



The Biofore Company **UPM**

UPM Q2 RESULTS 2013

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President and CEO
6 August 2013





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

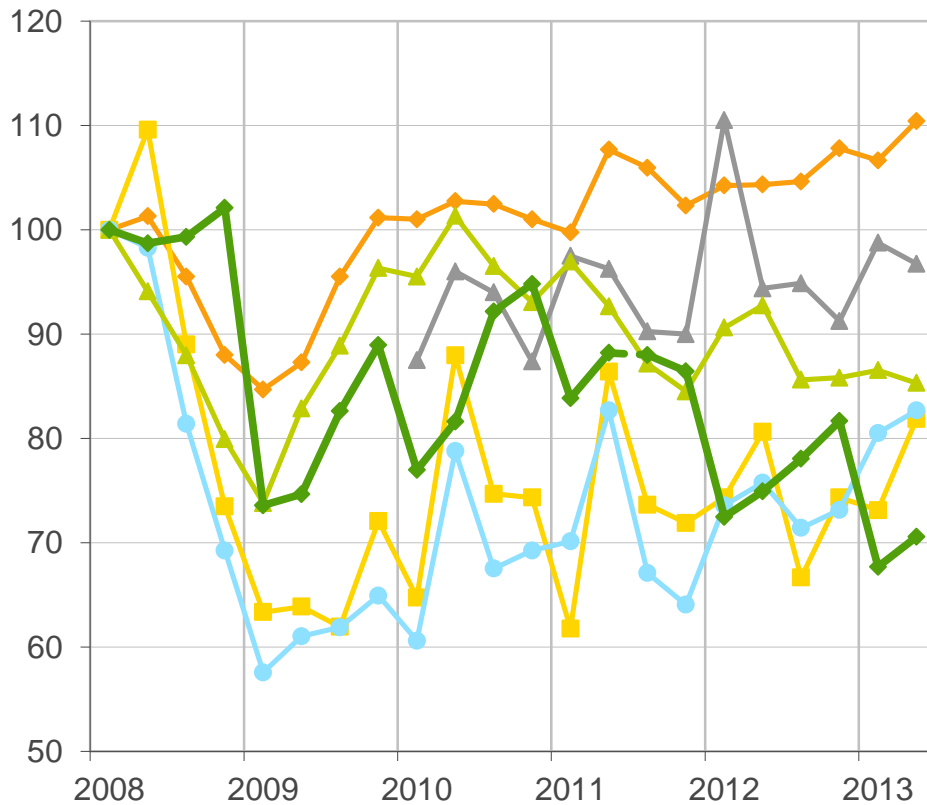
Q2 2013 key figures

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

Paper deliveries affected by the weak economy and the divestment of packaging papers

Delivery volumes, indexed Q108 = 100

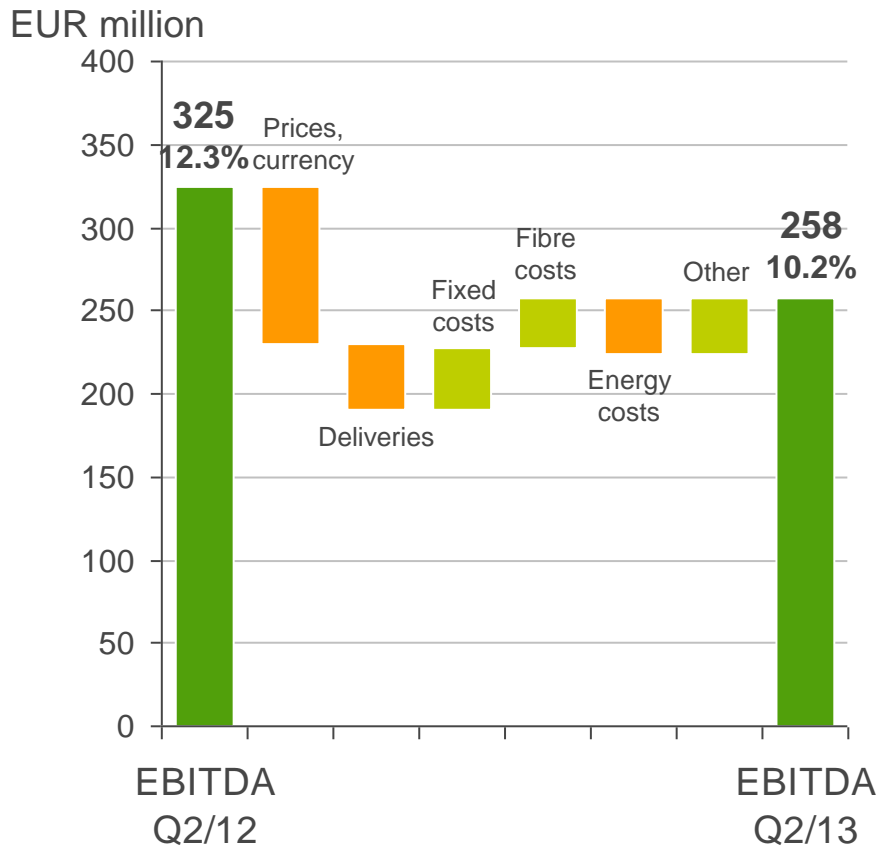


Change in deliveries, %	Q213/ Q212	Q213/ Q113	H113/ H112
Label	+6	+4	+4
Pulp	+3	-2	-5
Publication papers	-6	+4	-6
Fine and spec. papers	-8 ^(*)	-1	-6 ^(*)
Timber	+2	+12	0
Plywood	+9	+3	+9

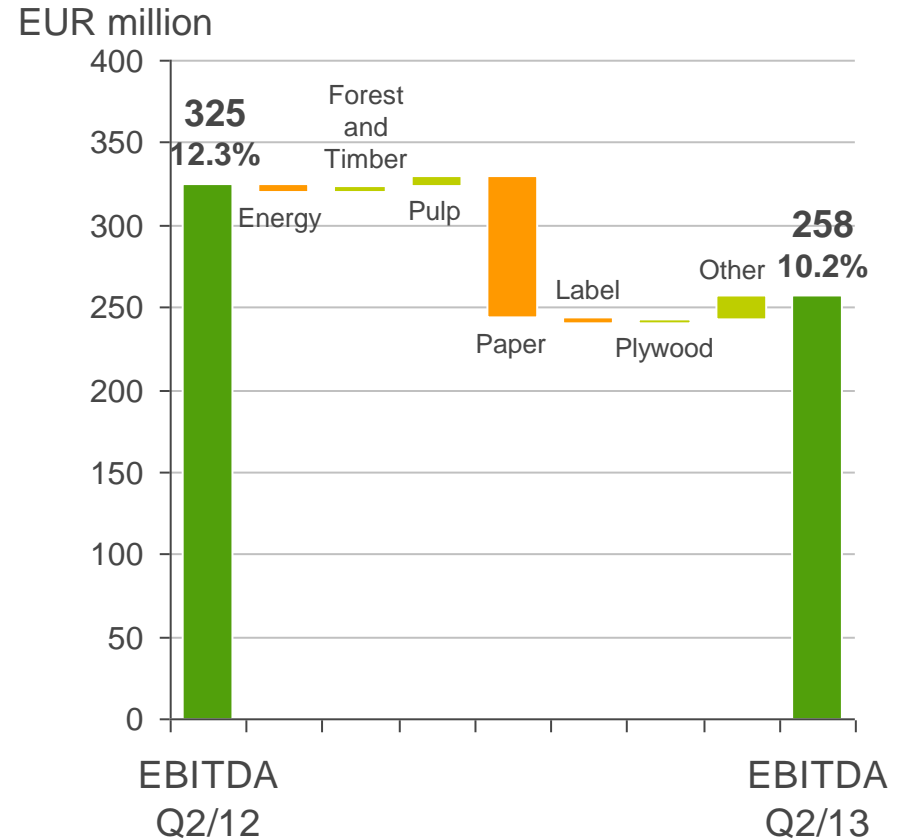
^(*) impacted by the sale of the packaging paper operations

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

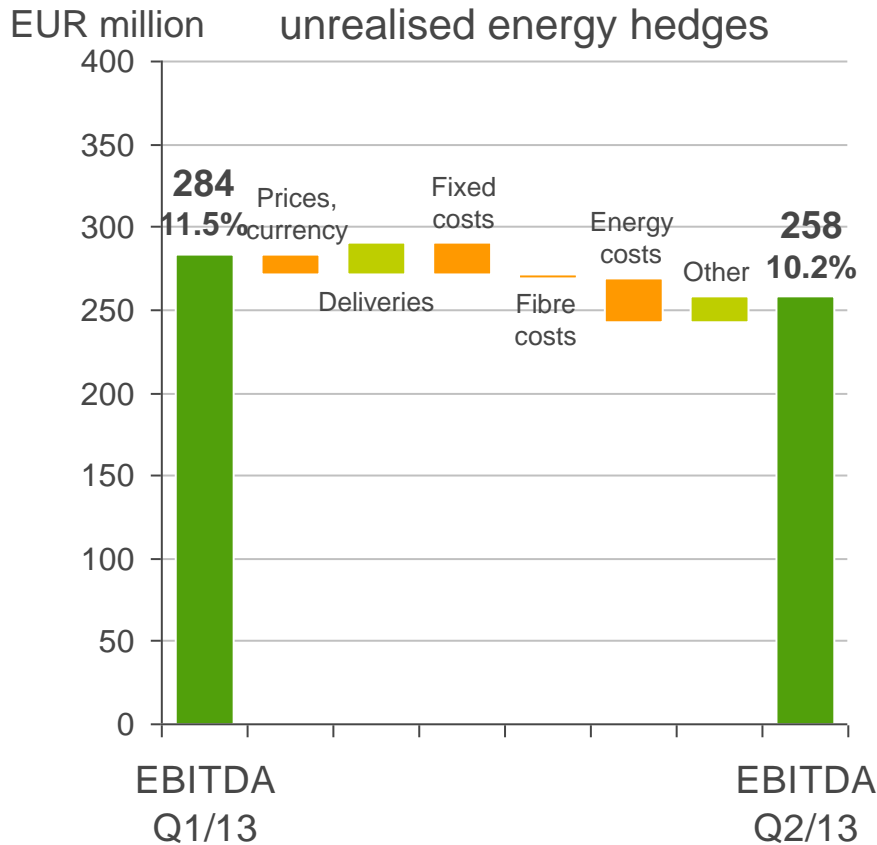


Paper impacted by
lower prices and volumes

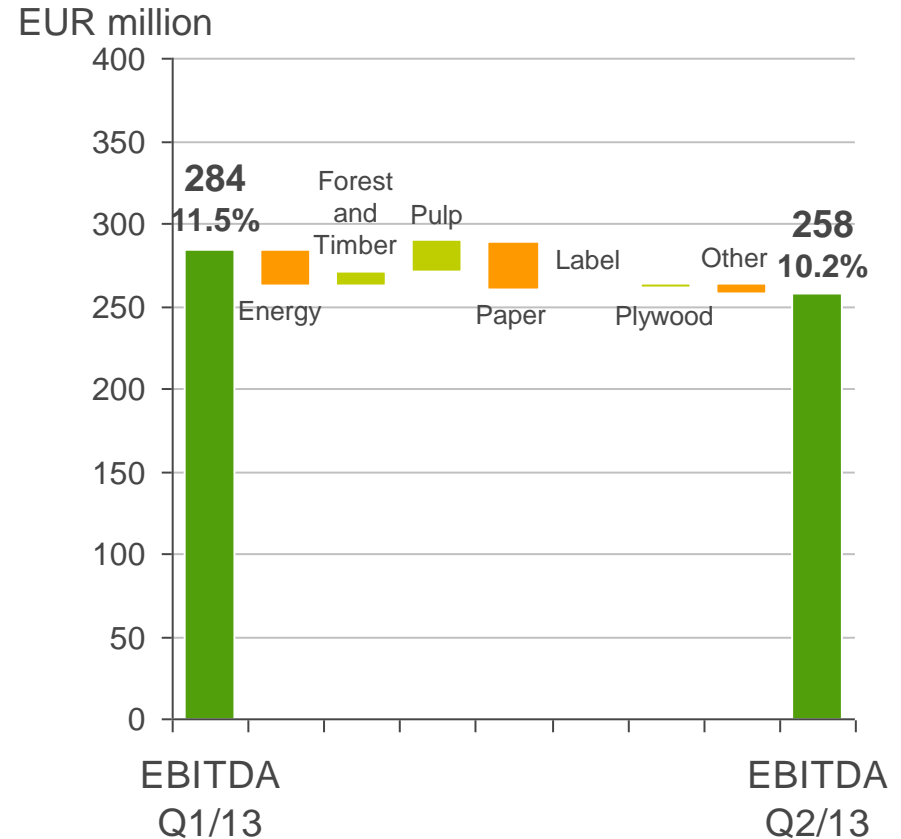


EBITDA in Q2 2013 vs. Q1 2013 impacted by unrealised energy hedges

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

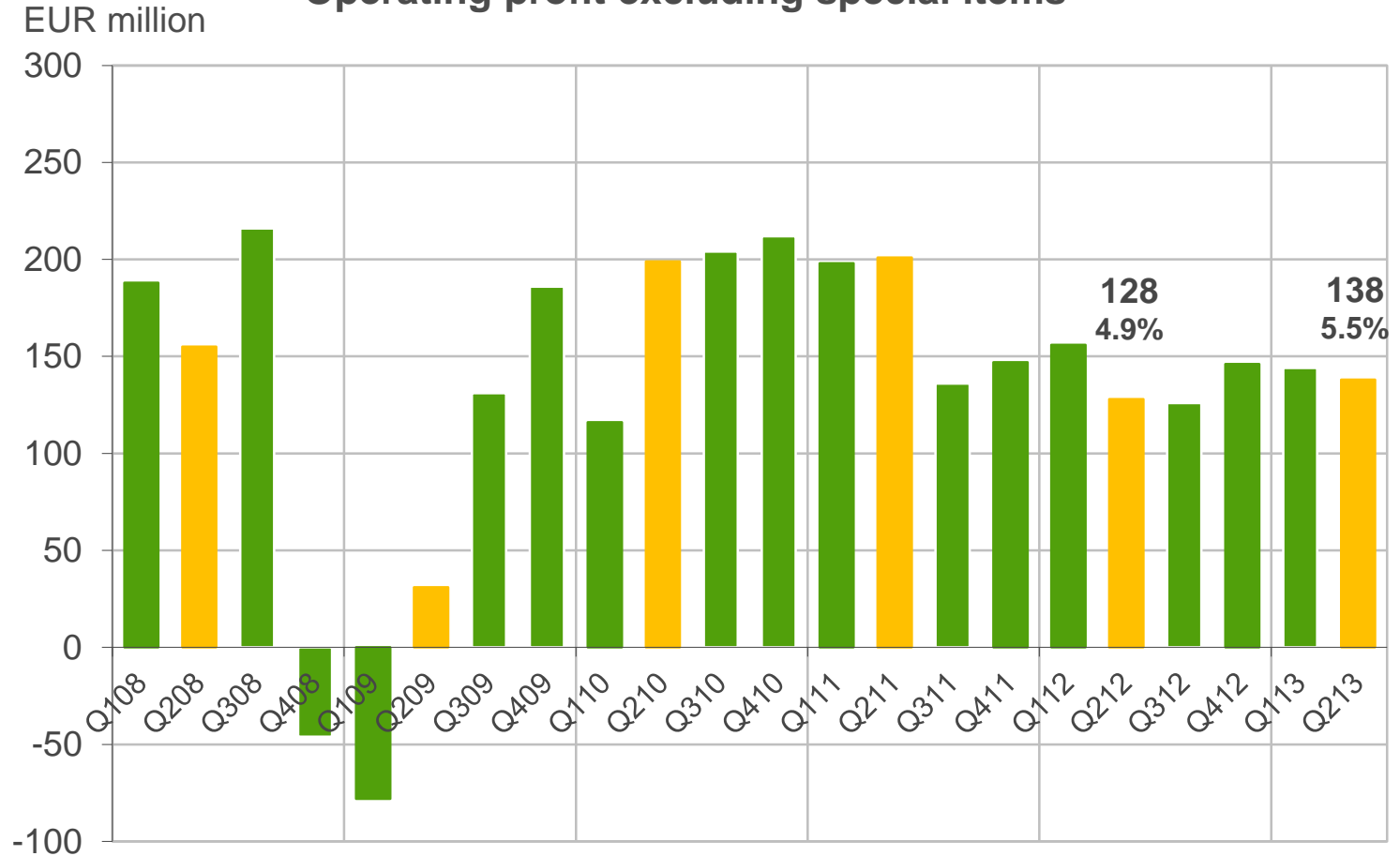


Paper impacted by unrealised energy hedges,
Pulp strong, Energy seasonally weaker

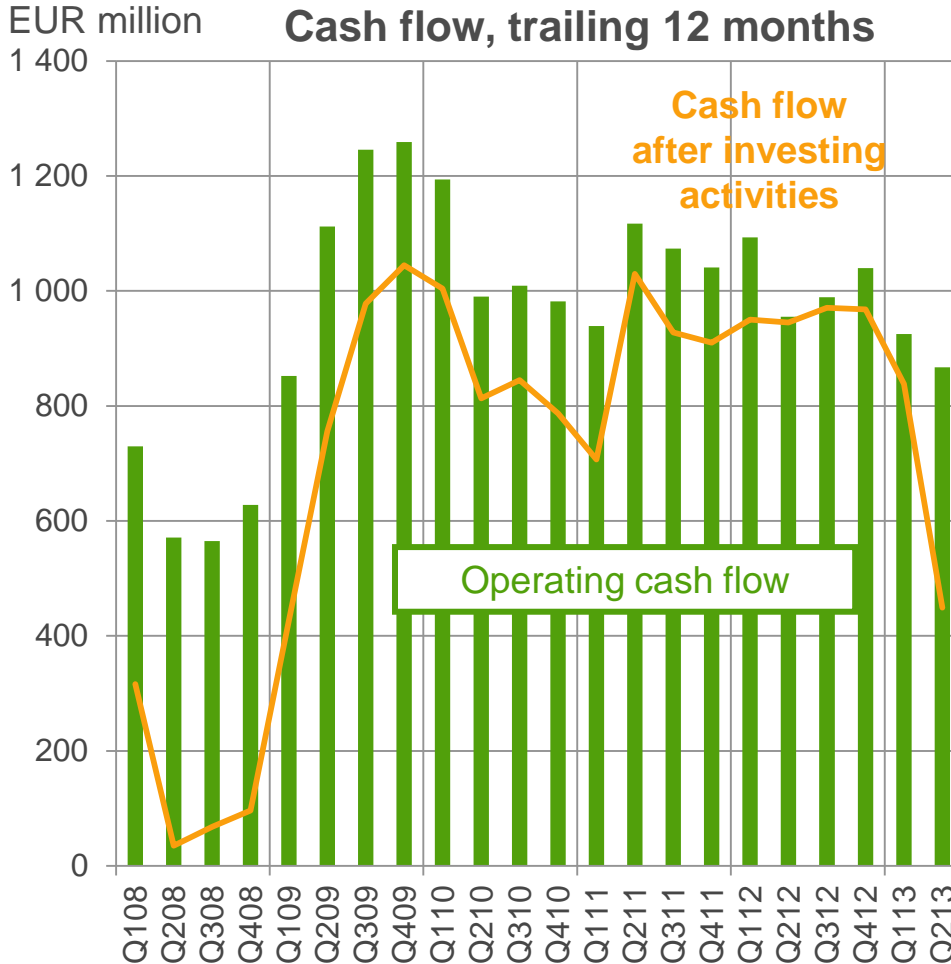


Operating profit stable

Operating profit excluding special items

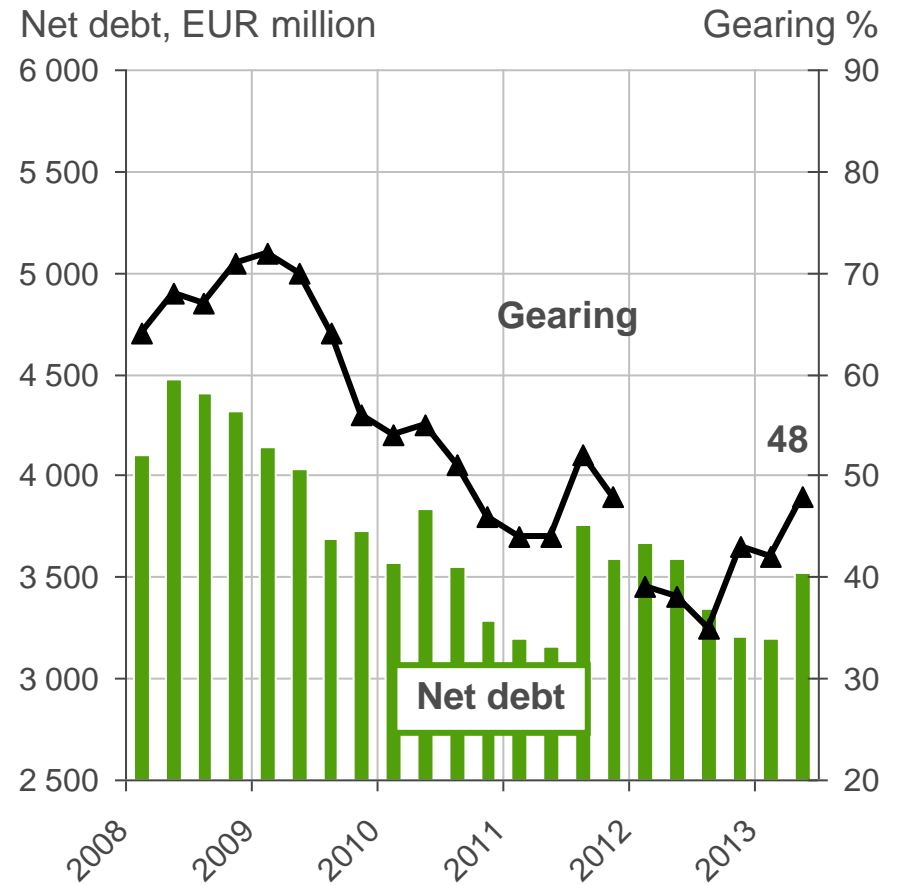
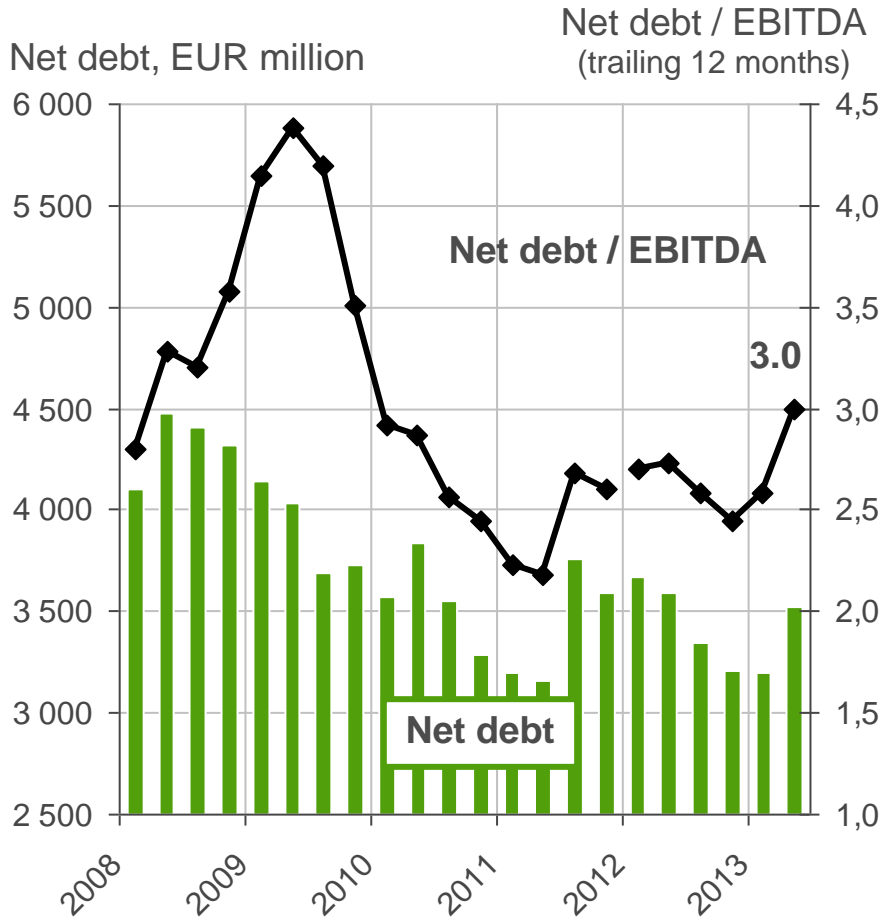


Cash flow impacted by temporary increase in working capital



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

Solid balance sheet



Liquidity was EUR 1.6bn at the end of Q2 2013
 Repayments total EUR 1.1bn in 2013-14

2012 figures restated



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.



The Biofore Company **UPM**

SWITCHING GEAR – NEW BUSINESS STRUCTURE TO DRIVE CHANGE



Switching gear in UPM transformation

- New business structure
- Profit improvement actions in all businesses
- Focused growth initiatives outside Europe and in biorefining
- 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



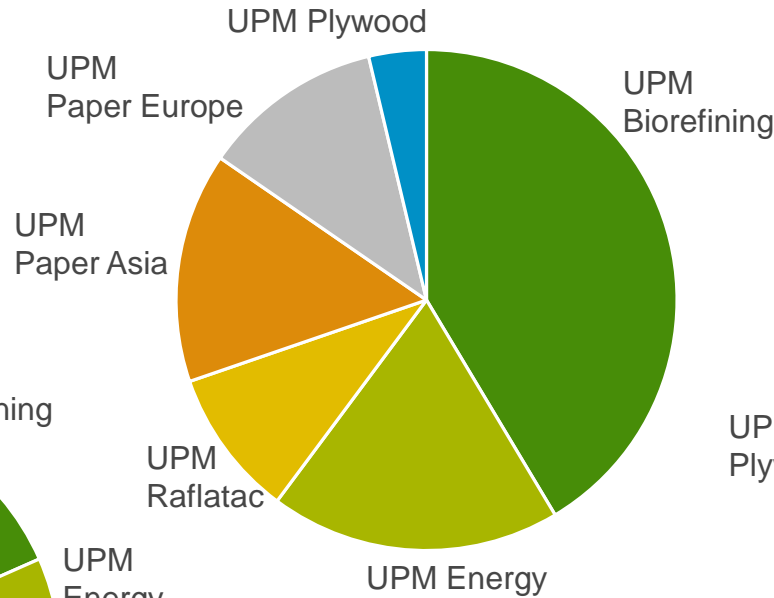
Growth initiatives for the next three years

- 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

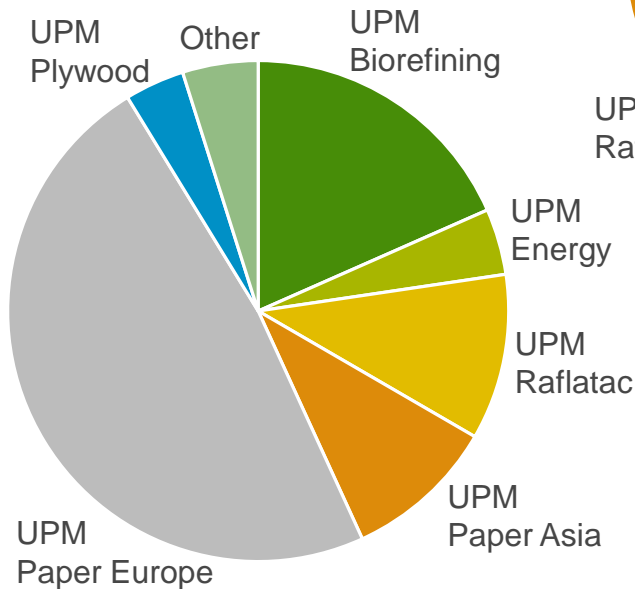
New business structure

Financial figures in H1 2013 (*)

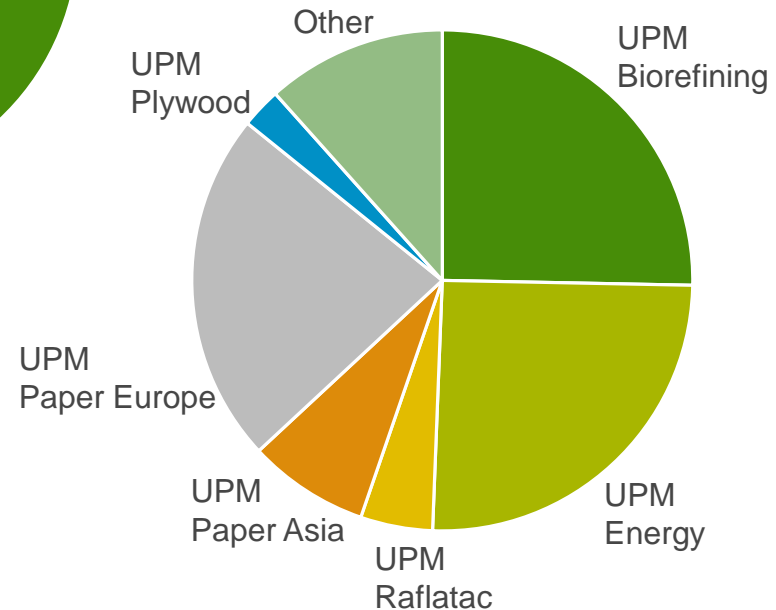
EBITDA



Sales

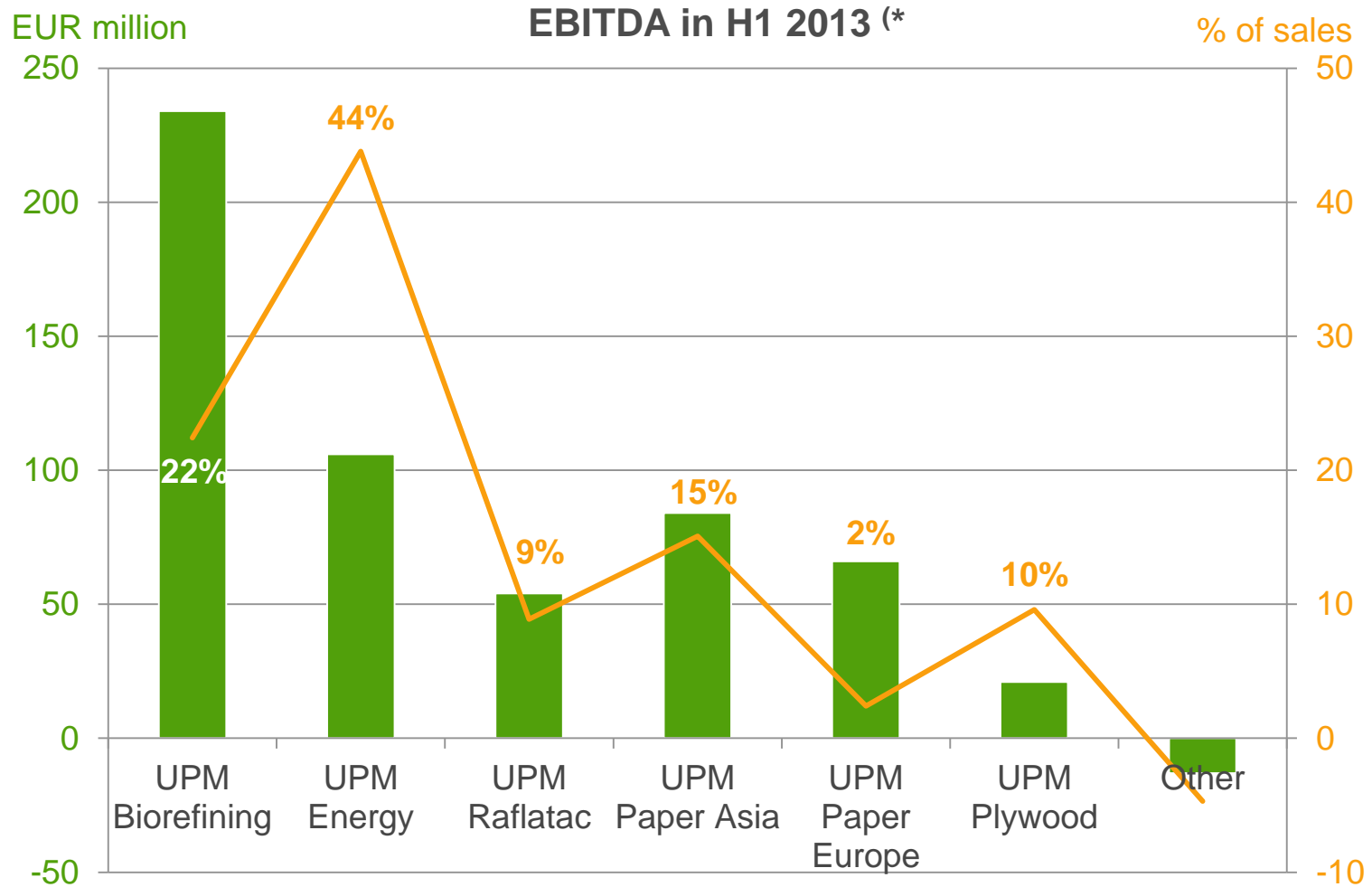


Capital employed



*) Preliminary figures
Sales unconsolidated

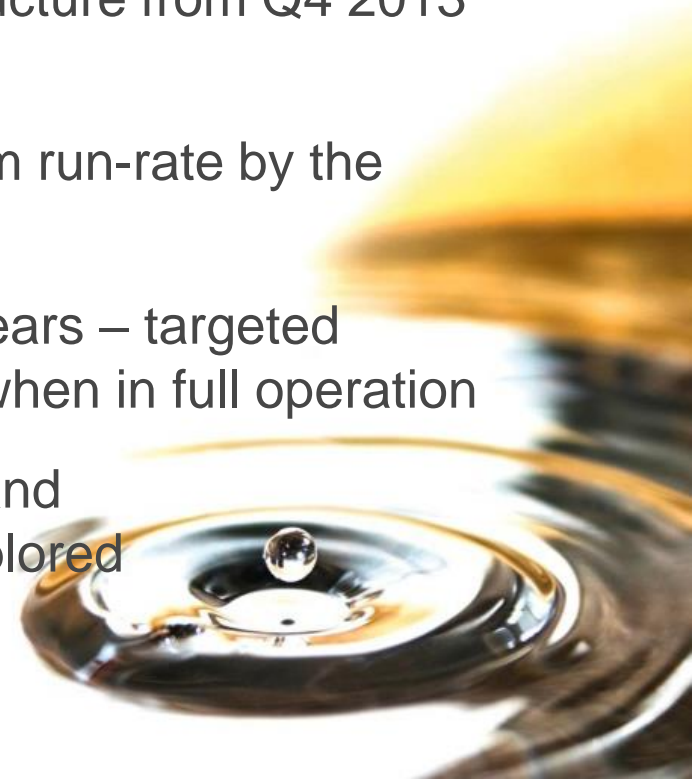
Profitability challenge in UPM Paper Europe – improvement programs in all businesses, growth initiatives in several businesses





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

UPM's growth businesses have continued to perform well in the difficult environment

Paper Europe was weak in H1 2013, improvement expected in H2

Switching gear

- New business structure
- Profit improvement program targeting a EUR 200m impact
- Growth initiatives targeting a EUR 200m EBITDA contribution
- UPM seeks to simplify its business portfolio and uncover the value of its assets



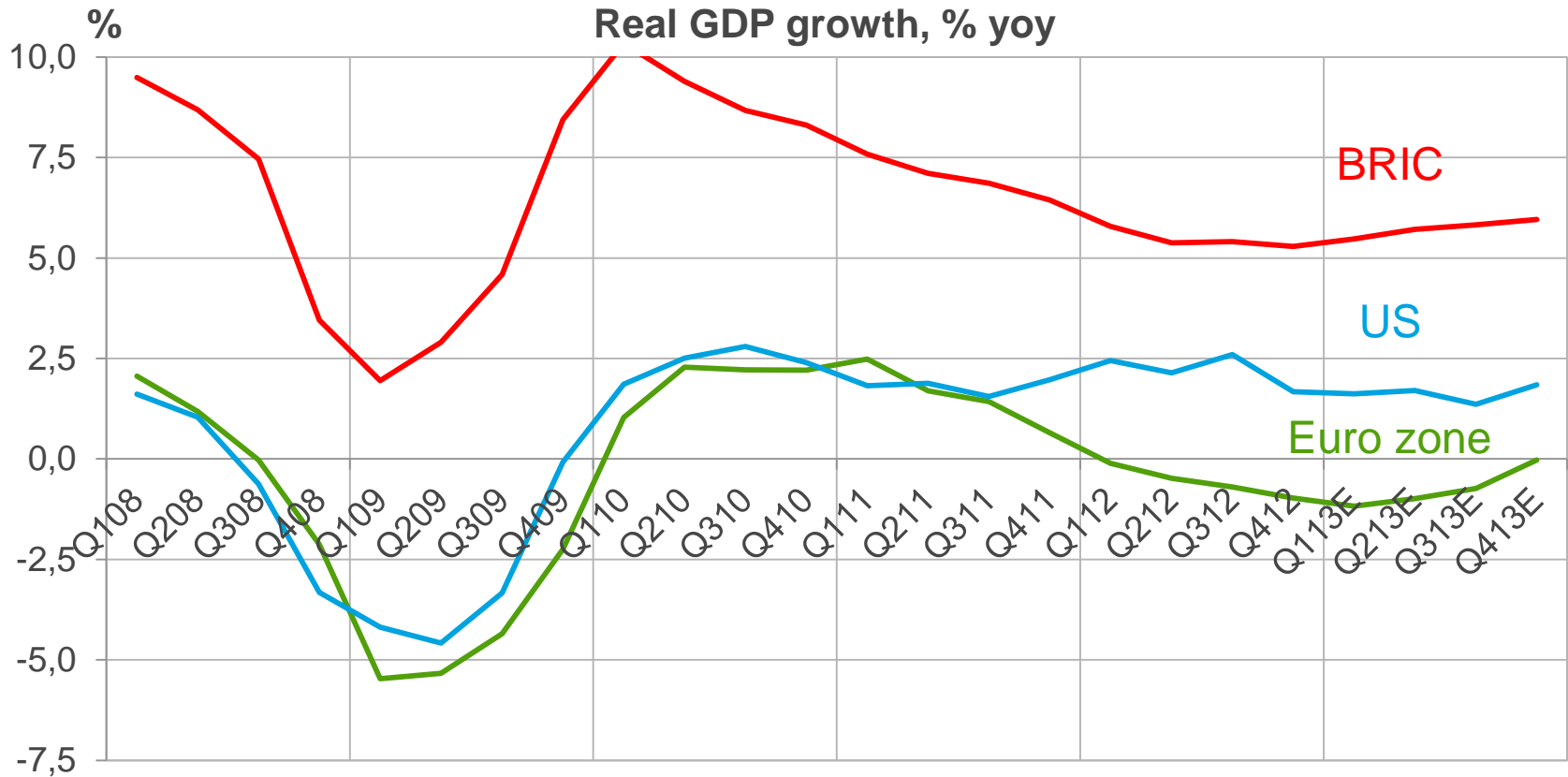
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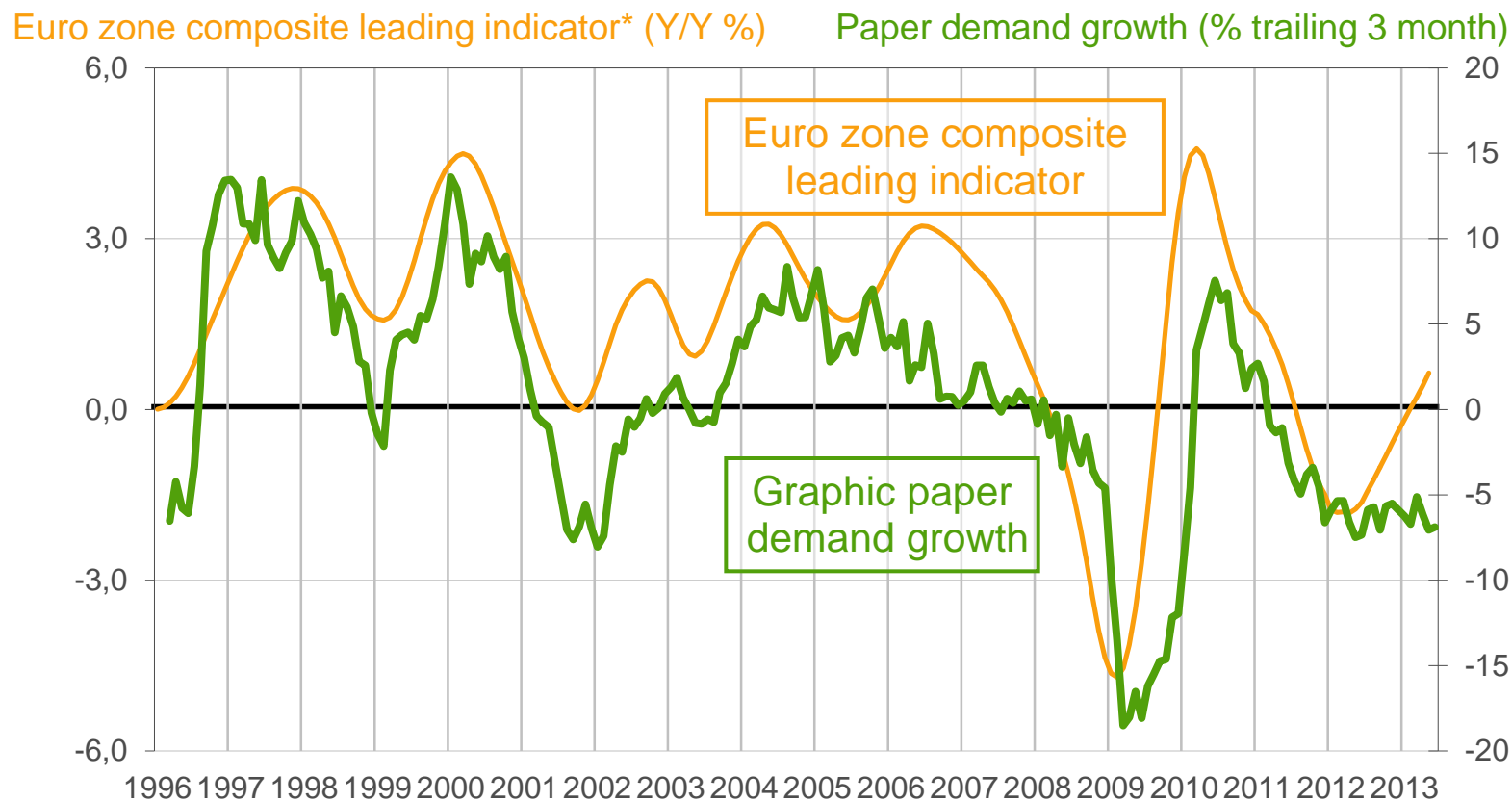
BUSINESS DRIVERS

Second economic downturn in Europe in four years



Source: Global Insight

Second economic downturn in Europe in four years

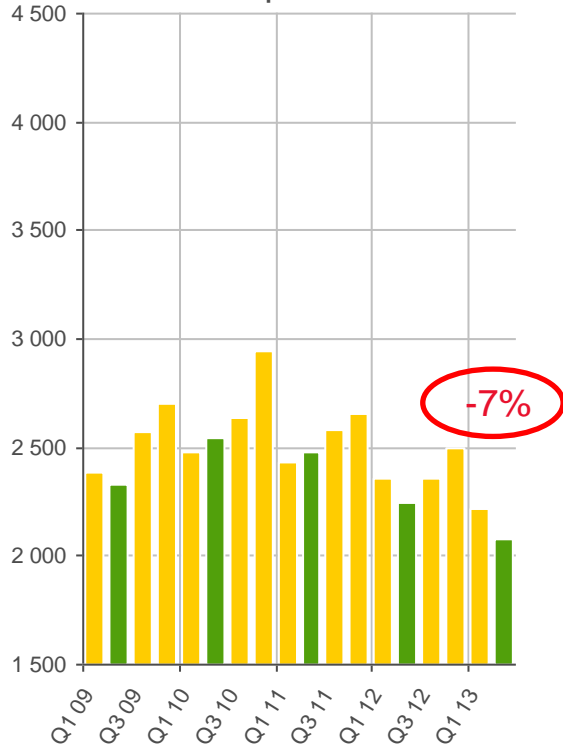


* Changed GDP base

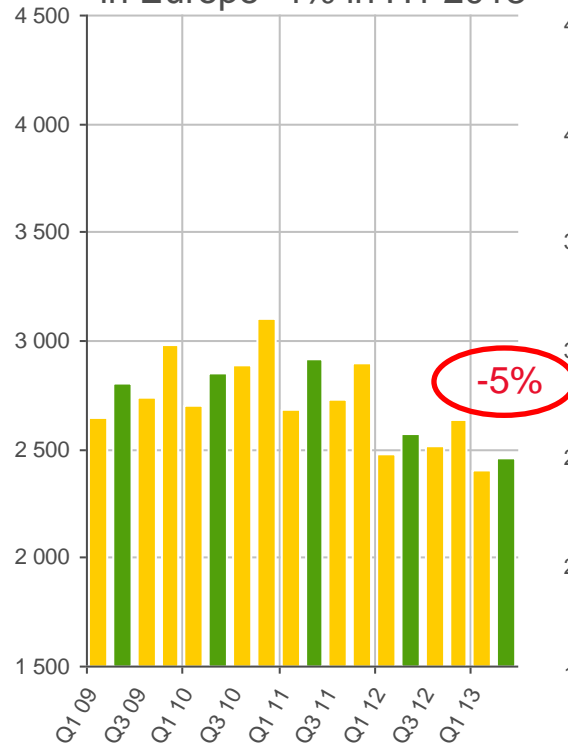
Sources: Cepiprint, Cepifine, OECD

Graphic papers demand in Europe decreased 7% in Q2 2013

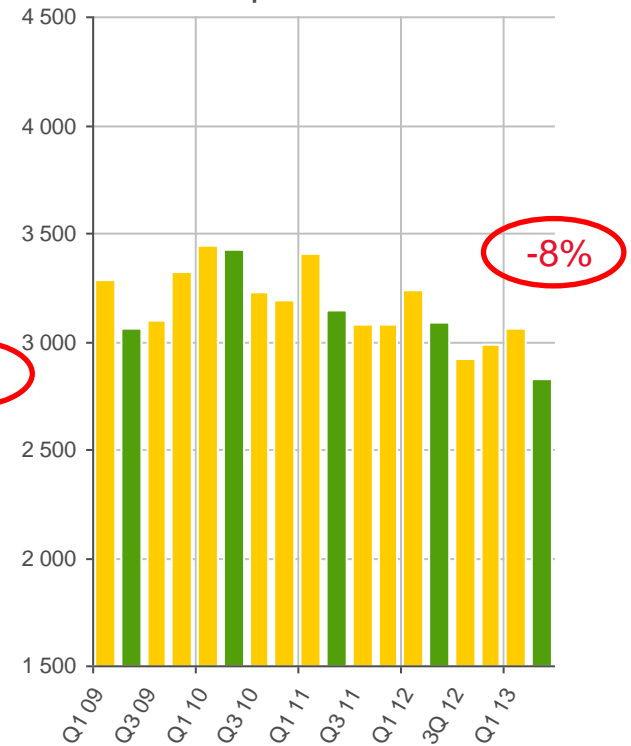
'000 tonnes
Magazine papers demand in Europe -7% in H1 2013



Newsprint demand in Europe -4% in H1 2013

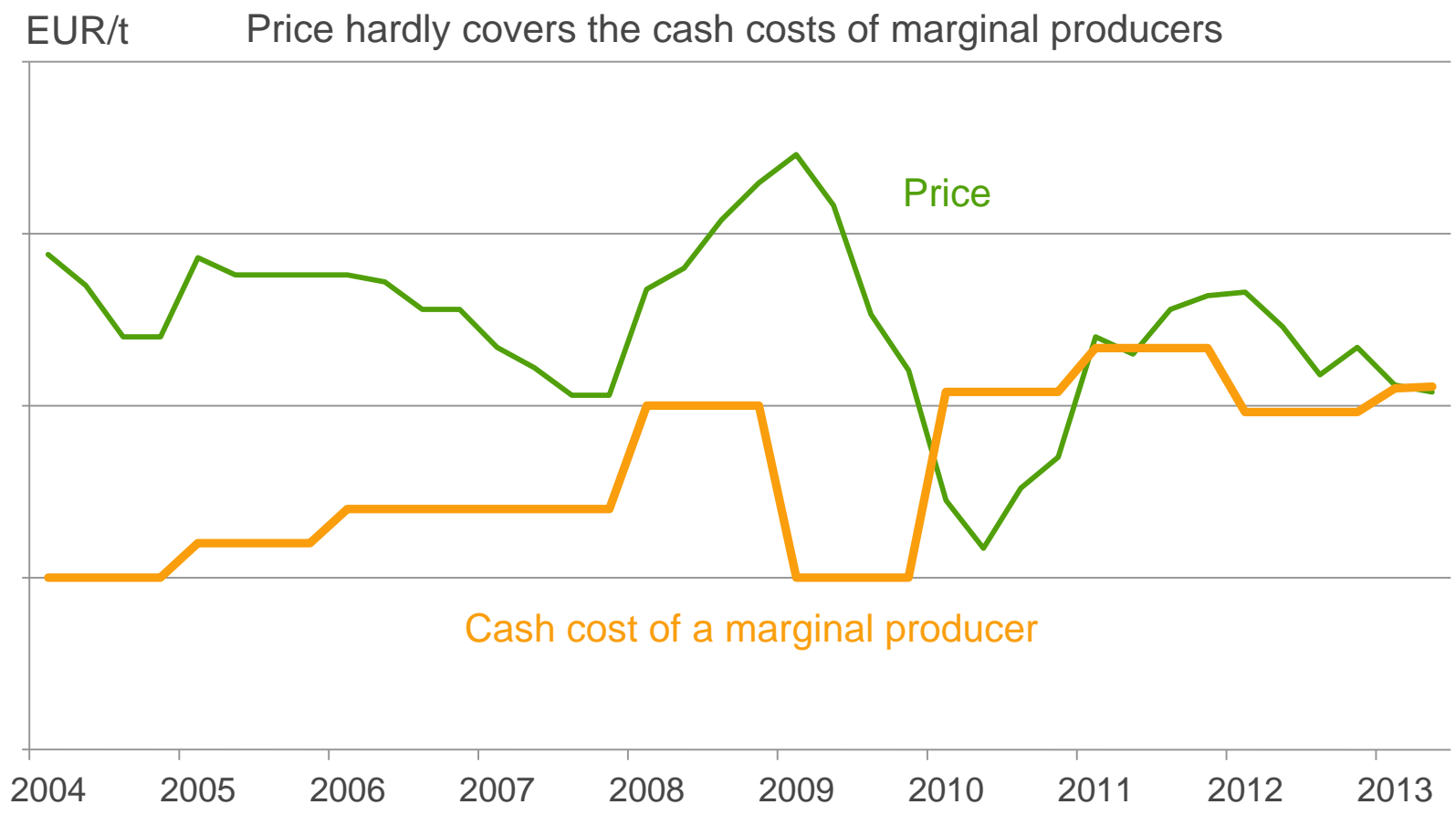


Fine papers demand in Europe -8% in H1 2013



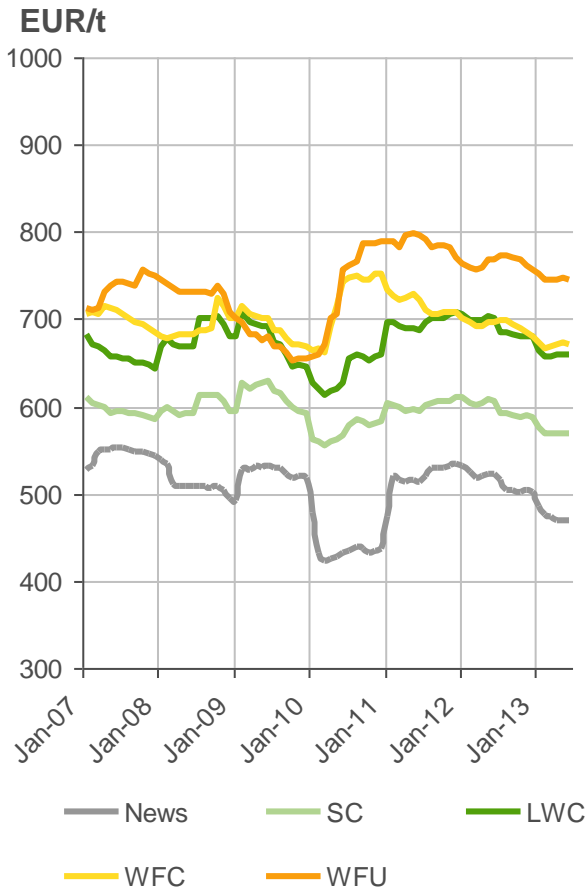
Source: Cepiprint/fine, PPPC

Overcapacity in European graphic paper is visible in margins

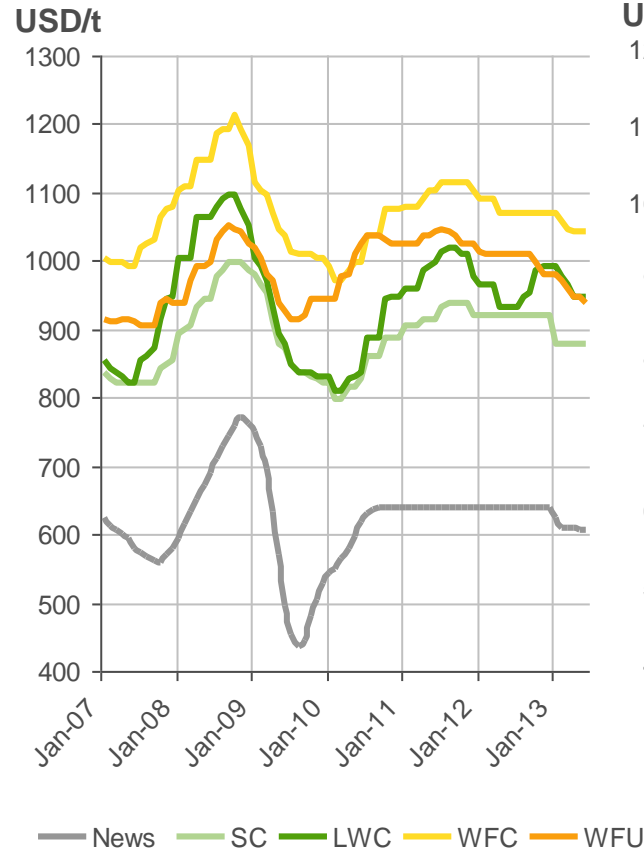


Graphic paper prices

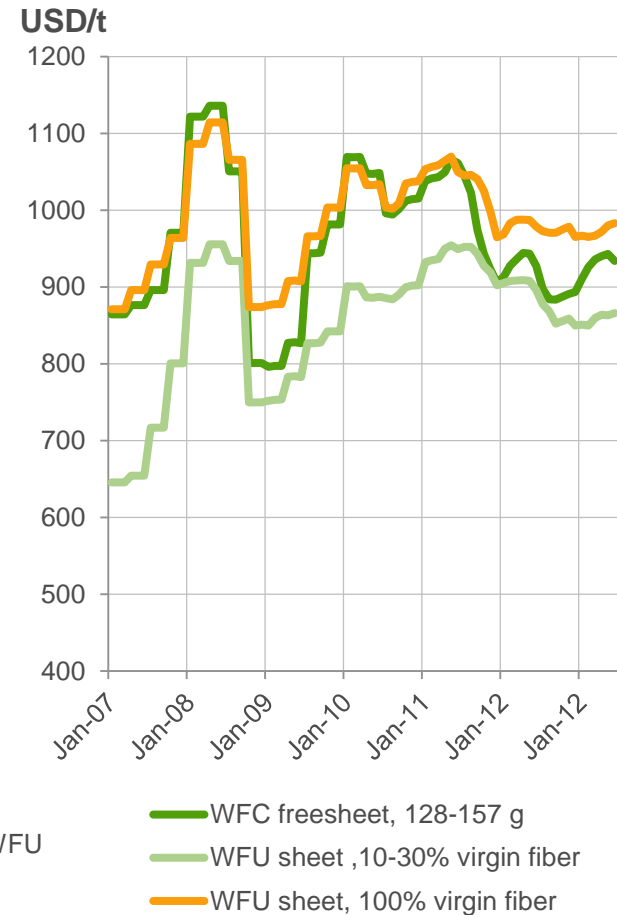
Europe



North America



China

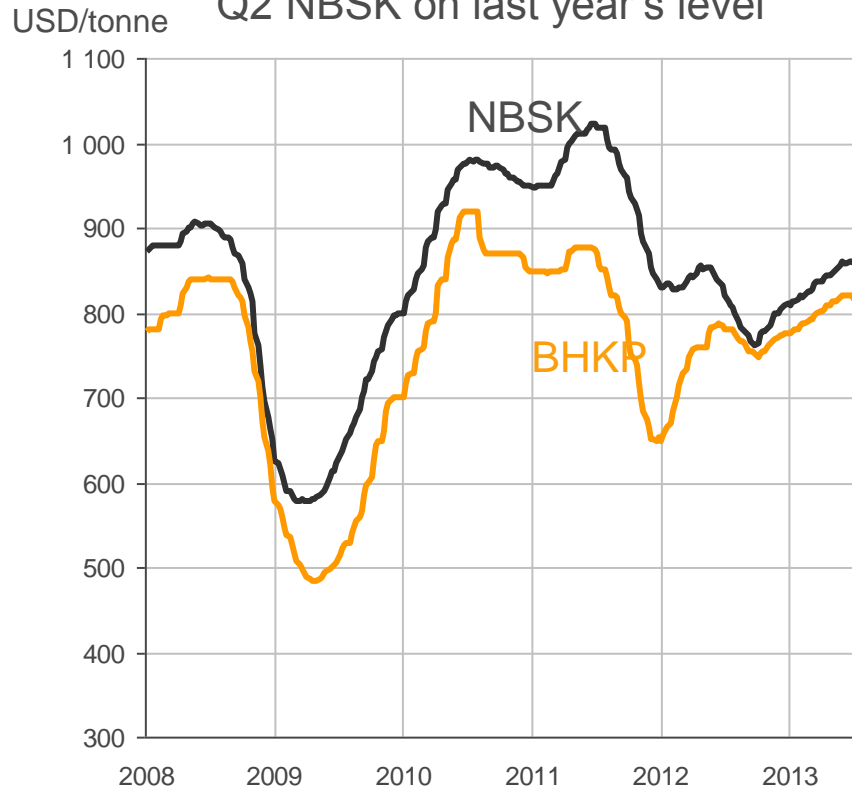


Source: PPI, RISI



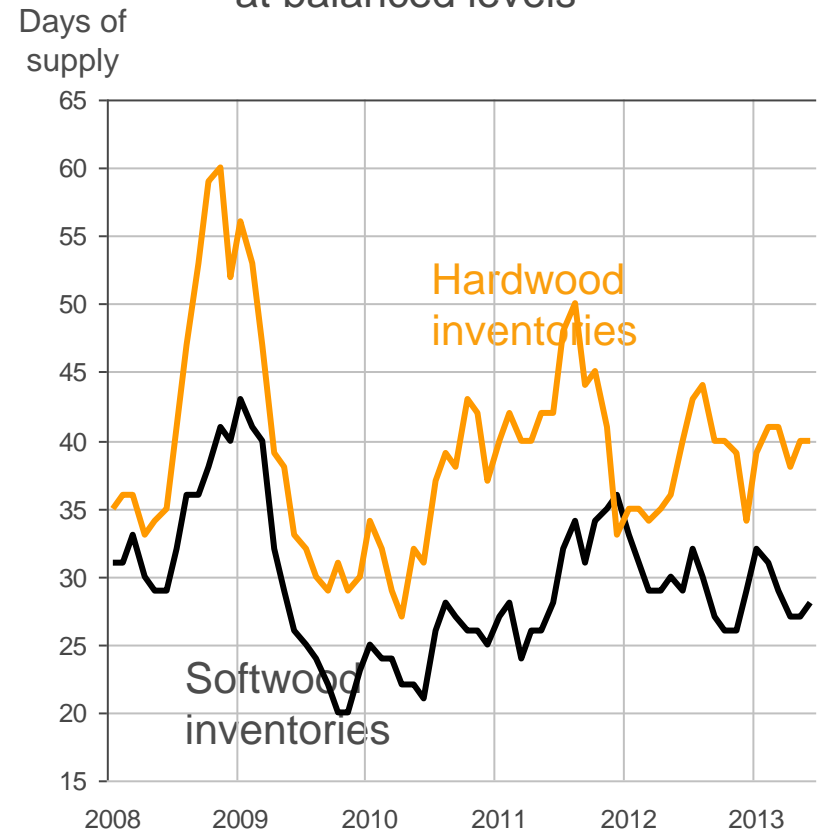
Chemical pulp market

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.

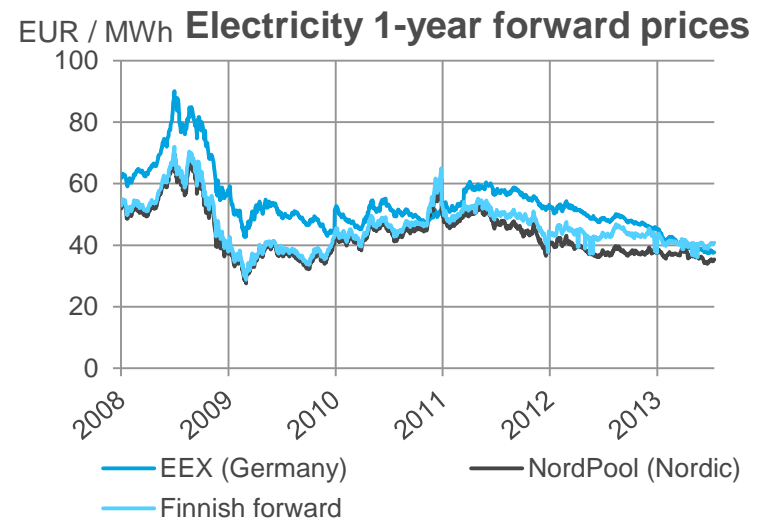
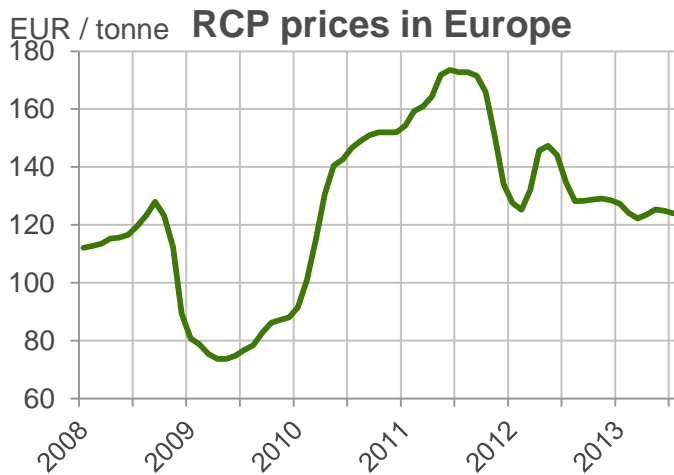
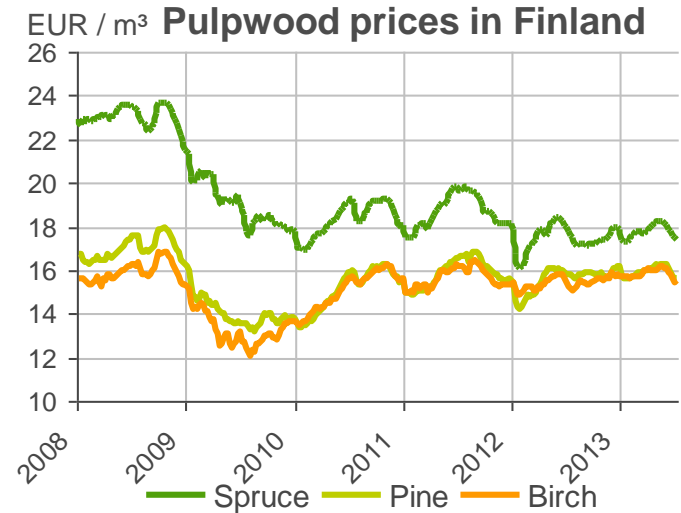
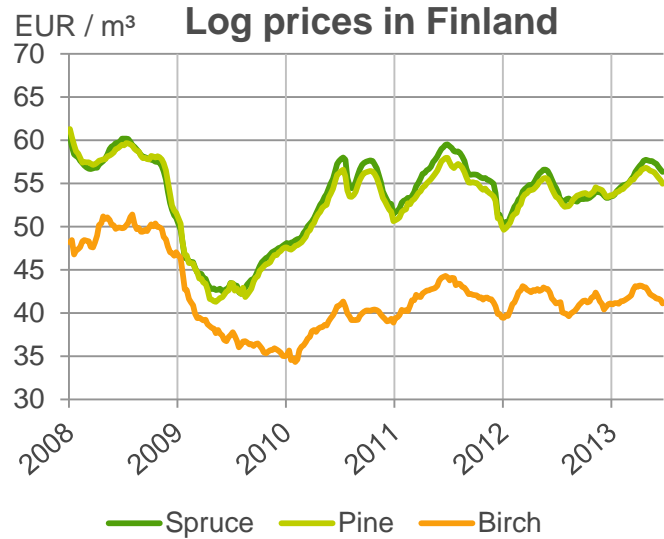
Producer inventories
at balanced levels



Source: PPPC World-20 statistics



Wood, RCP and electricity prices





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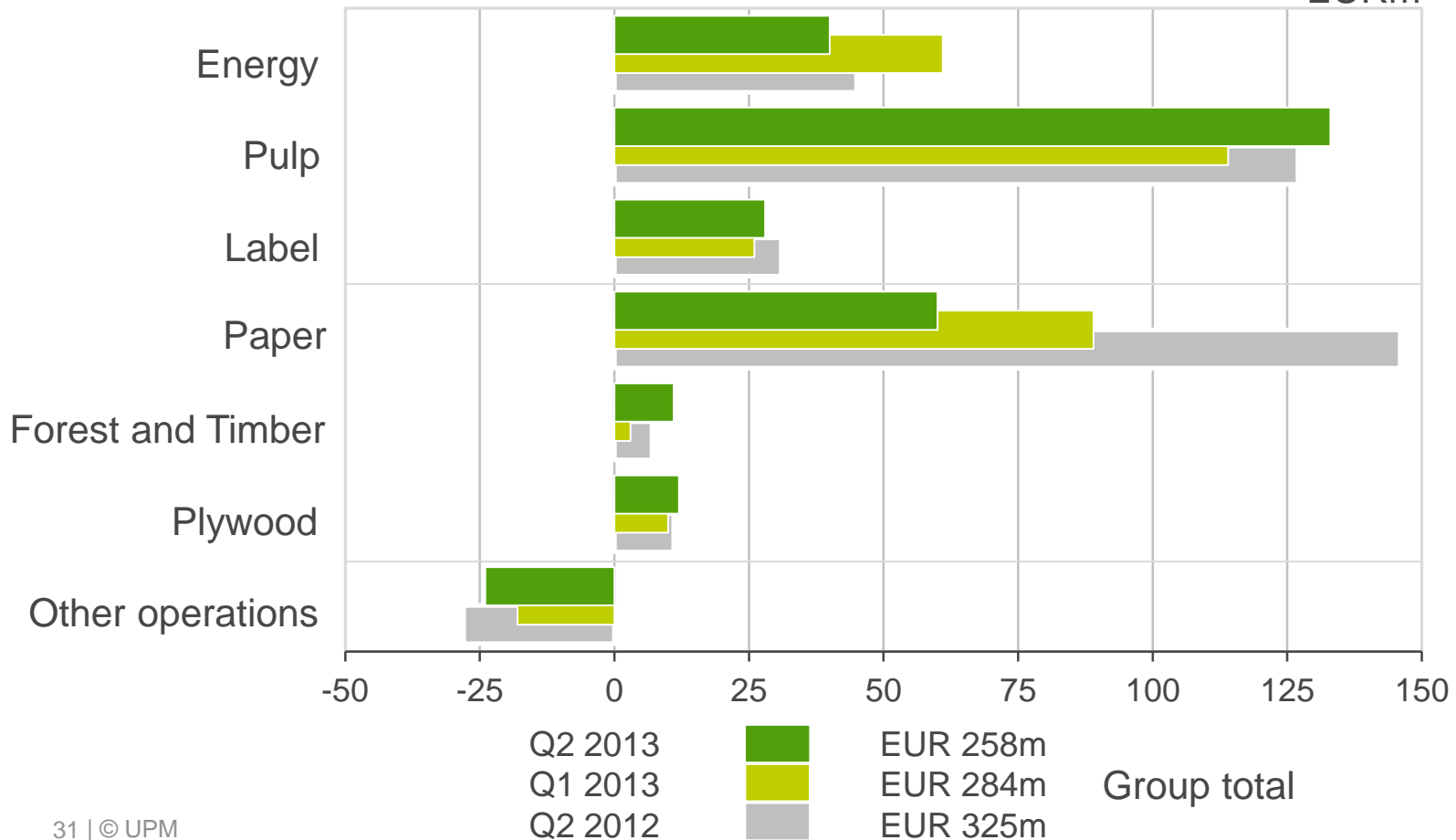
FINANCIALS Q2 2013



Q2 2013 EBITDA by business area

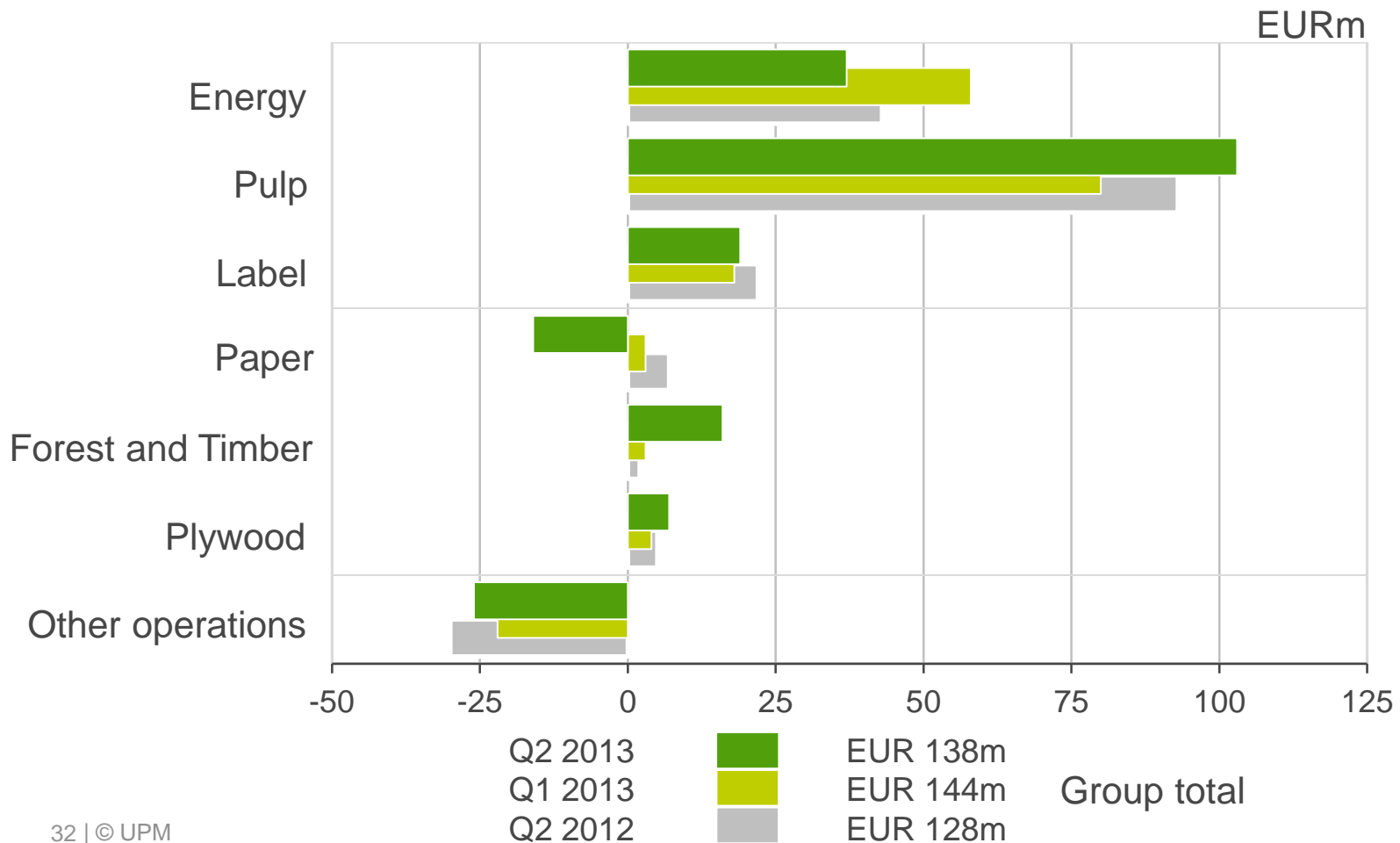
EBITDA

EURm

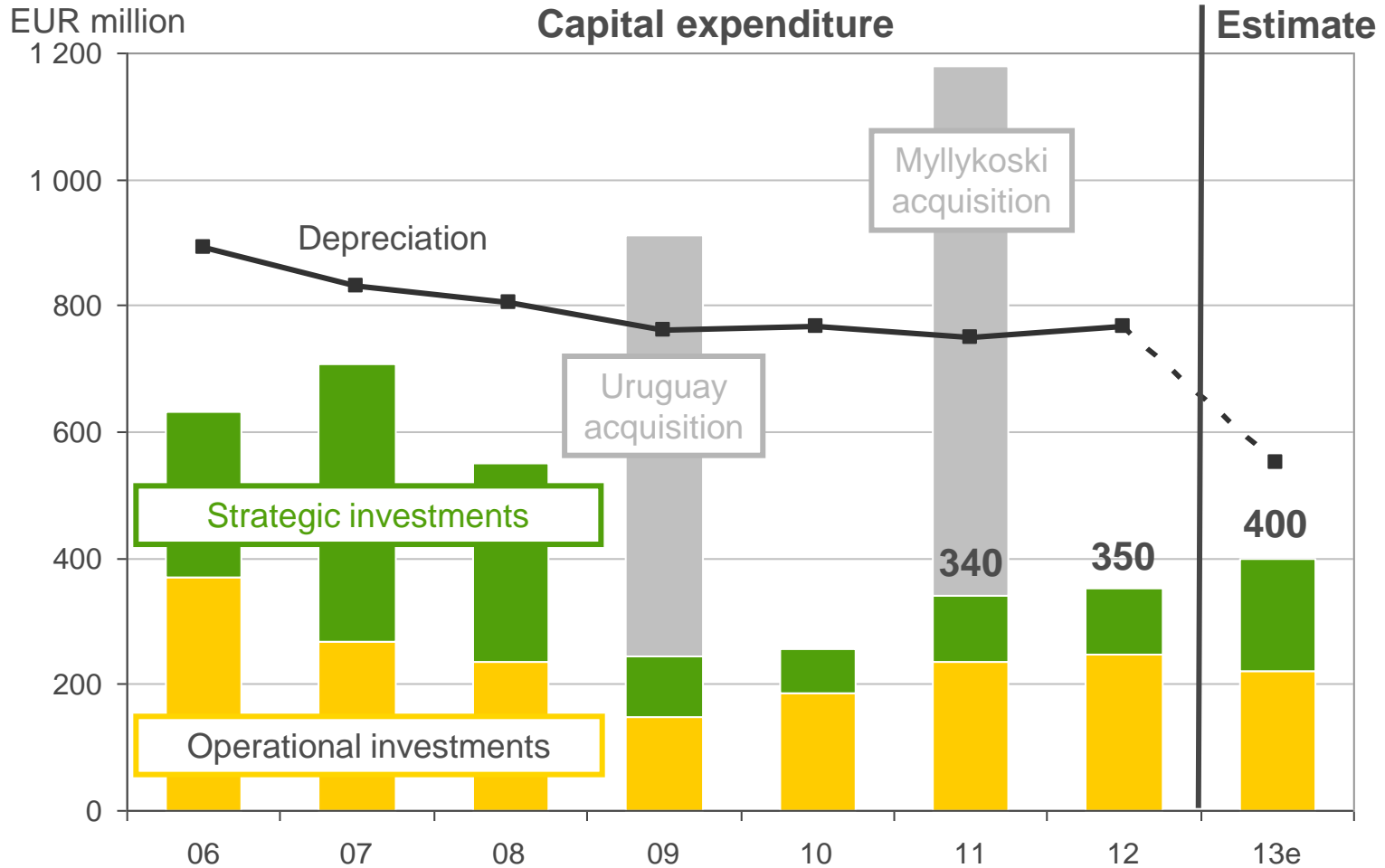


Q2 2013 operating profit excluding special items by business area

Operating profit excluding special items



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



Cash flow

EUR million	Q2/13	Q2/12	Q1/13	H1/13	H1/12
EBITDA	258	325	284	542	682
Cash flow before change in working capital	268	233	234	502	510
Change in working capital	-119	-63	-96	-215	-77
Finance costs and income taxes	-65	-28	-35	-100	-73
Net cash from operating activities	84	142	103	187	360
Capital expenditure	-69	-109	-98	-167	-197
Asset sales and acquisitions	-29	341	-7	-36	340
Cash flow after investing activities	-14	374	-2	-16	503



Maturity profile and liquidity

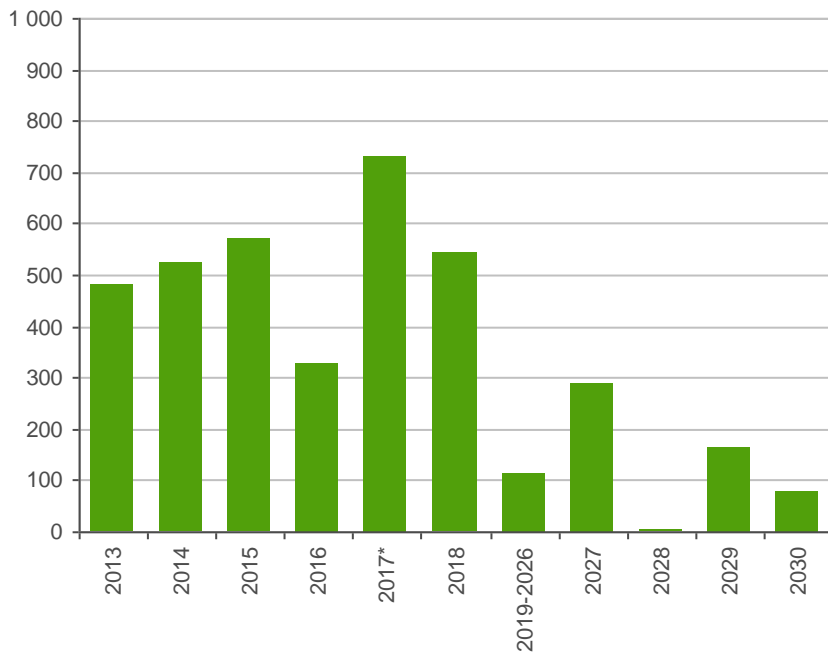
Liquidity

Liquidity on 30 June 2013 was € 1.6bn
(cash and unused credit facilities)

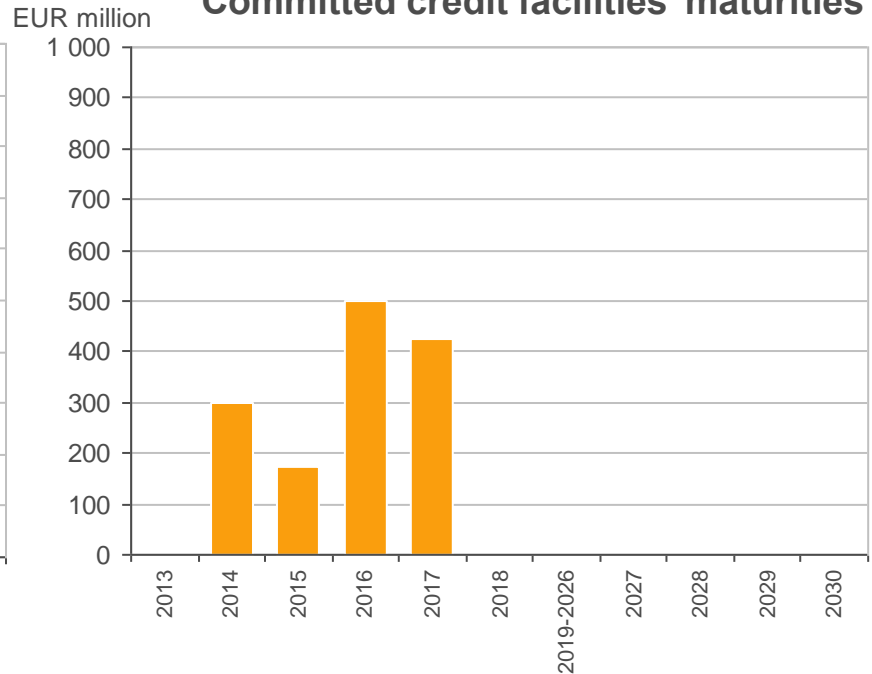
Committed credit facilities EUR 1.4bn

- 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

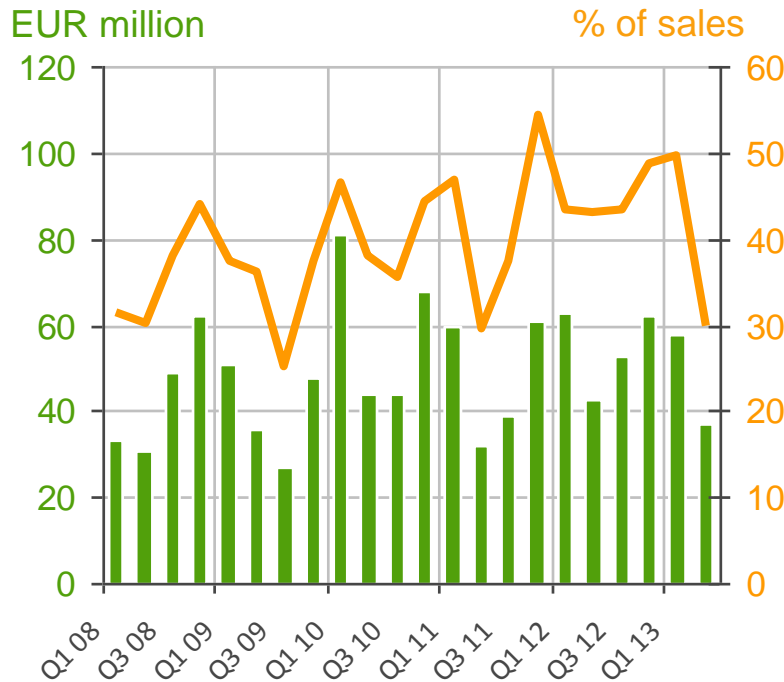


*Year 2017 includes 50m€ of drawdowns from Committed credit facilities



Energy Q2 2013 vs. Q2 2012

Operating profit excluding special items



Business performance

- Operating profit excluding special items decreased compared with the same period last year, mainly due to negative impact from market value changes of electricity derivatives and lower hydropower generation volumes.
- The average electricity sales price increased by 5% to EUR 45.0/MWh (42.9/MWh).

Sales **Q2 2013** **124** **24%**
 EUR million Q2 2012 100

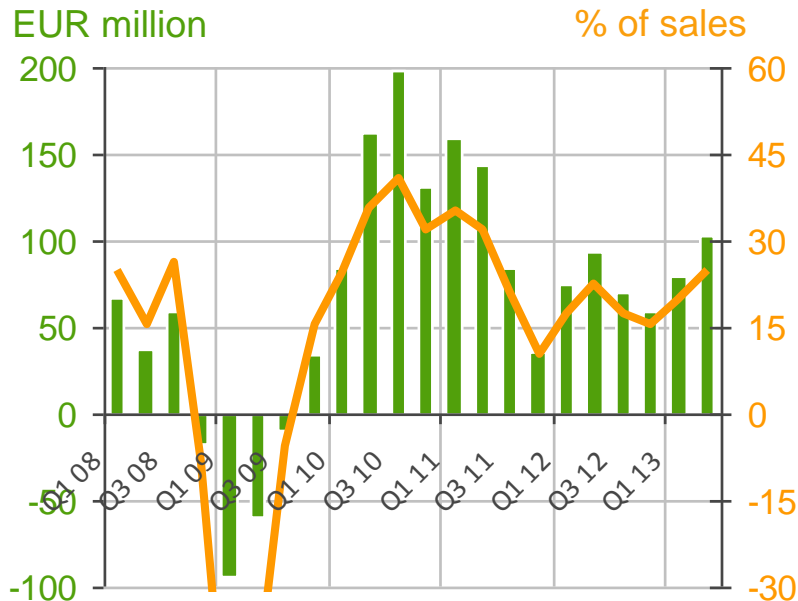
Operating profit **Q2 2013** **37** **-6**
 EUR million*) Q2 2012 43 EUR million

*) excluding special items



Pulp Q2 2013 vs. Q2 2012

Operating profit excluding special items



Business performance

- Operating profit excluding special items increased compared with the same period last year, mainly due to higher delivery volumes.
- Deliveries increased by 2% to 774,000 tonnes (755,000).

Sales **Q2 2013** 414 0%
 EUR million **Q2 2012** 413

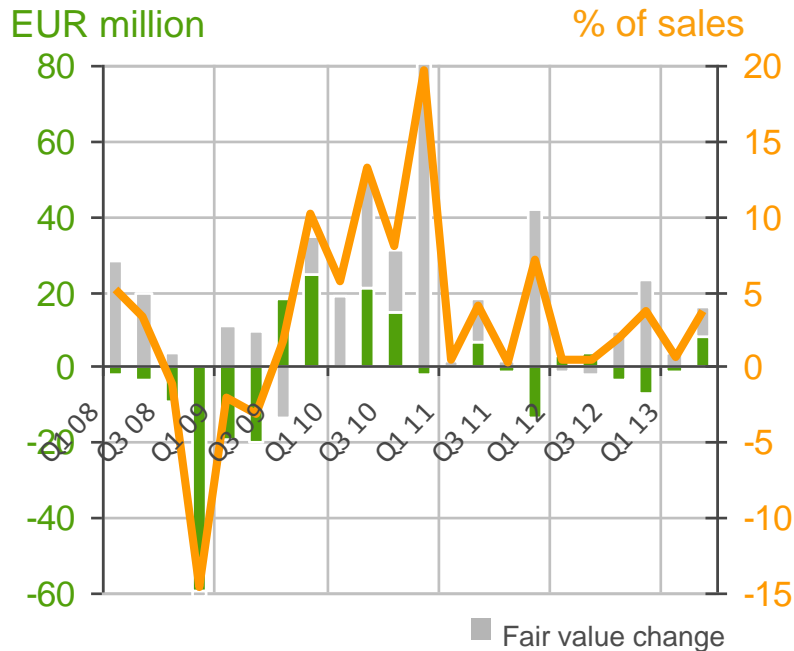
Operating profit **Q2 2013** 103 10
 EUR million*) **Q2 2012** 93 EUR million

*) excluding special items



Forest and Timber Q2 2013 vs. Q2 2012

Operating profit excluding special items



Business performance

- In sawn timber, sales mix was more favourable and cost efficiency improved as a result of restructuring.
- The increase in the fair value of biological assets net of wood harvested was EUR 8 million (decrease of 2 million). The increase in the fair value of biological assets (growing trees) was EUR 26 million (21 million), including gains on sales of forest land. The cost of wood harvested from own forests was EUR 18 million (23 million).

Sales **Q2 2013** **439** **-7%**
 EUR million **Q2 2012** **473**

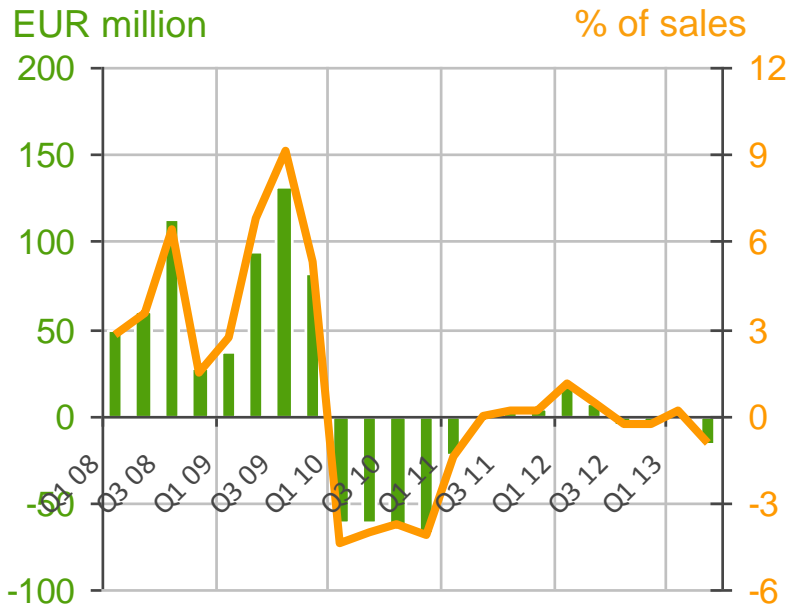
Operating profit **Q2 2013** **16** **14**
 EUR million*) **Q2 2012** **2** EUR million

*) excluding special items



Paper Q2 2013 vs. Q2 2012

Operating profit excluding special items



Business performance

- The average price for paper deliveries in euros was approximately 4% lower than last year.
- Operating profit excluding special items decreased from the previous year, mainly due to lower average paper prices. Costs decreased, but this was offset by a reduction in deliveries. Depreciation was lower than last year.

Sales **Q2 2013 1,644** **-11%**
 EUR million Q2 2012 1,841

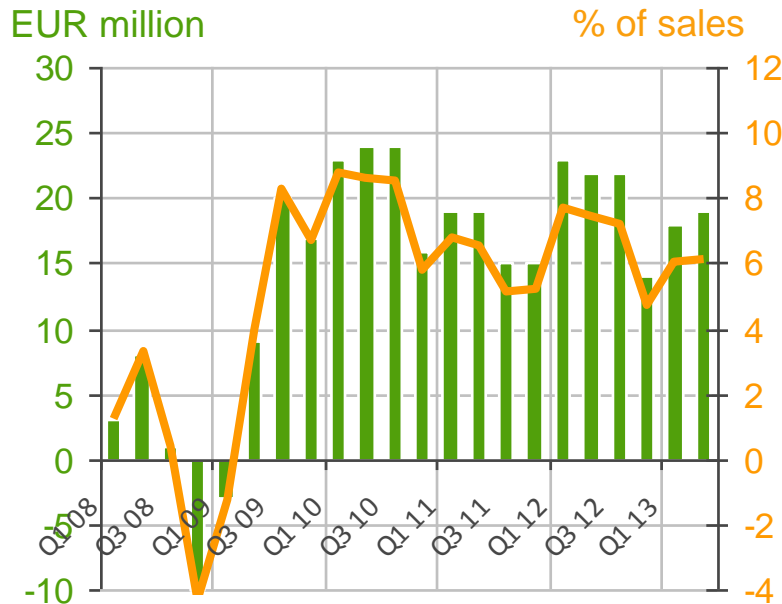
Operating profit **Q2 2013 -16** **-23**
 EUR million*) Q2 2012 7 EUR million

*) excluding special items



Label Q2 2013 vs. Q2 2012

Operating profit excluding special items



Business performance

- Operating profit decreased due to lower unit value added. Expanded operations in growth markets enabled volume growth, more than offsetting the increase in fixed costs.

Sales **Q2 2013 309** **4%**
 EUR million Q2 2012 298

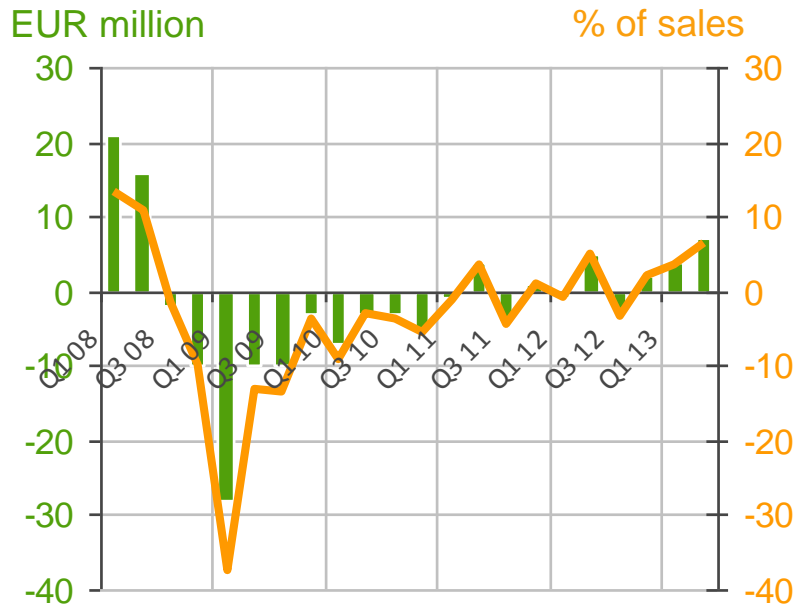
Operating profit **Q2 2013 19** **-3**
 EUR million*) Q2 2012 22
 EUR million

*) excluding special items



Plywood Q2 2013 vs. Q2 2012

Operating profit excluding special items



Business performance

- Operating profit excluding special items increased due to higher delivery volumes.
- Deliveries increased supported by increased exports outside Europe.
- Plywood’s improved customer focus has produced results in increased delivery volumes.
- Deliveries increased by 9% to 191,000 cubic metres (175,000).

Sales **Q2 2013** **111** **8%**
 EUR million Q2 2012 103

Operating profit **Q2 2013** **7** **2**
 EUR million*) Q2 2012 5 EUR million

*) excluding special items



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