

# PAPER

Focus on European profitability

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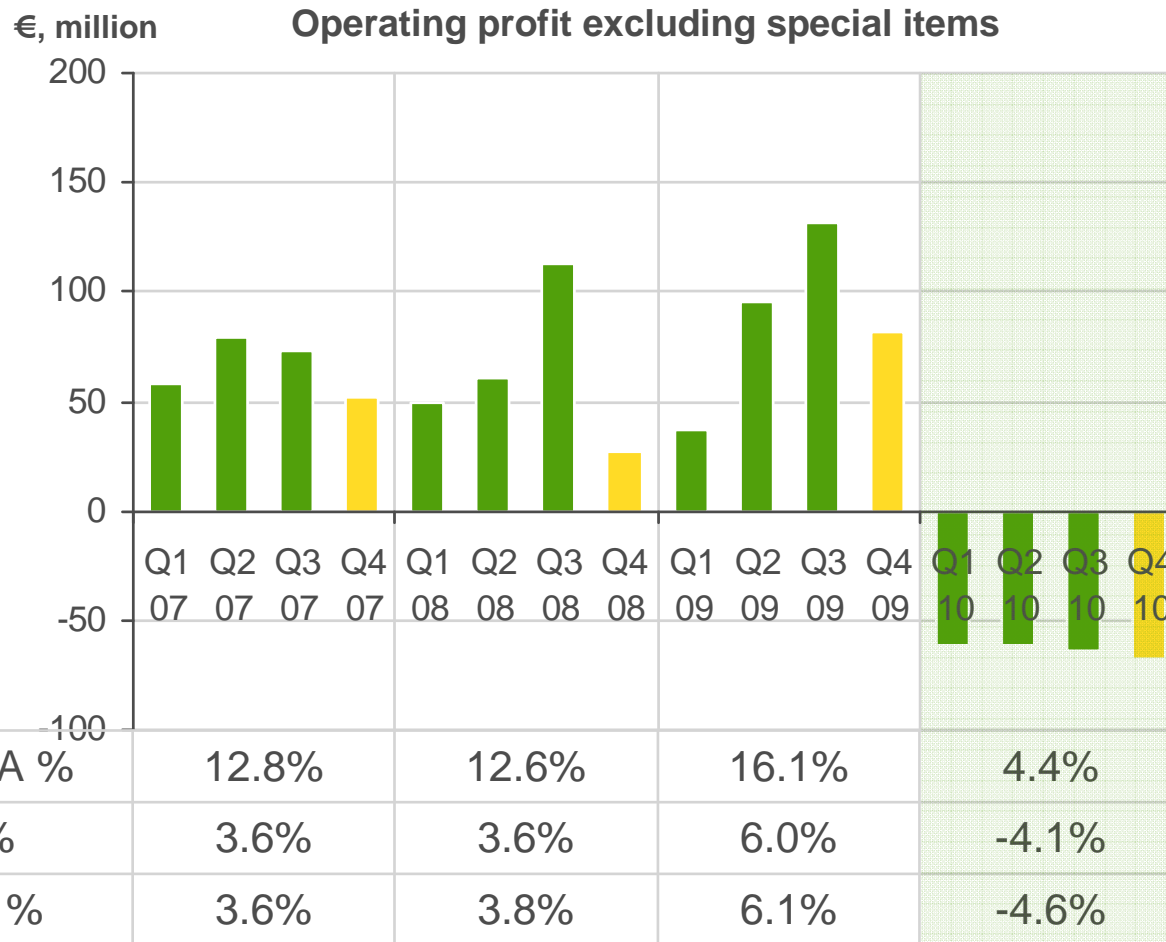
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# Loss-making year due to high fibre costs and low paper prices



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## Paper in 2010 – positives and negatives



Demand pick-up after 2009 slump

Price recovery started in 2H 2010 and continues in 2011

Stock turnover improved by 7 % and year-end inventory levels low

Customer satisfaction continued improving

**Paper consolidation finally taking place**

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## Paper in 2010 – positives and negatives



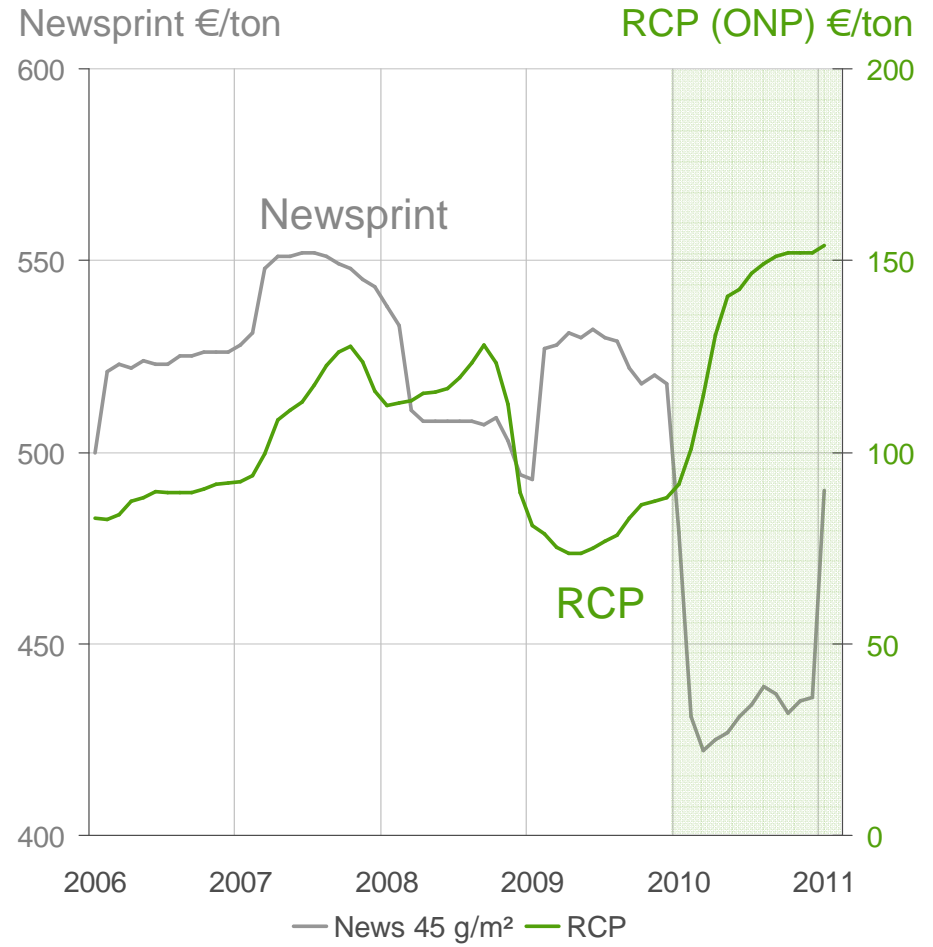
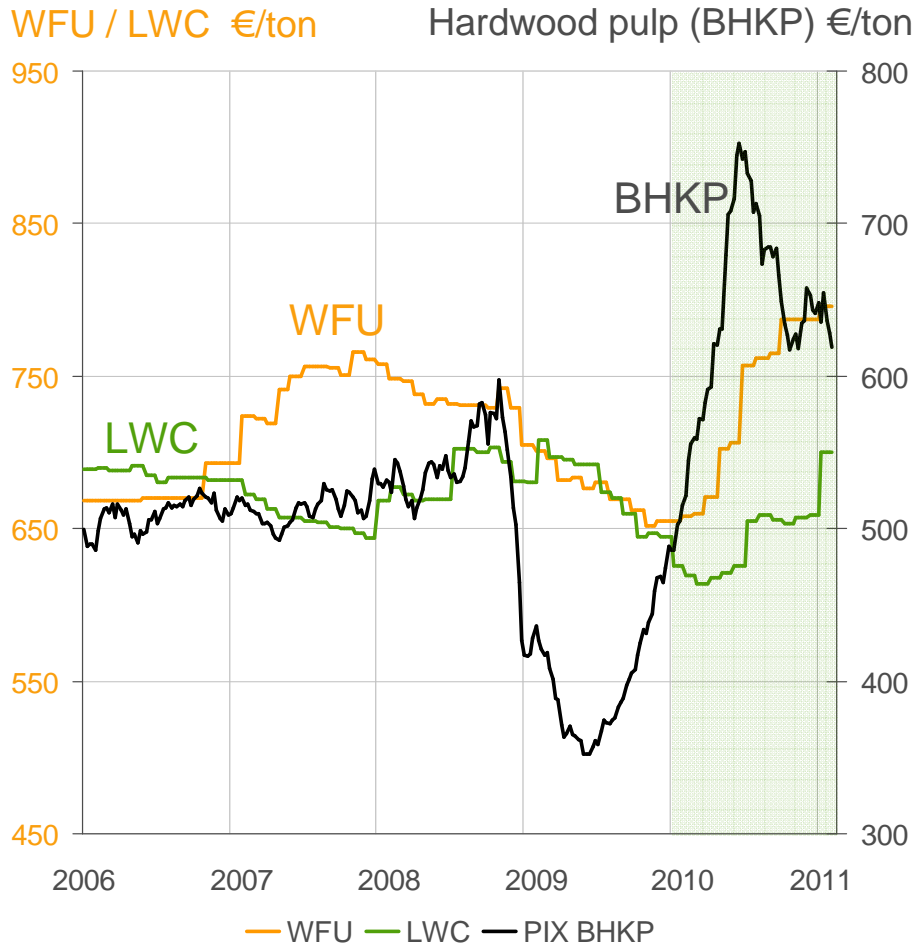
Deep losses due to huge fibre cost increases (pulp and RCP)  
Collapse of the publication paper prices to all-time low levels  
Cost savings could not offset the cost inflation  
Strikes in Finland, supply disruptions in logistics

# Paper market



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# Fibre prices squeezing paper makers' margins



Source: FOEX Indexes Ltd., PPI, RISI

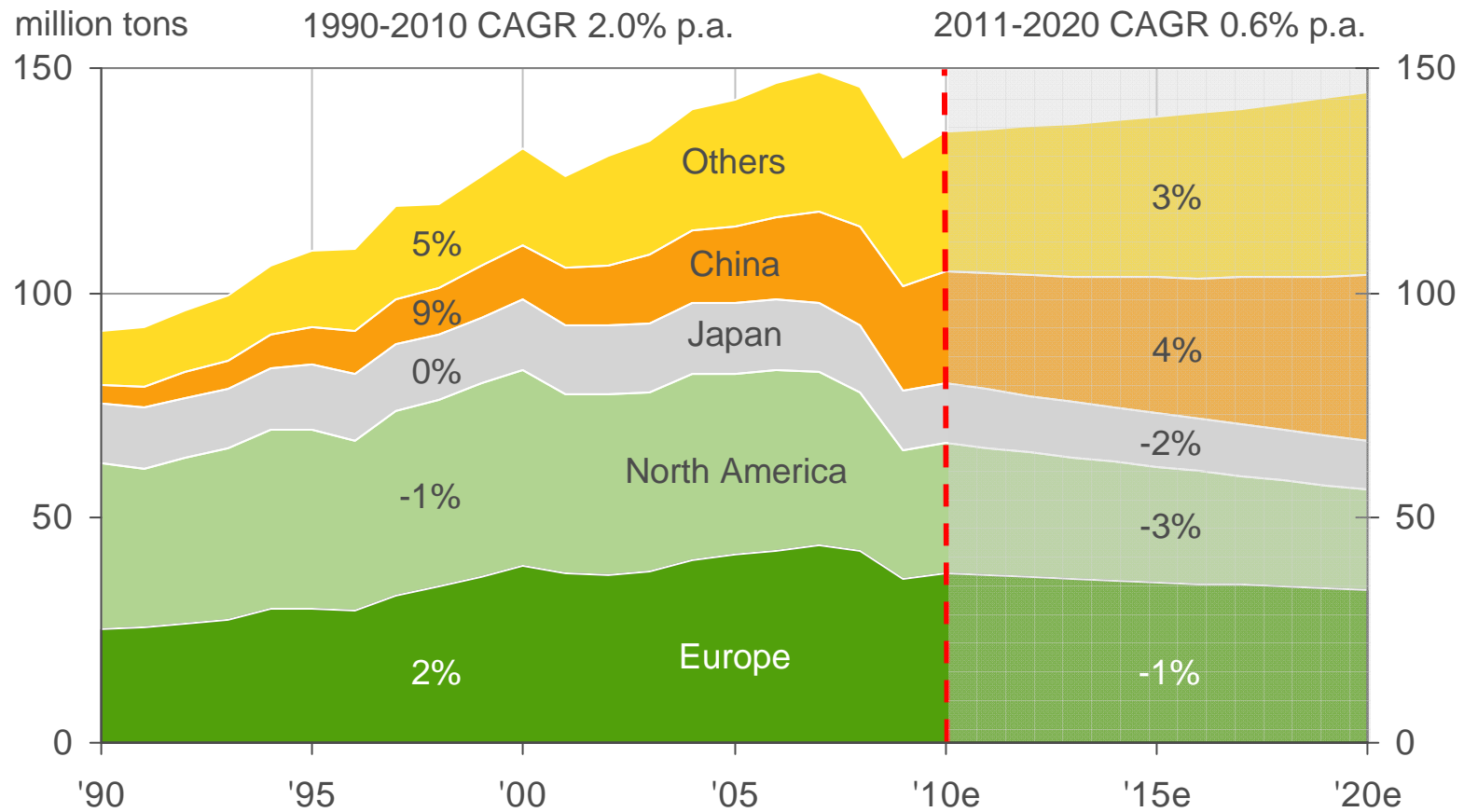
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### UPM's paper prices in 2011

- UPM has increased paper prices in the beginning of 2011.  
Examples in Europe:
  - Magazine papers                      about + 5-8%
  - Newsprint                                about + 20%
  - Fine and speciality papers        no material changes
- The average price for UPM's paper deliveries is expected to increase by about 6% in the beginning of the year from Q4 2010
- Publication paper prices return broadly to 2009 level
- Raw material costs have increased substantially from 2009

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# Graphic papers demand is shifting to growth markets



# Actions so far



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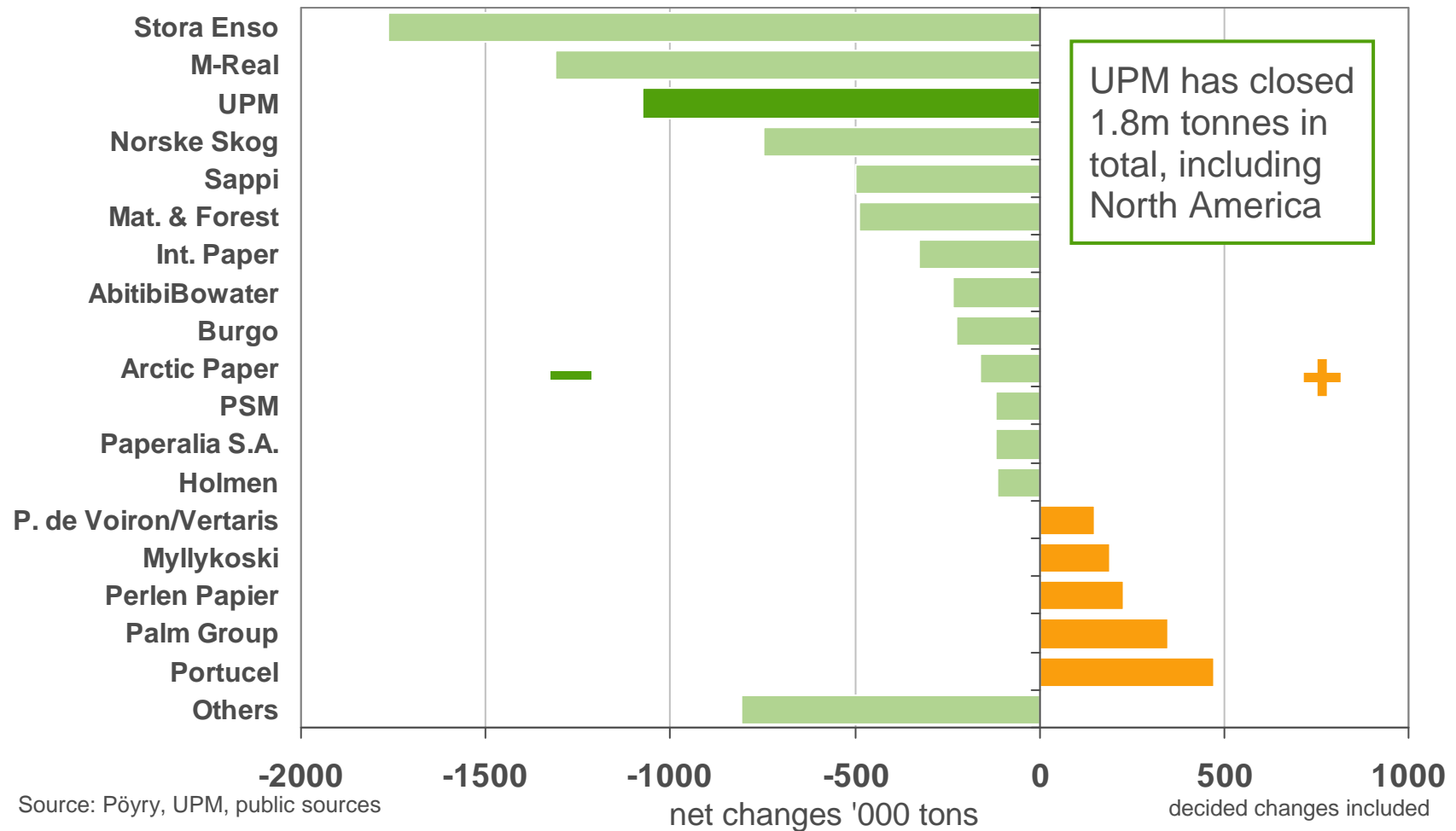
Net capacity reduction by company

6.6 million tonnes (12%) in Europe in 2005–2011e

The Biofore Company

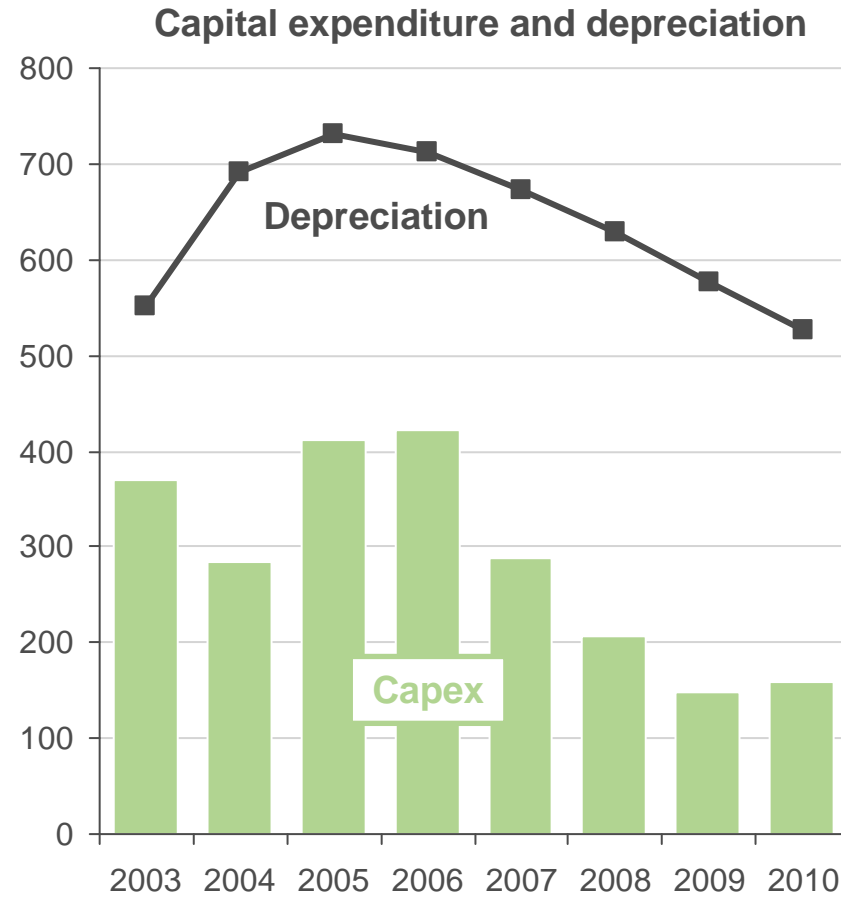
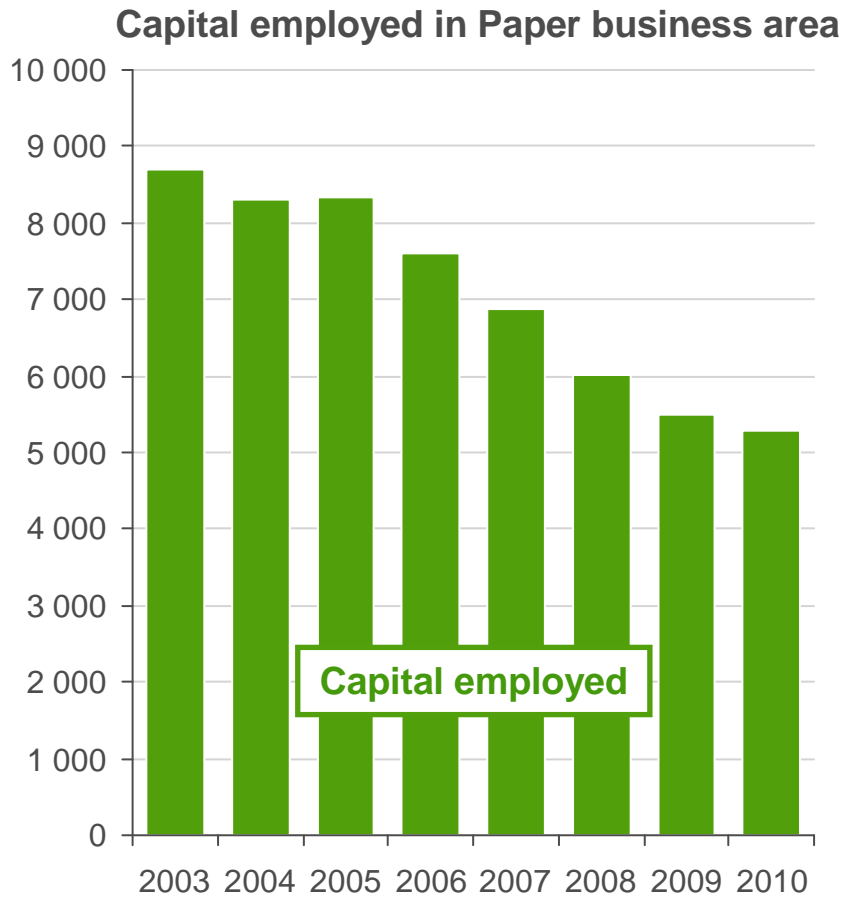


UPM



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# UPM assets are well maintained in spite of lower capital expenditure



Energy investments ~ EUR 900m  
PM in China ~ EUR 400m

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## Winning formula in the future paper business

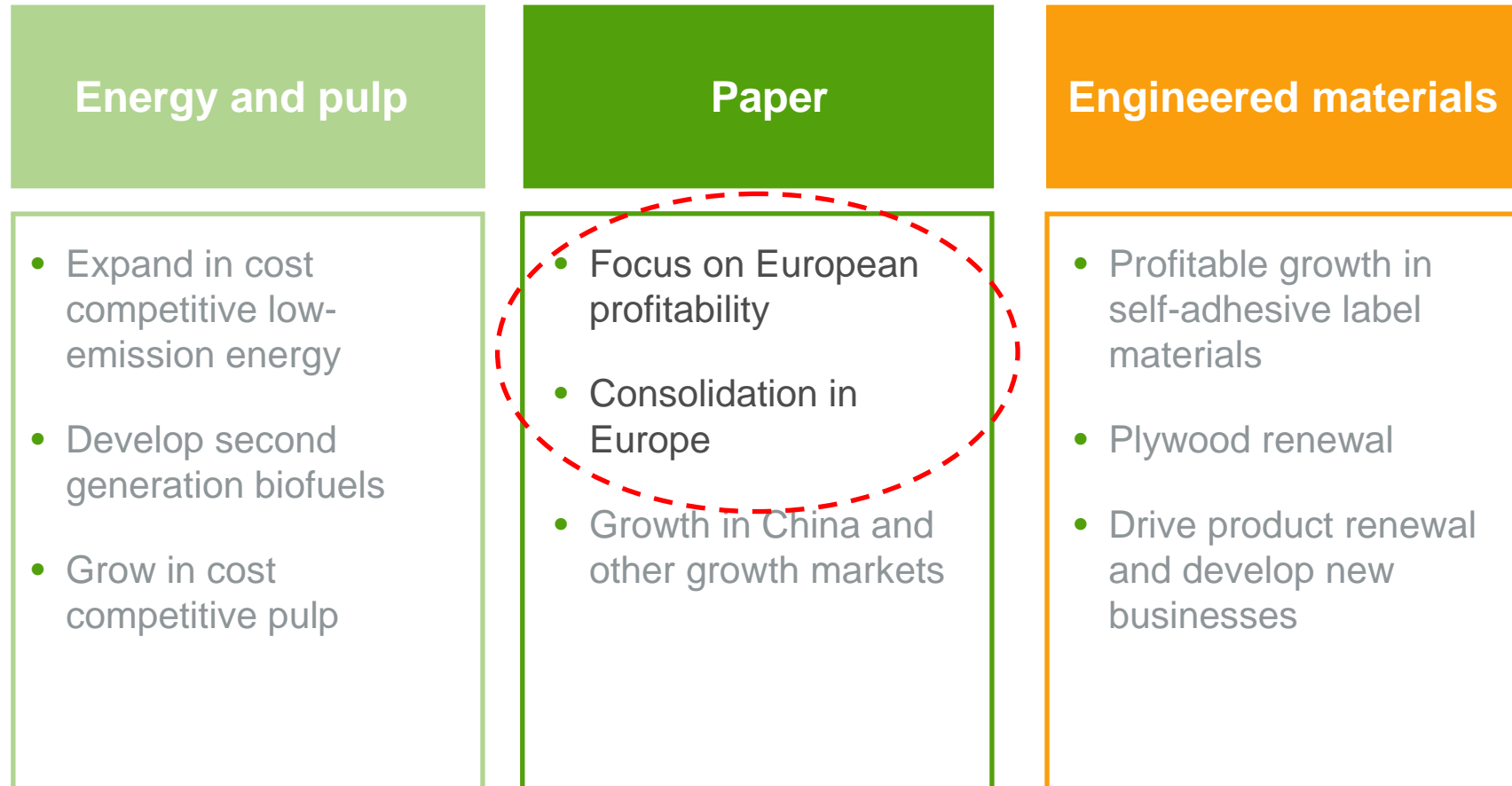


- Excellence at the customer interface
- Large, cost competitive mill sites with maximum on-site synergies
- Economies-of-scale in sales, operations and sourcing
- Low overhead costs and lean mentality
- Renewed working capital practices

**Strong position in Energy, Pulp and Paper  
is key for future cost efficiency**

# Myllykoski acquisition





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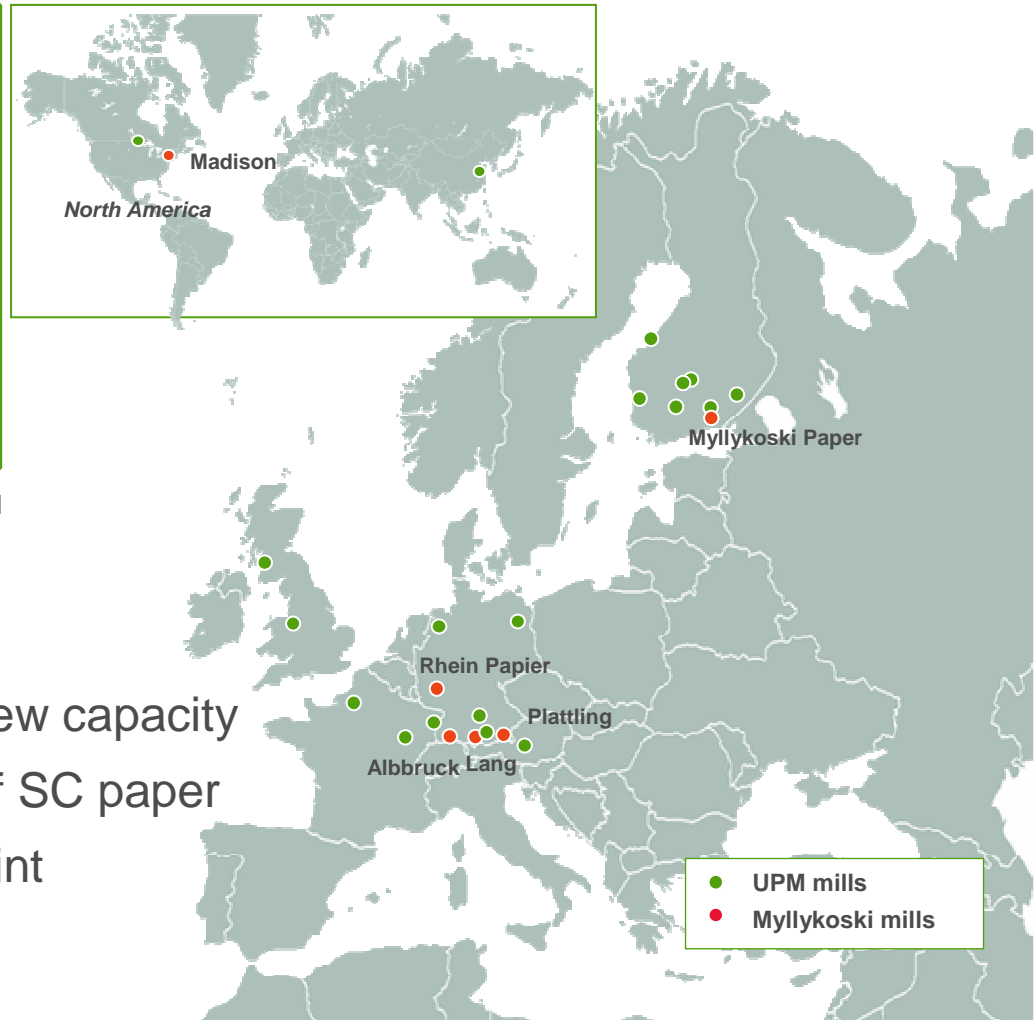
Paper operations to be acquired



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
<b>TOTAL</b>		<b>2,830</b>	<b>2,600 *)</b>

Source: Myllykoski

\*) incl. non-mill personnel



Invested recently over EUR 700m on new capacity

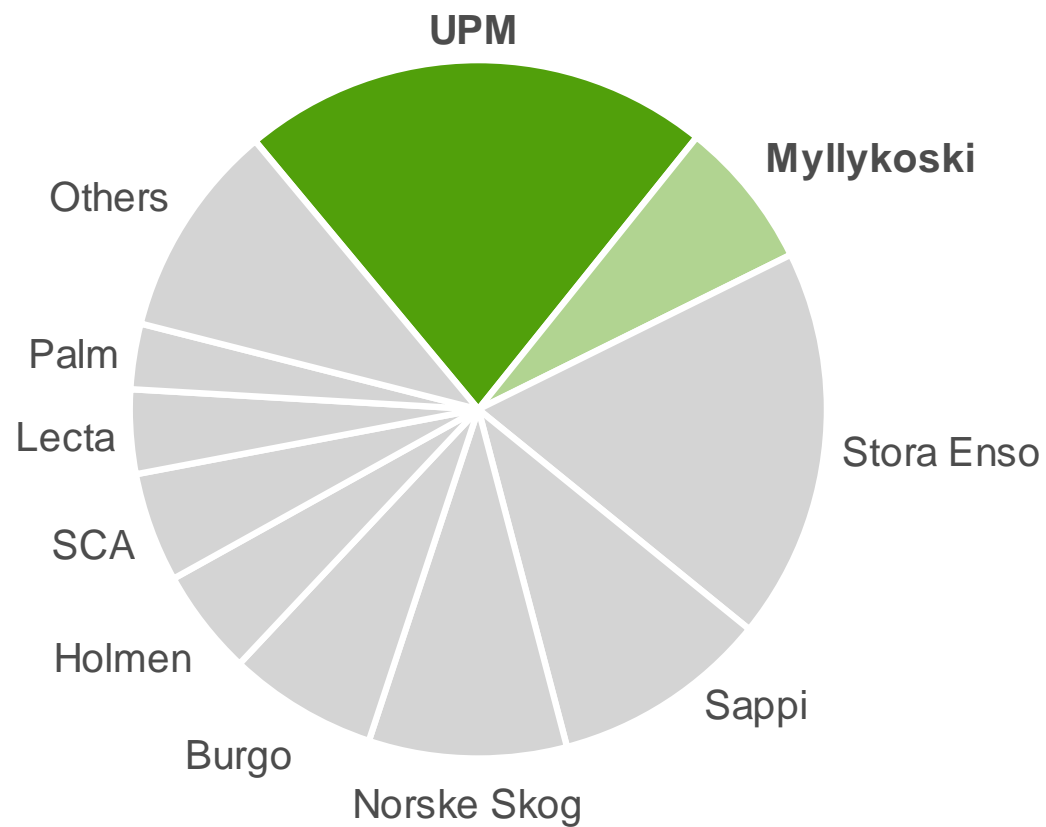
- Plattling PM 1 (2007); 380,000 t/a of SC paper
- Hürth (2002); 310,000 t/a of newsprint

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In Europe, capacity share increases by 7 percentage points to 29% (\*)

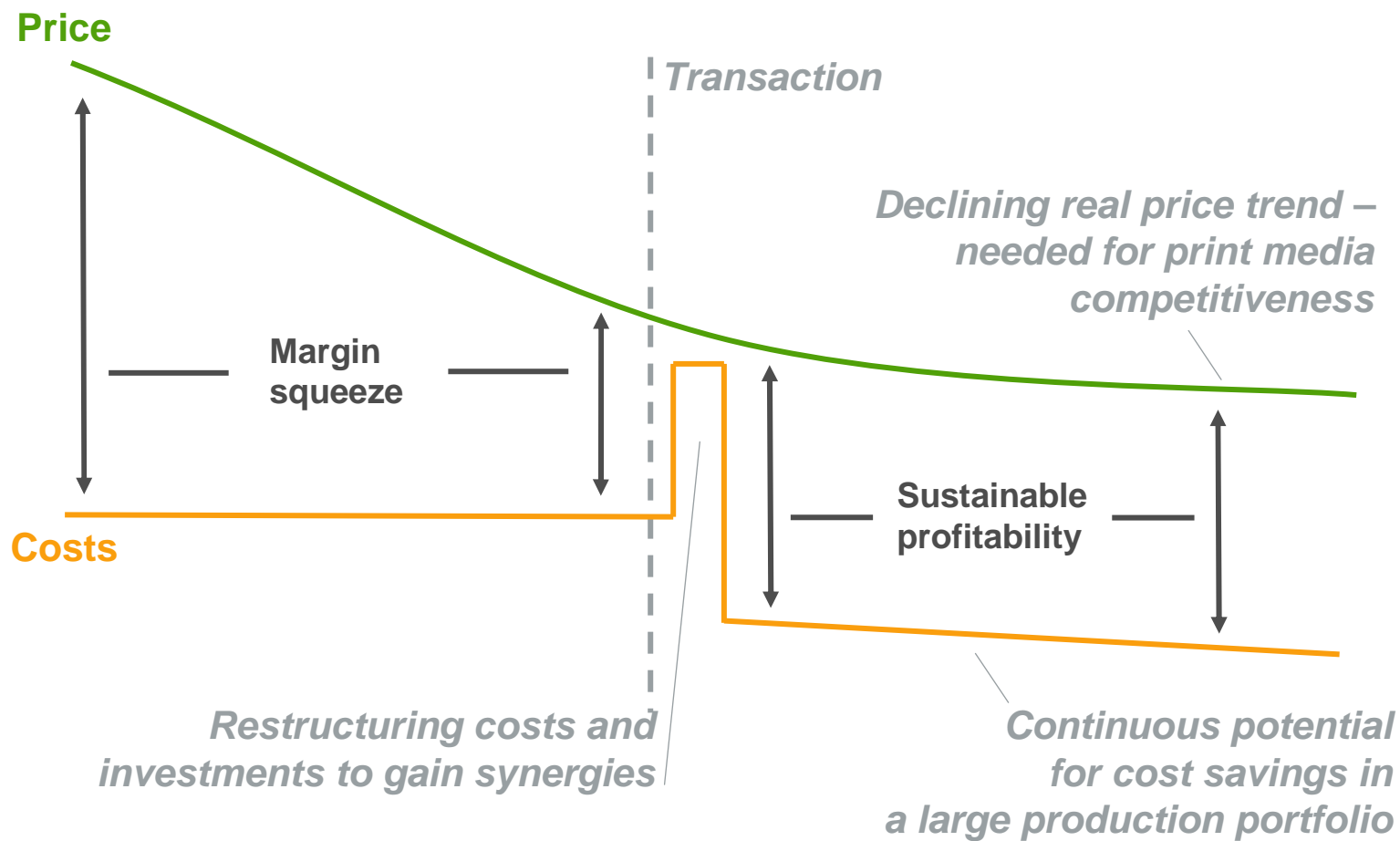


PUBLICATION PAPERS INCLUDING WFC CAPACITY



\*) subject to closing of the transaction

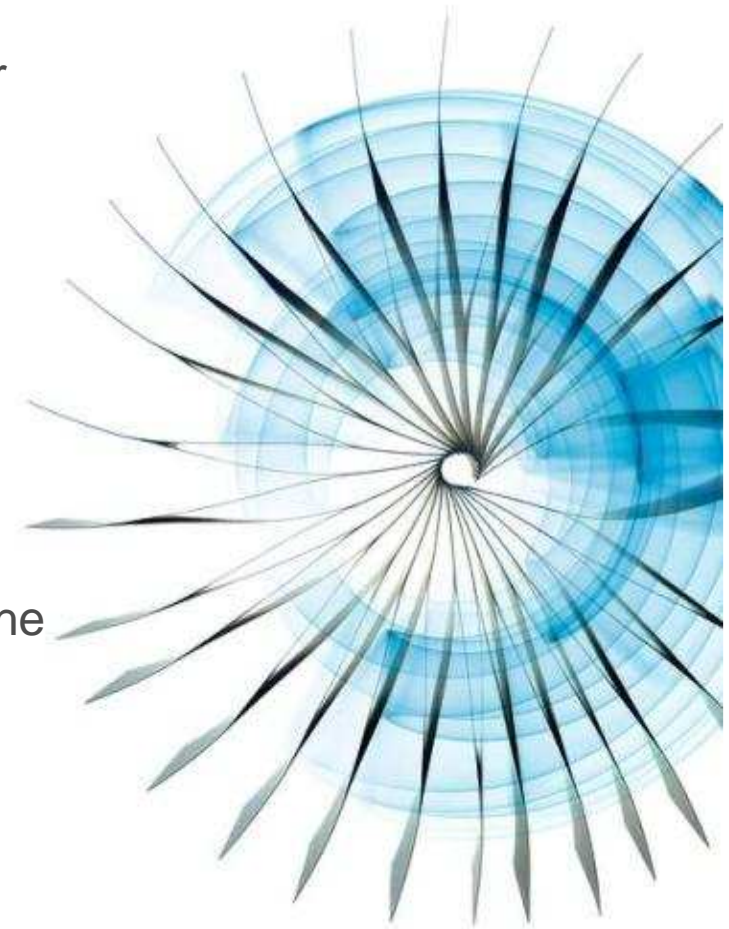
# Achieve sustainable cost structure through consolidation



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# Benefits of the Myllykoski acquisition

- Forming a cost efficient European paper supplier committed to print media
- Contributing to the cost competitiveness of the print media
- Strengthening customer service and supply security closer to our customers
- Enabling efficiency improvement necessary for the future development of the European industry
- Ensuring sourcing of key inputs like fiber and energy cost efficiently in the future



# Growth option in China



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# Organic growth opportunity in China

- Demand in China and other Asia is estimated to grow 6-8 %/a
- Permits have been granted to build a new paper machine in the Changshu mill
- Decision subject to project feasibility, market opportunity and UPM strategic priorities in growth
- Timing is open – no investment decision has been made yet



## PAPER Summary

- 2010 was a challenging year for Paper, but not without successes
- Stable demand, increasing paper prices and moderating cost inflation provide a base for profitability improvement in 2011
- Myllykoski acquisition is a key step to improve profitability in UPM's European paper business
- With the acquisition, UPM is strengthening its position as a cost efficient reliable partner for paper customers
- China represents a growth option



**UPM**

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