



The Biofore Company **UPM**

UPM Q3 RESULTS 2012

Jussi Pesonen
President and CEO
25 October 2012





Q3 2012 highlights

Operating cash flow continued strong at EUR 319m in Q3 2012 (285m in Q3 2011)

- Net debt decreased by EUR 245m in Q3 2012

Operating profit excluding special items EUR 122m in Q3 2012 (136m)

Growth businesses continued good performance

- Energy, Label and Asian paper businesses maintained strong profitability
- Pulp was affected by temporary production disruptions in Q3

Weak profitability continued in Paper, Plywood and Timber

- Substantial cost savings achieved in the mature businesses, more is needed
- UPM's fixed costs EUR 34m lower in Q3 2012 than last year

Key figures

Q3/2012 vs. Q3/2011

Sales

EUR 2,578 m  -1%

EBITDA

EUR 305 m  -8%

EPS (*)

EUR 0.15  -21%

Operating cash flow

EUR 319 m  +34 m

Q1-Q3/2012 vs. Q1-Q3/2011

EBITDA

EUR 968 m  -11%

Operating cash flow (**)

EUR 662 m  -69 m

Net debt

EUR 3,139 m  -619 m

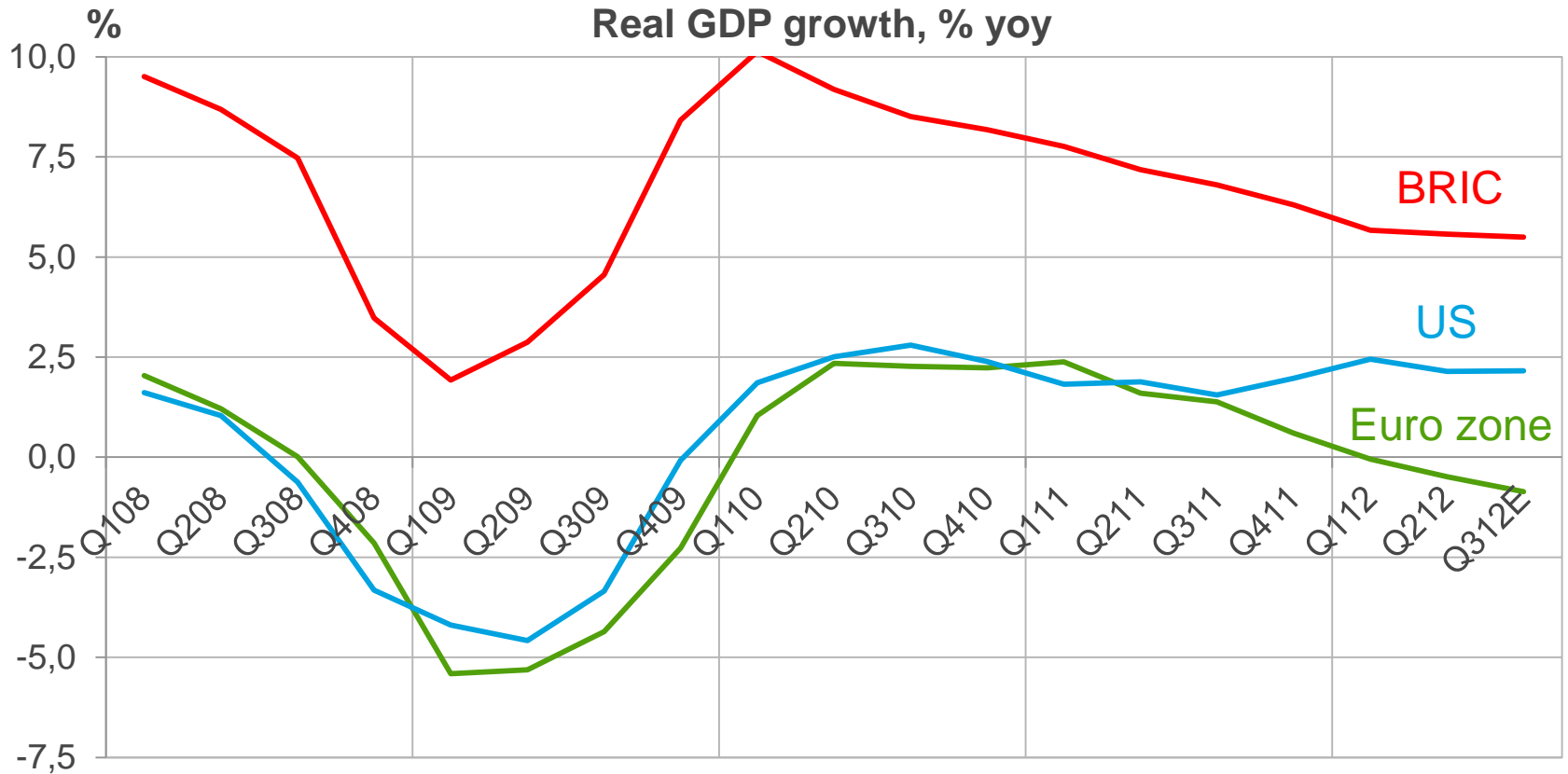
Gearing

42%  -10 pp

*) excluding special items

**) after restructuring payments of EUR 170m

Second economic downturn in Europe in four years, decelerating economy in growth markets

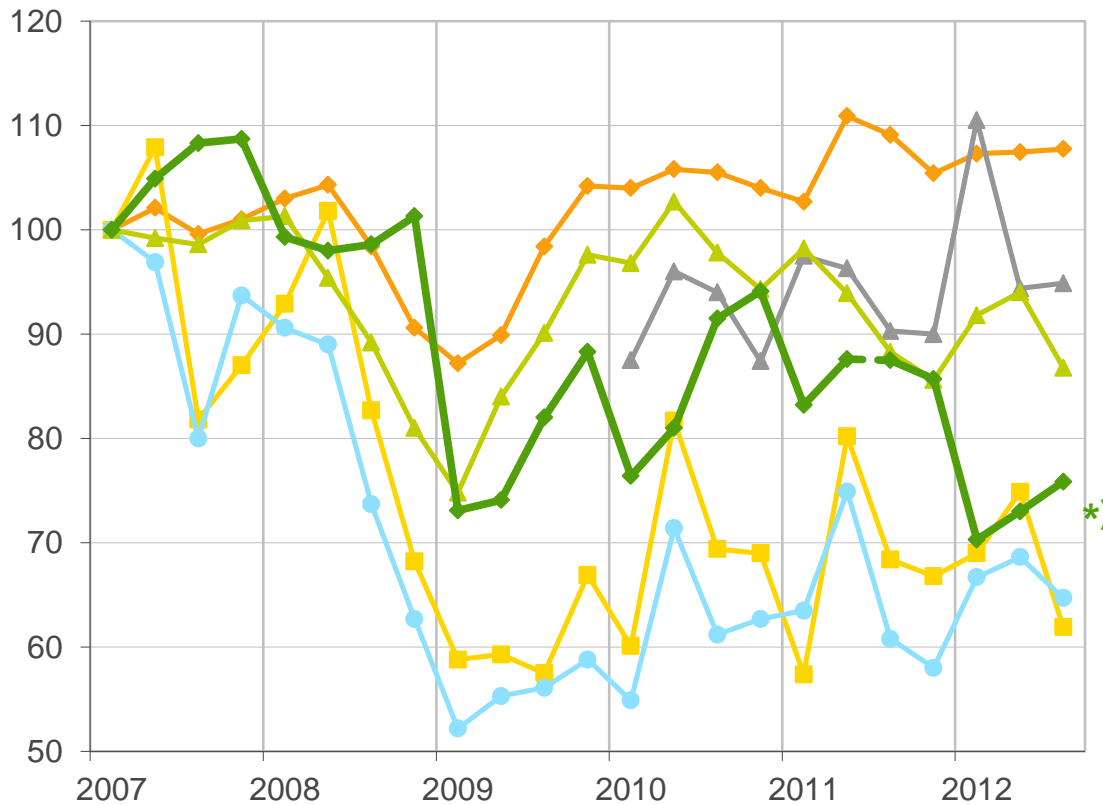


Source: Global Insight



Deliveries affected by the weak economy

Delivery volumes, indexed Q107 = 100

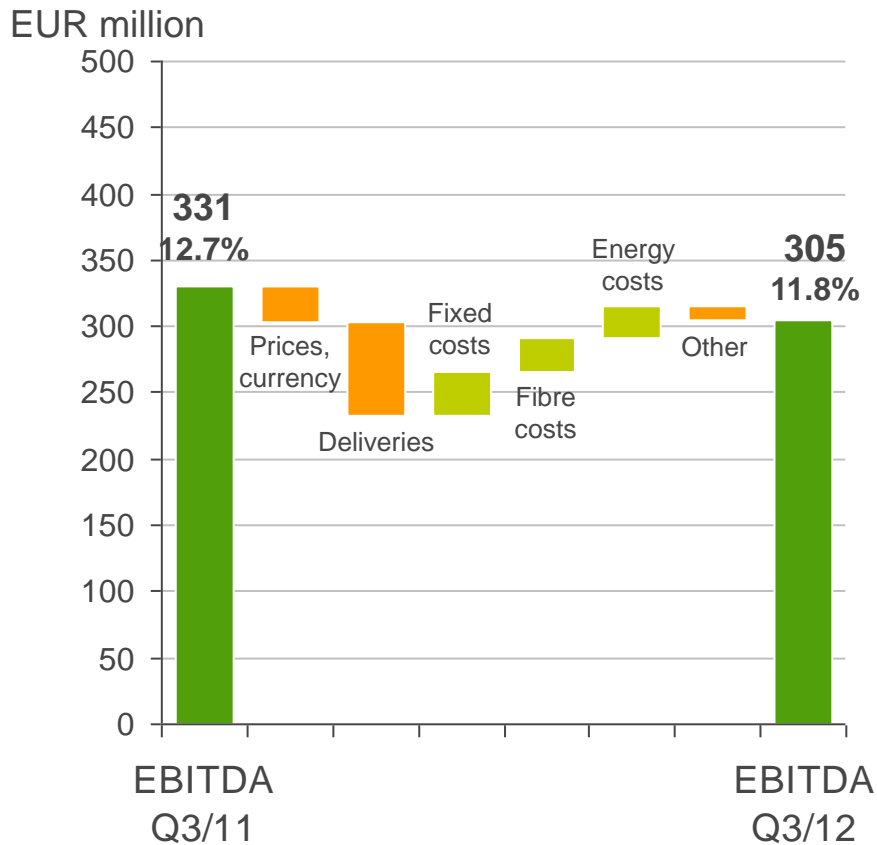


Change in deliveries, %	Q312/ Q311	Q312/ Q212	9M12/ 9M11
Label	-1	0	0
Pulp	+5	+1	+6
Publication papers *)	-14	+4	-16
Fine and spec. papers	-2	-8	-3
Timber	-9	-17	0
Plywood	+6	-6	0

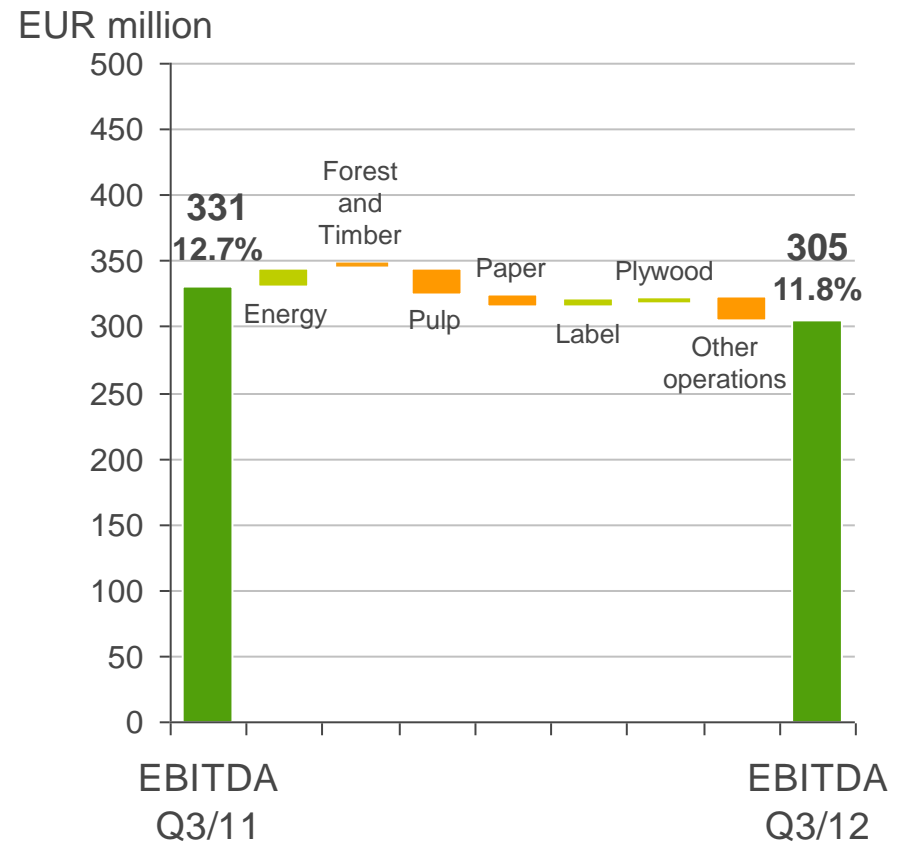
*) publication paper development in Q311 - Q312 pro forma, including Myllykoski

EBITDA decreased by 8% in Q3 2012 from Q3 2011

Fixed and variable costs decreased.
Volumes and prices decreased



Pulp and Paper decreased

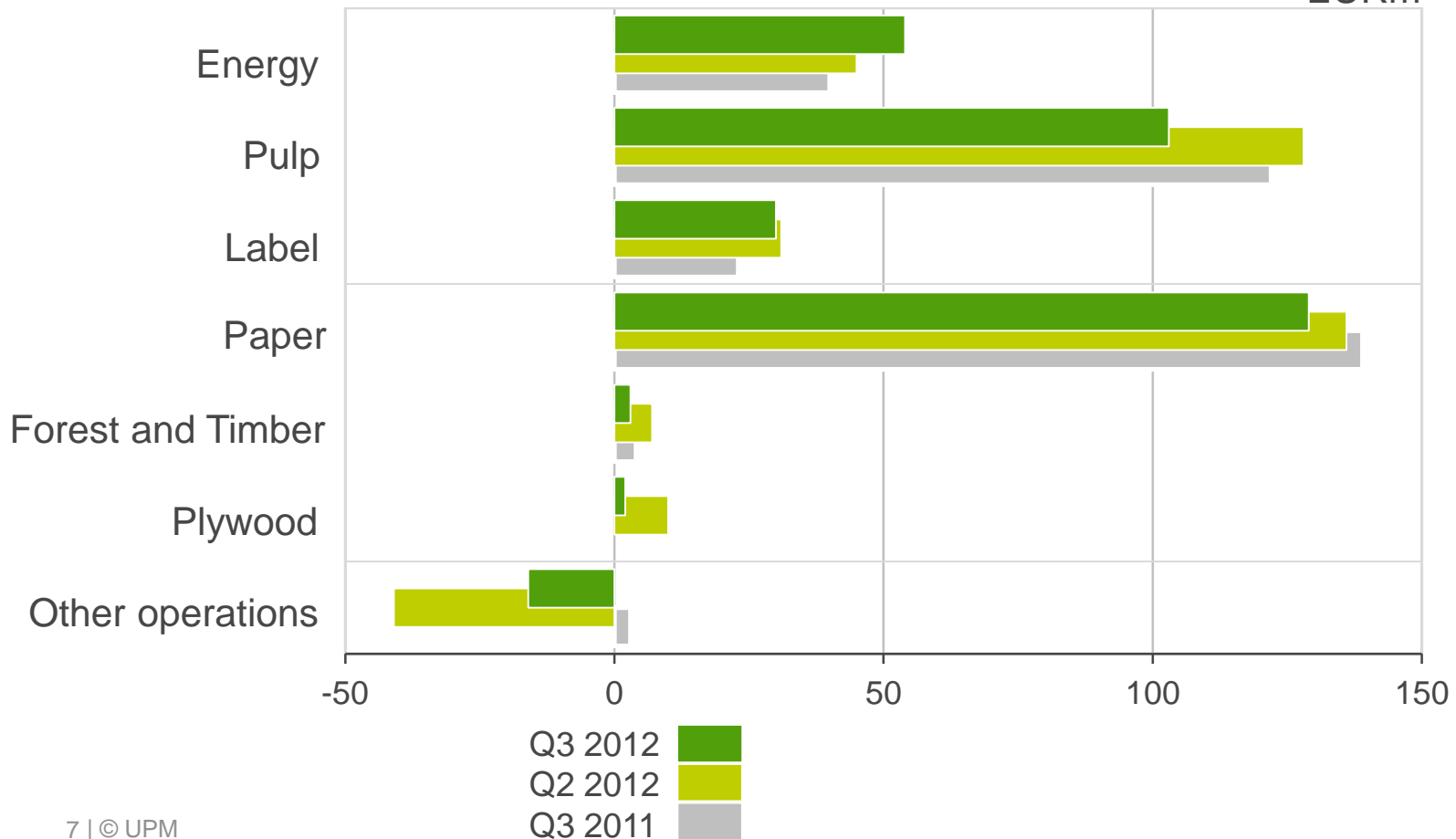


Q3 2012 EBITDA

Good performance in Energy and Label,
Pulp affected by temporary process disruptions

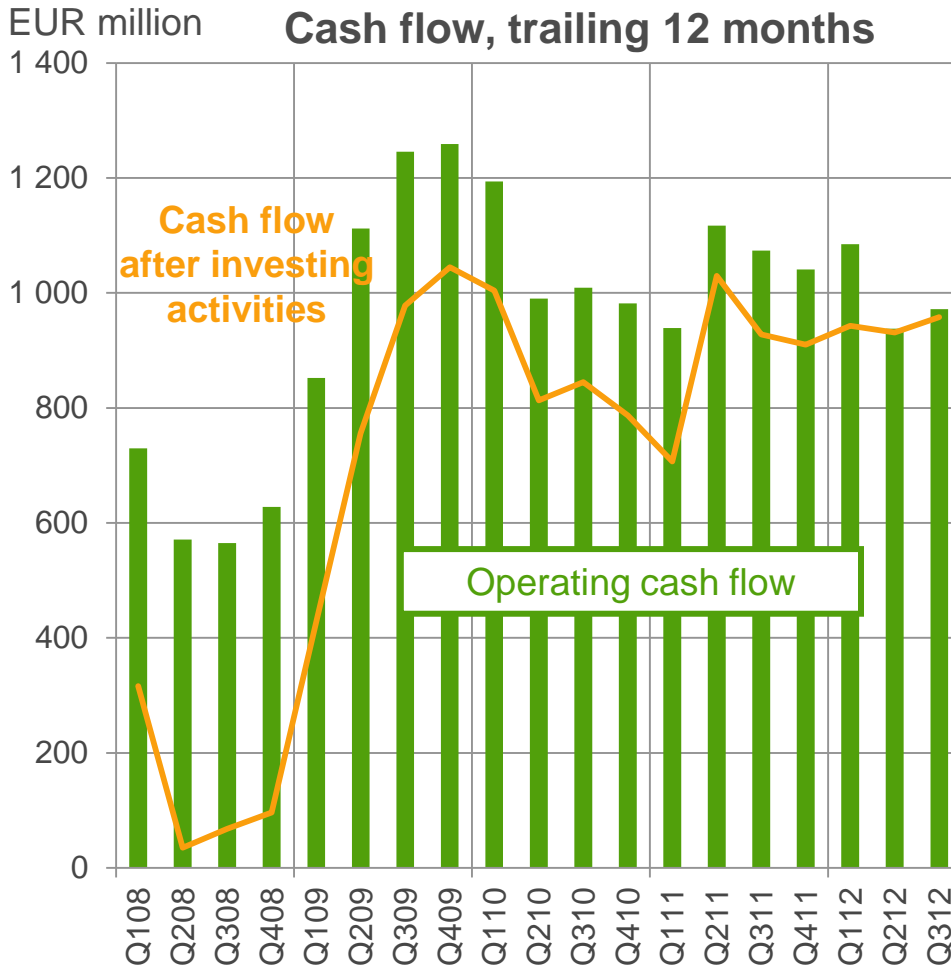
EBITDA

EURm





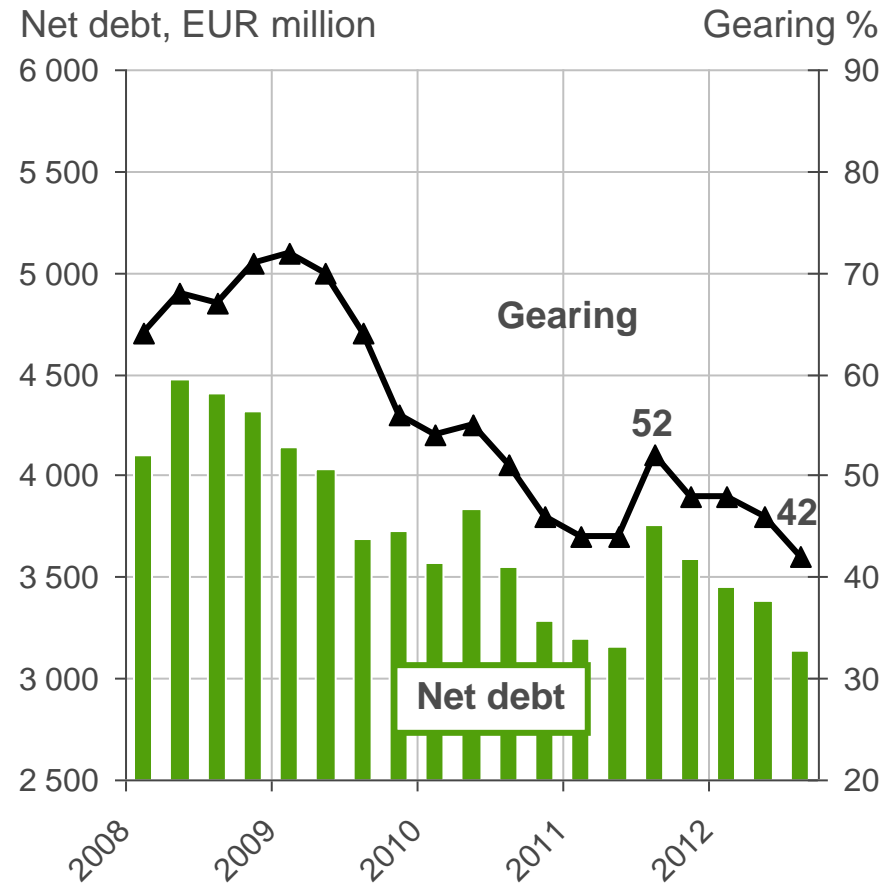
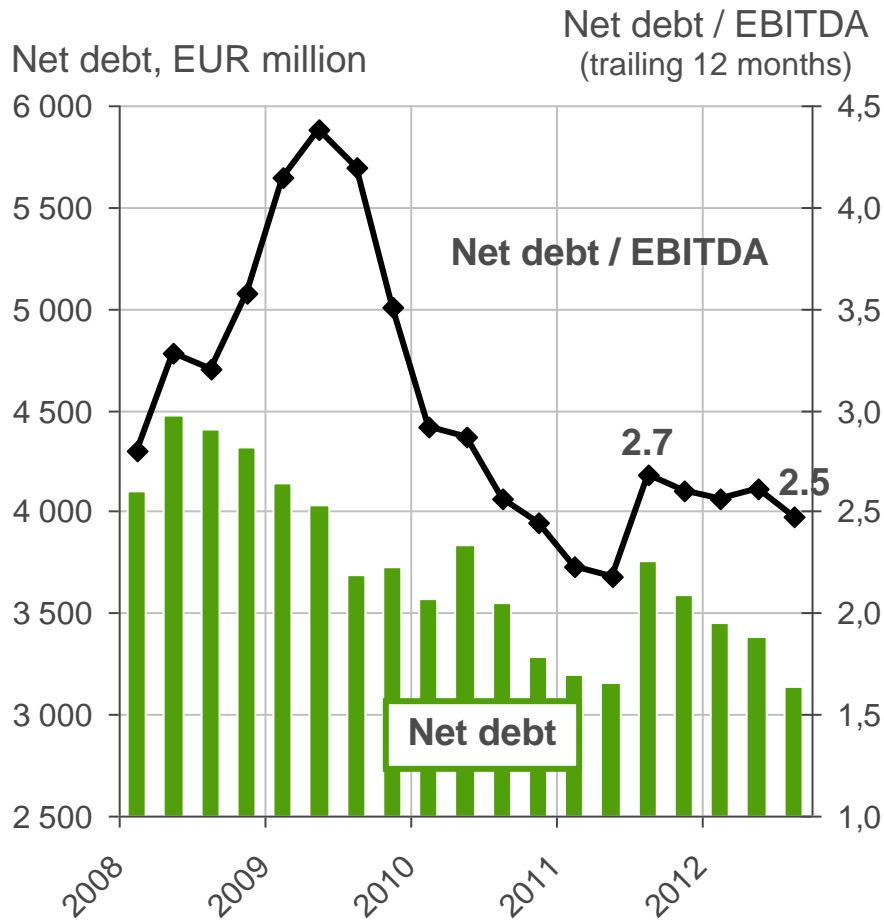
Consistently solid cash flow



- Q3 2012 operating cash flow was EUR 319m (285m)
- Q1-Q3 2012 operating cash flow was EUR 662m (731m), after EUR 170m restructuring payments



Strong balance sheet

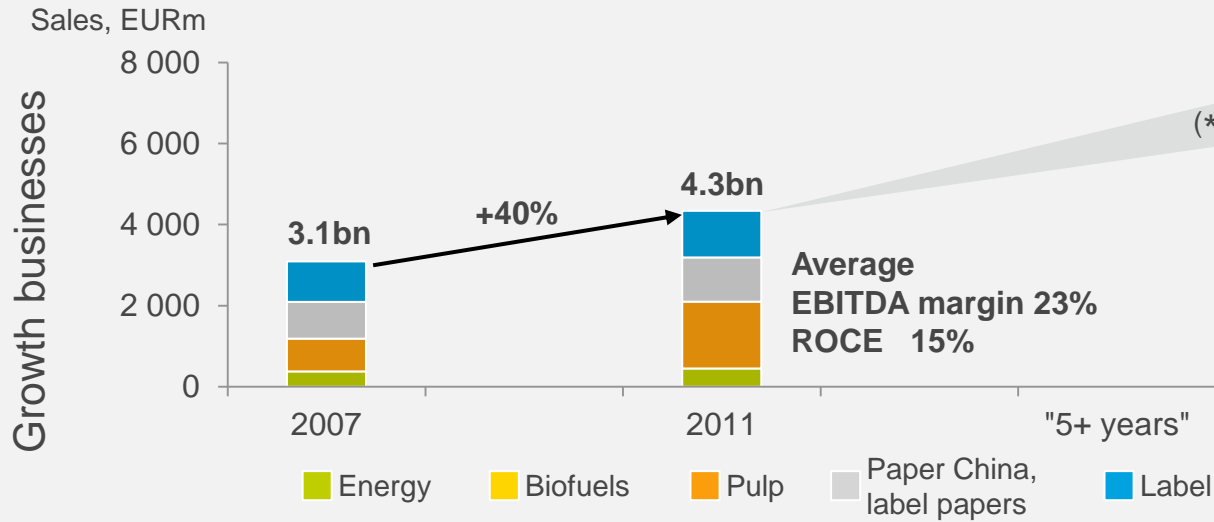


Liquidity was EUR 1.7bn at the end of Q3 2012
Repayments total EUR 424m in 2012-13

Expanding well performing growth businesses with cash flow from mature businesses



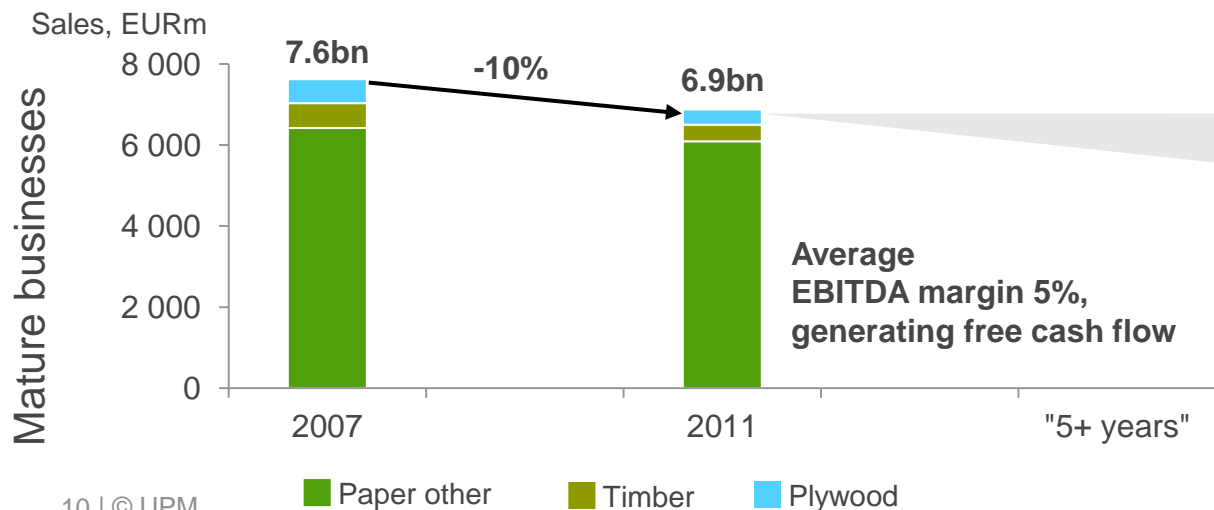
The Biofore Company UPM



Growth actions

- Paper machine in China
- Biofuel refinery
- Gascogne labelstock acquisition

*) This is not a forecast, but one scenario from some of UPM's existing growth opportunities

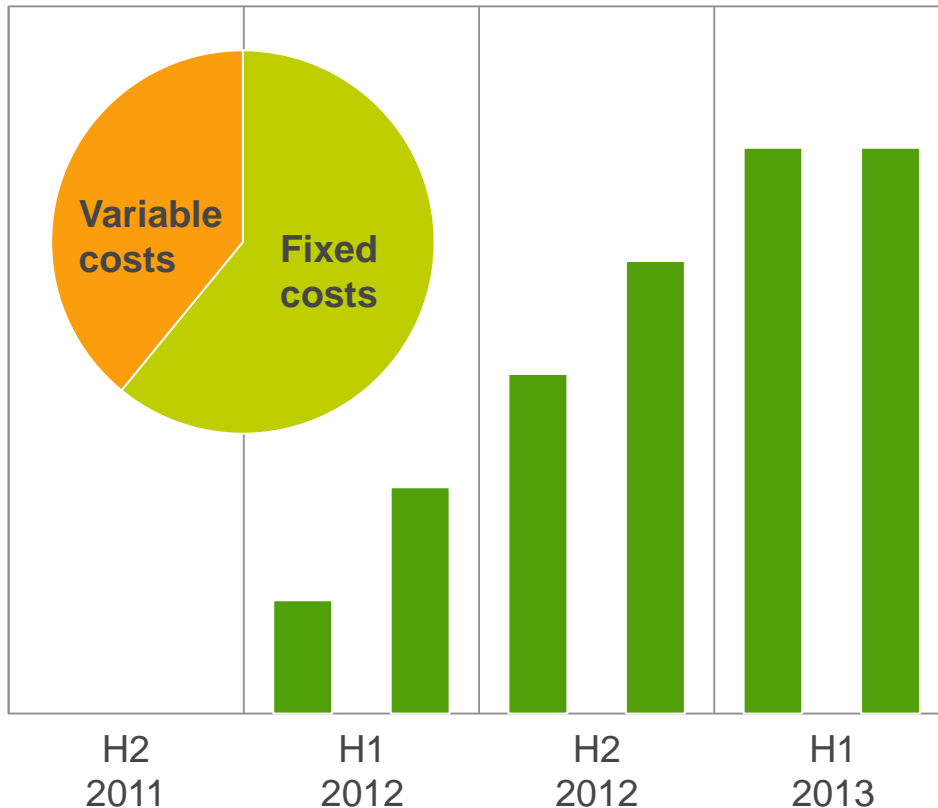


Actions in mature areas

- Divestment of Metsä Fibre shares
- Divestment of packaging papers
- Myllykoski synergies and asset restructuring
- Exit of Stracel paper mill
- Schongau CHP
- Plywood, Timber restructuring

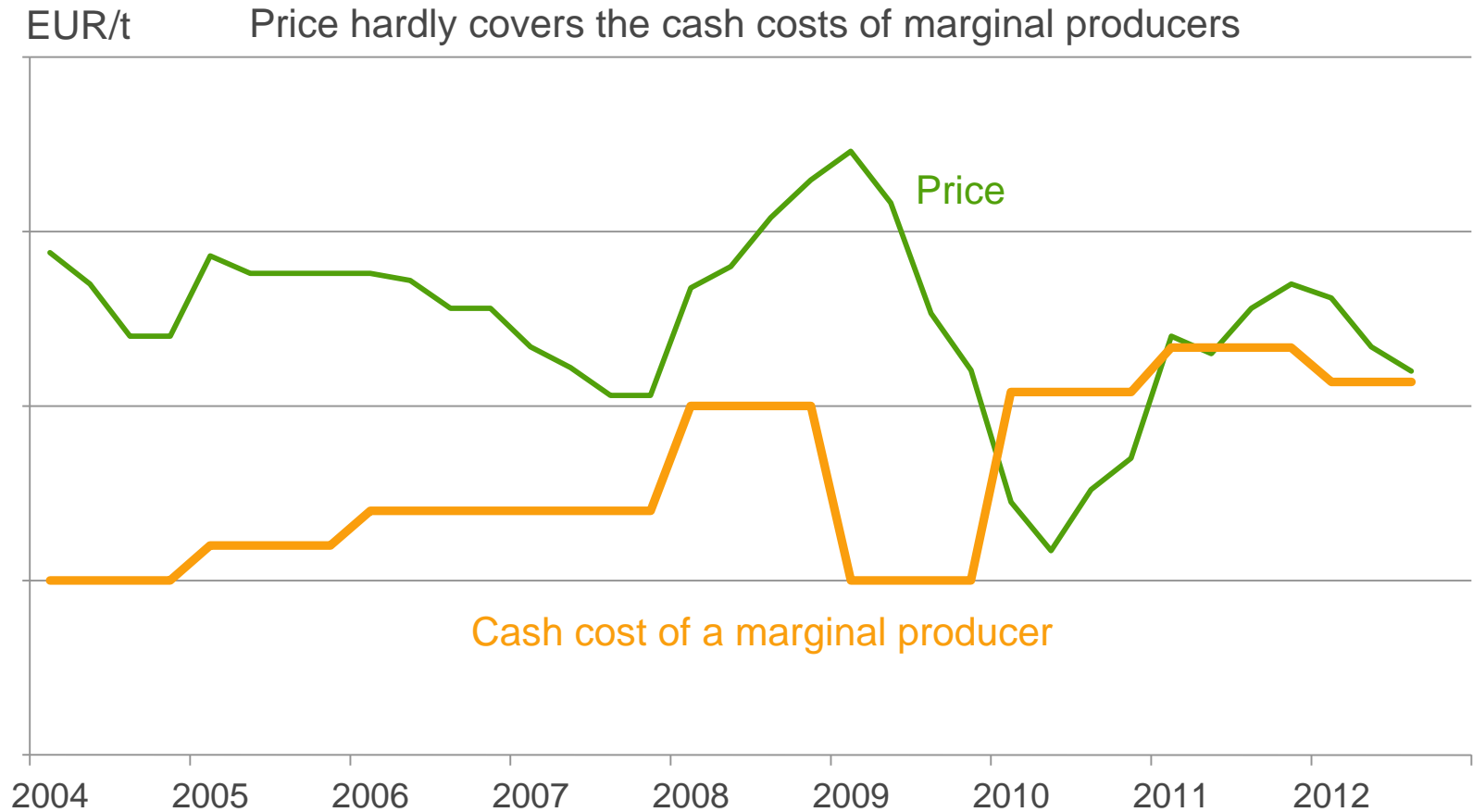
Myllykoski acquisition cost synergies on track

Estimated timing and sources of planned EUR 200m cost synergies

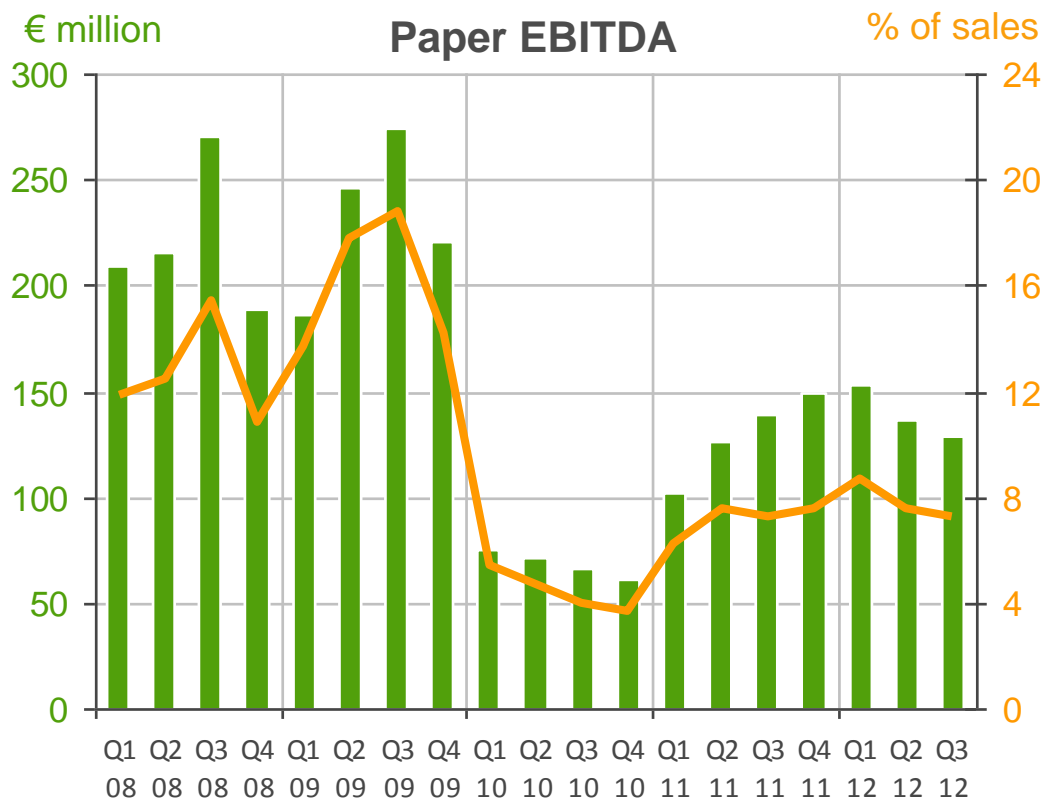


- In Q1-Q3 2012, synergy benefits reduced Paper business' costs by about EUR 120m
- More than EUR 150m synergies are expected to affect the 2012 results
- Full cost synergies of EUR 200m are expected to be visible in 2013

Overcapacity is visible in margins – it is increasingly crucial to be a low-cost producer



Paper cost competitiveness improved, but profitability is still low



- Deliveries were stable in Q3 2012 from Q2 2012, but decreased 10% from proforma last year
- Myllykoski cost synergies: Q1-Q3 2012 magazine paper fixed costs per tonne on about the same level as last year, variable costs lower partly due to the synergies

UPM will use the full toolkit to turn European Paper to the right track

Maximise cash flow:

Focus on margins – adjust operations to the profitable demand

- Sales steering
- Cost savings, energy and materials efficiency
- Consolidation and restructuring
- Releasing capital

UPM has started a new review of costs, margins and structures
UPM has informed customers of price increases



Outlook for 2012 (*)

- The European economy is expected to be in recession in H2 2012. The economy is decelerating also in the growth markets
- Operating profit excluding special items in Q4 2012 is expected to be about the same, or lower than in Q3 2012
- Cost level is expected to remain stable in Q4 2012 vs. Q3 2012. More than EUR 150m of Myllykoski synergies are expected to impact full-year 2012 results
- Operating profit excluding special items in 2012 is expected to be lower than in 2011
- Capex for 2012 is forecast to be approximately EUR 350m



Summary

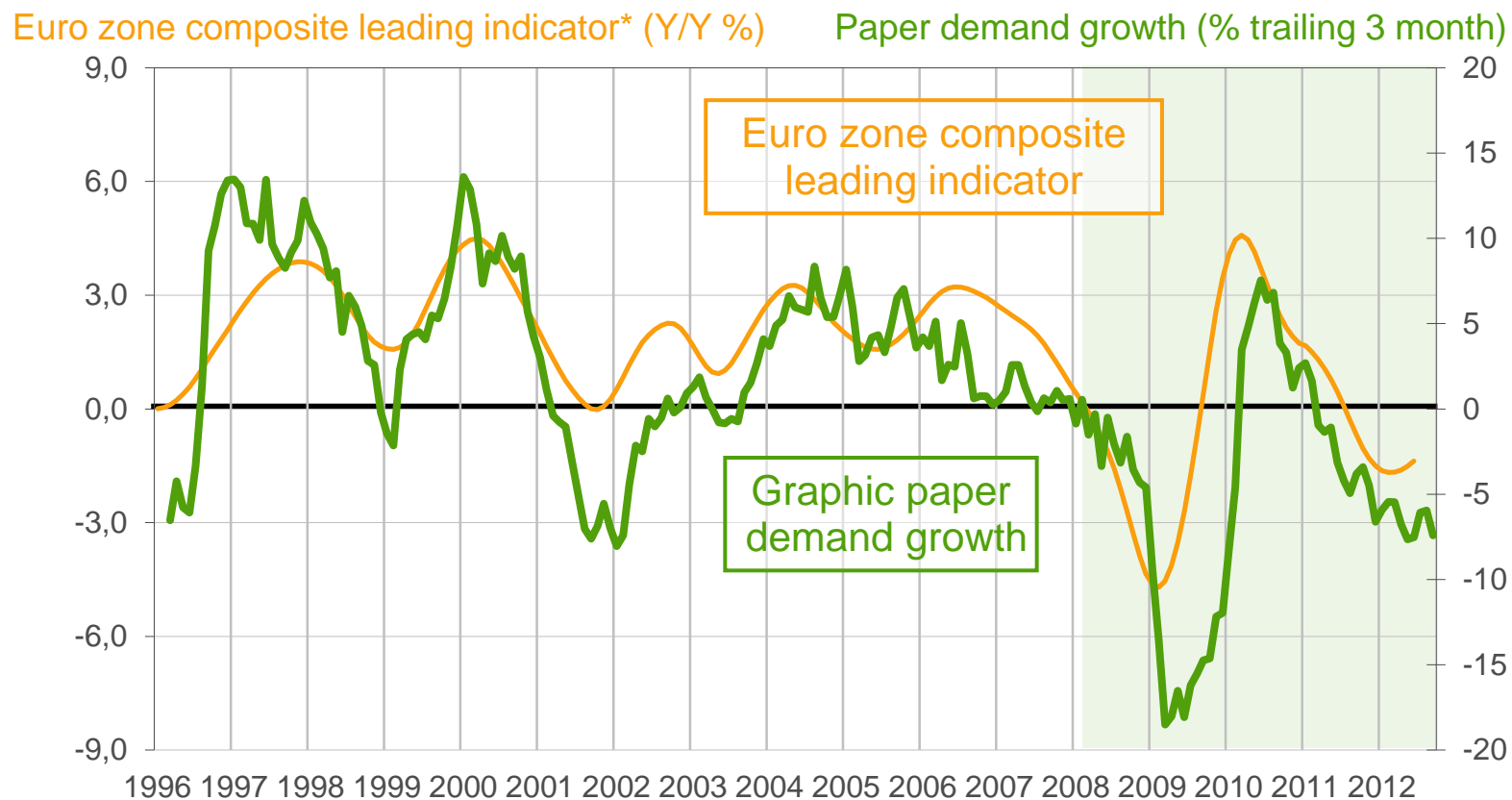
- Decelerating world economy is impacting UPM's business environment
- Solid cash flow continued in Q3 2012 and balance sheet strengthened further
- Growth businesses have continued good performance in the difficult environment
- Paper, Plywood and Timber suffer from poor profitability
UPM will use the full toolkit to get them to the right track



The Biofore Company **UPM**

BUSINESS DRIVERS

Second economic downturn in Europe in four years

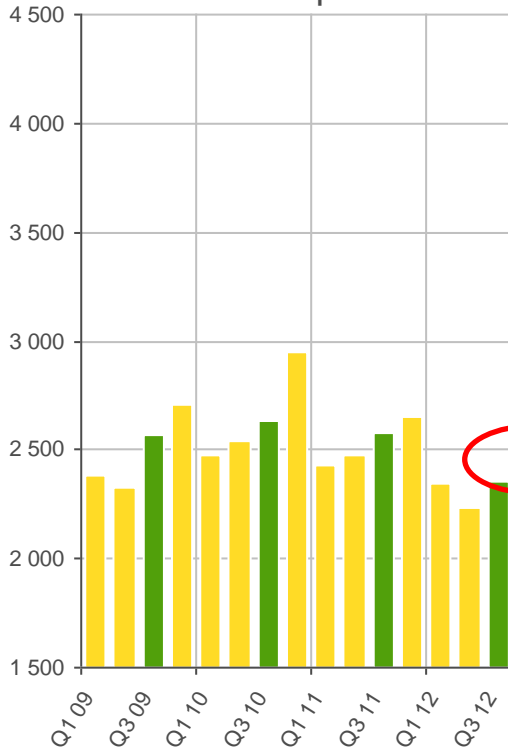


* Changed GDP base

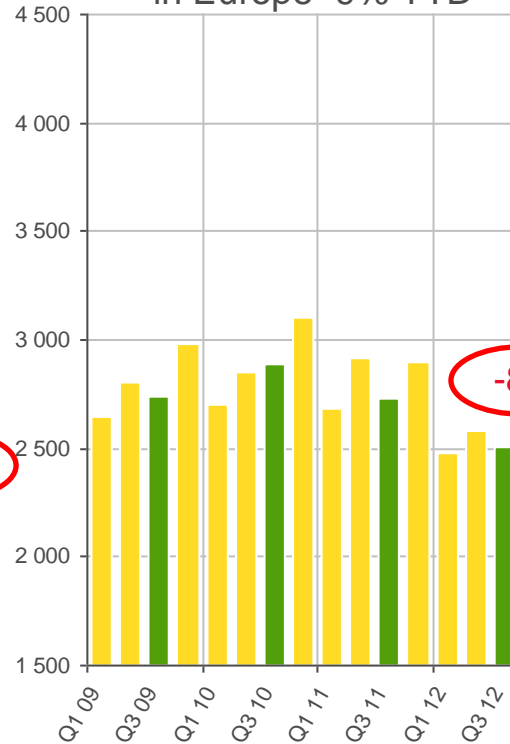
Sources: Cepiprint, Cepifine, OECD

Graphic papers demand in Europe decreased 7% both in Q3 12 and YTD

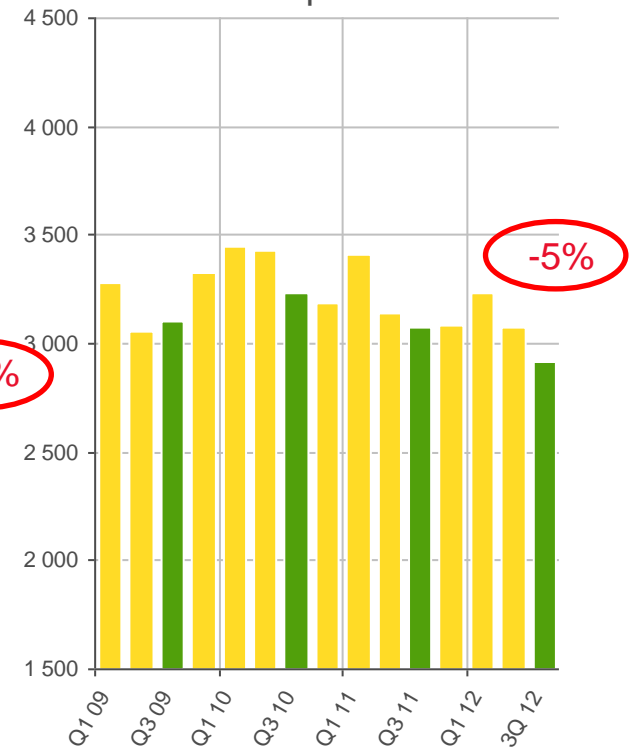
'000 tonnes
Magazine papers demand in Europe -7% YTD



Newsprint demand in Europe -9% YTD



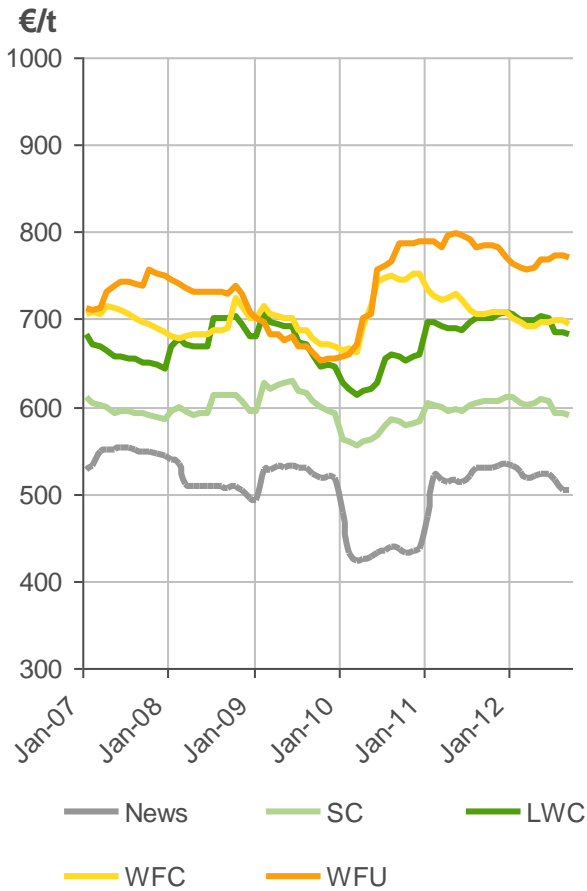
Fine papers demand in Europe -4% YTD



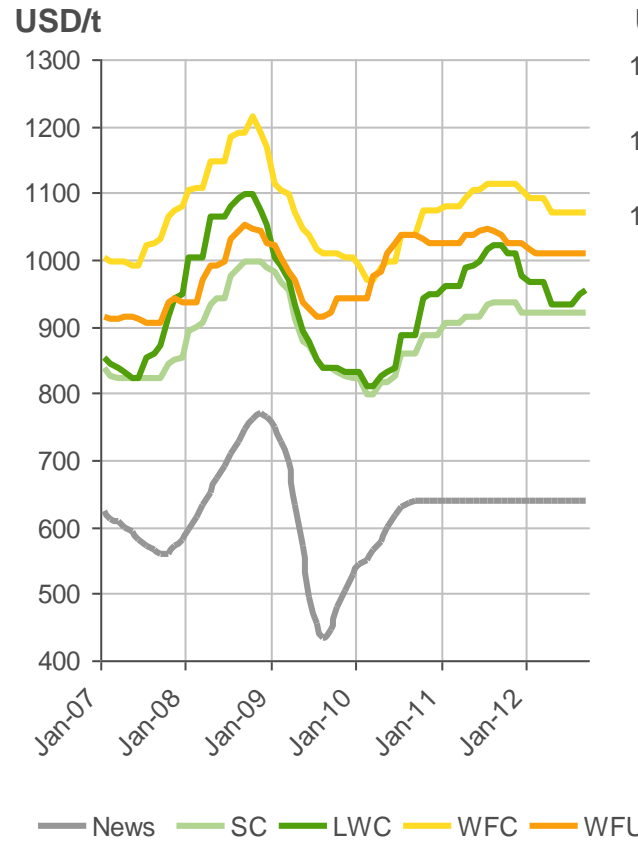
Source: Cepiprint/fine, PPPC

Graphic paper prices

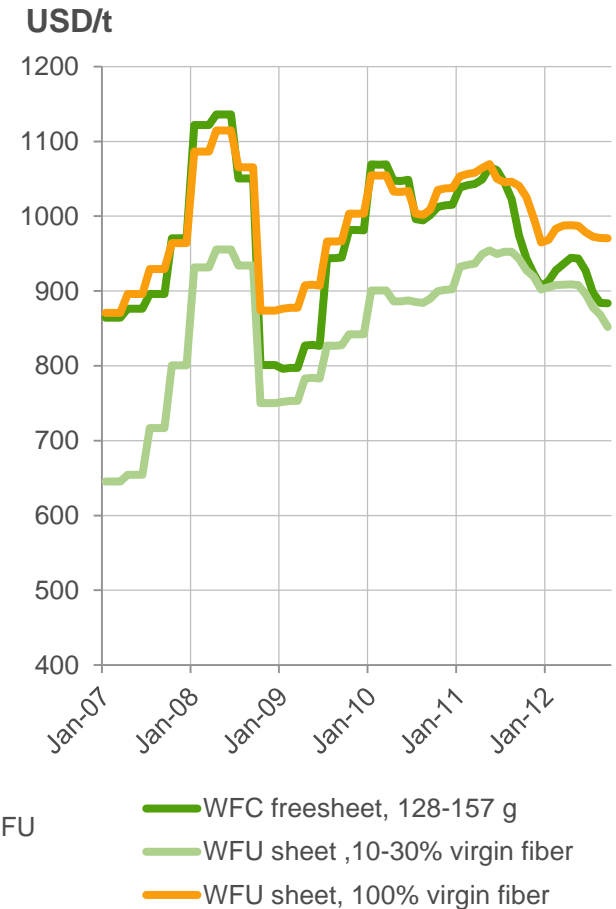
Europe



North America



China

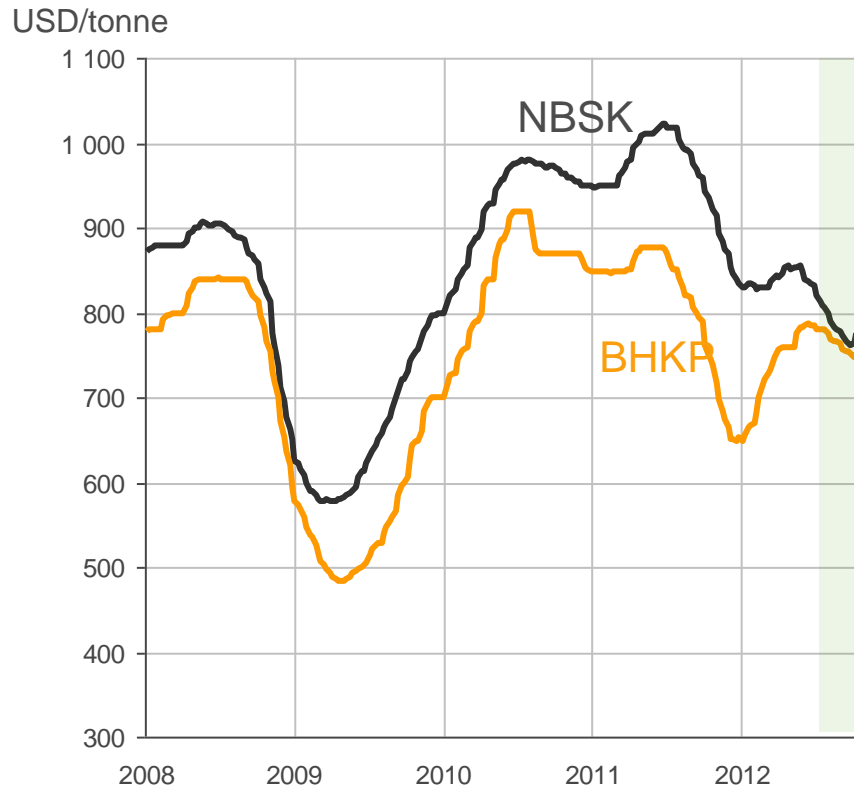


Source: PPI, RISI



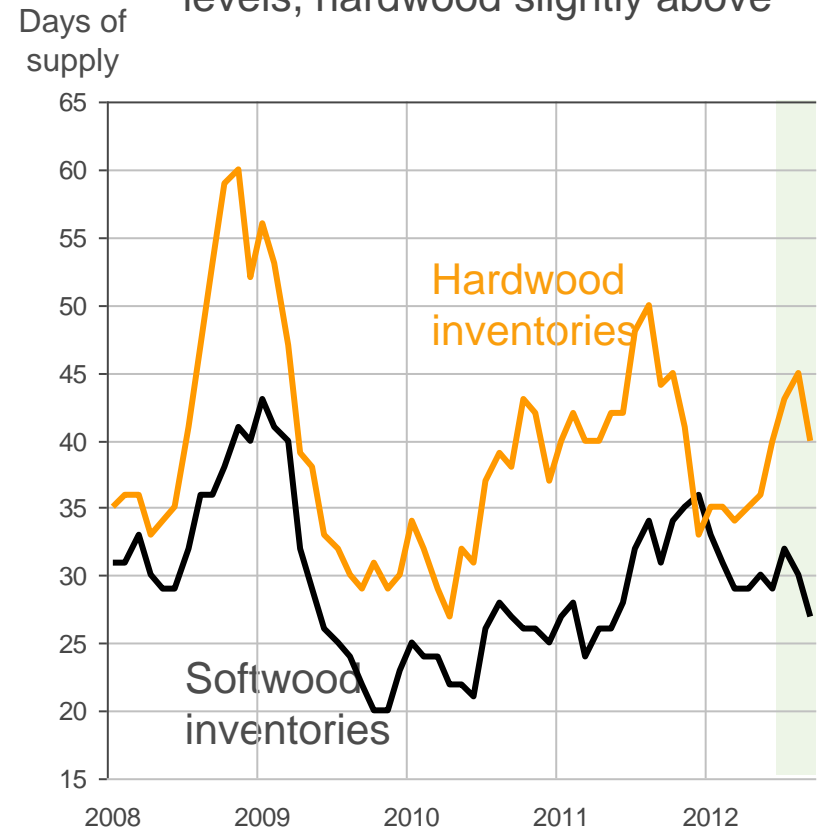
Chemical pulp market

3Q BHKP price almost unchanged from 2Q
3Q NBSK price decreased 7% from 2Q



Source: FOEX Indexes Ltd.

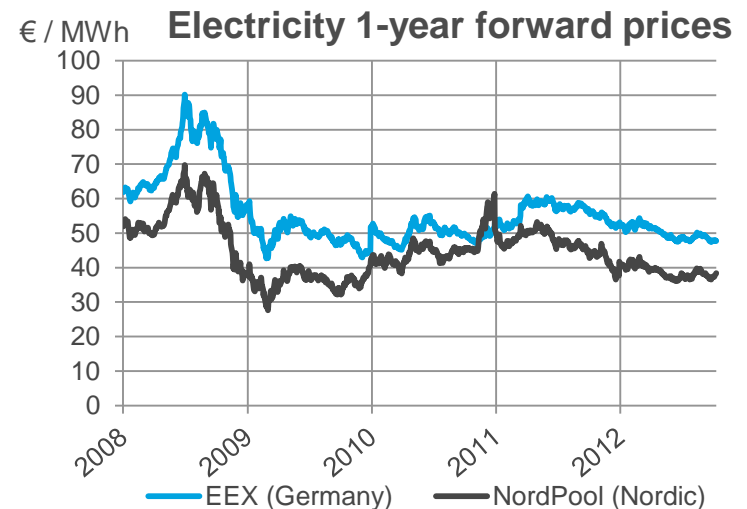
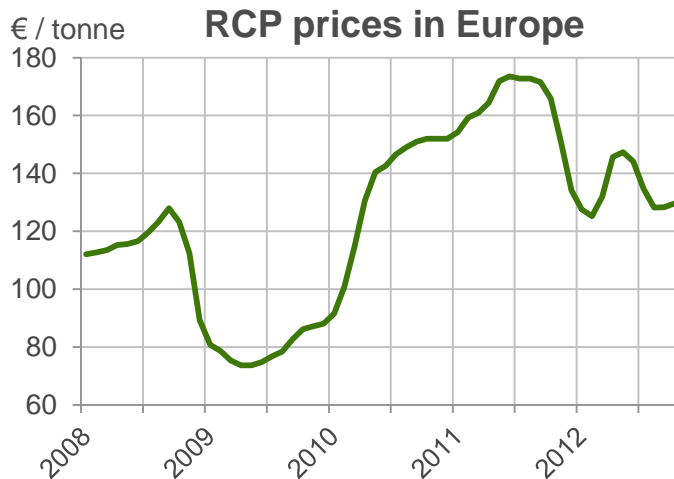
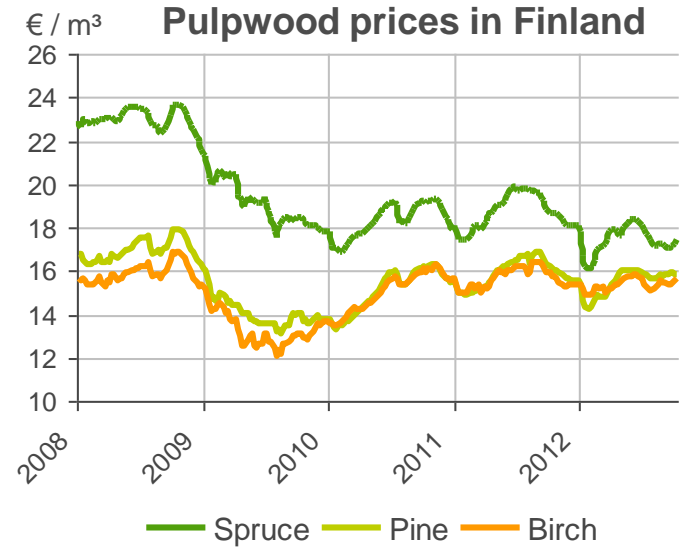
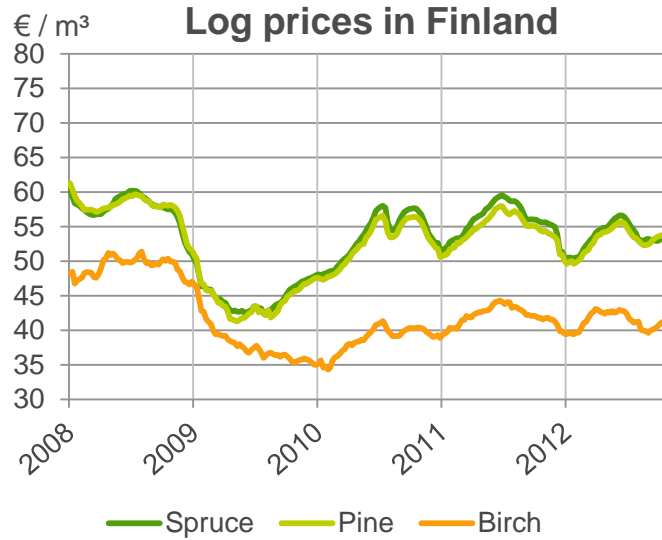
September producer inventories:
softwood slightly below balanced market
levels, hardwood slightly above



Source: PPPC World-20 statistics



Wood, RCP and electricity prices





The Biofore Company **UPM**

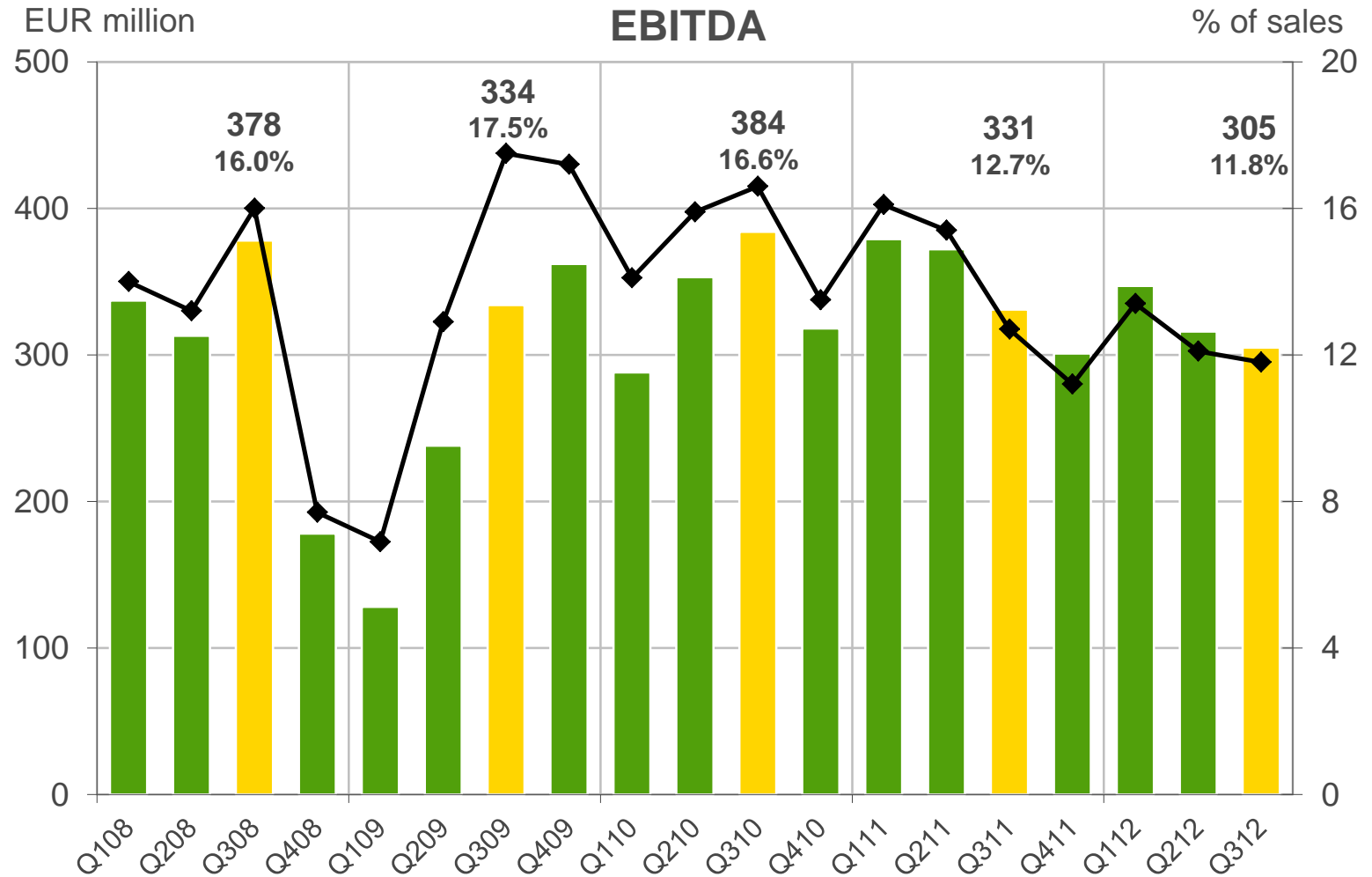
FINANCIALS Q3 2012

Key financials

	Q3 2012	Q3 2011	9M 2012	9M 2011	2011	2010
Sales, €m	2,578	2,603	7,788	7,382	10,068	8,924
Sales growth (%)	-1%		5%		13%	
EBITDA, €m	305	331	968	1,082	1,383	1,343
% of sales	11.8	12.7	12.4	14.7	13.7	15.0
Operating profit, excl. special items, €m	122	136	391	535	682	731
EPS excl. special items, €	0.15	0.19	0.51	0.77	0.93	0.99
Net cash from operating activities, €m	319	285	662 (*)	731	1,041	982

*) Restructuring payments in operating cash flow totalled EUR 170m in 9M 2012

EBITDA

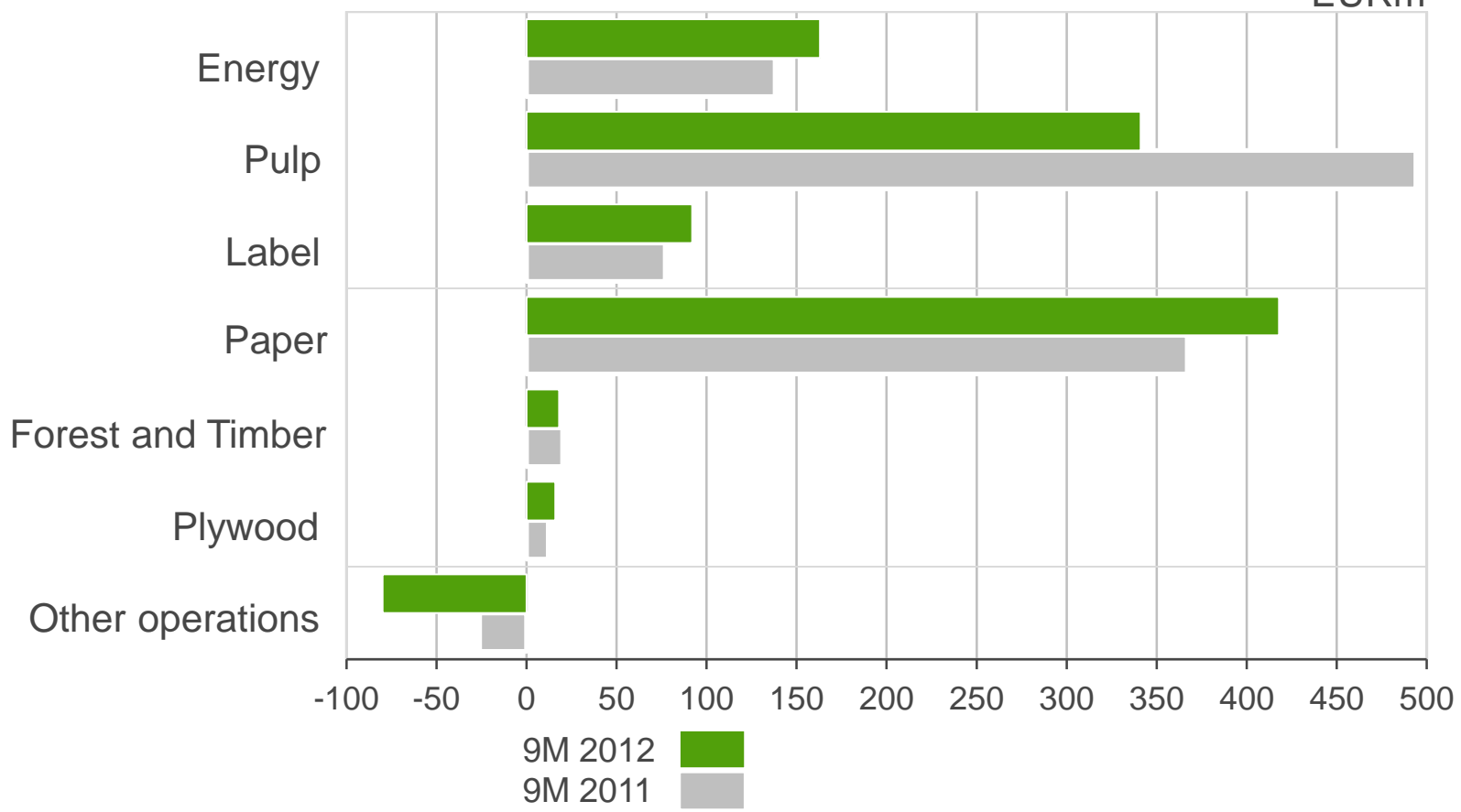


Q1-Q3 2012 EBITDA

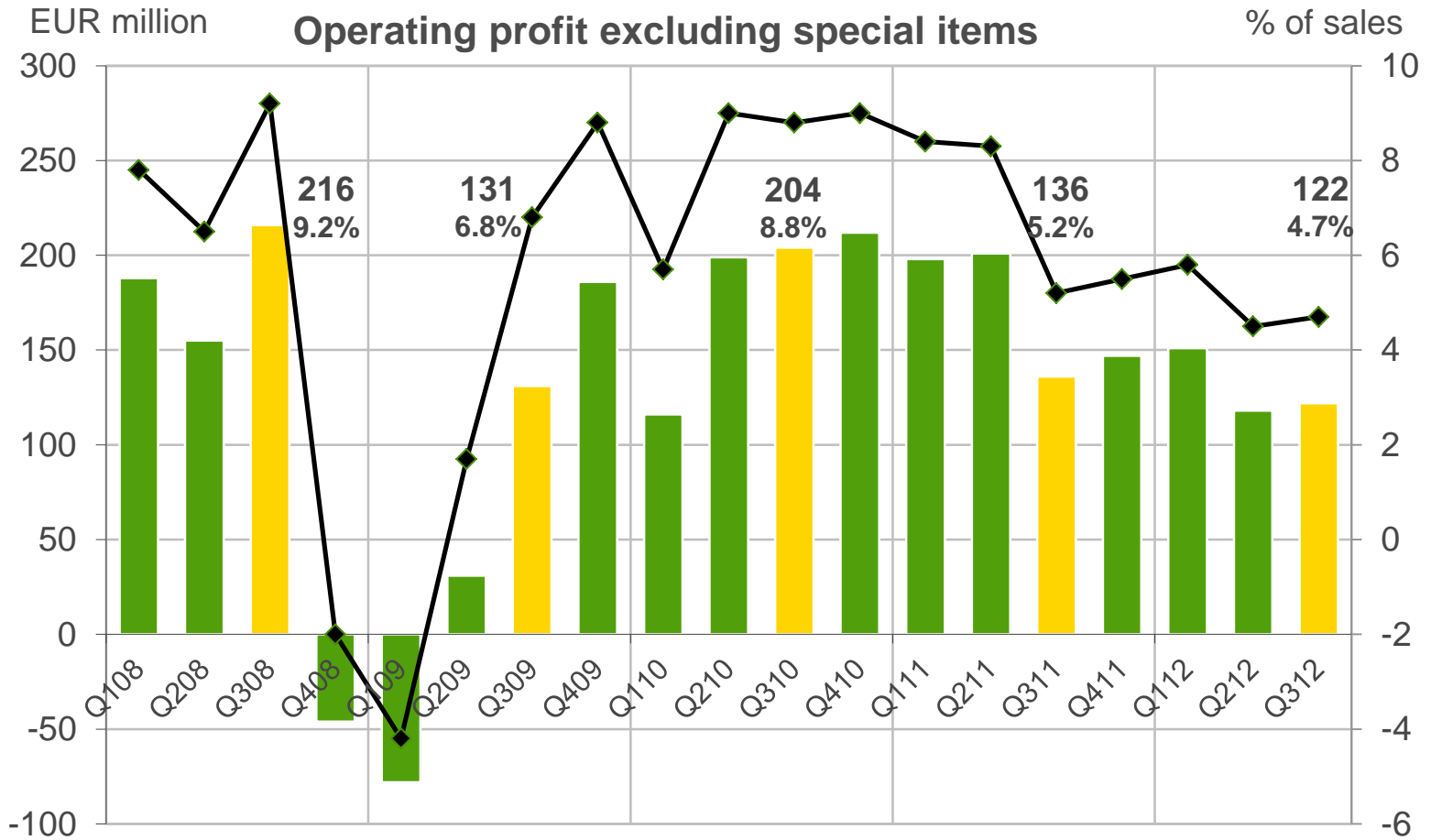
Increase in Energy, Label and Paper, Pulp and other operations decreased

EBITDA

EURm



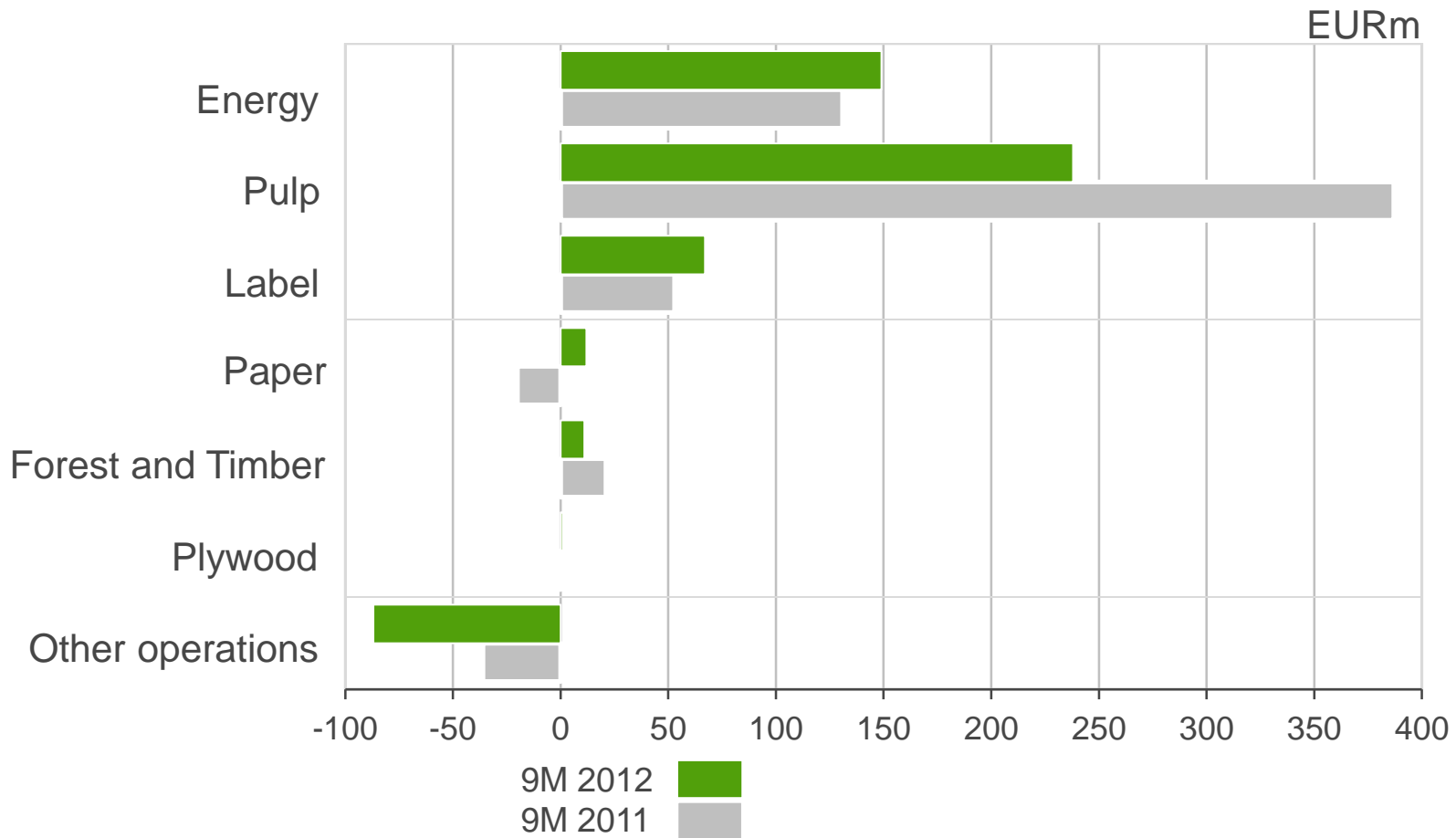
Operating profit



Q1-Q3 2012 operating profit

Increase in Energy, Label and Paper, Pulp and other operations decreased

Operating profit excluding special items

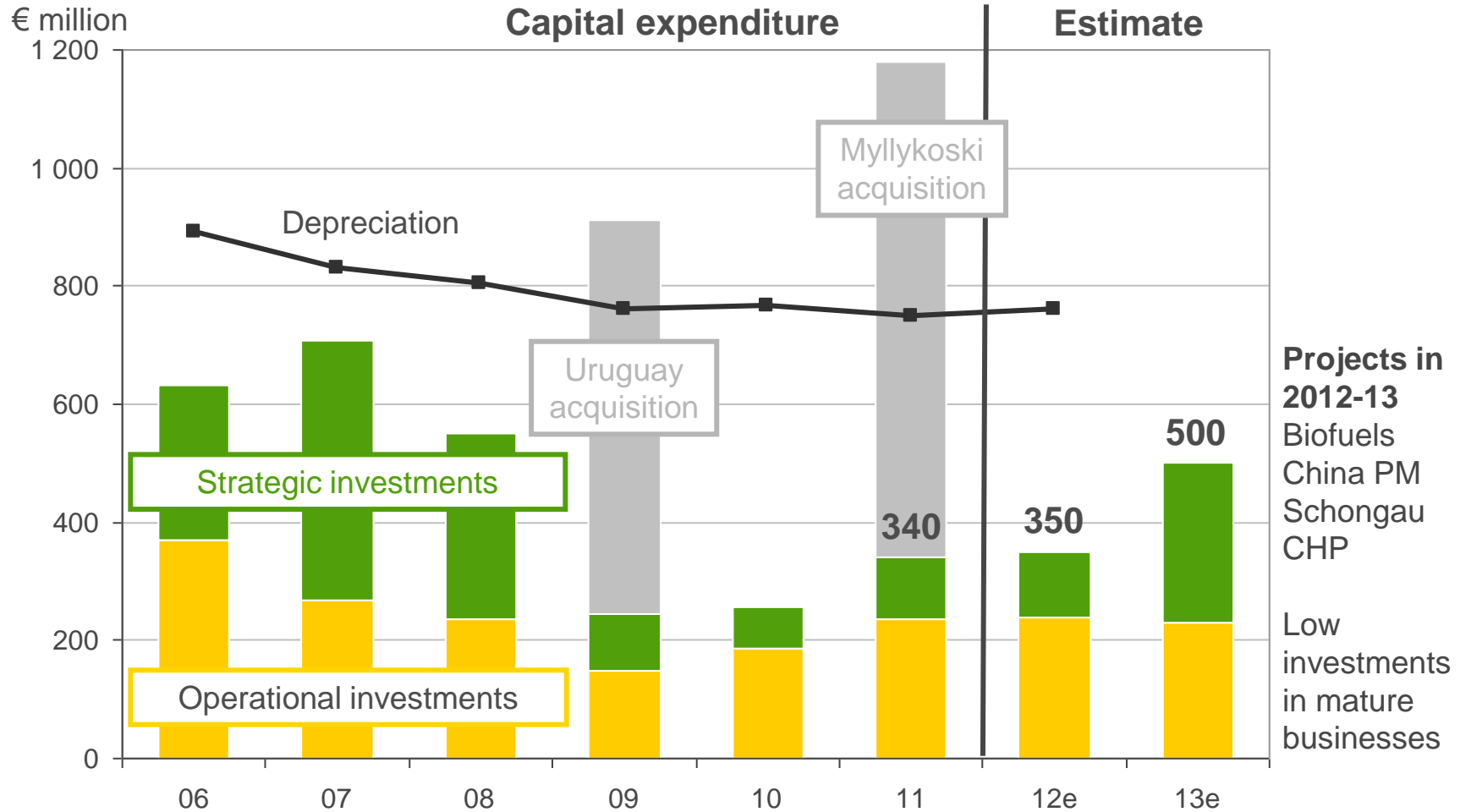


Cash flow

€, million	Q3/12	Q3/11	9M 2012	9M 2011	2011	2010
EBITDA	305	331	663	1,082	1,383	1,343
Cash flow before change in working capital	336	302	826 (*)	986	1,249	1,301
Change in working capital	13	45	-62	-164	-73	-139
Finance costs and income taxes	-30	-62	-102	-91	-135	-180
Net cash from operating activities	319	285	662 (*)	731	1,041	982
Capital expenditure	-72	-62	-266	-193	-286	-241
Asset sales and acquisitions	-13	-16	327	137	155	46
Cash flow after investing activities	234	207	723	675	910	787

*) Restructuring payments in operating cash flow totalled EUR 170m in 9M 2012

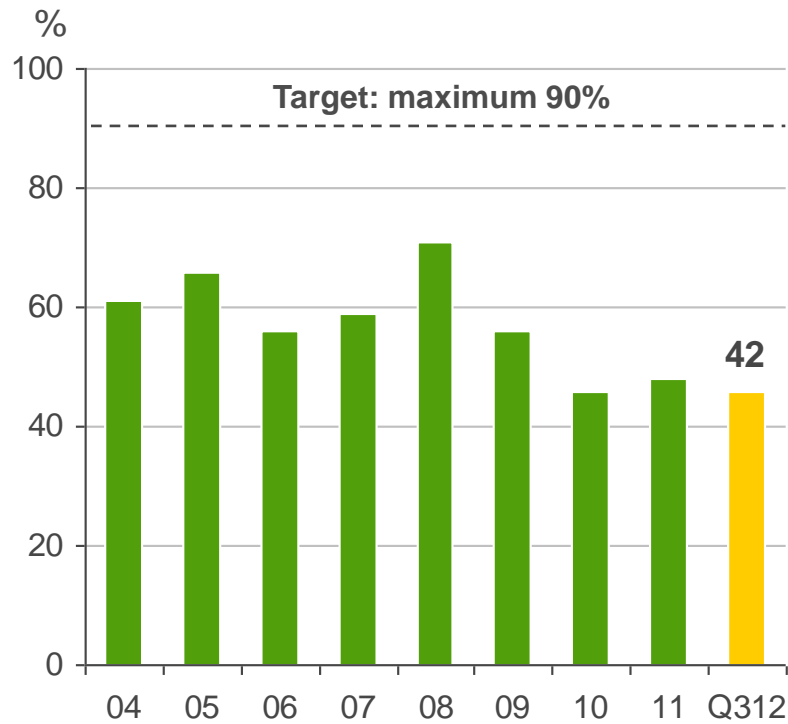
Low needs for major investments to maintain existing assets



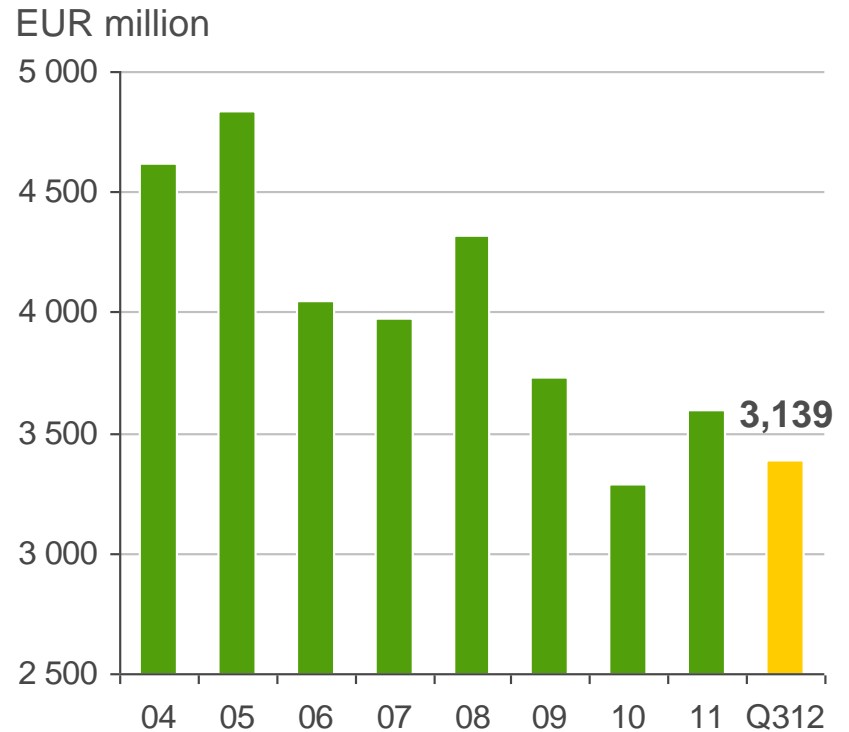


Balance sheet

Gearing ratio



Net debt



Liquidity was EUR 1.7bn
repayments EUR 424m in 2012-13



Maturity profile and liquidity

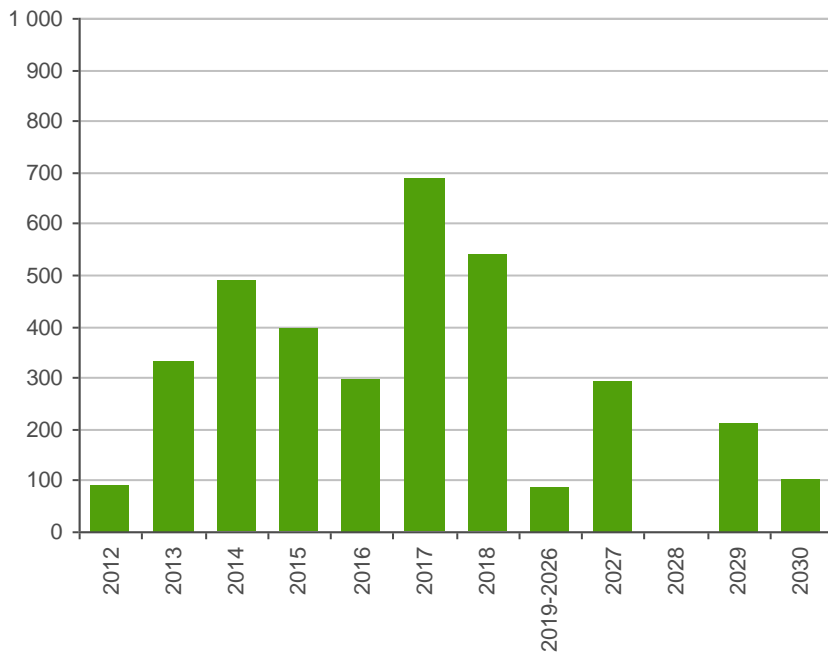
Liquidity

Liquidity on 30 September 2012 was € 1.7bn (cash and unused credit facilities)

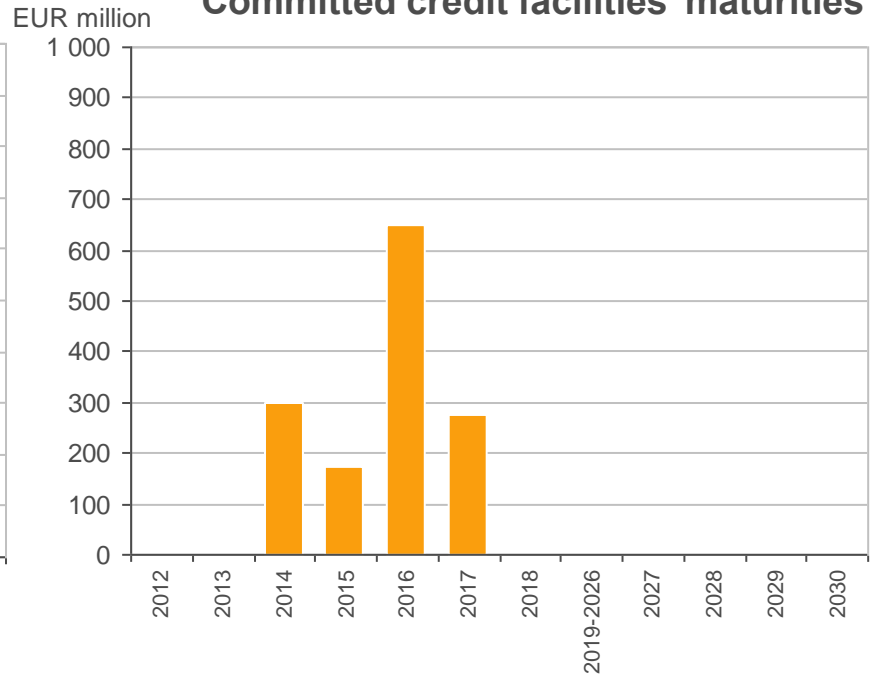
Committed credit facilities EUR 1.4bn

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

EUR million **Maturity profile of outstanding debt**



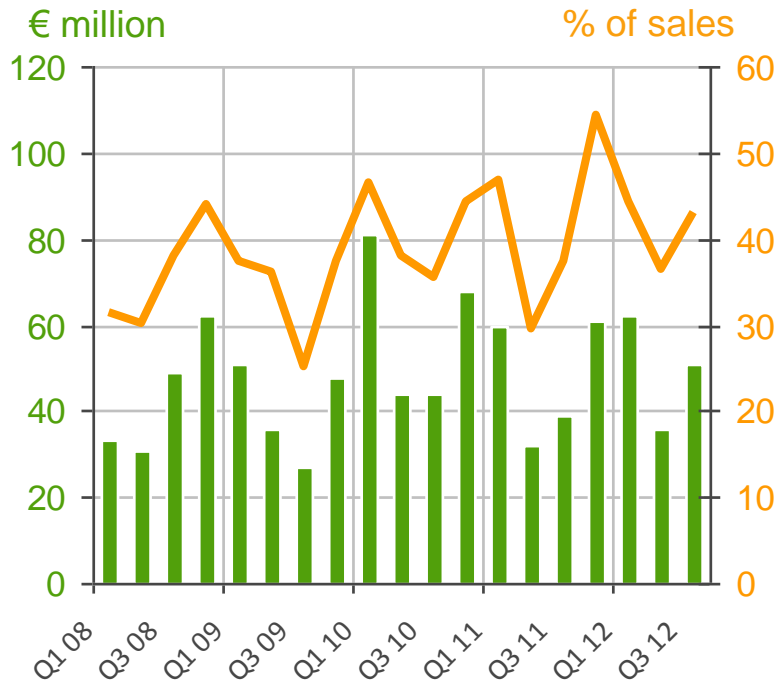
EUR million **Committed credit facilities' maturities**





Energy Q3 2012 vs. Q3 2011

Operating profit excluding special items



- Operating profit excluding special items increased, mainly due to higher hydropower volume.
- The average electricity sales price increased by 1%.

Outlook for 2012

- UPM’s hydropower generation volume is expected to continue at a relatively good rate in Q4 2012.
- UPM’s average electricity sales price in Q4 2012 is expected to be on about the same level as in Q3 2012.

Sales **Q3 2012 119** **14%**
 EUR million Q3 2011 104

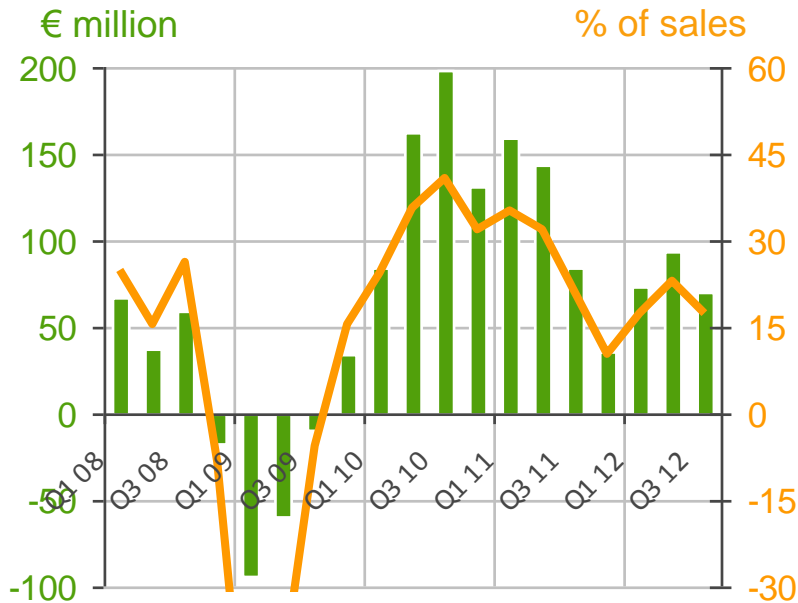
Operating profit **Q3 2012 51** **12**
 EUR million*) Q3 2011 39
 EUR million

*) excluding special items



Pulp Q3 2012 vs. Q3 2011

Operating profit excluding special items



- Operating profit excluding special items decreased compared with the same period last year, mainly due to lower pulp sales prices.

Outlook for 2012

- Chemical pulp deliveries are expected to be lower in Q4 2012 than in Q3 2012, affected by the maintenance shutdown in the Fray Bentos mill in Uruguay.
- The average price of UPM's pulp deliveries is estimated to be on about the same level in Q4 2012 as in Q3 2012.

Sales **Q3 2012 403** **2%**
 EUR million Q3 2011 396

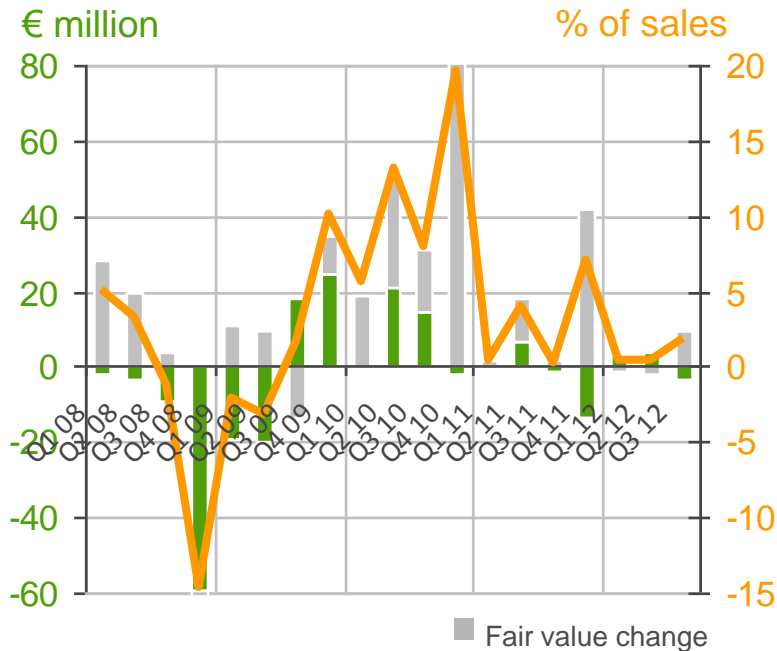
Operating profit **Q3 2012 70** **-14**
 EUR million*) Q3 2011 84
 EUR million

*) excluding special items



Forest and Timber Q3 2012 vs. Q3 2011

Operating profit excluding special items



- The increase in the fair value of biological assets net of wood harvested was EUR 10 million (increase of EUR 2 million).
- Sawn timber deliveries decreased. Fixed costs were lower.

Outlook for 2012

- In the sawn timber business, delivery volumes are expected to increase seasonally in Q4 2012 from Q3 2012.
- Prices are expected to decline slightly from Q3 2012.

Sales **Q3 2012 364** -10%
 EUR million Q3 2011 403

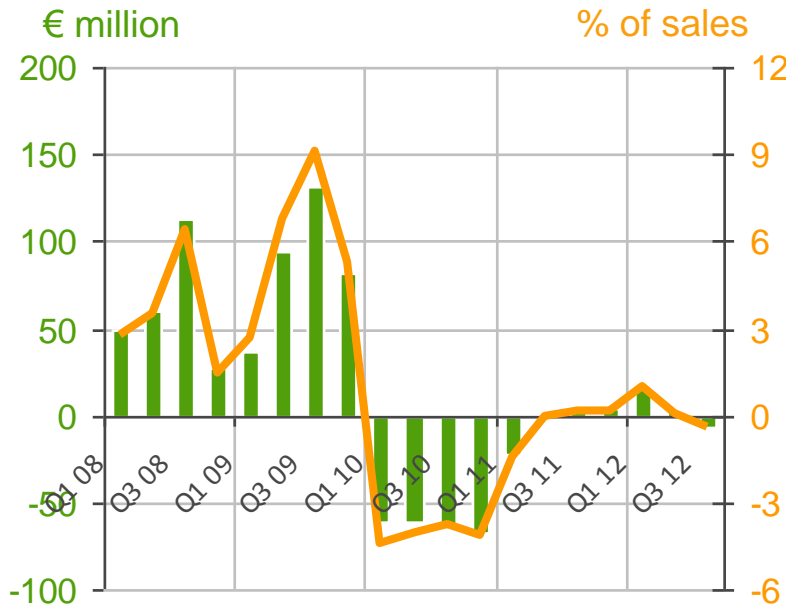
Operating profit **Q3 2012 7**
 EUR million*) Q3 2011 1 EUR million

*) excluding special items



Paper Q3 2012 vs. Q3 2011

Operating profit excluding special items



- Deliveries decreased from last year. Fixed and variable costs were lower. The packaging paper operations of the Tervasaari and Pietarsaari mills were sold in June 2012.
- The average price for paper deliveries in euros was approximately 2% lower than last year.

Outlook for 2012

- UPM's paper deliveries are expected to be on about the same level in Q4 2012 as in Q3 2012.
- The average price of UPM's paper deliveries in euros is expected to be on about the same level in Q4 2012 as in Q3 2012.

Sales **Q3 2012 1,766** -7%
 EUR million Q3 2011 1,895

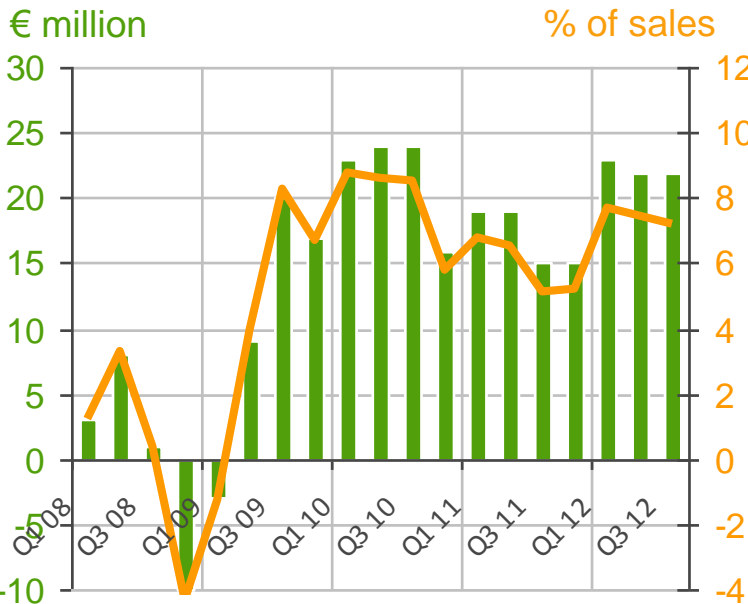
Operating profit **Q3 2012 -7** -10
 EUR million*) Q3 2011 3
 EUR million

*) excluding special items



Label Q3 2012 vs. Q3 2011

Operating profit excluding special items



- Operating profit increased mainly due to lower variable costs.
- Fixed costs were higher, mainly due to expanded operations.

Outlook for 2012

- Deliveries are expected to be on about the same level in Q4 2012 as in Q3 2012.
- Sales prices in local currencies are expected to be stable in Q4 2012 compared with Q3 2012.
- Variable costs are expected to increase slightly from Q3 2012.

Sales **Q3 2012 305** **4%**
 EUR million Q3 2011 292

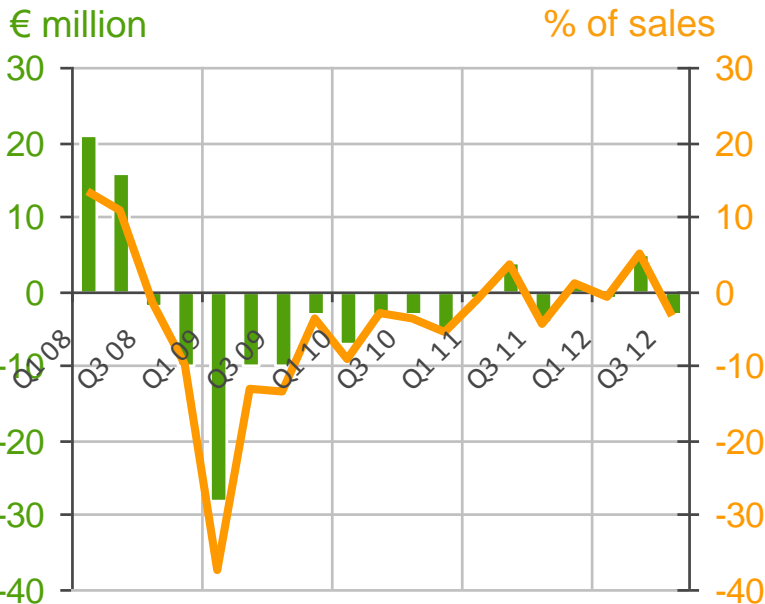
Operating profit **Q3 2012 22** **7**
 EUR million*) Q3 2011 15 EUR million

*) excluding special items



Plywood Q3 2012 vs. Q3 2011

Operating profit excluding special items



- Operating profit increased slightly due to higher delivery volumes.
- Deliveries increased by 6%.

Outlook for 2012

- Plywood deliveries are expected to be on about the same level in Q4 2012 as in Q3 2012.
- Sales prices are expected to remain stable.

Sales **Q3 2012 93** **7%**
 EUR million Q3 2011 87

Operating profit **Q3 2012 -3** **1**
 EUR million*) Q3 2011 -4 EUR million

*) excluding special items



UPM

The Biofore
Company