

UPM-Kymmene Corporation Annual General Meeting 2011 CEO Review

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President and CEO
7 April, 2011



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- Financials 2010
 - a year of strong improvement
- Strategy and priorities
 - Strategic achievements
 - Myllykoski acquisition
 - Growth options
- Biofore in action



The Biofore Company **UPM**

FINANCIALS 2010



FINANCIALS

2010 – a year of strong improvement



The Biofore Company UPM

Sales

EUR 8.9 bn



+16%

Net debt

EUR 3.3 bn



-12%

EBITDA

EUR 1,343 m



+26%

Gearing

46%



-10 pp

Operating profit

EUR 731 m



+171%

Market capitalisation

EUR 6.9 bn



+59%

EPS

EUR 1.08



+227%

Dividend per share (*)

EUR 0.55



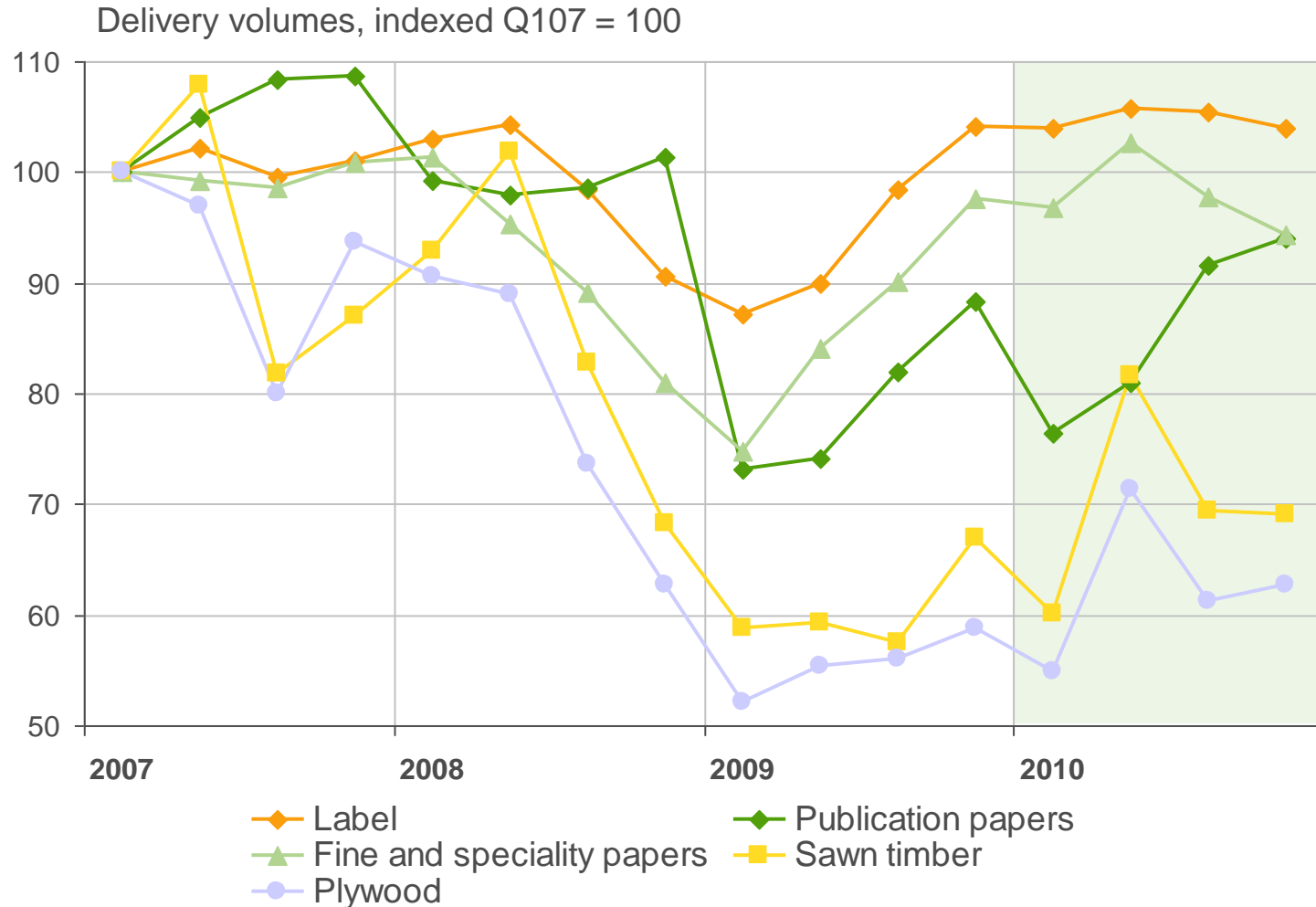
+22%

*) Board's proposal for 2010

FINANCIALS

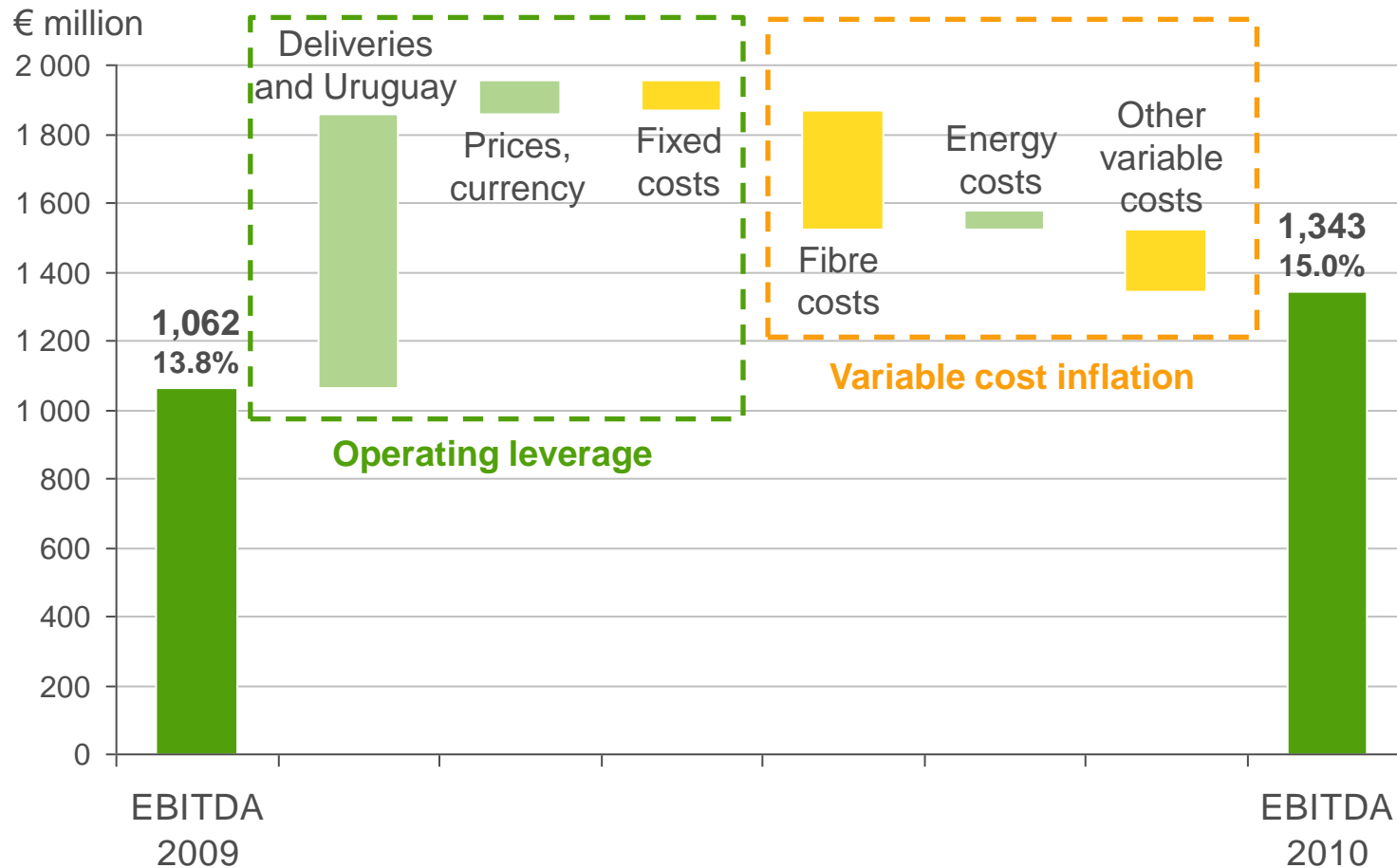
Sales grew by 16%

Demand improved in all businesses



FINANCIALS

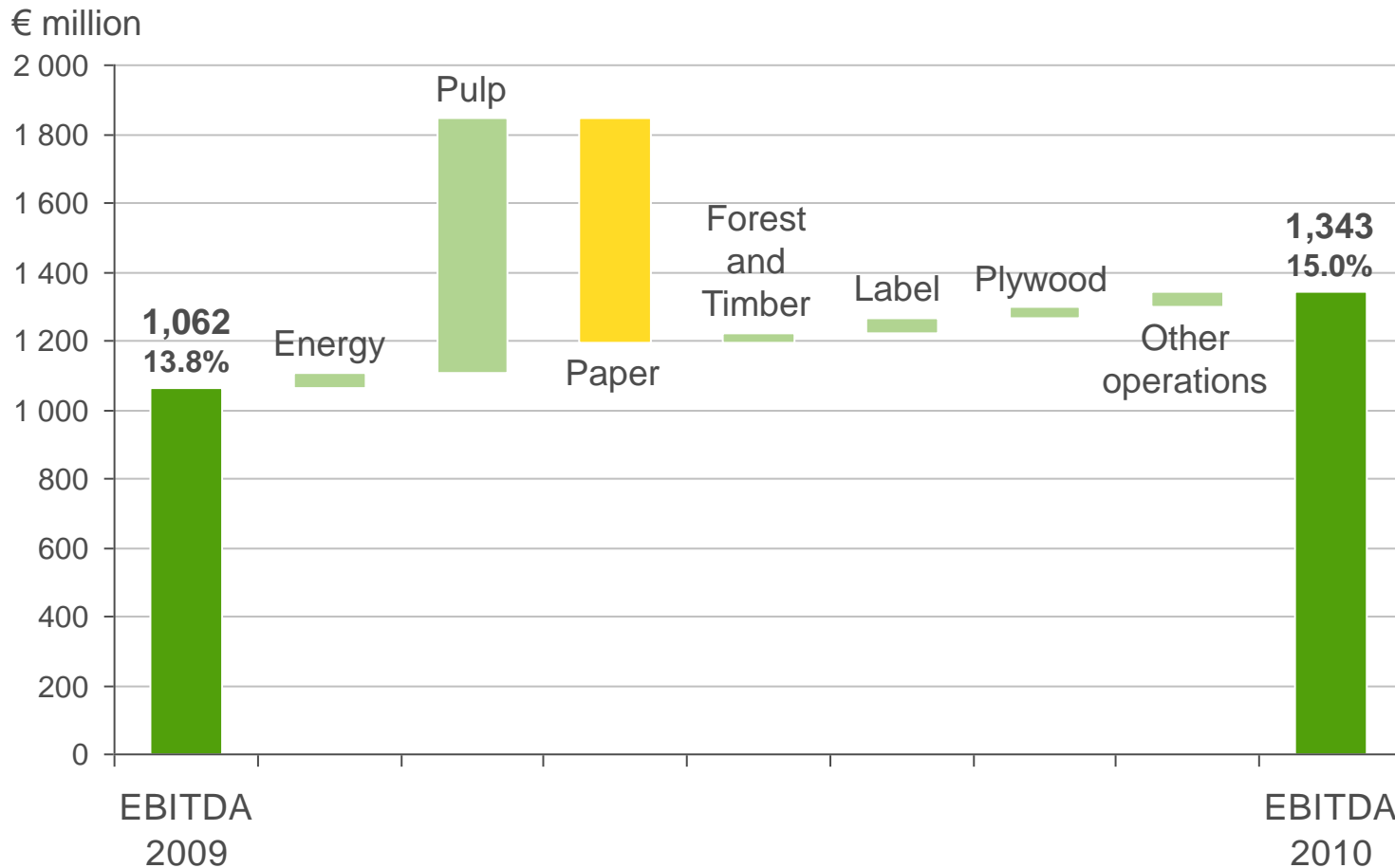
EBITDA improved by 26% Driven by higher volumes



FINANCIALS

EBITDA improved by 26%

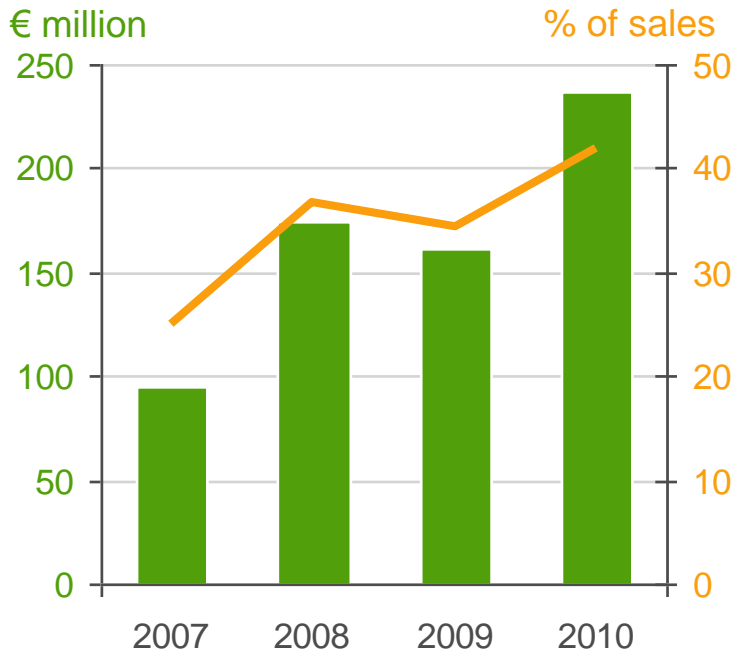
Paper weaker, all other businesses improved



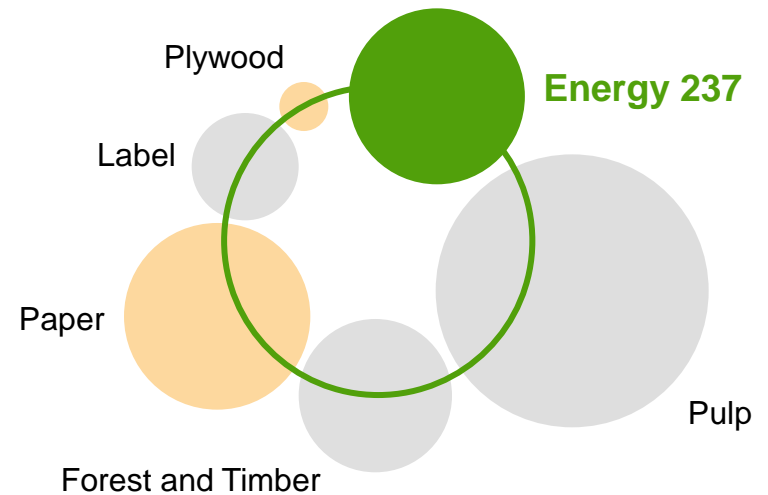
FINANCIALS

Energy – steady profit generator

Operating profit excluding special items



UPM operating profit*) 2010
EUR 731 million



Sales
EUR million

2010	567		20%
2009	472		

Operating profit
EUR million*)

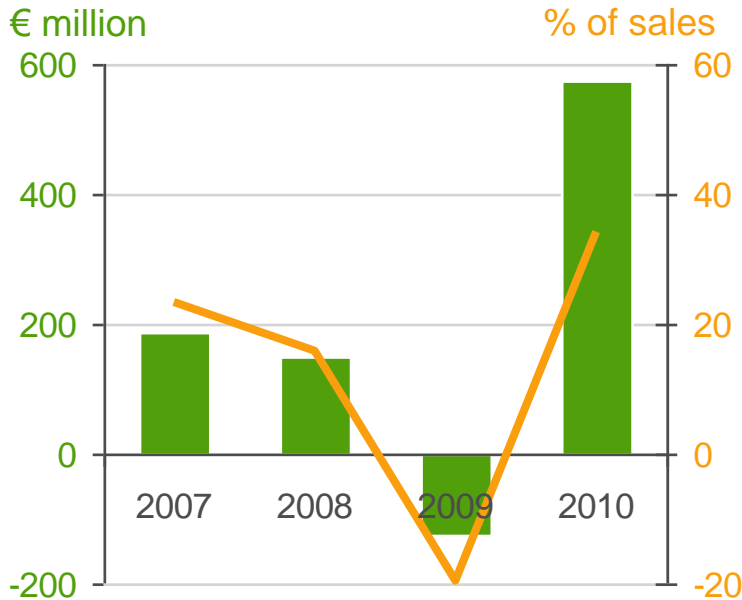
2010	237		+75
2009	162		EUR million

*) excluding special items

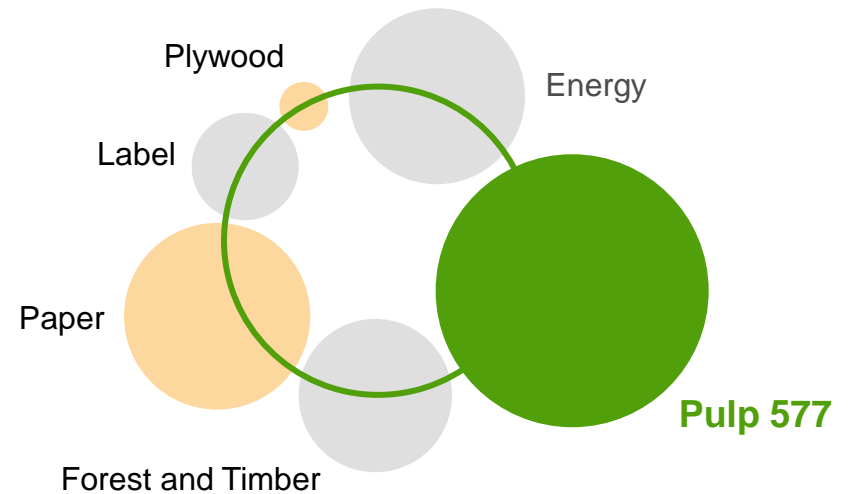
FINANCIALS

Pulp – strong year for pulp business

Operating profit excluding special items



UPM operating profit*) 2010
EUR 731 million



Sales
EUR million

2010	1,698		160%
2009	653		

Operating profit
EUR million*)

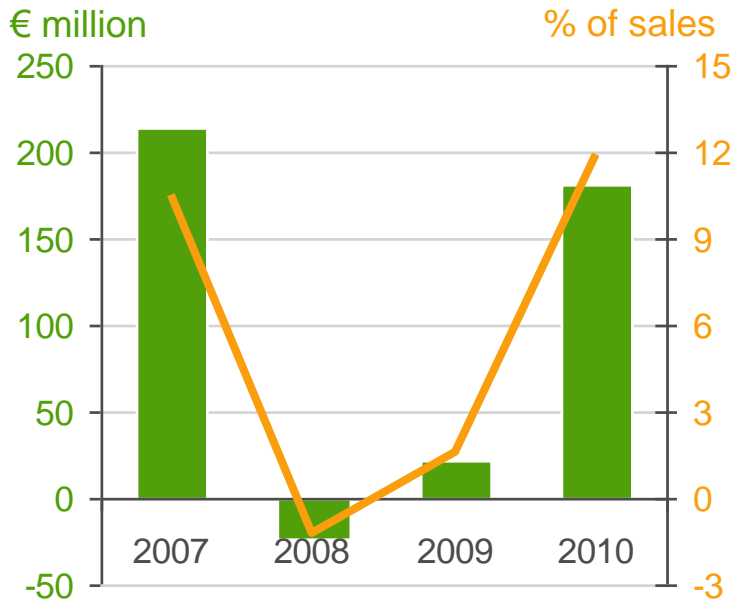
2010	577		+704
2009	-127		EUR million

*) excluding special items

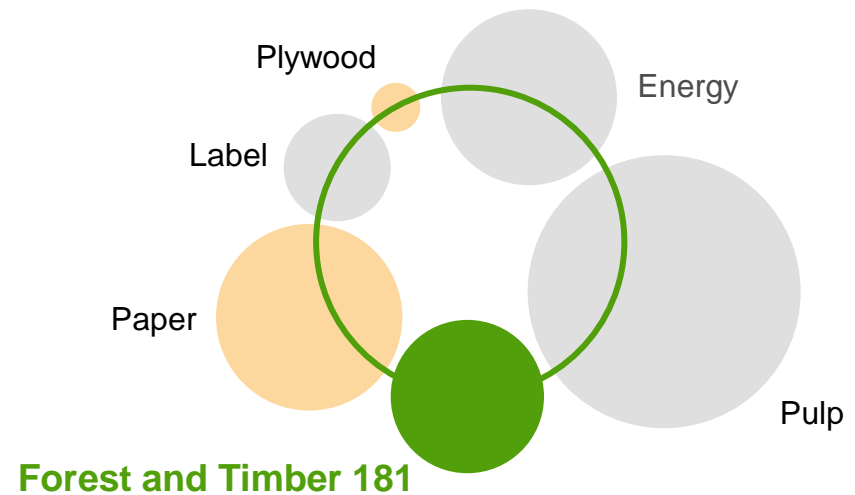
FINANCIALS

Forest and Timber – increase in the fair value of forest and higher deliveries of sawn timber

Operating profit excluding special items



UPM operating profit*) 2010 EUR 731 million



Sales
EUR million

2010	1,521		14%
2009	1,337		

Operating profit
EUR million*)

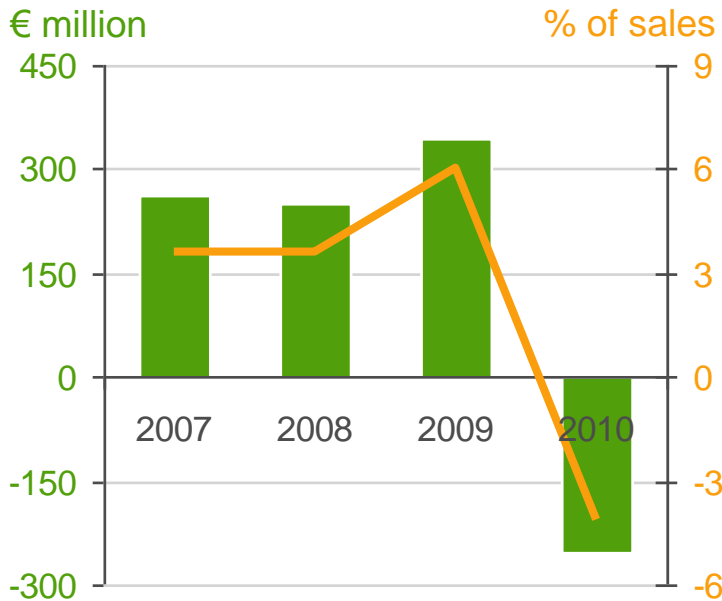
2010	181		+159
2009	22		EUR million

*) excluding special items

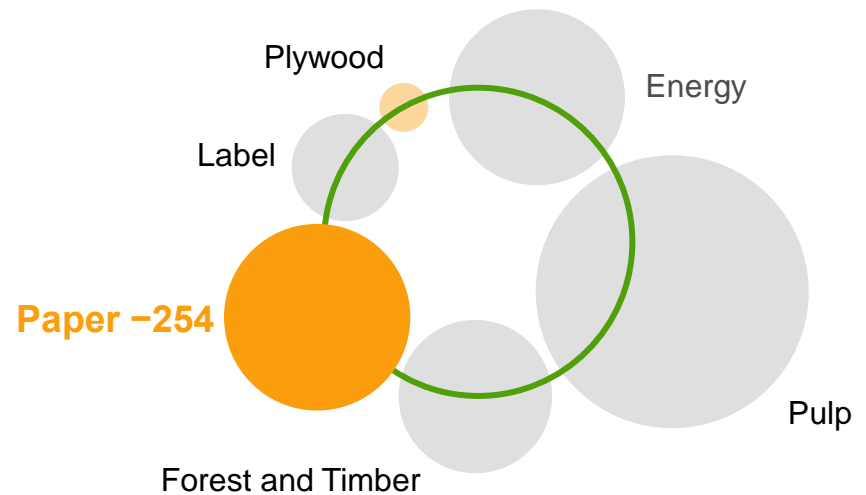
FINANCIALS

Paper – loss-making year due to high fibre costs and low paper prices

Operating profit excluding special items



UPM operating profit*) 2010 EUR 731 million



Sales
EUR million

2010	6,269		9%
2009	5,767		

Operating profit
EUR million*)

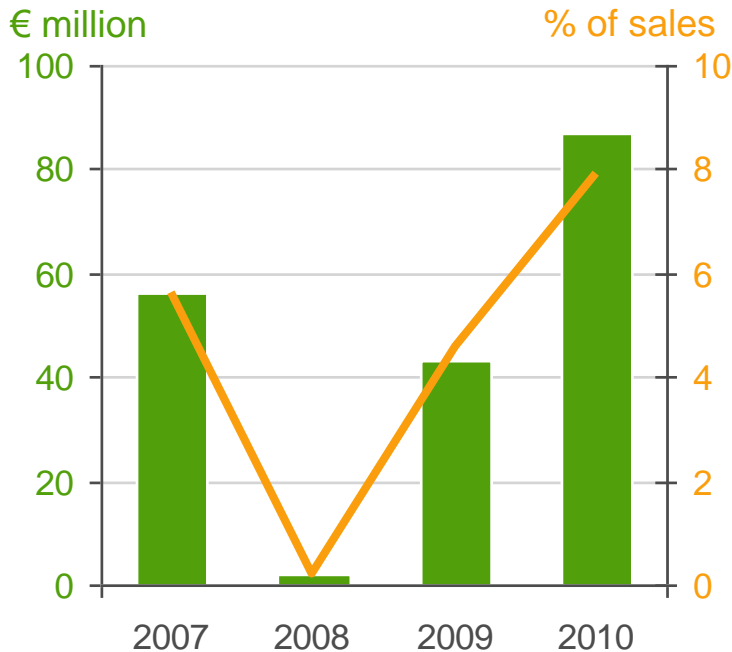
2010	-254		-600
2009	346		EUR million

*) excluding special items

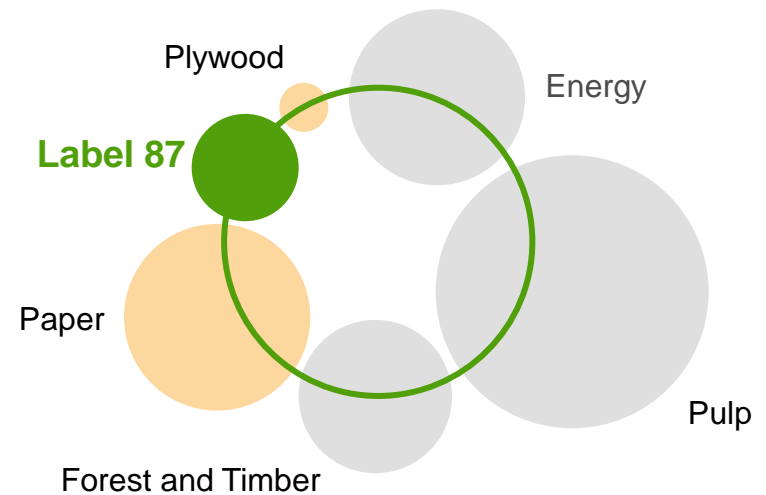
FINANCIALS

Label – good result in a year characterized by record high raw material cost inflation

Operating profit excluding special items



UPM operating profit*) 2010 EUR 731 million



Sales
EUR million

2010	1,100		17%
2009	943		

Operating profit
EUR million*)

2010	87		+44
2009	43		EUR million

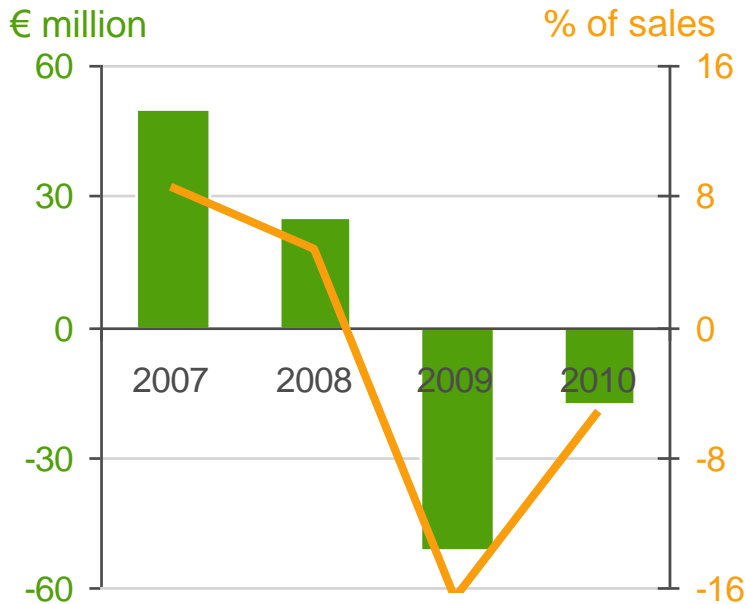
*) excluding special items

FINANCIALS

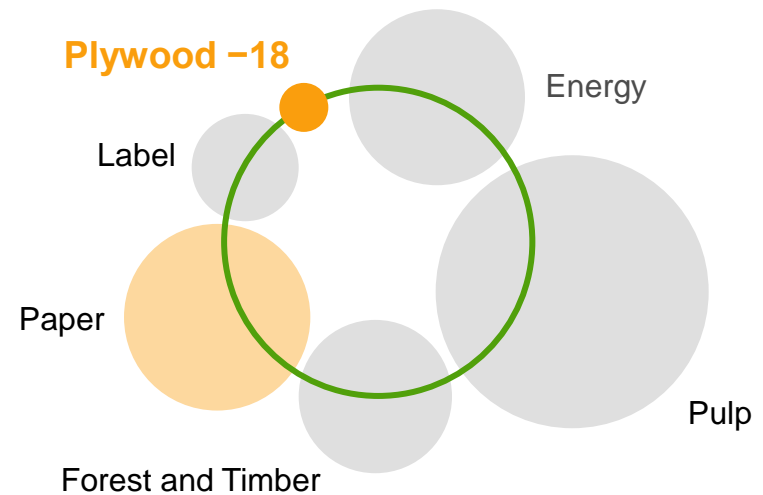
Plywood – significant cost cuts, prices started to increase but delivery volumes were still low



Operating profit excluding special items



UPM operating profit*) 2010
EUR 731 million



Sales
EUR million **2010 347** **▲ 13%**
 2009 306

Operating profit
EUR million*) **2010 -18** **▲ +33**
 2009 -51 EUR million

*) excluding special items

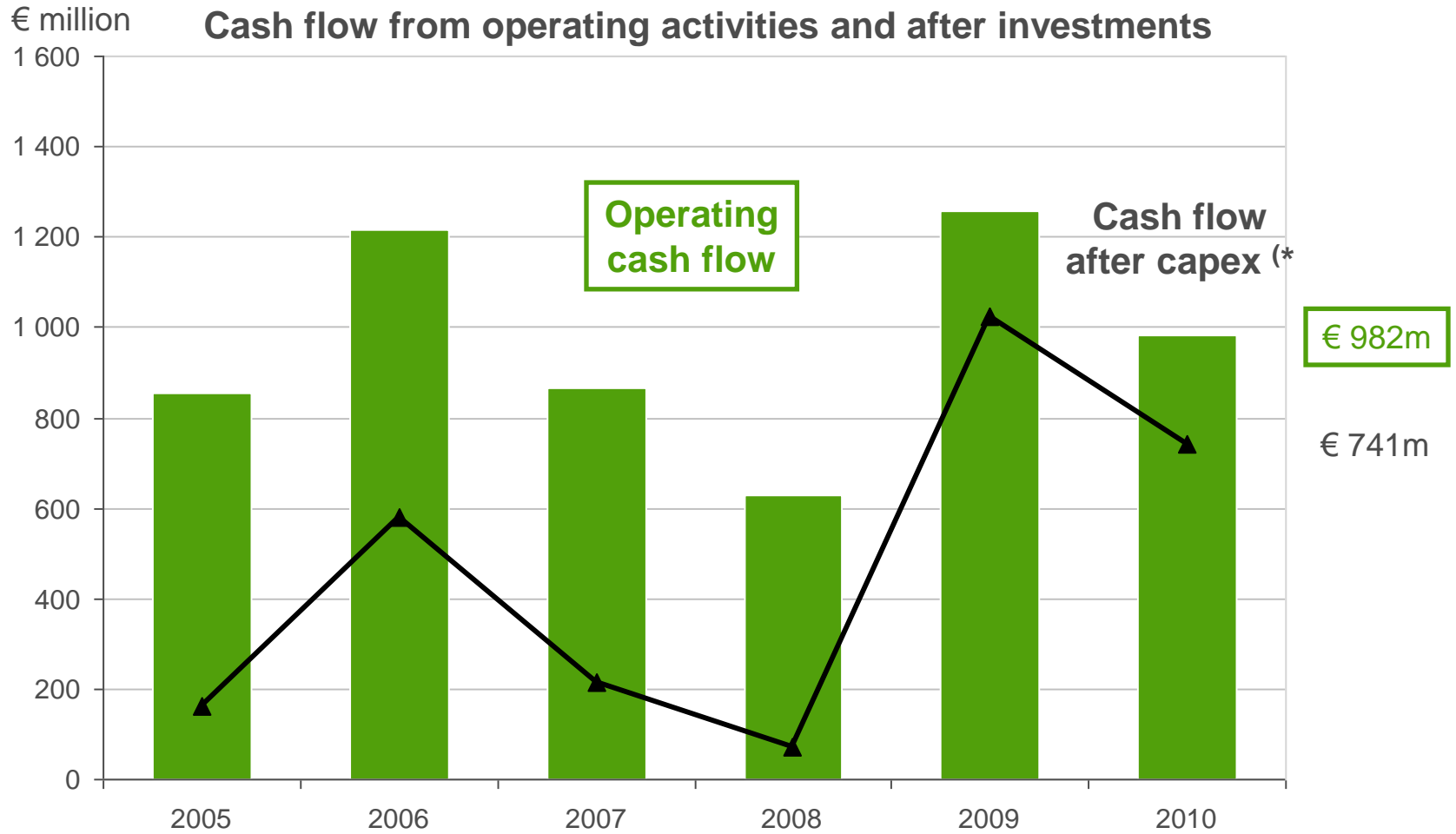
FINANCIALS

Operating profit grew by 171%
Recovered to the pre-recession level



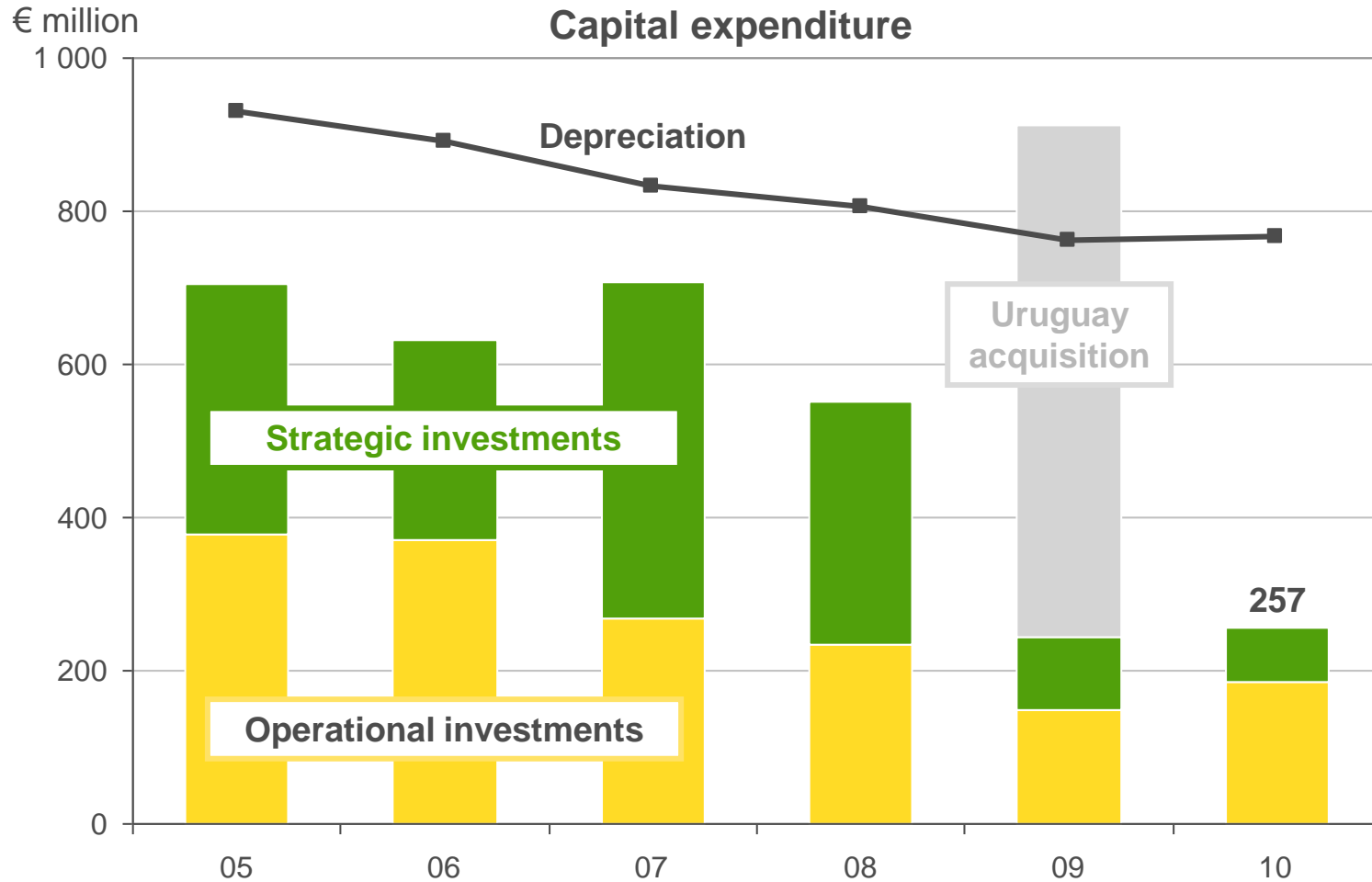
FINANCIALS

Strong cash flow



*) excluding acquisitions and divestments

Modern assets mean low investment needs on existing capacity



FINANCIALS

Net debt decreased by 12%

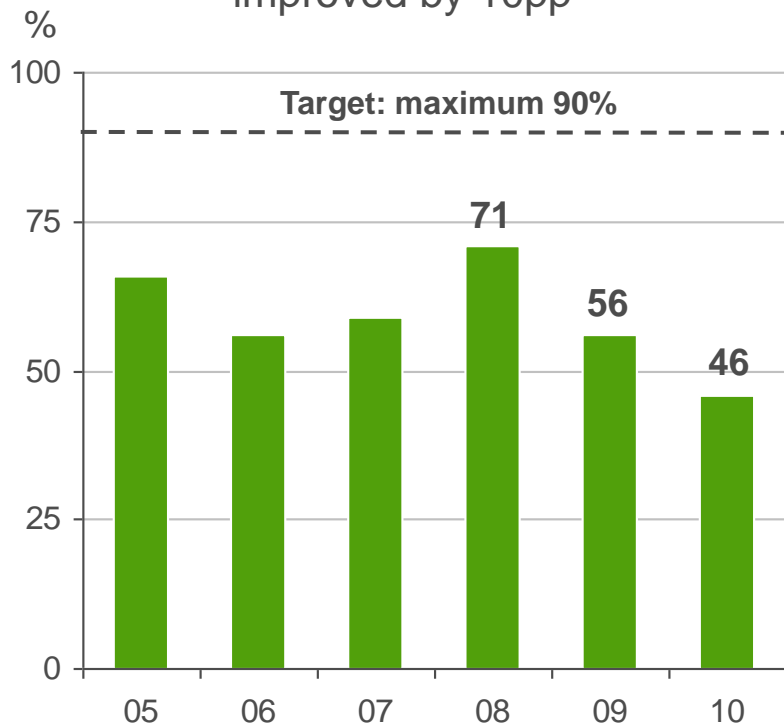
Balance sheet strengthened during the recession

The Biofore Company

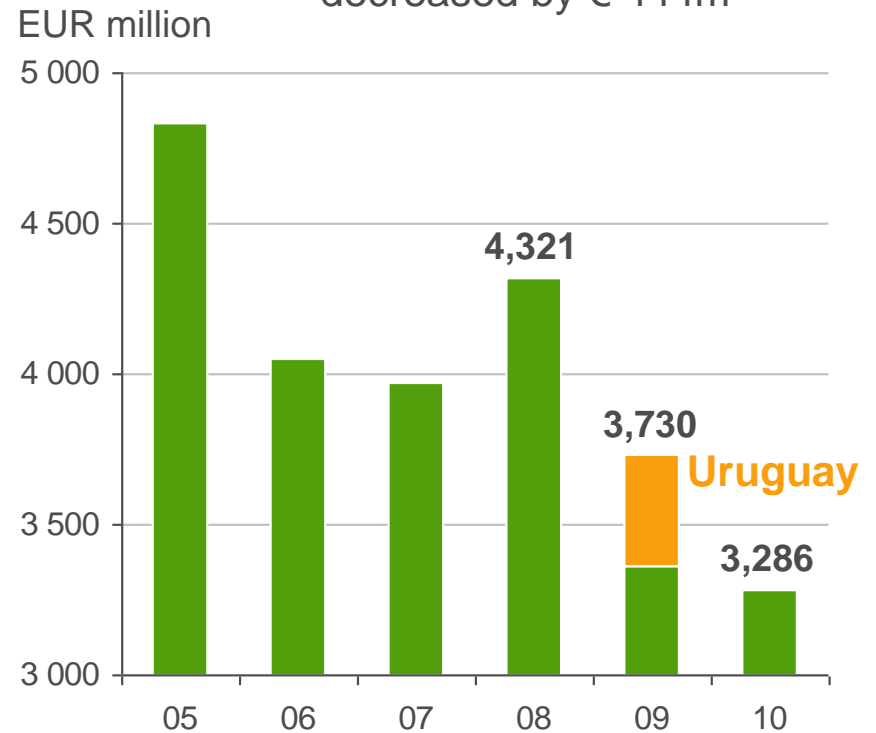


UPM

Gearing ratio improved by 10pp



Net debt decreased by € 444m



FINANCIALS

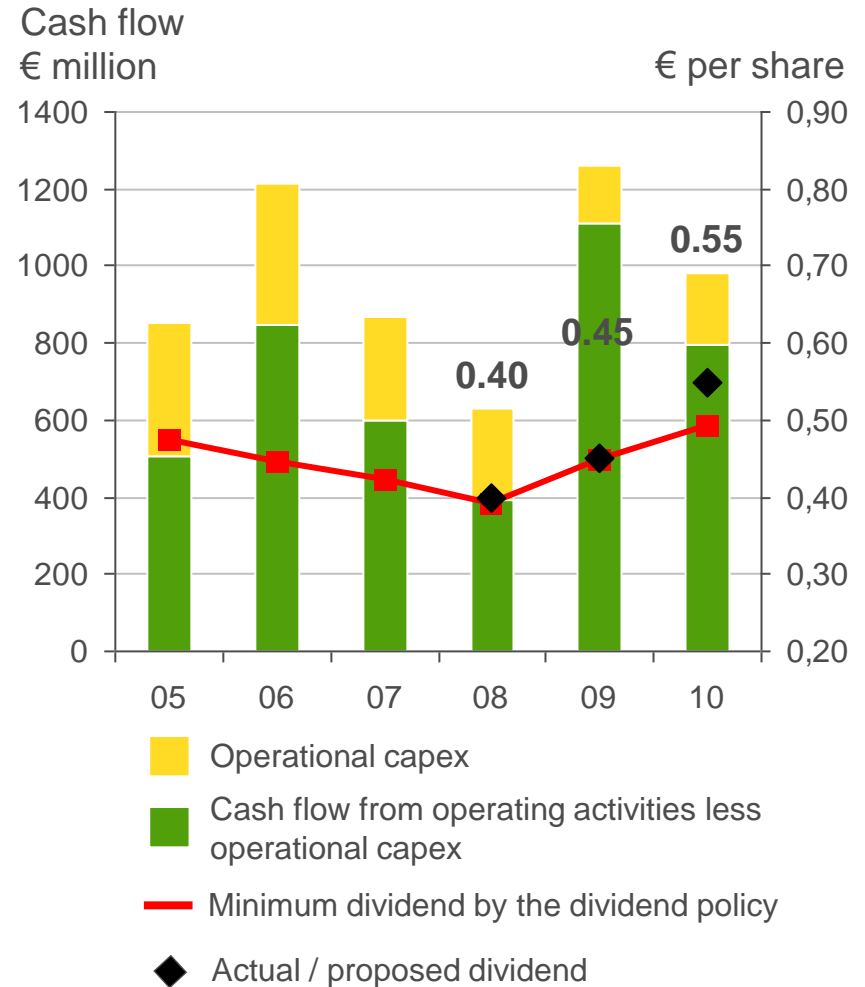
Dividend proposed to increase by 22% Policy linked to cash flow generation

Board's dividend proposal
for 2010

- **EUR 0.55 per share**

Minimum dividend for 2010
according to dividend policy

- **EUR 0.50 per share**



UPM guidance for operating profit excluding special items

- 2011 to improve from 2010
- H1 2011 to improve clearly from H1 2010



Summary – financials 2010

- 2010 was a year of strong improvement – outlook is favourable for 2011
- Strong cash flow and balance sheet give means to realise growth opportunities



The Biofore Company **UPM**

STRATEGY AND PRIORITIES



STRATEGY AND PRIORITIES

Strategic achievements

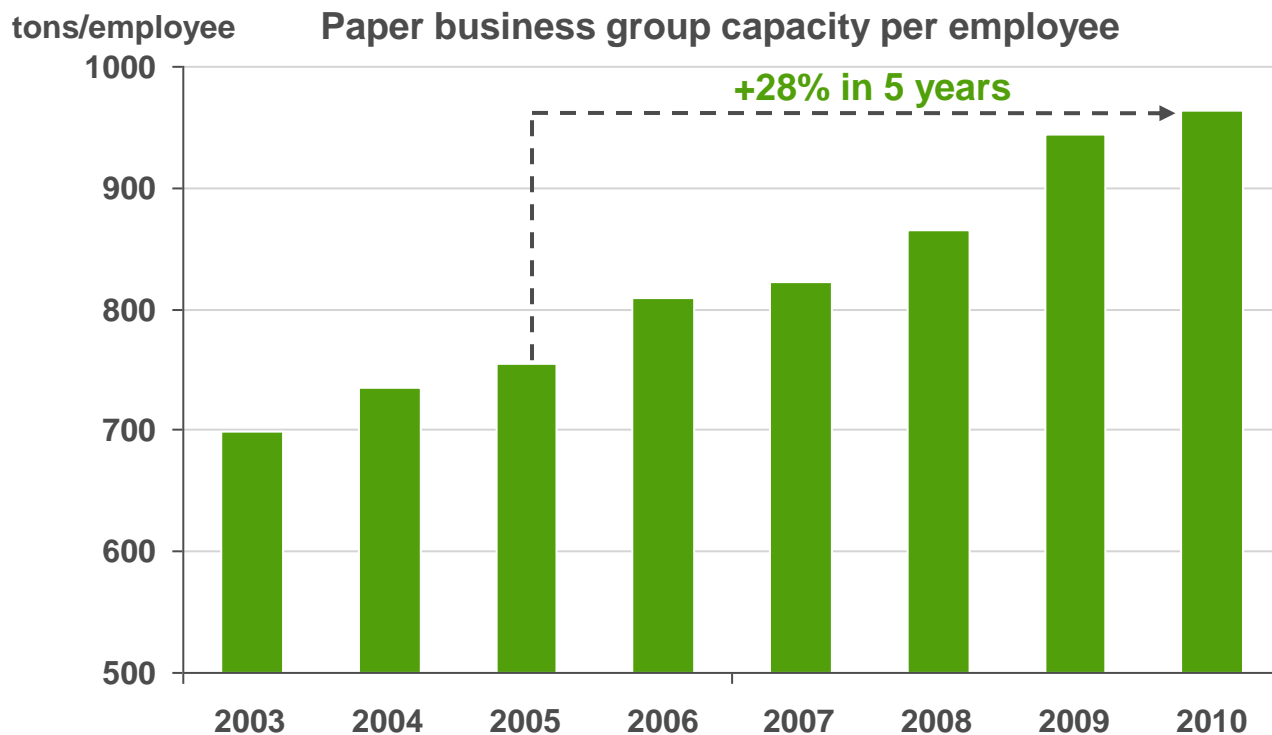
- 1 Improved room for strategic maneuvering
- 2 Market-driven business model
- 3 Building the Pulp business – Botnia transaction
- 4 Paper consolidation – Myllykoski acquisition

Improved room for strategic manoeuvring

Completed
major restructuring phase
2006-09

Succeeded
improving
cost competitiveness

Improved
financial flexibility



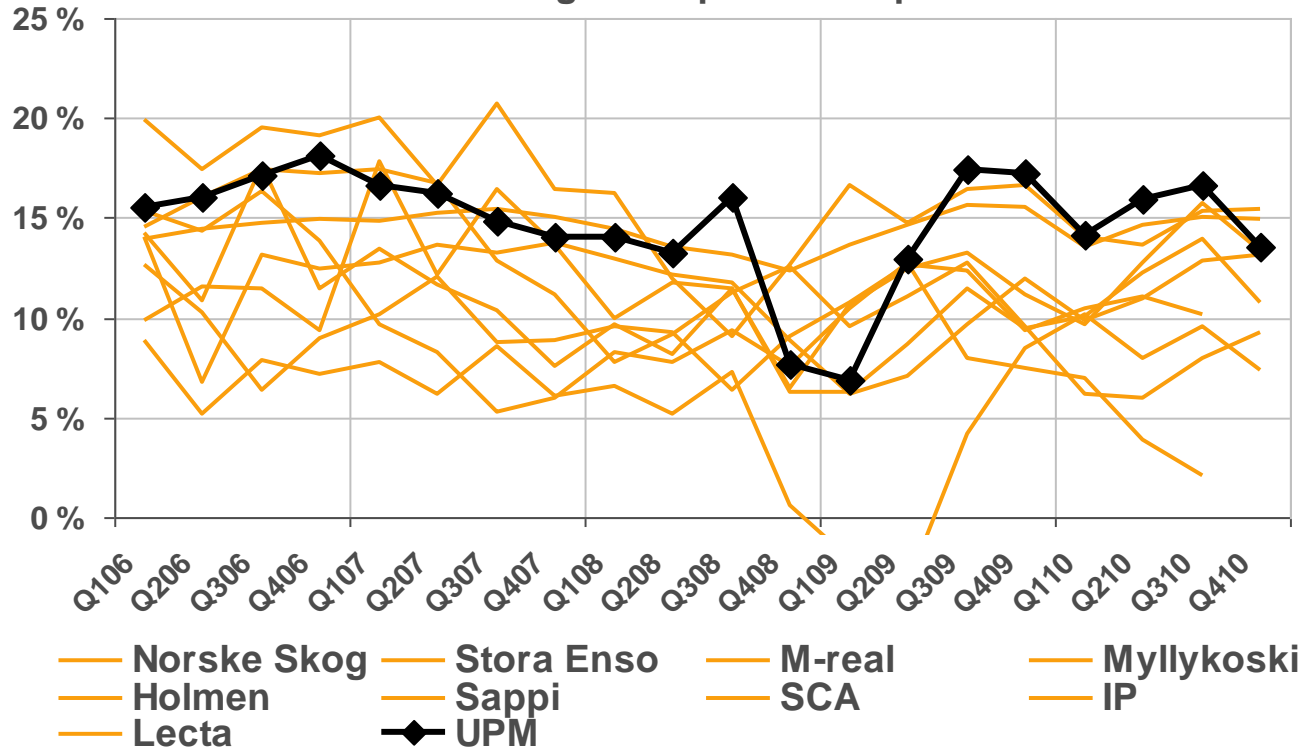
Improved room for strategic manoeuvring

Completed major restructuring phase 2006-09

Succeeded improving cost competitiveness

Improved financial flexibility

EBITDA margin compared with peers



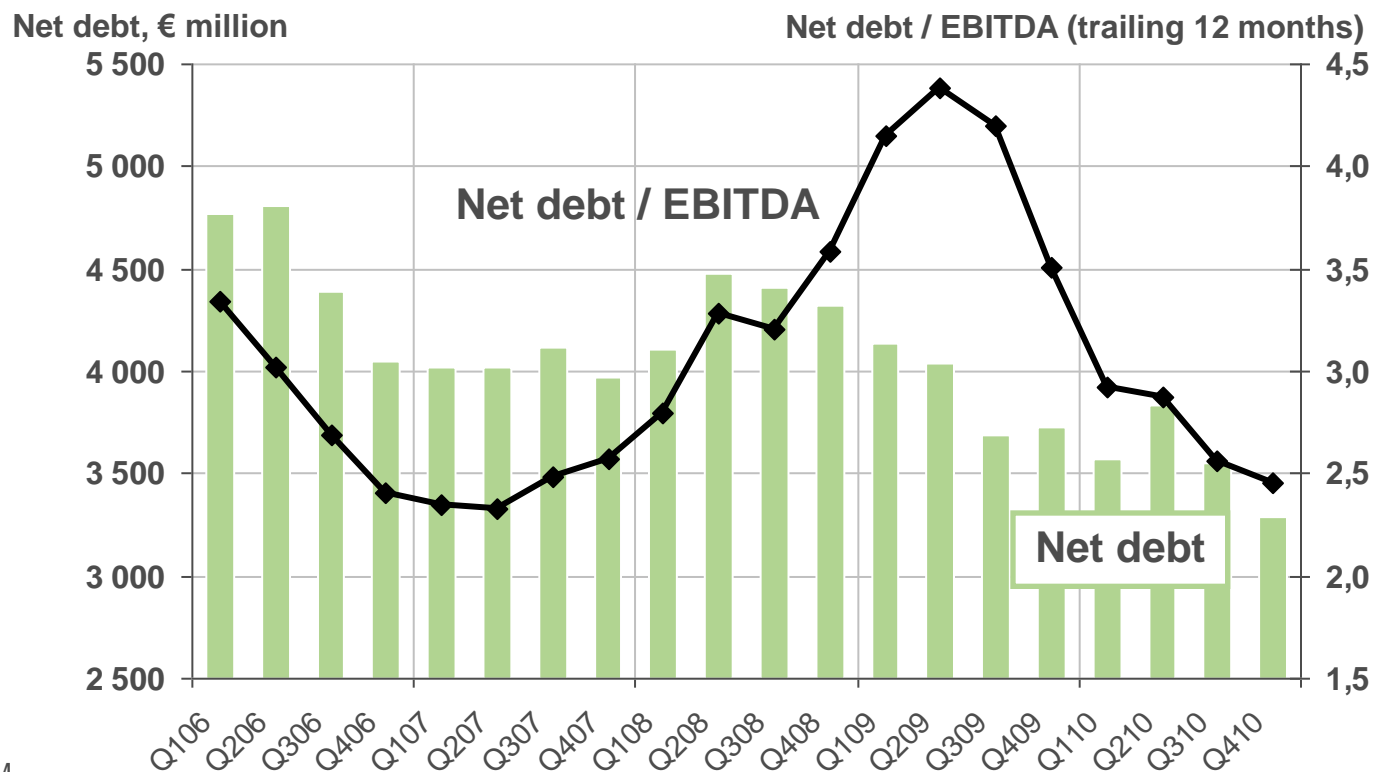
STRATEGY AND PRIORITIES

Improved room for strategic manoeuvring

Completed
major restructuring phase
2006-09

Succeeded
improving
cost competitiveness

Improved
financial flexibility



Market-driven business model increases insight and promotes action

Energy and Pulp

- Expand in cost competitive low-emission energy
- Develop second-generation biofuels
- Grow in cost competitive pulp

Paper

- Focus on European profitability
- Consolidation in Europe
- Growth in China and other growth markets

Engineered materials

- Profitable growth in self-adhesive label materials
- Plywood renewal
- Drive product renewal and develop new businesses

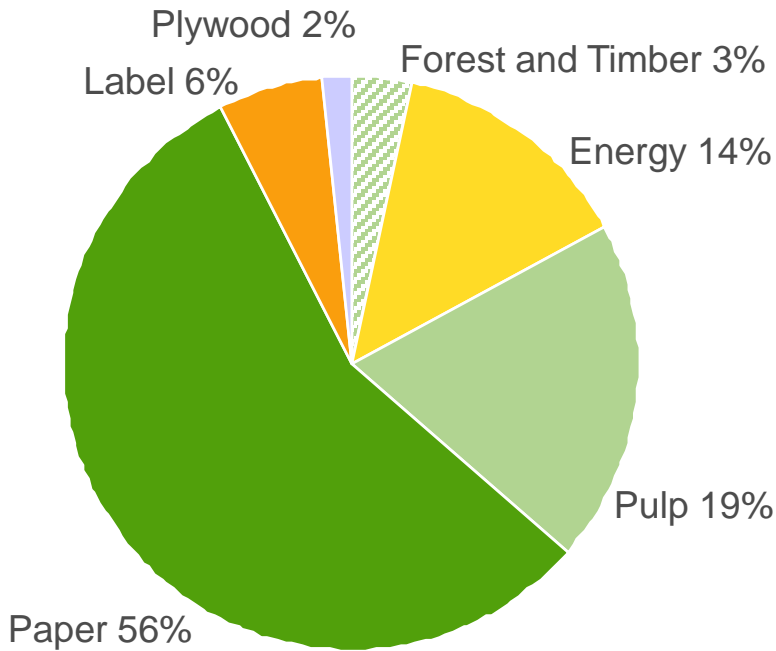
Group level synergies from resource integration and global functions

STRATEGY AND PRIORITIES

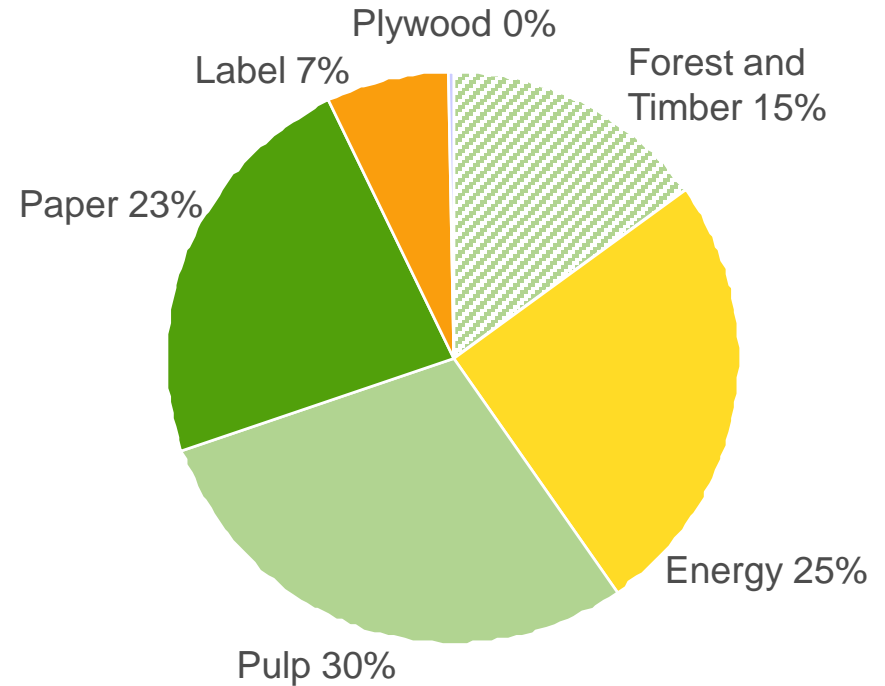
Diversified sources of operating profit
– Paper is a major source of cash flow



Cumulative
EBITDA 2007-2010



Cumulative
Operating profit 2007-2010
excluding special items



1. Unwind associated company structure
 - Direct ownership of Fray Bentos pulp mill: Capacity 1.1 million tonnes of BHKP
 - Own plantation operations (Fosa)
 - 17% ownership in Botnia

2. 3.2 million tonnes of own pulp capacity

3. Build market-based pulp business
 - Optimize sourcing and selling of pulp
 - Preparing for growth





The Biofore Company **UPM**

MYLLYKOSKI ACQUISITION

MYLLYKOSKI ACQUISITION

UPM acquires Myllykoski Corporation and Rhein Papier GmbH



- Main rationale is to improve profitability and cost efficiency in UPM's European paper business
- Enterprise value EUR 900 million
- Financing
 - UPM issues 5 million shares
 - UPM raises bank loans of EUR 800m
- Earnings impact
 - Estimated annual synergies over EUR 100 million – materialising from 2012
 - Cash flow enhancing immediately after closing
 - Earnings per share enhancing in 2012
- The agreement subject to customary closing conditions, incl. approvals from competition authorities – expected to close in the Q3 2011

MYLLYKOSKI ACQUISITION

Paper operations to be acquired

Mills	Grade	Cap. 1,000 t	Personnel Q3/2010
Myllykoski Paper	LWC, SC	600	469
MD Albrbruck	MWC/LWC	320	544
Lang Paper	News, SC	600	413
MD Plattling	LWC	400	387
Madison Paper	SC	220	229
Plattling Papier (RP)	SC	380	114
Hürth (RP)	News	310	102
TOTAL		2,830	2,600 *)

Source: Myllykoski

*) incl. non-mill personnel



Invested recently over EUR 700m on new capacity

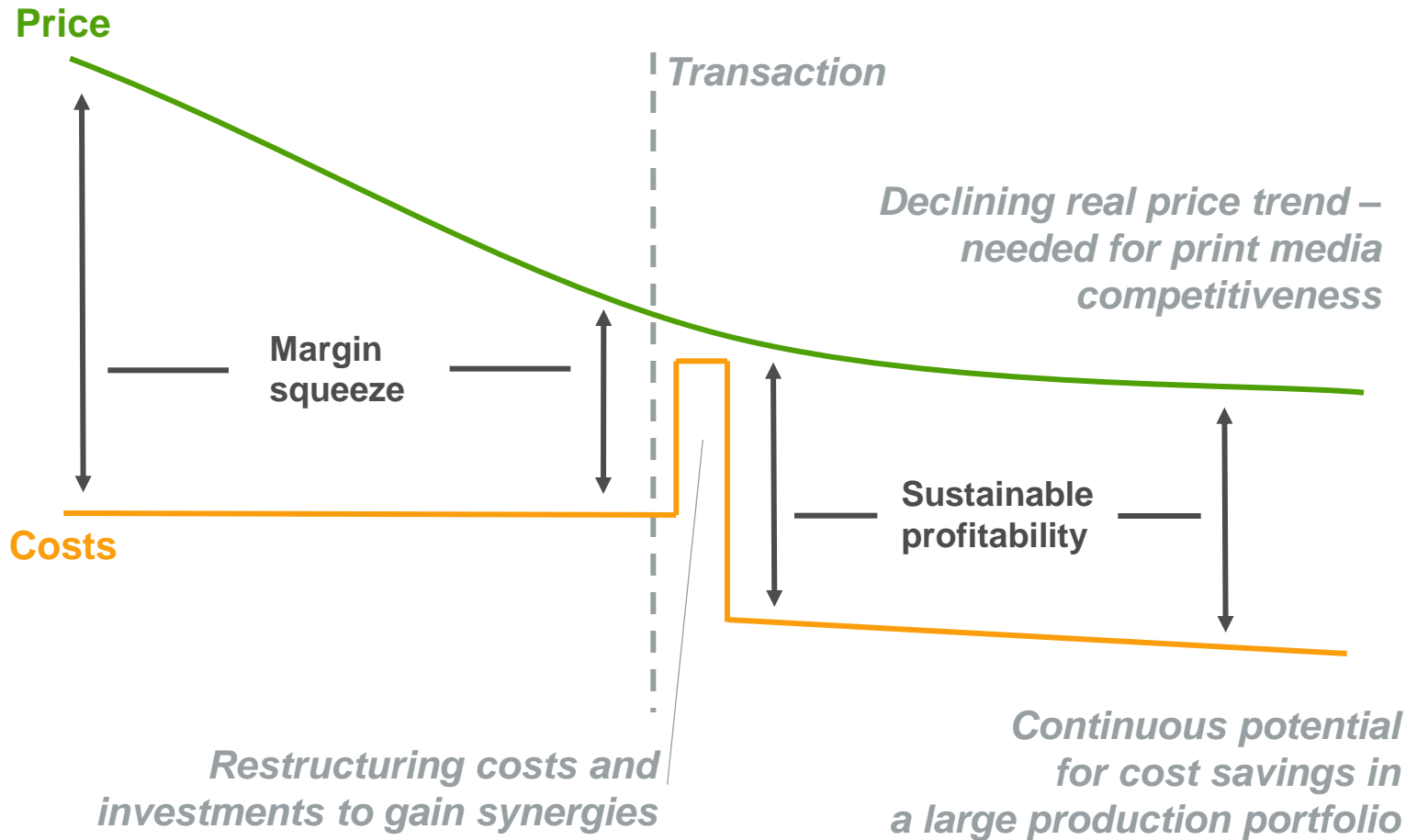
- Plattling PM 1 (2007); 380,000 t/a of SC paper
- Hürth (2002); 310,000 t/a of newsprint

Includes 0.8% stake in PVO, with a value of EUR 70m



MYLLYKOSKI ACQUISITION

Achieve sustainable cost structure through consolidation



Benefits of the Myllykoski acquisition

- Improved profitability through lower cost per delivered ton
 - cost synergies and savings in fixed costs
 - improved efficiency
 - scale benefits in sourcing and logistics
- Improved customer service and supply security
- Forming a cost efficient European paper supplier committed to print media

Improved performance in the paper business increases resources for UPM's growth plans

GROWTH OPTIONS



GROWTH OPTIONS

UPM renewal – growth and reshaping portfolio



- Acquisitions
- Divestments
- Greenfield investments
- Biomass boilers
- Restructuring
- Biofore vision
- Market-driven organisation
- Acquisitions
 - Uruguay
 - Myllykoski
- Investments in cost efficiency
- Opportunities and priorities
 - Biofuels
 - Paper expansion in China
 - Growth in chemical pulp
 - Nuclear power OL3, OL4
 - Label growth in fast-growing markets
 - Product renewal

BIOFORE IN ACTION

UPM - The Biofore Company

Vision

UPM leads the integration of bio and forest industries

- cost leadership
- change readiness
- innovation

Purpose

Value creation from renewable and recyclable materials

- fibre-based
- energy-related
- engineered materials businesses

Values

Trust and be trusted
Achieve together
Renew with courage

BIOFORE IN ACTION

UPM is the leader in responsible fibre sourcing



- 100% of UPM's forests and plantations are certified and managed according to UPM's Biodiversity Programme
- 78% of all wood is certified
- 100% of all wood sourced from sustainably managed forests
- 30% of UPM's fibre raw material is recycled fibre

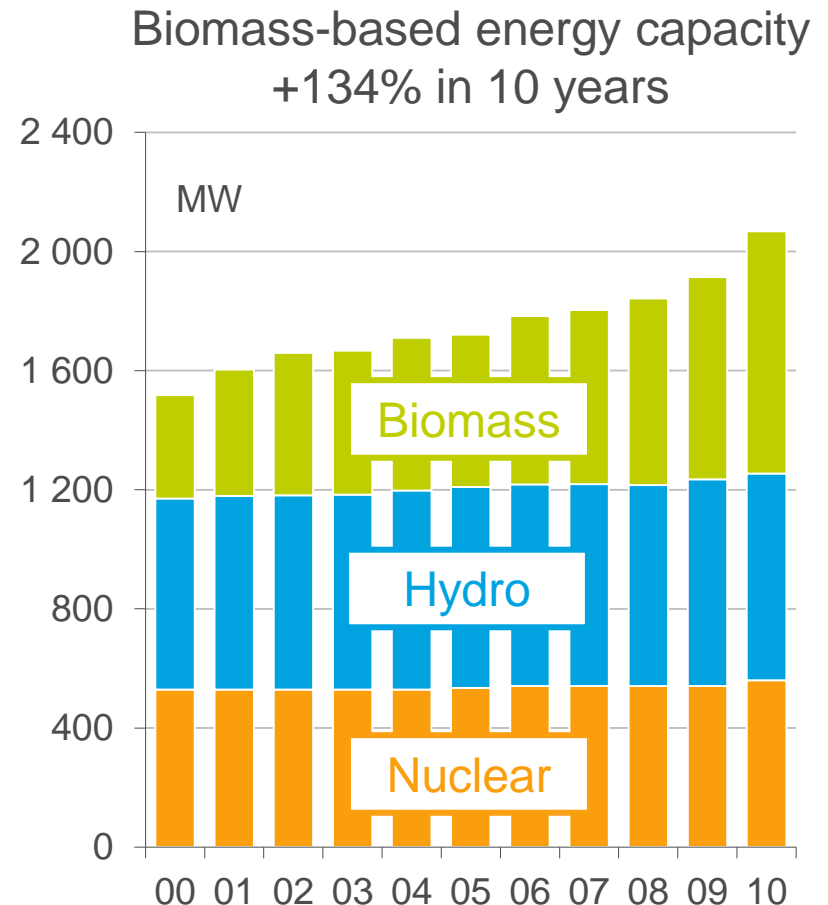


BIOFORE IN ACTION

Leading producer of biomass-based energy



- 2nd largest biomass-based energy producer in Europe
- 77% of UPM's power generation is CO₂ neutral
- Over EUR 1 billion invested to renewable energy in ten years
- Continuous improvement in energy efficiency
 - energy consumption reduced by 9% per paper tonne in two years
 - EUR 55 million savings



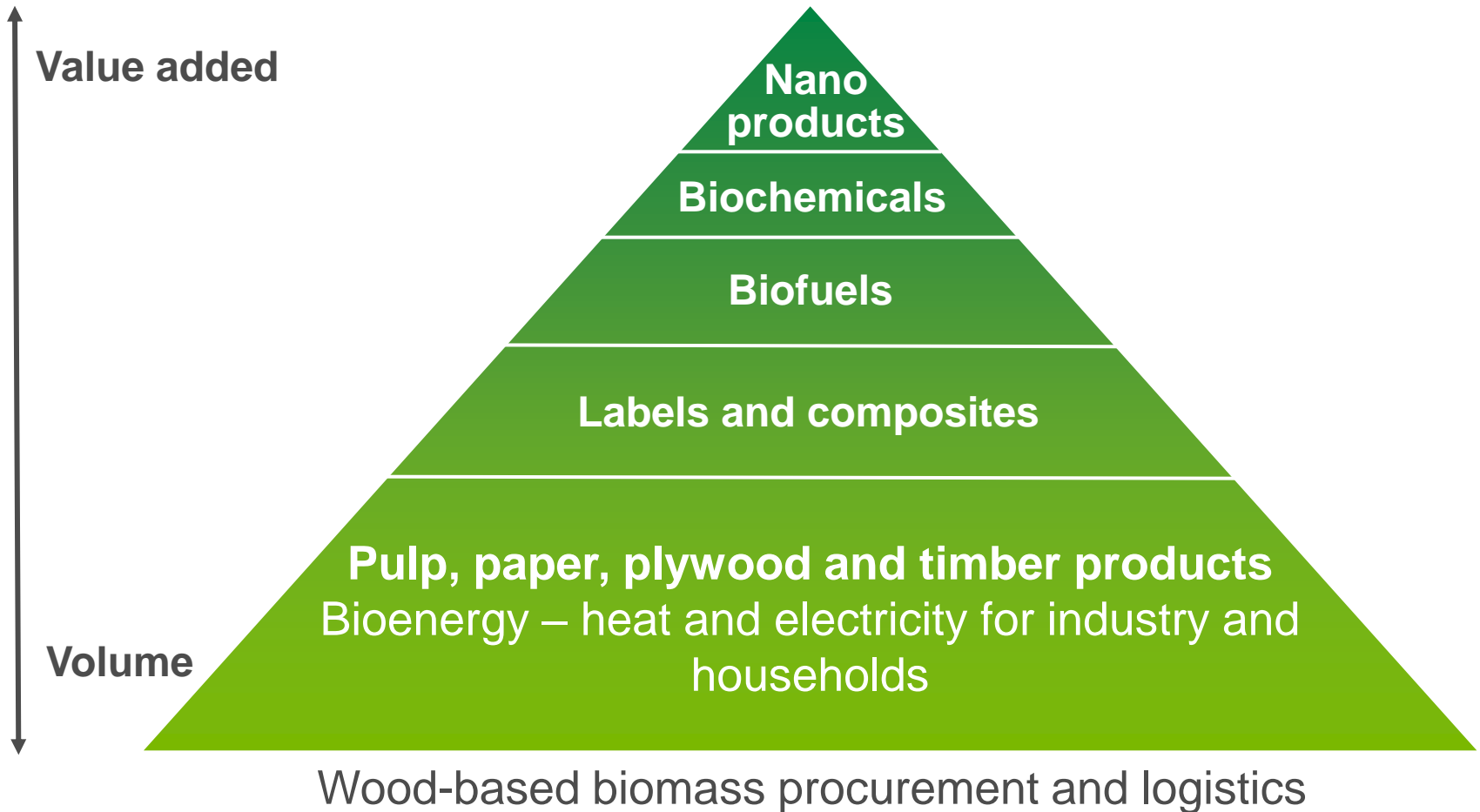
BIOFORE IN ACTION

Renewal through innovation



BIOFORE IN ACTION

Building new opportunities
on a solid foundation





BIOFORE VIDEO



UPM

The Biofore
Company