

# UPM Q1 RESULTS 2013

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President and CEO  
25 April 2013





## Q1 2013 highlights

Good performance continued in the growth businesses

- Normal performance in Pulp, successful hedging in Energy, stable performance in Label
- Plywood and Timber improved in a challenging environment

Hard work continues in Paper

- Lower publication paper prices in Europe, adverse currency development, lower delivery volumes
- Plan to reduce annual fixed costs by EUR 90 million proceeds

Operating profit excl. special items was EUR 144m (156m in Q1 2012)

- Fixed costs decreased by EUR 30m from last year

Operating cash flow was EUR 103m in Q1 2013 (218m in Q1 2012)

- Seasonal increase in working capital



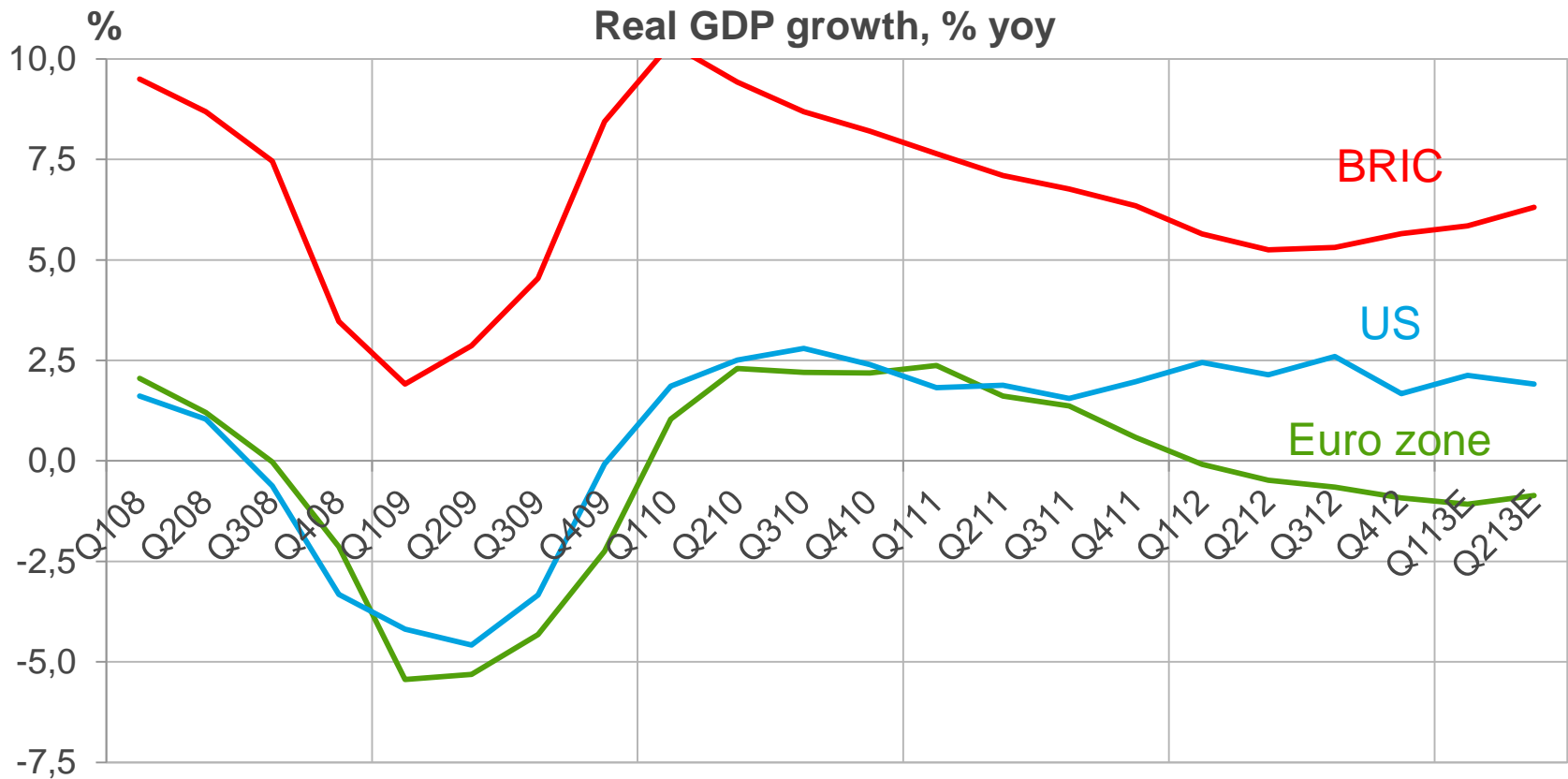
## Q1 2013 key figures

Historical figures restated

EUR m	Q1 2013	Q1 2012	Q4 2012	2012
Sales	2,474	2,608	2,657	10,492
sales growth, %	-5%			+4%
EBITDA	284	357	317	1,312
% of sales	11.5	13.7	11.9	12.5
Operating profit (*)	144	156	146	556
Profit before tax (*)	129	142	123	471
Earnings per share, EUR (*)	0.18	0.22	0.20	0.74
Operating cash flow	103	218	361	1,040
Net debt	3,199	3,672	3,210	3,210
Gearing %	42	39	43	43

\*) excluding special items

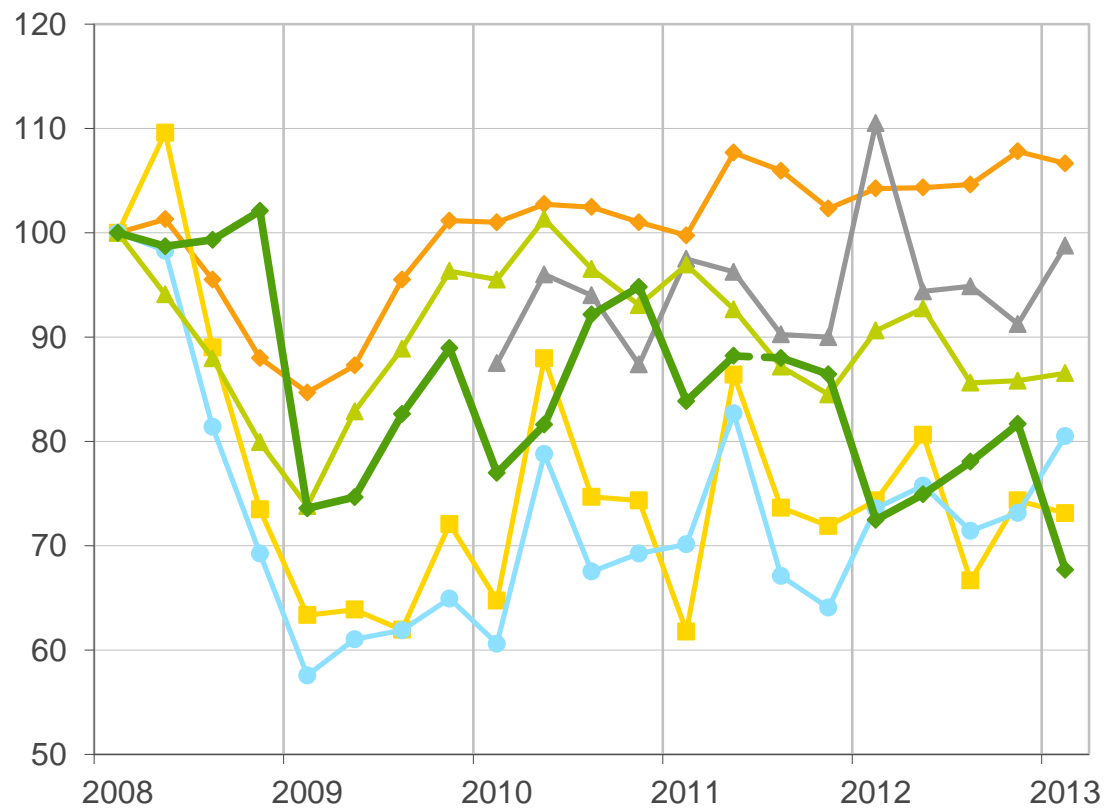
# Second economic downturn in Europe in four years









Source: Global Insight

# Paper deliveries affected by the weak economy

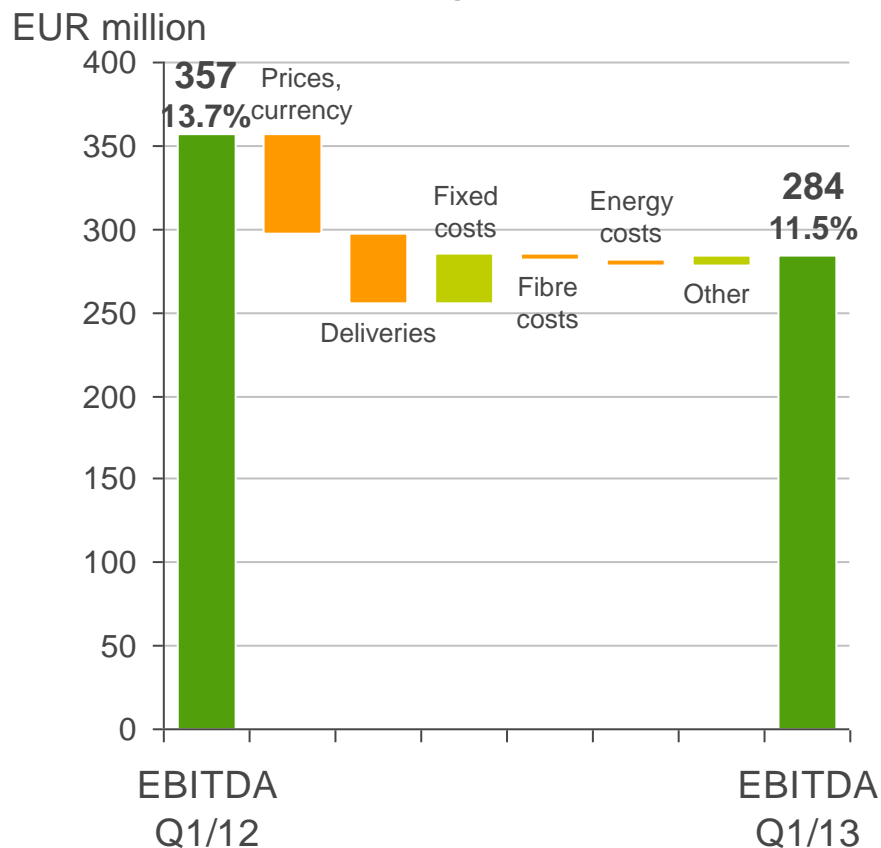
Delivery volumes, indexed Q108 = 100



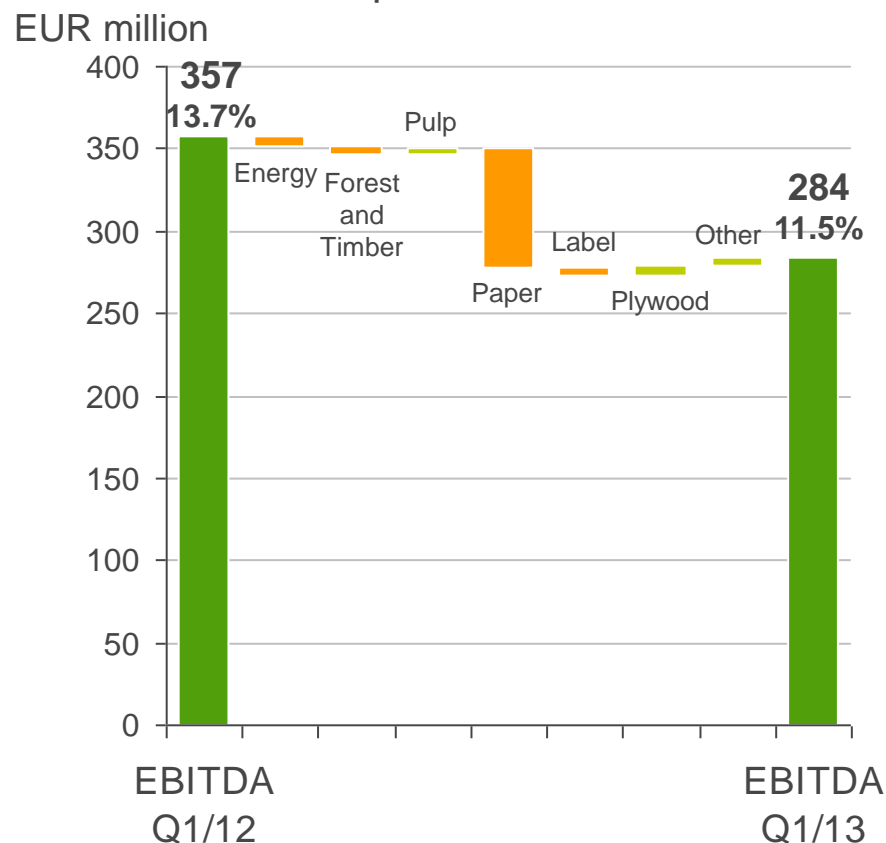
Change in deliveries, %	Q113/ Q112	Q113/ Q412
 Label	+2	-1
 Pulp	-11	+8
 Publication papers	-7	-17
 Fine and spec. papers	-4	+1
 Timber	-2	-2
 Plywood	+9	+10

# EBITDA affected by lower paper prices and delivery volumes in Q1 2013 vs. Q1 2012

Prices and volumes decreased  
Savings in fixed costs



Paper affected by  
lower prices and volumes



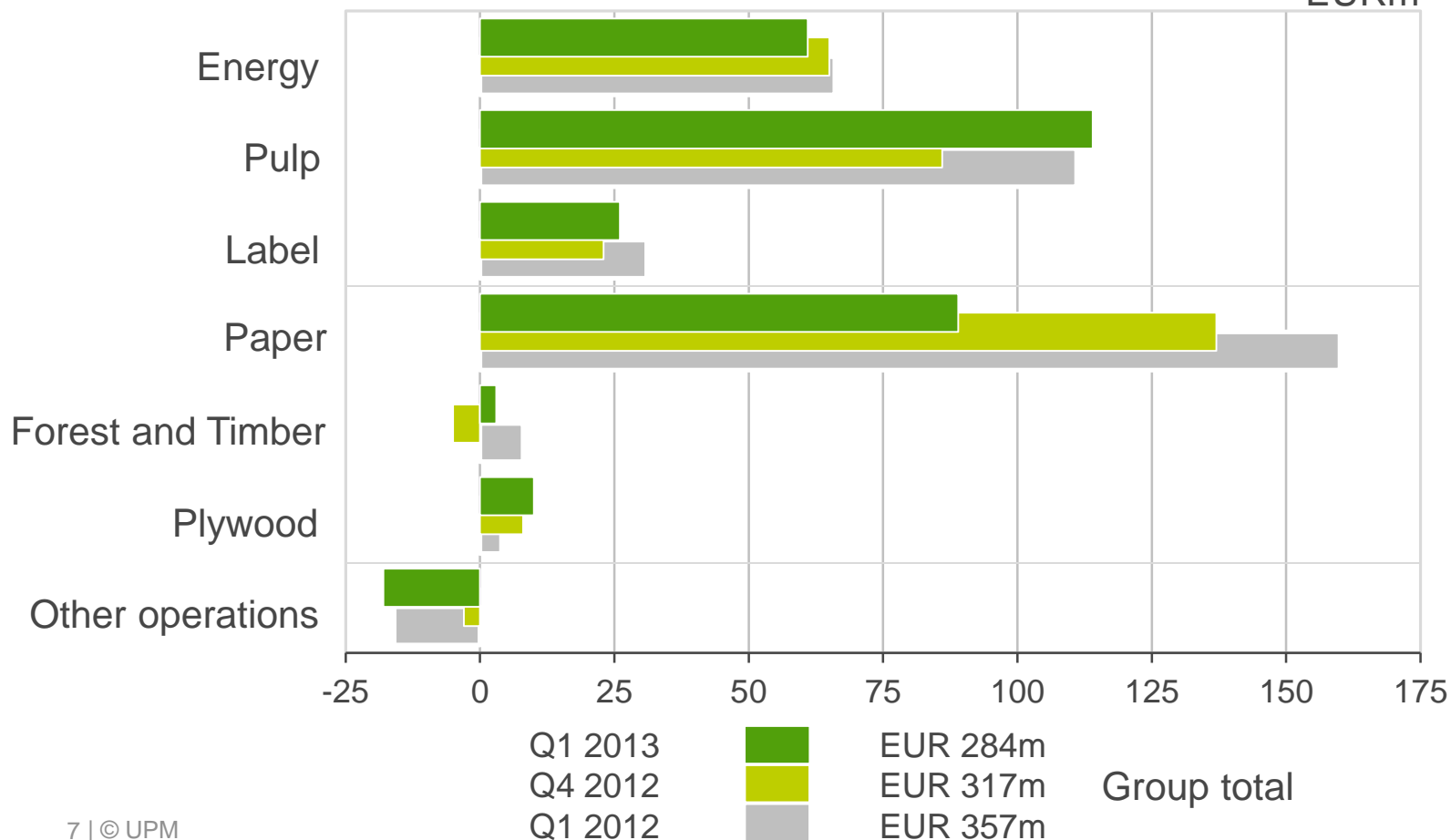
# Q1 2013 EBITDA

Good performance in Pulp, Energy, Label

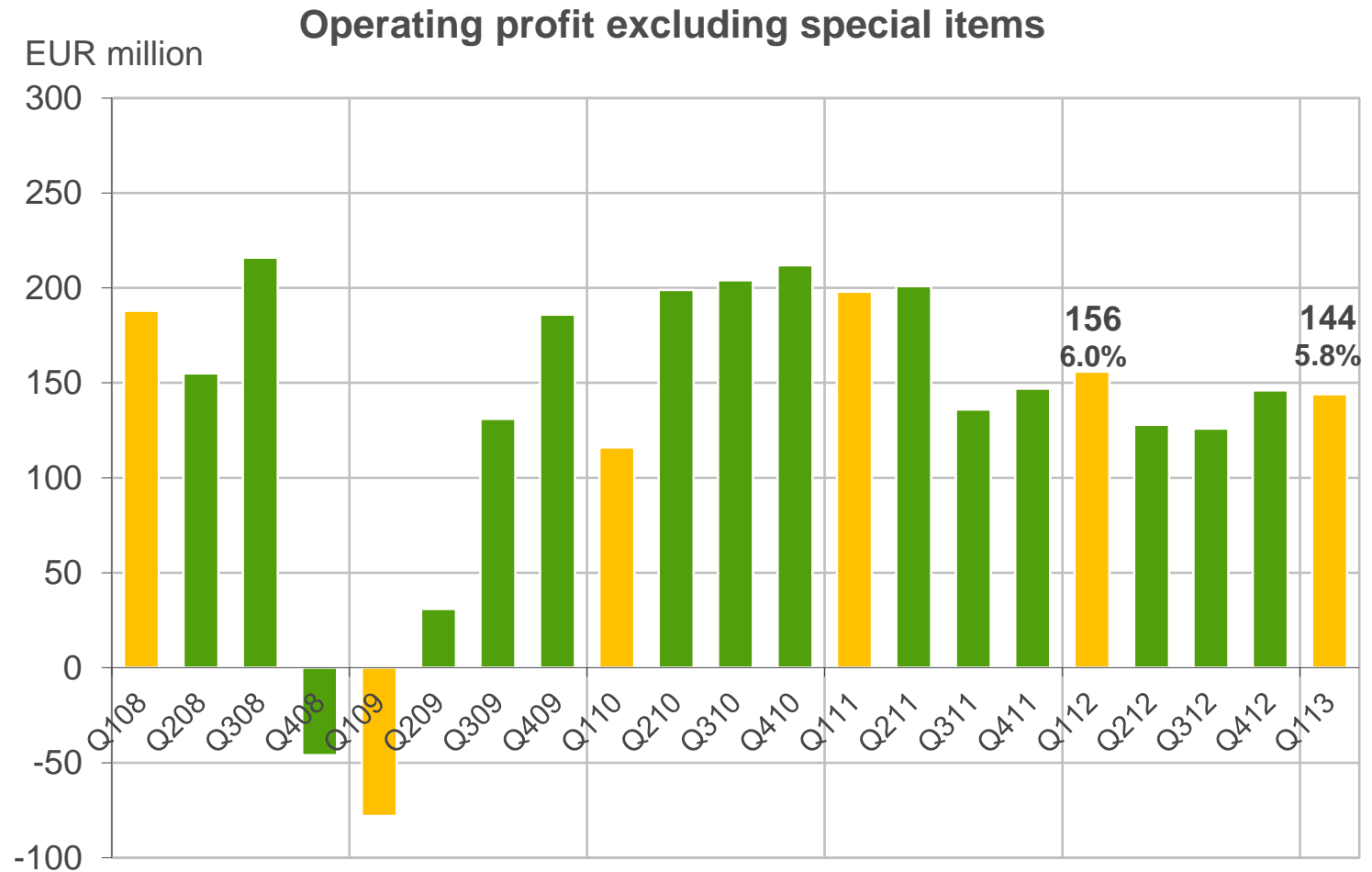
Challenges in Paper

## EBITDA

EURm

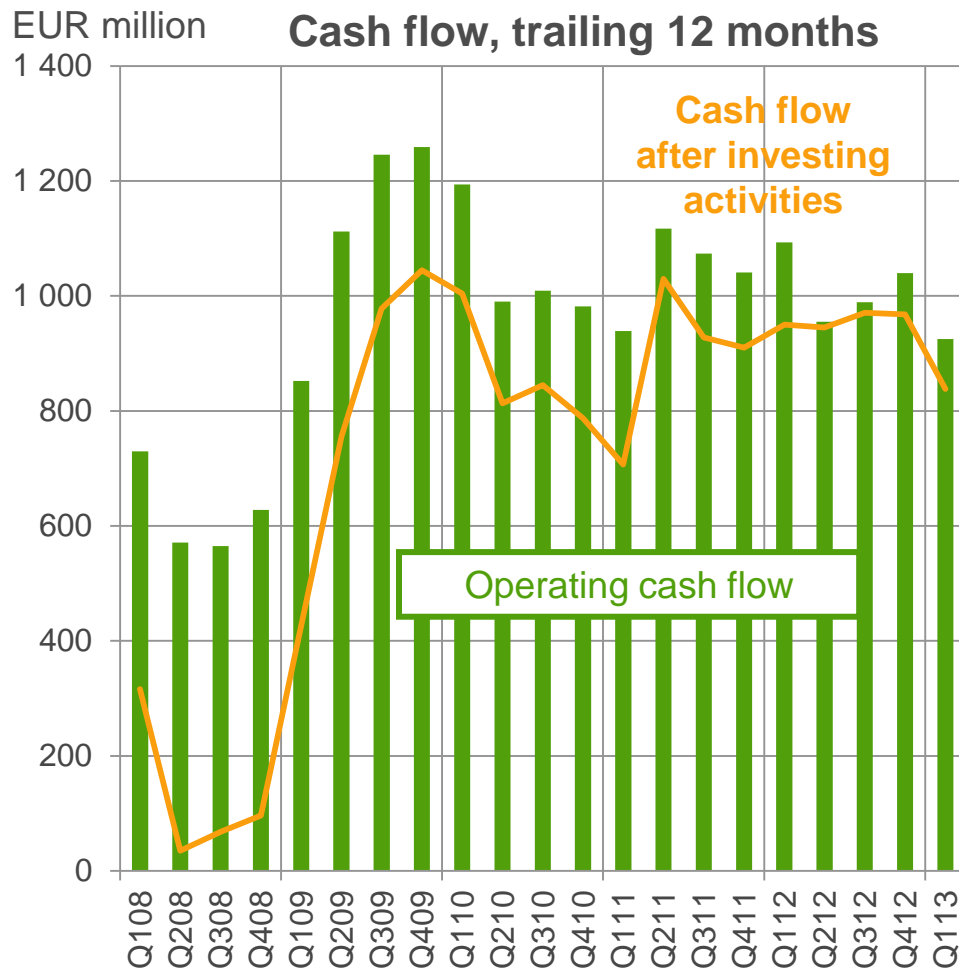


# Operating profit stable



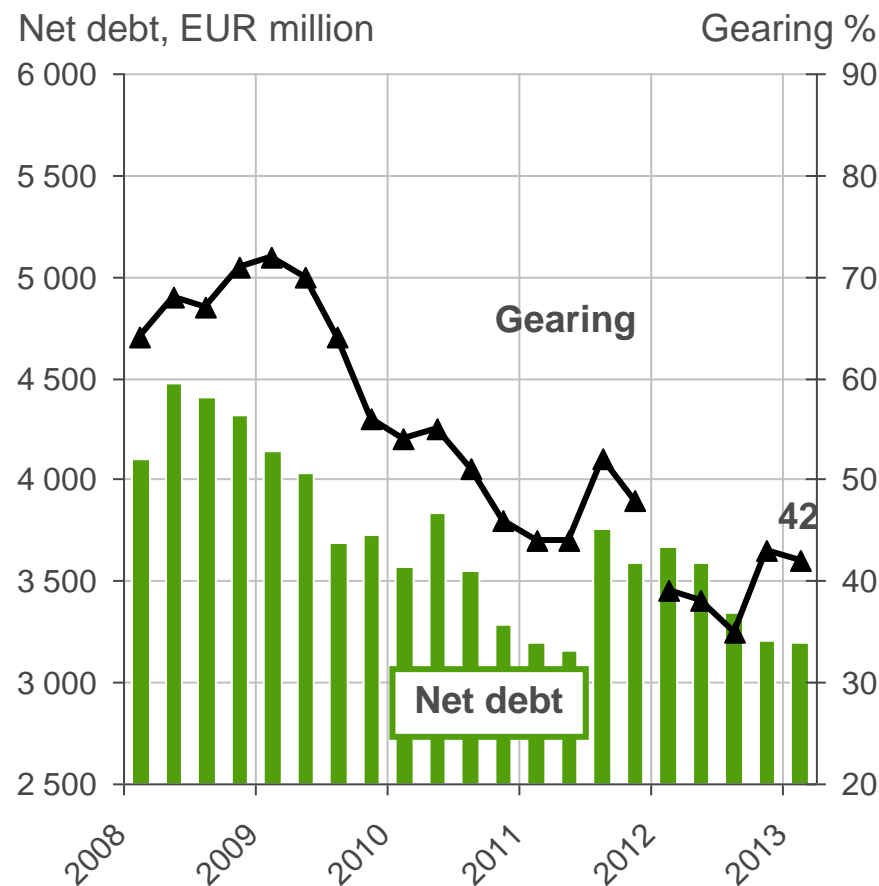
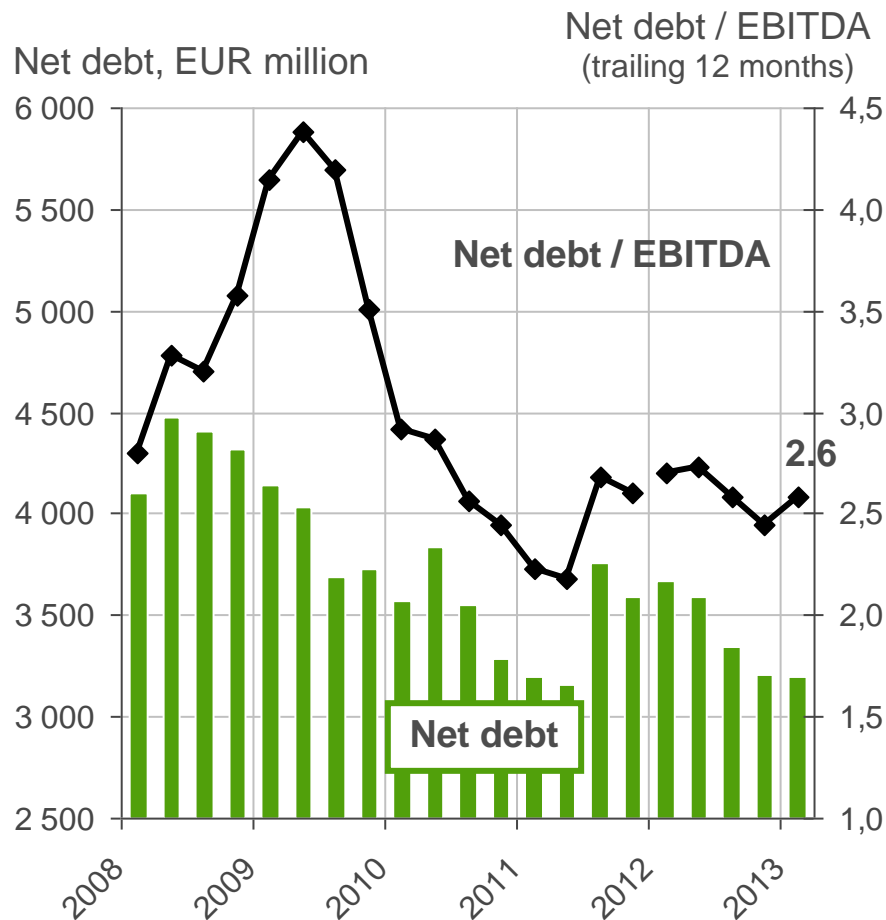


## Consistent solid cash flow



- Q1 2013 operating cash flow was EUR 103m (218m)
- Working capital increased seasonally by EUR 96m in Q1 2013 (14m)

# Strong balance sheet



**Liquidity** was EUR 1.8bn at the end of Q1 2013  
Repayments total EUR 228m in next 12 months

2012 figures restated



## Outlook for 2013 unchanged (\*)

### Business environment

- Economic growth in Europe in early 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.

### UPM performance in H1 2013 compared with H2 2012

- UPM's performance will be underpinned by continued stable overall outlook for growth businesses such as Pulp, Energy and Label.
- Slightly lower publication paper prices, adverse currency development and lower delivery volumes are having a clear negative impact on the European paper business profitability.

(\*) See complete wording of the "Outlook" in the Interim Report Q1 2013



## Hard work in Paper continues

In Q1 2013, UPM's fixed costs were EUR 30m lower than last year

- Final Myllykoski synergies, including mill closures
- Timber restructuring

Plan to reduce annual fixed costs by a further EUR 90m proceeds

- Two SC paper machines (total 420,000 tonnes) in Rauma, Finland, and in Ettringen, Germany will be closed in April
- The sales processes of Docelles paper mill (160,000 tonnes), Pestovo sawmill and Aigrefeuille further processing mill are ongoing
- Streamlining of functions is proceeding

# UPM creates new business in wood-based renewable diesel

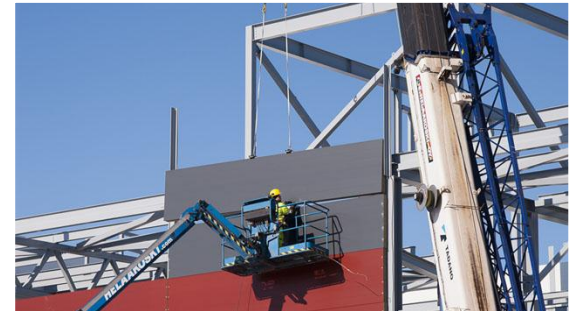
## Lappeenranta biorefinery status:

- Construction and commissioning works on-going, on schedule and budget
- Main equipment installations will start in June
- Fleet tests of the product are about to start
- 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 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 by the end of 2014

Investment supports the good profitability of UPM's growth businesses





# Summary

- Weak European economy continues to impact UPM's business environment
- UPM's growth businesses have continued good performance in the difficult environment
  - Expansion continues with measured steps
- UPM proceeds with restructuring and streamlining in Paper
  - Q1 2013 fixed costs were EUR 30m lower than last year
  - The plan announced in January, targeting EUR 90m of annual fixed costs savings is proceeding on schedule
  - The two SC paper machine closures are taking place in April

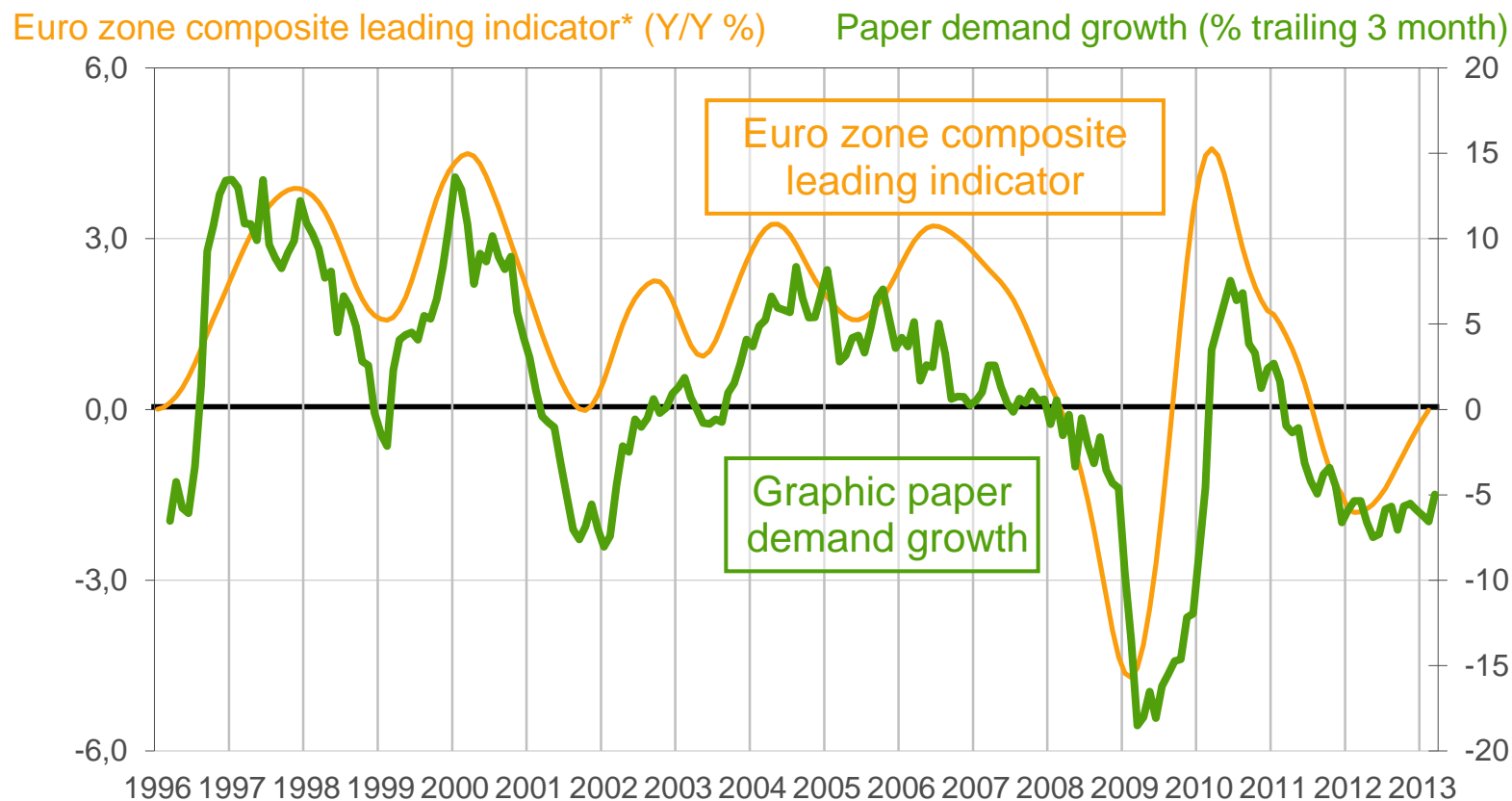


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# BUSINESS DRIVERS

# Second economic downturn in Europe in four years

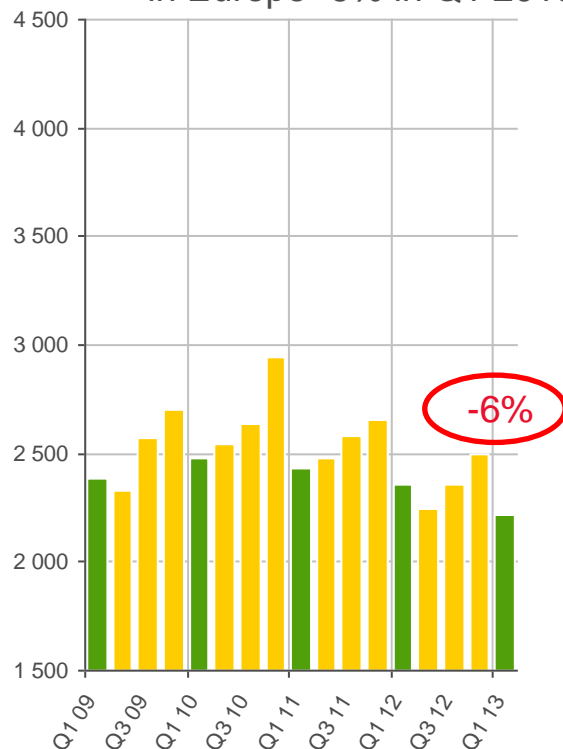


\* Changed GDP base

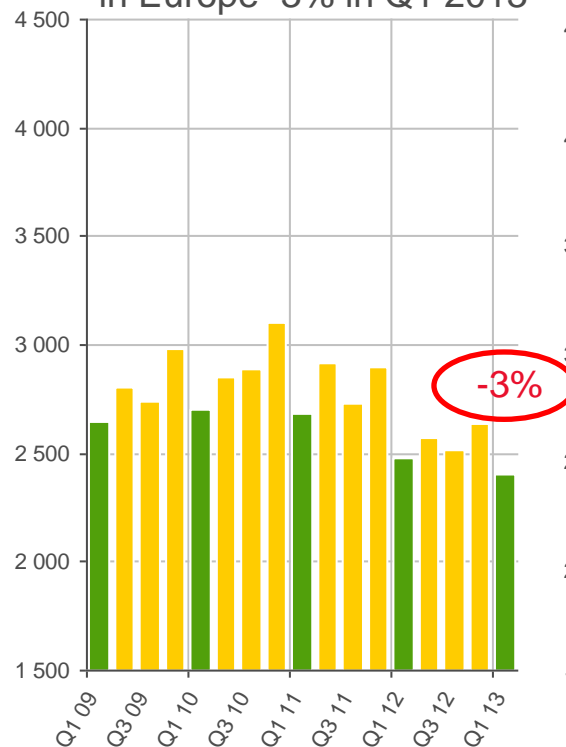
Sources: Cepiprint, Cepifine, OECD

# Graphic papers demand in Europe decreased 5% in Q1 2013

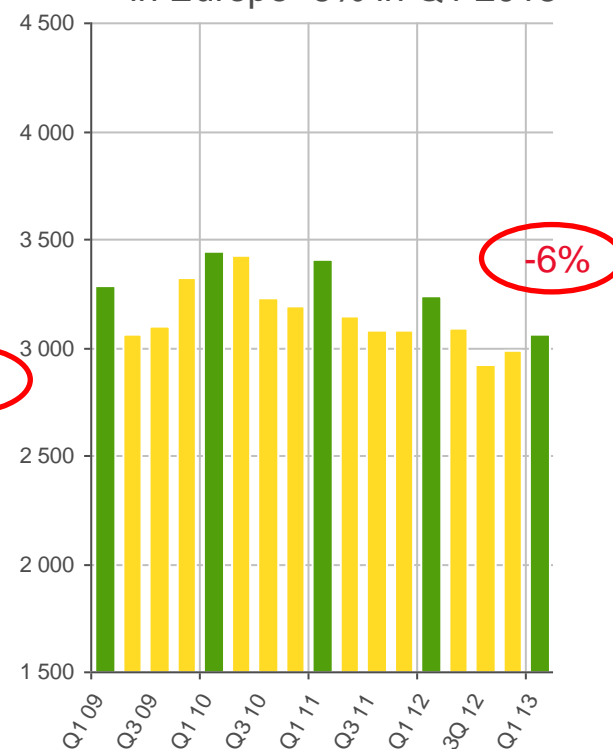
'000 tonnes  
Magazine papers demand  
in Europe -6% in Q1 2013



Newsprint demand  
in Europe -3% in Q1 2013

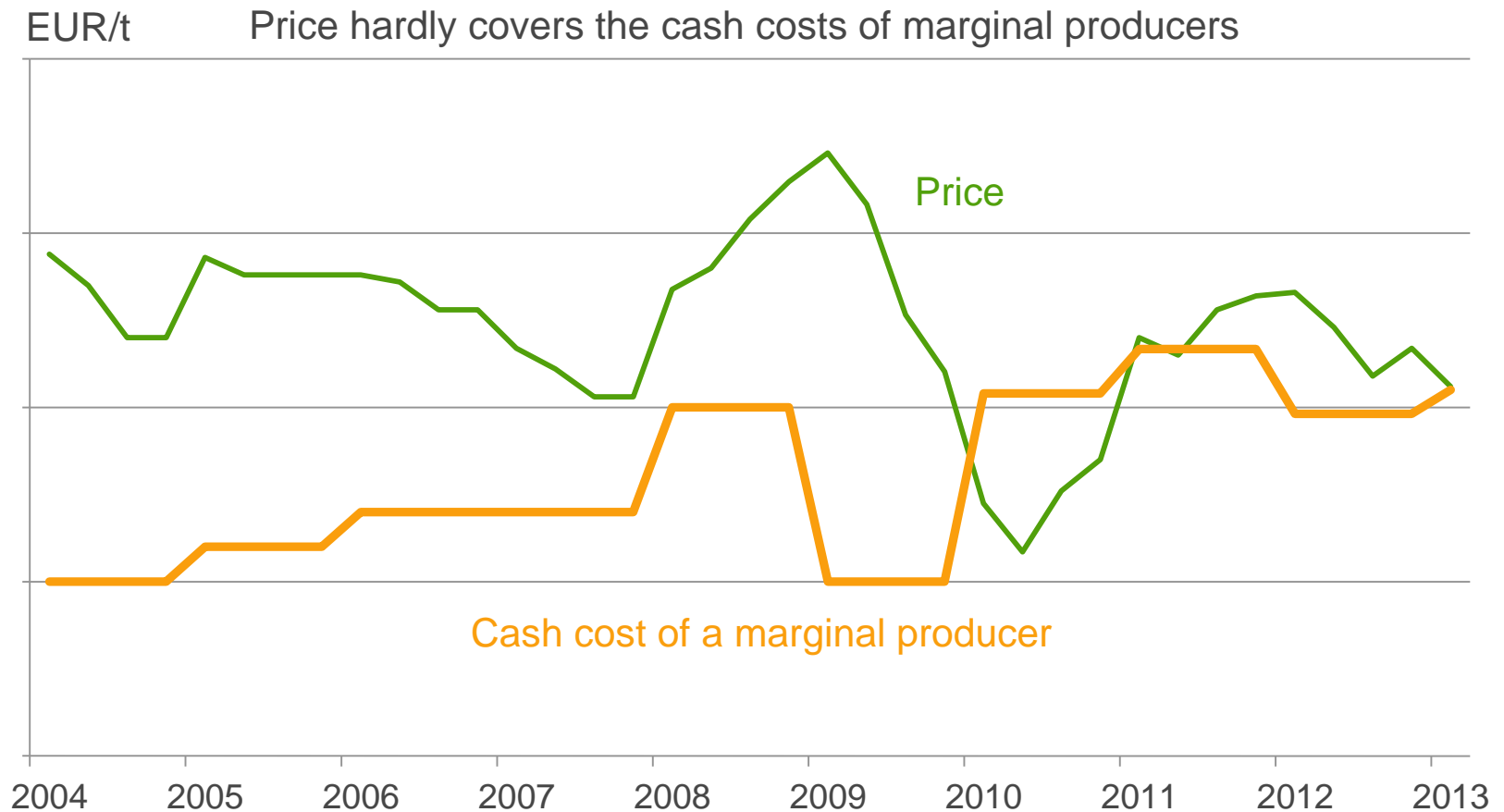


Fine papers demand  
in Europe -6% in Q1 2013



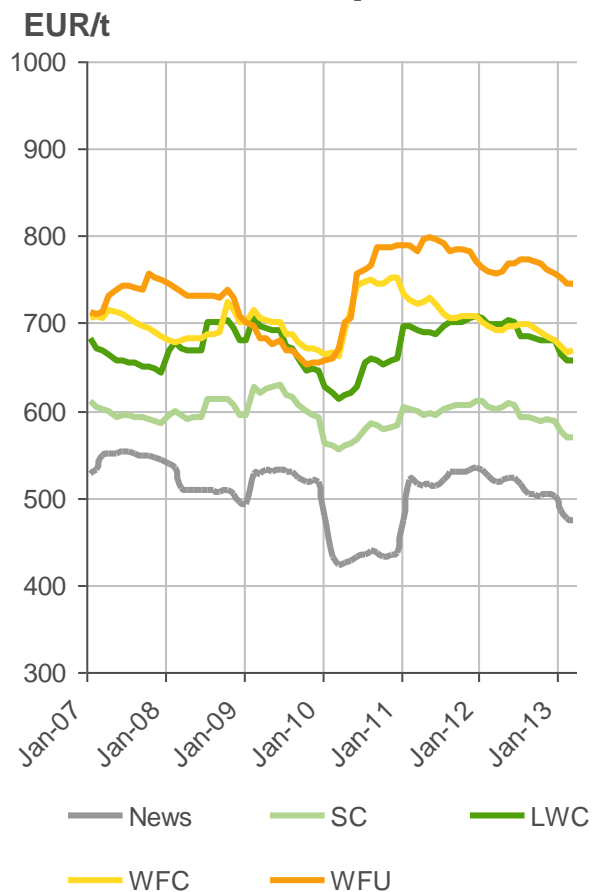
Source: Cepiprint/fine, PPPC

# Overcapacity in European graphic paper is visible in margins

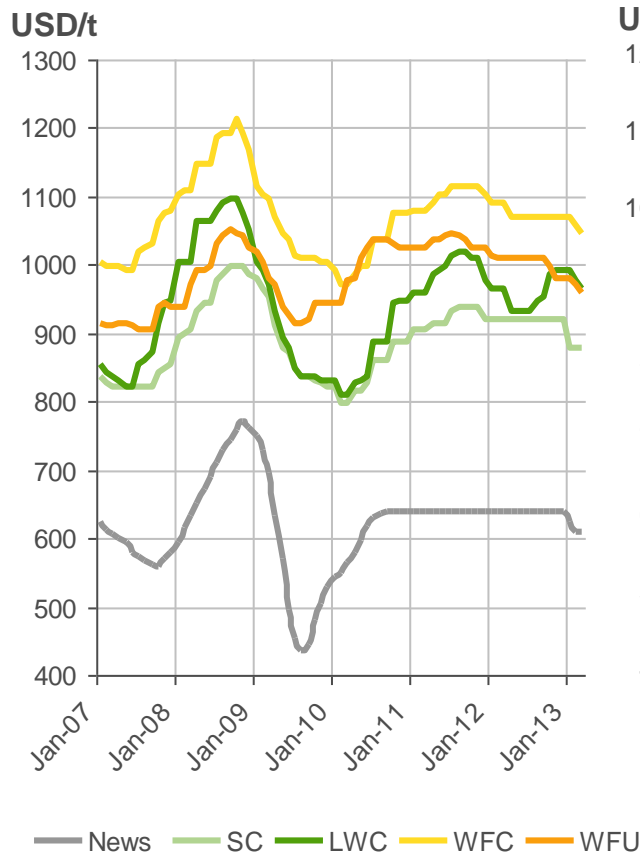


# Graphic paper prices

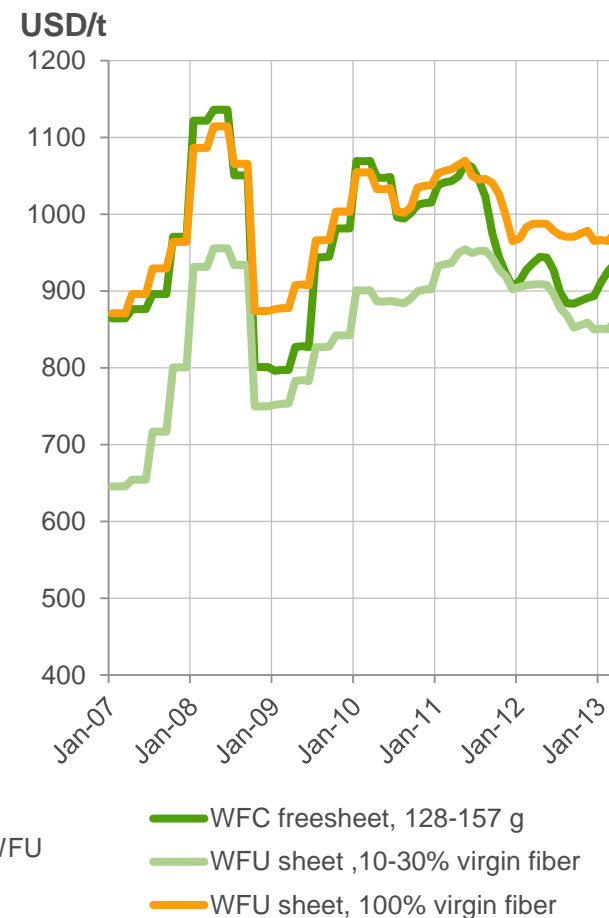
## Europe



## North America



## China

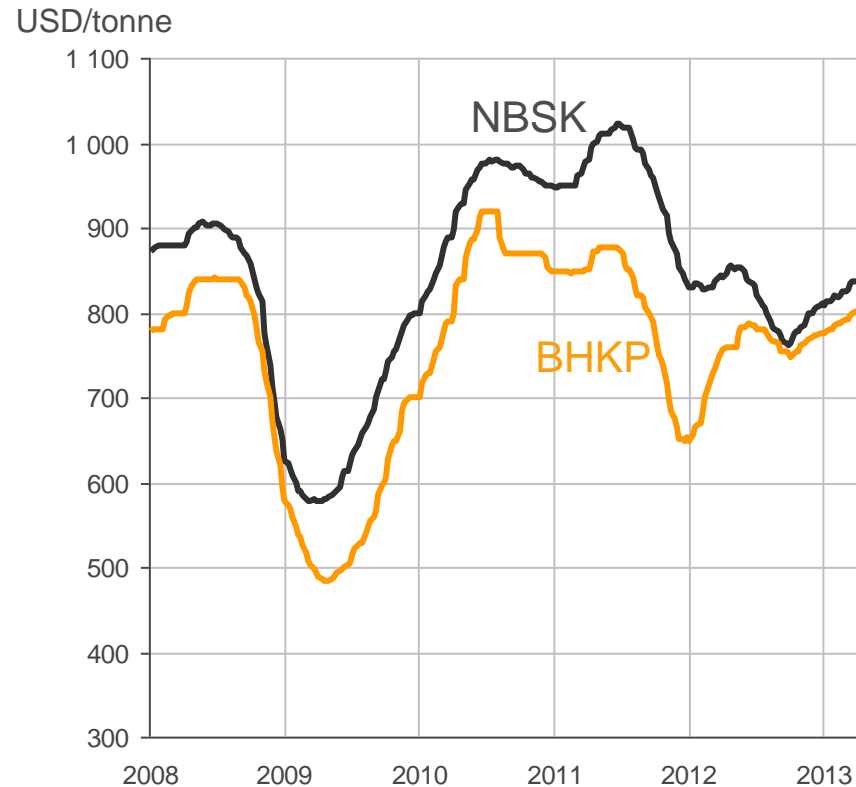


Source: PPI, RISI



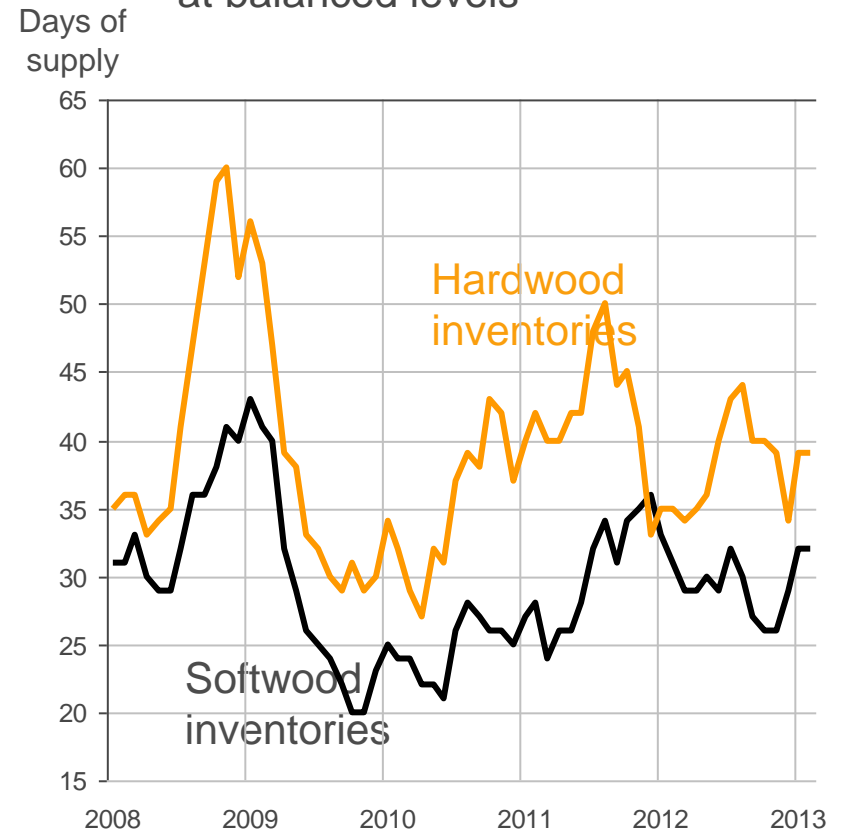
## Chemical pulp market

Q1 pulp prices increased slightly from Q4  
Q1 BHKP pulp price above last year



Source: FOEX Indexes Ltd.

Producer inventories  
at balanced levels



Source: PPPC World-20 statistics

# Wood, RCP and electricity prices

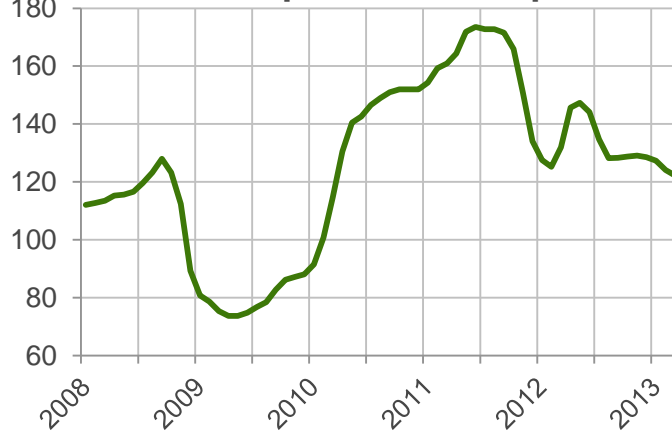
EUR / m<sup>3</sup> **Log prices in Finland**



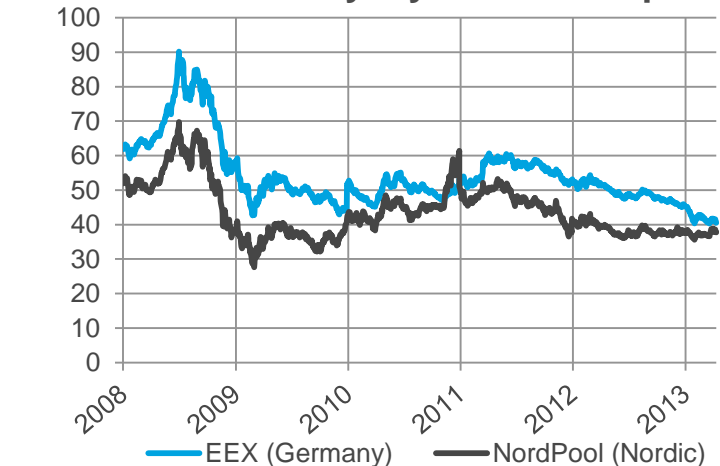
EUR / m<sup>3</sup> **Pulpwood prices in Finland**



EUR / tonne **RCP prices in Europe**



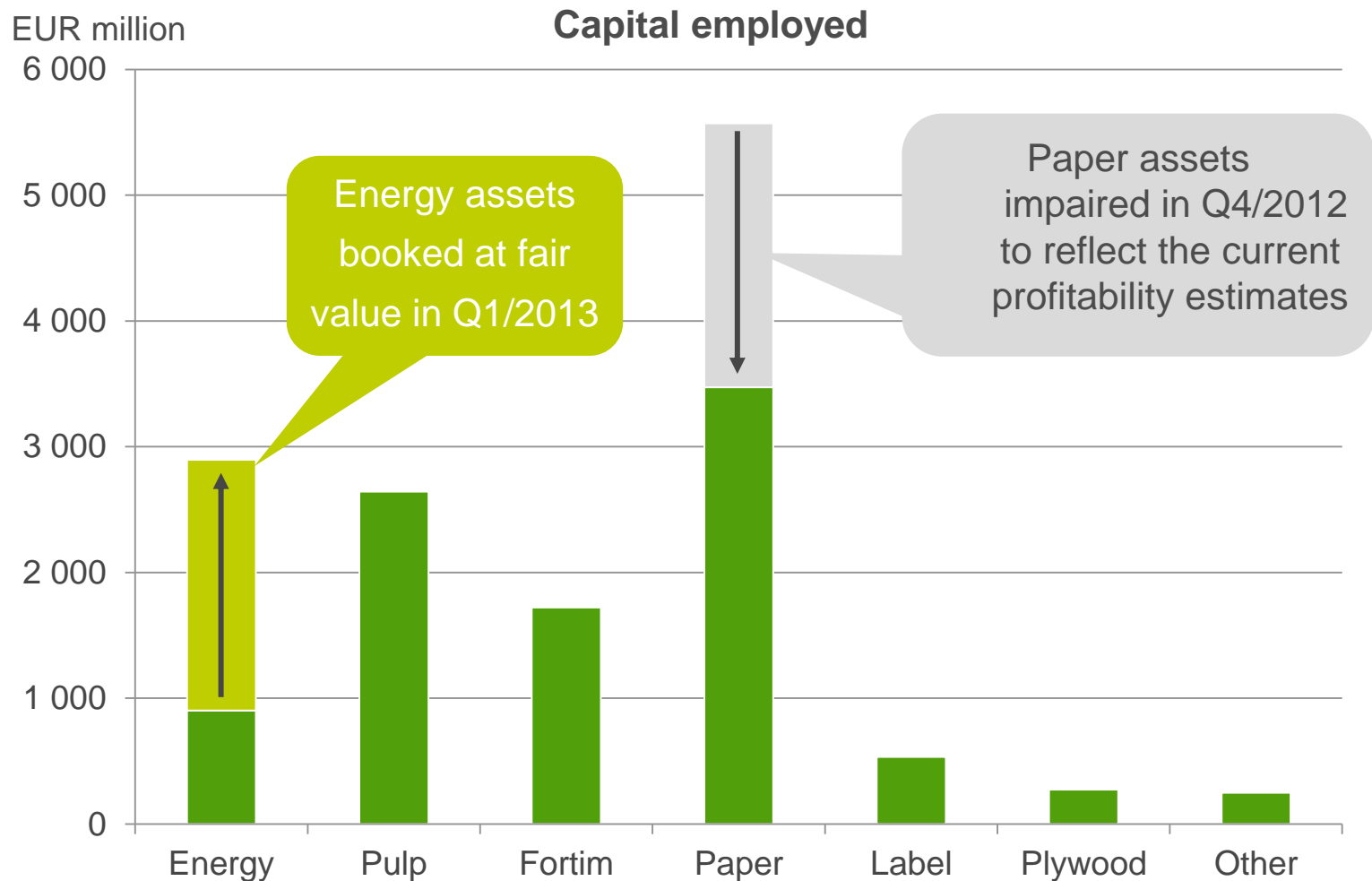
EUR / MWh **Electricity 1-year forward prices**



# FINANCIALS Q1 2013

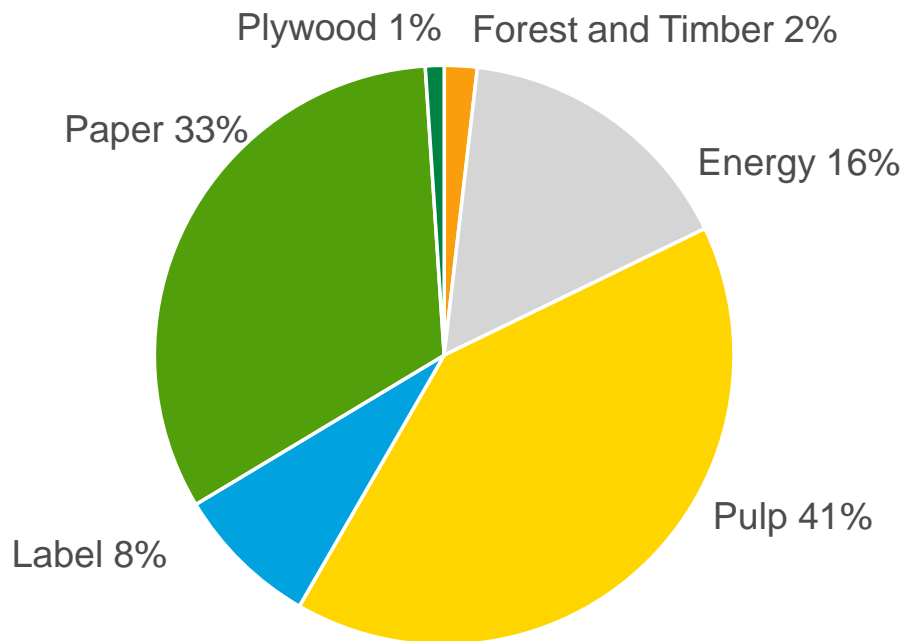


# Asset values changed to reflect fair values

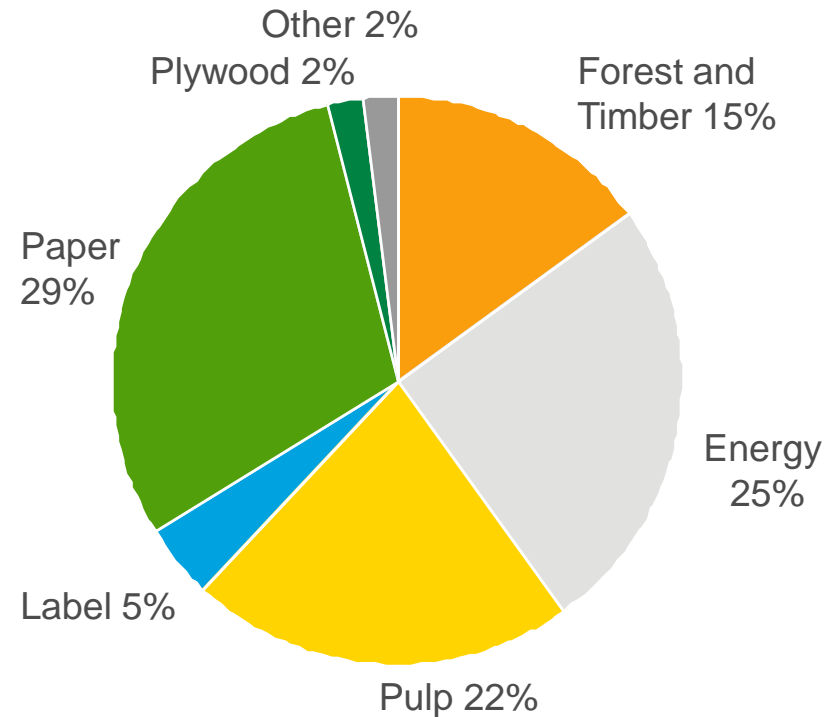


## New asset values represent UPM's EBITDA generation during recent years

**Cumulative  
EBITDA 2010 – 2012**



**Capital employed  
31 March 2013**



# Adjusting operations to the profitable demand

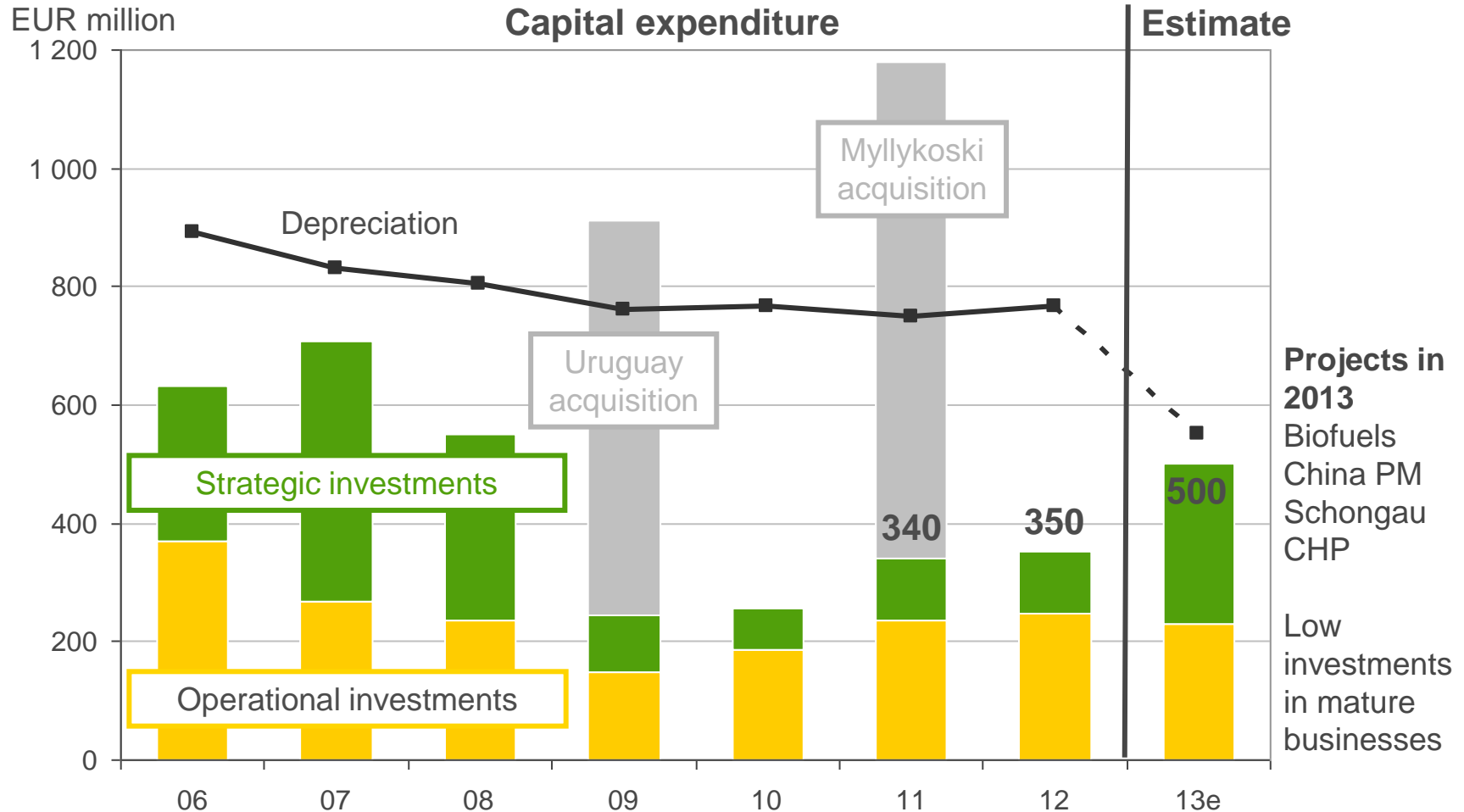
## Planned actions subject to employee negotiations

Planned capacity closures and other actions	Capacity t/a and paper grade	Reduction in personnel	Timeline
Permanent closure of the UPM Ettringen PM4 in Germany	175,000 SC	155	In April 2013
Permanent closure of the UPM Rauma PM3 in Finland	245,000 SC	90	In April 2013
Sale of the UPM Docelles mill in France or other exit from UPM Paper business	160,000 Fine	165	Sales process 6 months
Streamlining of Paper BG and global functions		450	End 2013
<b>Total planned actions</b>	<b>580,000</b>	<b>860</b>	
UPM Stracel production ceased	270,000 Coated magazine	250	January 2013
<b>Total</b>	<b>850,000</b>	<b>1,110</b>	

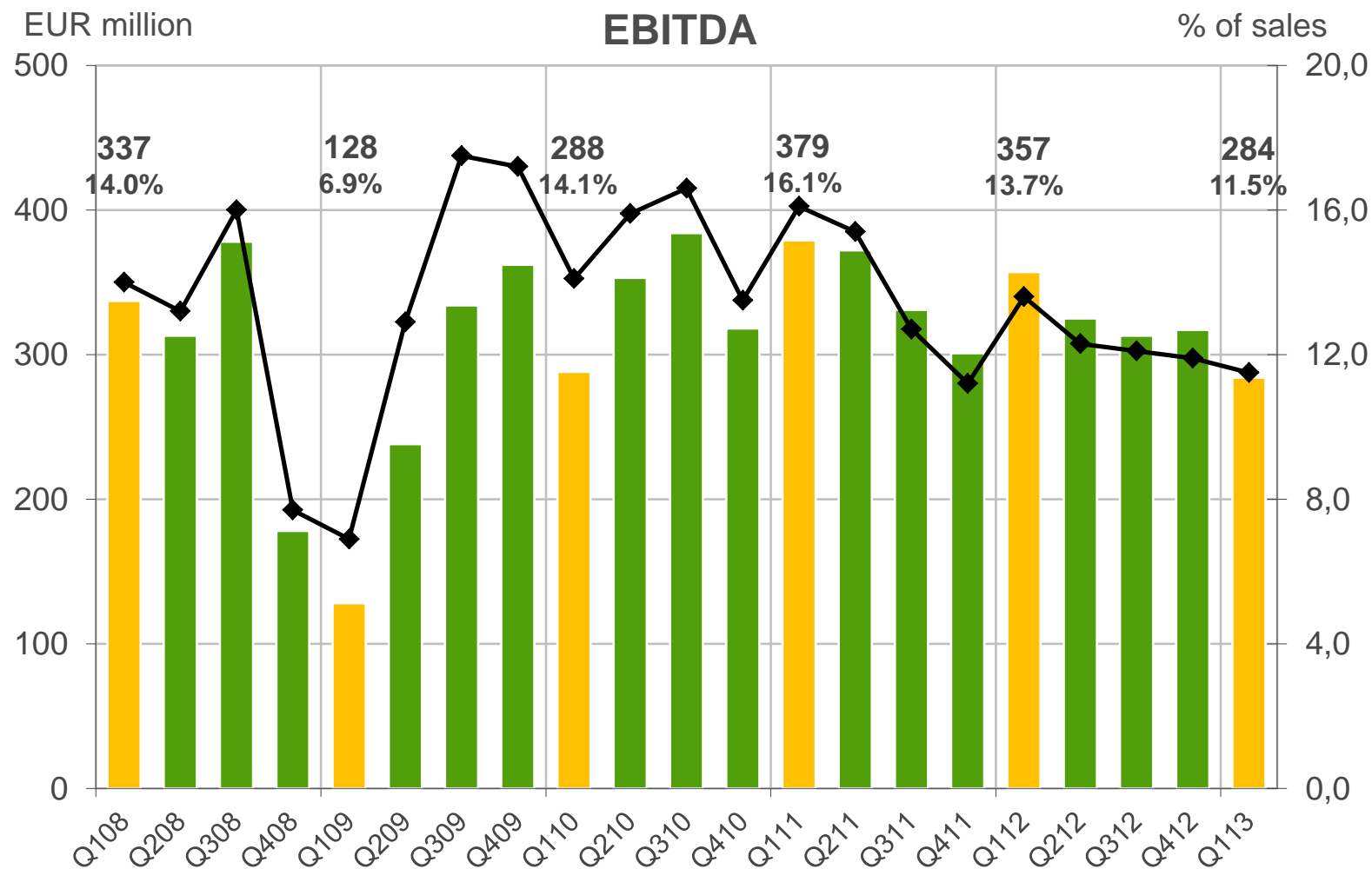


**Estimated annual fixed cost savings of EUR 90m**

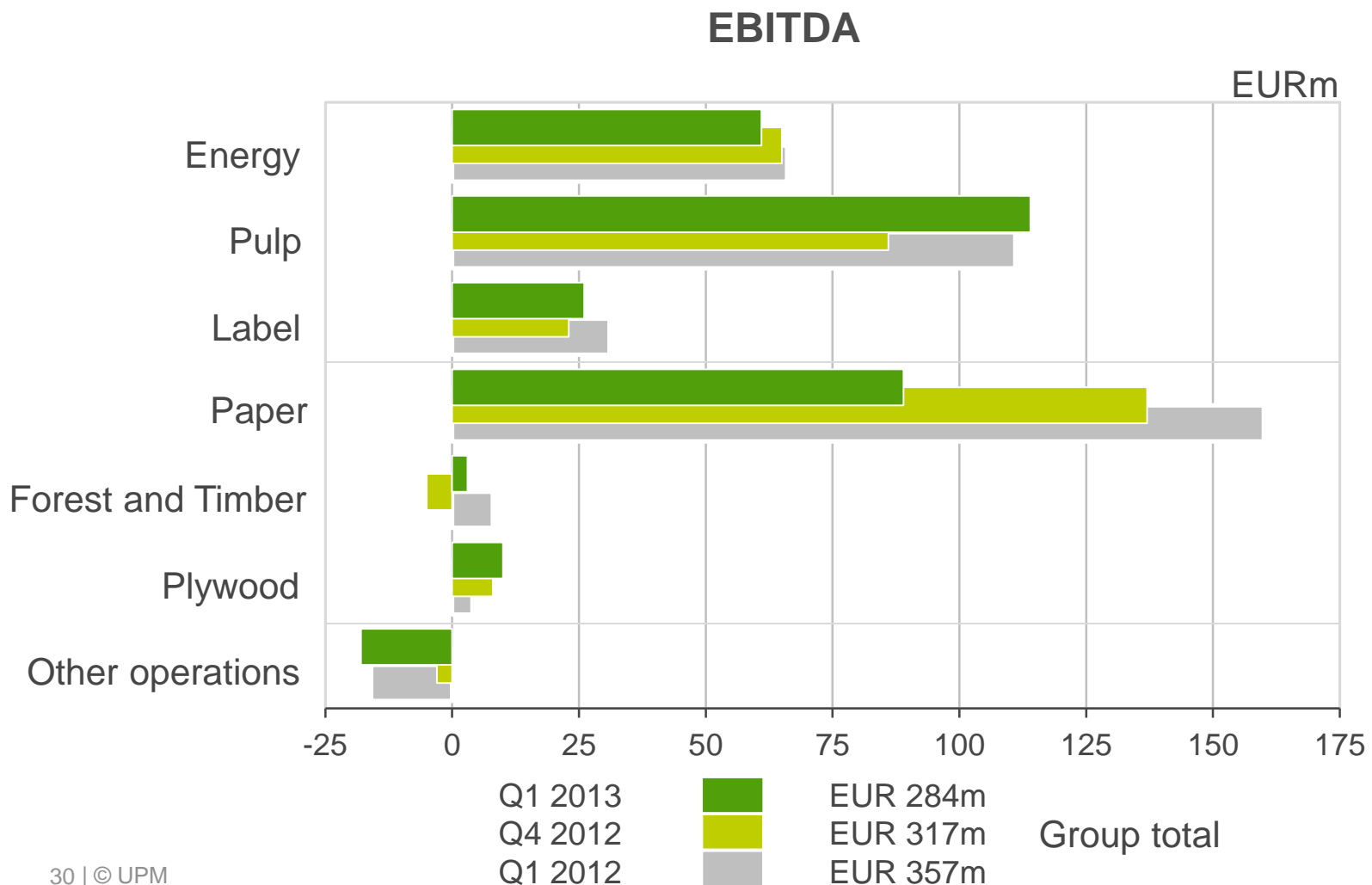
# Capex focused on growth businesses – low investment needs to maintain existing assets



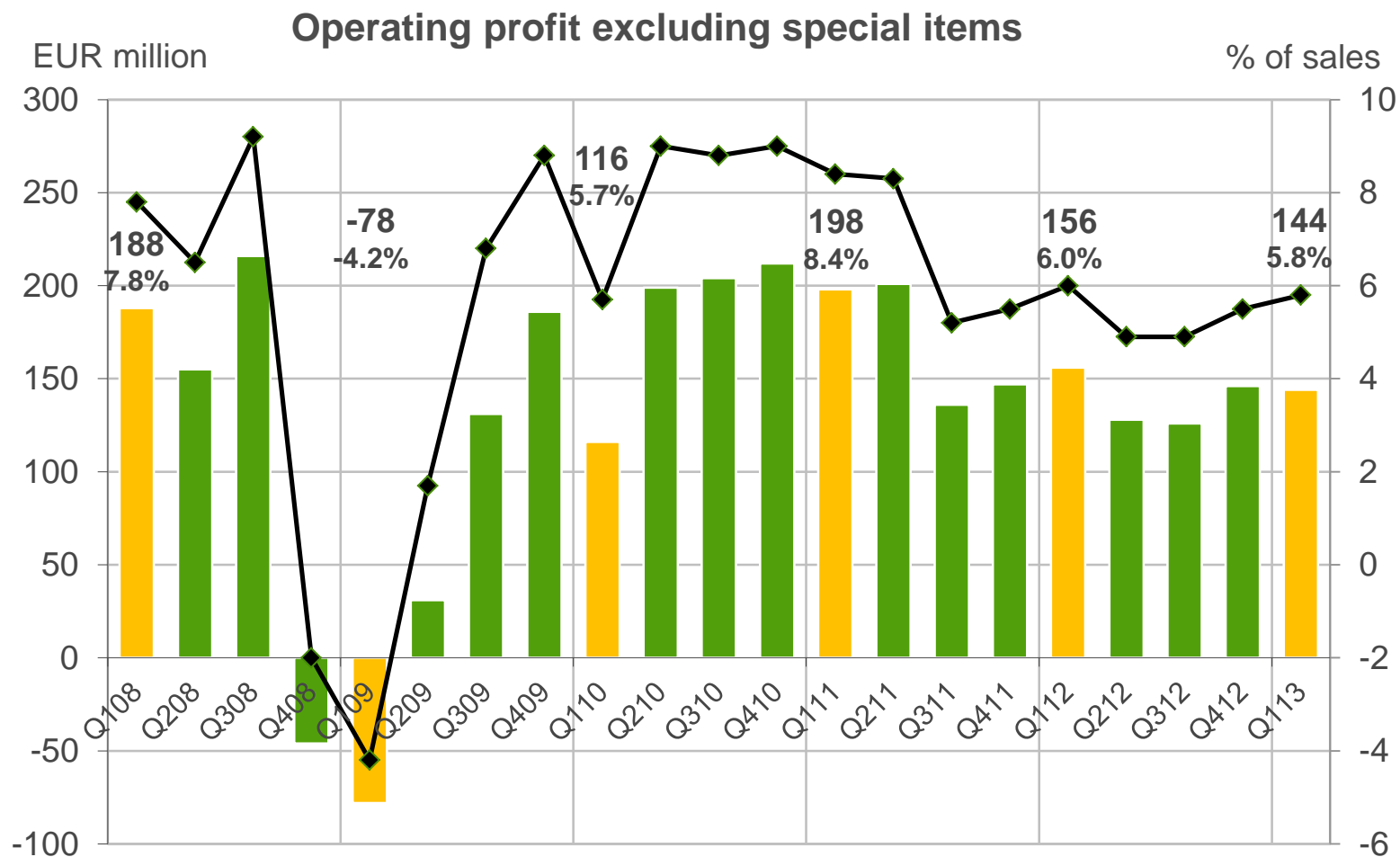
# EBITDA



## Q1 2013 EBITDA by business area

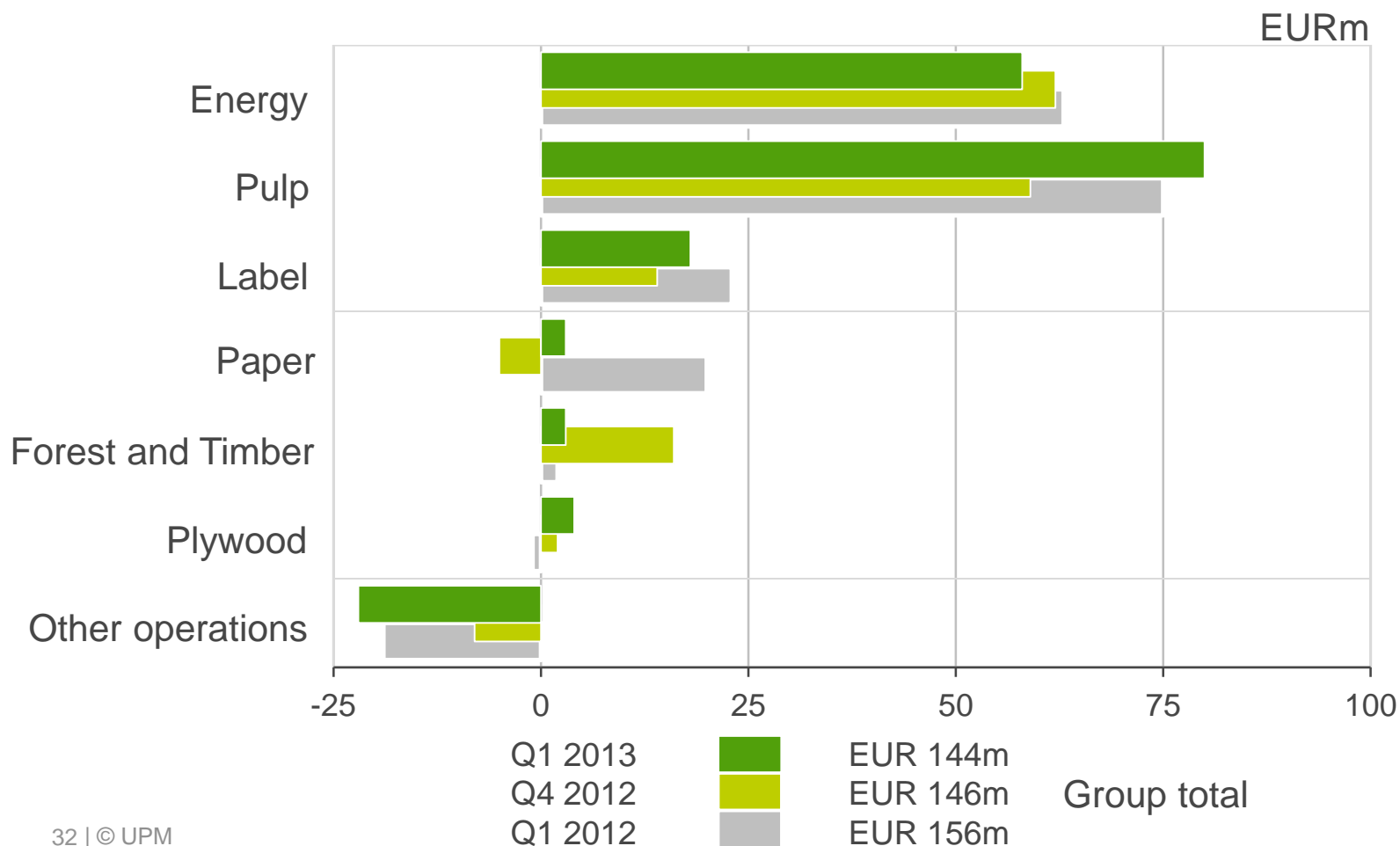


# Operating profit



# Q1 2013 operating profit excluding special items by business area

## Operating profit excluding special items





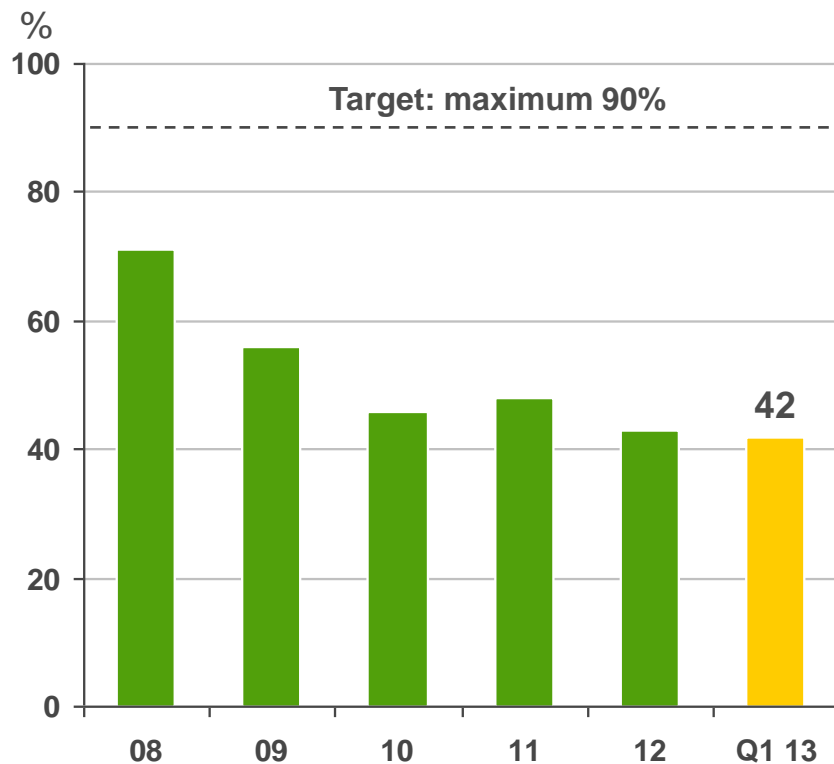
# Cash flow

EUR million	Q1/13	Q1/12	2012	2011
<b>EBITDA</b>	<b>284</b>	<b>357</b>	<b>1,312</b>	<b>1,383</b>
Cash flow before change in working capital	234	277	1,156	1,249
Change in working capital	-96	-14	34	-73
Finance costs and income taxes	-35	-45	-150	-135
<b>Net cash from operating activities</b>	<b>103</b>	<b>218</b>	<b>1,040</b>	<b>1,041</b>
Capital expenditure	-98	-88	-379	-286
Asset sales and acquisitions	-7	-1	307	155
<b>Cash flow after investing activities</b>	<b>-2</b>	<b>129</b>	<b>968</b>	<b>910</b>

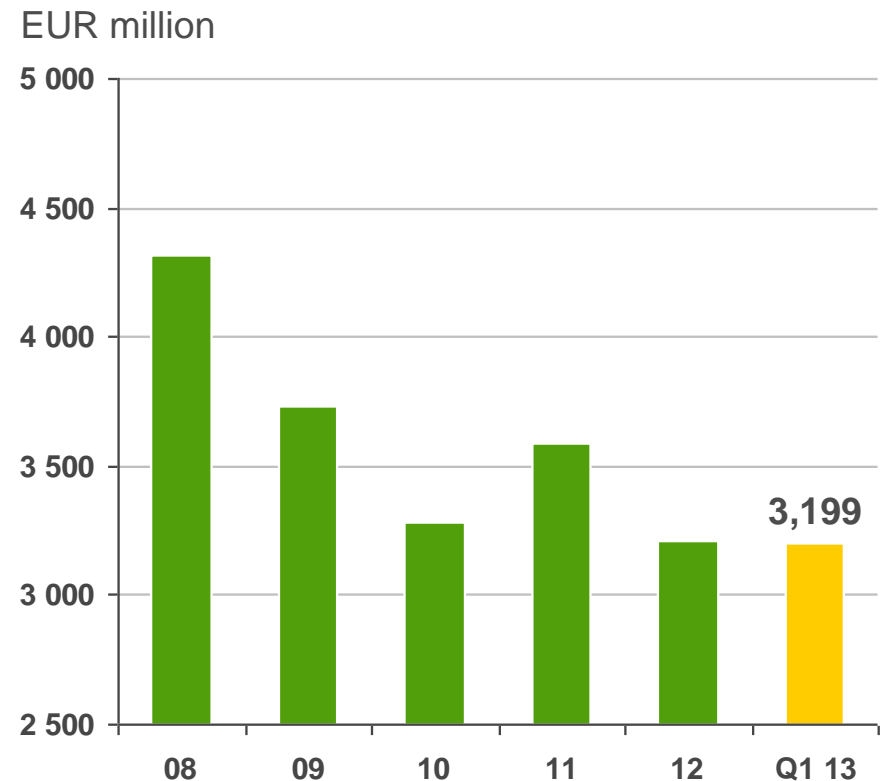


## Balance sheet

### Gearing ratio



### Net debt





# Maturity profile and liquidity

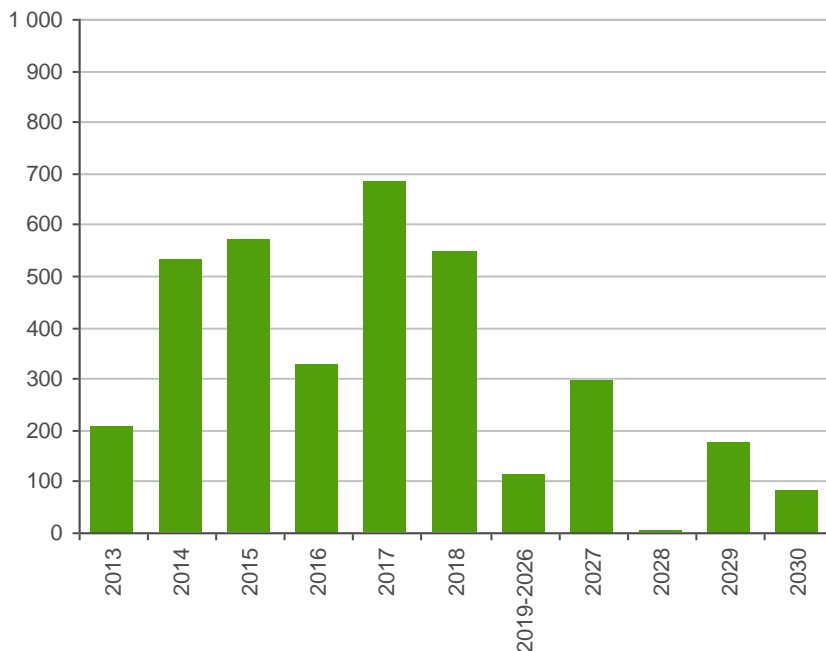
## Liquidity

Liquidity on 31 March 2013 was € 1.8bn  
(cash and unused credit facilities)

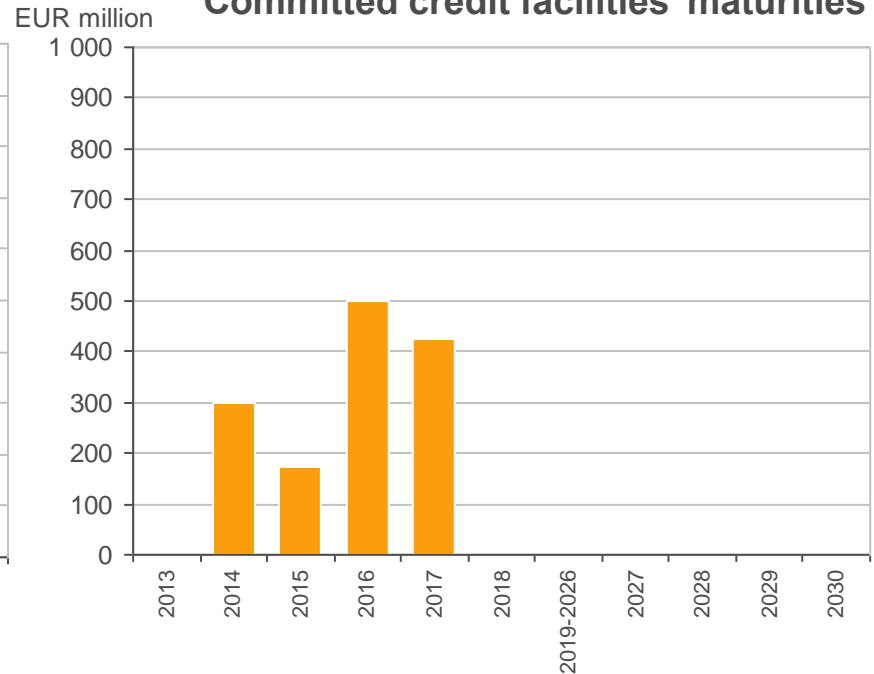
## Committed credit facilities EUR 1.4bn

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

EUR million **Maturity profile of outstanding debt**

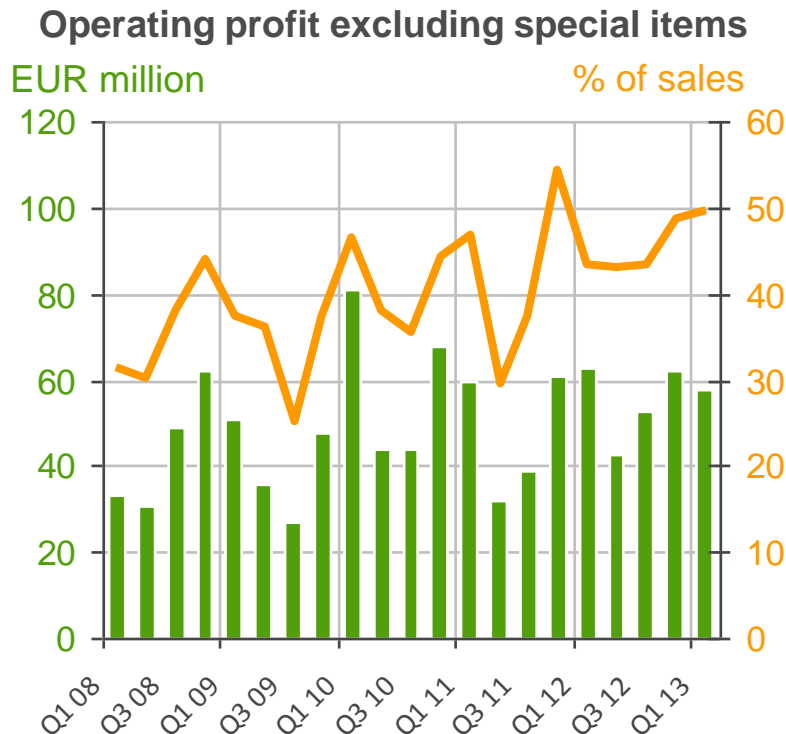


EUR million **Committed credit facilities' maturities**





## Energy Q1 2013 vs. Q1 2012



## Business performance

- Operating profit decreased compared with the same period last year mainly due to a less favourable generation mix with lower hydro and higher condensing power volumes.
- The average electricity sales price decreased by 1% to EUR 46.8/MWh.

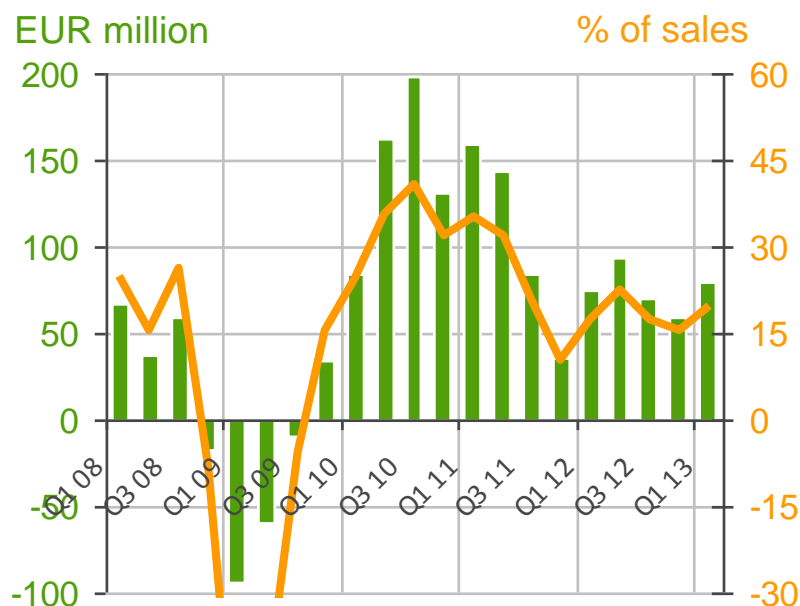
Sales EUR million	<b>Q1 2013</b>	<b>117</b>	▼	<b>-19%</b>
	Q1 2012	145		

Operating profit EUR million <sup>*)</sup>	<b>Q1 2013</b>	<b>58</b>	▼	<b>-5</b> EUR million
	Q1 2012	63		

\*) excluding special items

# Pulp Q1 2013 vs. Q1 2012


## Operating profit excluding special items



## Business performance

- Operating profit increased compared with the same period last year. Higher average pulp sales price offset the negative impact of lower deliveries and higher variable costs.
- Deliveries decreased by 11% to 790,000 tonnes.

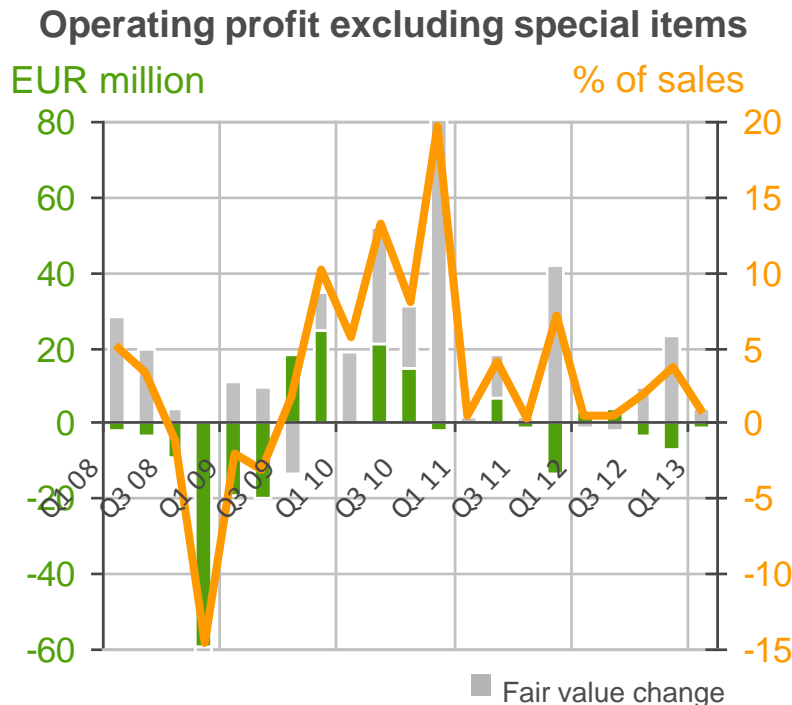
Sales **Q1 2013 407**  **-6%**  
EUR million Q1 2012 433

Operating profit **Q1 2013 80**   
EUR million\*) Q1 2012 75 **5** EUR million

\*) excluding special items



## Forest and Timber Q1 2013 vs. Q1 2012



### Business performance

- In sawn timber, cost efficiency improved.
- The increase in the fair value of biological assets net of wood harvested was EUR 4 million (decrease of 1 million). The increase in the fair value of biological assets (growing trees) was EUR 17 million (16 million).
- The cost of wood harvested from own forests was EUR 13 million (17 million).

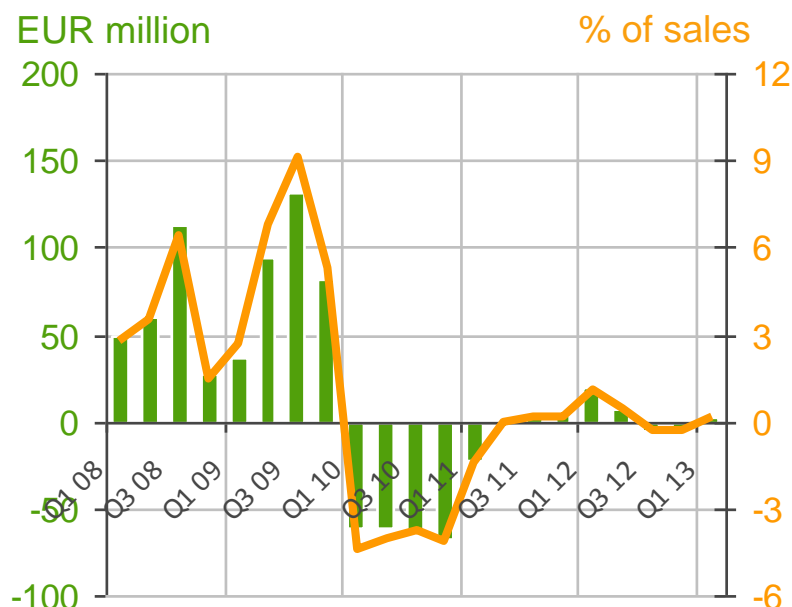
Sales **Q1 2013 436** **2%**  
EUR million Q1 2012 426

Operating profit **Q1 2013 3** **1**  
EUR million\*) Q1 2012 2 EUR million

\*) excluding special items

# Paper Q1 2013 vs. Q1 2012


## Operating profit excluding special items



## Business performance

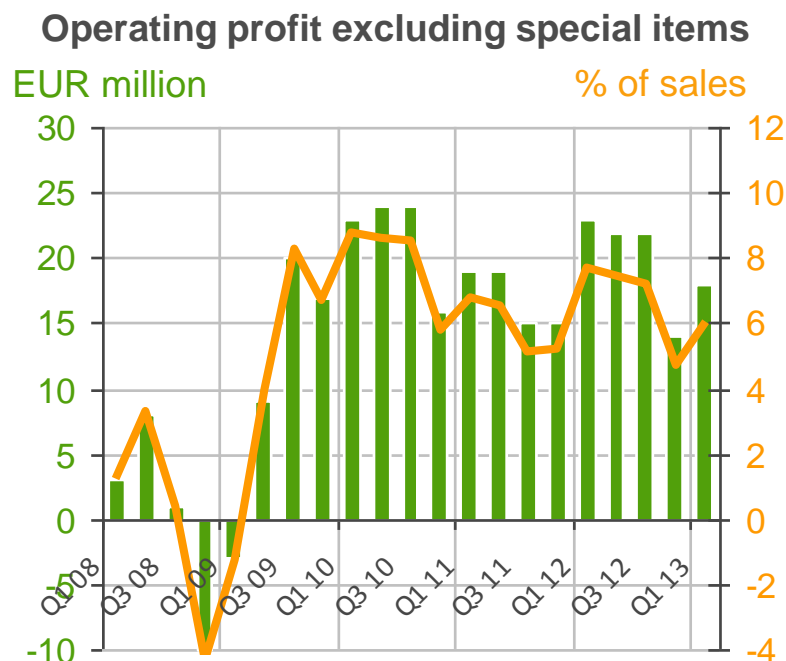
- The average price for paper deliveries in euros was approximately 4% lower than in the previous year.
- The reduction in fixed costs and gains from unrealised energy hedges offset the negative impact of lower delivery volumes.
- Depreciation was lower than last year.

Sales **Q1 2013 1,641**  **-9%**  
EUR million Q1 2012 1,813

Operating profit **Q1 2013 3**  **-17**  
EUR million\*) Q1 2012 20  
EUR million

\*) excluding special items


## Label Q1 2013 vs. Q1 2012



## Business performance

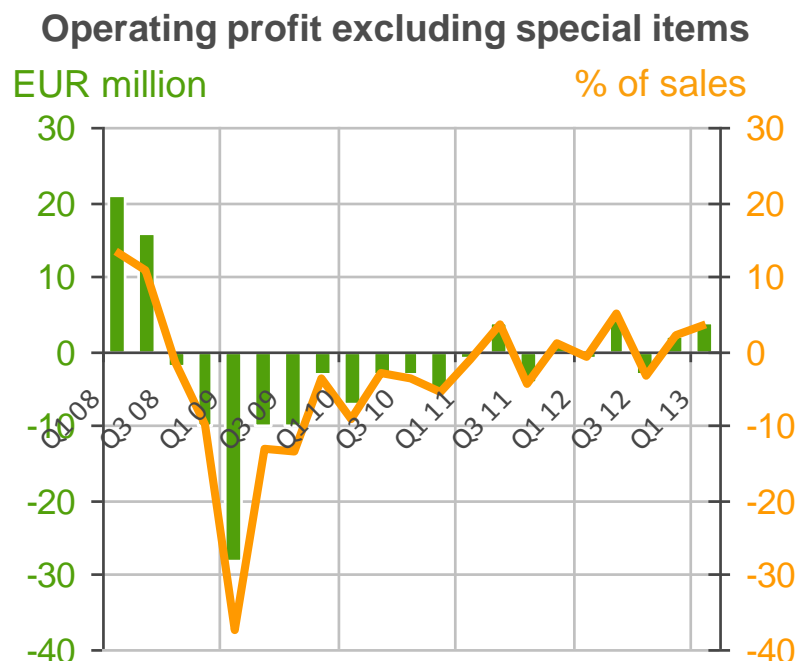
- Operating profit decreased due to higher fixed costs. Expanded operations enabled volume growth, while unit value added decreased slightly.

Sales **Q1 2013 299**  **0%**  
 EUR million Q1 2012 298

Operating profit **Q1 2013 18**  **-5**  
 EUR million\*) Q1 2012 23  
\*) excluding special items




# Plywood Q1 2013 vs. Q1 2012



## Business performance

- Operating profit increased due to higher delivery volumes.
- Deliveries increased by 9% to 186,000 cubic metres.

Sales **Q1 2013 108**  **11%**  
 EUR million Q1 2012 97

Operating profit **Q1 2013 4**  **5**  
 EUR million\*) Q1 2012 -1 EUR million

\*) excluding special items



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