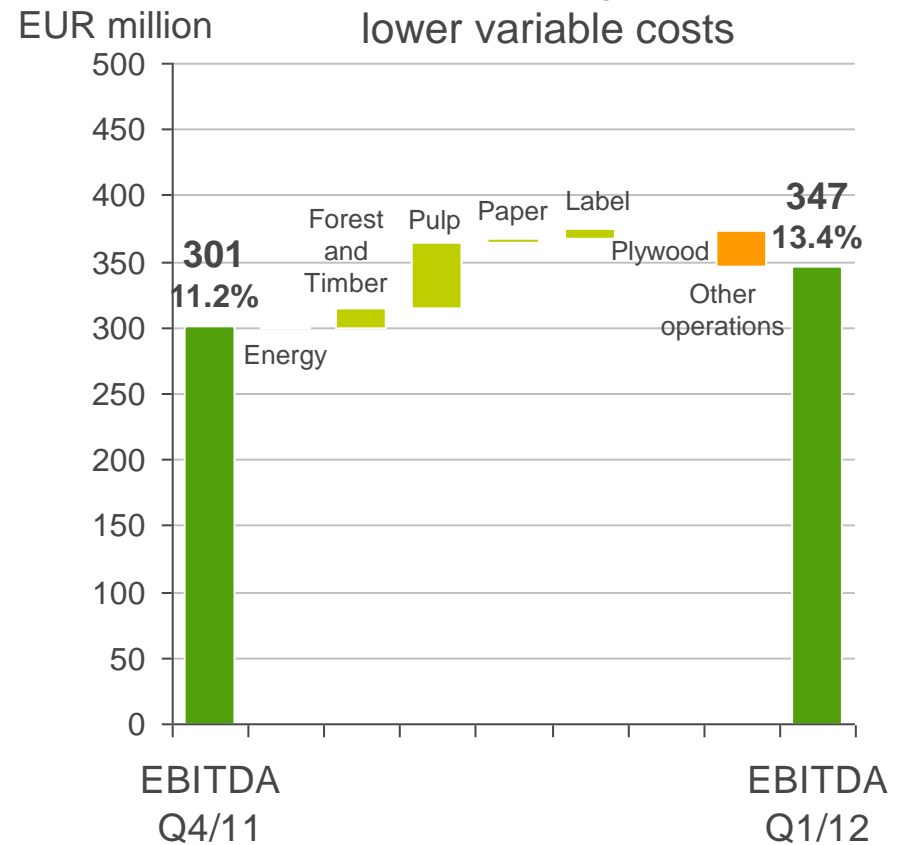
# EBITDA increased by 15% in Q1 2012 from Q4 2011

Fixed costs decreased in Q1 due to Myllykoski synergies and seasonality.

Variable costs decreased

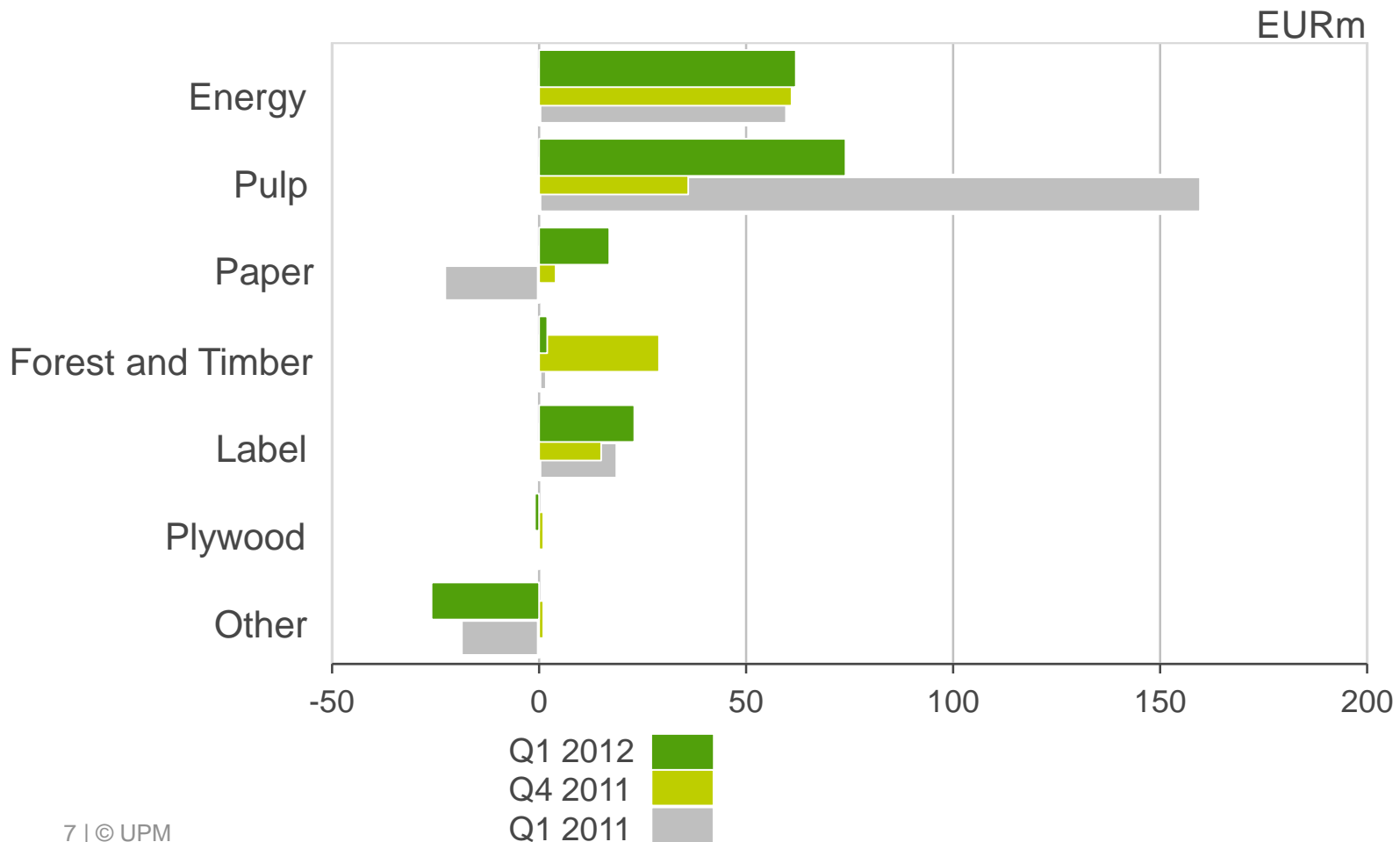


Most businesses improved in Q1 vs. Q4. Pulp benefited from high deliveries and lower variable costs

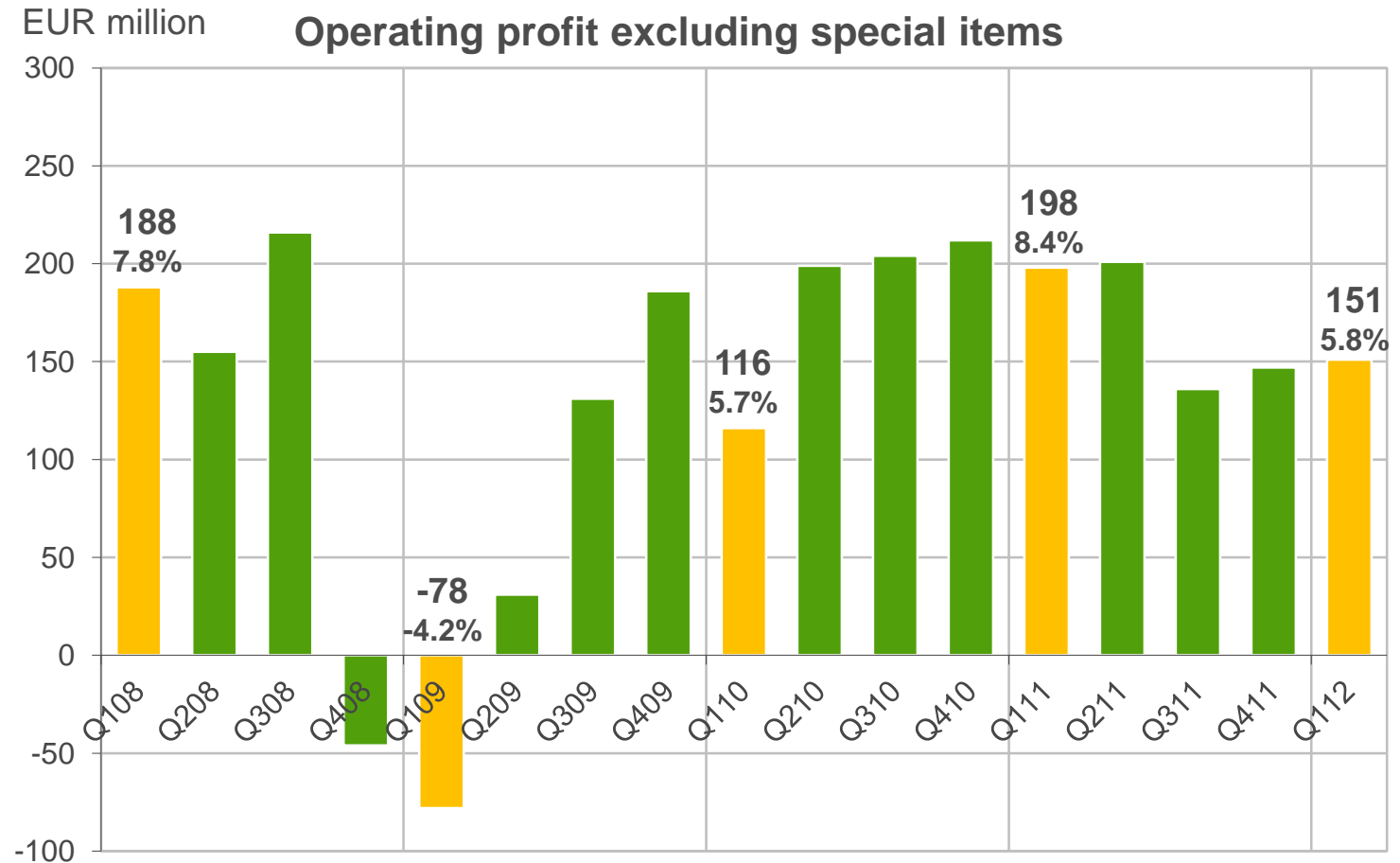


# Operating profit by business area

### Operating profit excluding special items



# Operating profit increased from Q3-Q4 2011





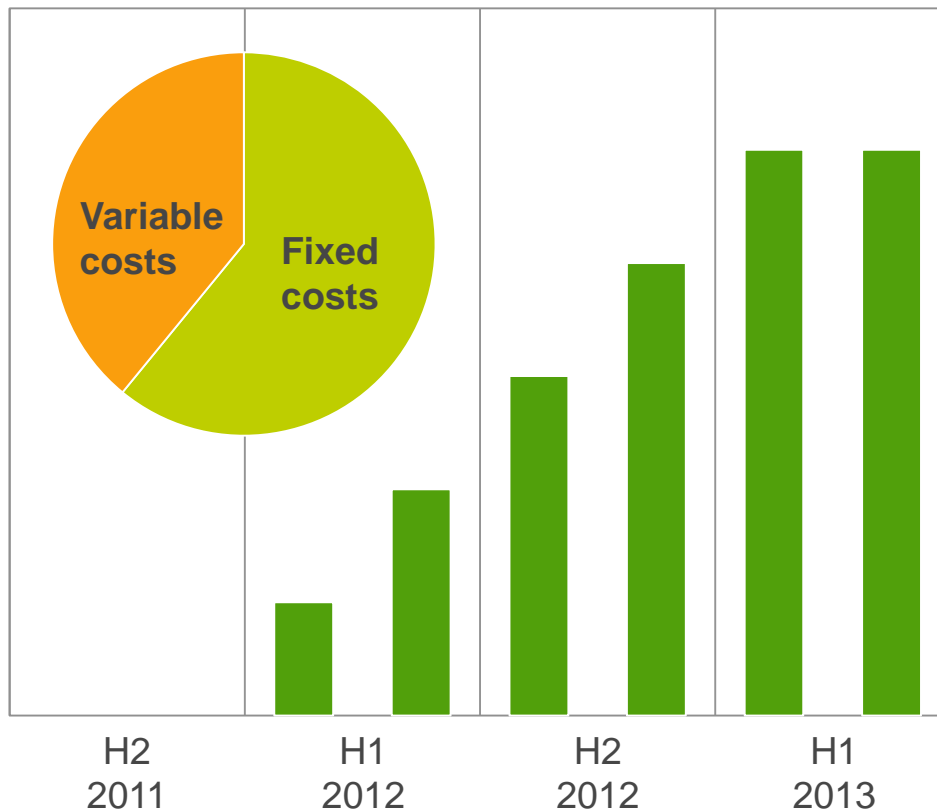


## Outlook for 2012 (\*)

- Operating profit excluding special items in H1 2012 is expected to be slightly higher than in H2 2011
- In UPM's businesses, demand and price outlook is stable in Q2 2012, taking into account seasonal variations
- Cost level is expected to remain stable in Q2 2012 vs. Q1 2012. Variable costs are expected to start increasing later in the year. More than EUR 100m of Myllykoski synergies are expected to affect full-year 2012 results.

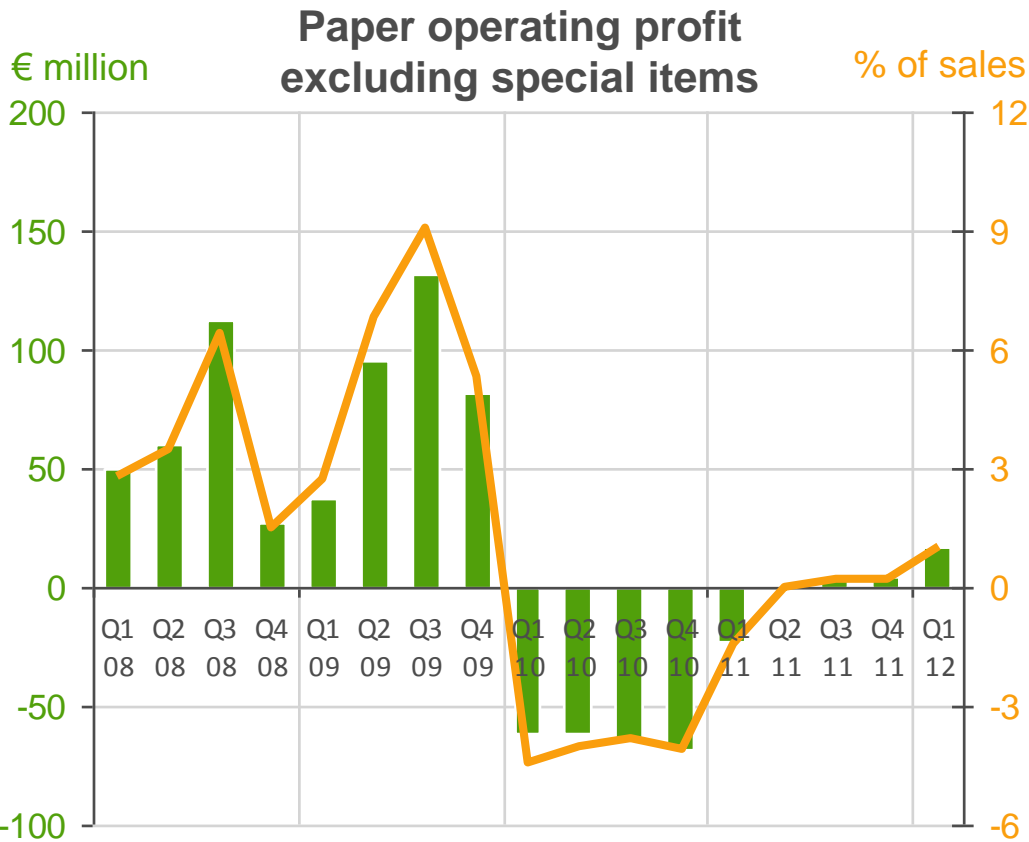
# Myllykoski acquisition cost synergies on track

Estimated timing and sources of planned EUR 200m cost synergies



- Cost synergies started materialising in Q4/2011
- Actions implemented already for 75% of the total EUR 200m cost synergy
- More than EUR 100m is expected to be visible in 2012
- Full run-rate of EUR 200m expected in 2013

# Paper profitability improved slightly due to cost savings, despite low volumes



- Margin prioritised over volume
- Sales margin per tonne improved significantly in Q1 2012 from Q4 2011
- Total sales margin in euros remained broadly on Q4 2011 level despite 11% lower volumes
- Myllykoski cost synergies started to be visible

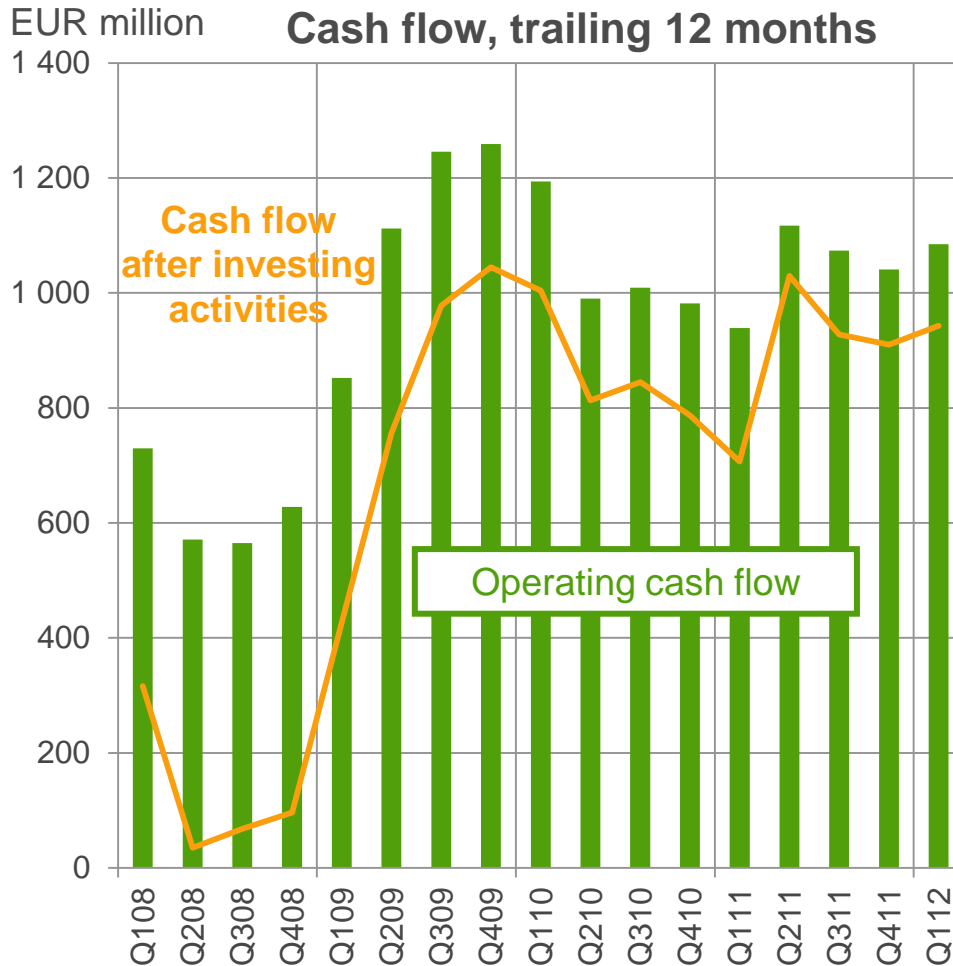
## UPM is a committed and reliable supplier for its paper customers



- Profitability in the European paper business is unacceptably low
- Variable costs are expected to start increasing later in the year, highlighting the importance of managing margin in the short term
- Consolidation and continuous improvement in cost competitiveness are necessary for long term success
- Weak economy in Europe and structural demand trends highlight the need for further consolidation and cost efficiency improvement
- UPM is a committed and reliable supplier for its paper customers, with improved geographical footprint following Myllykoski acquisition

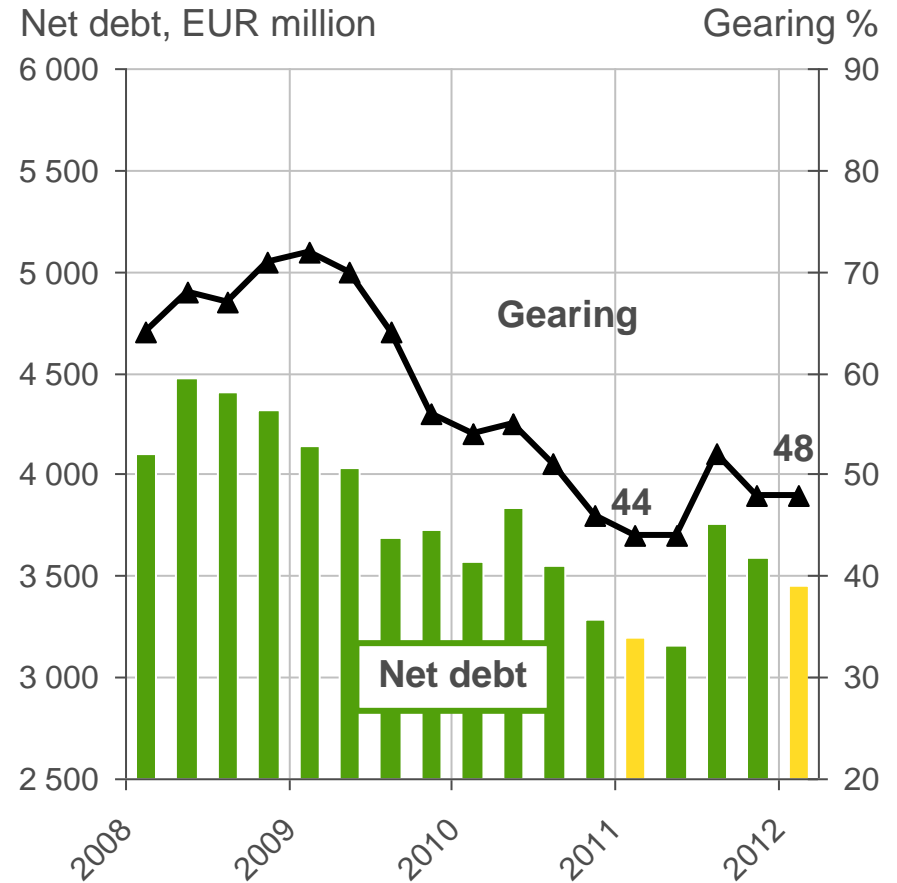
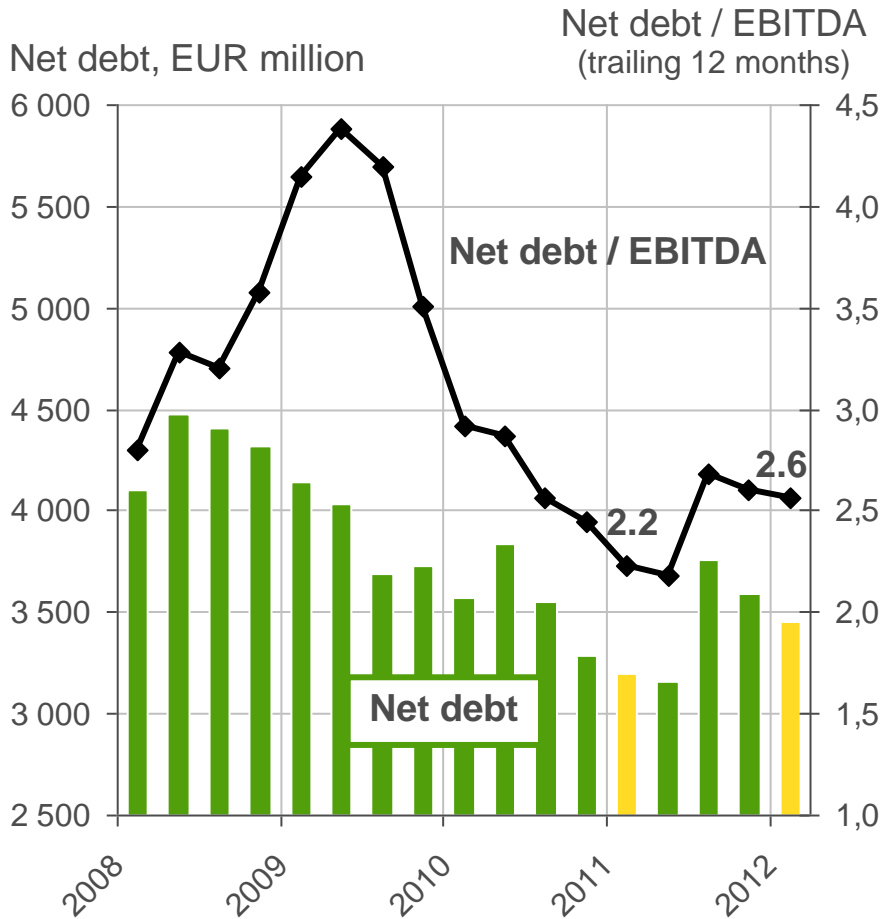


## Consistently strong cash flow



- Q1 2012 operating cash flow was EUR 210m (166m), including EUR 60m restructuring payments
- Fast reduction of debt
- Room for strategic actions
- Cash flow based dividend

# Strong balance sheet



## Reshaping the portfolio – further strengthening the balance sheet

- In April, UPM sold its 11% share in Metsä Fibre Oy to Metsäliitto Cooperative for EUR 150 million
- PVO will pay EUR 105 million dividend during Q2 2012 related to the Fingrid sale
- Divestment of RFID business to SMARTRAC N.V.
- Divestment of Packaging Papers to Billerud AB
  - Enterprise value EUR 130 million
  - Release value by creating new leader in packaging papers
  - Target to conclude in Q2 2012

## Reshaping the portfolio – attractive investments for growth and competitiveness

- UPM invests in the world's first advanced wood based biodiesel production in Lappeenranta, Finland
  - Total investment of approximately EUR 150 million
  - Production 100,000 tonnes/a of advanced biodiesel from crude tall oil
  - Production starts in 2014
- New combined heat and power plant in Schongau mill, Germany, to reduce energy costs
  - Investment of EUR 85 million
  - Production starts in 2014





## Summary

- Europe is experiencing the second economic downturn in four years
- UPM's profitability improved in Q1 2012 compared with H2 2011
- Consistent cash flow combined with recent divestments and PVO dividend enable healthy dividends and room for strategic actions



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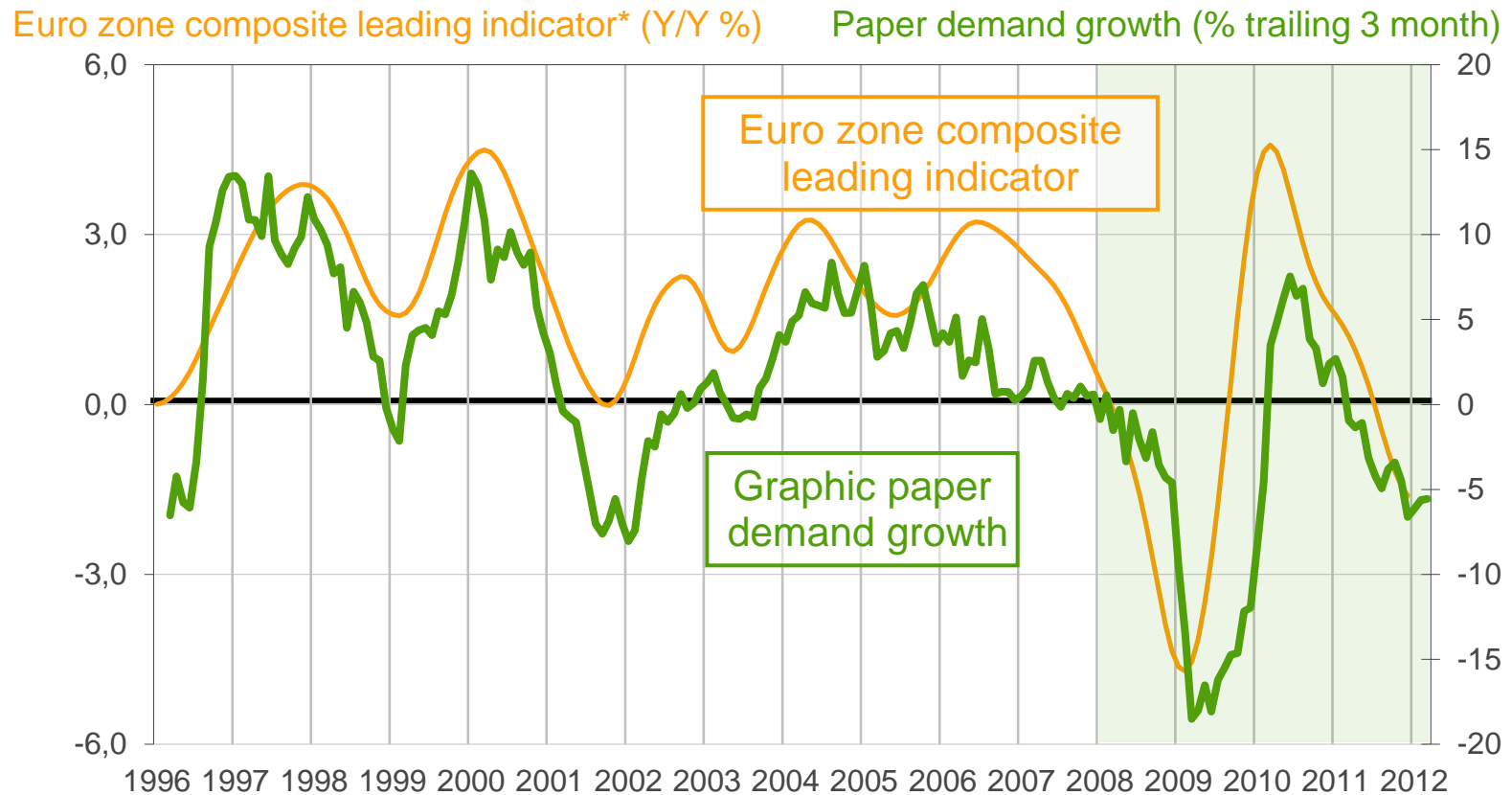
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# BUSINESS DRIVERS

# Second economic downturn in Europe in four years

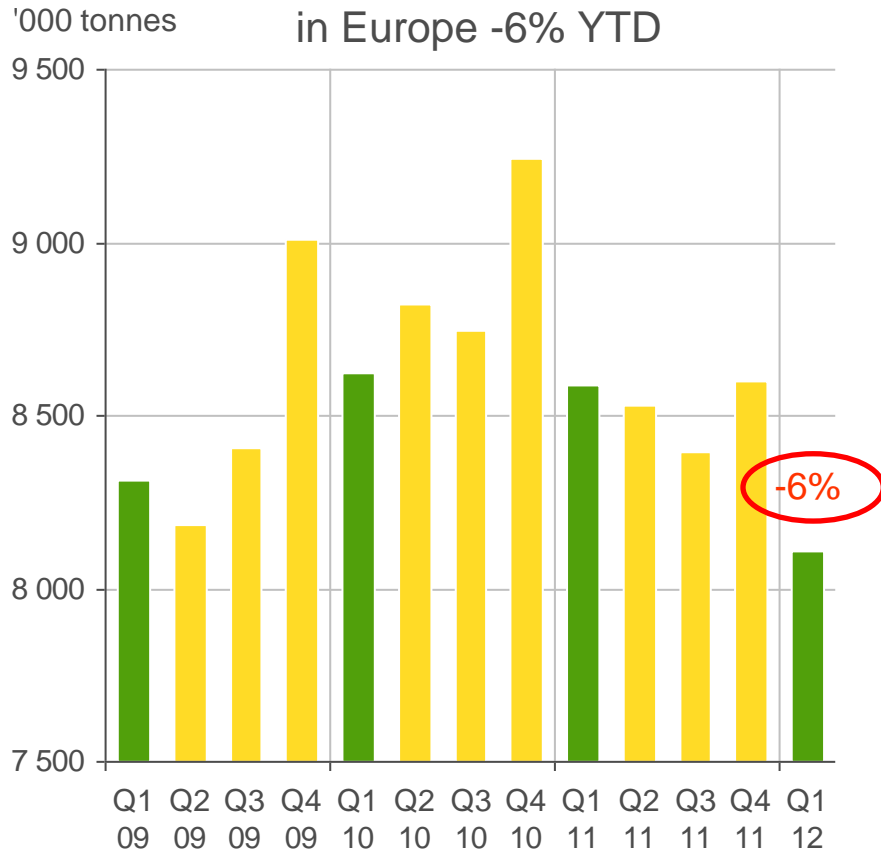


\* Changed GDP base

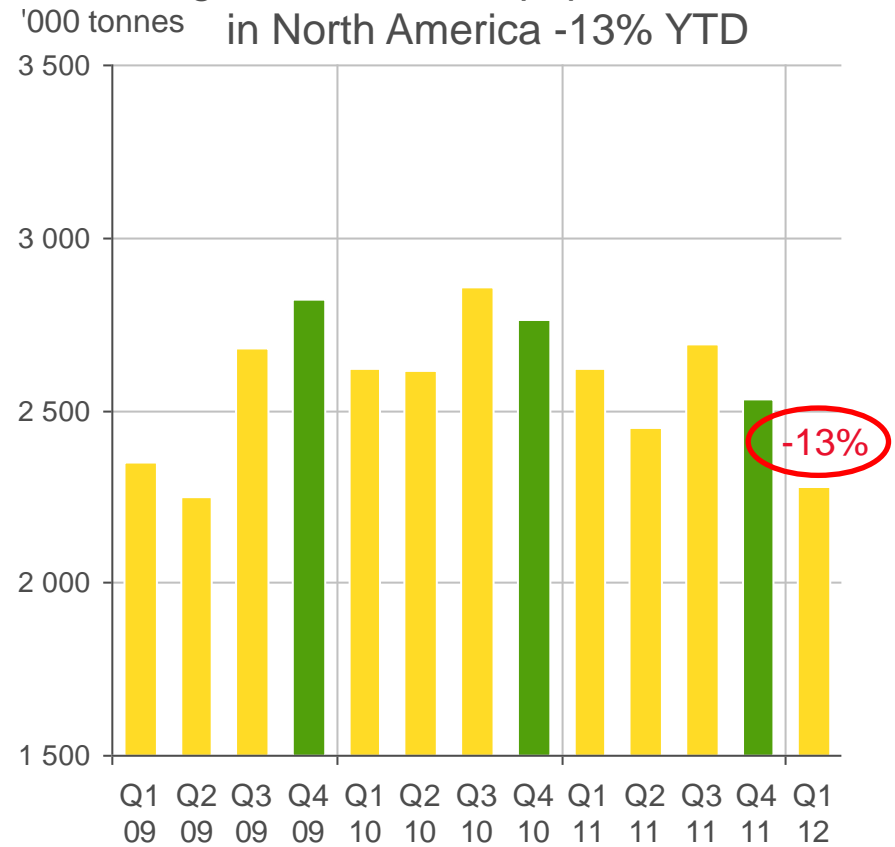


# Graphic papers demand

## Graphic papers demand in Europe -6% YTD



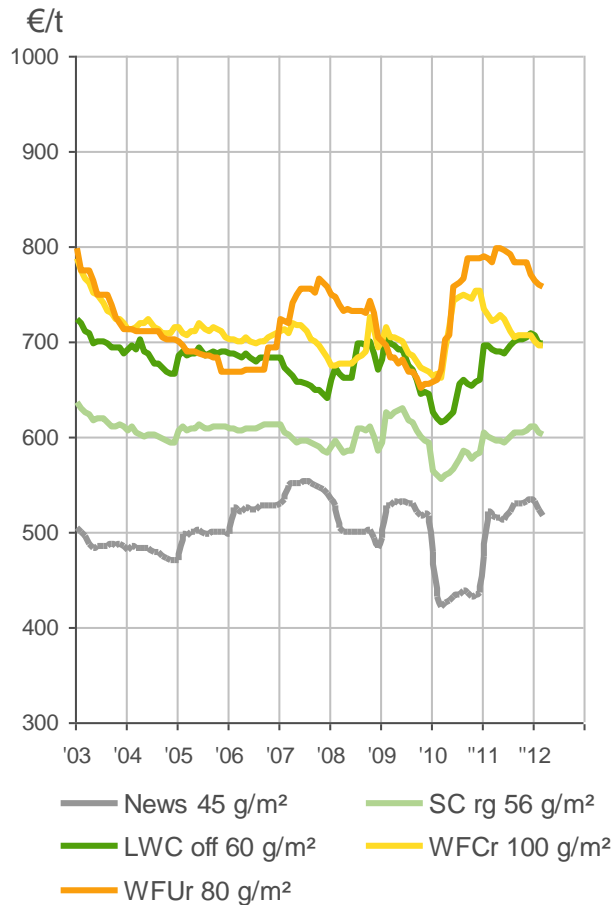
## Magazine and WFC papers demand in North America -13% YTD



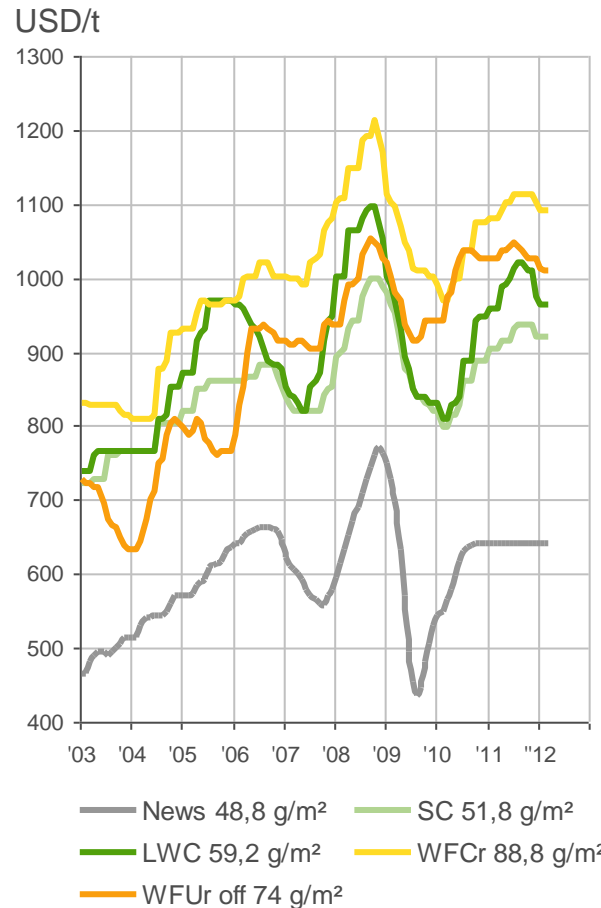


# Graphic paper prices

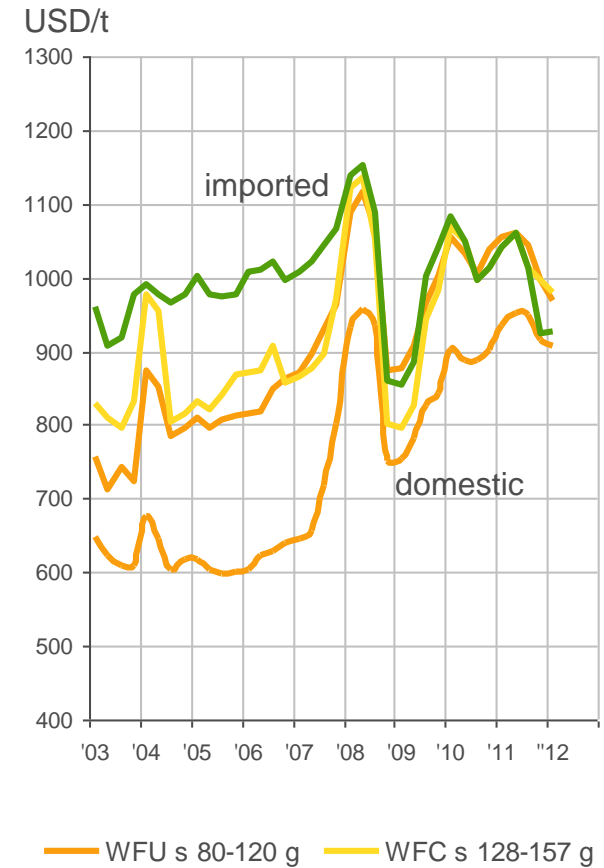
## Europe



## North America



## China

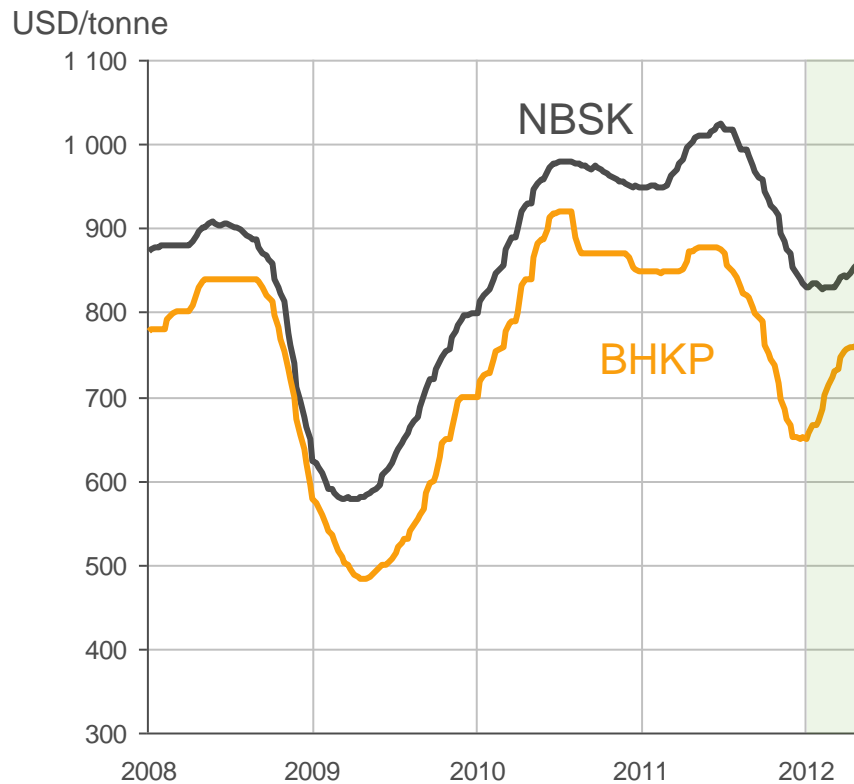


Source: PPI, RISI



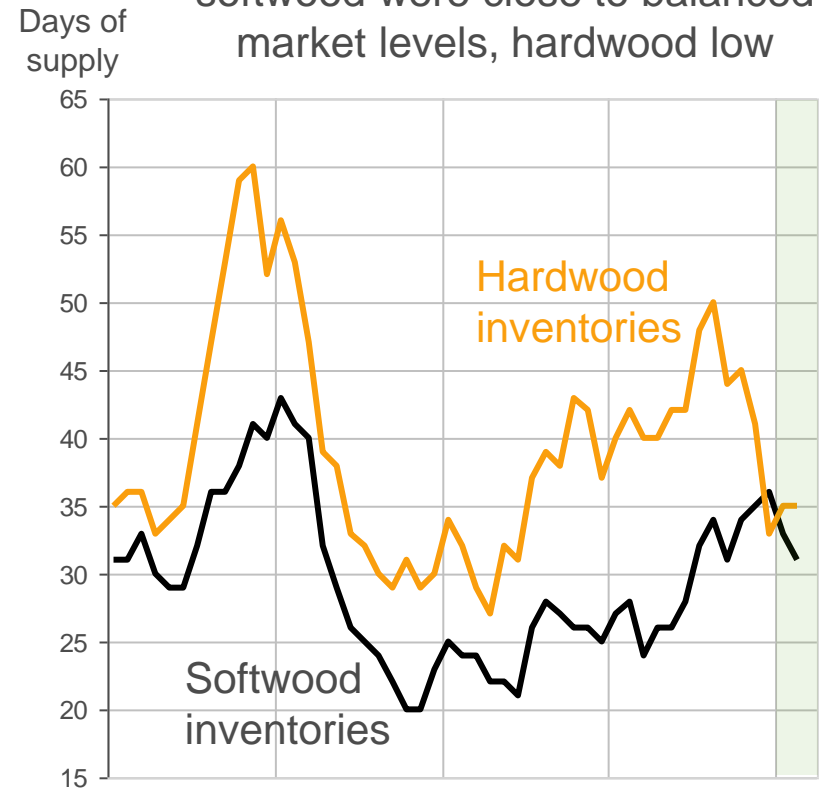
# Chemical pulp market

## Pulp prices improved during Q1



Source: FOEX Indexes Ltd.

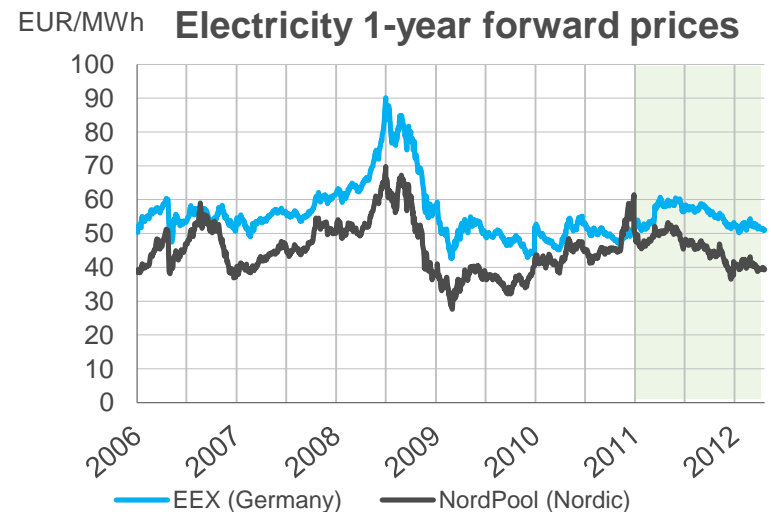
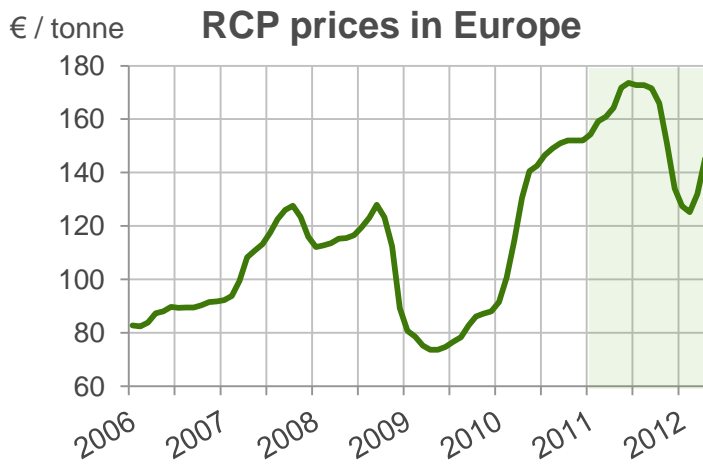
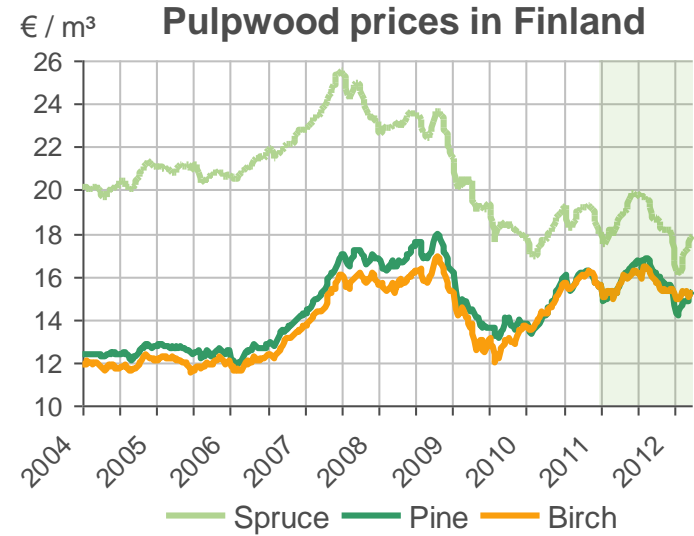
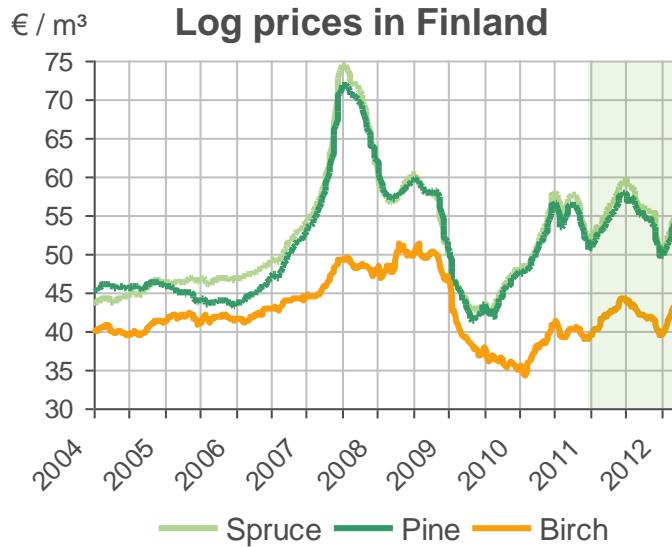
## February producer inventories of softwood were close to balanced market levels, hardwood low



Source: PPPC World-20 statistics



# Wood, RCP and electricity prices







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# FINANCIALS Q1 2012

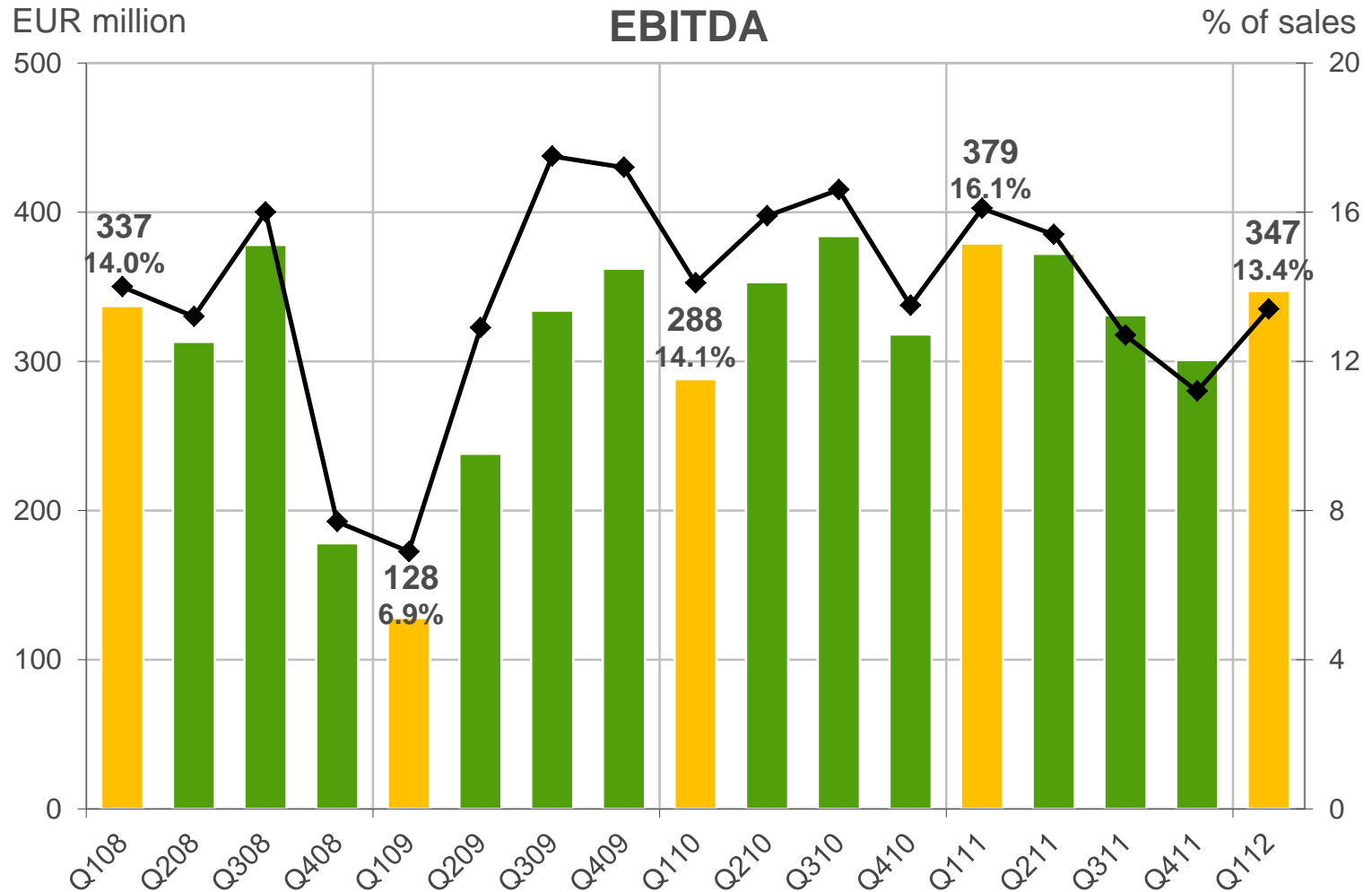
# Key financials

	Q1 2012	Q1 2011	2011	2010
Sales, €m	2,591	2,356	10,068	8,924
Sales growth (%)	10%		13%	
EBITDA, €m	347	379	1,383	1,343
% of sales	13.4	16.1	13.7	15.0
Operating profit, excl. special items, €m	151	198	682	731
EPS excl. special items, €	0.22	0.32	0.93	0.99
Net cash from operating activities, €m	210	166	1,041	982

# Q1 2012 EBITDA decreased from last year due to lower delivery volumes and decreased chemical pulp prices



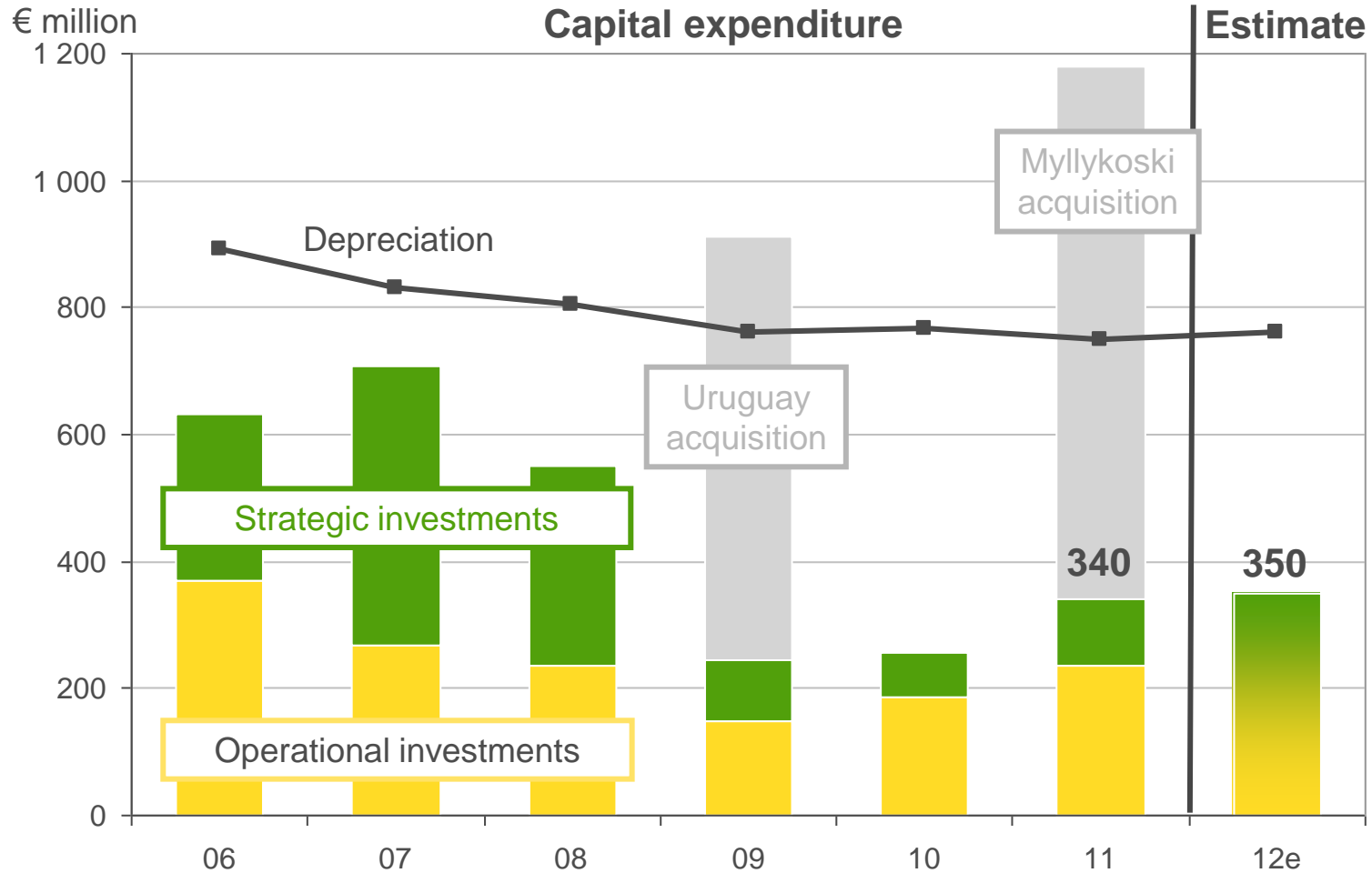
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# Cash flow

€, million	Q1/12	Q1/11	2011	2010
<b>EBITDA</b>	<b>347</b>	<b>379</b>	<b>1,383</b>	<b>1,343</b>
Cash flow before change in working capital	267	318	1,249	1,301
Change in working capital	-13	-131	-73	-139
Finance costs and income taxes	-44	-21	-135	-180
<b>Net cash from operating activities</b>	<b>210</b>	<b>166</b>	<b>1,041</b>	<b>982</b>
Capital expenditure	-87	-80	-286	-241
Asset sales and acquisitions	-1	3	155	46
<b>Cash flow after investing activities</b>	<b>122</b>	<b>89</b>	<b>910</b>	<b>787</b>

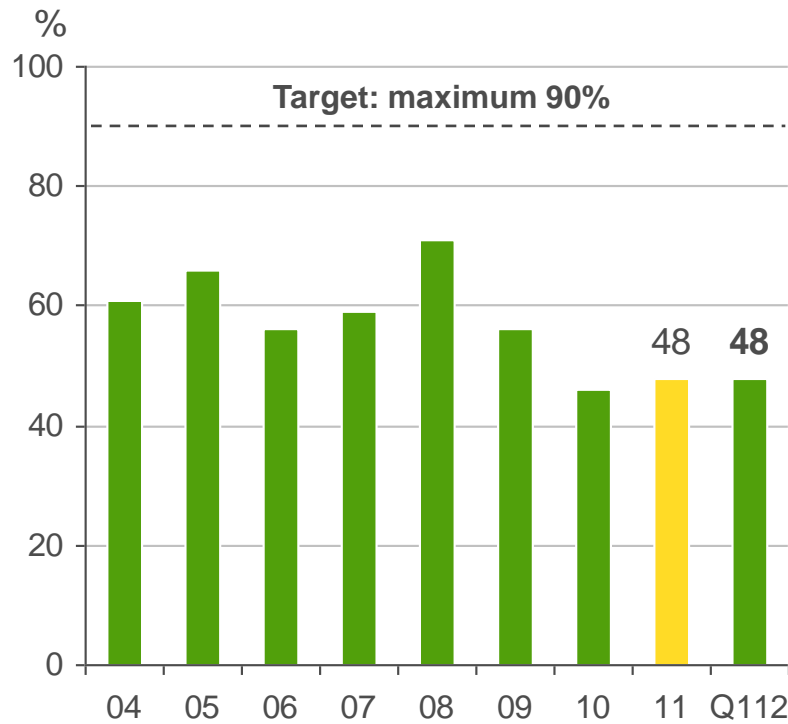
# Low needs for major investments to maintain existing assets



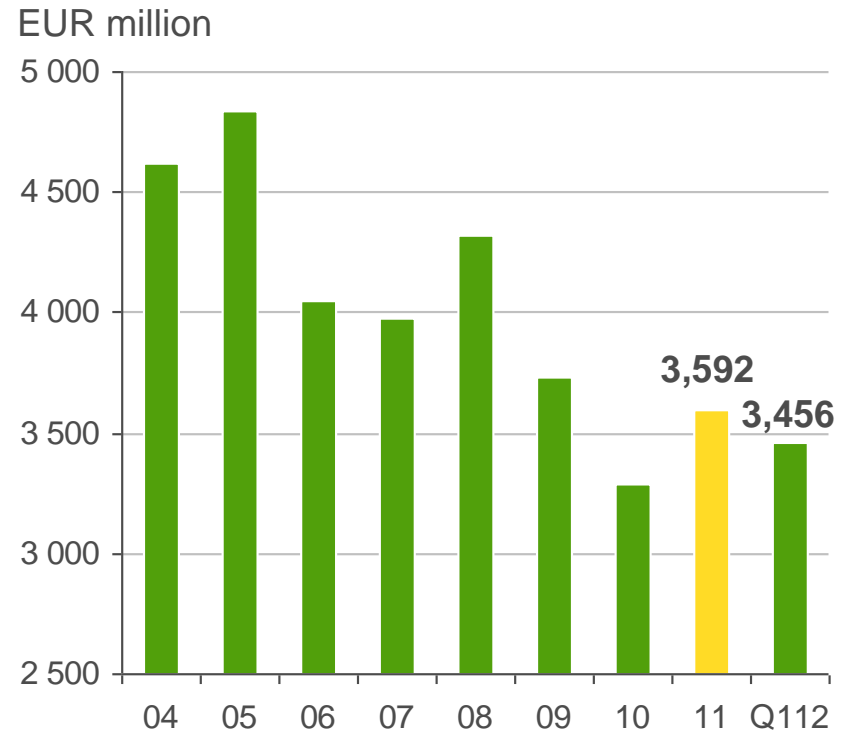


# Balance sheet

## Gearing ratio



## Net debt



**Liquidity** was EUR 1.4bn  
repayments EUR 0.2bn in 2012



# Maturity profile and liquidity

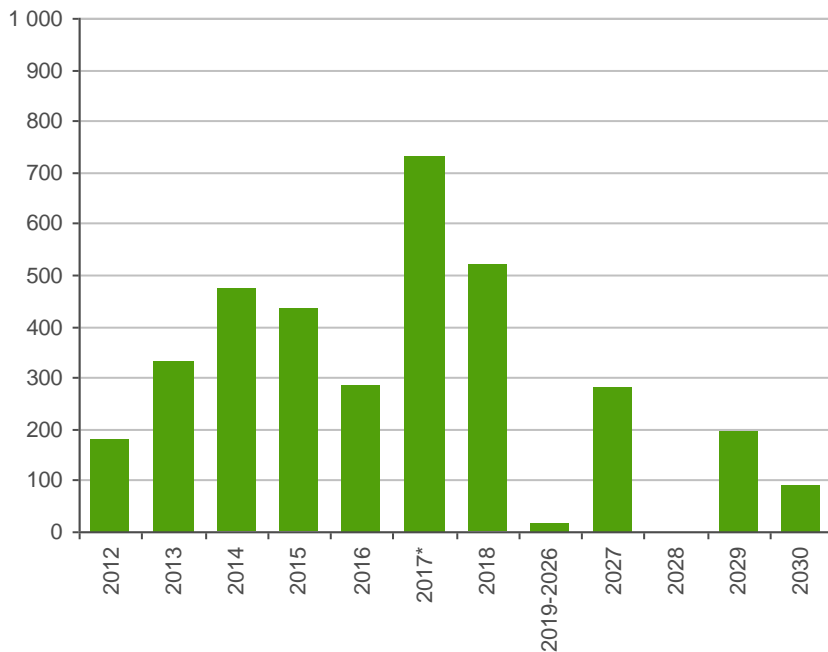
## Liquidity

Liquidity on 31 March 2012 was € 1.4bn  
(cash and unused credit facilities)

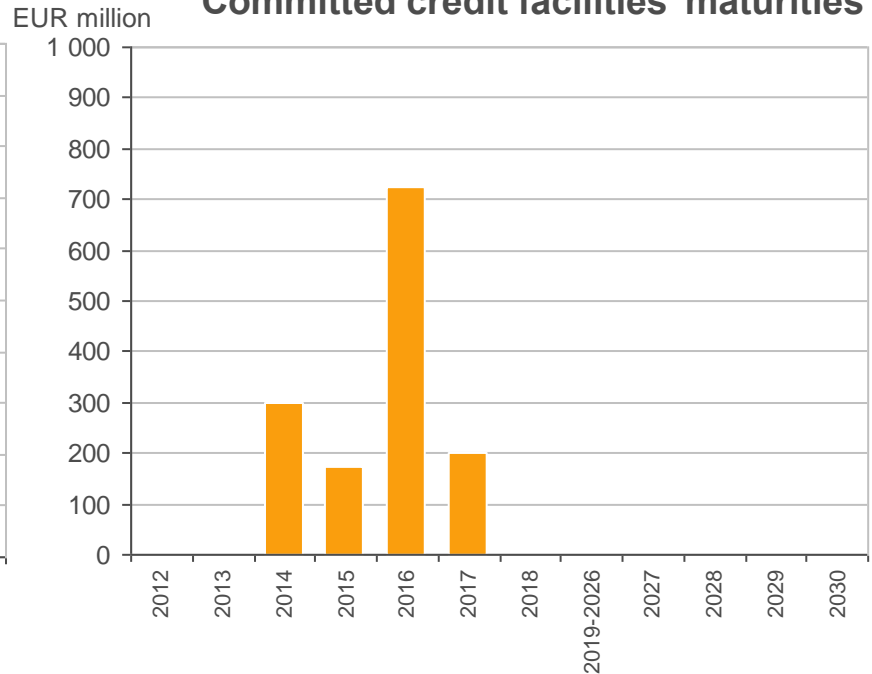
## Committed credit facilities EUR 1.4bn

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

EUR million **Maturity profile of outstanding debt**



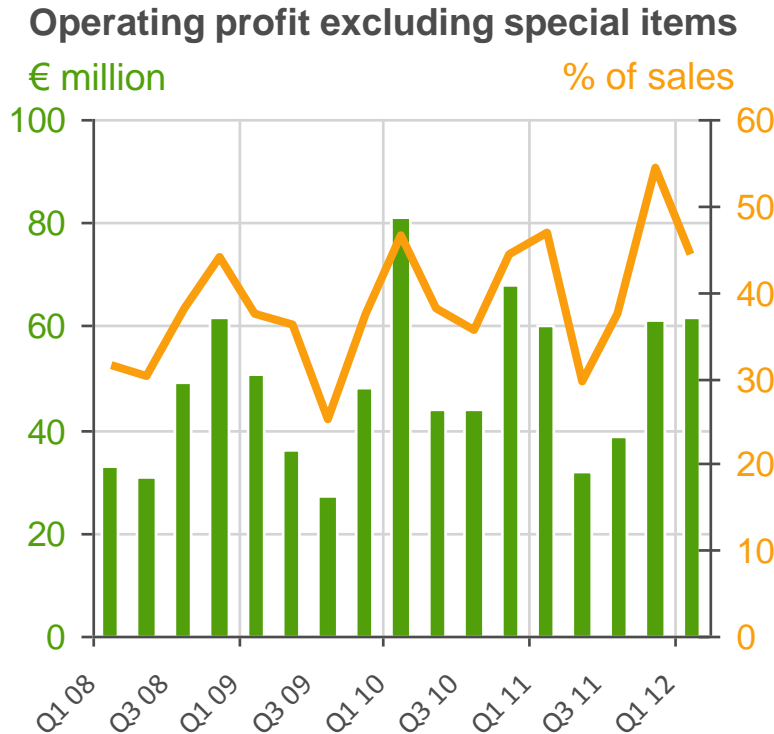
EUR million **Committed credit facilities' maturities**



\*Year 2017 includes 62m€ of drawdowns from Committed credit facilities



# Energy Q1 2012 vs. Q1 2011



- Operating profit excluding special items improved mainly due to higher hydropower volume
- Average sales price for electricity decreased by 6%

## Outlook for 2012

- Hydropower generation volume is expected to continue at a relatively good rate in the early part of the year.
- Average electricity sales price in Q2 2012 is expected to be lower than in Q1 2012.

Sales **Q1 2012 140** **9%**  
 EUR million Q1 2011 128

Operating profit **Q1 2012 62** **2**  
 EUR million\*) Q1 2011 60  
 EUR million

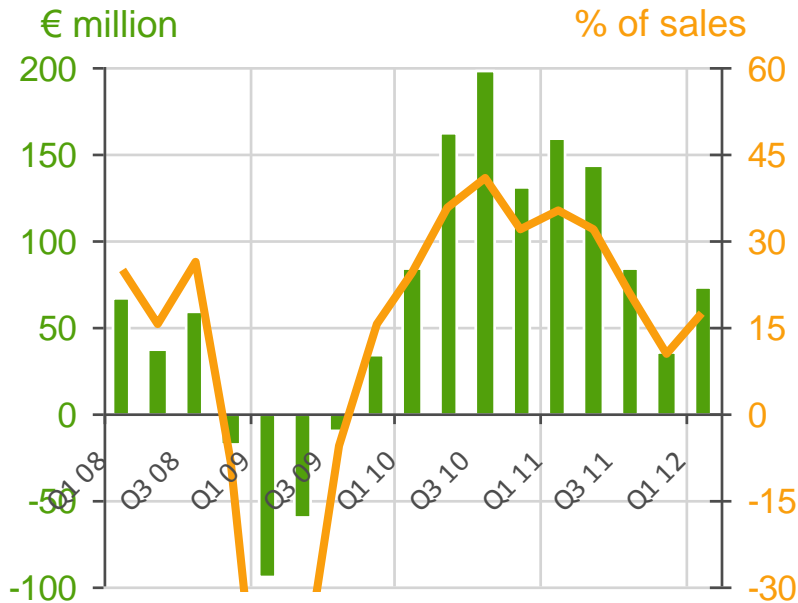
\*) excluding special items





# Pulp Q1 2012 vs. Q1 2011

## Operating profit excluding special items



- Operating profit excluding special items decreased due to lower pulp sales price
- Deliveries increased by 13%

## Outlook for 2012

- Chemical pulp deliveries in Q2 2012 are expected to decrease somewhat from the high level in Q1 2012.
- The average price of UPM's pulp deliveries is estimated to be slightly higher in Q2 2012 than in Q1 2012.

Sales **Q1 2012 430** -6%  
 EUR million Q1 2011 457

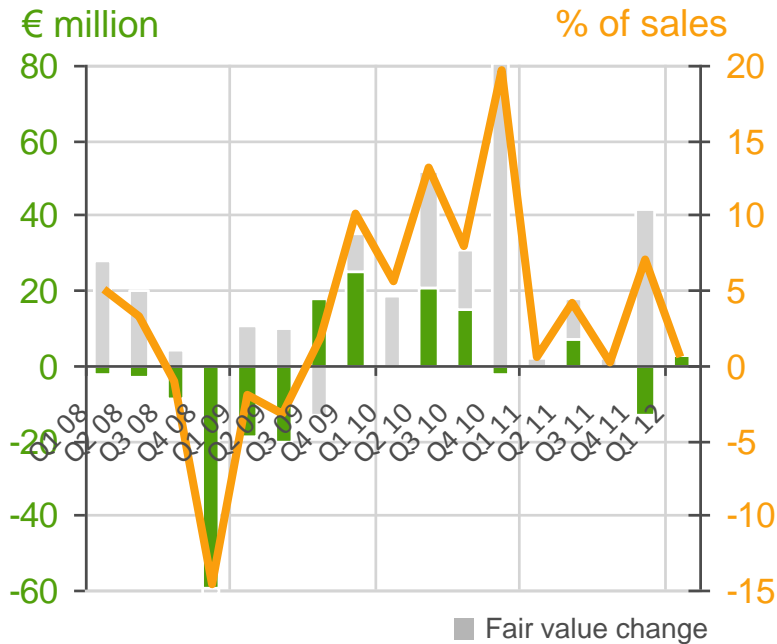
Operating profit **Q1 2012 74** -86  
 EUR million\*) Q1 2011 160  
 EUR million

\*) excluding special items



# Forest and Timber Q1 2012 vs. Q1 2011

## Operating profit excluding special items



- The fair value of biological assets less wood harvested decreased by EUR 1 million (increase of 2 million)
- In sawn timber the increase in delivery volumes was not high enough to offset negative impact from lower sales prices

## Outlook for 2012

- In the sawn timber business, delivery volumes are expected improve seasonally in Q2 2012 from Q1 2012.

Sales **Q1 2012 426** **8%**  
 EUR million Q1 2011 394

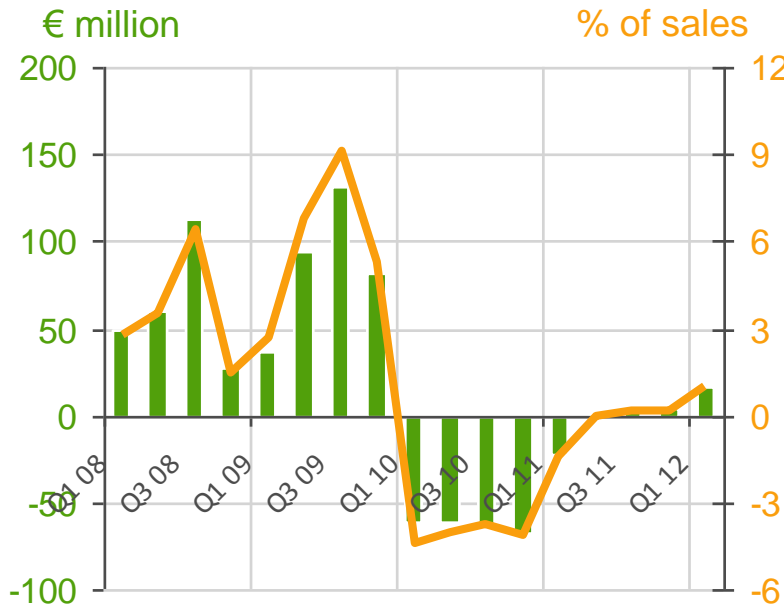
Operating profit **Q1 2012 2** **0**  
 EUR million\*) Q1 2011 2 EUR million

\*) excluding special items



# Paper Q1 2012 vs. Q1 2011

## Operating profit excluding special items



- Operating profit excluding special items improved mainly due to lower fibre costs
- Average paper price increased by 1%
- Myllykoski cost synergies started to be visible

## Outlook for 2012

- Graphic paper demand in Europe is expected to continue to be somewhat lower than in 2011. Solid demand is expected to continue in Asia.
- Paper deliveries are expected to increase somewhat in Q2 2012 from Q1 2012.
- The average price in euros is expected to be at about the same level in Q2 2012 as in Q1 2012.

Sales **Q1 2012 1,762** **7%**  
 EUR million Q1 2011 1,647

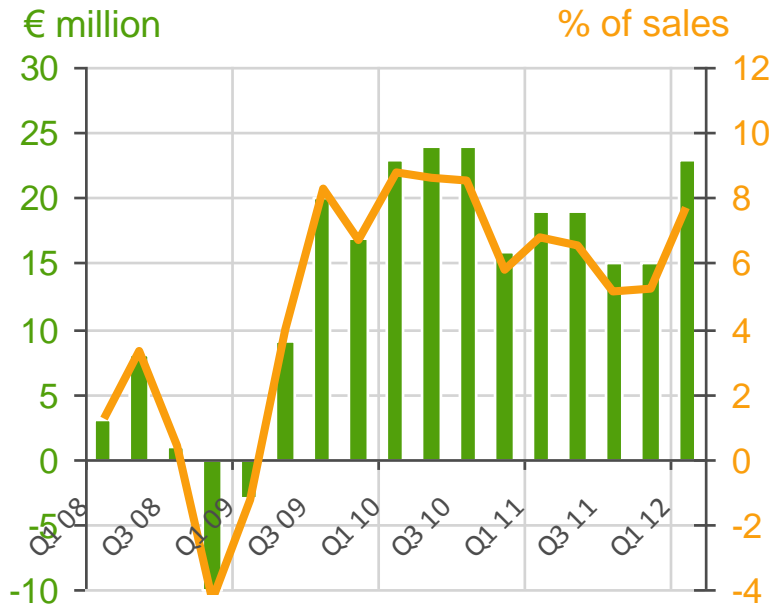
Operating profit **Q1 2012 17** **+40**  
 EUR million\*) Q1 2011 -23  
 EUR million

\*) excluding special items



# Label Q1 2012 vs. Q1 2011

## Operating profit excluding special items



- Operating profit excluding special items increased mainly due to higher sales prices and lower variable costs
- In Q1 2012, UPM started production at a new specialty product factory in Fletcher, North Carolina, as well as opened a new slitting and distribution terminal in Buenos Aires, Argentina

## Outlook for 2012

- Label materials deliveries are expected to be at about the same level in Q2 2012 as in Q1 2012.
- Sales prices in local currencies and variable costs are expected to be stable in Q2 2012 compared with Q1 2012.

Sales **Q1 2012 298** **7%**  
 EUR million Q1 2011 278

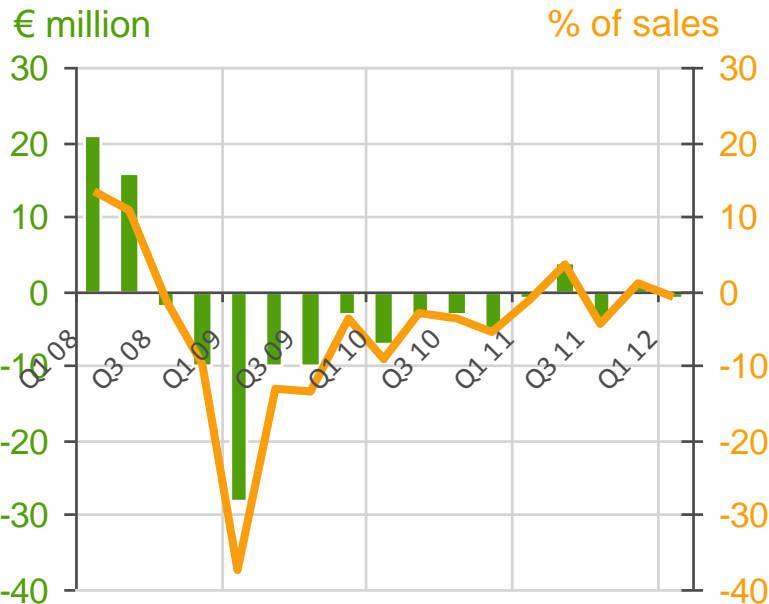
Operating profit **Q1 2012 23** **4**  
 EUR million\*) Q1 2011 19 EUR million

\*) excluding special items



# Plywood Q1 2012 vs. Q1 2011

## Operating profit excluding special items




- Higher delivery volumes and lower fixed costs offset the negative impact of lower sales prices and higher wood costs
- Deliveries increased by 5%

## Outlook for 2012

- Plywood deliveries are expected to increase somewhat in Q2 2012 from Q1 2012.
- Sales prices are expected to increase slightly for spruce plywood from Q1 2012.

Sales **Q1 2012 96**  **2%**  
 EUR million Q1 2011 94

Operating profit **Q1 2012 -1**  **0**  
 EUR million\*) Q1 2011 -1 EUR million

\*) excluding special items



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