



The Biofore Company **UPM**

SHIFTING GEAR IN UPM TRANSFORMATION

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CFO

September 2013



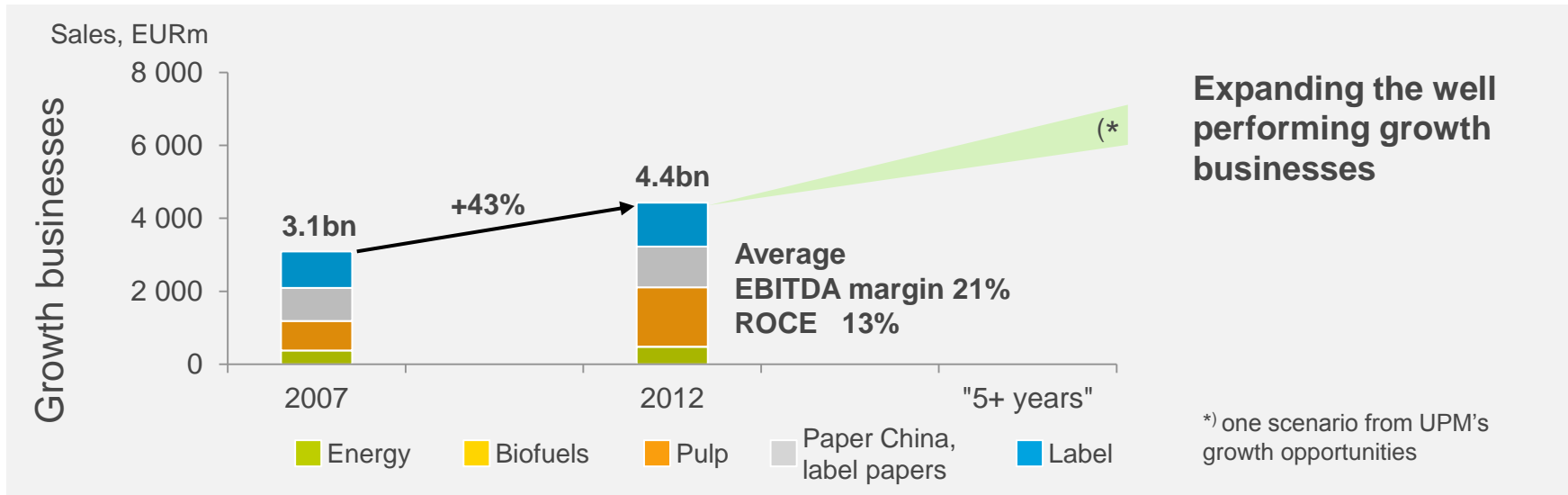


What are we targeting?

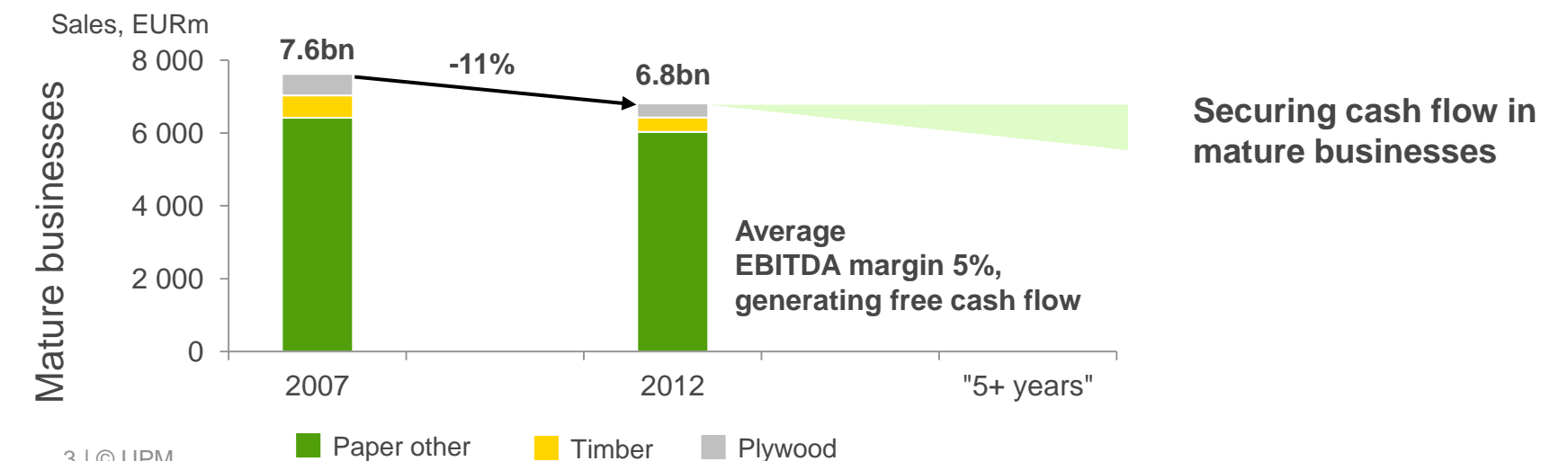
- More than 50% of sales from well performing growth businesses in 5+ years
- Drive strong cash flow through improved margin, release capital from mature businesses
- Maintain solid balance sheet and strong cash flow

➔ Increase UPM's earnings and valuation

Actions have already started to reshape the business portfolio



Expanding the well performing growth businesses

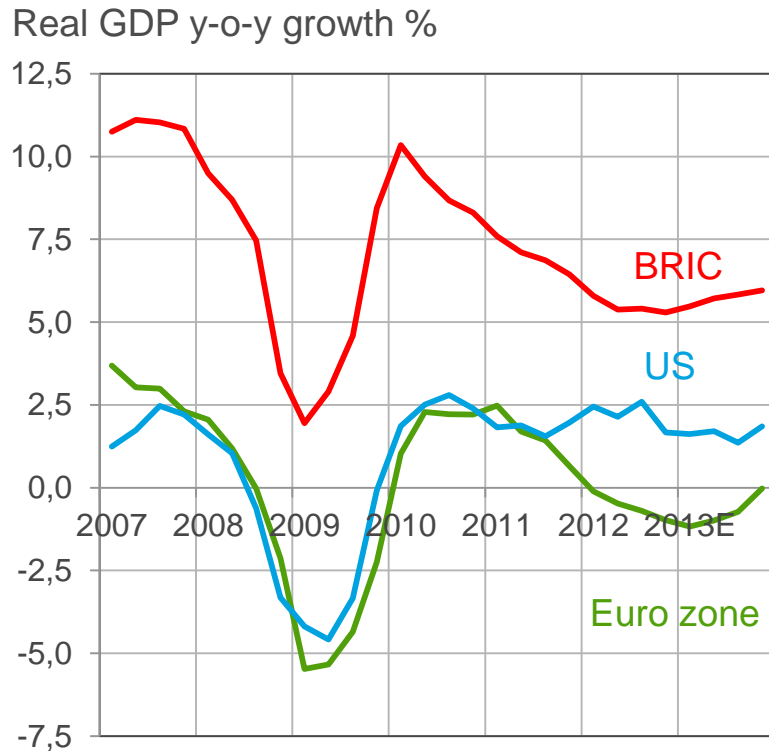


Securing cash flow in mature businesses



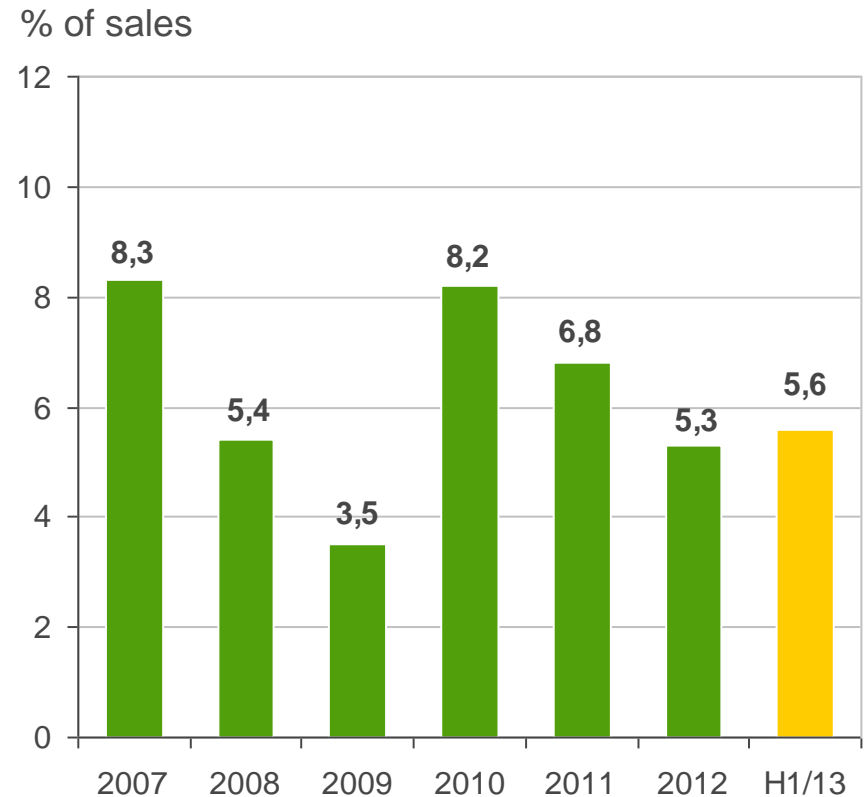
Profitability over two economic slowdowns

Europe continues to underperform the other major economic zones



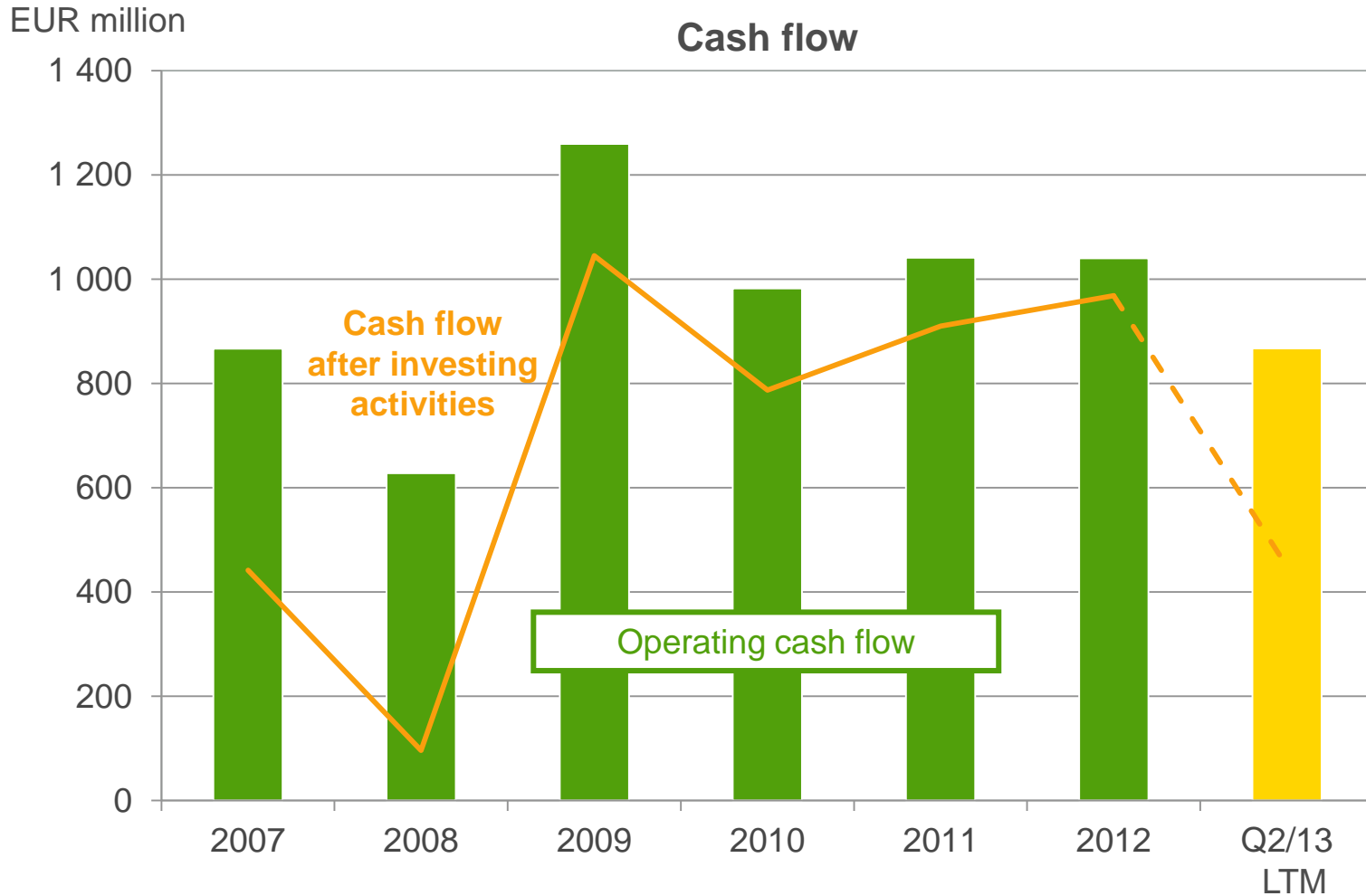
Sources: Global Insight

Operating profit excluding special items





Consistently strong cash flow

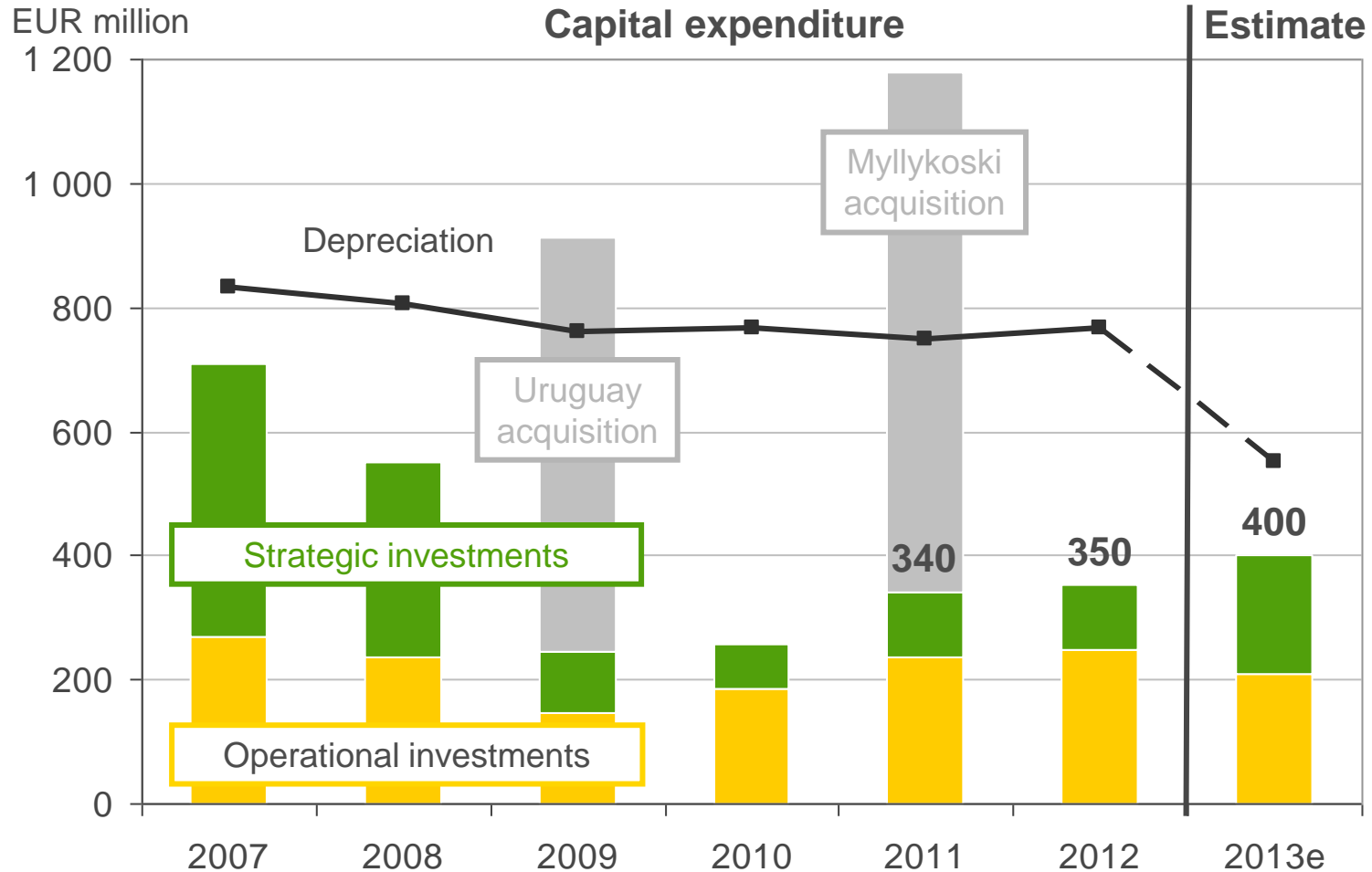


Low investment needs in existing assets allow growth initiatives with modest total annual capex

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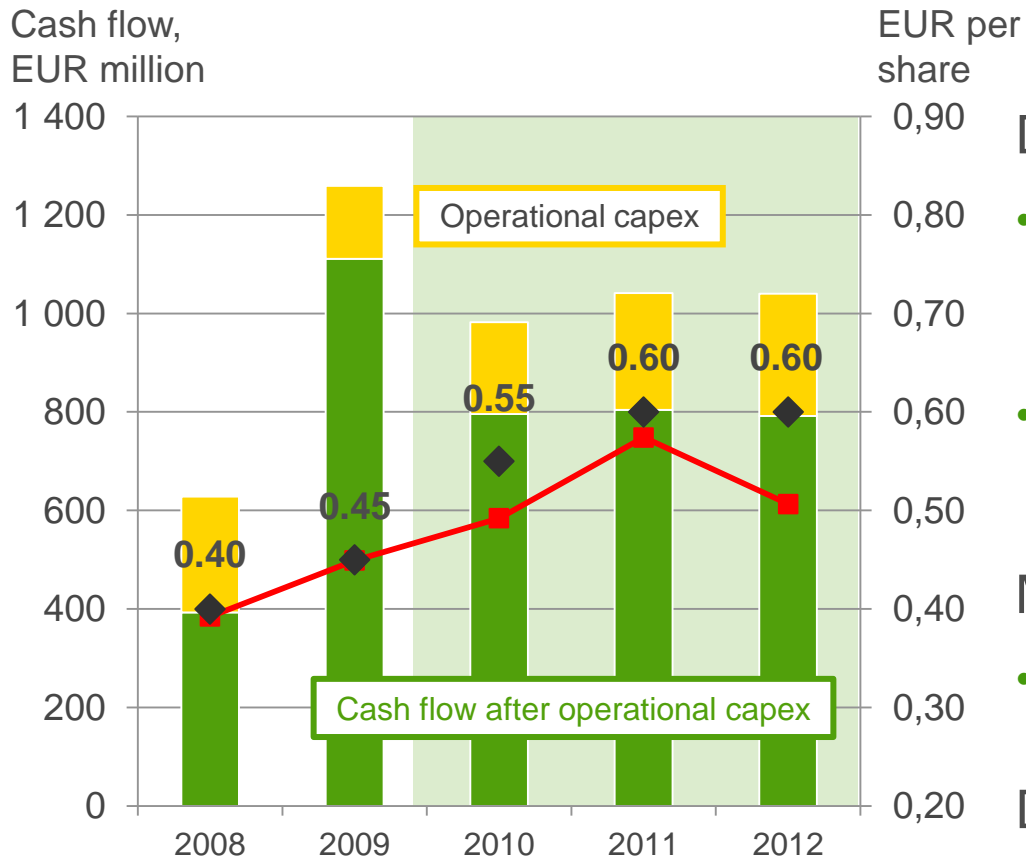


UPM





Cash flow-based dividend



- ◆ Actual / proposed dividend
- Minimum dividend by the dividend policy

Dividend policy

- at least 1/3 of net cash flow from operating activities less operational capital expenditure
- net cash flow calculated as an average over three years

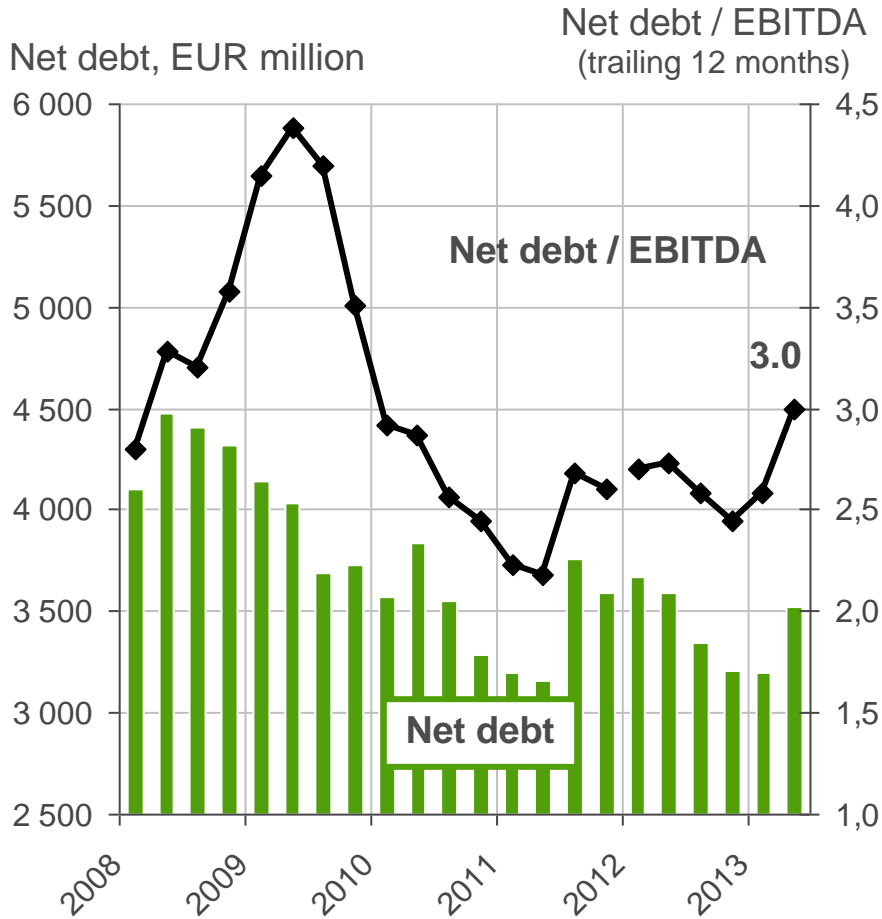
Minimum dividend by the policy

- EUR 0.50 per share

Dividend for 2012

- EUR 0.60 (0.60) per share

Solid balance sheet



Liquidity was EUR 1.6bn at the end of Q2 2013



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SHIFTING GEAR IN UPM TRANSFORMATION



Shifting gear in UPM transformation

- New business structure
- Profit improvement actions in all businesses
- Focused growth initiatives in biorefining and outside Europe
- Seek to simplify business portfolio and uncover the value of UPM's assets

Profit improvement target of EUR 400m from performance improvement and growth initiatives

New business structure and reporting segments as of 1 November 2013

UPM Biorefining 	<ul style="list-style-type: none">• Pulp (3.2 million tonnes p.a.), incl. plantation operations• Biofuels• Timber
UPM Energy 	<ul style="list-style-type: none">• Power generation (1,721MW), incl. UPM's hydropower plants and shareholdings in energy companies• Physical and derivatives trading
UPM Raflatac 	<ul style="list-style-type: none">• Self-adhesive label materials for product and information labeling
UPM Paper Asia 	<ul style="list-style-type: none">• Fine papers in China• Label paper operations• Total capacity 1.5 million tonnes p.a.
UPM Paper Europe 	<ul style="list-style-type: none">• Magazine papers in Europe and NA• Newsprint and fine papers in Europe• Total capacity 10.3 million tonnes p.a.
UPM Plywood 	<ul style="list-style-type: none">• Plywood and veneer products (1 million m³ p.a.)

Other operations: Forests (over 900,000 hectares of forests) and wood sourcing, New Business Development and Group services

Profit improvement through simplified business structure in existing businesses

- UPM has identified actions with a profit improvement impact of EUR 200m in the existing businesses
 - Each business will implement a program with simplified business model and variable and fixed cost savings
 - Planned actions include the remaining part of previously announced programs
 - Planned actions do not include additional capacity closures at this time
- Full impact of the program is expected by the end of 2014, as compared with the Q2 2013 results
 - UPM will follow and update the progress of this program in its quarterly reporting



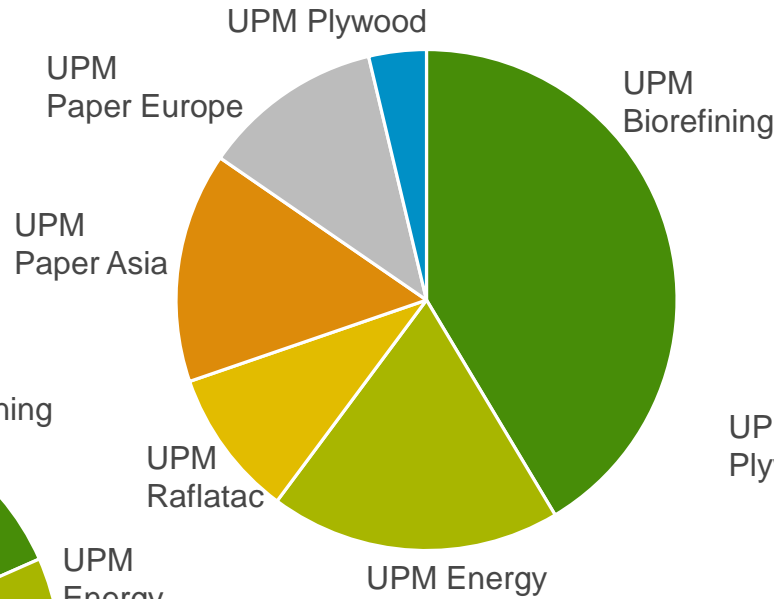
Growth initiatives for the next three years

- UPM targets additional EBITDA contribution of EUR 200m from its growth initiatives when they are in full operation
 - Biofuels – Lappeenranta refinery
 - Woodfree speciality papers in China – Changshu PM3
 - Continued growth in UPM Raflatac
 - UPM plans to expand production in its existing pulp mills
- Total investment requirement in the projects is EUR 680m, including EUR 540 million from previously announced projects
 - total remaining investment EUR 620m in the coming three years
- UPM's total capex estimate for 2013 is EUR 400m
 - low investment needs in existing assets allow growth initiatives with modest total annual capex

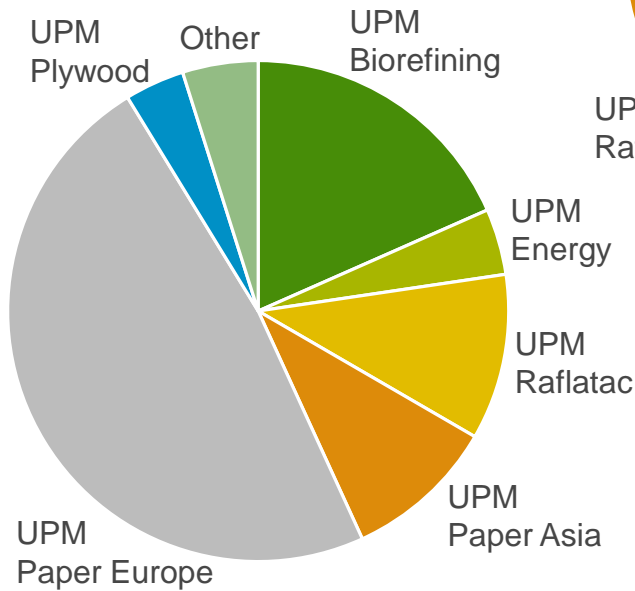
New business structure

Financial figures in H1 2013 (*)

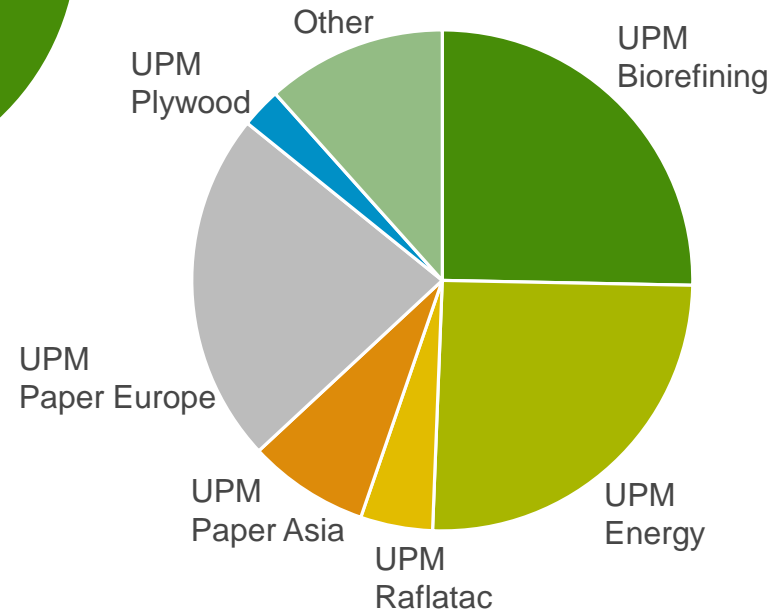
EBITDA



Sales

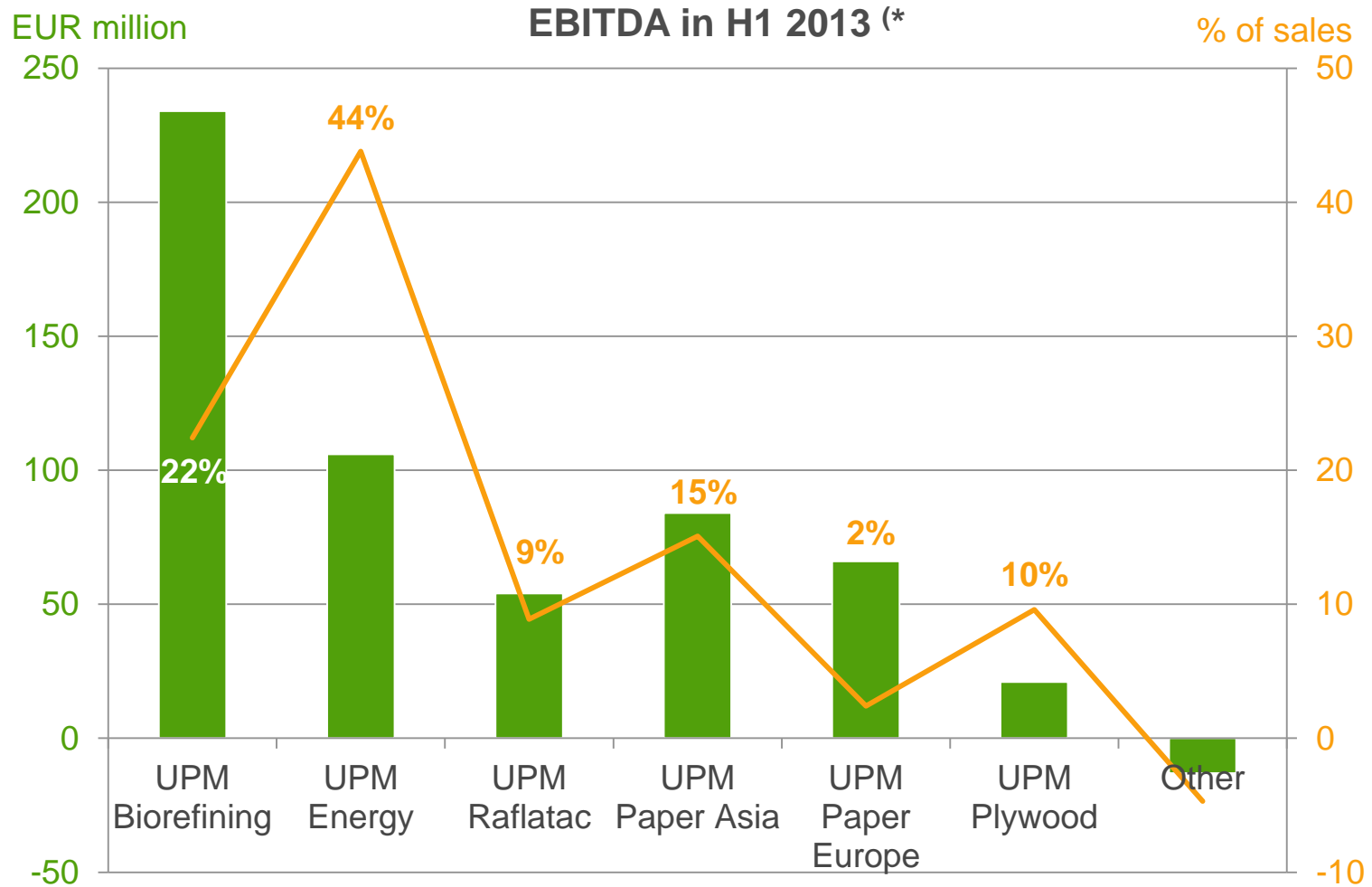


Capital employed



*) Preliminary figures
Sales unconsolidated

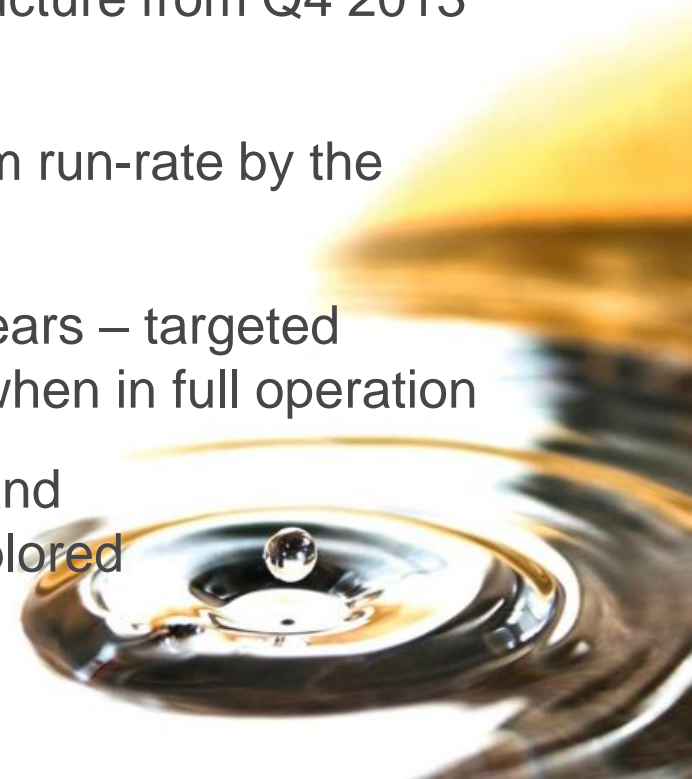
Profitability challenge in UPM Paper Europe – improvement programs in all businesses, growth initiatives in several businesses





Timetable

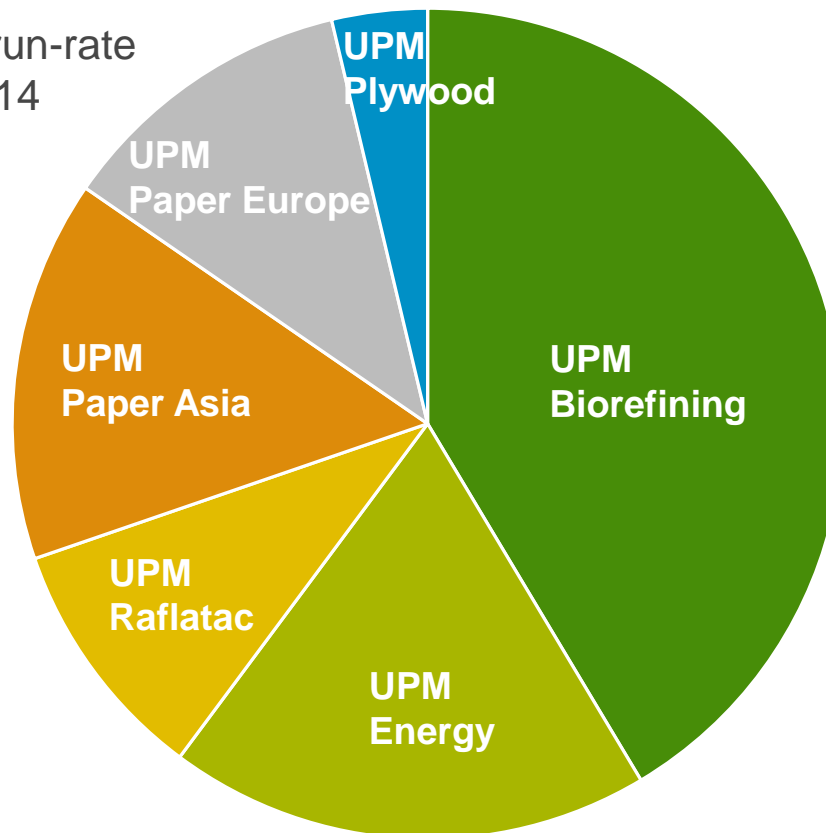
- The new business structure in effect as of 1 November 2013
- Historical comparison figures for the new structure published in November
- Financial reporting according to the new structure from Q4 2013 onwards
- Profit improvement program – full EUR 200m run-rate by the end of 2014
- Growth initiatives during the coming three years – targeted additional EUR 200m EBITDA contribution when in full operation
- Opportunities to simplify business portfolio and uncover the value of UPM assets will be explored



Summary of the new business structure and actions

Profit improvement program

- Full EUR 200m run-rate by the end of 2014
- All businesses



Growth initiatives

- Targeted additional EBITDA of EUR 200m
- Biorefining, Paper Asia and Raflatac

Business portfolio

- Seek to simplify the business portfolio
- Uncover value of UPM assets



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UPM has been recognized



CARBON DISCLOSURE PROJECT



- Supersector leader in basic materials sector, the only forestry and paper company worldwide listed on Dow Jones Sustainability Indexes (DJSI)
- ‘Most Innovative Company’ award from Ethical Corporation Awards thanks to UPM’s ecodesign concept and overall sustainability thinking
- Highest score for climate change disclosure in the Nordic Carbon Disclosure Leadership Index
- Winner of the ‘Breakthrough Innovation in Technology’ for improving efficiency and sustainability of biofuels production



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FOCUSED GROWTH INITIATIVES

UPM creates new business in wood-based renewable diesel

- UPM invests in wood-based renewable diesel production
 - Total investment EUR 150m
 - Production capacity 100,000 tonnes/a
- Technology is based on UPM's innovation and long-term development work
- Raw material is sustainably produced crude tall oil
 - Residue from pulp production
 - Outside food value chain, no indirect land use change
- Main product is unique renewable diesel
 - No blend wall issues - compatible with fossil diesel EN590 quality
 - 80% reduction in greenhouse gas emissions
 - High energy content



UPM creates new business in wood-based renewable diesel



The Biofore Company UPM

- Lappeenranta biorefinery status:
 - Construction, commissioning works and main equipment installations on-going, on schedule and budget
 - Fleet tests of the product on-going
 - Recruitment of operative staff on-going
- Total investment EUR 150m, start-up in mid-2014
- Investment supports the good profitability of UPM's growth businesses
- Potential to grow into a significant new business



UPM plans to expand production in its existing pulp mills

- | | | | |
|--|--|---|--|
| <h2 style="margin: 0;">Fray Bentos</h2> <ul style="list-style-type: none"> • started 2007 | <h2 style="margin: 0;">Pietarsaari</h2> <ul style="list-style-type: none"> • major investment in 2004 | <h2 style="margin: 0;">Kymi</h2> <ul style="list-style-type: none"> • major investment in 2008 | <h2 style="margin: 0;">Kaukas</h2> <ul style="list-style-type: none"> • modernisation in 1996 |
|--|--|---|--|



	BHKP tonnes	BSKP tonnes	Total capacity
Fray Bentos	1,100,000		1,100,000
Kaukas	310,000	430,000	740,000
Kymi	370,000	190,000	560,000
Pietarsaari	320,000	480,000	800,000
Total	2,100,000	1,100,000	3,200,000

Over 80% of pulp demand is in growing end-use segments

Bleached market pulp demand by end-use and region

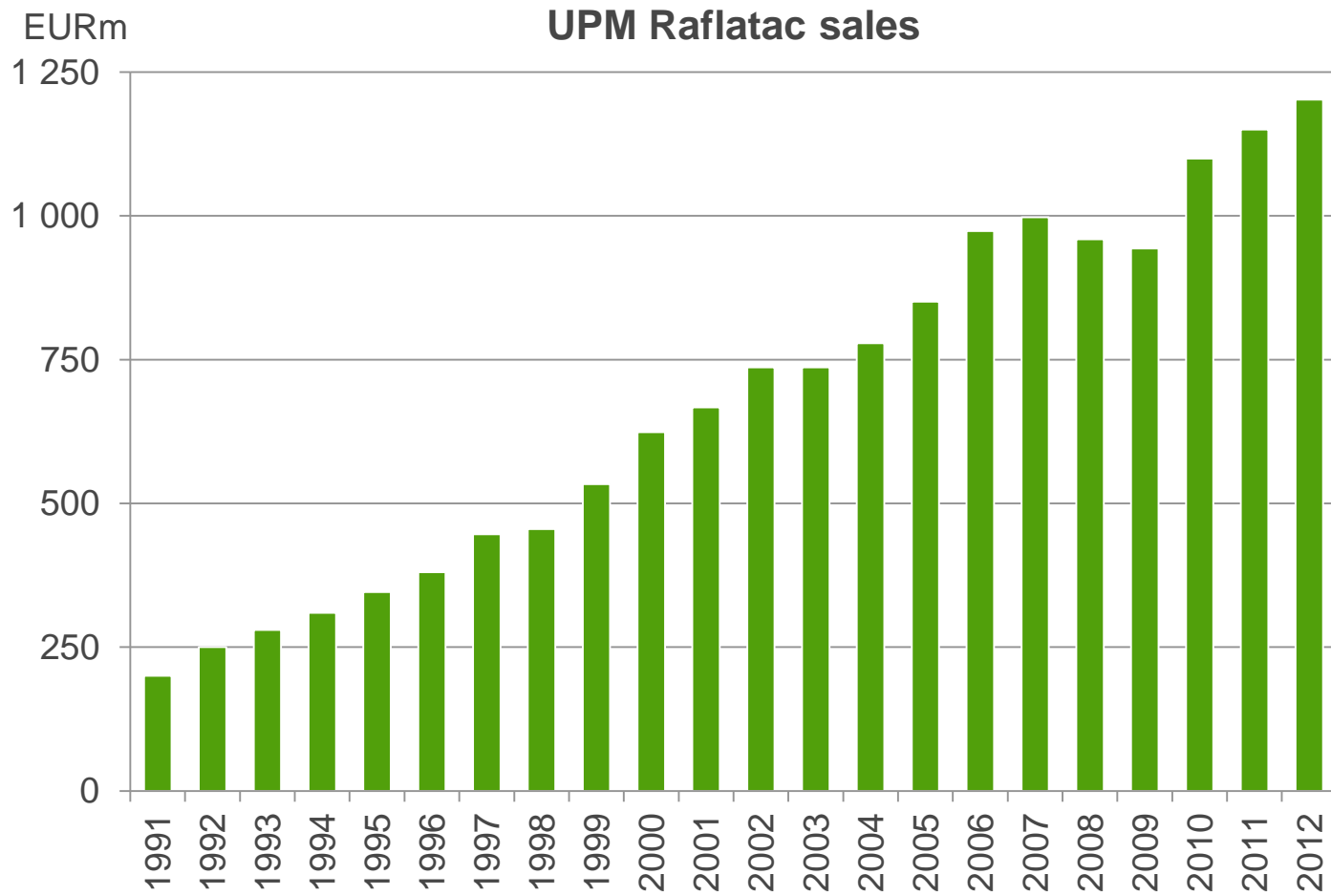
	WE	NA	China	ROW	Total
P&W	14%	5%	10%	9%	39%
Tissue	9%	6%	4%	8%	28%
Packaging	2%	1%	3%	2%	8%
Speciality	7%	2%	3%	4%	16%
Fluff	2%	3%	1%	4%	10%
	35%	16%	21%	27%	100%

 = growing market segment (81%)

 = declining market segment (19%)

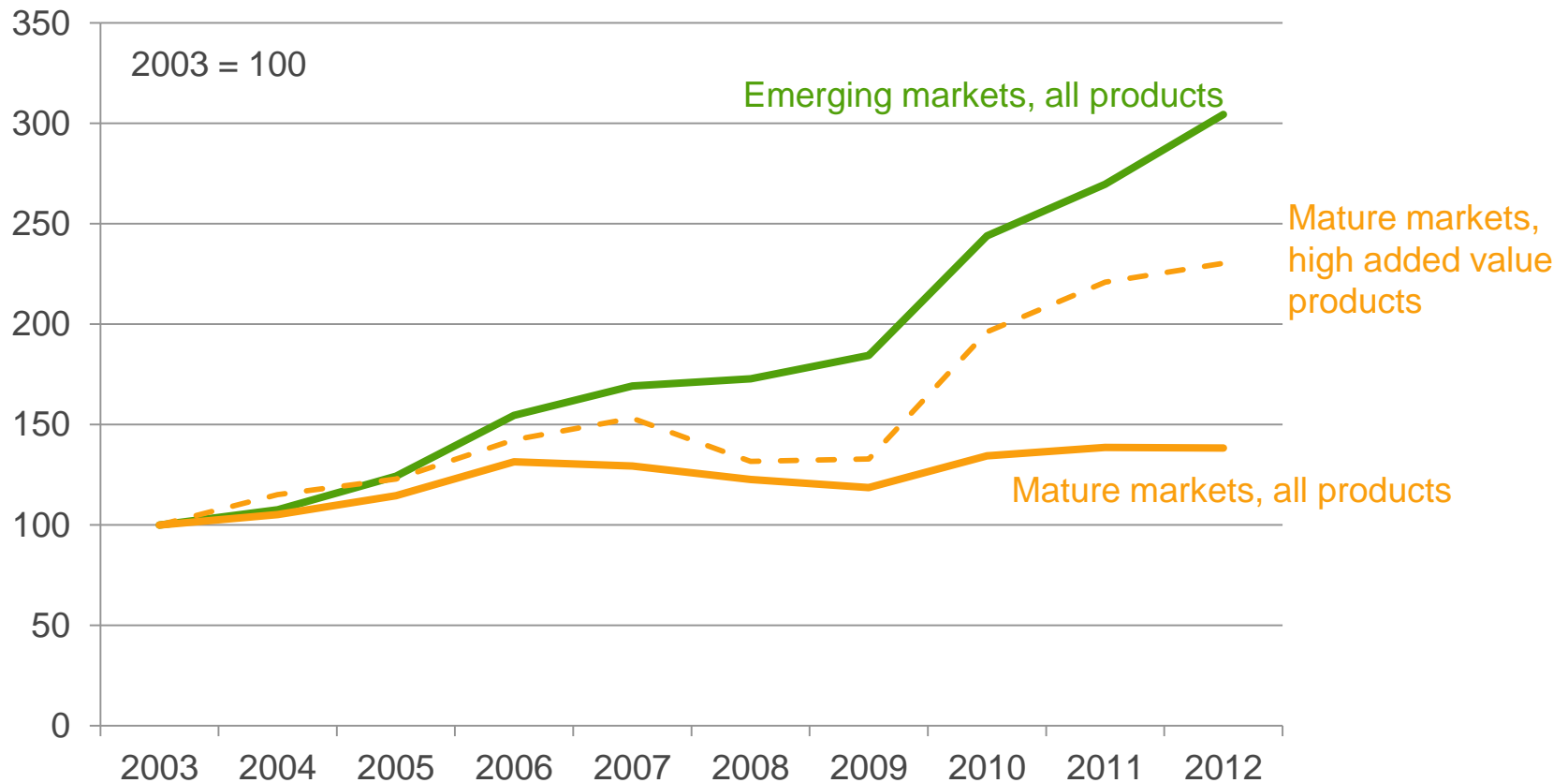
*Source: Hawkins Wright. End use markets for bleached kraft pulp, September 2011

Consistent growth in label materials

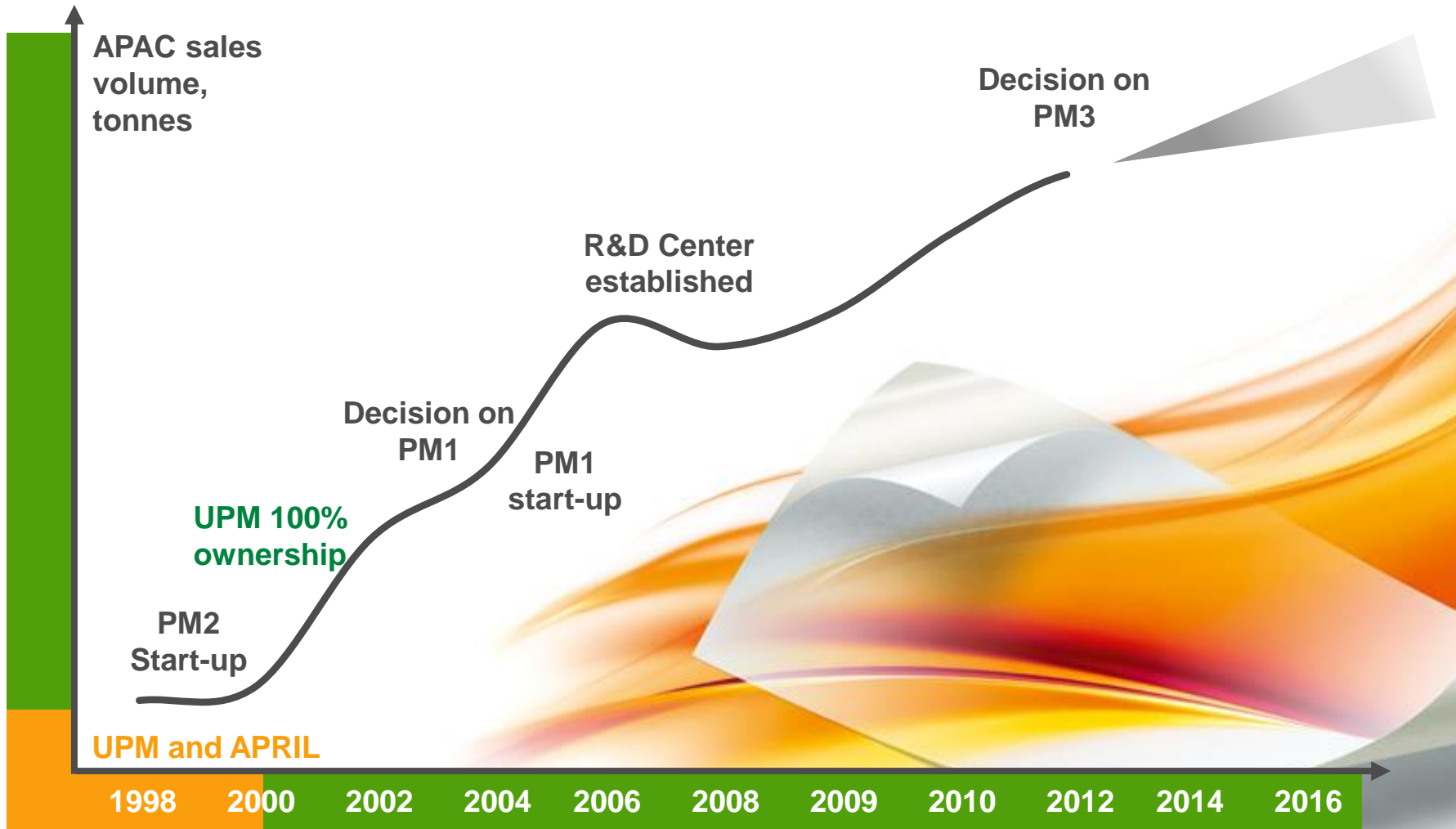


Growth in higher value added labelstock products and growth markets

UPM Raflatac sales (indexed)



UPM Paper in APAC and China 1998-2012



UPM grows in China and in the fast developing label materials segment

Changshu expansion status:

- Government and environmental permits are clear
- Site preparation works on-going
- Infrastructure works under preparation
- Equipment tendering process on-going
- New sheeting line started up

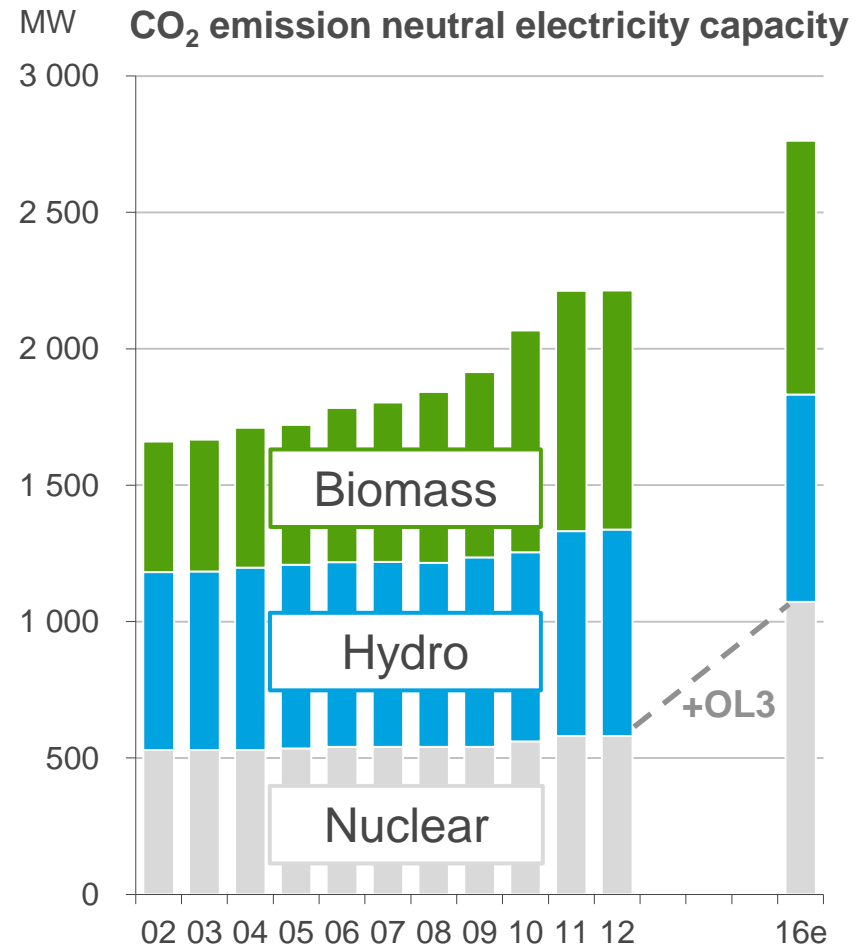
Total investment CNY 3,000m (approx. EUR 390m), start-up in H1 2015

Investment supports the good profitability of UPM's growth businesses

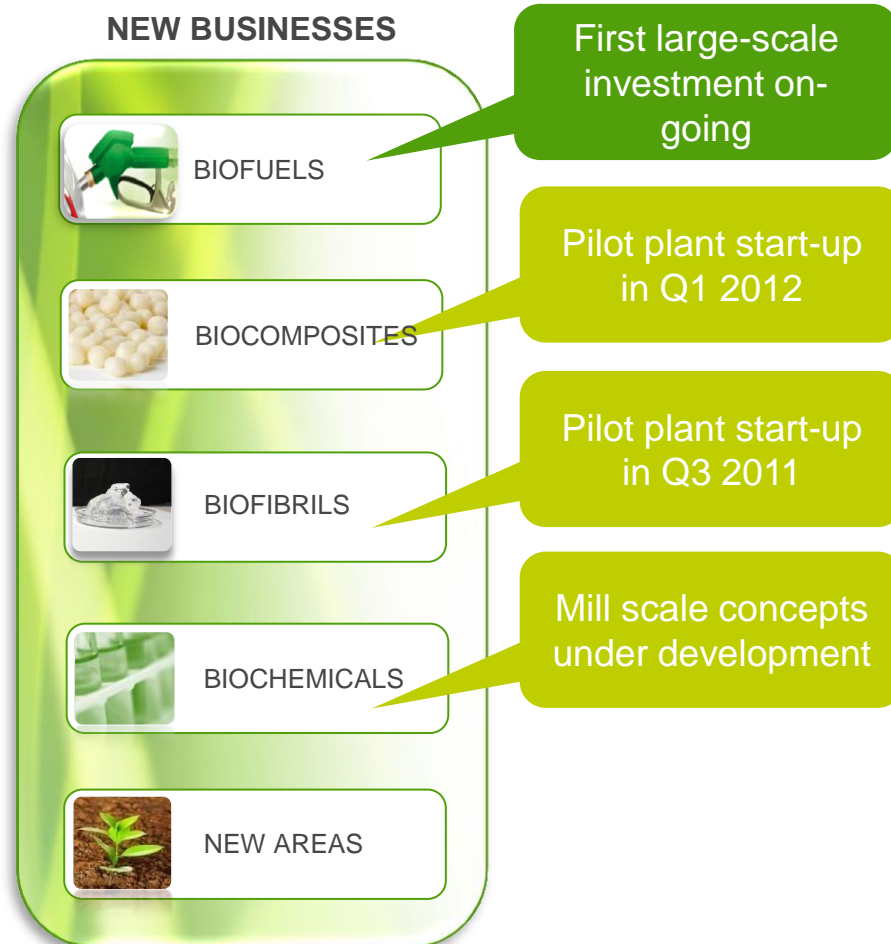


Consistent growth in low-emission electricity generation

- During the past decade:
 - 83% growth in biomass-based electricity generation
 - 16% growth in hydropower
- 81% of UPM's power generation is CO₂ neutral
- Biggest on-going projects are the Schongau CHP plant in Germany and the OL3 nuclear power plant in Finland



New opportunities for the future





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Q2 2013 RESULTS

Q2 2013 key figures

EUR m	Q2 2013	Q2 2012	Q1 2013	H1 2013	H1 2012
Sales	2,520	2,632	2,474	4,994	5,240
sales growth, %	-4%	9%	-5%	-5%	10%
EBITDA	258	325	284	542	682
% of sales	10.2	12.3	11.5	10.9	13.0
Operating profit (*)	138	128	144	282	284
Profit before tax (*)	120	101	129	249	243
Earnings per share, EUR (*)	0.20	0.16	0.18	0.38	0.38
Operating cash flow	84	142	103	187	360
Net debt	3,524	3,593	3,199	3,524	3,593
Gearing %	48	38	42	48	38

*) excluding special items



Q2 2013 highlights 1(2)

Growth businesses continued to perform well

- Strong quarter in Pulp with good delivery volumes and increased prices
- Continued good profitability in Chinese and speciality paper operations
- In Label increased volumes more than offset the higher fixed costs from expanded operations
- Energy had less hydropower than last year, but good profitability

Plywood and Timber improved in a challenging environment

Operating profit excl. special items was EUR 138m (128m in Q2 2012)

- Fixed costs decreased by EUR 36m from last year

Operating cash flow was EUR 84m (142m in Q2 2012), impacted by a temporary increase in working capital



Q2 2013 highlights 2(2)

Weak quarter for Paper Europe

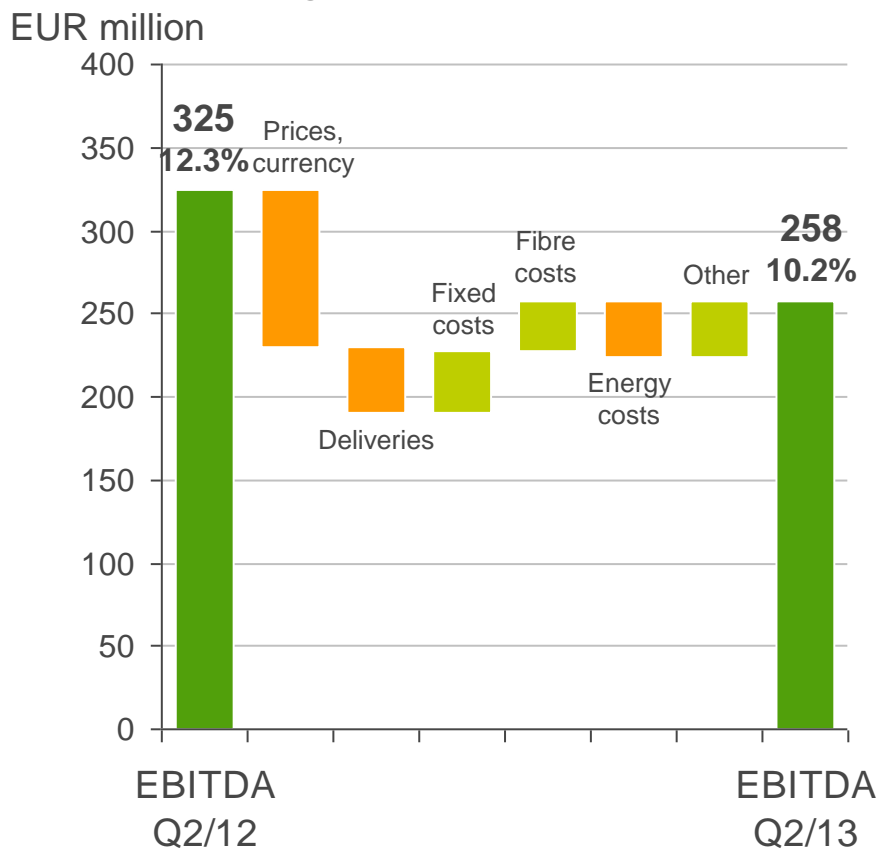
- Sales margins in European graphic papers and in exports from Europe significantly lower than last year
- Unrealised energy hedges had a negative impact in Q2

Plan to reduce annual fixed costs by EUR 90 million on schedule

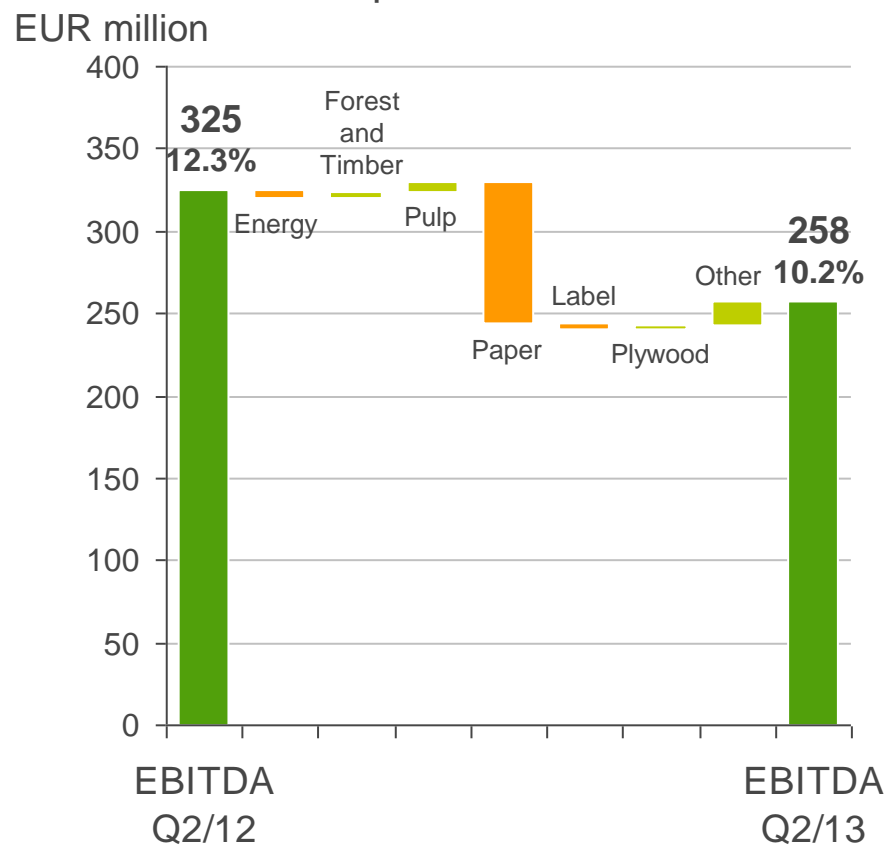
- Capacity closures were concluded in Rauma, Finland and Ettringen, Germany by the end of April
- Employee negotiations have been concluded in all countries except in France, where they started in July
- 40% of the annualised benefits were achieved in Q2 2013, full run-rate of EUR 90m expected from the beginning of 2014
- Cost reductions offset the impact of lower delivery volumes, but could not compensate for the lower sales margins

EBITDA affected by lower paper prices and delivery volumes in Q2 2013 vs. Q2 2012

Paper prices and volumes decreased
Savings in fixed and variable costs

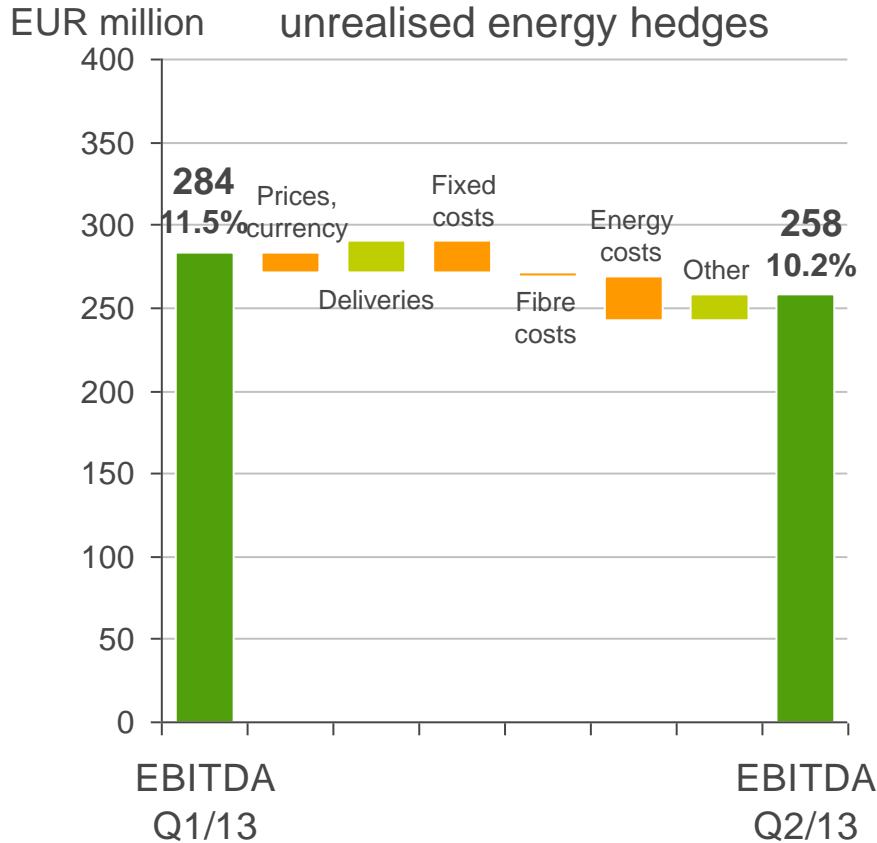


Paper impacted by
lower prices and volumes

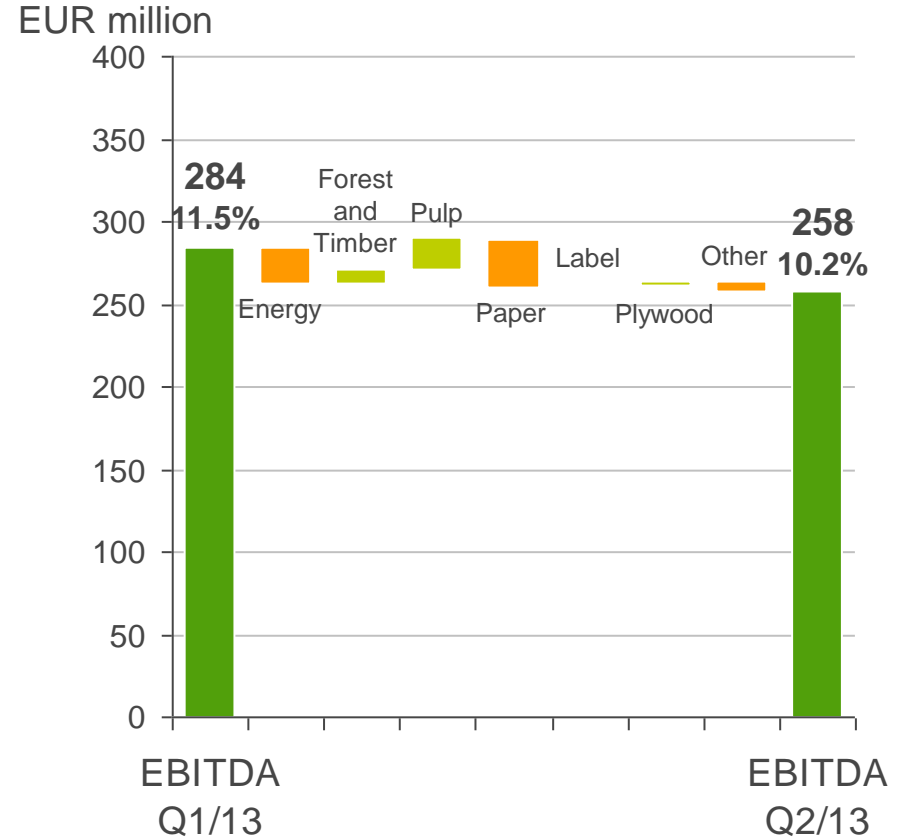


EBITDA in Q2 2013 vs. Q1 2013 impacted by unrealised energy hedges

Deliveries, fixed costs increased seasonally
Energy costs impacted by unrealised energy hedges

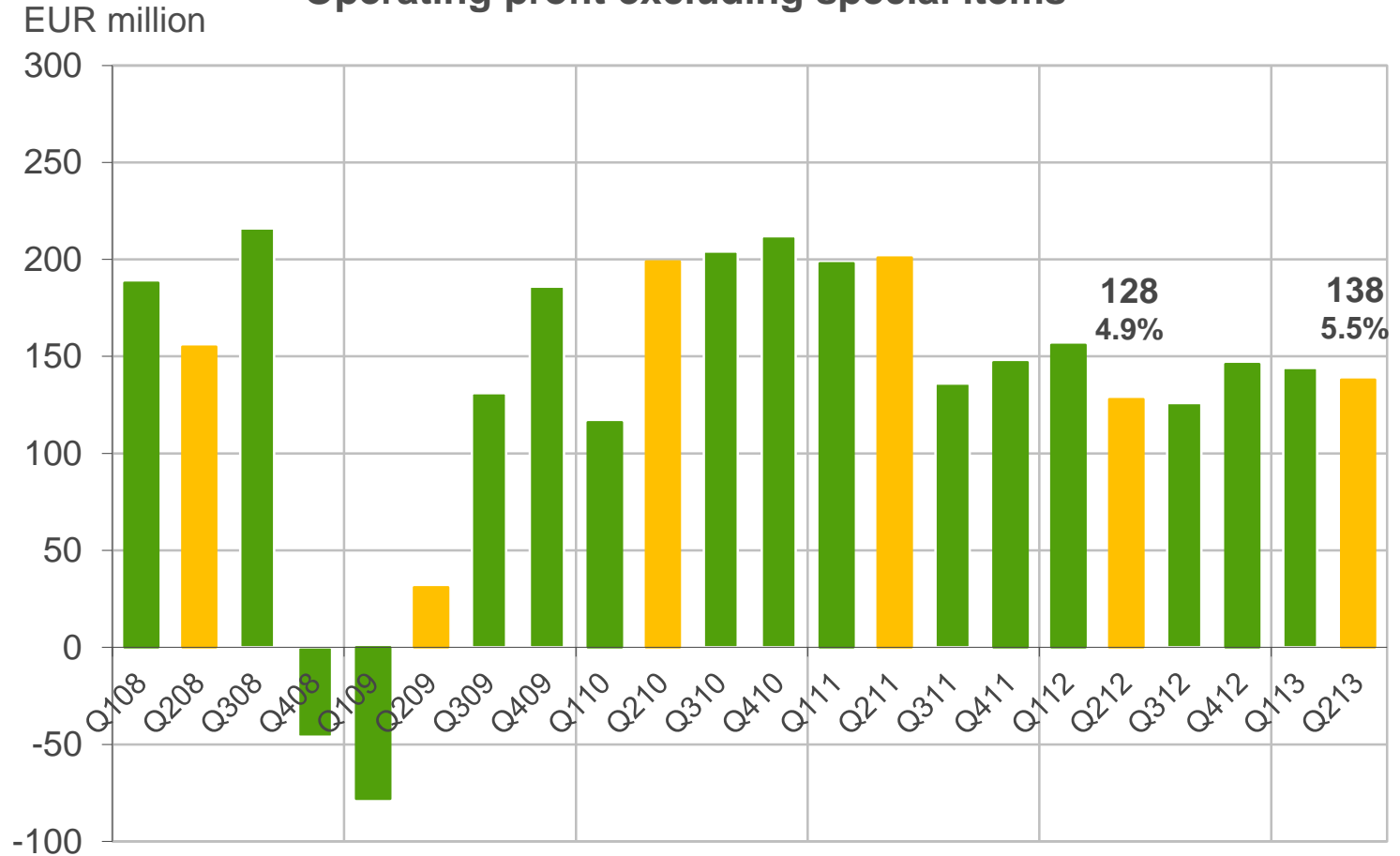


Paper impacted by unrealised energy hedges,
Pulp strong, Energy seasonally weaker



Operating profit stable

Operating profit excluding special items





Outlook for 2013 (*)

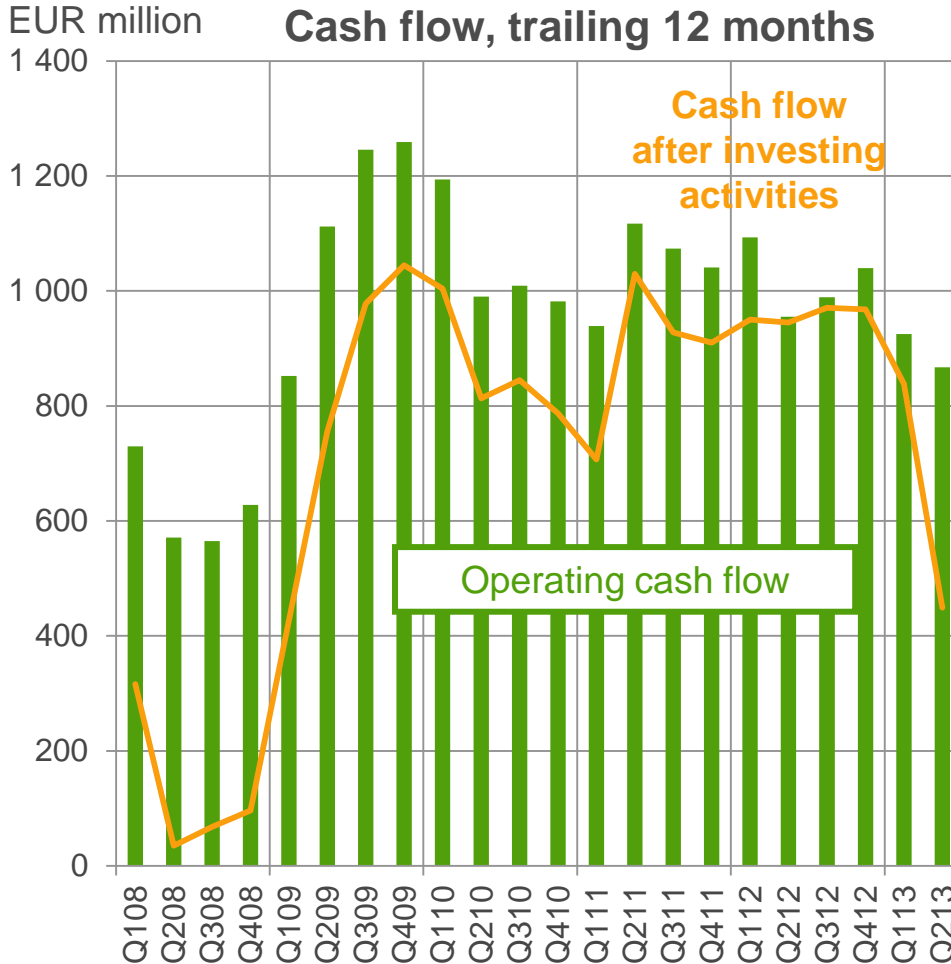
Business environment

- Economic growth in Europe in 2013 is expected to remain very low, having a negative impact on the European graphic paper markets.
- Growth market economies are expected to fare better, which is supportive for the global pulp and label materials markets, paper markets in Asia and wood products markets outside Europe.
- Hydrological situation in the Nordic countries is slightly weaker than the long term average

UPM performance in H2 2013 compared with H1 2013

- Paper BA is expected to benefit from lower costs, driven partly by the ongoing cost reduction measures, and seasonally stronger demand.
- Pulp BA will be impacted by annual maintenance stops in three of the four pulp mills.

Cash flow impacted by temporary increase in working capital

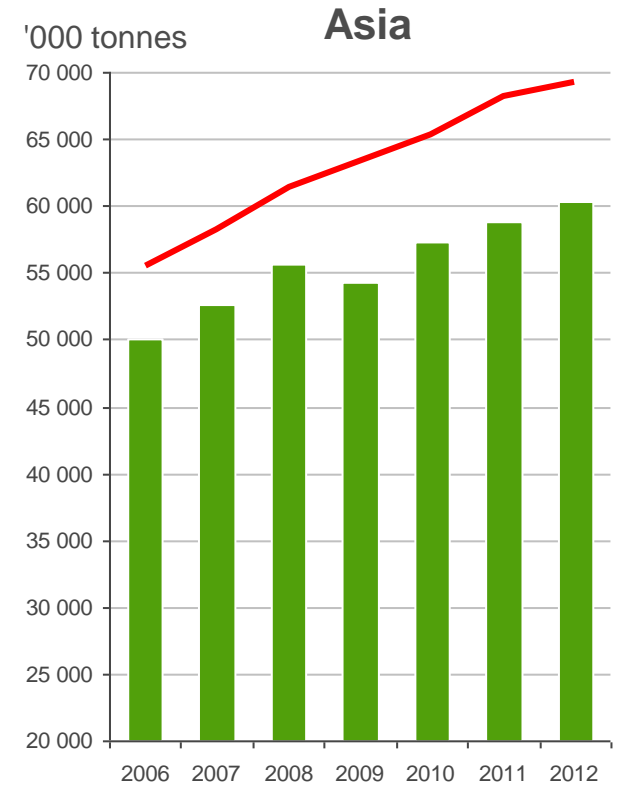
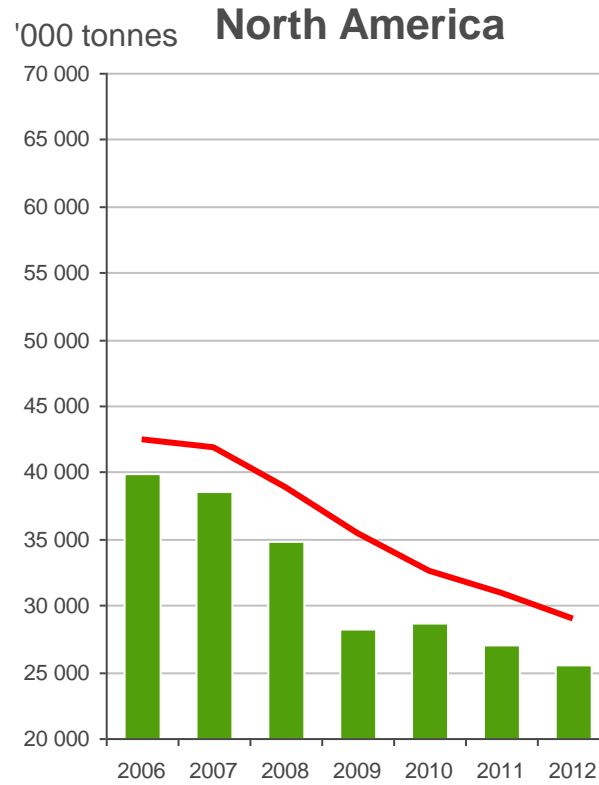
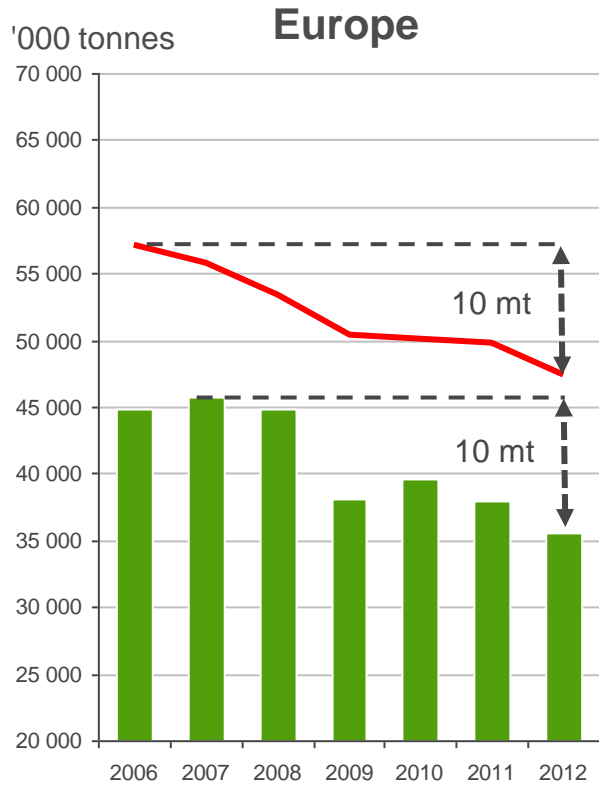


- H1 2013 operating cash flow was EUR 187m (360m), impacted by temporary working capital increase of EUR 215m (77m)



APPENDIX

Asia is as big graphic paper market as declining Europe and North America combined



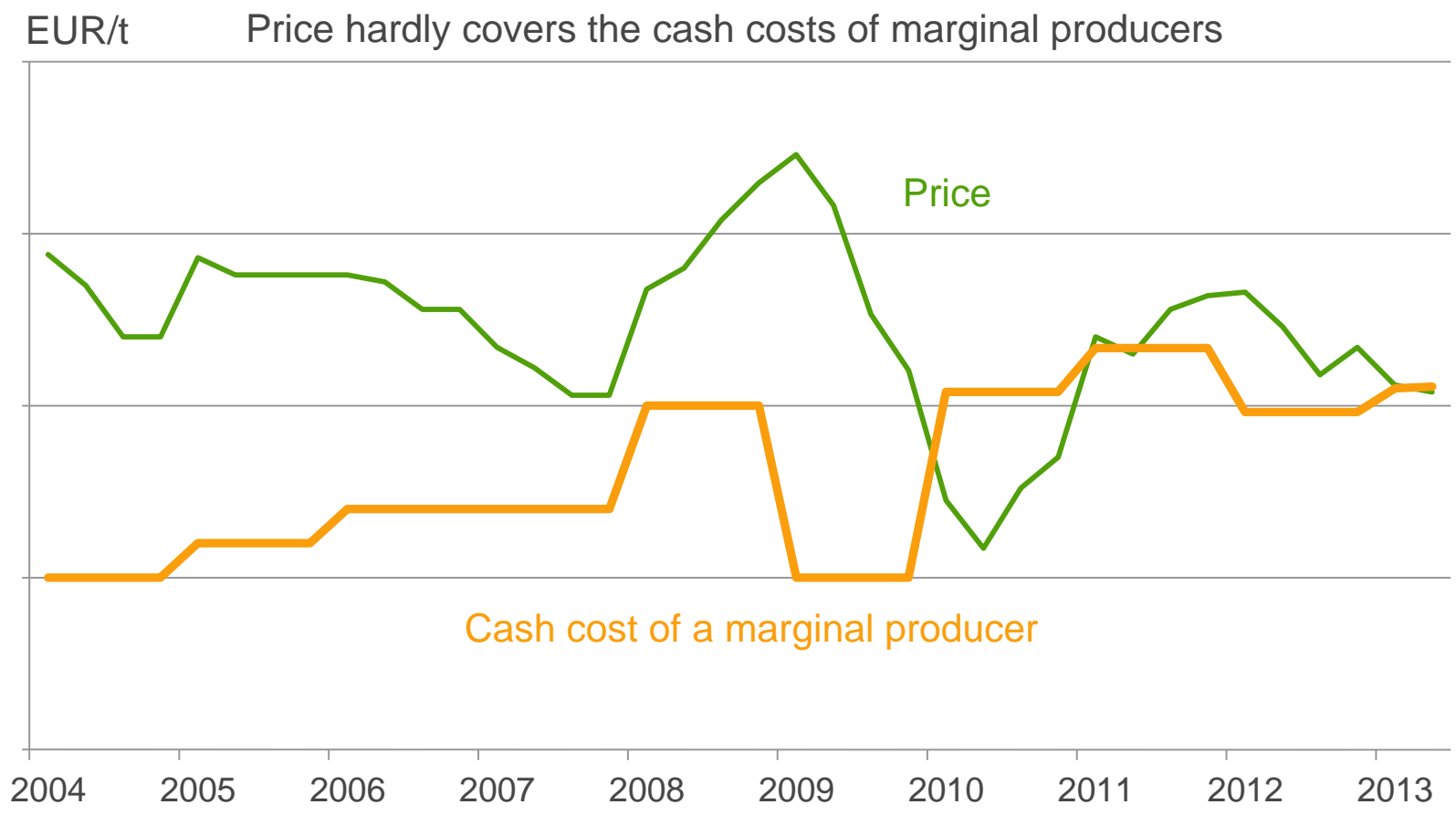
■ Eur demand — Capacity

■ NA demand — Capacity

■ Asia demand — Capacity

Source: Euro-Graph, PPPC, PPI

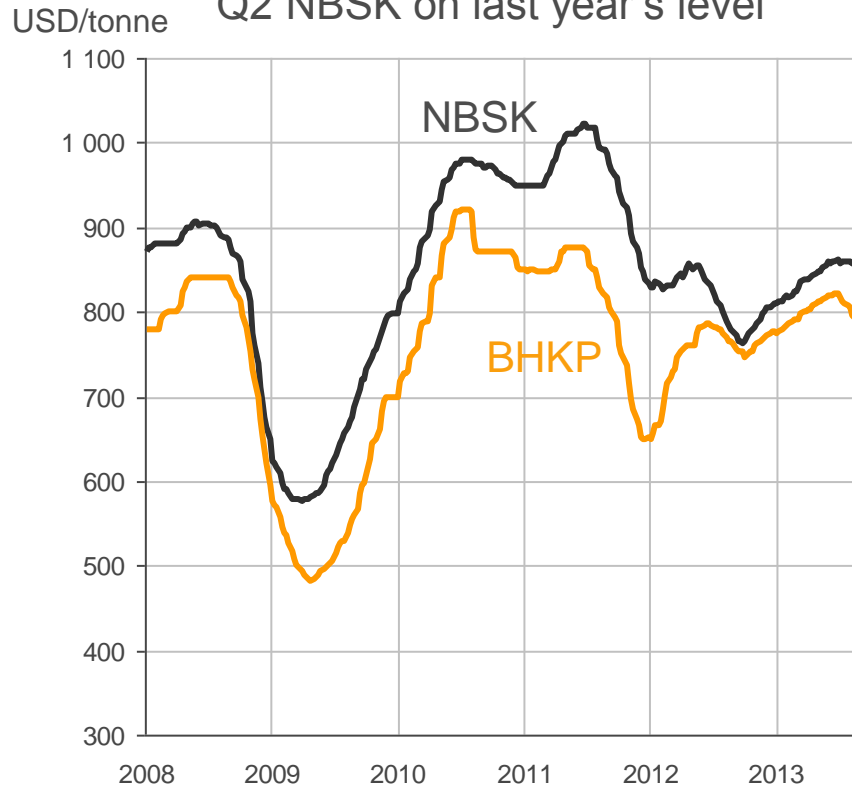
Overcapacity in European graphic paper is visible in margins





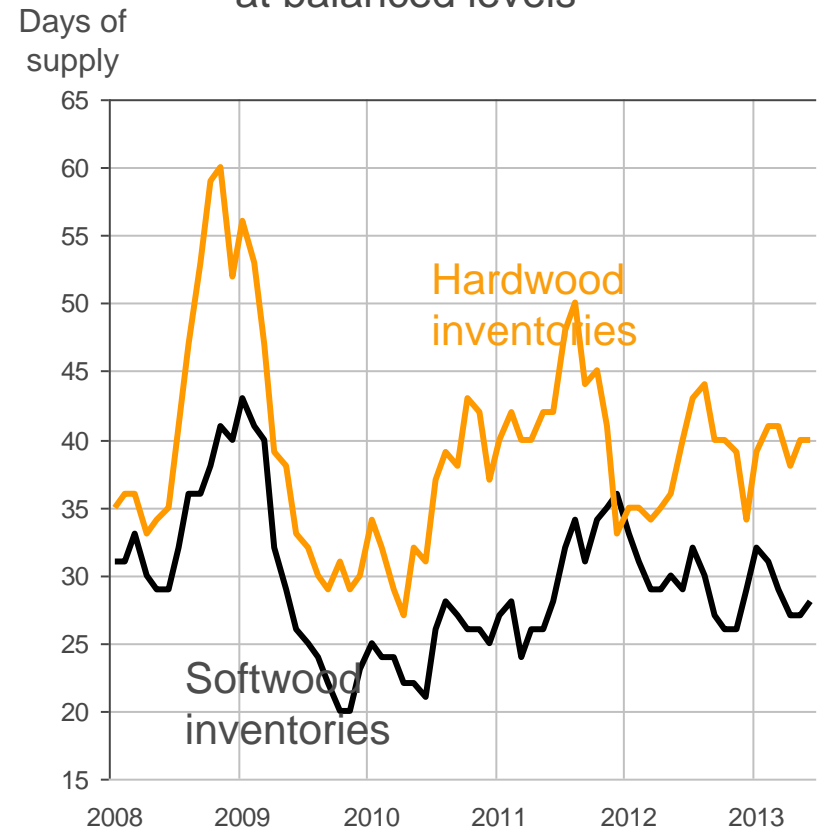
Chemical pulp market

Q2 pulp prices increased slightly from Q1
Q2 BHKP pulp price above last year
Q2 NBSK on last year's level



Source: FOEX Indexes Ltd.

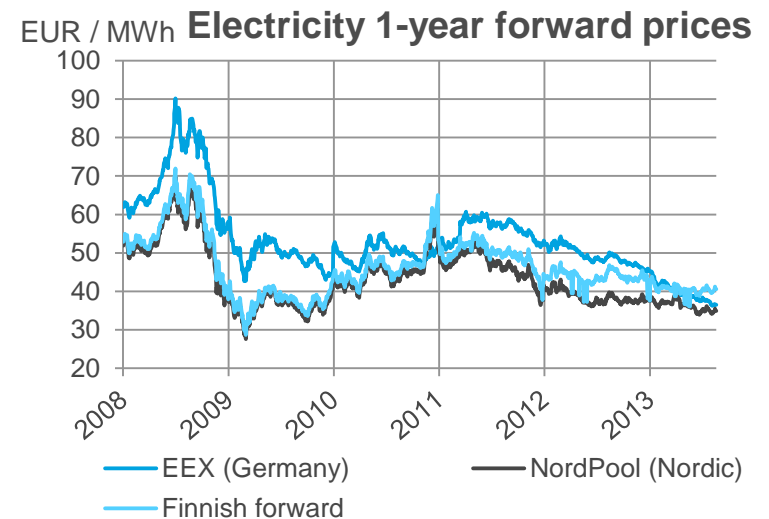
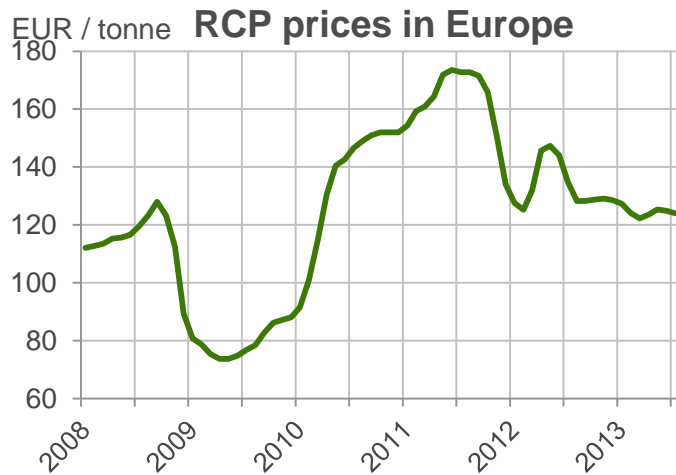
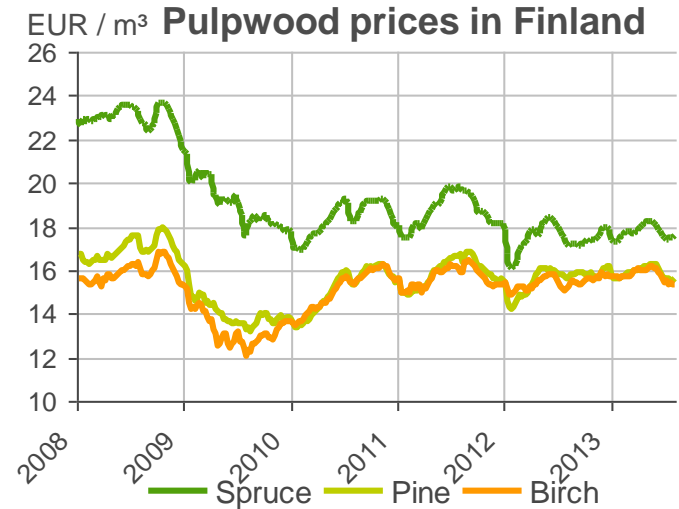
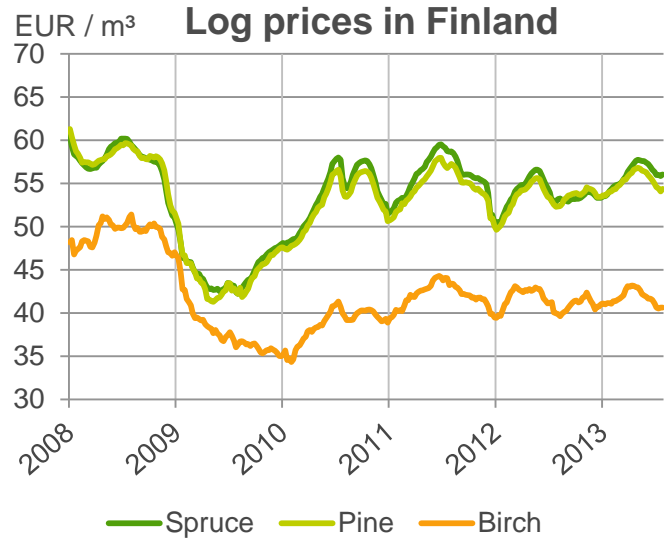
Producer inventories
at balanced levels



Source: PPPC World-20 statistics



Wood, RCP and electricity prices





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