



The Biofore Company **UPM**

UPM Q3 RESULTS 2013

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President and CEO
24 October 2013





Q3 2013 highlights 1(2)

Q3/13 sales were EUR 2,472m (2,595m in Q3/12)

Q3/13 EBITDA was EUR 311m (313m in Q3/12)

- Paper Q3 EBITDA recovered to EUR 134m (135m in Q3/12)
 - Fixed and variable cost reductions offset the 3% decrease in prices and 4% decrease in deliveries vs. Q3/12
 - Compared with Q2/13, fixed and variable costs decreased and deliveries increased seasonally. Unrealised energy hedges had a positive impact
- Growth businesses continued to perform well
 - Solid quarter in Pulp, taking into account the Fray Bentos maintenance shut
 - Stable good profitability in the Asian paper business
 - In Label the growth actions started to pay off
 - Energy had low hydropower, but good profitability



Q3 2013 highlights 2(2)

Operating profit excl. special items was EUR 194m (126m in Q3/12)

Operating cash flow was EUR 286m (319m in Q3/12)

Net debt decreased to EUR 3,301m (3,349m in Q3/12)

UPM announced a new business structure and a EUR 400m profit improvement target from performance improvement and focused growth

- 25% of the targeted annualised EUR 200m cost savings were achieved, i.e. the impact from the profit improvement programme was EUR 13m in Q3
- In October UPM received a permission to increase the annual pulp production of the Fray Bentos mill from 1.1m tonnes to 1.2m tonnes



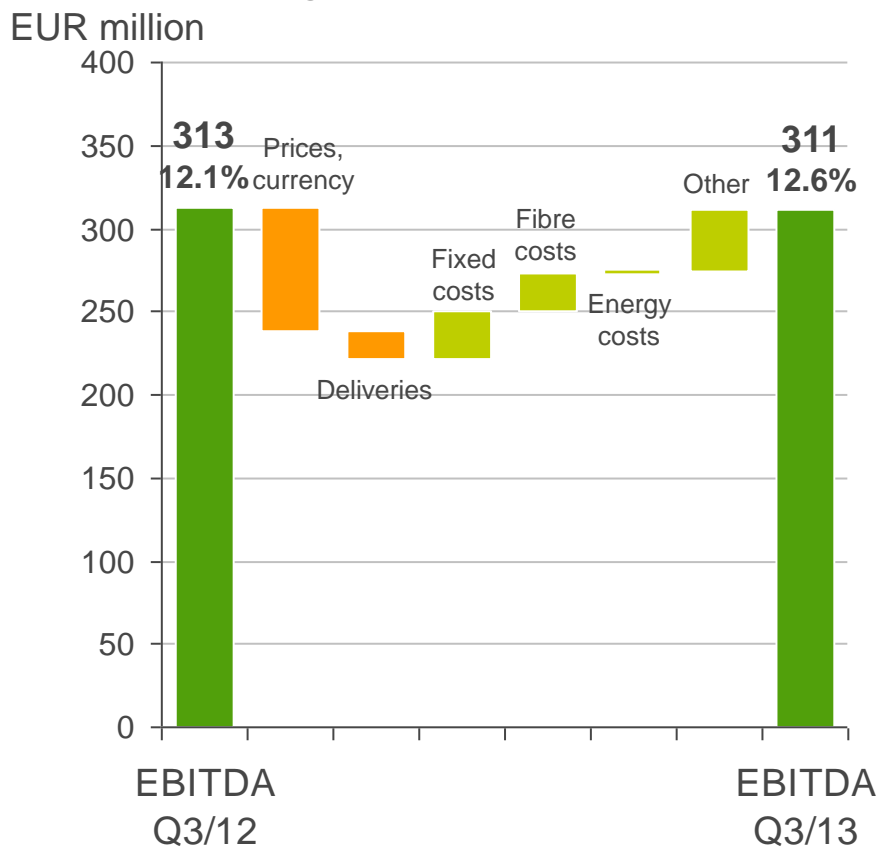
Q3 2013 key figures

EUR m	Q3 2013	Q3 2012	Q2 2013	Q1-Q3 2013	Q1-Q3 2012
Sales	2,472	2,595	2,520	7,466	7 835
sales growth, %	-5%	-1%	-4%	-5%	5%
EBITDA	311	313	258	853	995
% of sales	12.6	12.1	10.2	11.4	12.7
Operating profit *)	194	126	138	476	410
Profit before tax *)	173	105	120	422	348
Earnings per share, EUR *)	0.26	0.16	0.20	0.64	0.54
Operating cash flow	286	319	84	473	679
Net debt	3,301	3,349	3,524	3,301	3,349
Gearing %	45	35	48	45	35

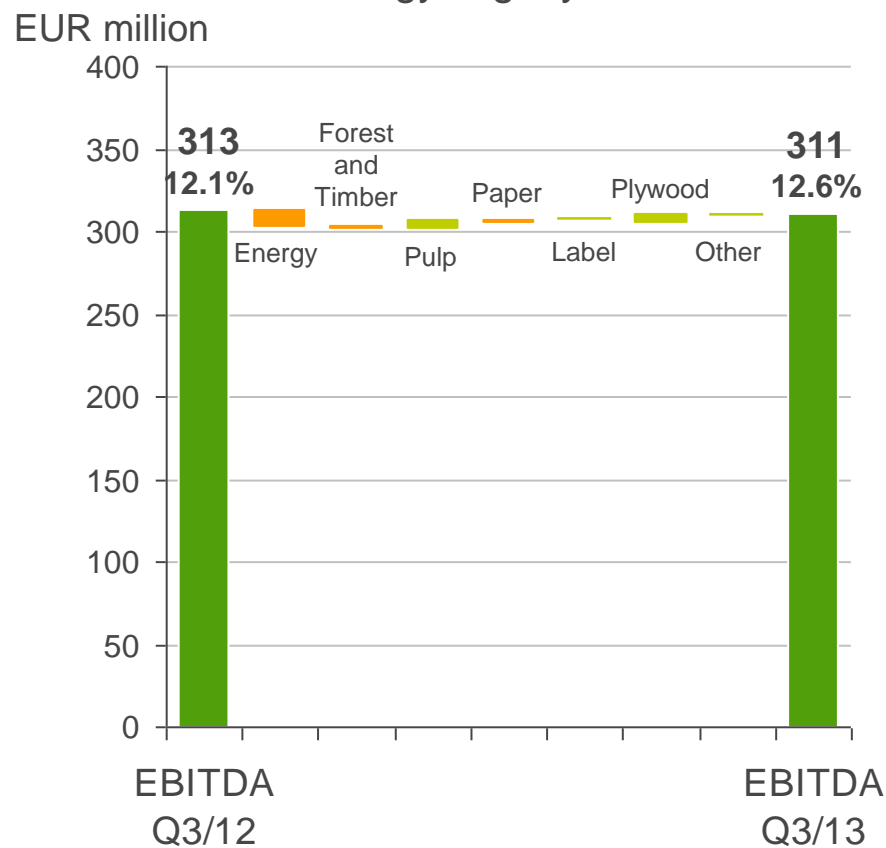
*) excluding special items

EBITDA unchanged in Q3 2013 vs. Q3 2012

Paper prices and volumes decreased
Savings in fixed and variable costs

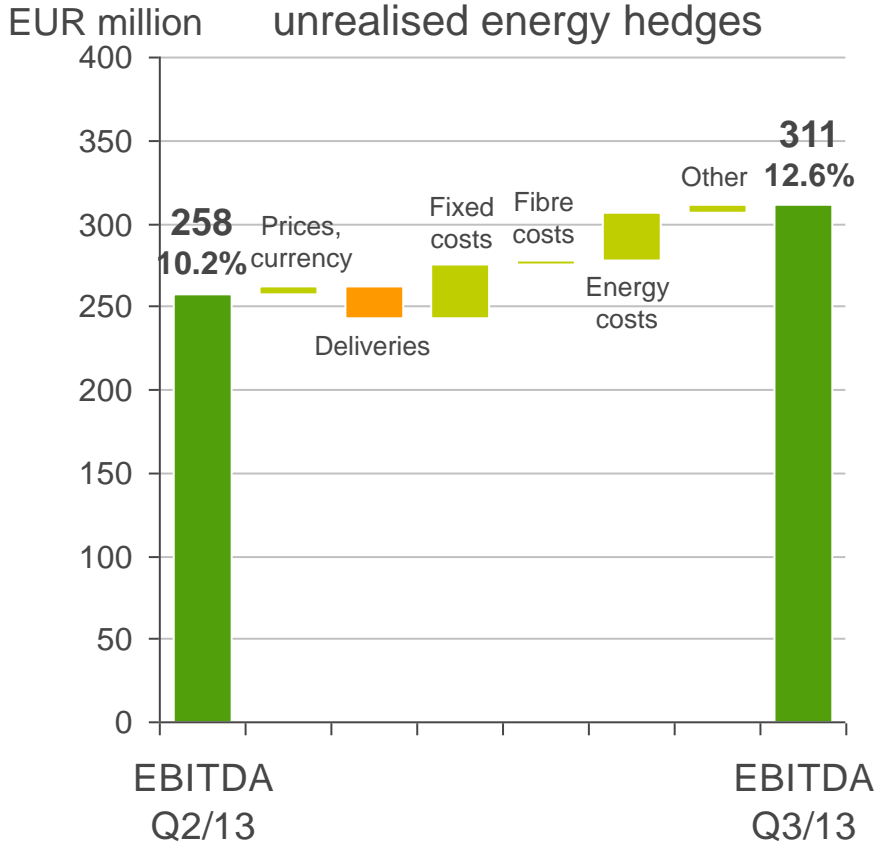


Pulp and Plywood improved slightly
Energy slightly lower

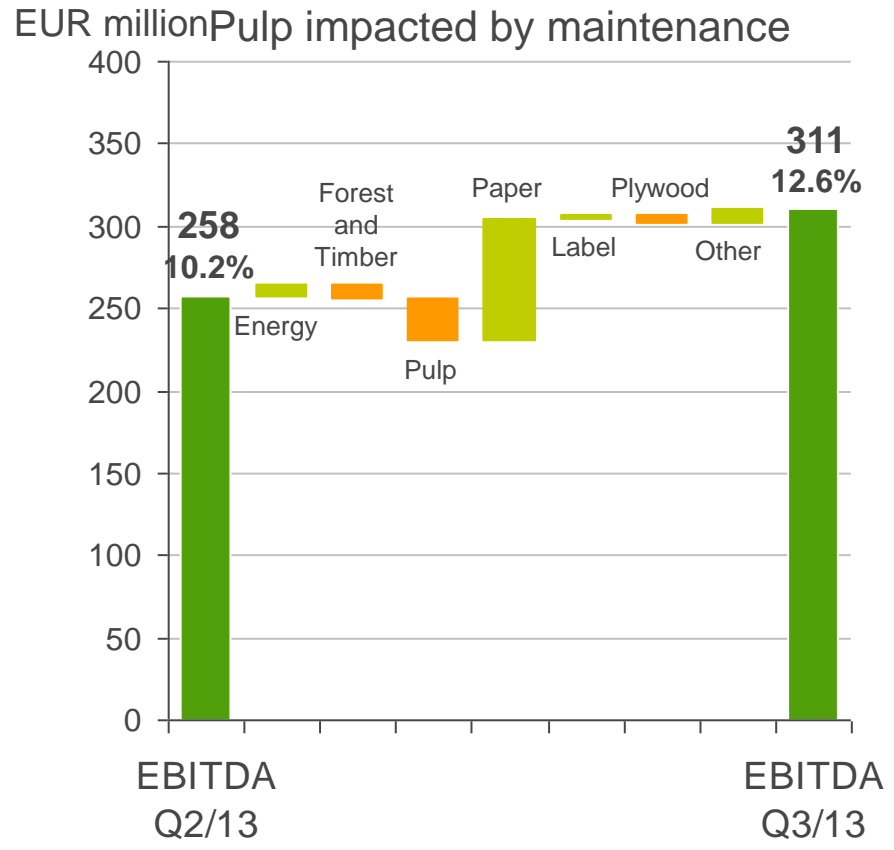


EBITDA increased in Q3 2013 vs. Q2 2013

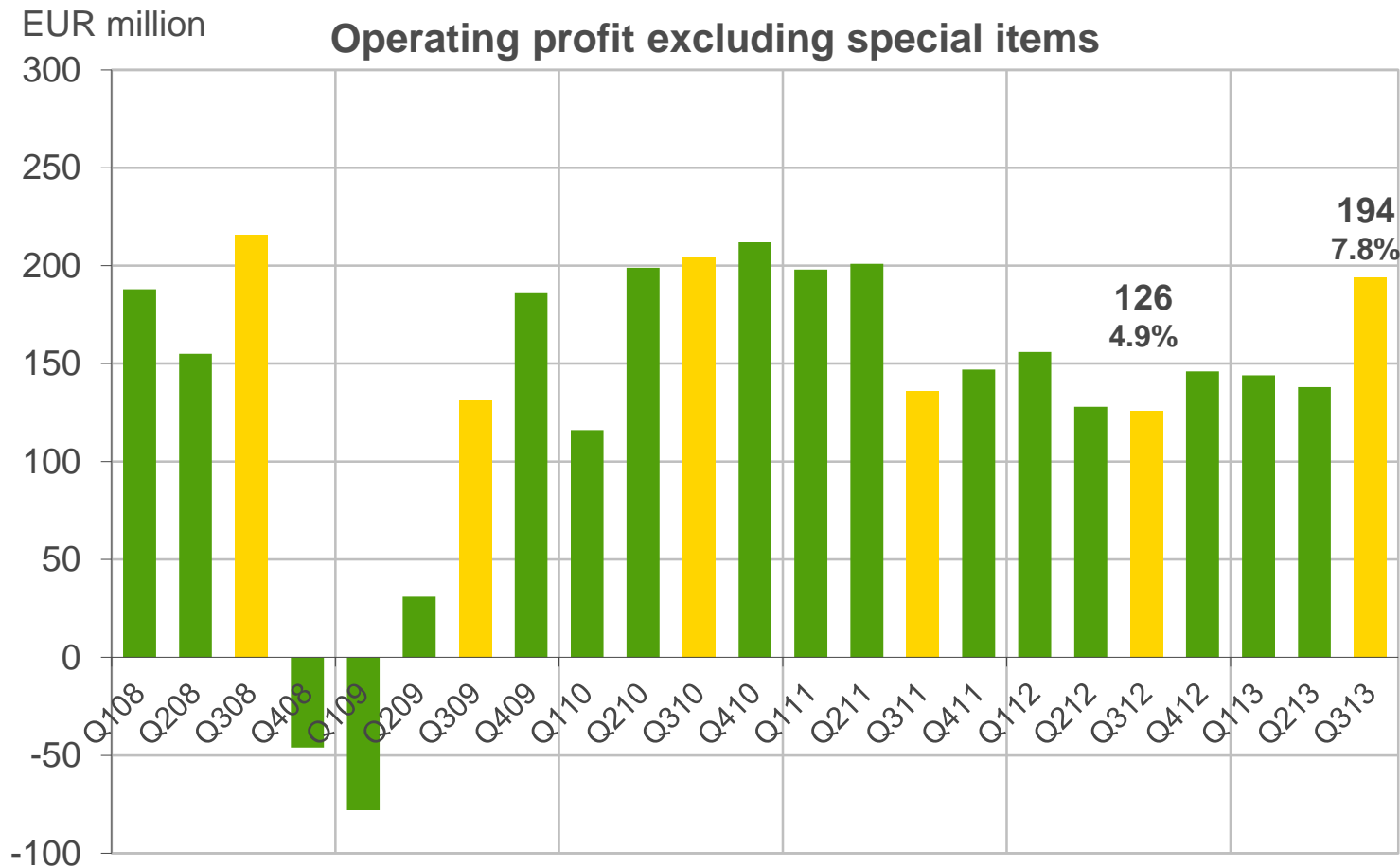
Fixed cost decreased, partly seasonally, energy costs affected by unrealised energy hedges



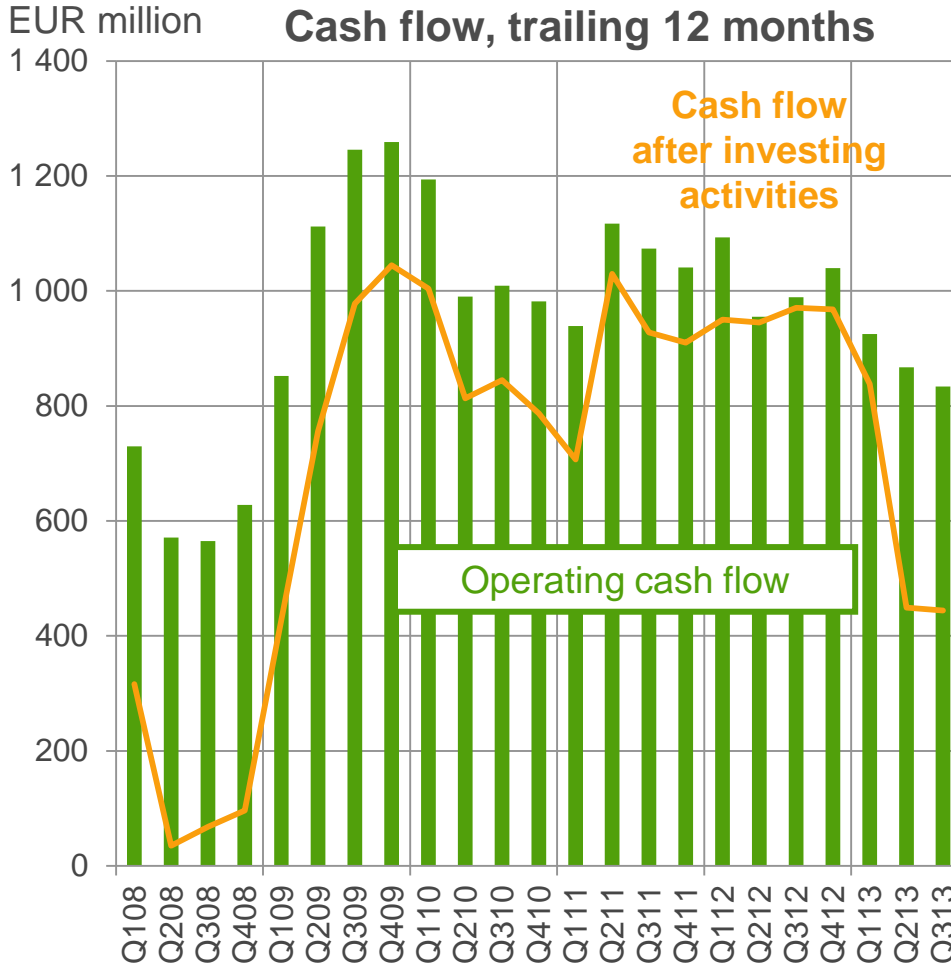
Paper recovered on lower costs and seasonally higher deliveries



Operating profit increased from last year, supported by lower depreciation

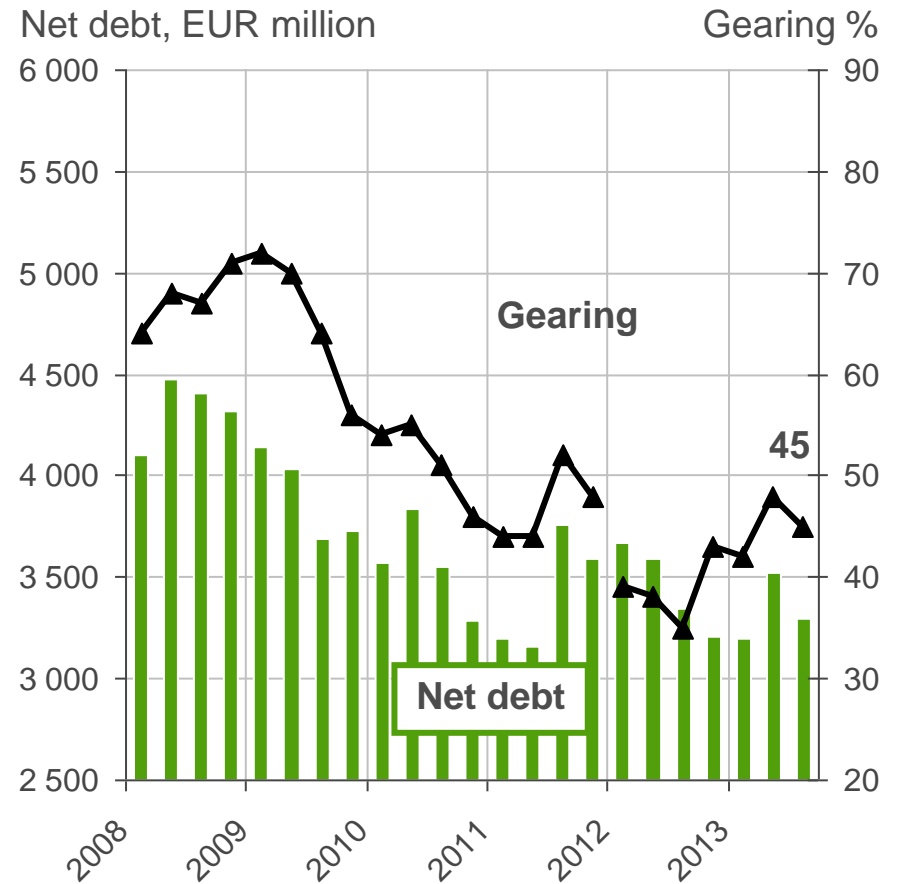
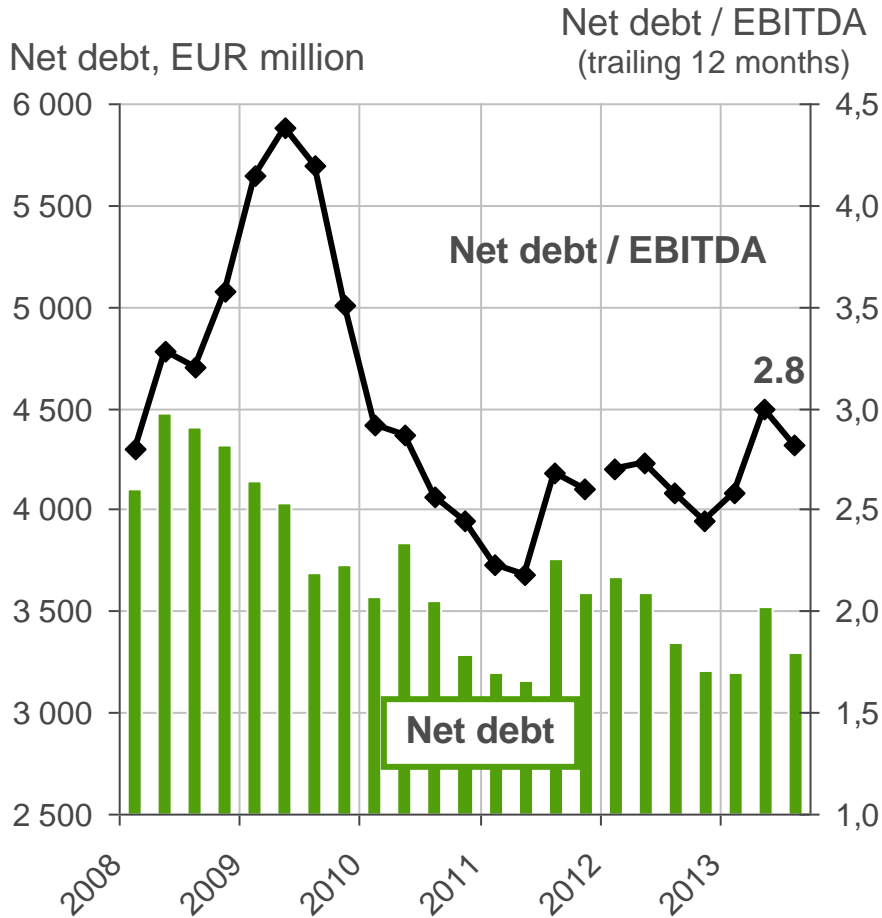


Cash flow impacted by temporary increase in working capital



- Q3 2013 operating cash flow was EUR 286m (319m)
- Q1-Q3 2013 operating cash flow was EUR 473m (679m), impacted by temporary working capital increase of EUR 185m (68m)

Solid balance sheet



Liquidity was EUR 1.7bn at the end of Q3 2013
 Repayments total EUR 0.8bn in 2013-14

2012 figures restated



Outlook for 2013 *)

Business environment

- Economic growth in Europe in 2013 is expected to remain 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 Finland is weaker than the long term average.

UPM performance in H2 2013 compared with H1 2013

- The Paper (UPM Paper ENA in the new business structure) business area is expected to benefit from lower costs, driven partly by the ongoing cost reduction measures and seasonally stronger demand.
- The Pulp (UPM Biorefining) business area will be impacted by annual maintenance stops in three of the four pulp mills. However, the Fray Bentos maintenance shutdown was shorter than in previous years.



The Biofore Company **UPM**

SHIFTING GEAR – NEW BUSINESS STRUCTURE TO DRIVE CHANGE

Shifting gear in UPM transformation with the new business structure

- Profit improvement actions in all businesses
- Focused projects in growth businesses
- 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

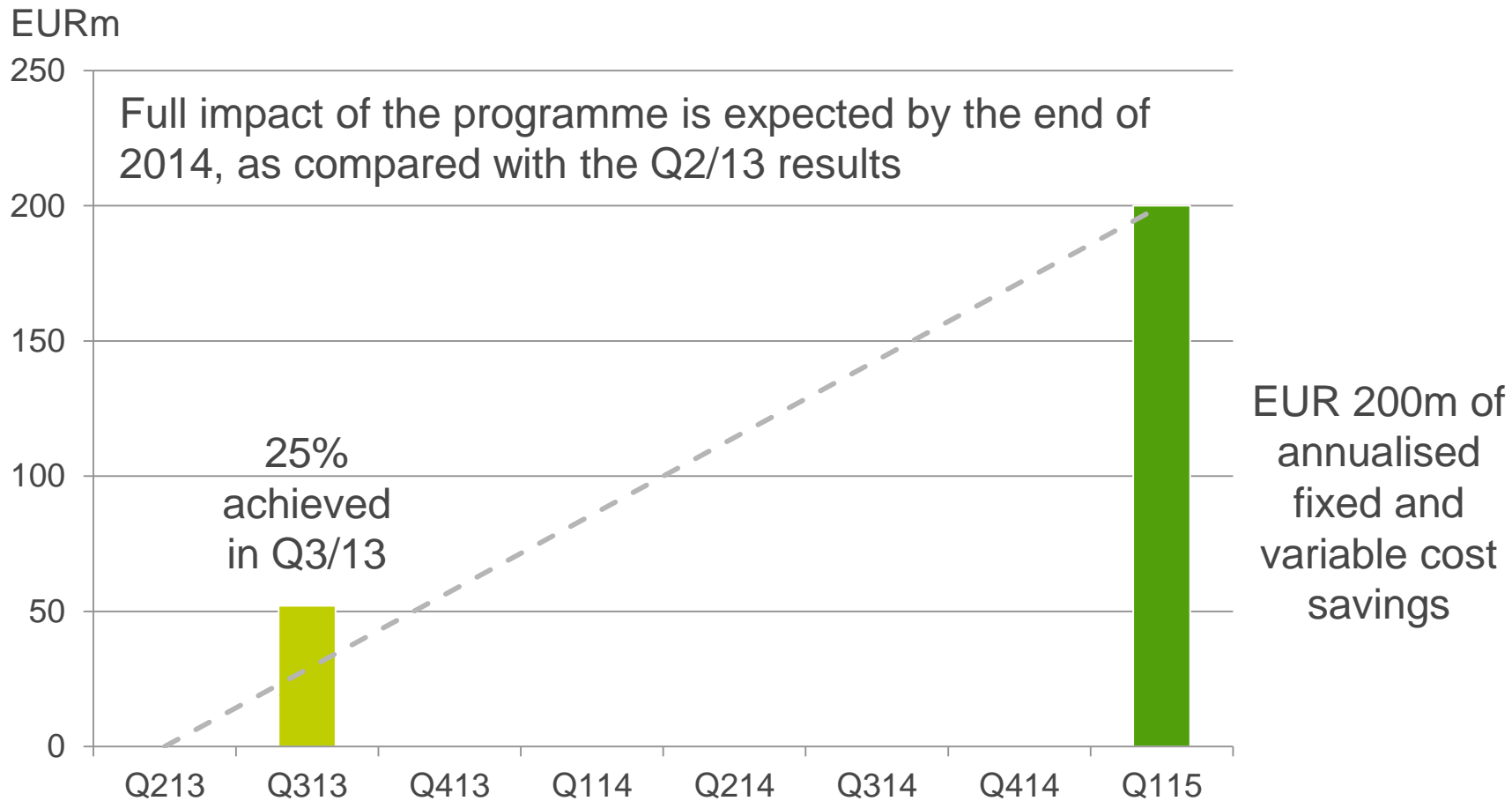
UPM Biorefining 	<ul style="list-style-type: none">• Pulp (3.3 million tonnes p.a.), incl. plantation operations• Biofuels• Timber
UPM Energy 	<ul style="list-style-type: none">• Power generation (1,721MW), incl. UPM's hydropower plants and shareholdings in energy companies• Physical and derivatives 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 papers• Total capacity 1.5 million tonnes p.a.
UPM Paper ENA 	<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 measures including simplified business model and variable and fixed cost savings
 - Planned actions include the remaining part of previously announced programmes
 - Planned actions do not include additional capacity closures at this time
- Full impact of the programme is expected by the end of 2014, as compared with the Q2/13 results
 - In Q3/13, the actions under the programme reduced UPM's costs by EUR 13 million, i.e. 25% of the annualised savings had been achieved

Profit improvement programme through simplified business structure



Employee plans and consultations in Q3/Q4 within the profit improvement programme

Employee consultations	Country	Max number of positions impacted	Status
UPM Raflatac restructuring	UK, Spain, CH, others	40	Completed Sept-Oct 2013
Pestovo sale	Russia	149	Completed July 2013
Aigrefeuilles sale	France	38	Completed Sept 2013
Finance outsourcing	Finland	92	Completed Oct 2013
Seaways	Finland	11	Completed Oct 2013
UPM Paper ENA	Finland	45	Ongoing
Docelles sale or closing	France	160	Ongoing
UPM Raflatac, Paper & functions	France	87	Ongoing
Finance outsourcing	China	65	Ongoing
Wood sourcing	Finland, Germany, UK, other countries	46	Starting Q4 *)
Global functions	Finland, Germany, UK, other countries	179	Starting Q4 *)
Total		~900	

*) Announced 24 October



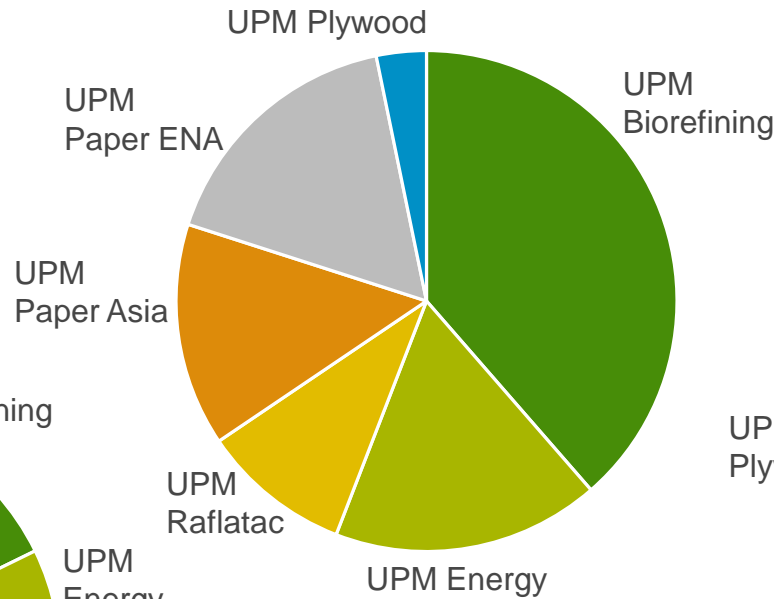
Growth initiatives for the next three years

- 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
 - Debottlenecking actions in all of the existing pulp mills resulting in a 10% increase in the 3.3m tonne pulp capacity
- Total investment requirement in the projects is EUR 680m
 - Total remaining investment EUR 584m 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

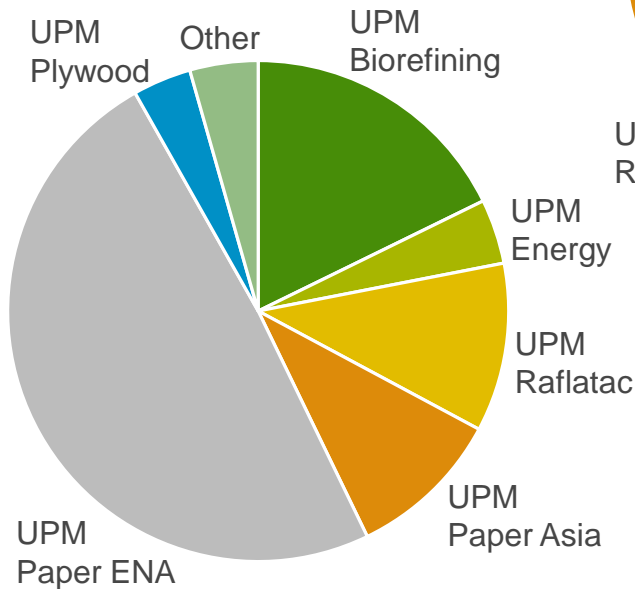
New business structure

Financial figures in Q1-Q3 2013 *)

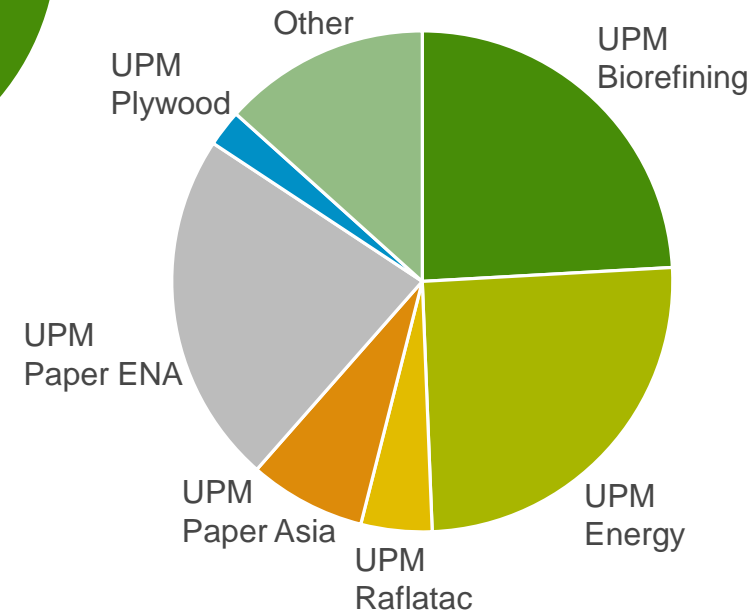
EBITDA



Sales



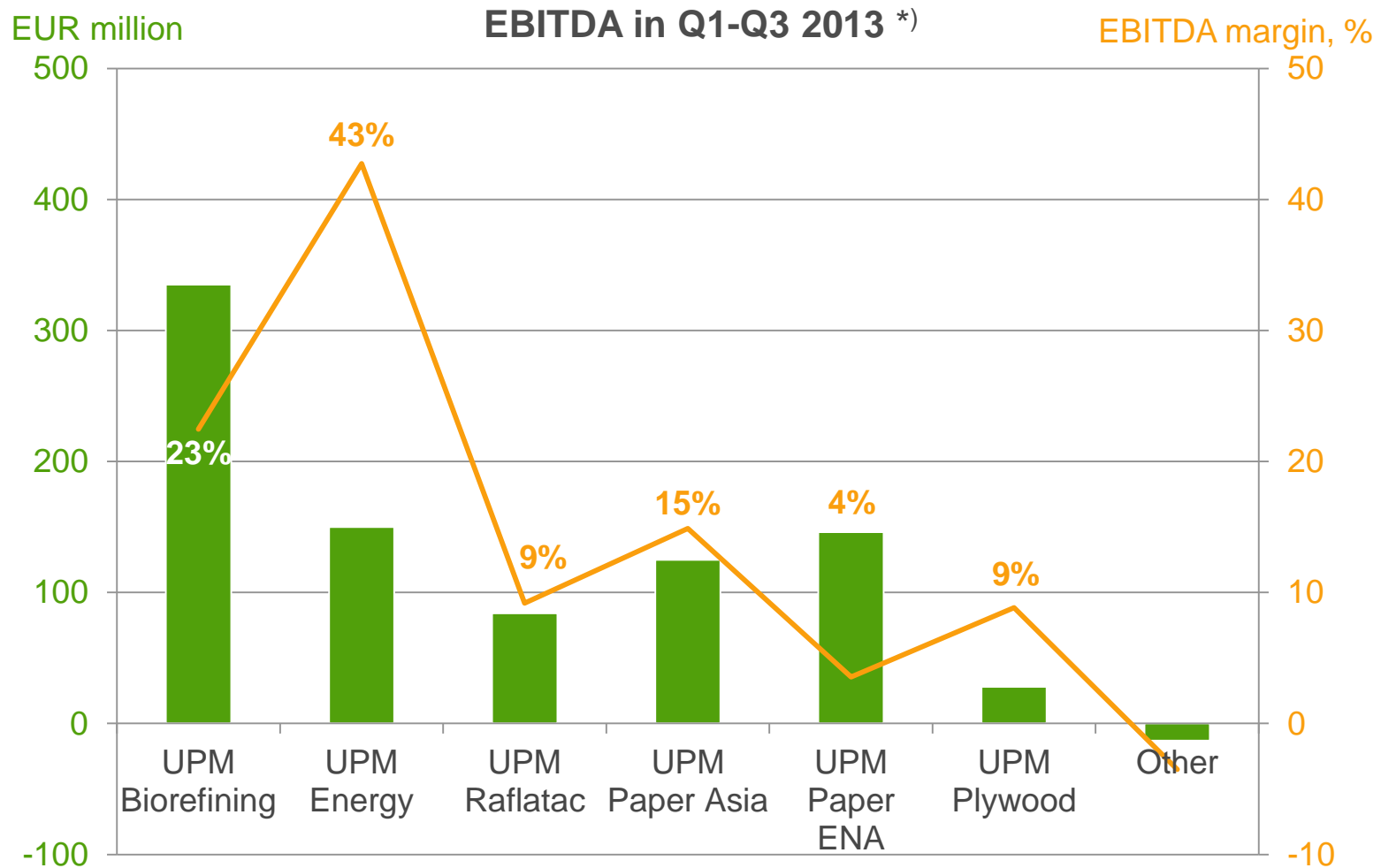
Capital employed



*) Preliminary figures
Sales unconsolidated

Profitability challenge in UPM Paper ENA

– improvement programmes in all businesses, growth initiatives in several businesses



*) Preliminary figures



Summary

Paper EBITDA recovered in Q3/13, driven by fixed and variable cost savings and seasonally higher deliveries

UPM's growth businesses continued to perform well in Q3/13

Shifting gear in UPM transformation

- New business structure in effect as of 1 November 2013
- Profit improvement programme targeting a EUR 200m impact by the end of 2014 – 25% achieved in Q3/13
- Growth initiatives during the coming three years – targeted additional EUR 200m EBITDA contribution when in full operation
- UPM seeks to simplify its business portfolio and uncover the value of its assets



UPM's Capital Markets Day in London, on 11 March, 2014



SAVE THE DATE!

UPM will arrange a Capital Markets Day for investors and analysts in London on Tuesday, 11 March, 2014

In the event we will share the latest on the Group's strategy and financial performance

A detailed programme of the Capital Markets Day will be available prior to the event on UPM's website at www.upm.com



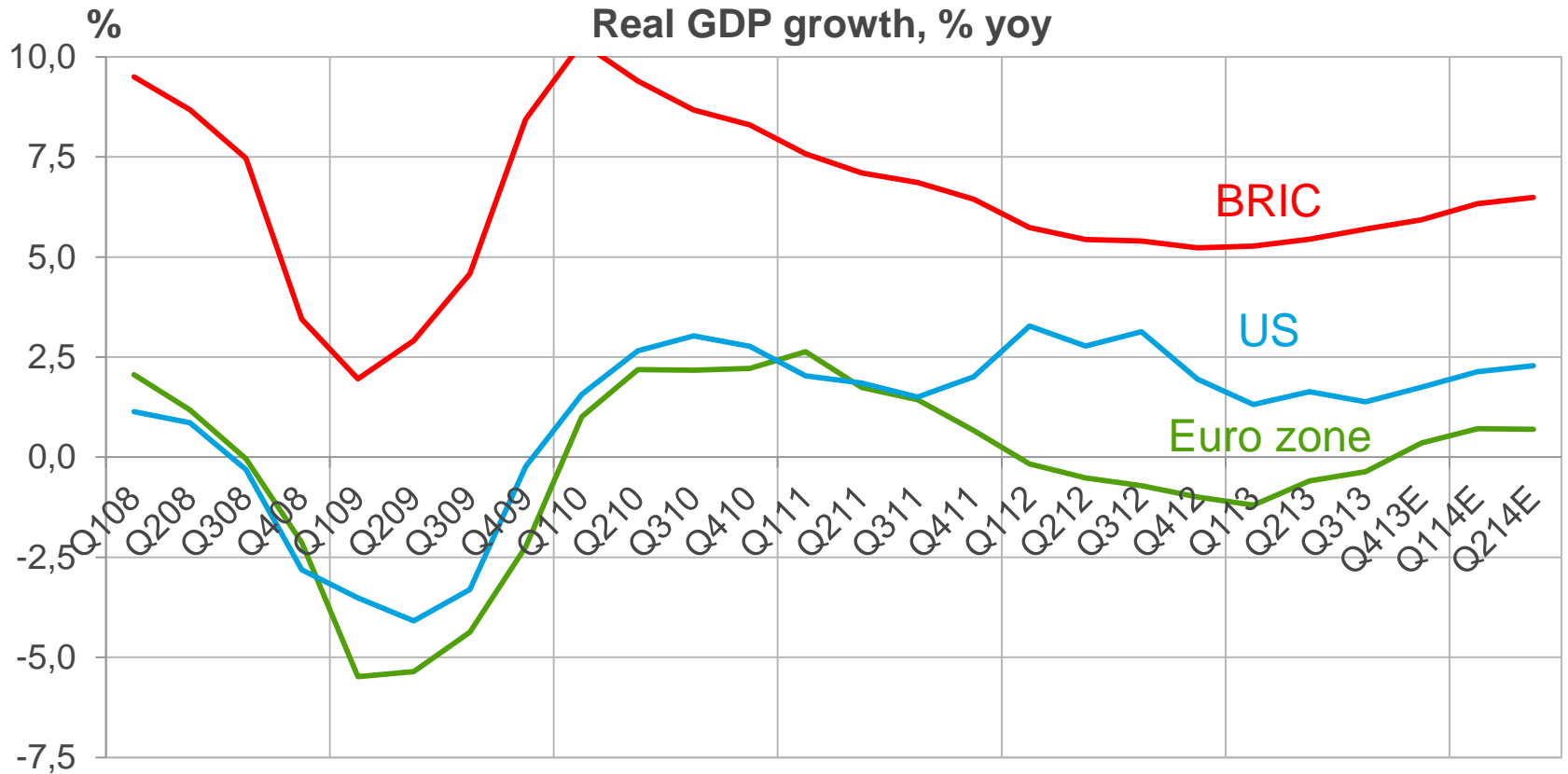
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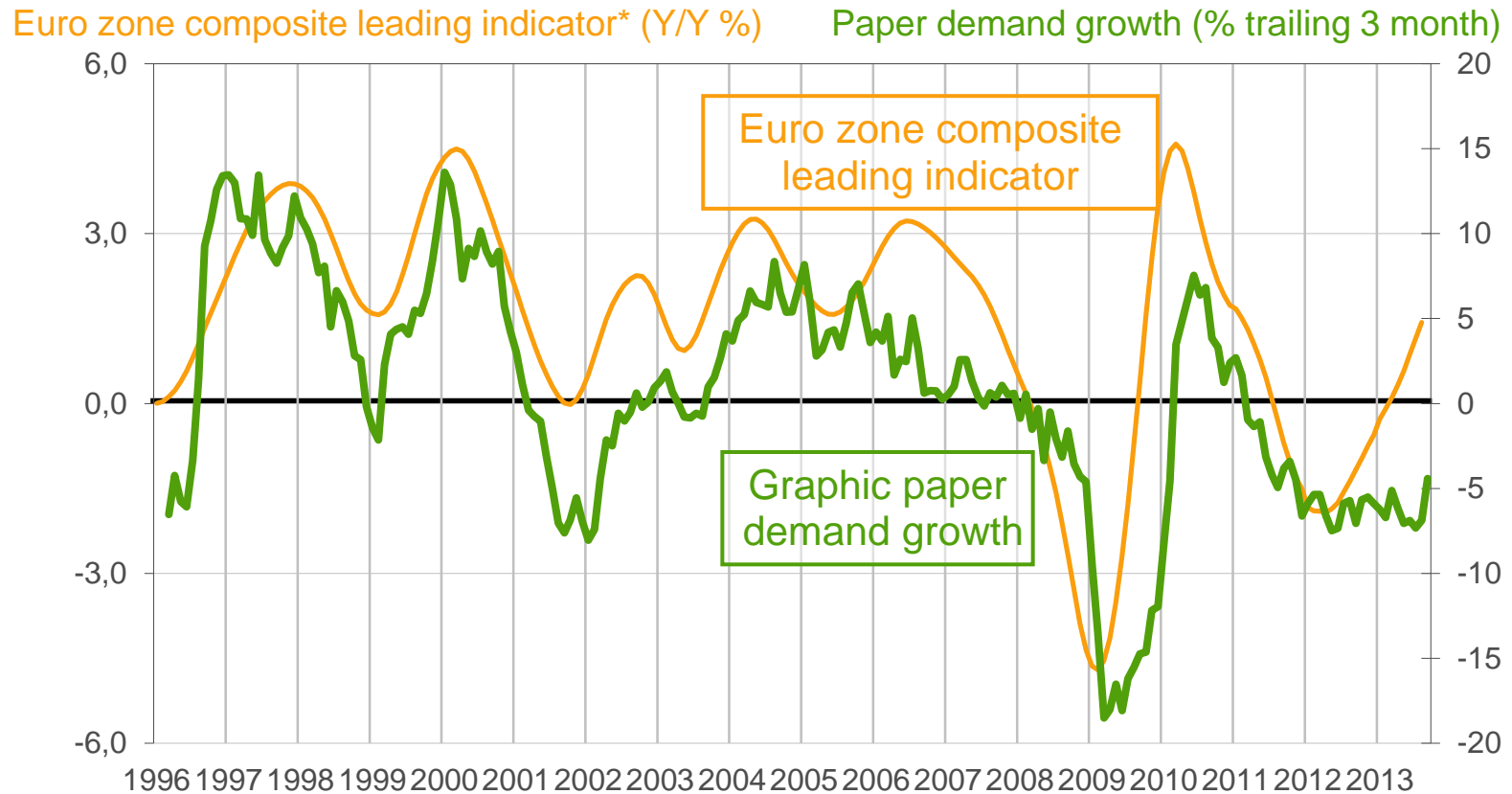
BUSINESS DRIVERS

Second economic downturn in four years coming to an end in Europe



Source: Global Insight

Second economic downturn in four years coming to an end in Europe

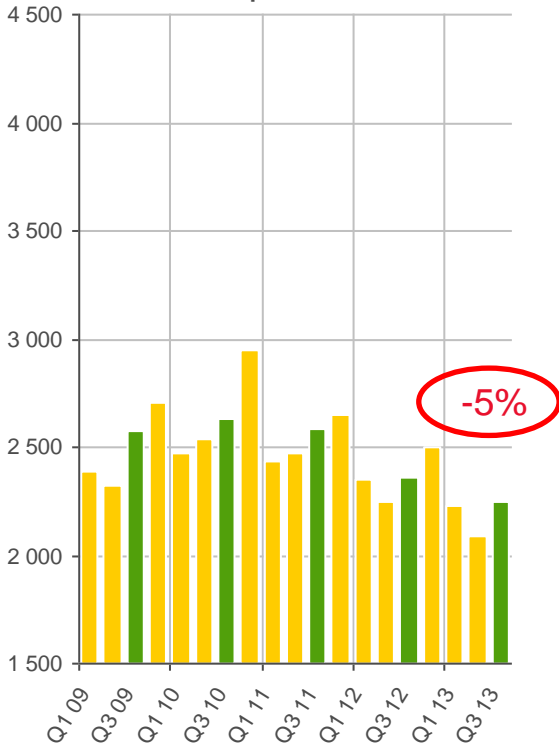


* Changed GDP base

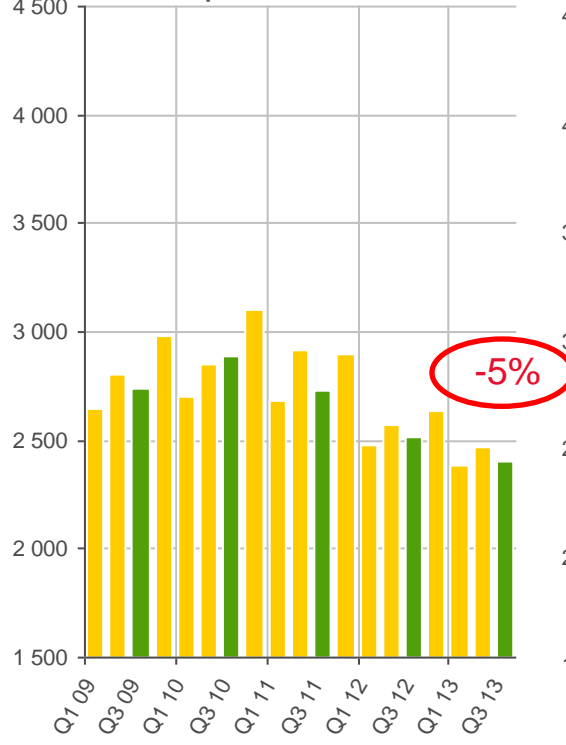
Sources: Cepiprint, Cepifine, OECD

Graphic papers demand in Europe decreased 5% in Q3 2013

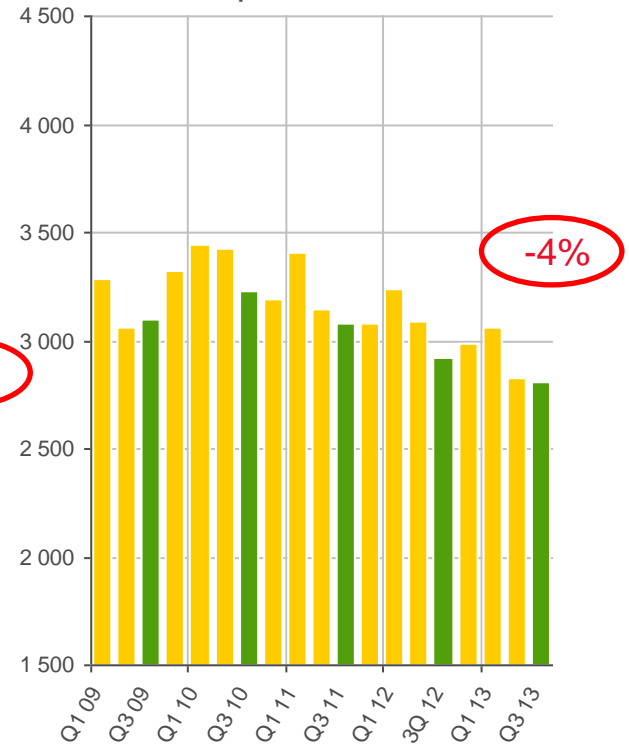
'000 tonnes Magazine papers demand in Europe -6% in Q1-Q3/13



'000 tonnes Newsprint demand in Europe -4% in Q1-Q3/13

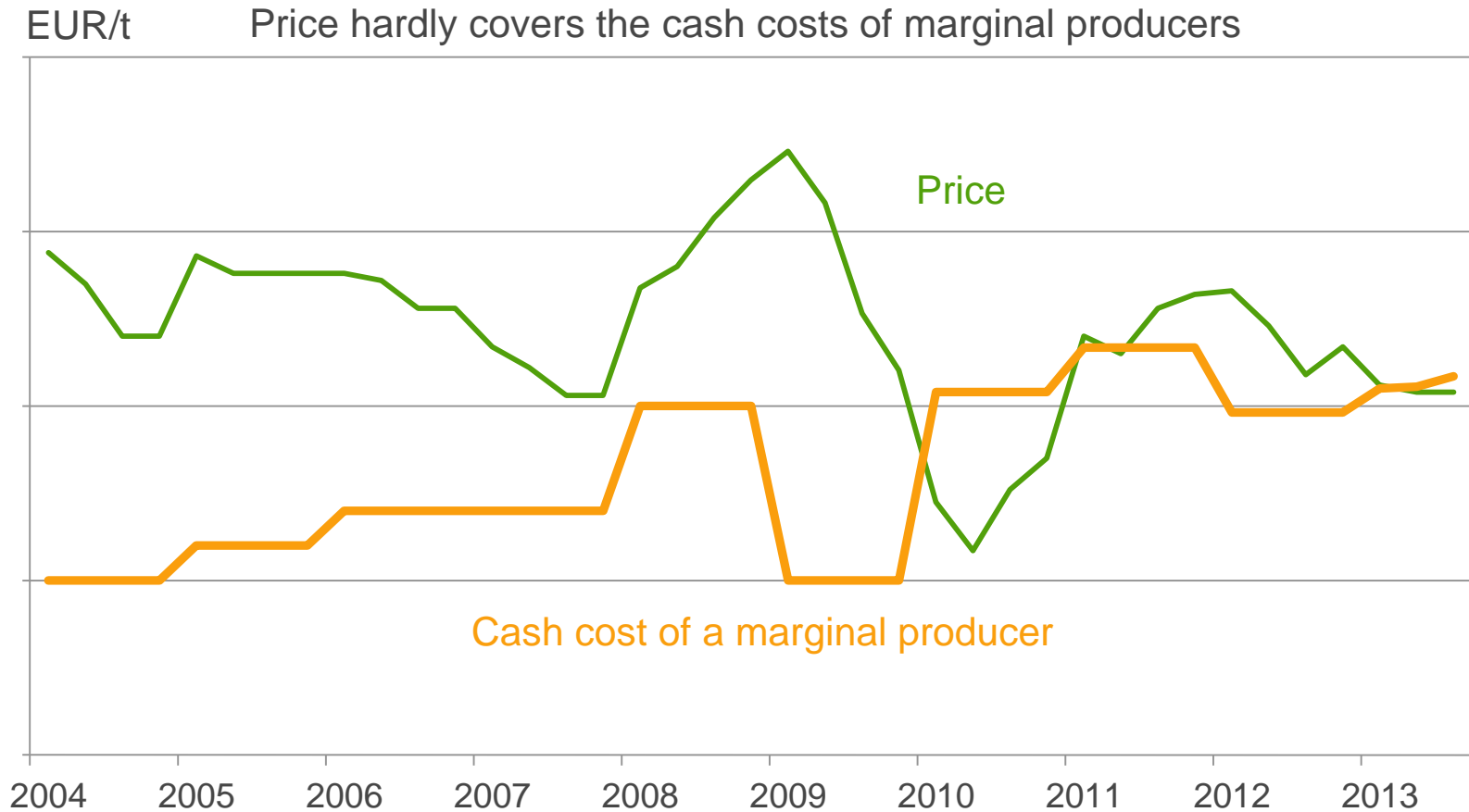


'000 tonnes Fine papers demand in Europe -6% in Q1-Q3/13



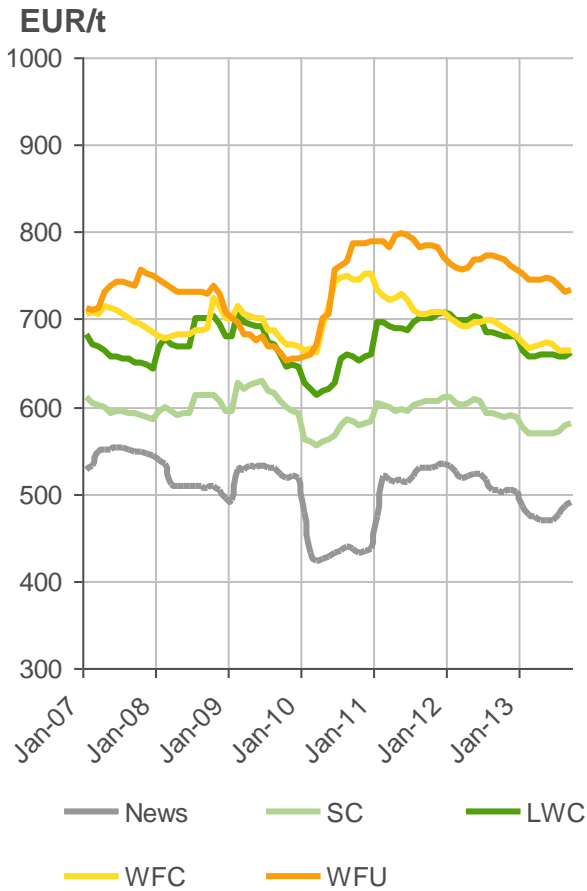
Sources: Cepiprint/fine, PPPC

Overcapacity in European graphic paper is visible in margins

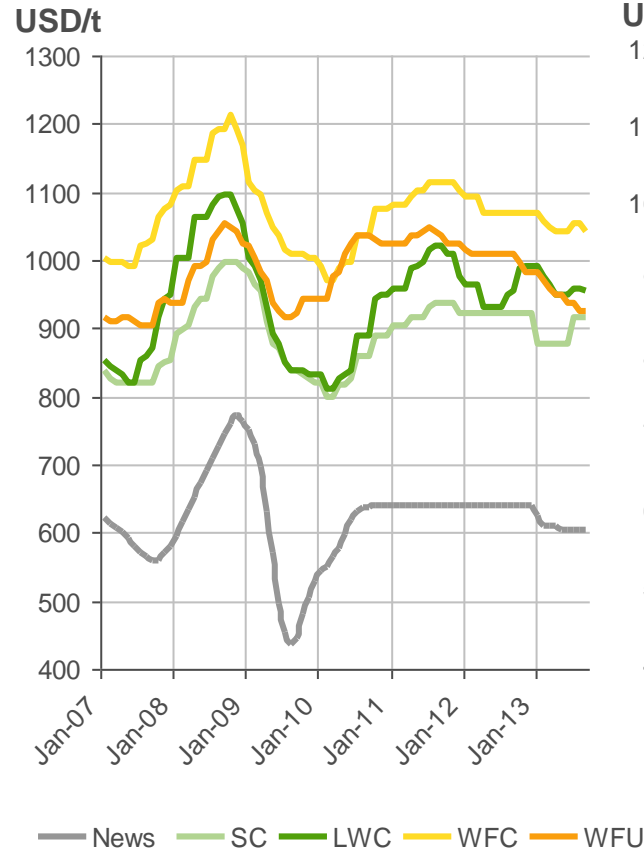


Graphic paper prices

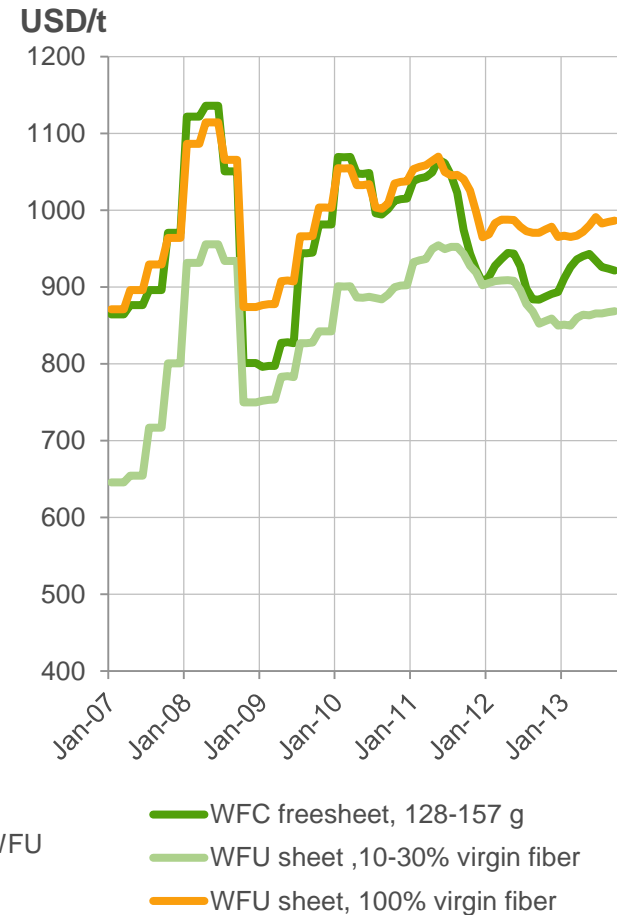
Europe



North America



China

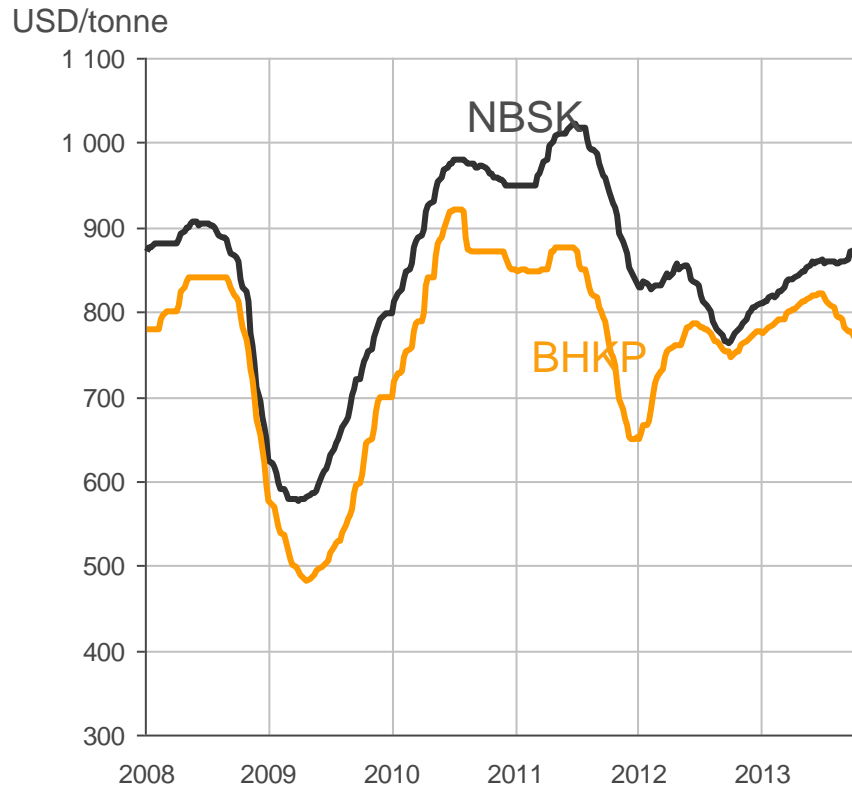


Sources: PPI, RISI



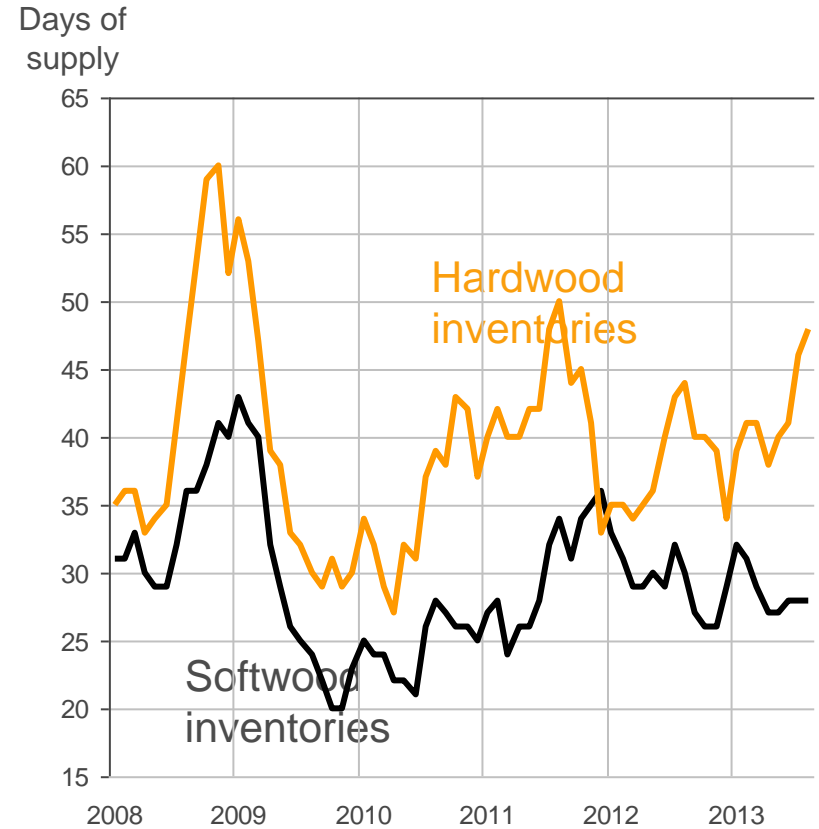
Chemical pulp market

Q3 NBSK pulp price increased slightly from Q2
Q3 BHKP pulp price decreased slightly from Q2



Source: FOEX Indexes Ltd.

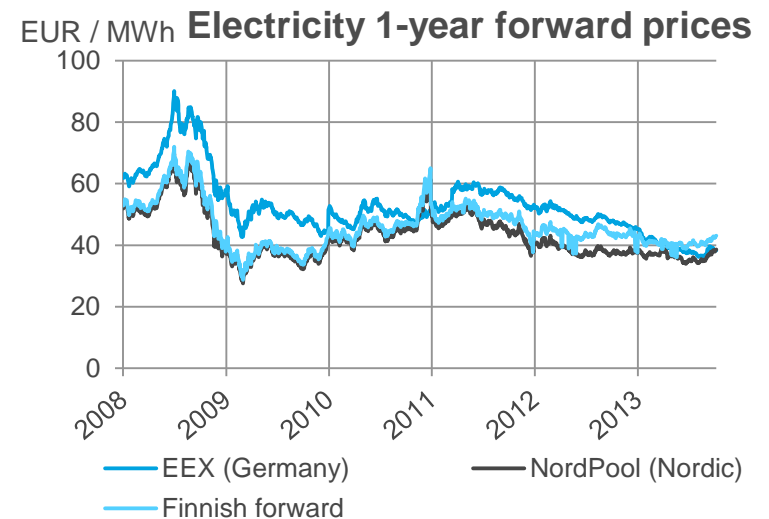
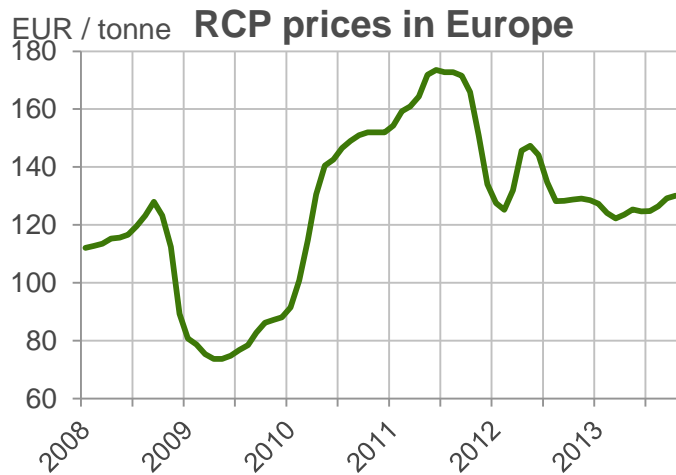
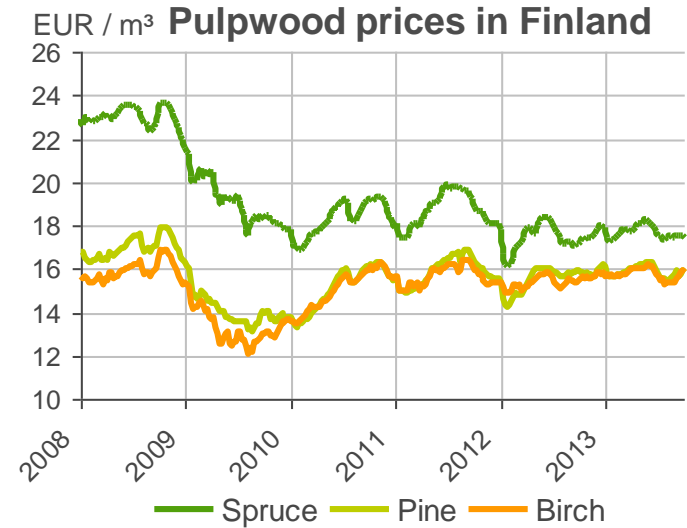
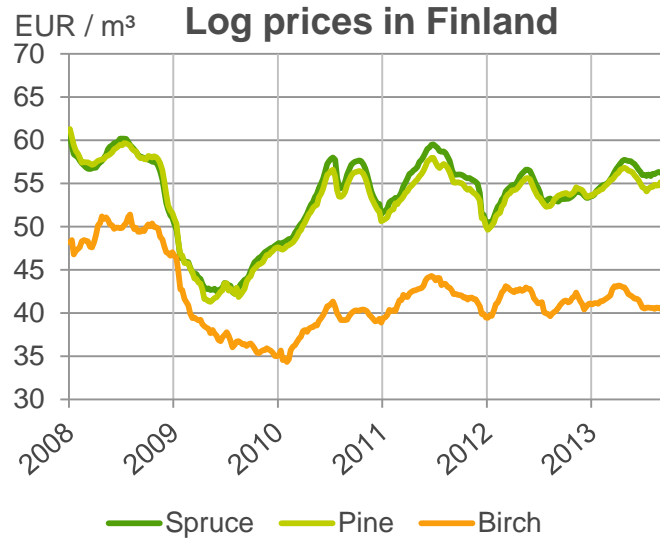
Hardwood inventories increased in August
Softwood inventories unchanged in August



Source: PPPC World-20 statistics



Wood, RCP and electricity prices





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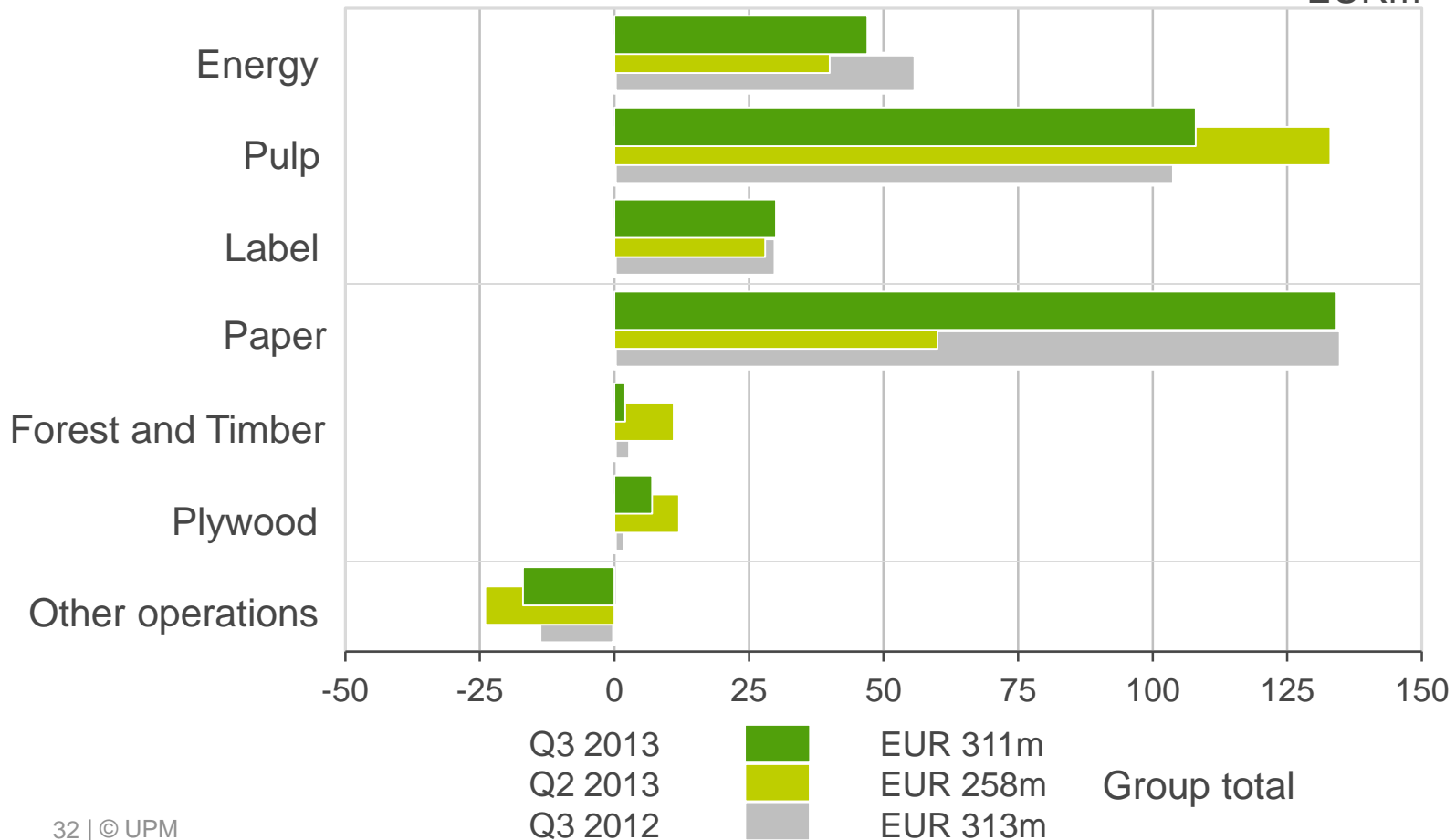
FINANCIALS Q3 2013



Q3 2013 EBITDA by business area

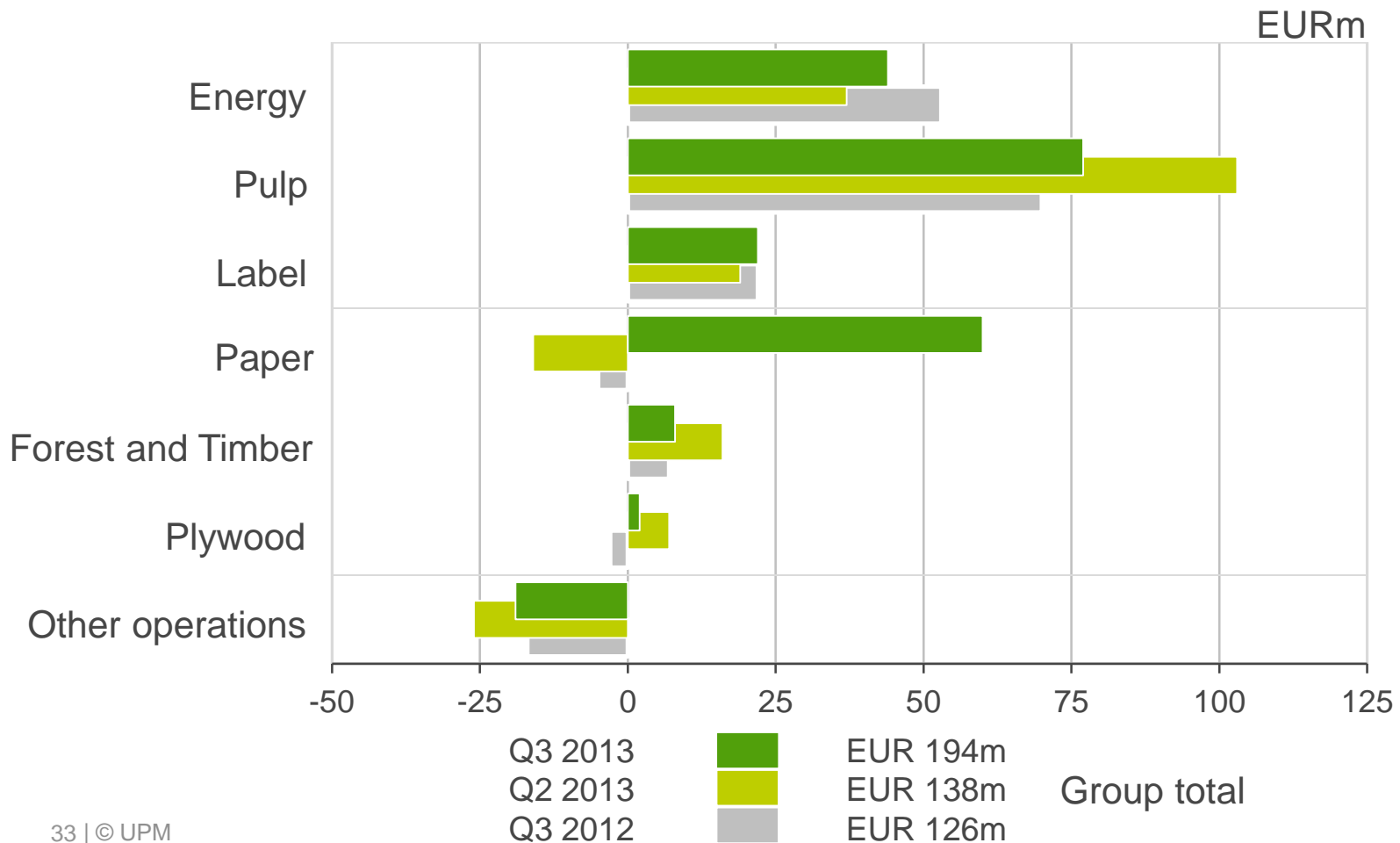
EBITDA

EURm



Q3 2013 operating profit excluding special items by business area

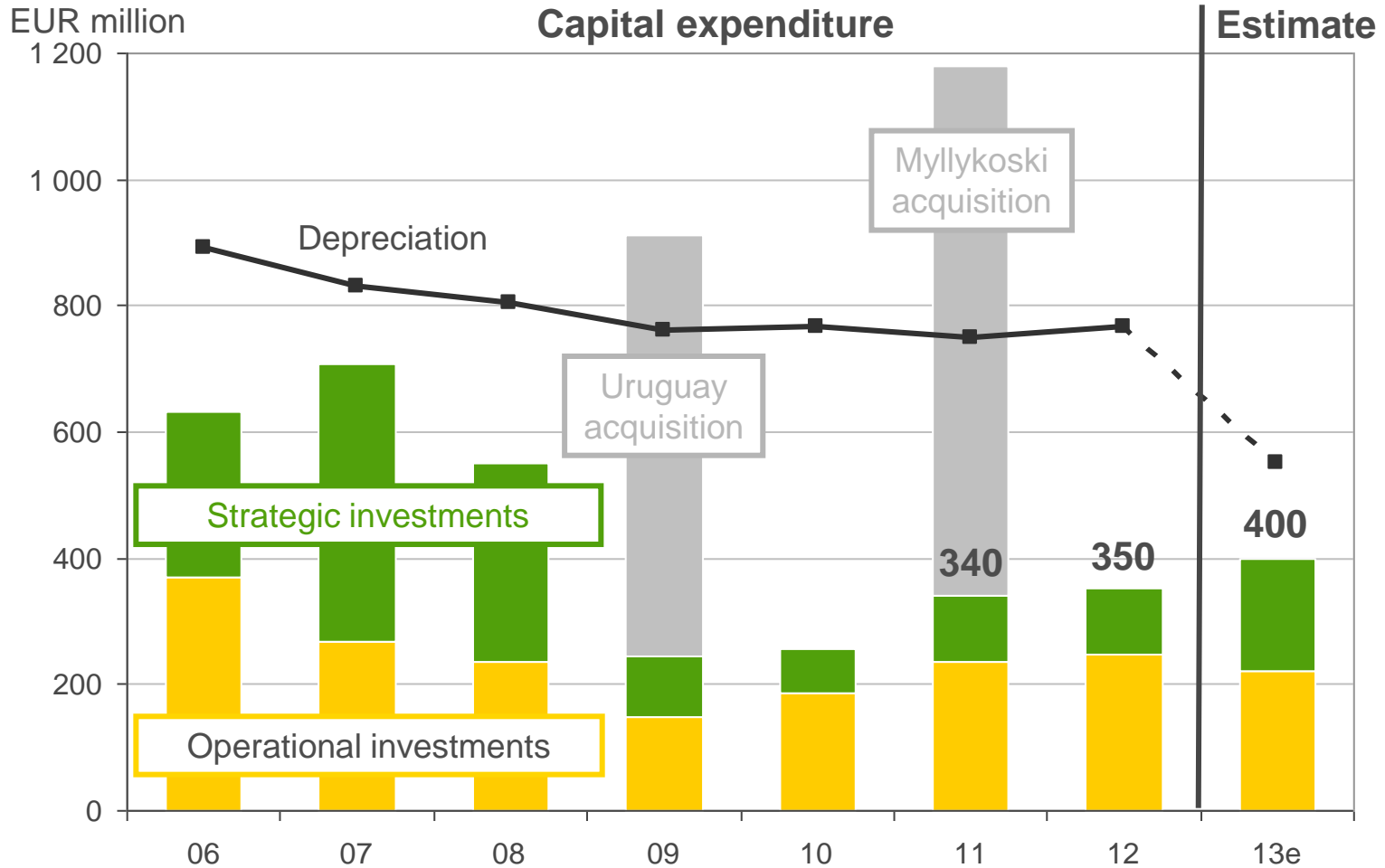
Operating profit excluding special items



Cash flow

EUR million	Q3/13	Q3/12	Q2/13	Q1-Q3 2013	Q1-Q3 2012
EBITDA	311	313	258	853	995
Cash flow before change in working capital	294	341	268	796	851
Change in working capital	30	9	-119	-185	-68
Finance costs and income taxes	-38	-31	-65	-138	-104
Net cash from operating activities	286	319	84	473	679
Capital expenditure	-79	-73	-69	-246	-270
Asset sales and acquisitions	21	-13	-29	-15	327
Cash flow after investing activities	228	233	-14	212	736

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



Maturity profile and liquidity

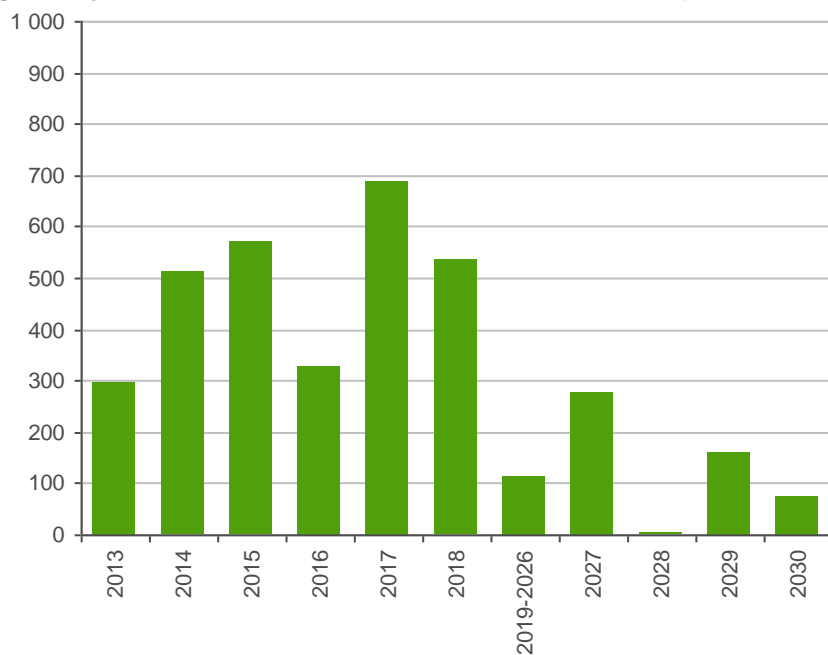
Liquidity

Liquidity on 30 Sep 2013 was € 1.7bn
(cash and unused credit facilities)

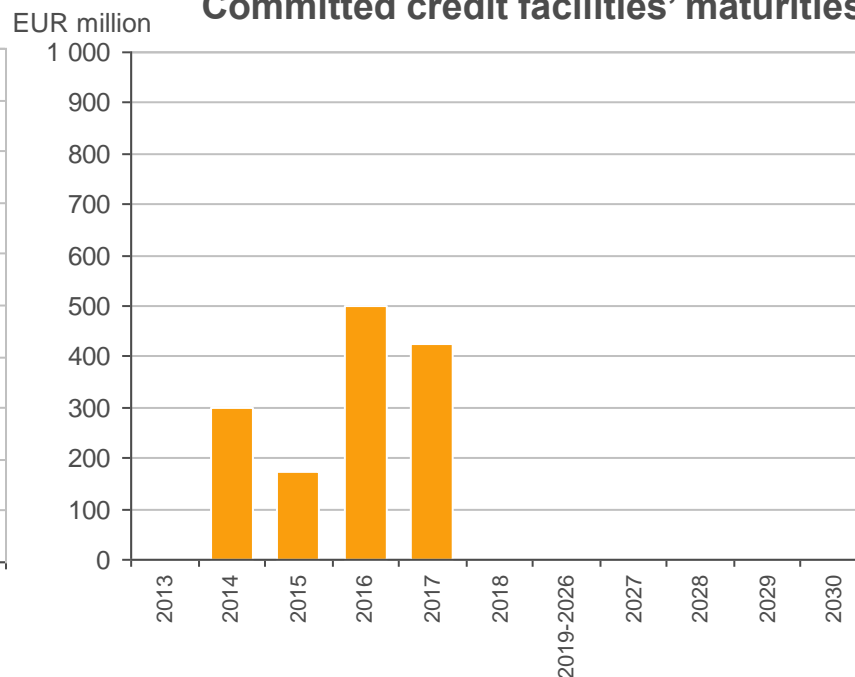
Committed credit facilities EUR 1.4bn

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

EUR million **Maturity profile of outstanding debt**



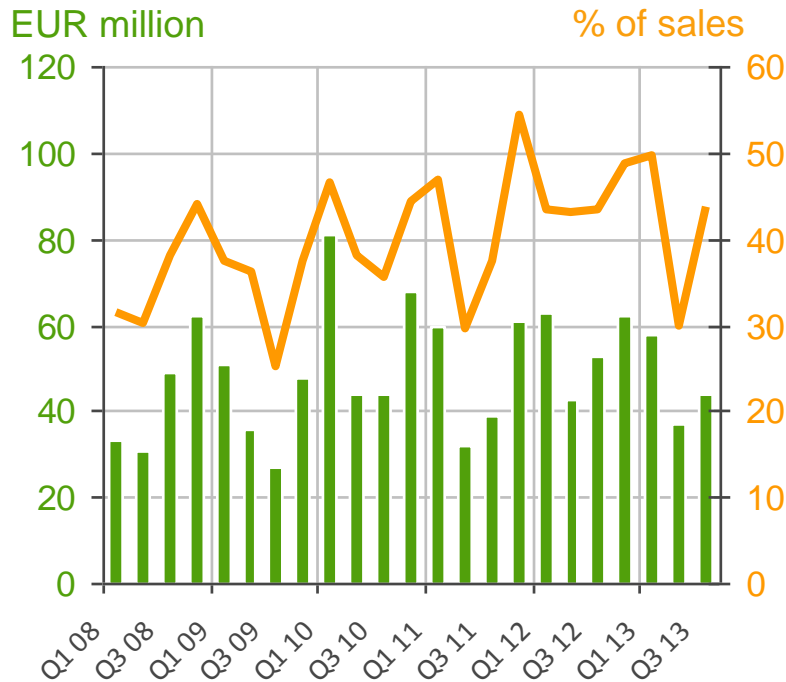
EUR million **Committed credit facilities' maturities**





Energy Q3 2013 vs. Q3 2012

Operating profit excluding special items



Business performance

- The decrease in operating profit was mainly due to lower hydropower generation volumes.
- The average electricity sales price increased by 6% to EUR 46.4/MWh (43.9/MWh).

Sales **Q3 2013** **101** **-17%**
 EUR million Q3 2012 122

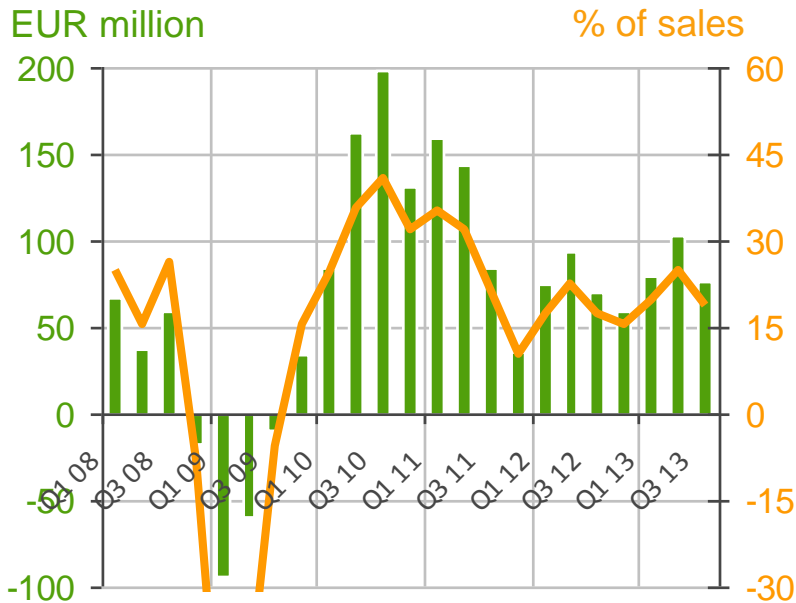
Operating profit **Q3 2013** **44** **-9**
 EUR million*) Q3 2012 53 EUR million

*) excluding special items



Pulp Q3 2013 vs. Q3 2012

Operating profit excluding special items



Business performance

- The increase in operating profit was mainly due to higher production and delivery volumes.
- Deliveries increased by 4% to 789,000 tonnes (759,000).

Sales **Q3 2013** **413** **2%**
 EUR million **Q3 2012** **406**

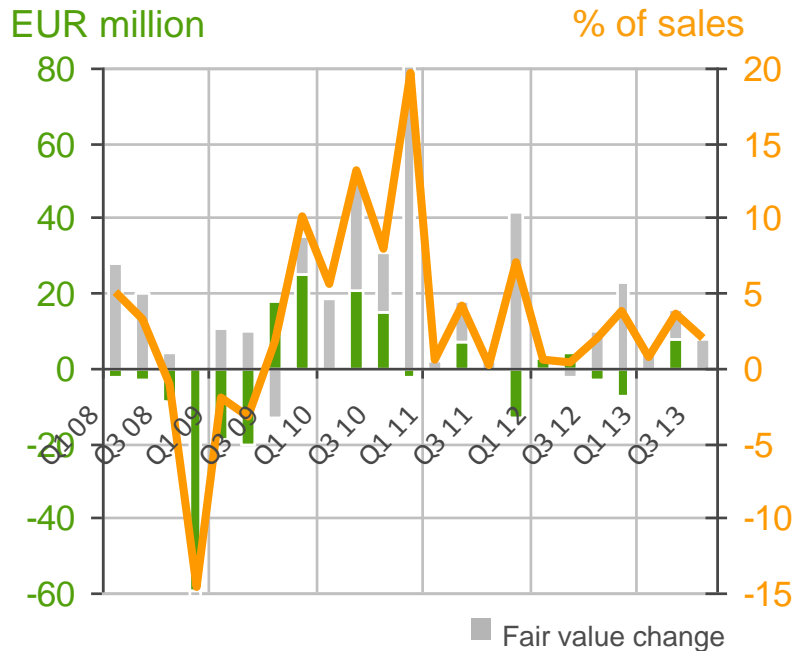
Operating profit **Q3 2013** **77** **7**
 EUR million*) **Q3 2012** **70** EUR million

*) excluding special items



Forest and Timber Q3 2013 vs. Q3 2012

Operating profit excluding special items



Business performance

- In sawn timber, the 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 (EUR 10 million). The increase in the fair value of biological assets (growing trees) was EUR 22 million (26 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 14 million (16 million).

Sales **Q3 2013 397** **9%**
 EUR million Q3 2012 364

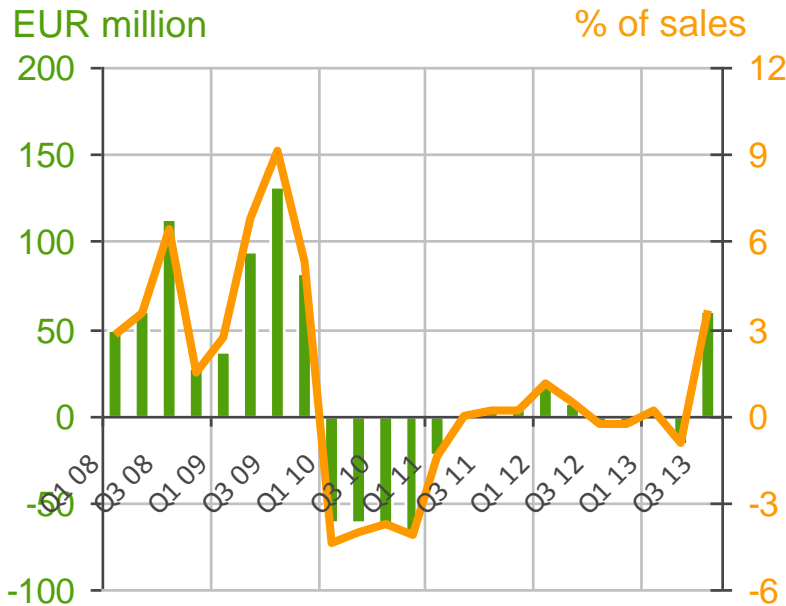
Operating profit **Q3 2013 8** **1**
 EUR million*) Q3 2012 7 EUR million

*) excluding special items



Paper Q3 2013 vs. Q3 2012

Operating profit excluding special items



Business performance

- The increase in operating profit was mainly due to lower depreciation. Lower average paper prices and deliveries were offset by lower variable and fixed costs.
- The average price for paper deliveries in euros was approximately 3% lower than last year.

Sales **Q3 2013 1,665** **-9%**
 EUR million Q3 2012 1,821

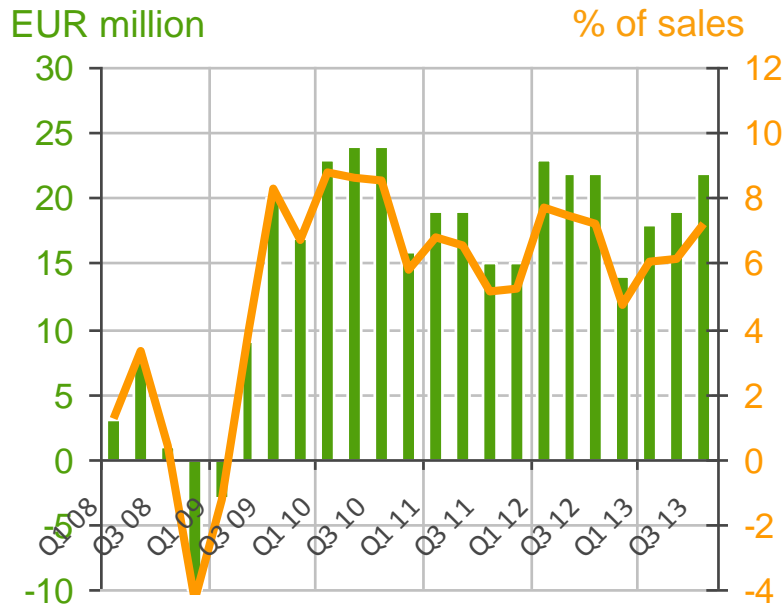
Operating profit **Q3 2013 60**
 EUR million*) Q3 2012 -5 **65**
 EUR million

*) excluding special items



Label Q3 2013 vs. Q3 2012

Operating profit excluding special items



Business performance

- Operating profit was on last year's level. Volume growth offset lower unit value added. Fixed costs were on last year's level.

Sales **Q3 2013 307** **1%**
 EUR million Q3 2012 305

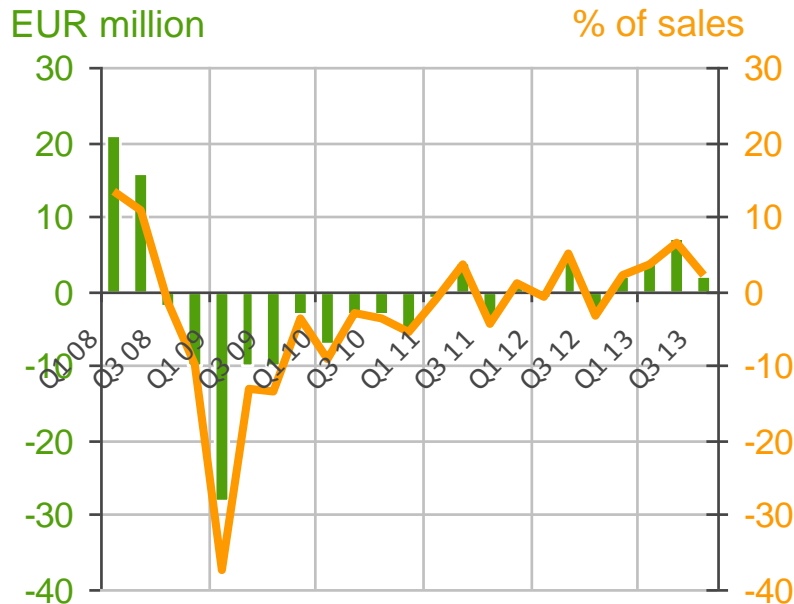
Operating profit **Q3 2013 22** **0**
 EUR million*) Q3 2012 22 EUR million

*) excluding special items



Plywood Q3 2013 vs. Q3 2012

Operating profit excluding special items



Business performance

- Operating profit increased mainly due to lower costs and higher delivery volumes.
- Deliveries increased by 2% to 169,000 cubic metres (165,000).

Sales **Q3 2013 98** **4%**
 EUR million Q3 2012 94

Operating profit **Q3 2013 2** **5**
 EUR million*) Q3 2012 -3 EUR million

*) excluding special items



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