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Handelsbanken 9th Annual Nordic Basic Industry Seminar

UPM
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CFO

5 March, 2009

Contents



UPM in brief

- Energy

- Pulp

- Paper

- Label

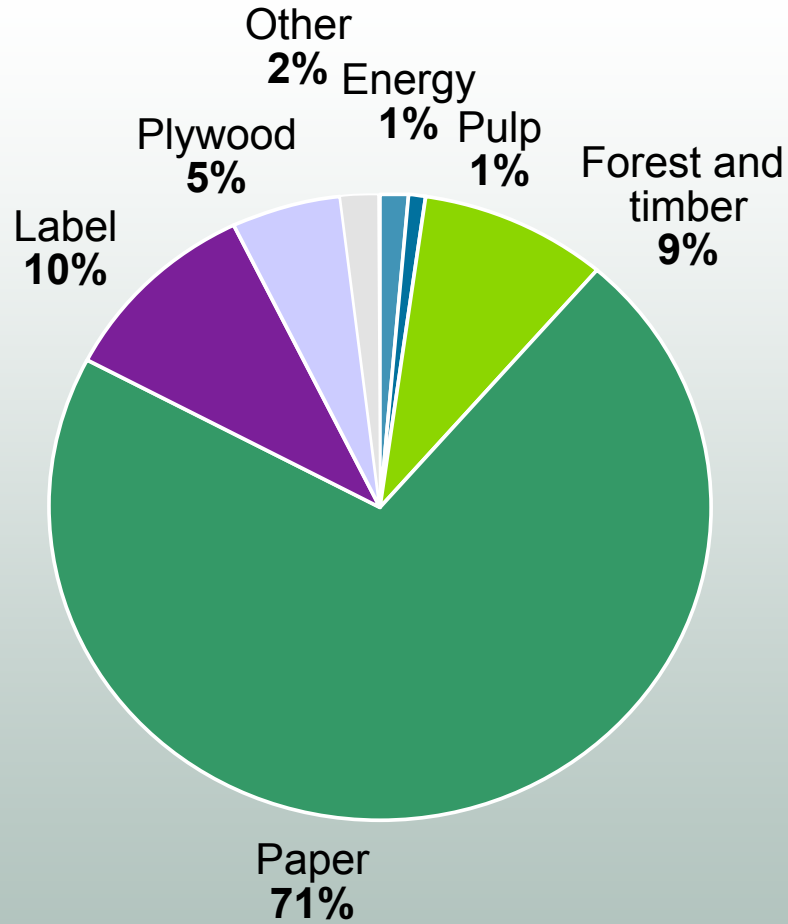
Financials 2008

Conclusions

UPM IN BRIEF

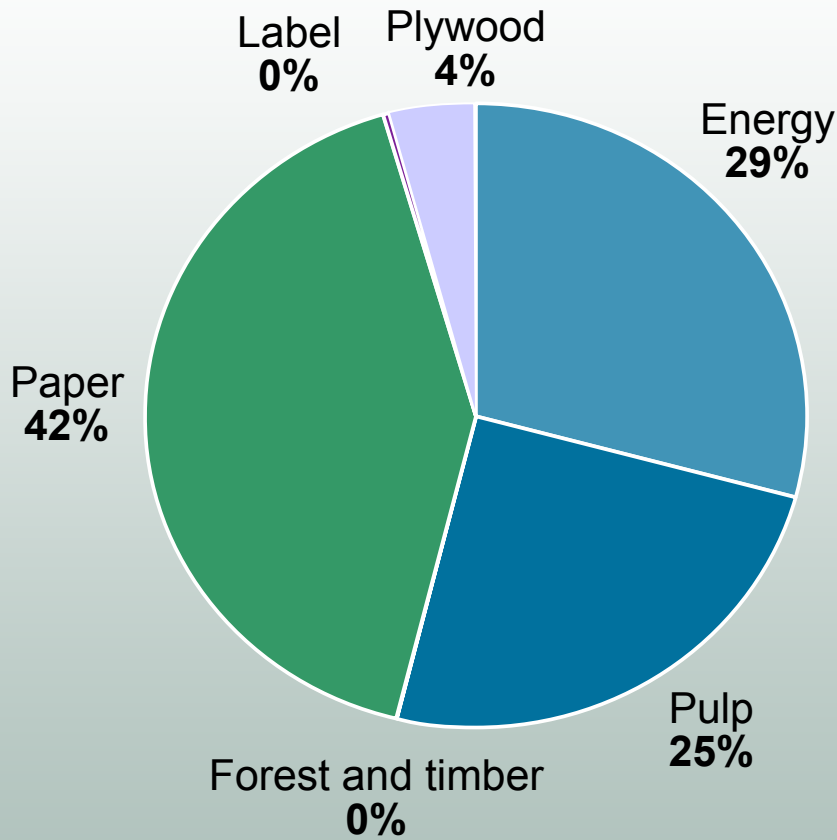
Sales € 9,461 million in 2008

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% of external sales

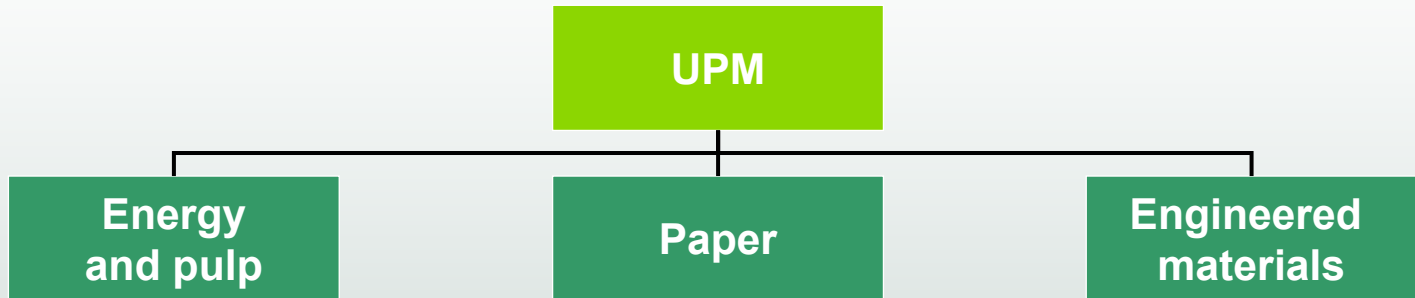
Operating profit* € 513 million in 2008



* excl. special items

UPM IN BRIEF

Business Groups



Businesses

- Hydropower assets
 - Pulp mills
 - Shares of associated companies in energy and pulp
 - Biofuels
 - Forests & Timber
- Magazine
 - Newsprint
 - Fine
 - Speciality
- Label
 - Plywood
 - RFID
 - Wood Plastic Composites

UPM's energy generation



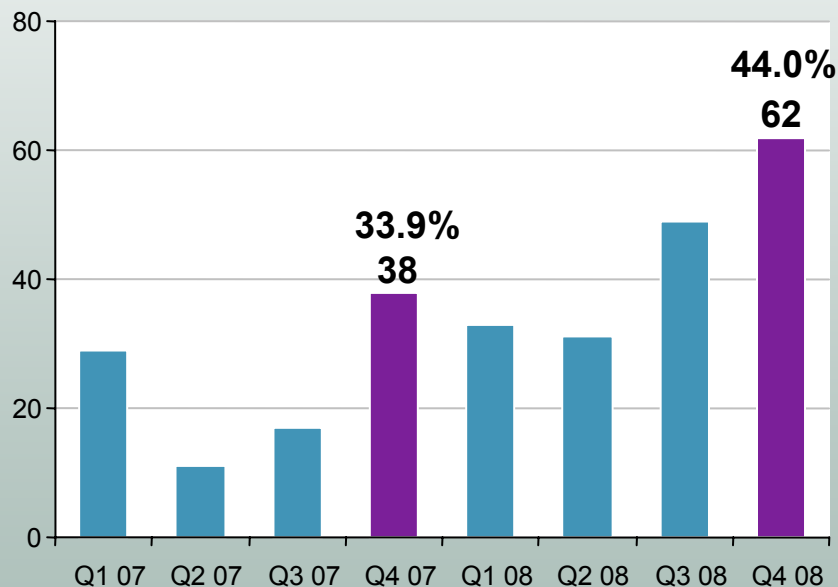
- PVO (hydro, condensing)
 - UPM's share 41.99%
- PVO owns 57.94% of TVO (nuclear)
 - Nuclear power plants OL1, OL2
 - OL3 to start in 2012
 - UPM's share 29%, adding 468MW
- Hydro
 - UPM's share 19% of Kemijoki hydropower shares
 - own hydro power
- Combined heat and power
 - integrated at the paper and pulp mill sites

Type	Nominal capacity MW
Own hydropower	174
Hydro shareholdings	493
Nuclear shareholdings	541
Condensing shareholdings	418
Total in Energy	1,626
CHP in Paper	913
Total UPM	2,539

Operating profit improved

- Average sales price for electricity increased by 33%
- 21% increase of hydropower volume had a positive impact on the average cost of power generation

€, million Operating profit excluding special items

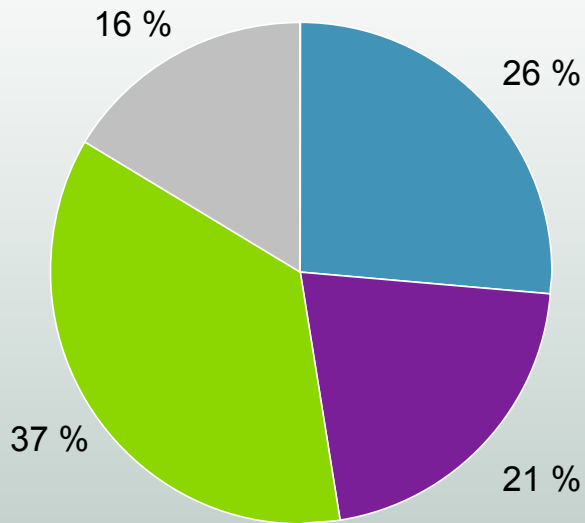


	2008	2007
Sales, M€	478	379
Operating profit M€ excl. special items	175	95
Average price, change %	33%	n.a.
Electricity sales, TWh	10.2	10.3

Low-cost, low emission electricity generation

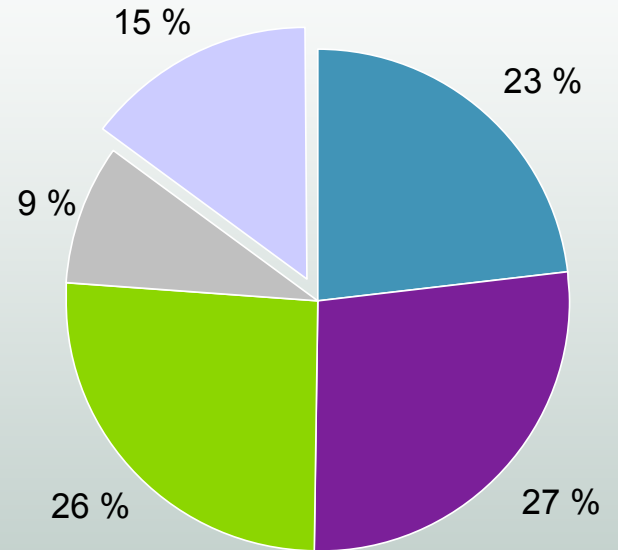


**Nominal capacity
2,539 MW**



- Hydro
- Nuclear
- CHP (in Paper)
- Condensing
- Net purchases

**Total electricity consumption
16.7 TWh in 2008**

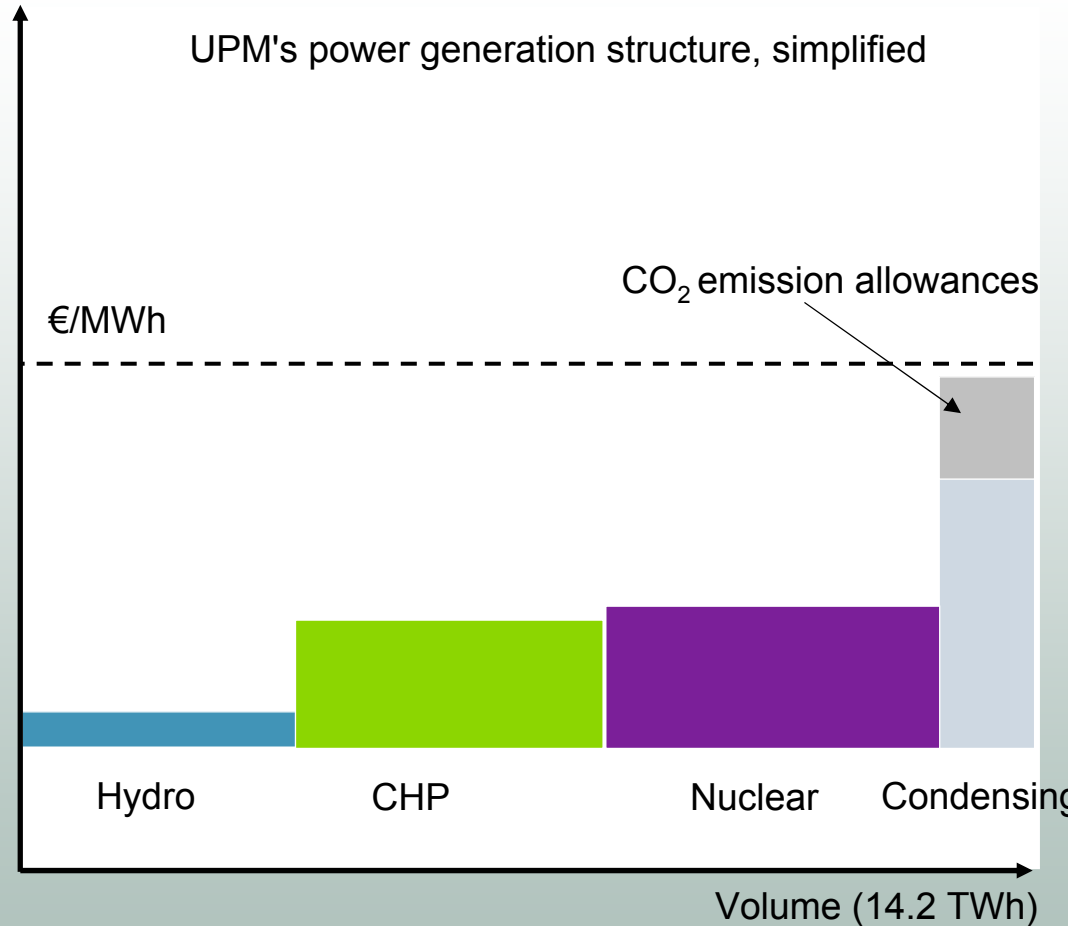


- Group-level electricity self-sufficiency was 85% in 2008
Net seller in Finland (2.5TWh)
- 62% of fuels used by UPM globally were biofuels in 2008,
81% in Finland

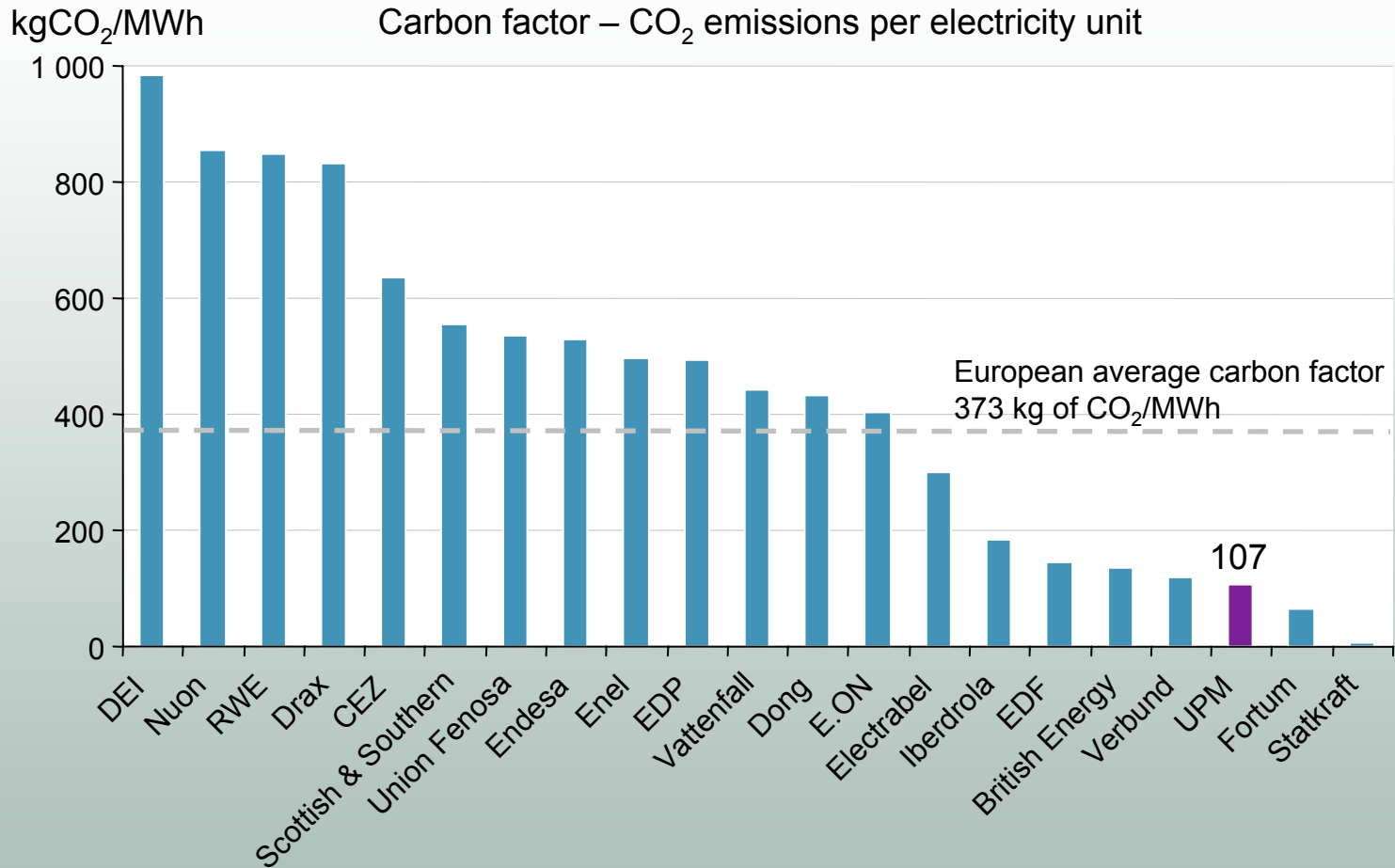
Low-cost electricity sources



- Some 59% of UPM's electricity generation is hydro and nuclear power and 30% is CHP at mills, largely based on biofuels
- UPM's electricity generation is cost competitive regardless of fuel and CO₂ prices
- TVO's new reactor will add 3.5TWh of nuclear power, starting in 2012



Low CO₂ emission electricity sources



Source: PWC 2008, UPM

ENERGY

Development of cleaner energy continues

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Olkiluoto, Finland



Efficient pulp capacity with low investment requirements

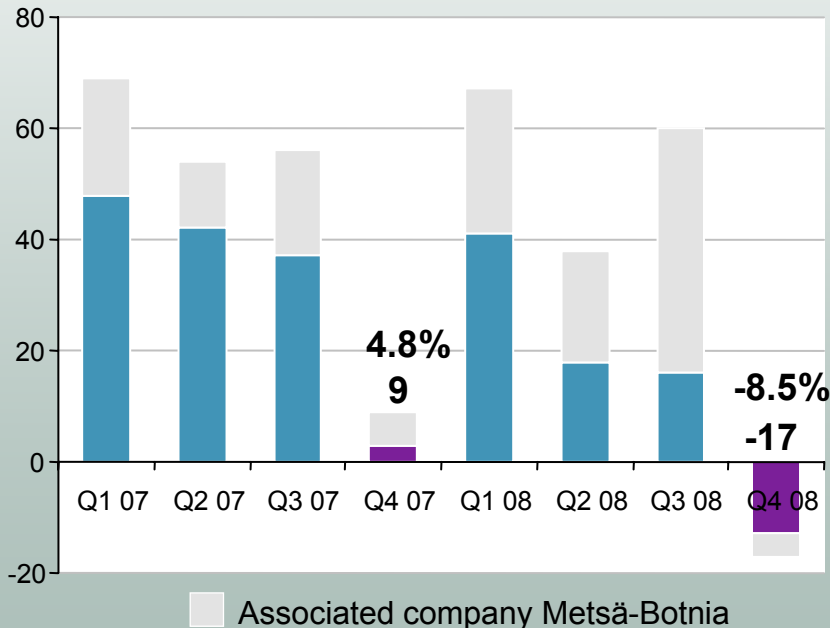


- UPM's own pulp capacity 2.1 mill. tonnes
 - Kaukas rebuild 1996
 - Pietarsaari chemical recovery island 2004
 - Kymi chemical recovery island 2008
- Associated company Metsä-Botnia
 - UPM's share 47%
 - UPM's capacity entitlement 1.5 mill. tonnes
 - 4 pulp mills in Finland
 - 1 new pulp mill in Uruguay



- Operating profit declined due to higher wood costs
- Average market price for pulp was about the same as 2007
- Tervasaari was closed down permanently, extensive production downtime was taken in the fourth quarter

€ million Operating profit excluding special items

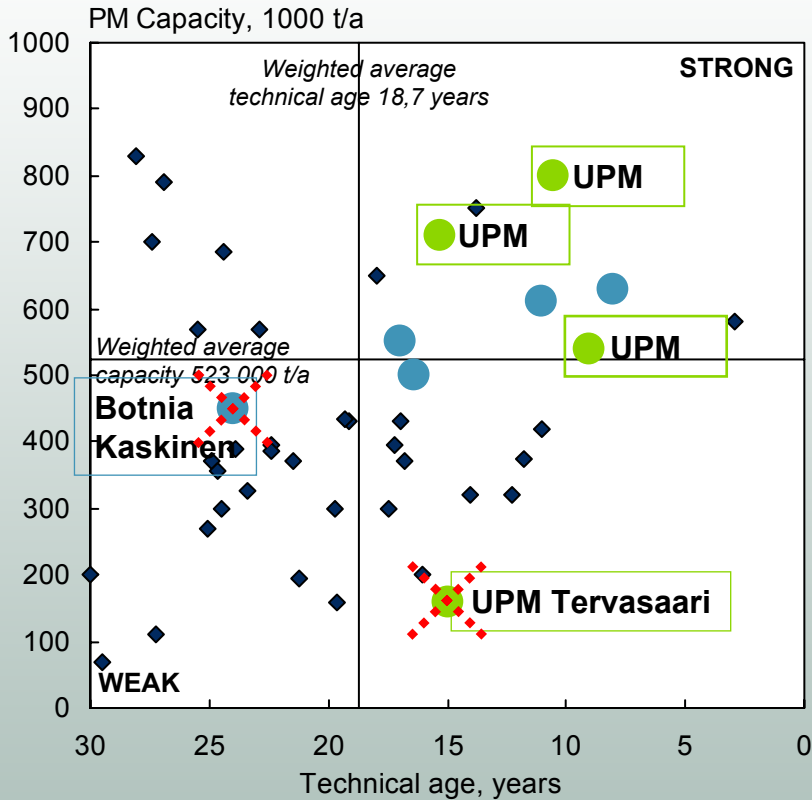


	2008	2007
Sales, M€	944	808
Operating profit M€ excl. special items	148	188
Pulp deliveries, 1,000 t	1,982	1,927

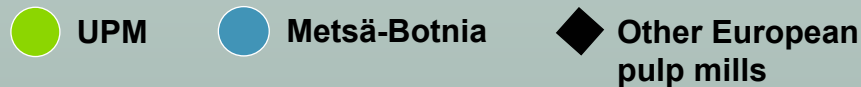
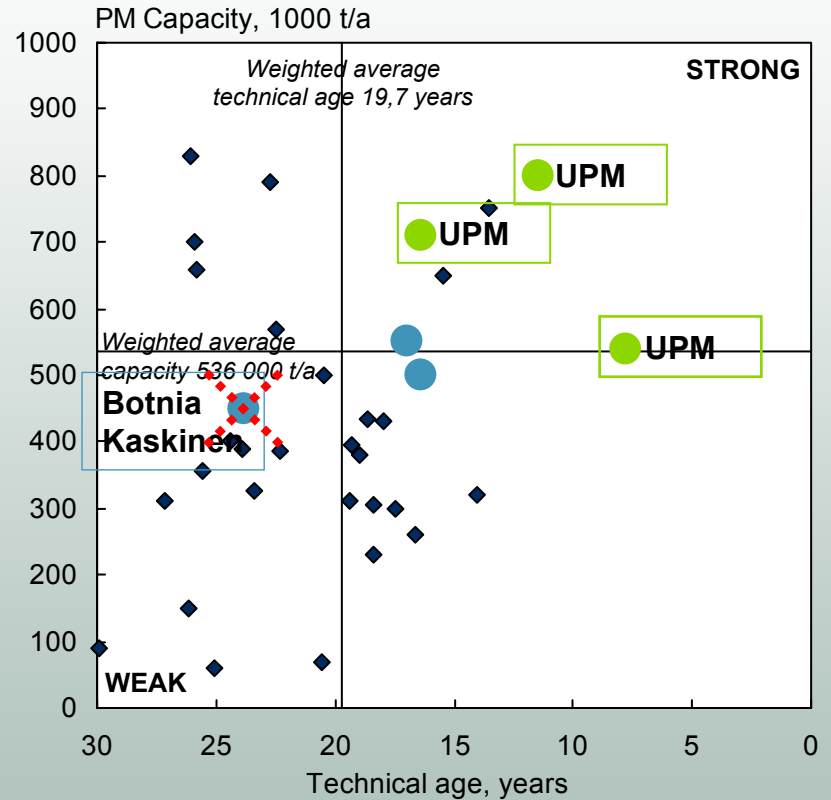
UPM's pulp mills are competitive



BSKP mills in Europe



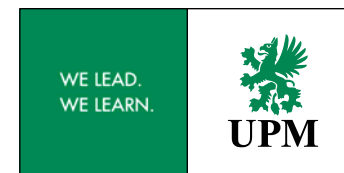
BHKP mills in Europe



Source: Pöyry

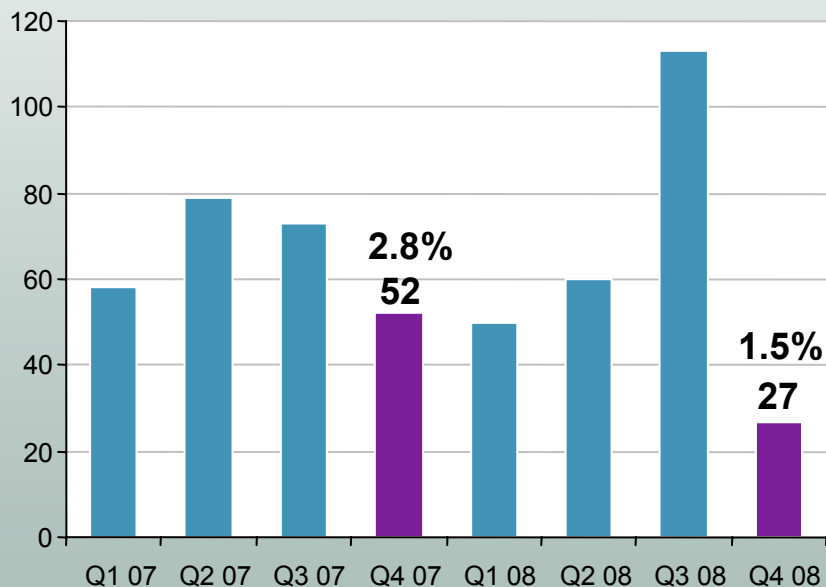
PAPER

Paper



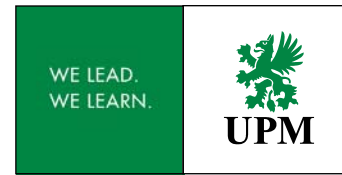
- Operating profit was impacted by
 - lower deliveries (-7%), higher energy and fibre costs
 - capacity management and inventory reduction
 - + lower fixed costs due to capacity closures and efficiency gains
 - + 2% higher average paper price in euros
- Kajaani mill was shut down permanently in December

€, million Operating profit excluding special items

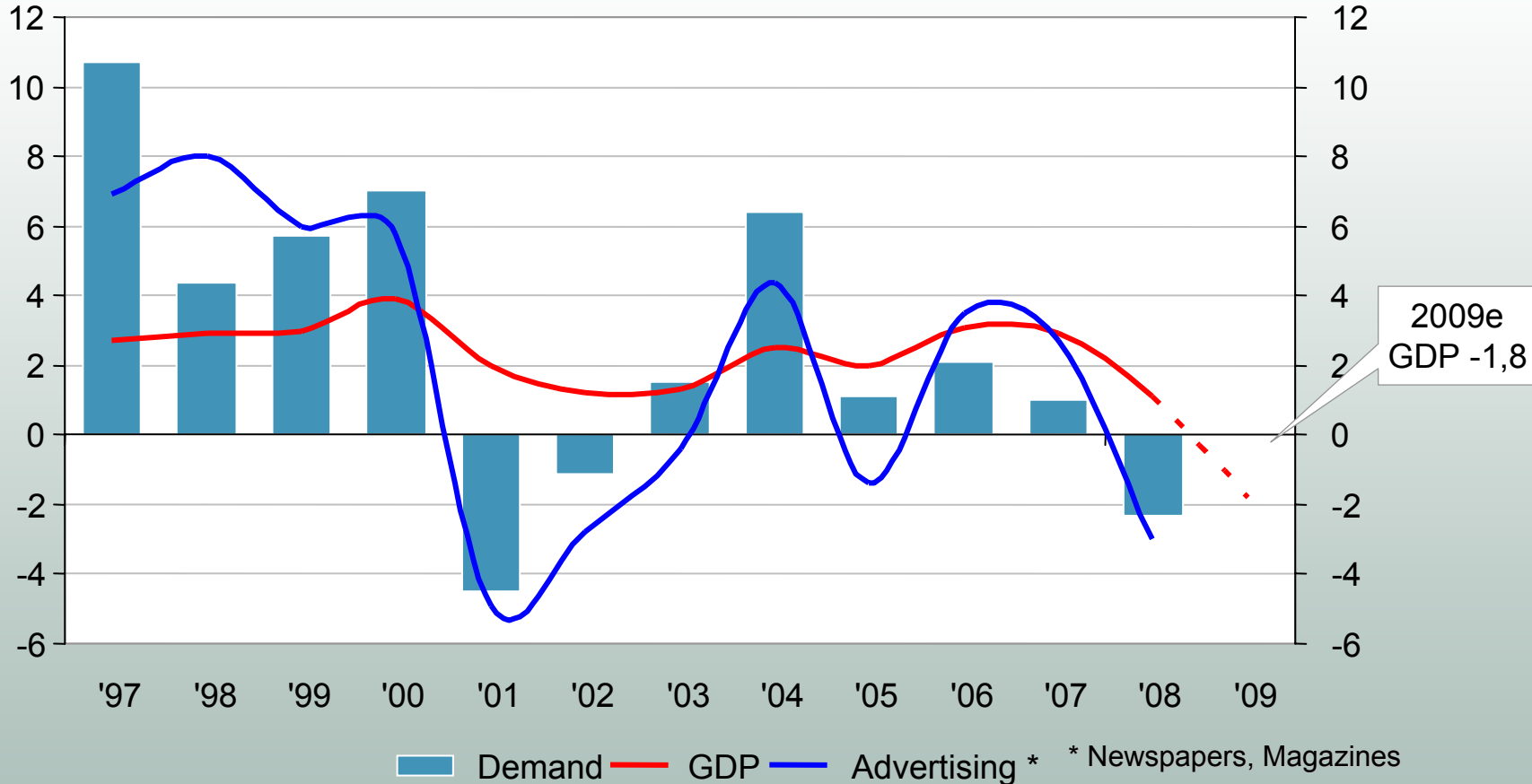


	2008	2007
Sales, M€	7,011	7,328
Operating profit M€ excl. special items	250	262
Average price, change %	2%	n.a.
Paper deliveries, 1,000 t	10,641	11,389

Graphic papers demand in Europe

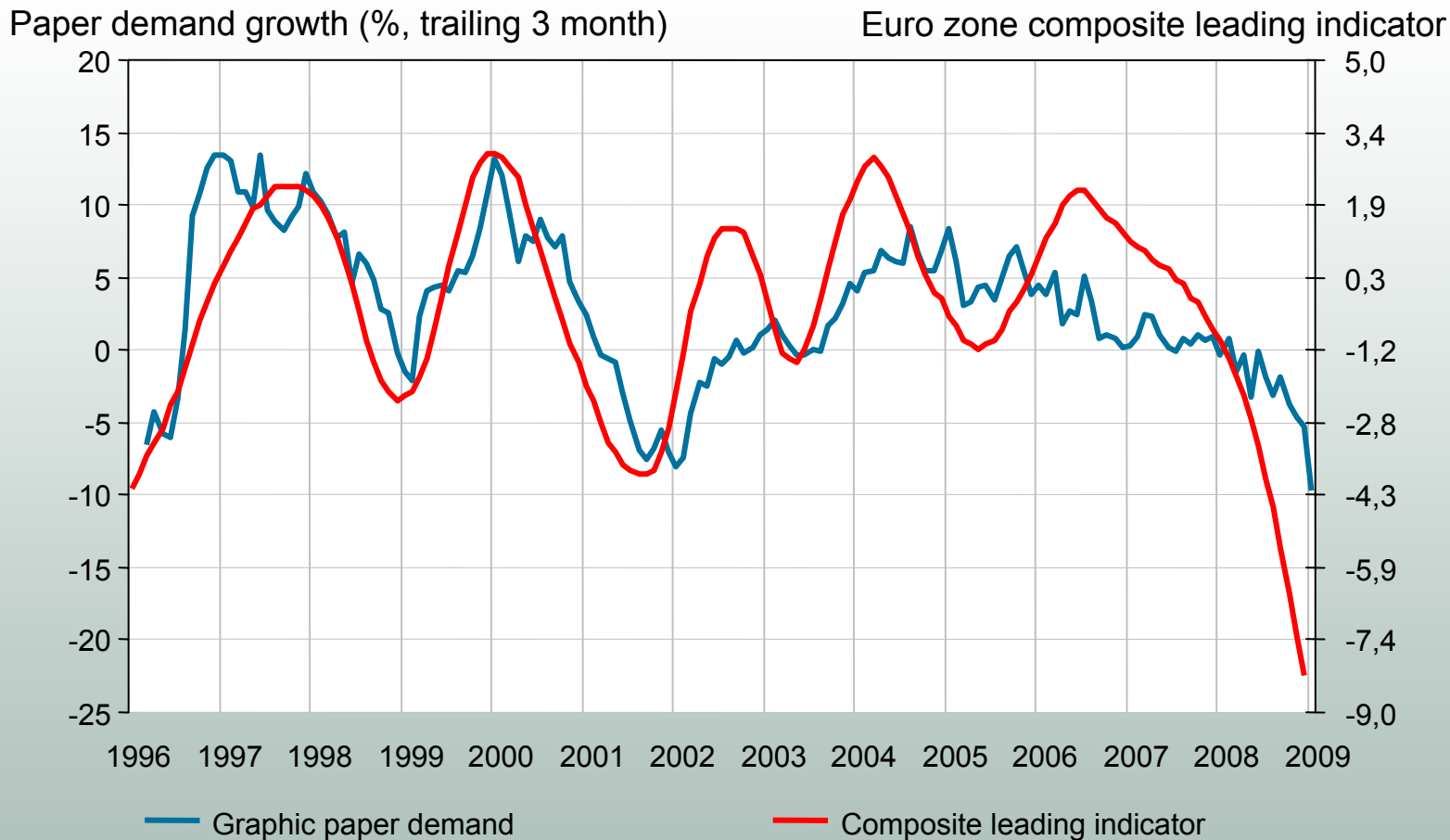


Growth % from previous year



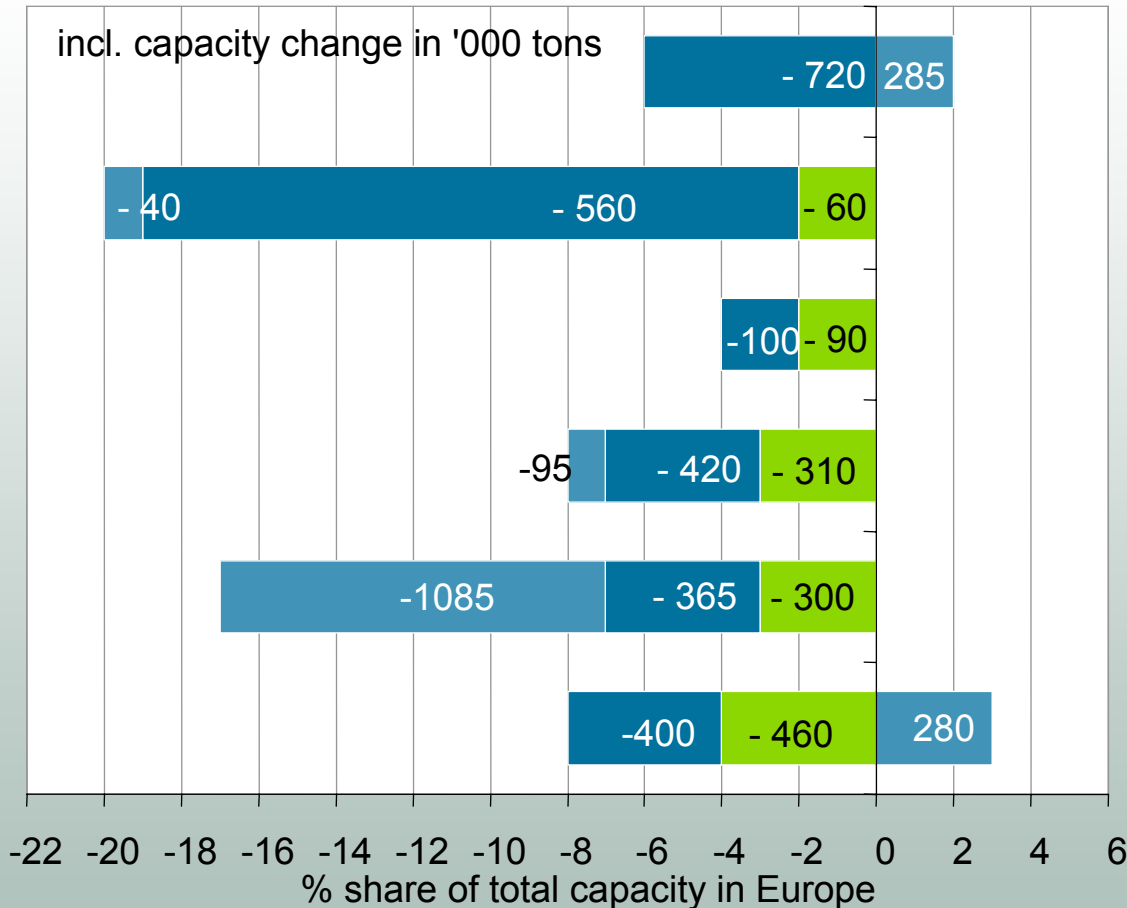
Sources: Cepiprint, Cepifine, ZenithOptimedia, Concensus Forecast, EU Commission

Paper demand growth in Europe and euro zone composite leading indicator



Source: Cepiprint, Cepifine, OECD

Net capacity change in Europe 2007–2009e



News

OMU

SC

LWC

WFC

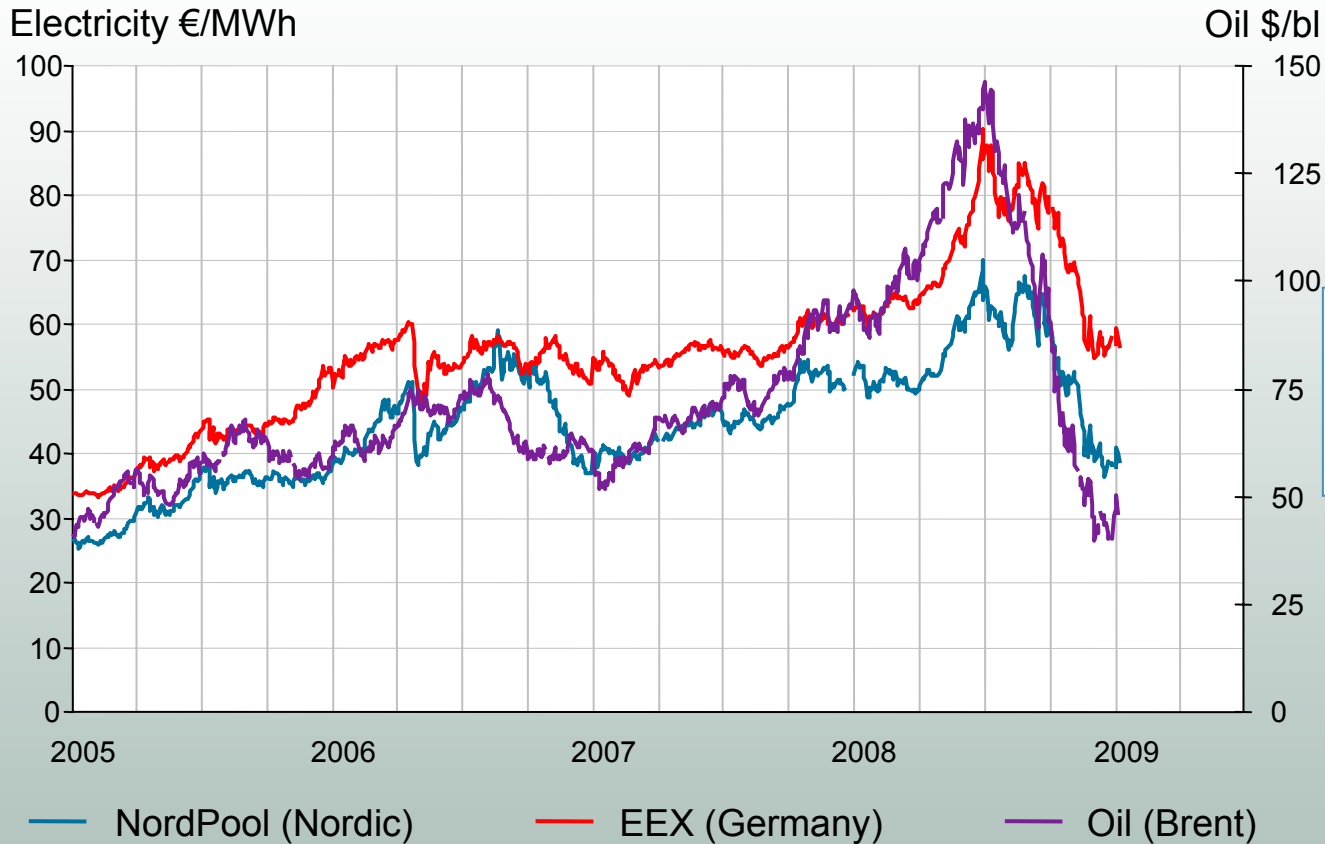
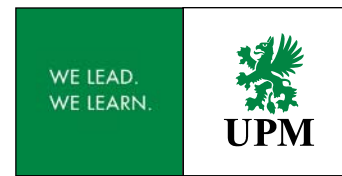
WFU

2007
Total -1,2 million tons; 2,4%
2008
Total -2,6 million tons; 4,9%
2009e
Total -0,7 million tons; 1,3%

Source: Pöyry, UPM, public sources

decided changes included

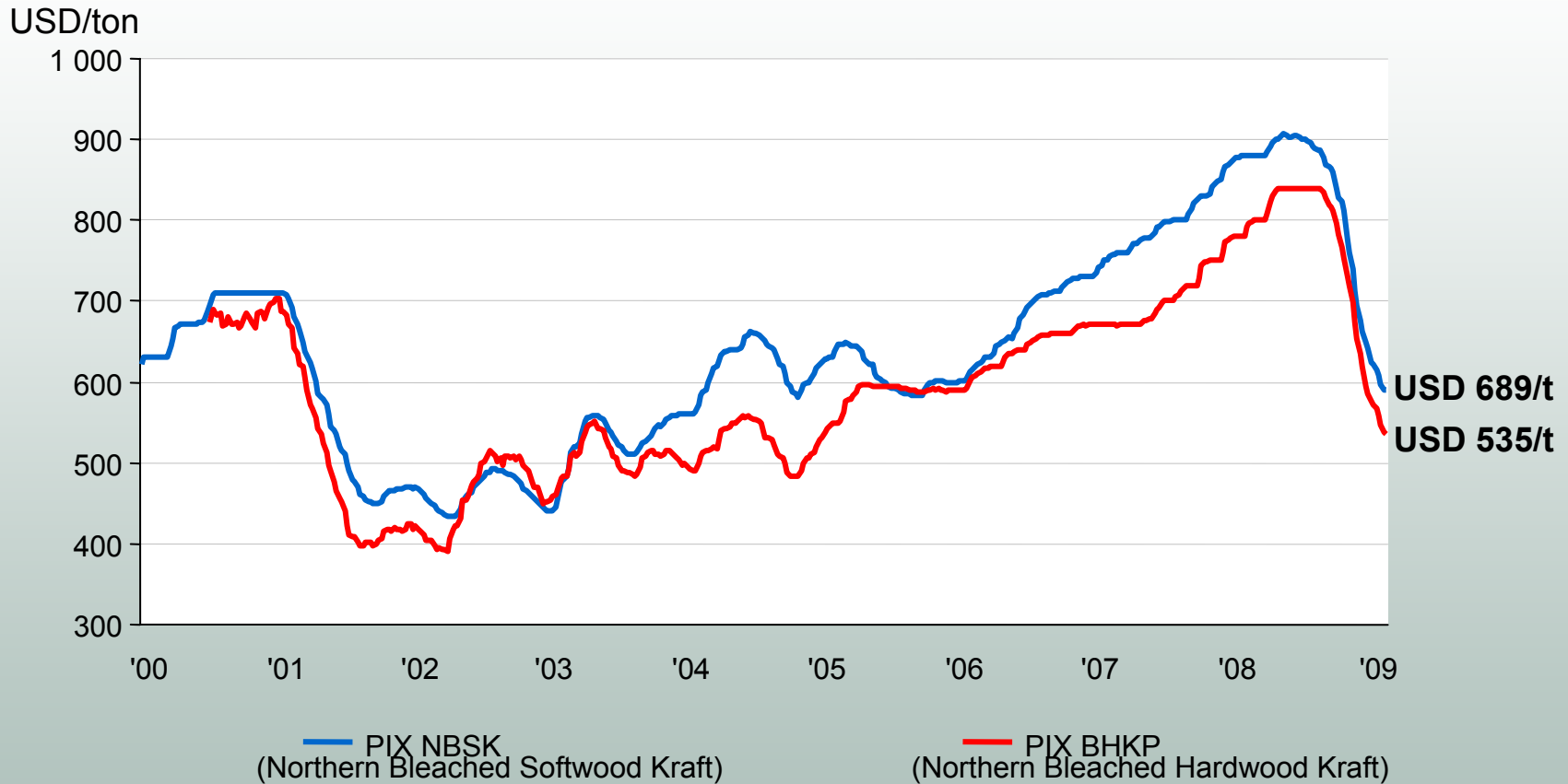
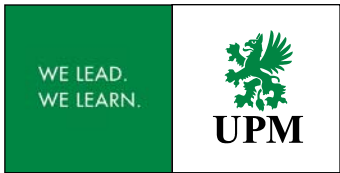
Electricity and fuel prices



UPM's energy costs expected to decrease with a delay

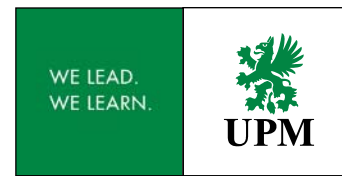
Source: NordPool, EEX

Chemical pulp market price

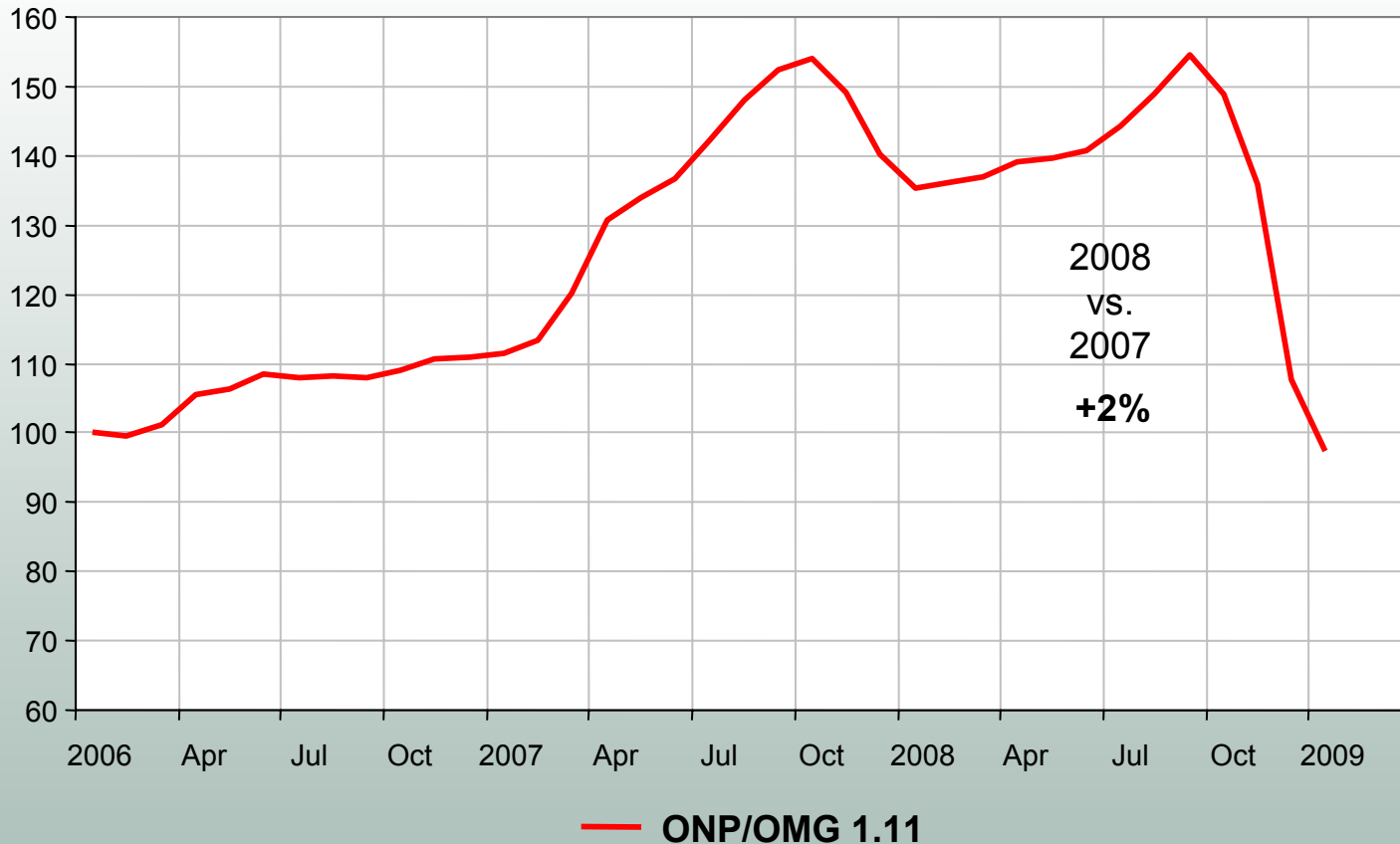


Source: FOEX Indexes Ltd.

Recycled paper price index

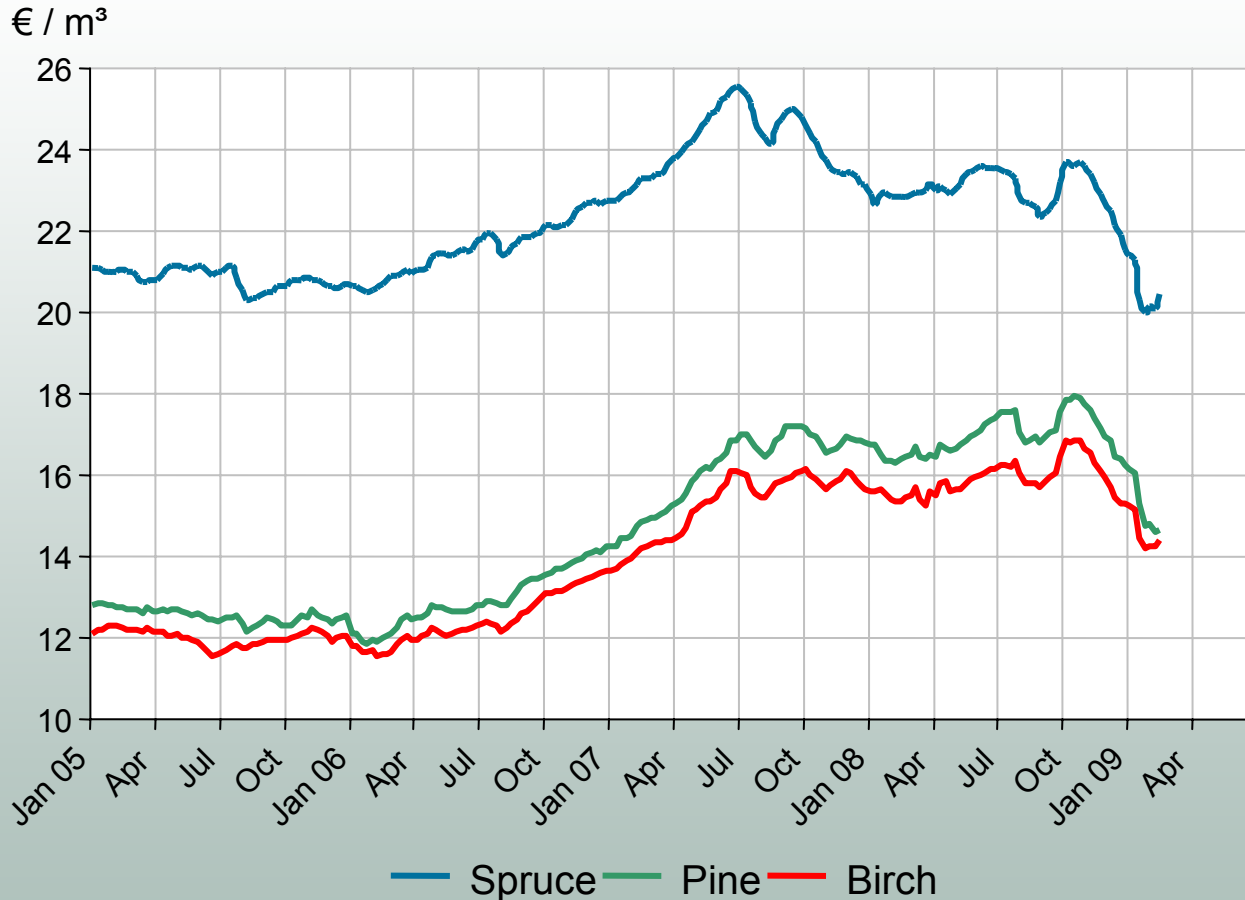


Jan 2006 = 100



Source: FOEX Indexes Ltd

Fibre wood stumpage prices in Finland



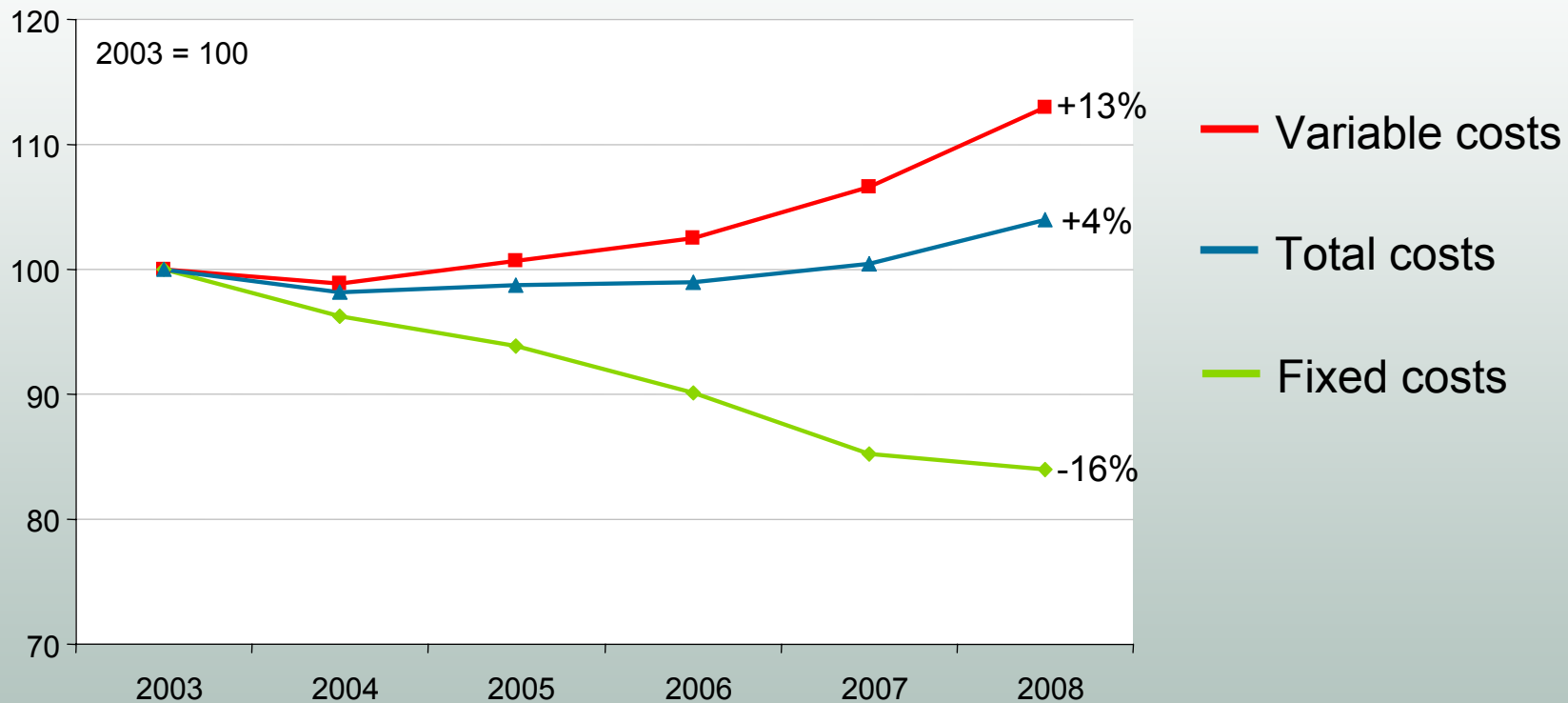
UPM's wood costs expected to decrease with a delay

Source: Metla

With efficiency improvements, UPM's fixed costs per tonne have declined 16% since 2003

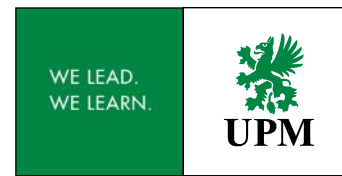


Paper (incl. pulp) costs per delivered tonne (excluding special items)



LABEL

Label materials are widely used in consumer products and logistics



Food labelling



Beverage labelling



Personal Care labelling



Home Care labelling



Pharmaceutical labelling



Wine labelling



Durable labelling



Tyre labelling



Retail, Logistics & Transport labelling

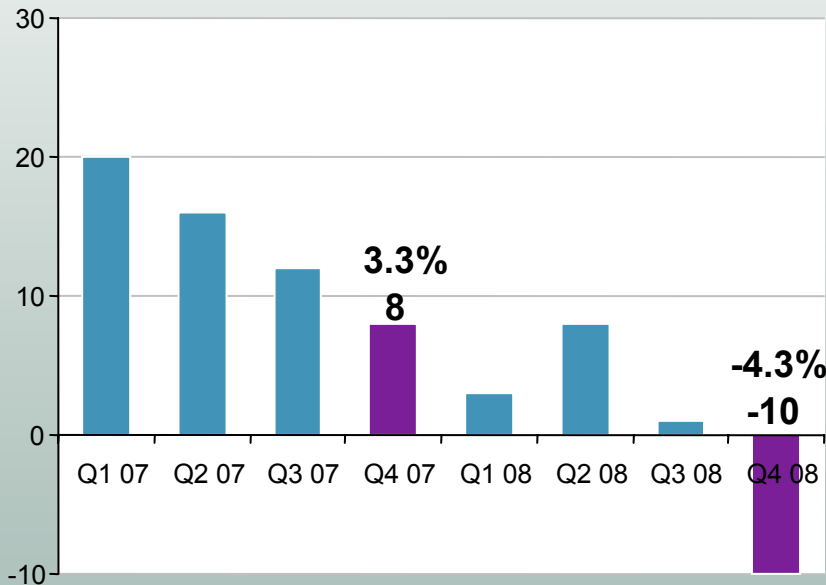


Oil & Industrial Chemical labelling



- Operating profit declined due to higher raw material costs and increased fixed costs related to new factories in Dixon and Wroclaw
- Average sales price was about the same as in 2007
- Will reduce coating capacity and close two slitting terminals in Europe, some 340 employees affected, targeted annual cost savings € 25m

€, million Operating profit excluding special items



	2008	2007
Sales, M€	959	998
Operating profit M€ excl. special items	2	56

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FINANCIALS 2008

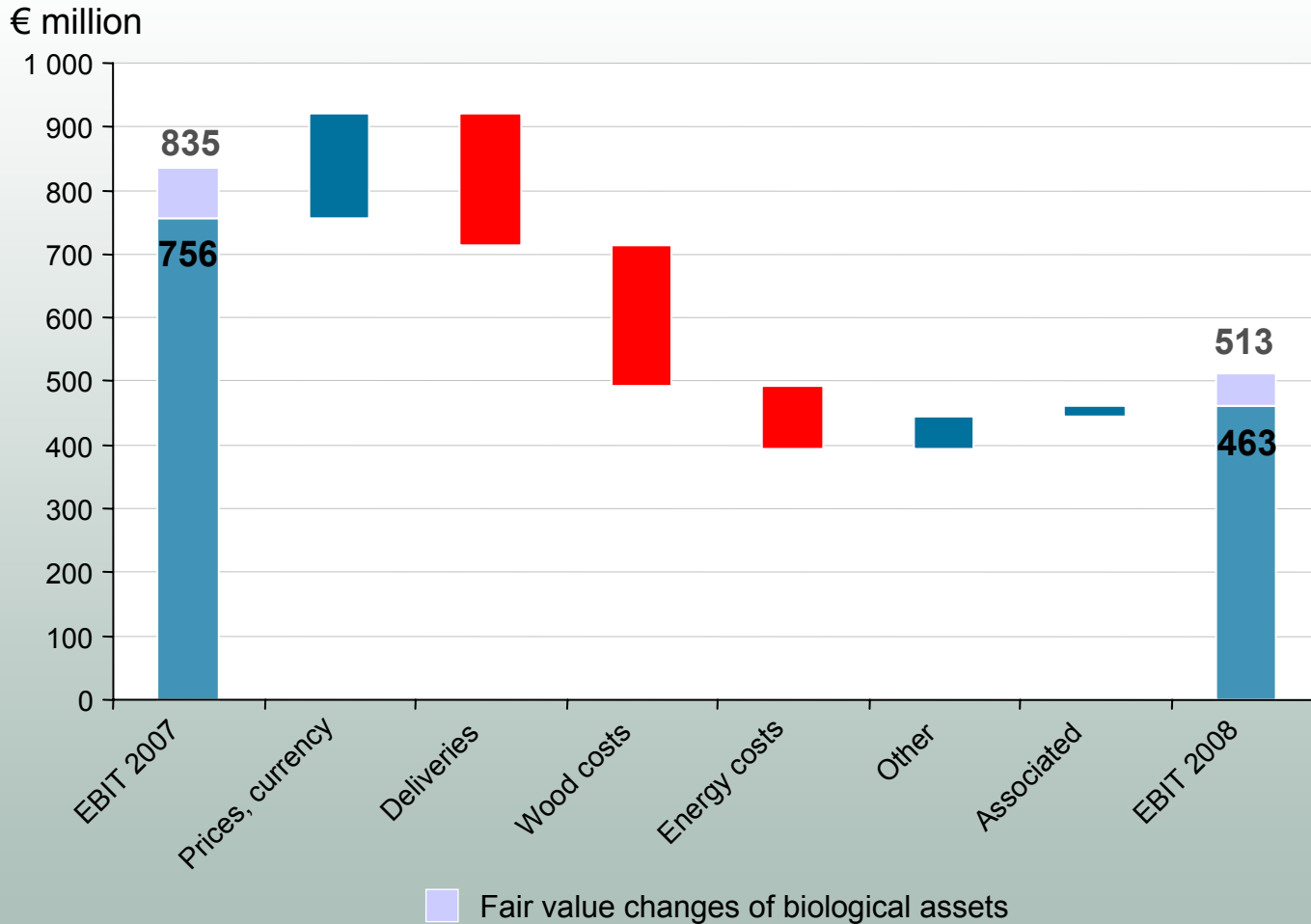
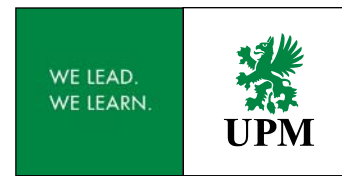


Key figures 2008

- Operating profit was lower mainly due to higher wood and energy costs
- Higher average price compensated most of the volume loss
- Major savings in efficiency – could not compensate higher raw material costs

	2008	2007
Sales, M€	9,461	10,035
EBITDA, M€	1,206	1,546
% of sales	12.7	15.4
Operating profit, M€	24	483
<i>Special items included in operating profit, net</i>	-489	-352
Operating profit excl. special items, M€	513	835
- excluding fair value change of biological assets	463	756
EPS excluding special items, €	0.42	1.00
Net cash generated from operating activities, M€	628	867
Personnel at end of period	24,983	26,352

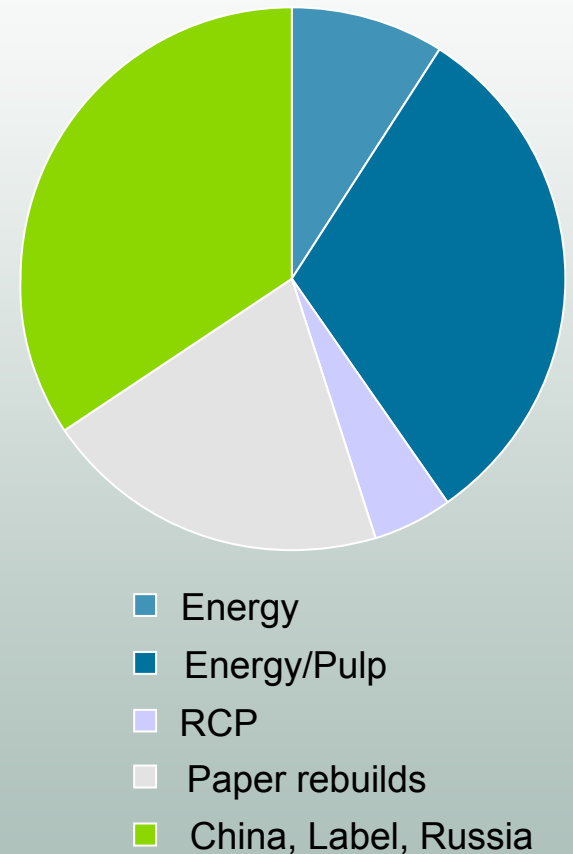
EBIT excluding special items 2008



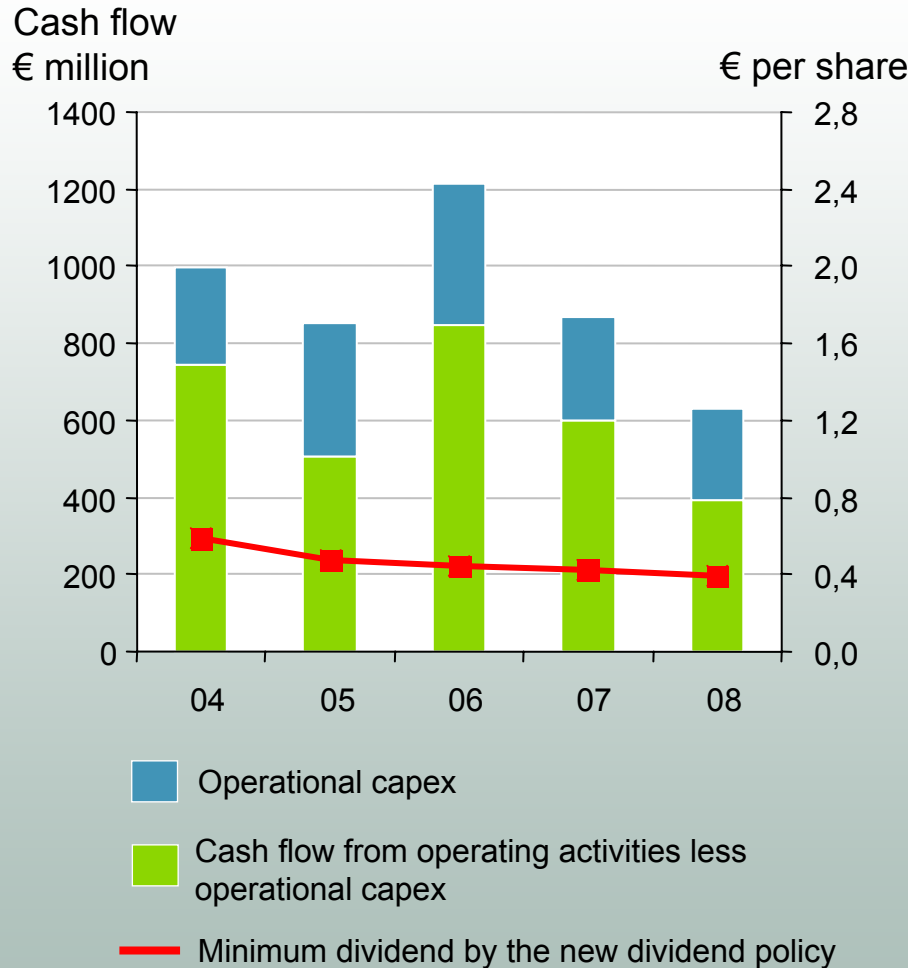
Strategic investments towards improved efficiency and strengthening self-sufficiency



Strategic investments since 2003 approx € 2bn



Dividend and operating cash flow



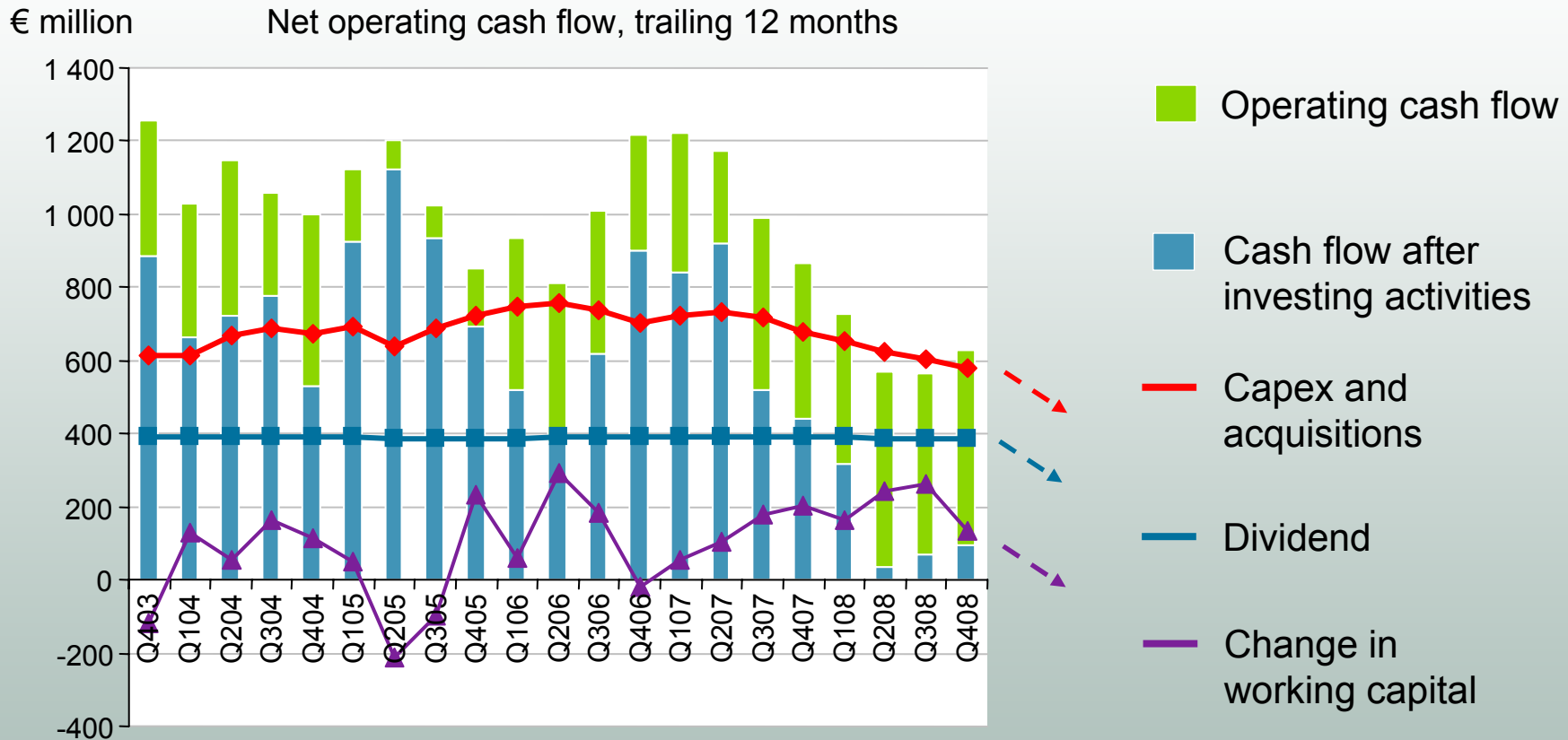
Dividend policy:

- at least one third of net cash flow from operating activities less operational capital expenditure
- net cash flow calculated as an average over three years

Dividend proposal for 2008:

- € 0.40 per share

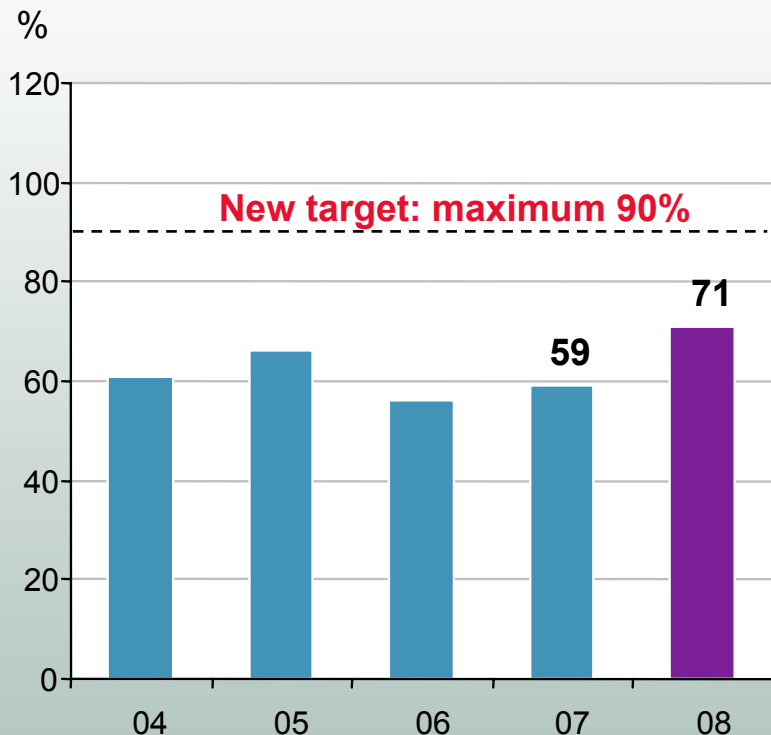
Cash flow



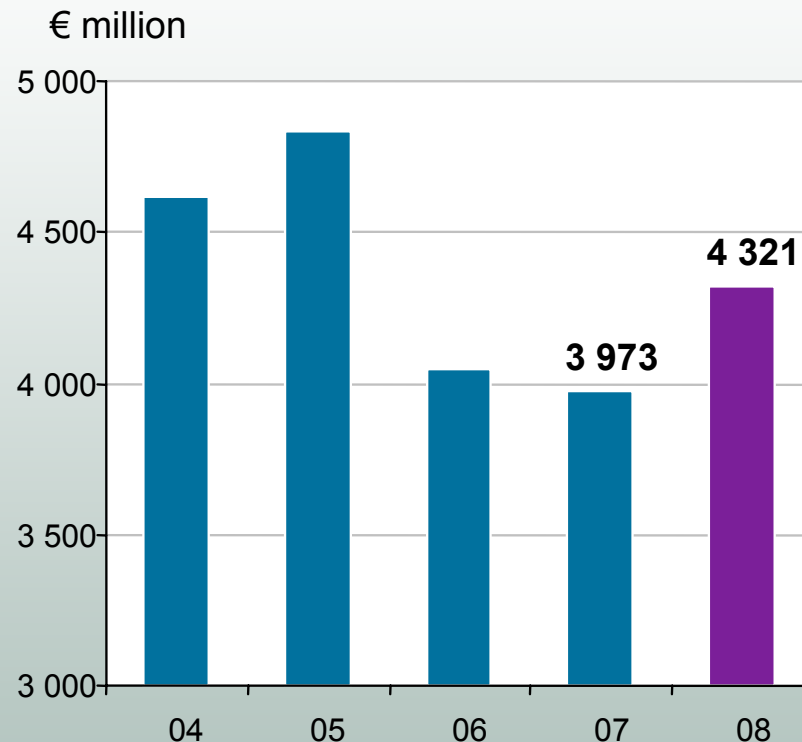
Gearing ratio and net interest-bearing liabilities



Gearing ratio



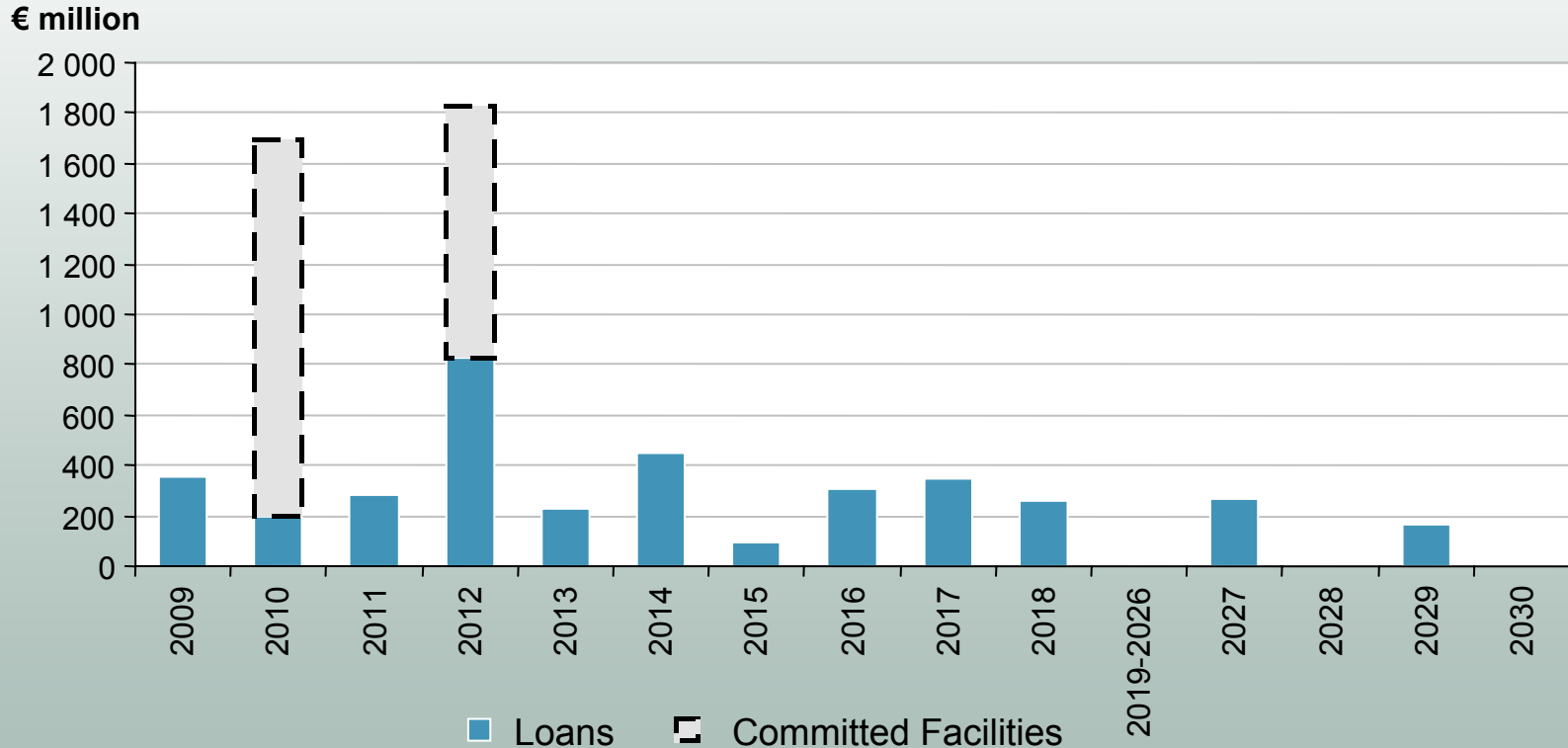
Net interest-bearing liabilities



Ratings: Moody's Ba1, latest change February 13, 2009
 S&P BBB-, under review for a possible downgrade, latest change February 24, 2009

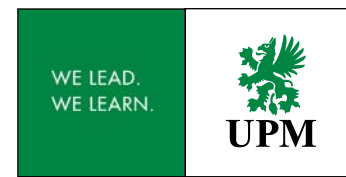
Liquidity and maturity profile of long term debt

- Liquidity on 31 December was € 1.7bn, after deducting loan repayments of € 352m in 2009
- Outstanding commercial papers € 0m



CONCLUSIONS

Conclusions



- Low-cost, low emission electricity generation portfolio
 - significant competitive advantage and business opportunities
- Competitive pulp mill assets provide cash flow
 - aim to increase the share of low-cost pulp
- Paper is well prepared
 - closed 2.1 million tonnes of paper making capacity
 - lower fixed costs and flexible way of working
 - readiness to benefit from industry restructuring in Europe
- Completed investments in Label
 - capture cost leadership and future growth
- Low investment needs, working capital reduction and ample liquidity

Forward-looking statement

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein including the availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates. For more detailed information about risk factors, see pages 67-69 of the company's Annual Report 2007.

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