

# MORE WITH BIOFORE

UPM RESULTS Q2 2015

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President and CEO  
28 July 2015

## Q2 2015 – good progress continued, operating profit increased

Operating profit excl. special items increased to EUR 227m (186m)

- + Profit improvement programme had a significant impact on variable and fixed costs
- + Currencies were favourable. This was moderated by hedging, mainly affecting UPM Paper ENA and UPM Paper Asia
- Publication paper prices in Europe were a negative factor, compared to last year

Operating cash flow was strong at EUR 324m (215m)

Growth projects progressed and capacity closures were implemented – UPM is well positioned for earnings growth

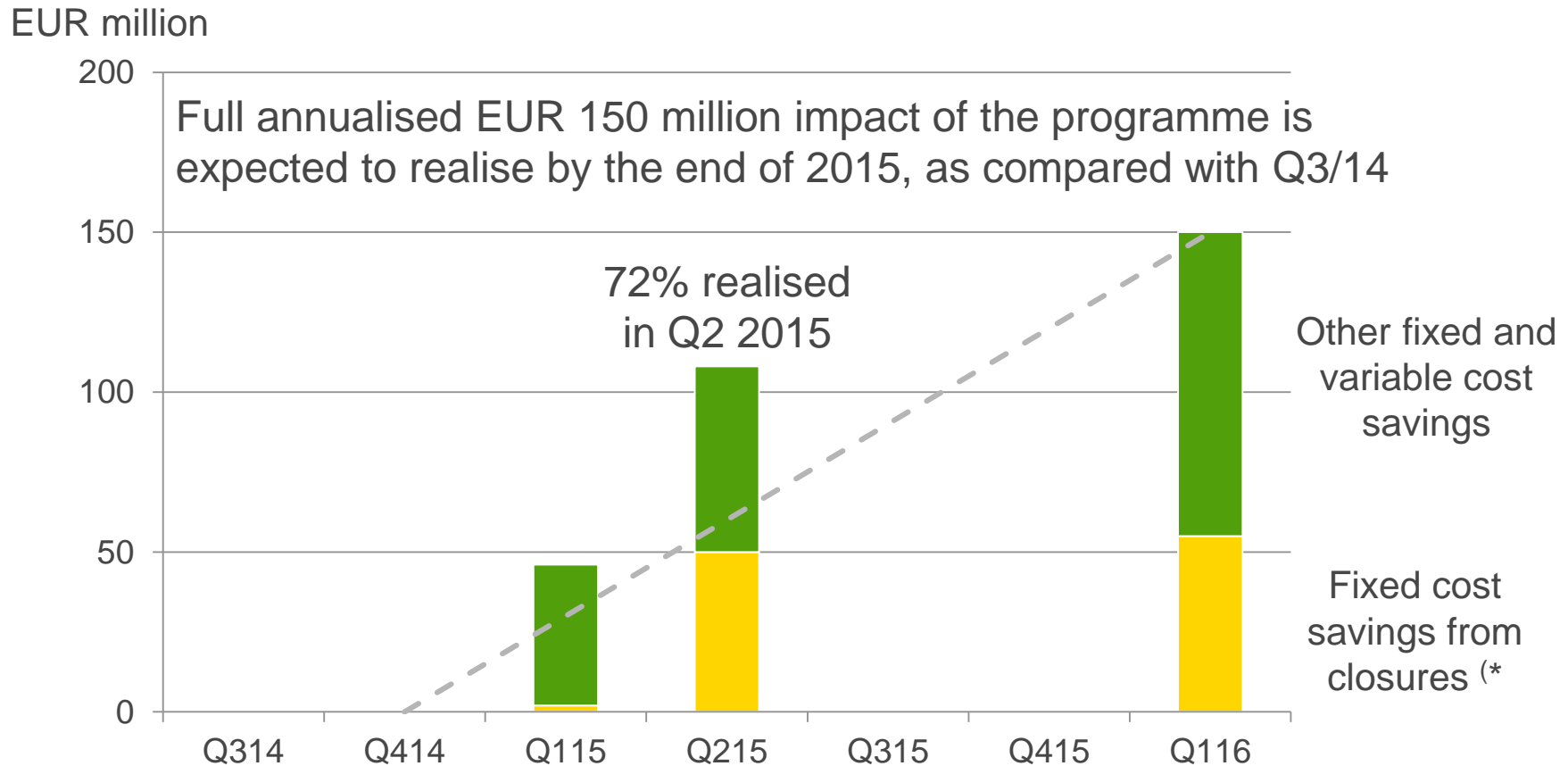


## Q2 2015 – improvement year-on-year

### Q2 2015 vs. Q2 2014:

Sales EUR 2,548m	▲	+4%	ROE (*) 9.1%	▲	+1.8pp
EBITDA EUR 317m	▲	+12m	Operating cash flow EUR 324m	▲	+109m
Operating profit (*) EUR 227m	▲	+41m	Net debt EUR 2,635m	▼	-290m
Profit before tax (*) EUR 203m	▲	+34m	Net debt / EBITDA 2.0x	▼	-0.4x
EPS (*) EUR 0.33	▲	+0.07	Operating cash flow / share, 12 month EUR 2.24	▲	+0.31

# Profit improvement programme targeting EUR 150 million of fixed and variable cost savings

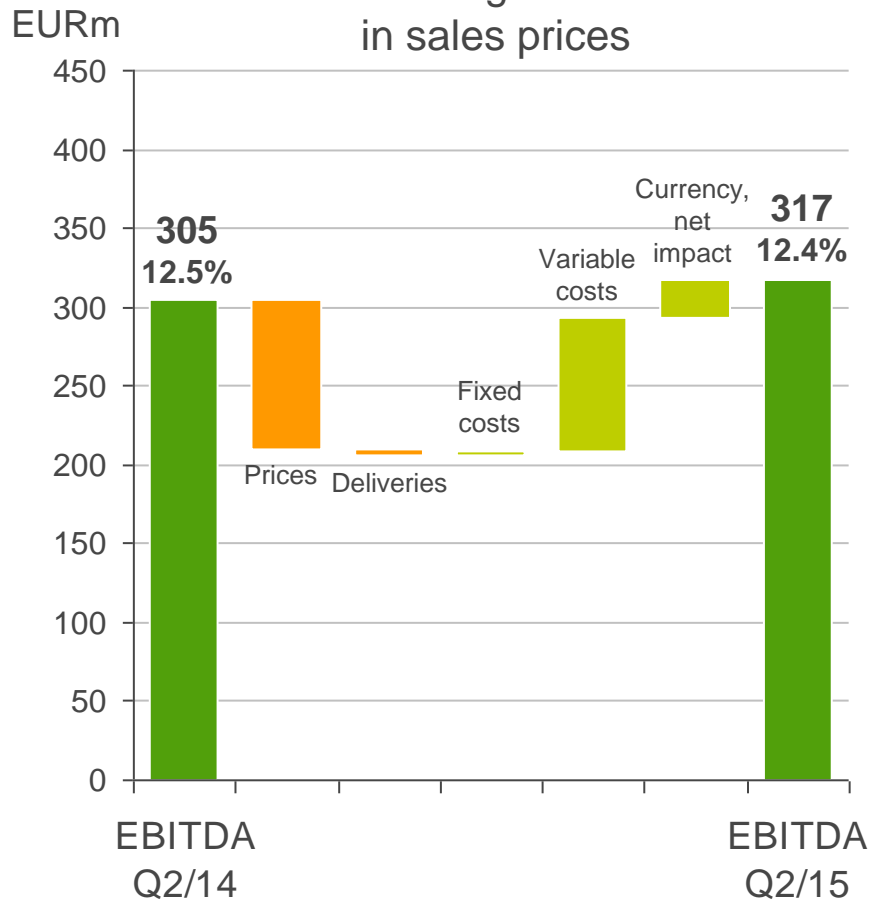


(\* 800,000 tonnes of publication paper capacity in Europe: three paper machines were closed in Q1/15, one machine was closed in Q2/15)

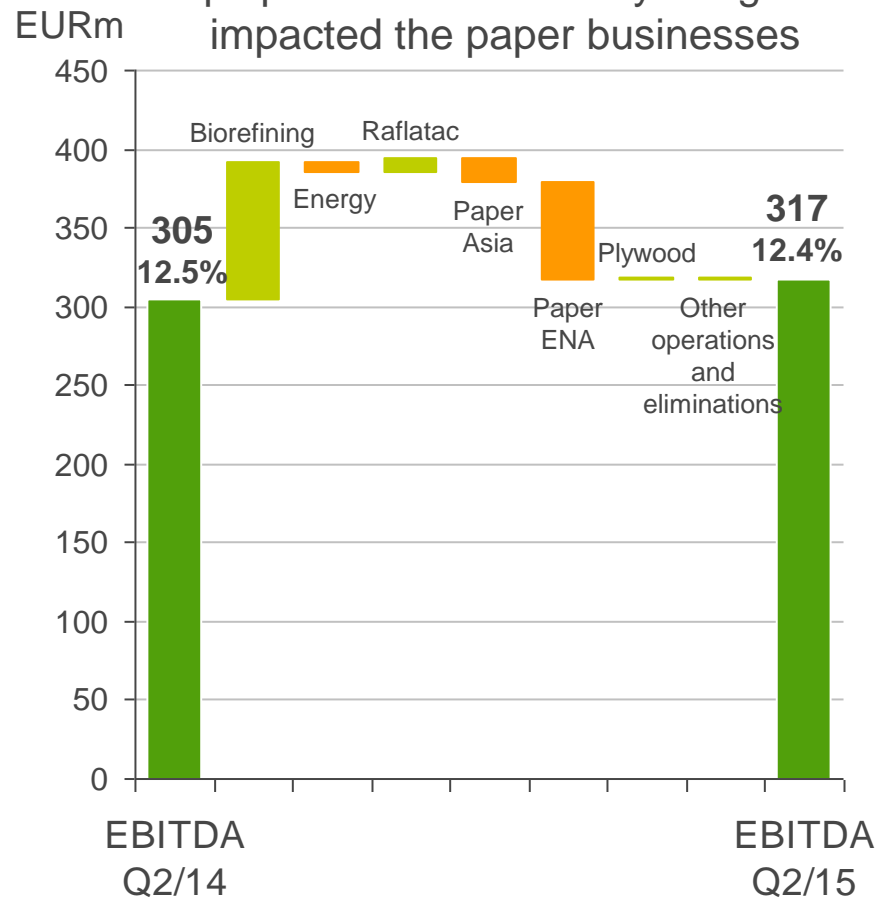


# EBITDA in Q2 2015 vs. Q2 2014

Profit improvement actions and currencies outweighed the decrease in sales prices

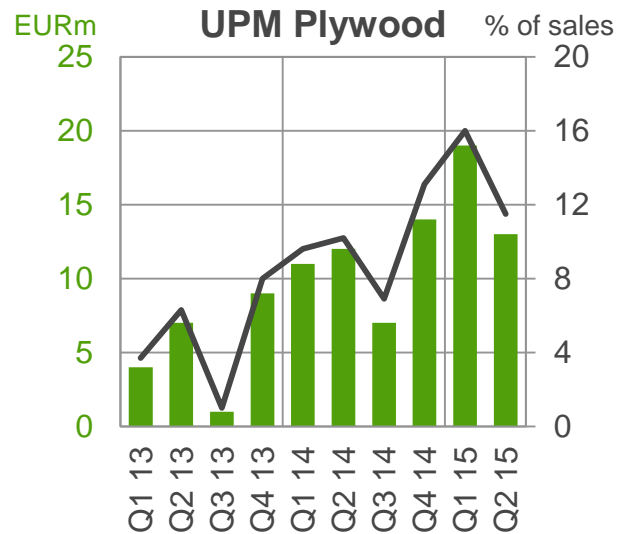
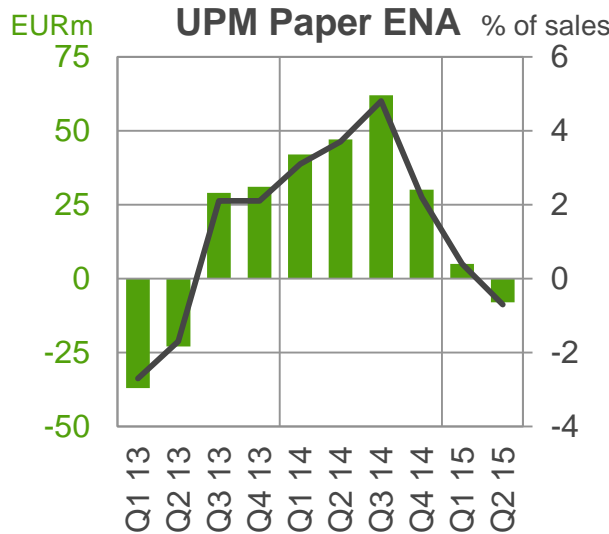
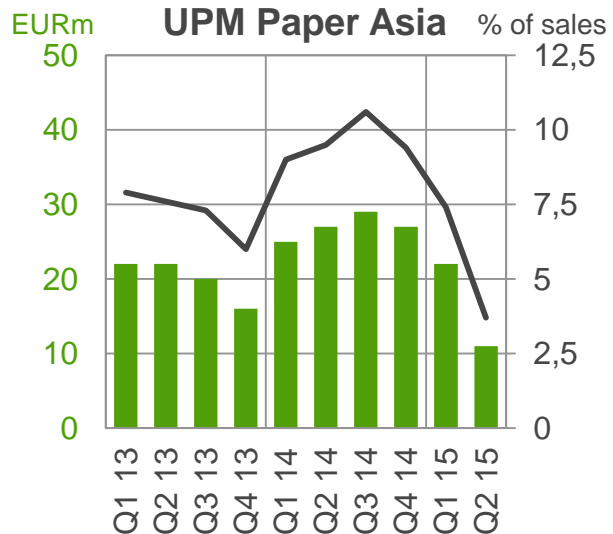
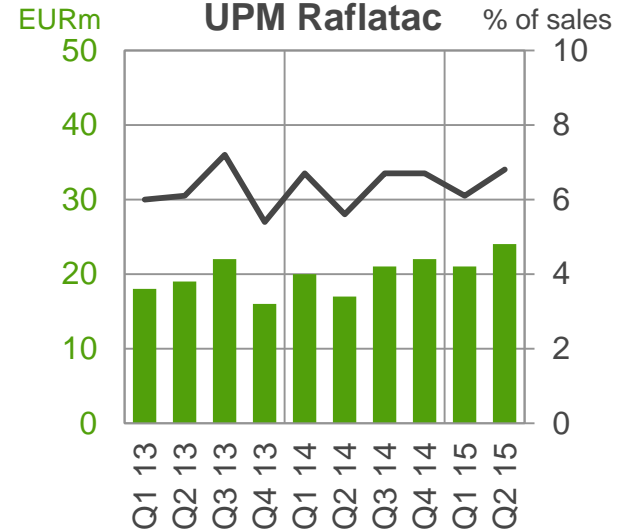
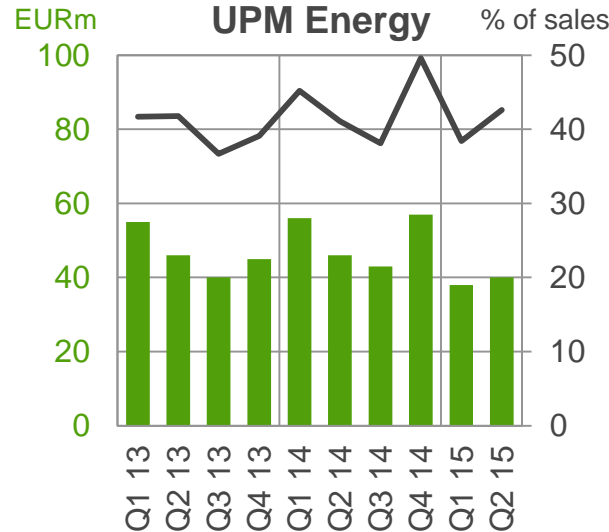
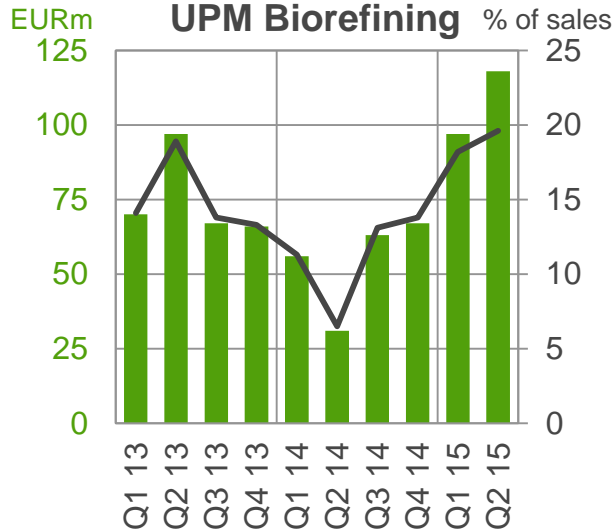


Strong pulp markets and currencies benefited UPM Biorefining. Increased pulp costs and currency hedges impacted the paper businesses





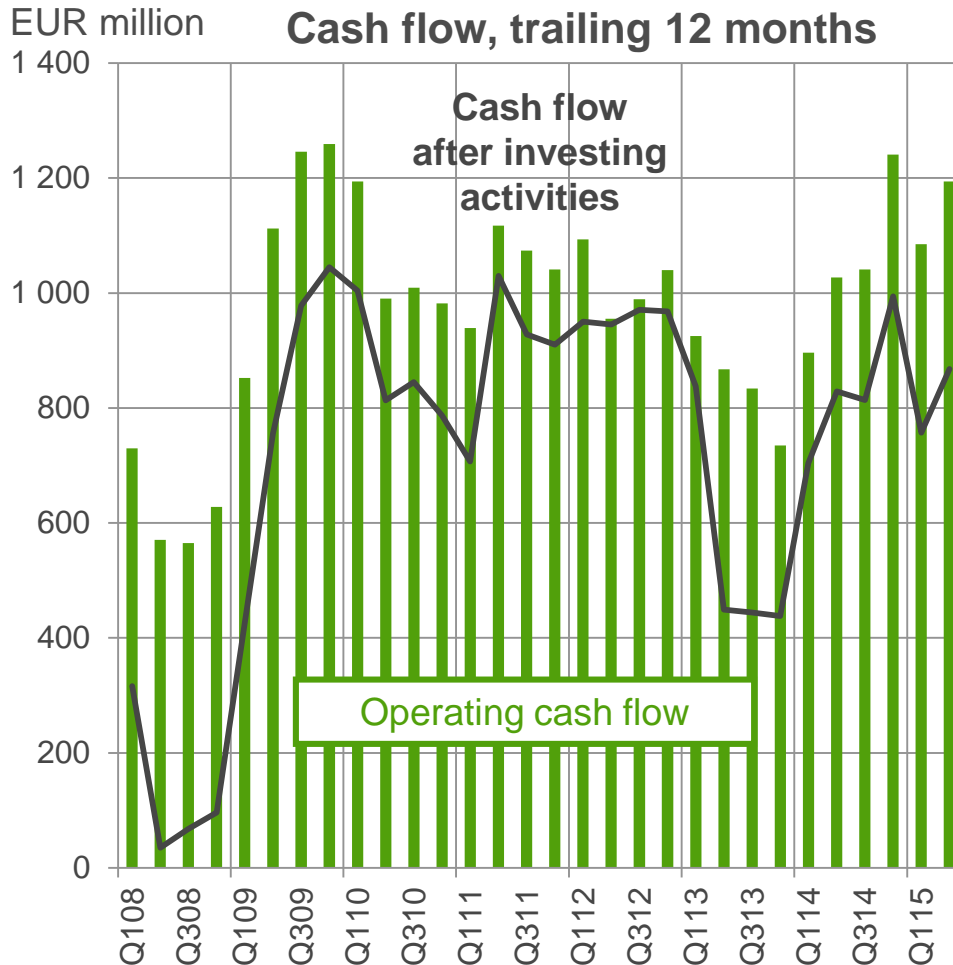
# Operating profit <sup>\*)</sup> by business area



\*) excluding special items



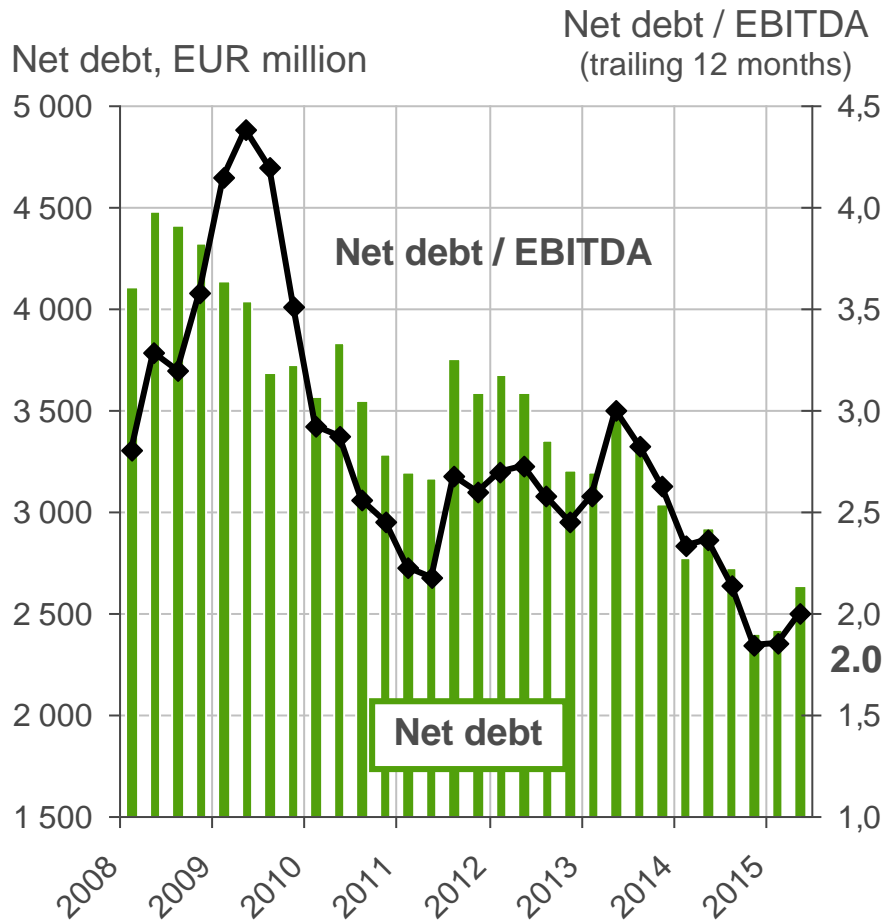
## Strong cash flow



- Q2 2015 operating cash flow was EUR 324m (215m)
- In Q2 2015, working capital decreased by EUR 31m (increased by EUR 36m)
- In the latest 12 months, operating cash flow was EUR 1,194m (1,027m), i.e. EUR 2.24 per share



# Strong balance sheet



**Liquidity** was EUR 1.4bn at the end of Q2 2015  
Repayments total EUR 0.4bn in 2015





## Outlook for 2015

- The improved profitability achieved in 2014 is expected to continue in 2015, and there are prospects for further improvement.
- Profitability is underpinned by the EUR 150 million profit improvement programme, favourable currencies, as well as the first positive impacts from the company's growth projects.
- Profitability is affected by lower publication paper prices and lower electricity sales prices, compared to 2014.
- In the second half of 2015 compared to the first half of 2015, UPM Paper ENA profitability is expected to improve.

# Growth projects in ramp-up phase or nearing start-up

– EBITDA target EUR 200m

**Pietarsaari**  
pulp mill  
expansion  
70,000t

**Fray Bentos**  
pulp mill  
expansion  
100,000t

**Lappeenranta**  
**biorefinery**  
120m litres of  
renewable diesel

**Kymi**  
pulp mill  
expansion  
170,000t

**Kaukas**  
pulp mill efficiency  
improvement, paper and  
pulp decoupling completed



Capex so far EUR 430m

Remaining Capex EUR 340m

Q2  
2014

Q3  
2014

Q4  
2014

Q1  
2015

**Q2  
2015**

Q3  
2015

Q4  
2015

Q1  
2016

Q2  
2016

Q3  
2016

Q4  
2016



**UPM Raflatac**  
50% expansion in  
APAC, growth in filmic  
labelstock in Poland

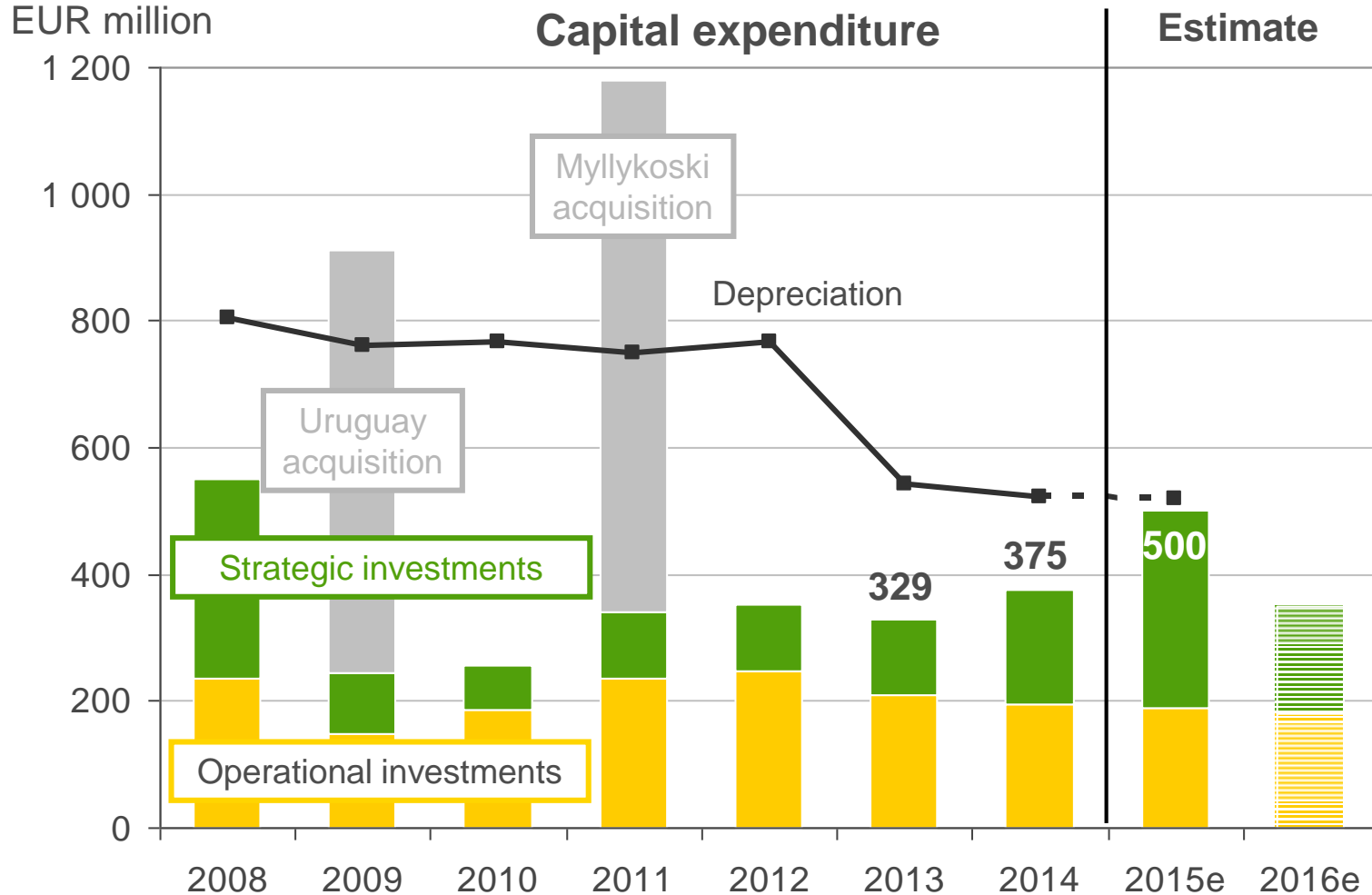


**UPM Paper Asia**  
Changshu  
new speciality  
paper machine  
360,000t



**UPM Plywood**  
Otepää mill  
expansion  
to 90,000m<sup>3</sup>

# Low investment needs in existing assets allow growth projects with modest total capex





## Summary

### Operating profit increased in H1 2015

- Profit improvement actions and currencies outweighed the market headwinds in UPM Paper ENA and UPM Energy

### UPM is well positioned for earnings growth

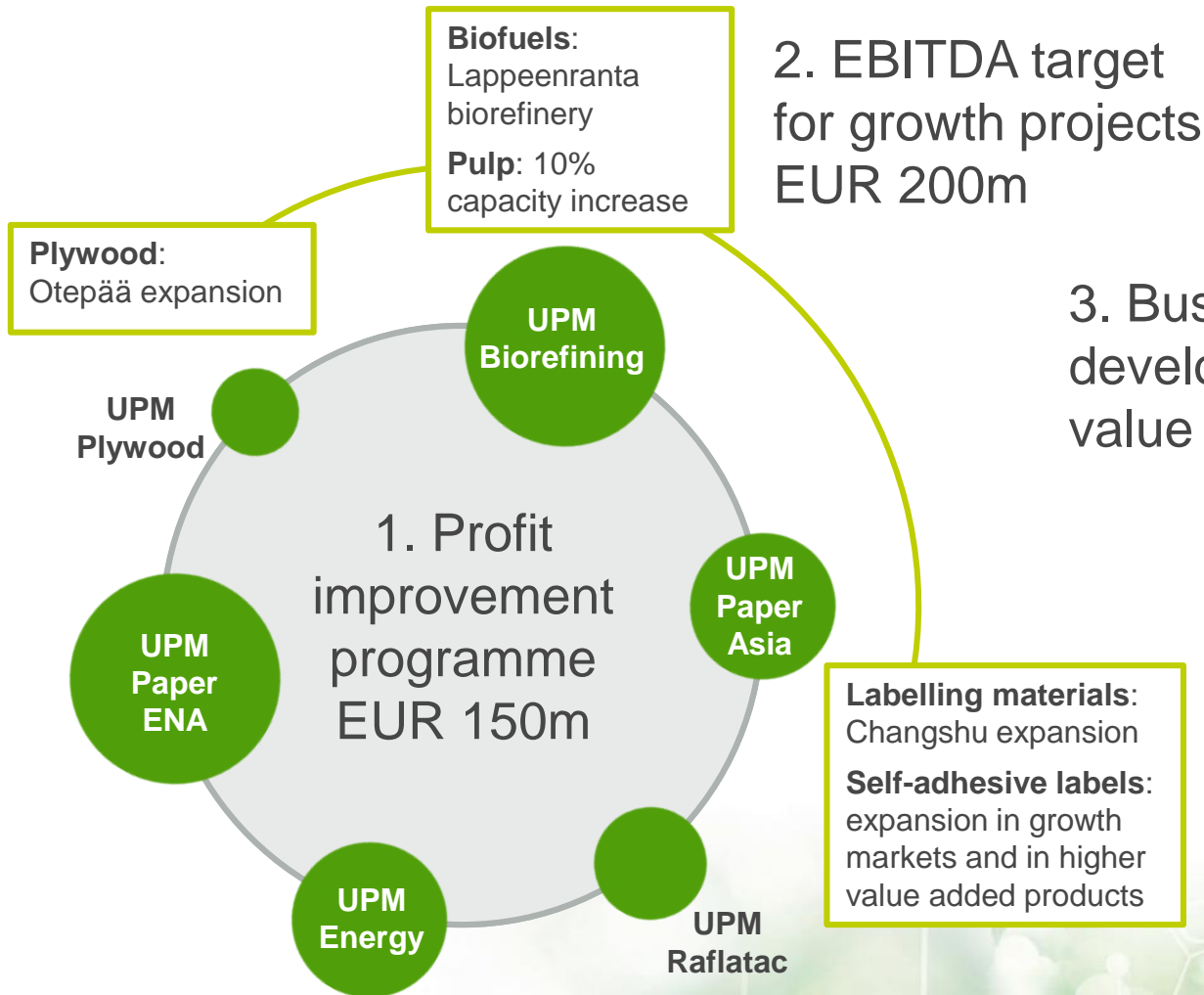
- Profit improvement programme continues
- More than half of the growth capex has been invested, nearly all of the EUR 200m EBITDA impact is yet to come
- Current exchange rates promise further tailwind

### Strong cash flow and balance sheet

- ➔ UPM is in a unique position to simultaneously distribute attractive dividend, implement growth projects and act on strategic opportunities



# UPM strategy in action



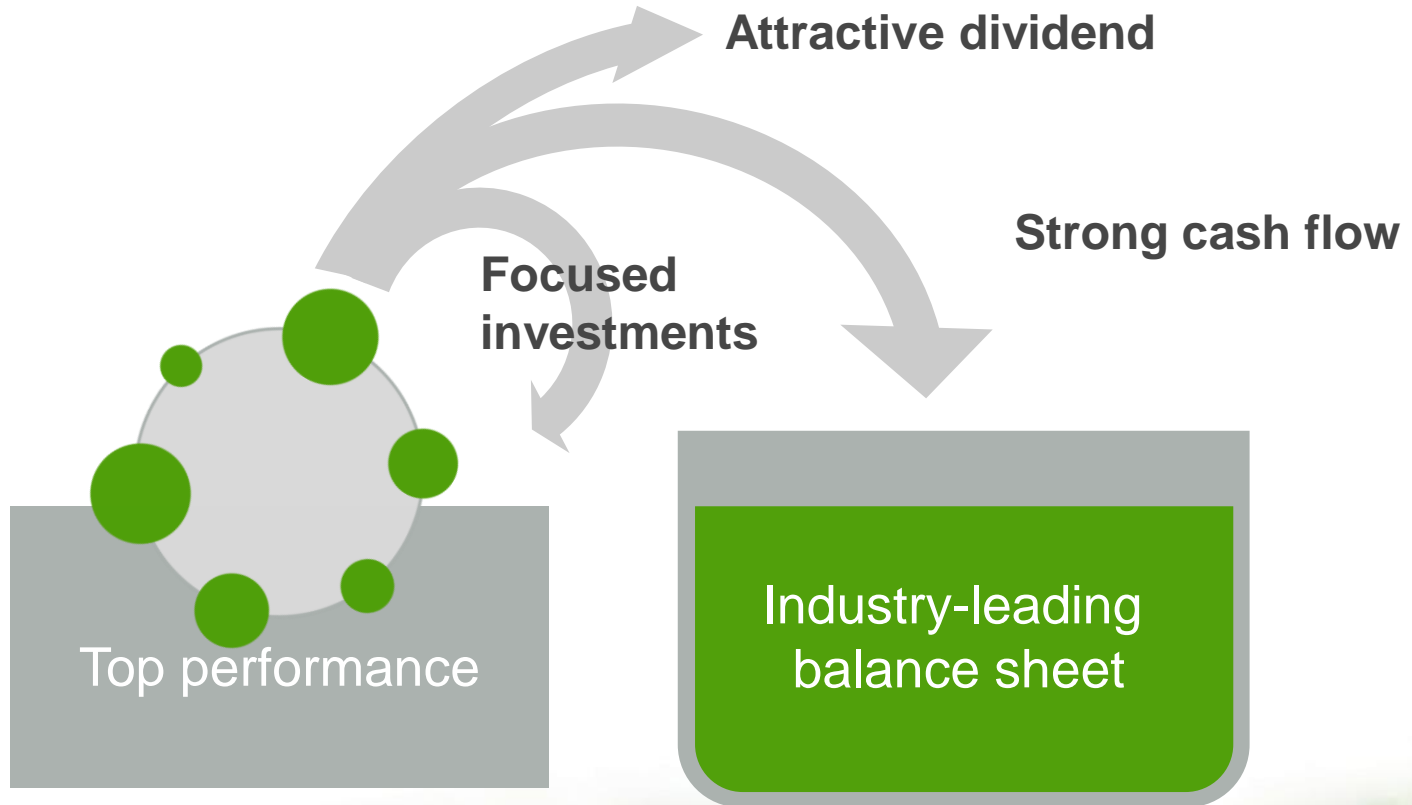
**2. EBITDA target for growth projects EUR 200m**

**3. Business portfolio development and value creation**

## 4. New businesses

-  **BIOFUELS**
-  **BIOCHEMICALS**
-  **BIOCOMPOSITES**

# Strengths of UPM's model





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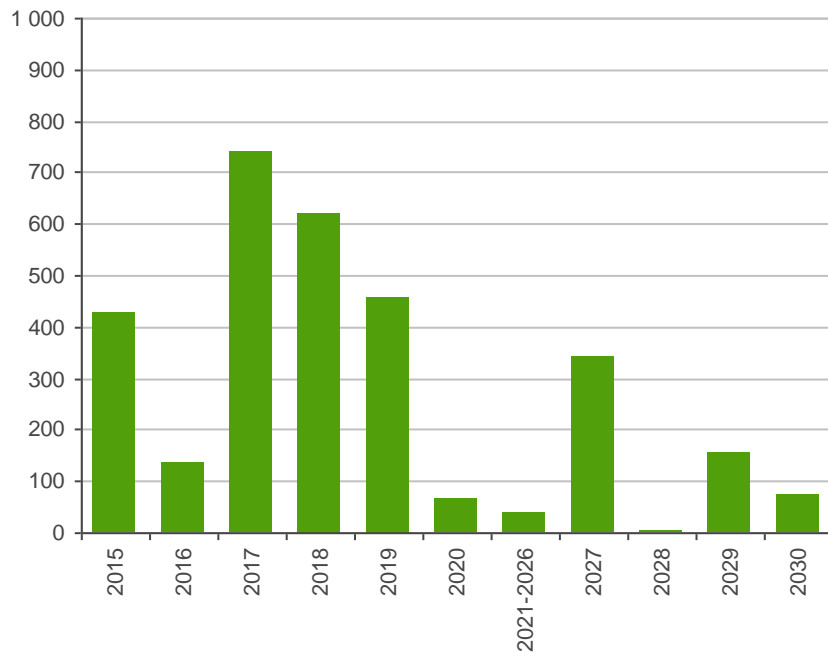
# Maturity profile and liquidity

## Liquidity

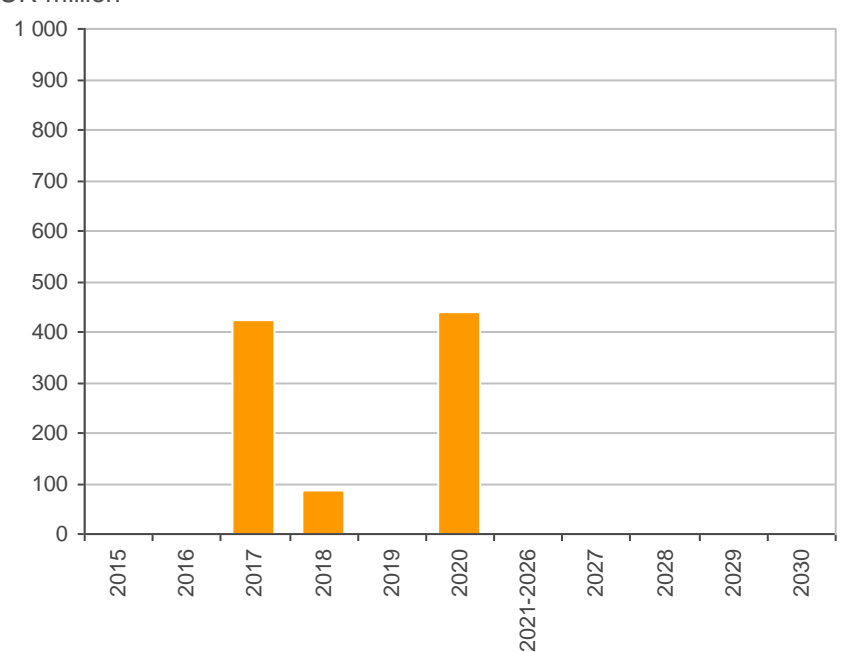
Liquidity on 30 June 2015 was EUR 1.4bn  
(cash and unused credit facilities)

## Committed credit facilities EUR 0.95bn

EUR million **Maturity profile of outstanding debt**



EUR million **Committed credit facilities' maturities**







## Currency exposure

- Key currency exposures USD, GBP and JPY
- Policy to hedge an average of 50% of the estimated net currency cash flow for the next 12 months

Estimated annual foreign currency net cash flow, before hedging

	<b>USD</b>	<b>GBP</b>	<b>JPY</b>	<b>Others</b>
EURm	810	500	160	170



## Q2 2015 – good progress continued

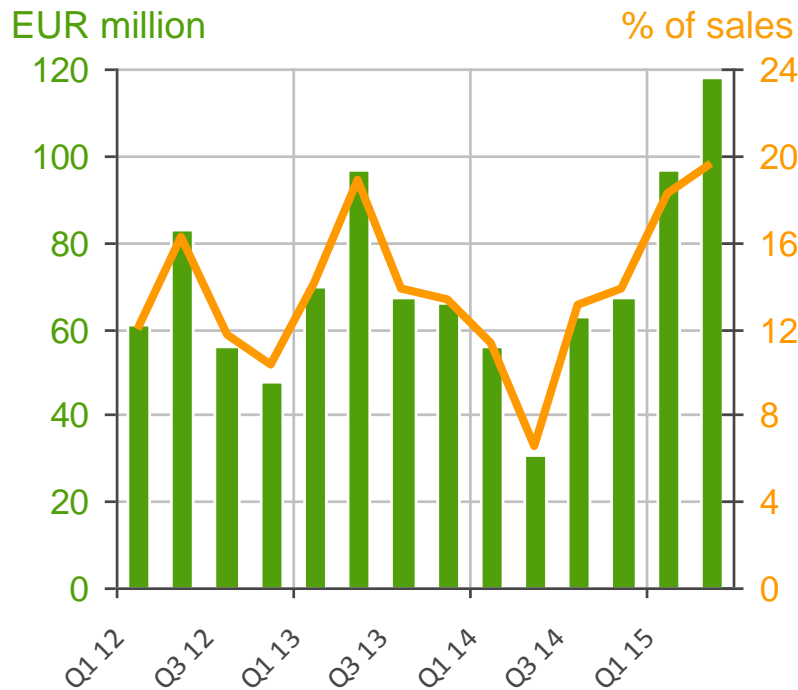
EUR million	Q2 2015	Q2 2014	Q1 2015	H1 2015	H1 2014	2014
Sales	2,548	2,441	2,486	5,034	4,922	9,868
EBITDA	317	305	325	642	628	1,306
% of sales	12.4	12.5	13.1	12.8	12.8	13.2
Operating profit (*)	227	186	204	431	382	847
Profit before tax (*)	203	169	182	385	345	774
Earnings per share, EUR (*)	0.33	0.26	0.29	0.62	0.53	1.17
ROE, % (*)	9.1	7.3	8.1	8.8	7.6	8.3
Operating cash flow	324	215	108	432	479	1,241
Net debt	2,635	2,925	2,419	2,635	2,925	2,401
Gearing, %	35	40	31	35	40	32

(\* excluding special items)

# Cash flow

EUR million	Q2/15	Q2/14	Q1/15	H1/15	H1/14	2014
<b>EBITDA</b>	<b>317</b>	<b>305</b>	<b>325</b>	<b>642</b>	<b>628</b>	<b>1,287</b>
Cash flow before change in working capital	357	279	292	649	576	1,291
Change in working capital	31	-36	-147	-116	-35	73
Finance costs and income taxes	-64	-28	-37	-101	-62	-123
<b>Net cash from operating activities</b>	<b>324</b>	<b>215</b>	<b>108</b>	<b>432</b>	<b>479</b>	<b>1,241</b>
Capital expenditure	-112	-101	-82	-194	-174	-378
Asset sales and acquisitions	9	40	2	11	70	131
<b>Cash flow after investing activities</b>	<b>221</b>	<b>153</b>	<b>28</b>	<b>249</b>	<b>375</b>	<b>994</b>

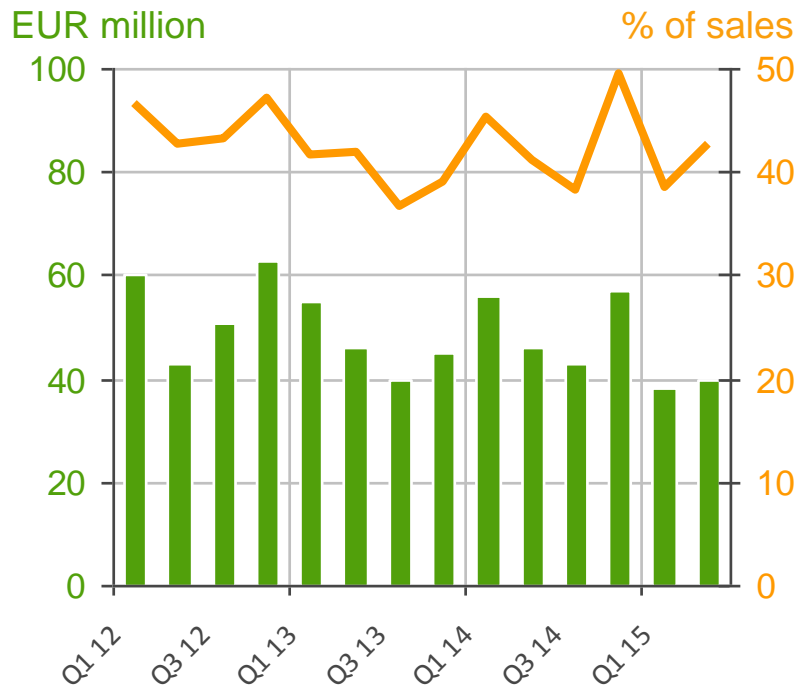
## Operating profit excluding special items



## Market review first half 2015

- Global chemical pulp demand remained robust and growth was well spread over several regions.
- USD-denominated NBSK pulp market price was lower, while BHKP price was higher than last year
- Euro-denominated pulp prices were clearly higher than last year
- The market price difference between NBSK and BHKP narrowed

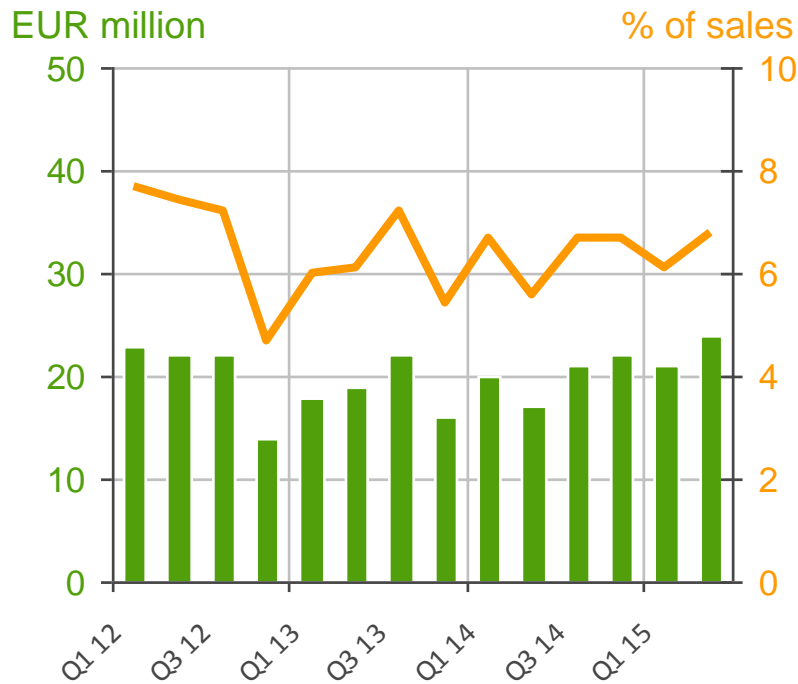
## Operating profit excluding special items



## Market review first half 2015

- The Nordic and Finnish hydrological balance improved and was above the long-term average level at the end of June.
- The average Finnish area spot price was clearly lower than the same period last year mainly because of improved hydrology and mild winter.
- The Finnish area front-year forward electricity price closed at EUR 32.9/MWh in June, which was 12% lower compared to end of June last year.

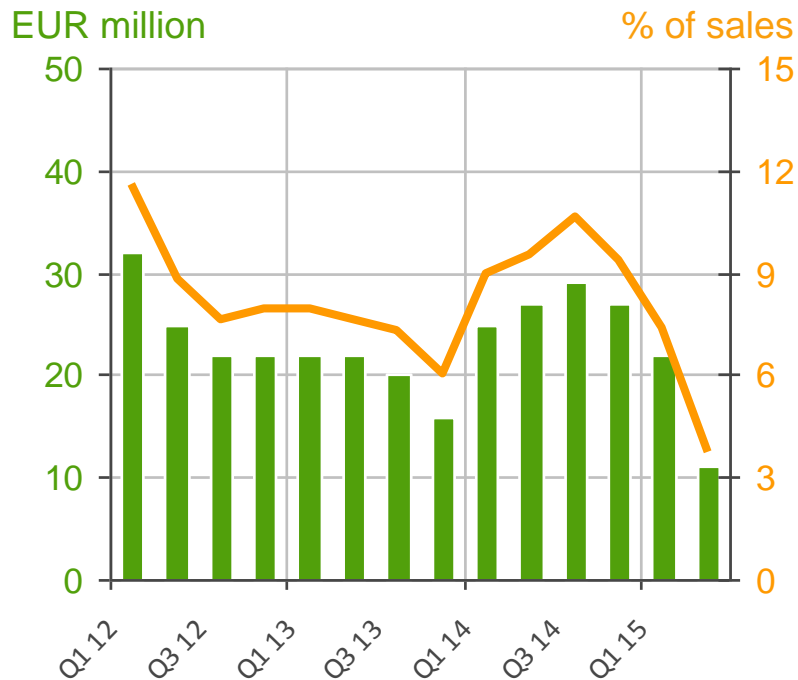
## Operating profit excluding special items



## Market review first half 2015

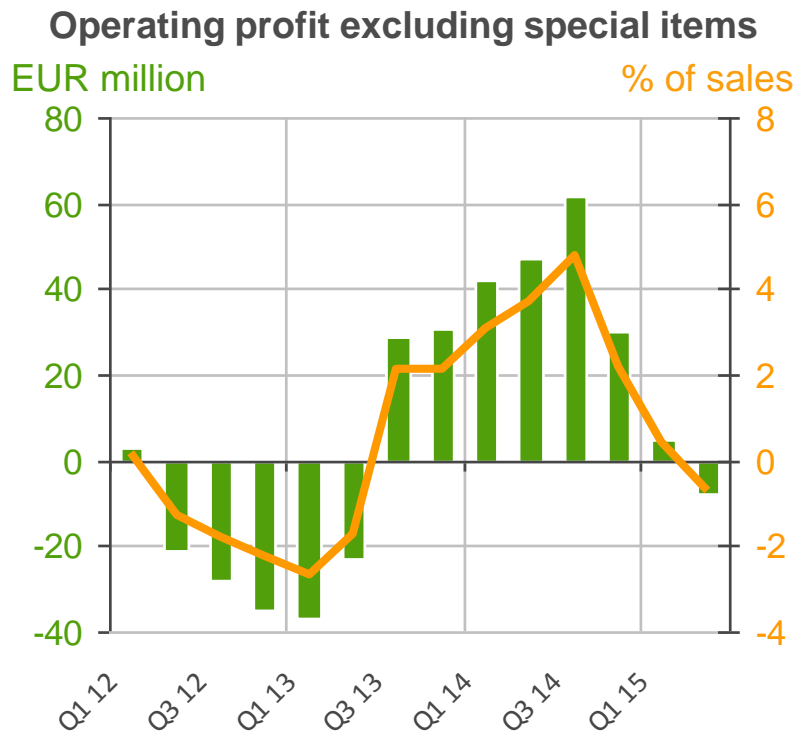
- Global demand for self-adhesive label materials increased.
- Demand was robust in Western Europe and North America. In Eastern Europe, Asia and Latin America, growth continued.

## Operating profit excluding special items



## Market review first half 2015

- Growth in fine paper demand is levelling off, office paper demand is growing.
- The average market price in local currencies remained stable and was at the same level as in the first half of 2014.
- The demand for labelling materials grew globally, and average prices remained stable.



## Market review first half 2015

### Europe

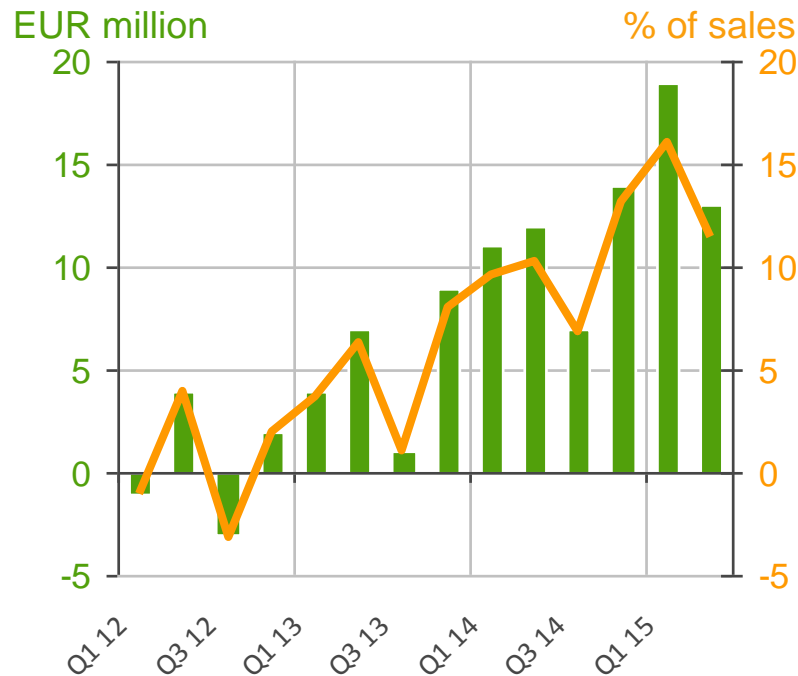
- Demand for graphic papers decreased by 5%
- Publication paper prices were 5% lower
- Fine paper prices were 3% higher

### North America

- Demand for magazine papers in North America decreased by 6%
- The average US dollar price for magazine papers was 2% higher



## Operating profit excluding special items



## Market review first half 2015

- Plywood demand continued to strengthen.
- Compared with first half of 2014 demand development was somewhat stronger in industrial applications compared with construction-related end-use segments.
- The plywood market in Europe remained in balance.



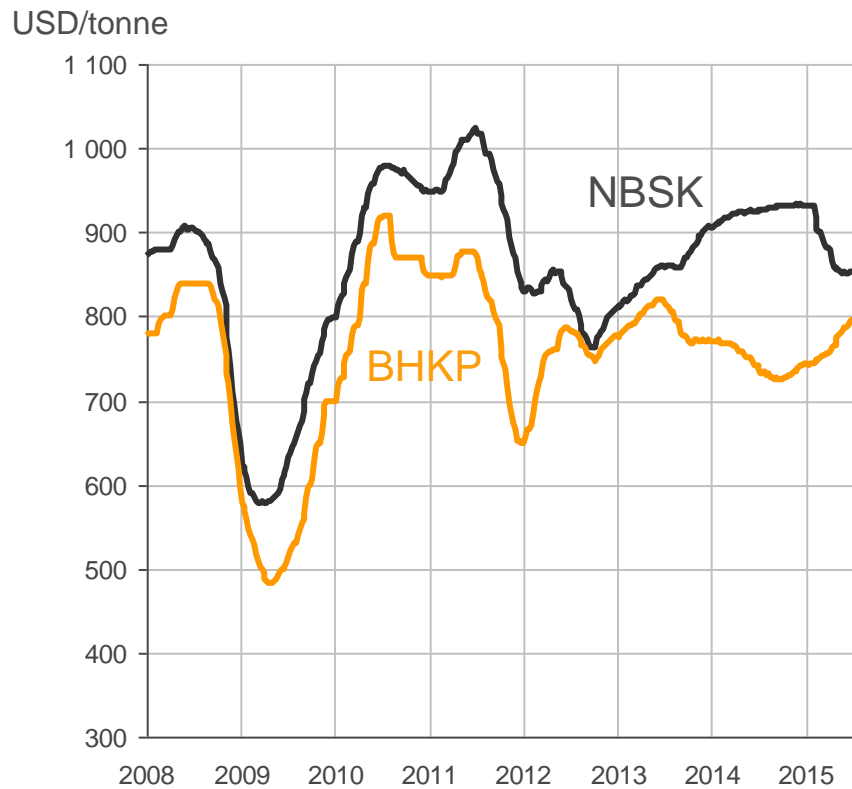
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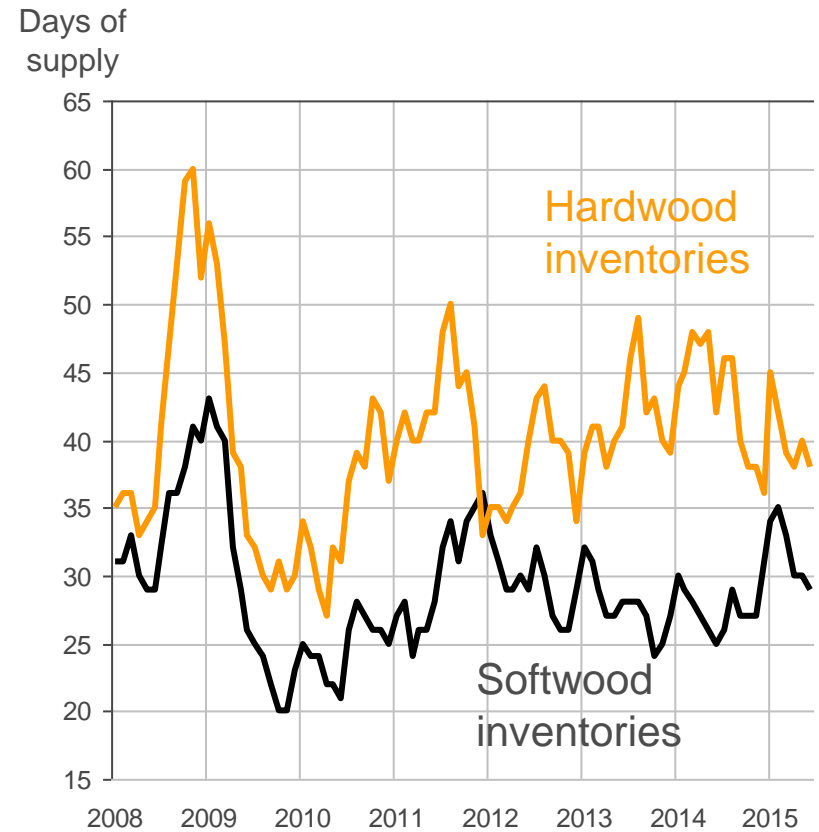
# Chemical pulp market

Q2 NBSK pulp price decreased 6% from Q1  
Q2 BHKP pulp price increased 4% from Q1



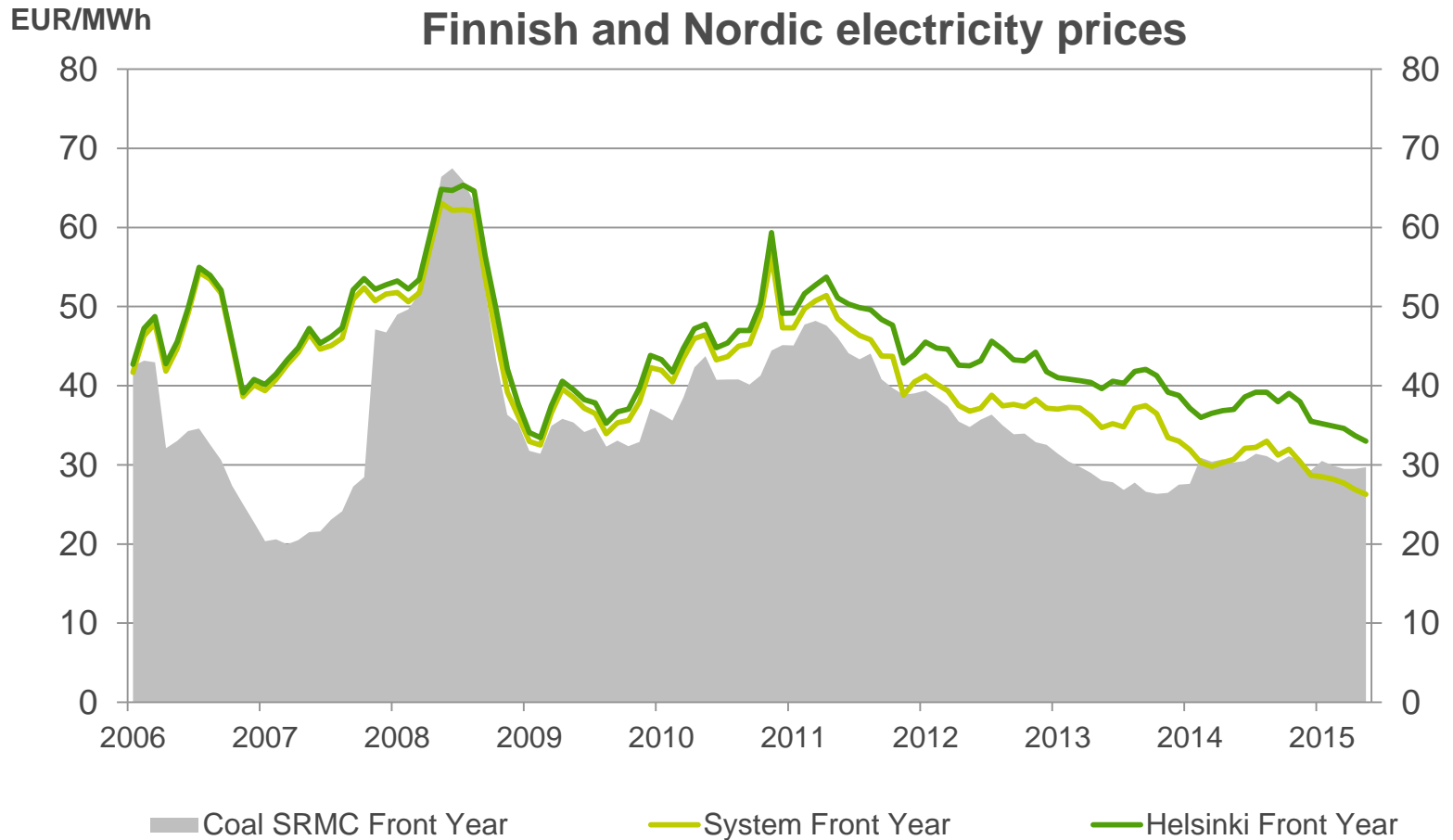
Source: FOEX Indexes Ltd.

# Pulp inventories



Source: PPC World-20 statistics

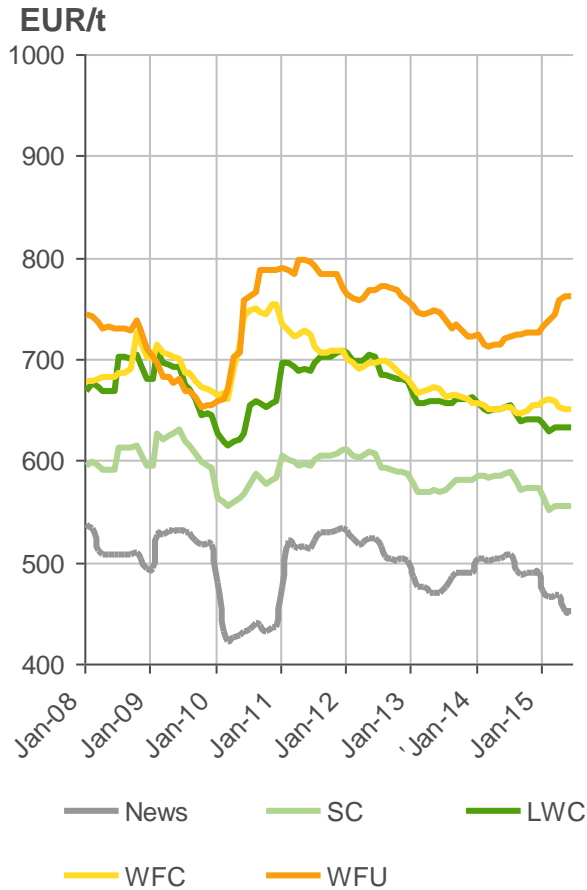
# Price development in the Nordic and Helsinki power markets



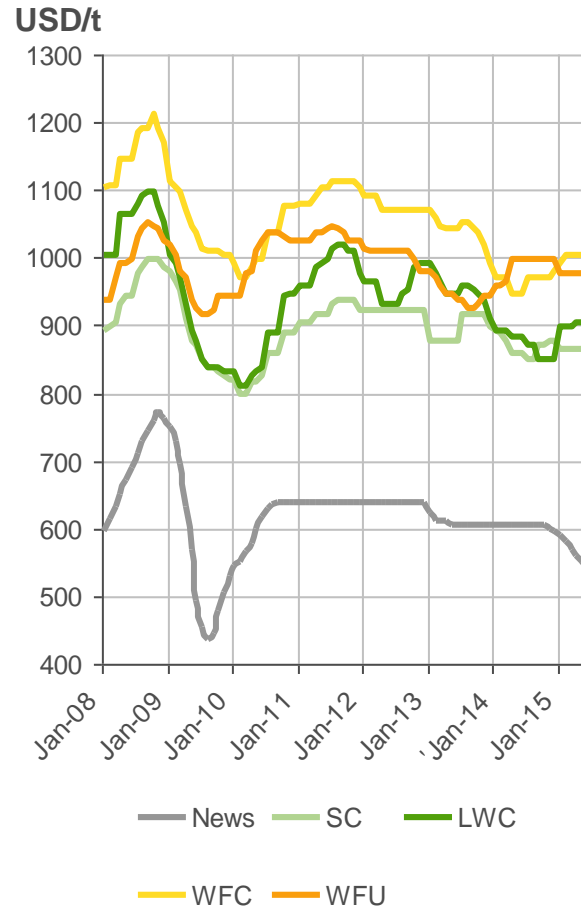
Source: Reuters

# Graphic paper prices

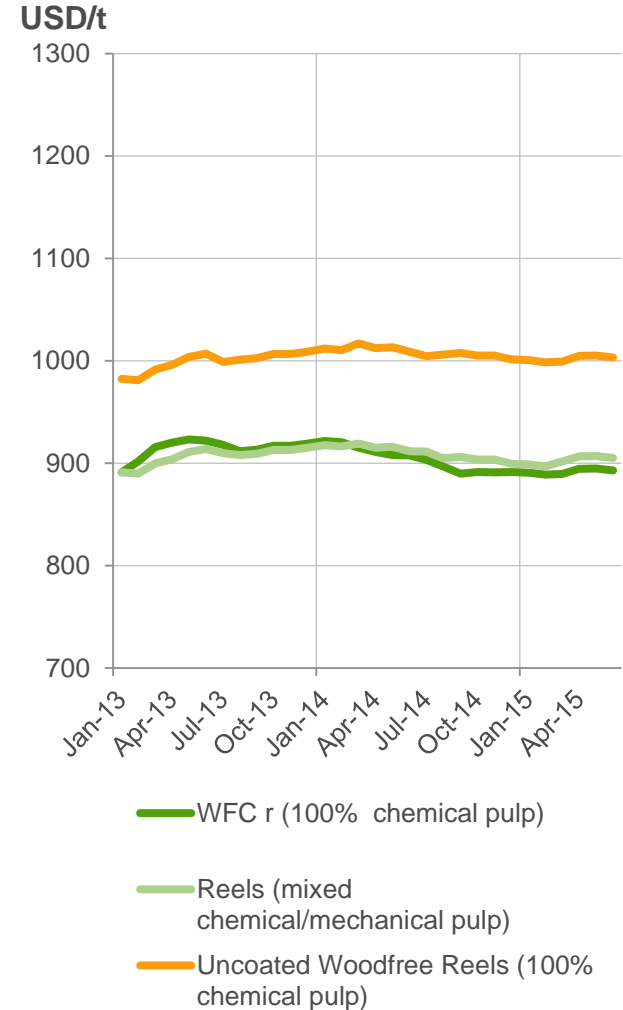
## Europe



## North America



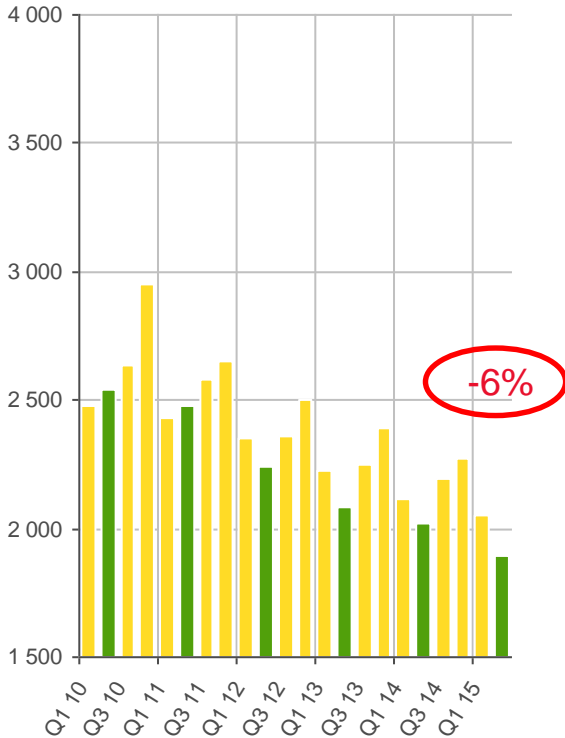
## China



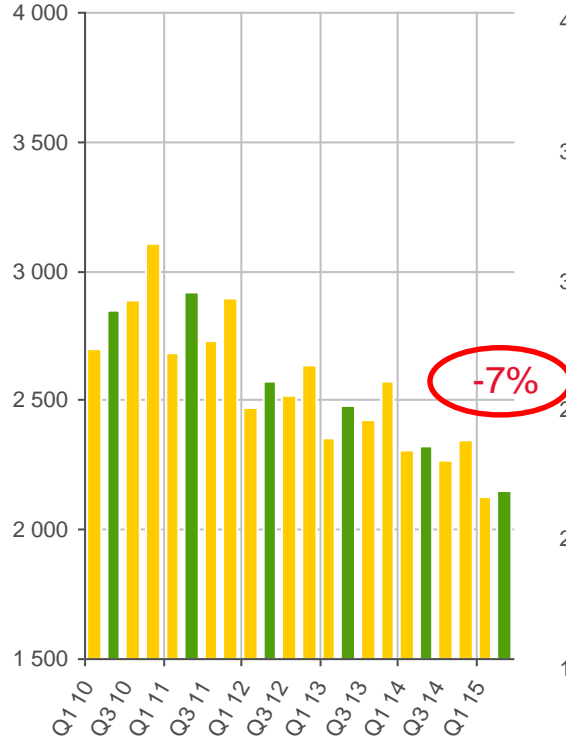
Sources: PPI, RISI

# Graphic papers demand in Europe decreased by 5% in Q2 and in H1 2015 vs last year

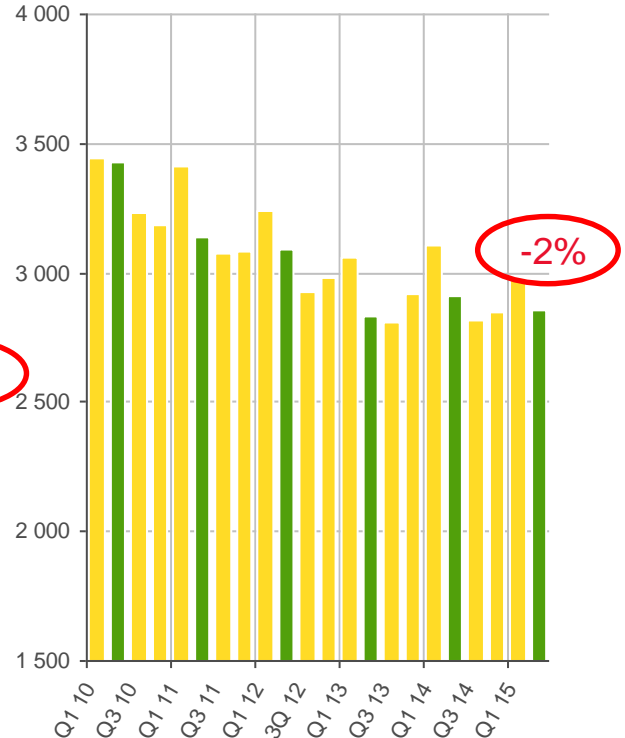
'000 tonnes Magazine papers demand in Europe -5% H1 2015



Newsprint demand in Europe -8% H1 2015

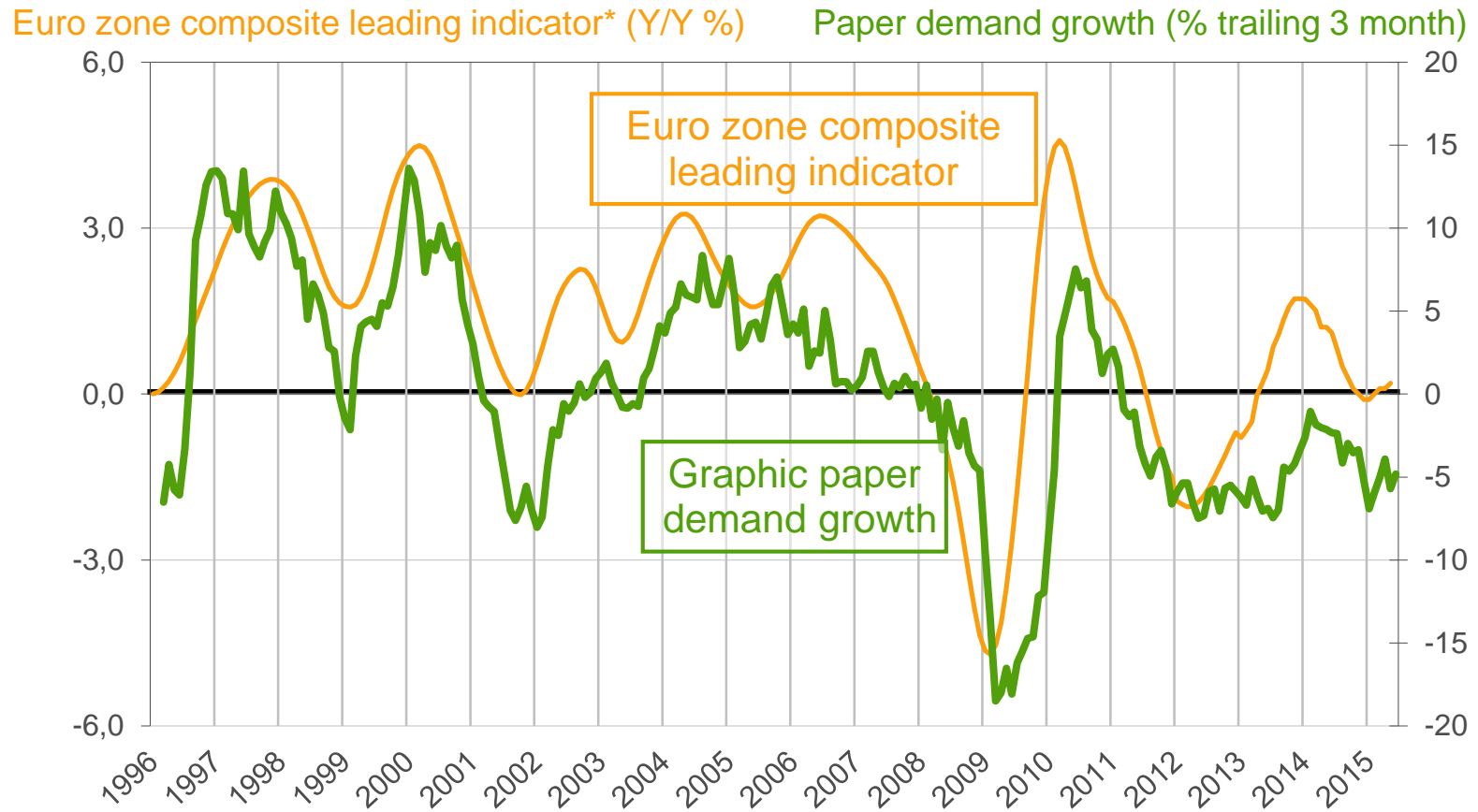


Fine papers demand in Europe -3% H1 2015



Sources: Cepiprint/fine, PPPC

# Growth in the European economy remains low



Sources: Cepiprint, Cepifine, OECD



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