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# UPM-Kymmene Corporation Annual General Meeting 2009 CEO Review

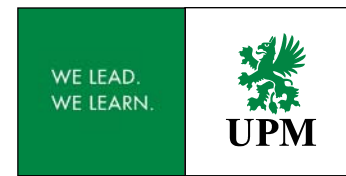
Jussi Pesonen  
March 25, 2009



## Year 2008

- UPM's profitability was weak
  - wood and energy costs increased by over € 300 million
  - paper deliveries decreased by 7% – prices increased by 2%
  
- UPM prepared for lower growth
  - cost efficiency, cash flow and strong balance sheet were emphasized
  - Kajaani paper mill and Tervasaari pulp mill were closed
  - new simplified organisation structure was implemented
  - restructuring of European operations started in Label
  - product inventories were reduced and new investments decreased
  
- New group structure enables the company to better utilise its competitive advantages

# CONTENTS

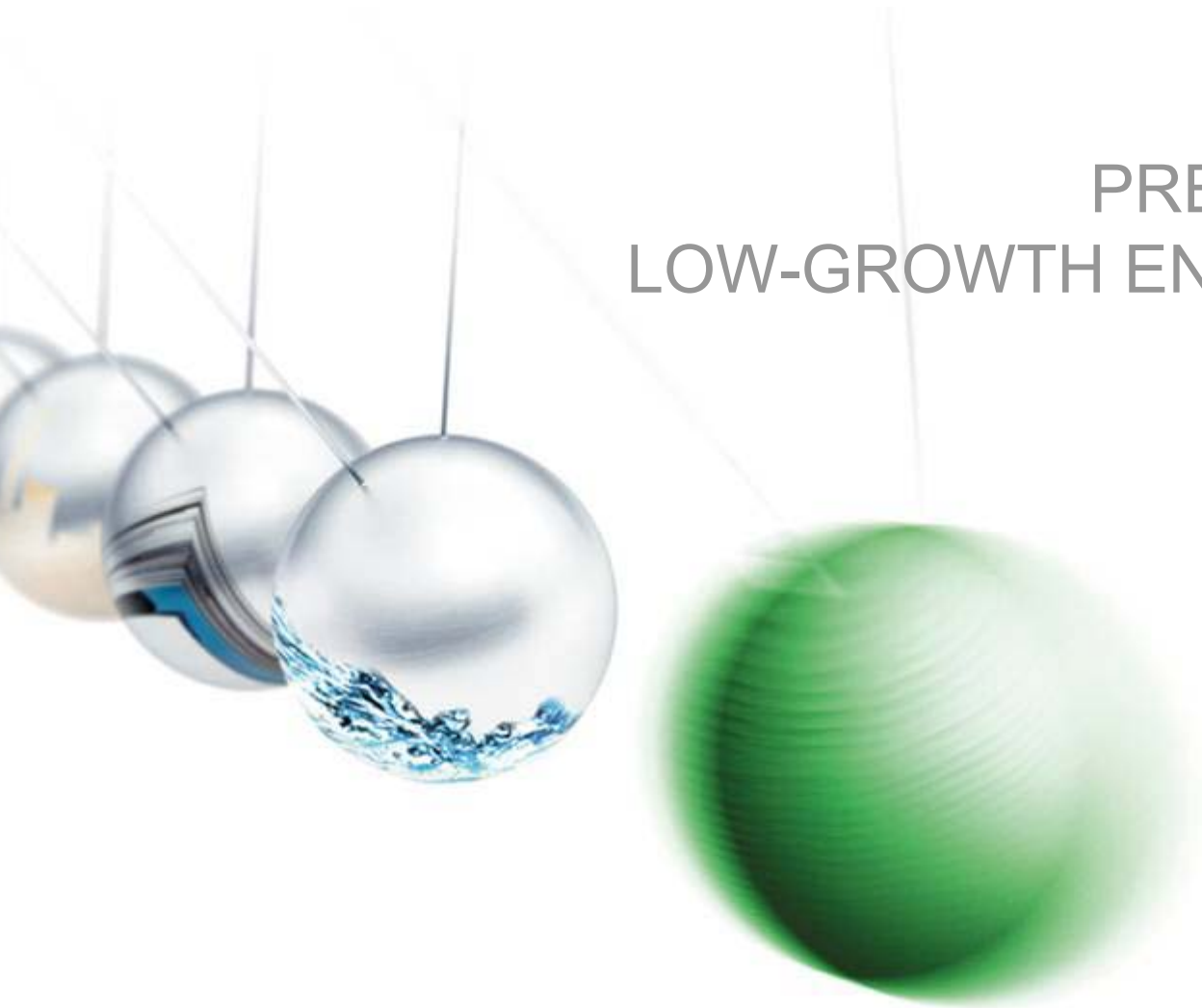


- Prepared for low-growth environment
- Financials 2008
- Markets
- Strategy

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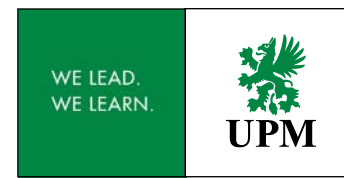


# PREPARED FOR LOW-GROWTH ENVIRONMENT

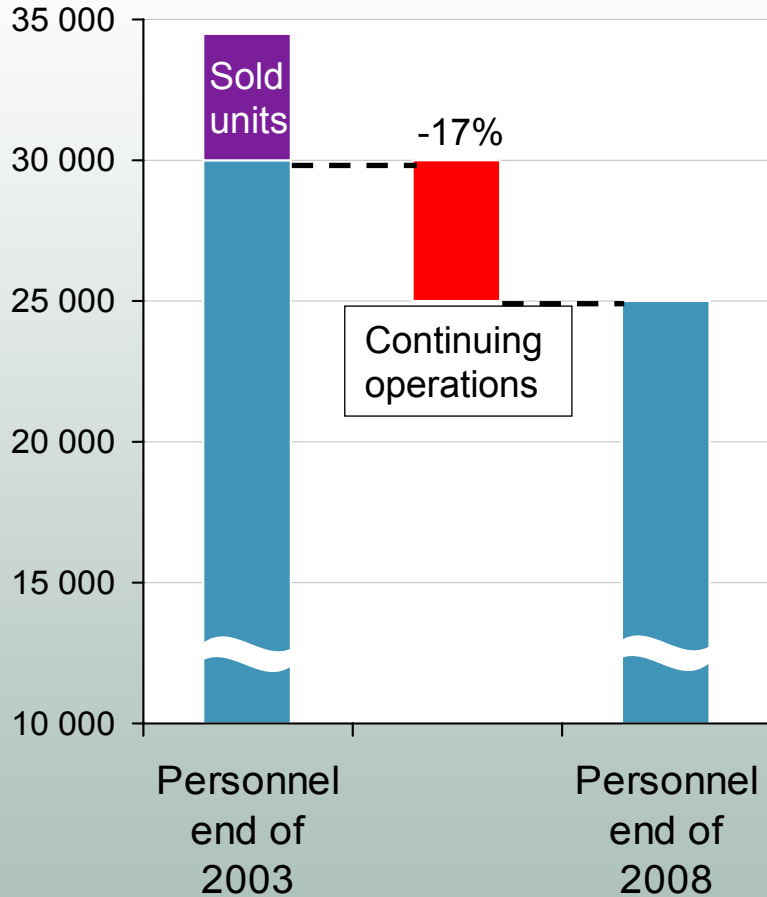


# PREPARED FOR LOW-GROWTH ENVIRONMENT

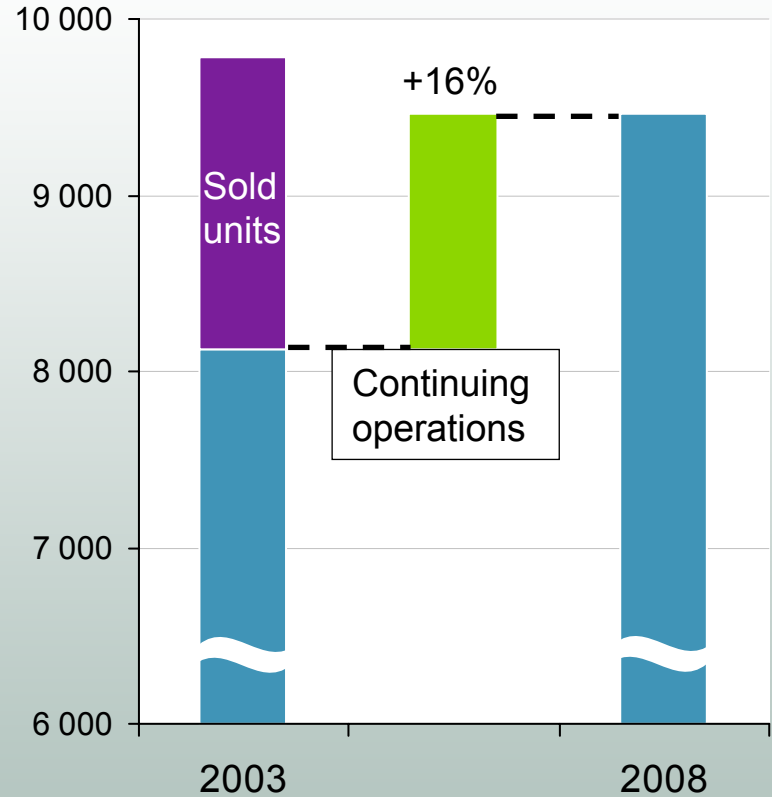
## Major improvement in productivity



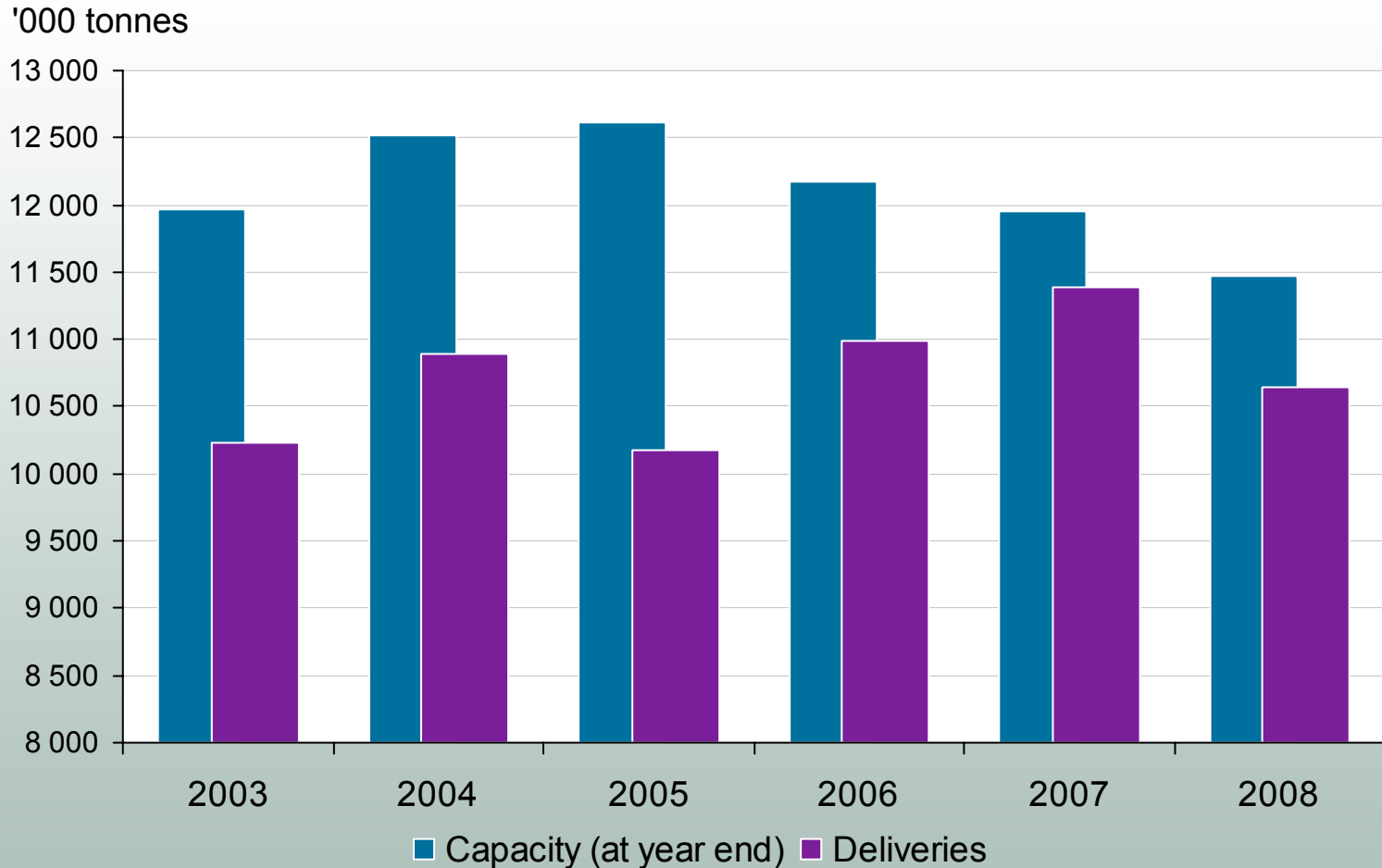
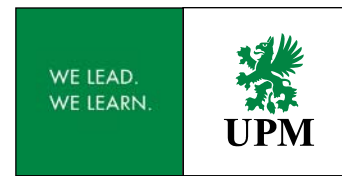
### Personnel



### Sales



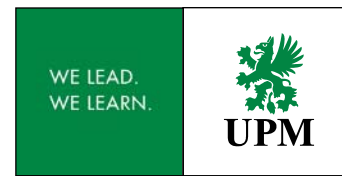
# Closed 1.8 million tons of uncompetitive paper capacity – improved production efficiency



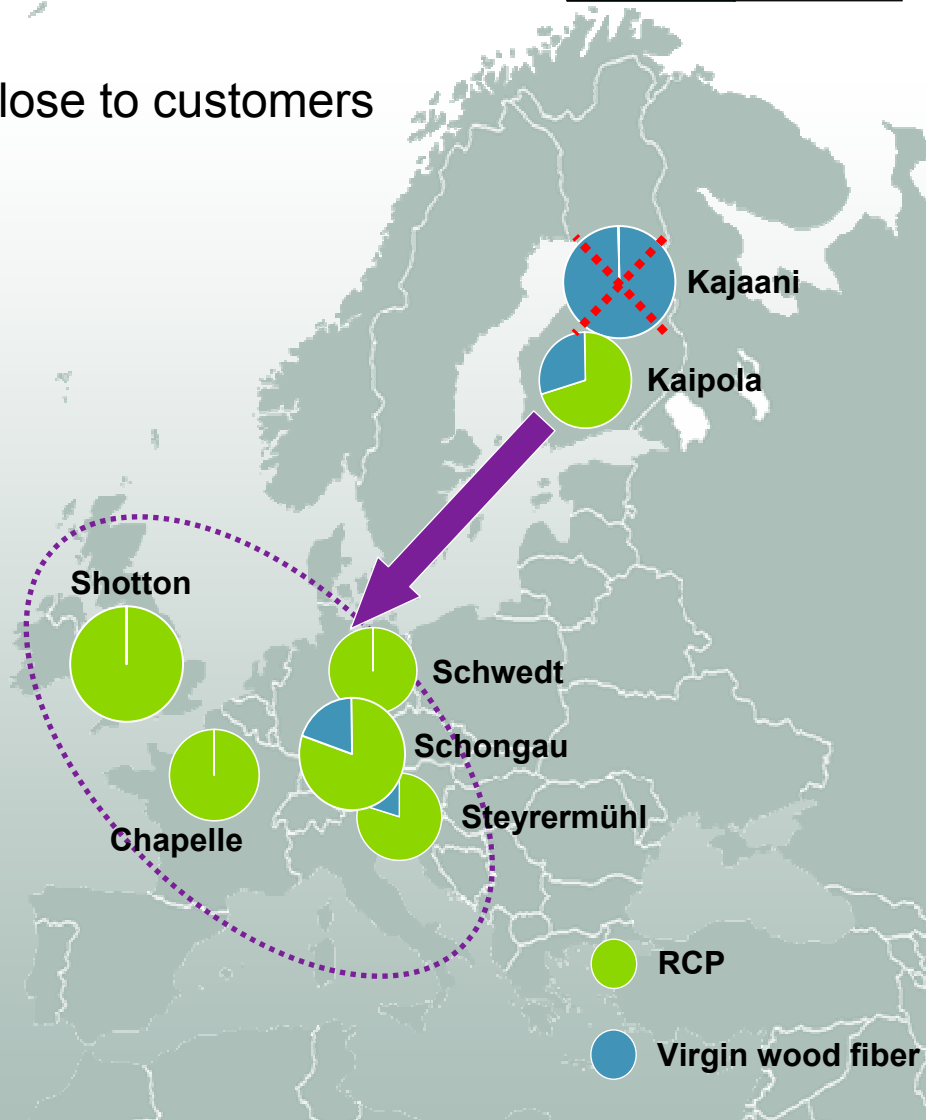
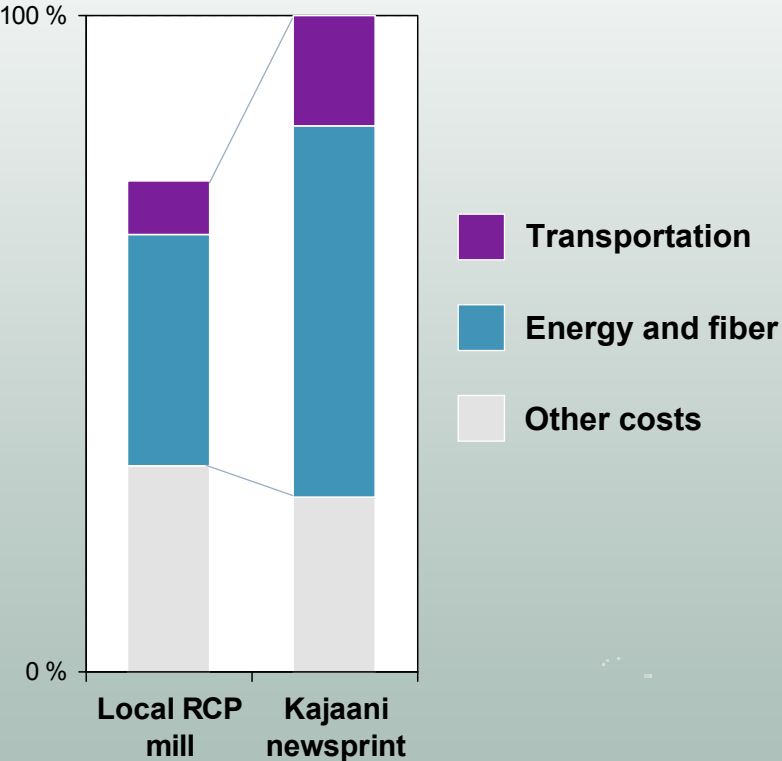
# PREPARED FOR LOW-GROWTH ENVIRONMENT

## Kajaani:

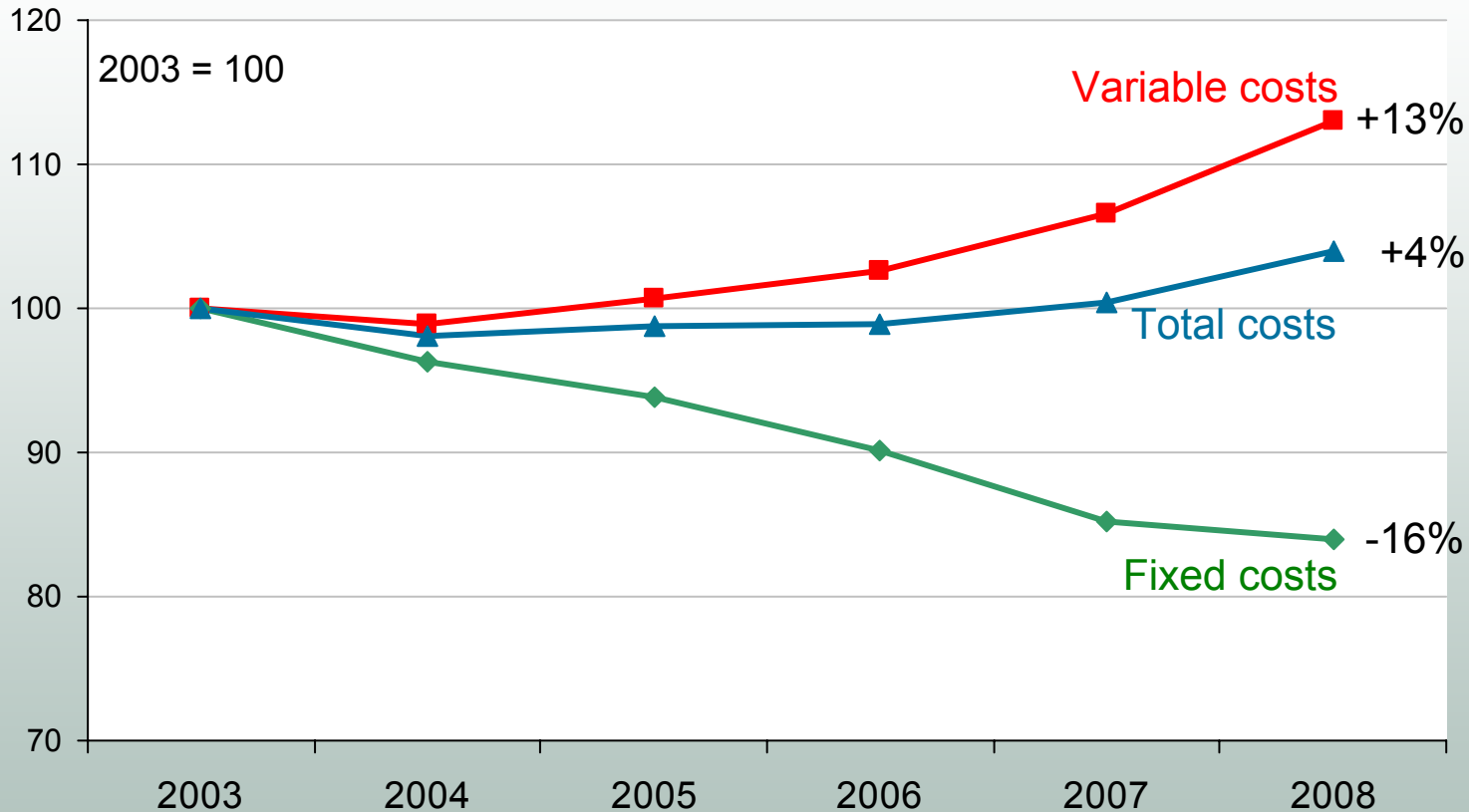
Competitive newsprint mills operate close to customers using recycled fiber



### Cash costs per delivered ton



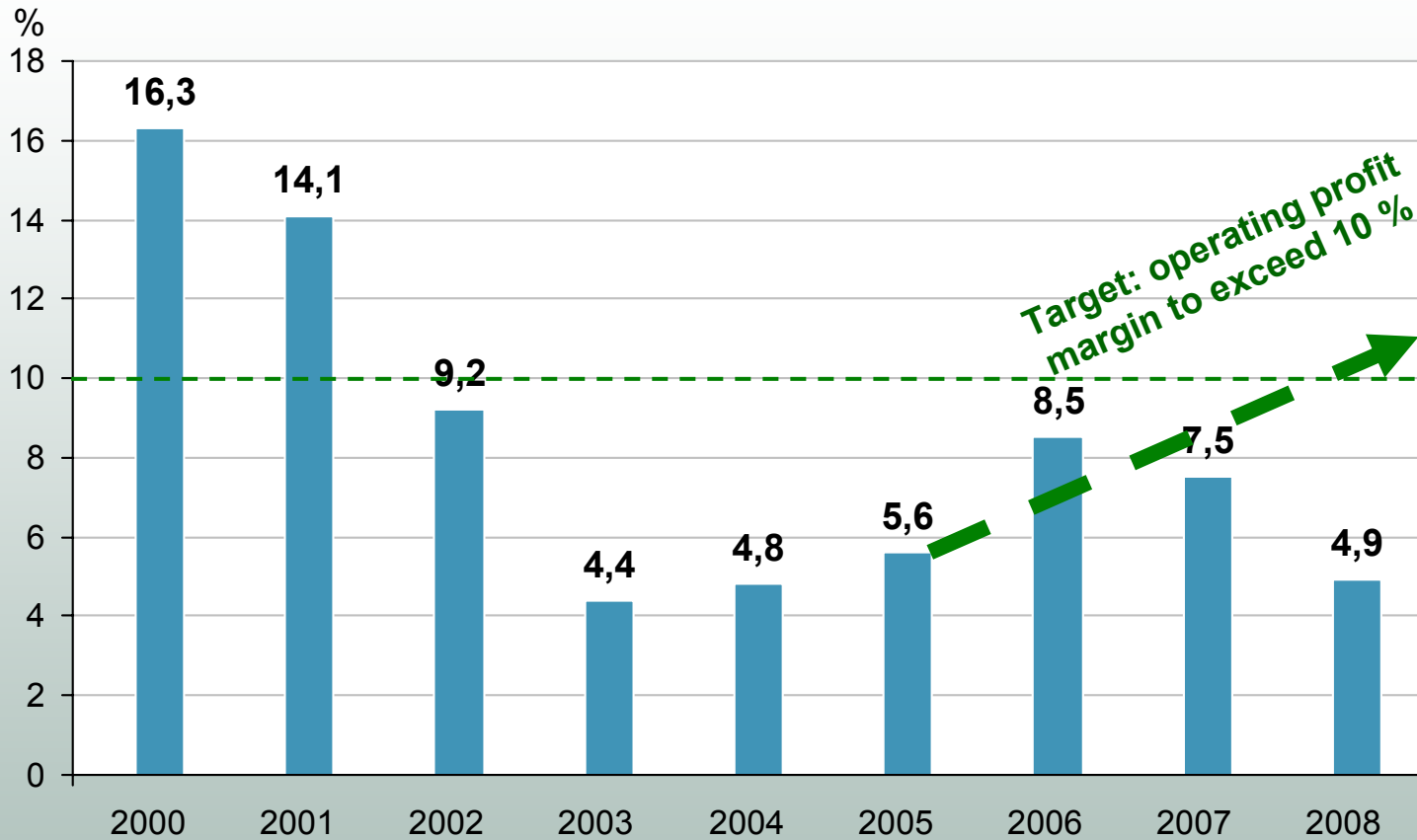
# Fixed costs\* per tonne cut by 16% since 2003, while variable costs soared



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



# Profitability improvement cut off by adverse development in variable costs



Operating Profit % (excluding special items and forest valuations)

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# FINANCIALS 2008



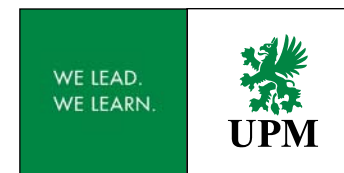
## Facts impacting the results of 2008



- Demand-supply balance improved in graphic papers
  - in Europe paper closures exceeded decline in paper demand
  - paper and plywood prices increased
  
- Wood and energy costs increased
  - decrease in fixed costs could not compensate
  
- Operating profit excluding special items € 513m (€ 835m)
  
- Actions to preserve cash
  - strict control of strategic investments
  - reduction of working capital
  - new cash flow based dividend policy

# FINANCIALS 2008

## Key figures 2008



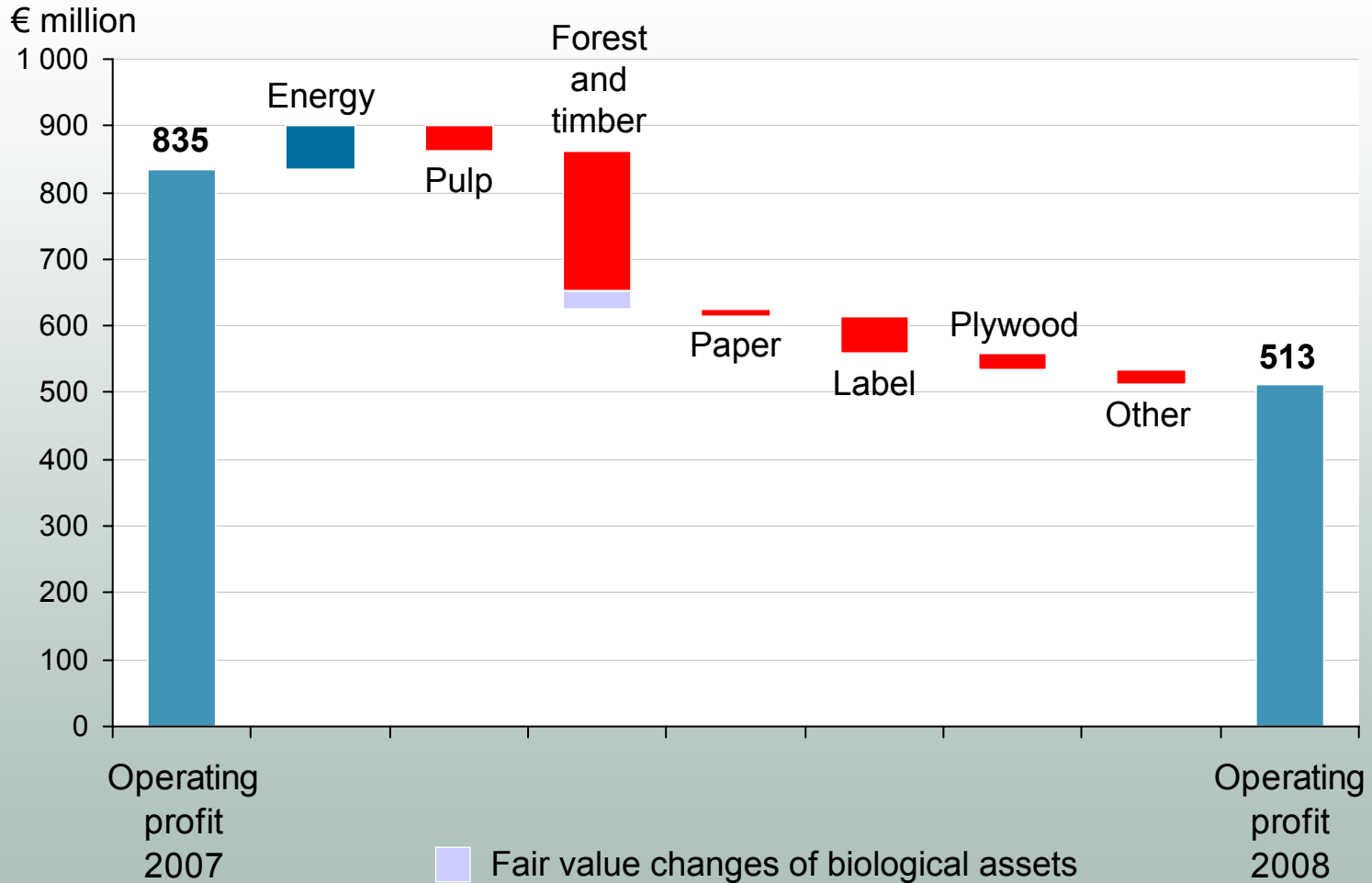
	2008	2007
<b>Sales, M€</b>	<b>9,461</b>	<b>10,035</b>
<b>EBITDA, M€</b>	<b>1,206</b>	<b>1,546</b>
<b>% of sales</b>	<b>12.7</b>	<b>15.4</b>
Operating profit, M€	24	483
<i>Special items included in operating profit, net</i>	-489	-352
<b>Operating profit excl. special items, M€</b>	<b>513</b>	<b>835</b>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

## Special items 2008

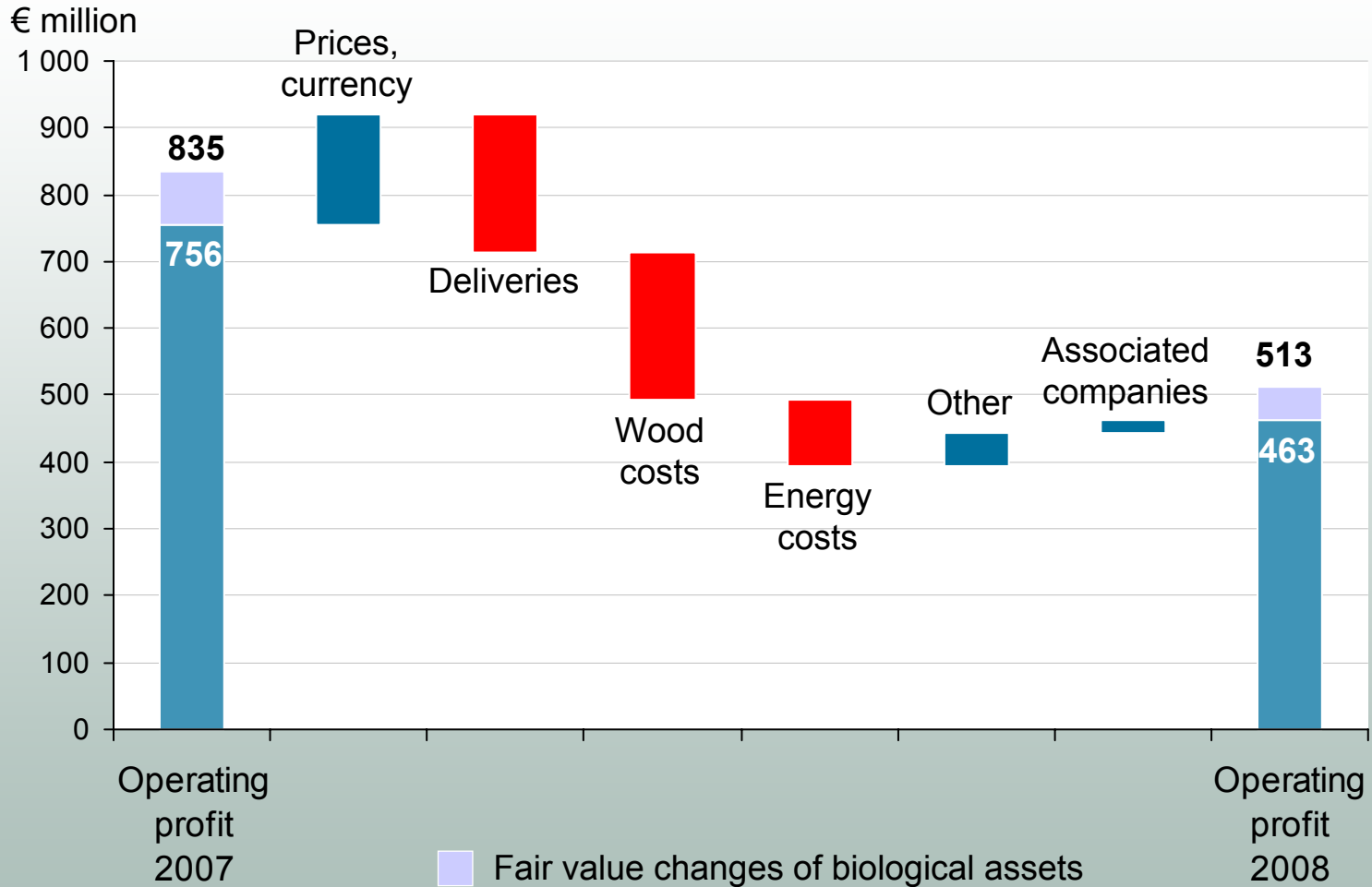
	Operating profit
Goodwill impairment charge; Paper	-230
Asset impairment charges; Kajaani, Tervasaari, Forest and timber, Label	-190
Other restructuring costs	-82
Other special items	13
<b>Special items, net in operating profit</b>	<b>-489</b>

	Income taxes
<b>Income taxes, net related to special items</b>	<b>86</b>

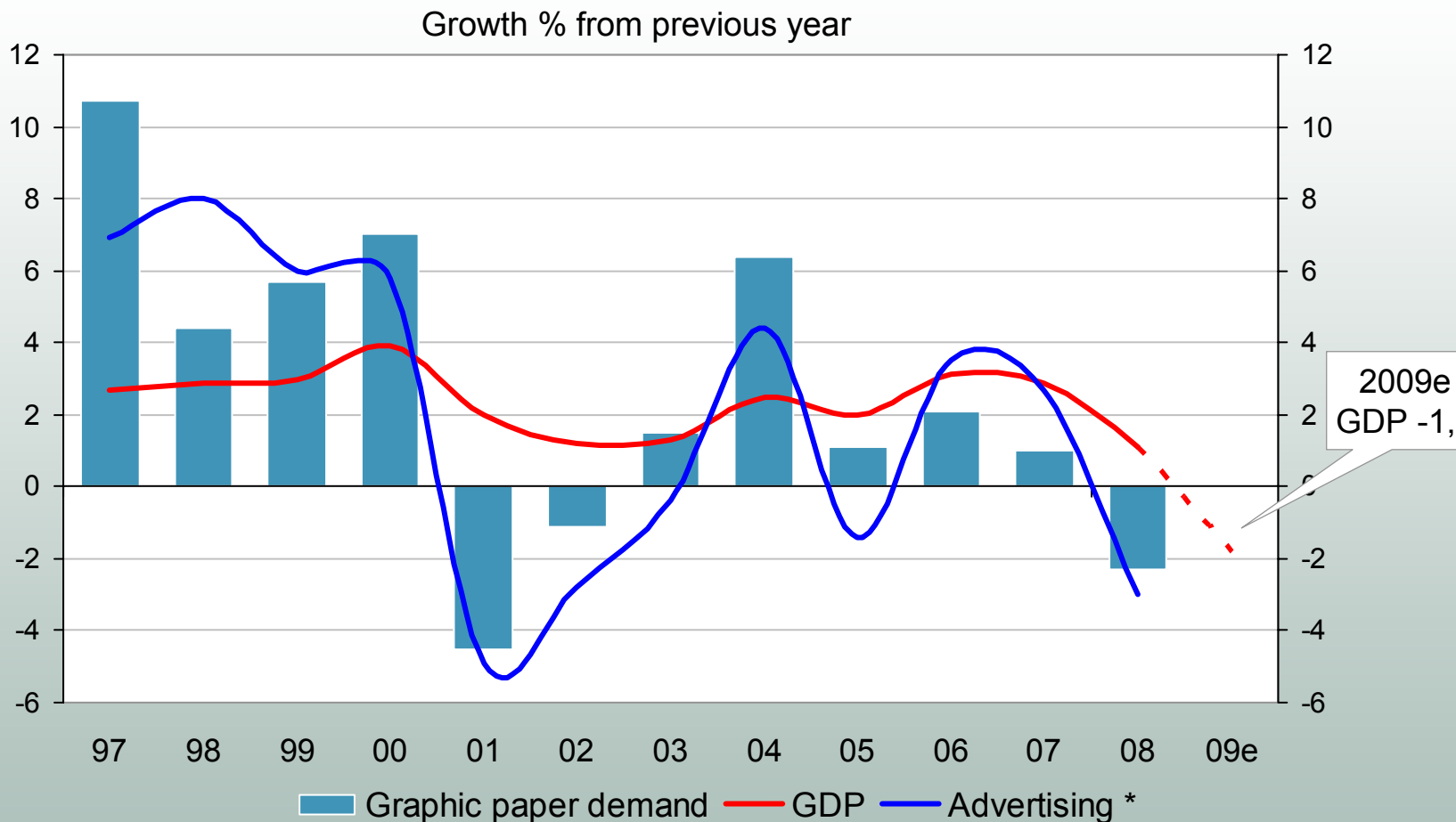
# Operating profit development in 2008 by business area excluding special items



# Operating profit development in 2008 excluding special items



# Weakening economy affected demand for all of UPM's products



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

\* Newspapers, Magazines

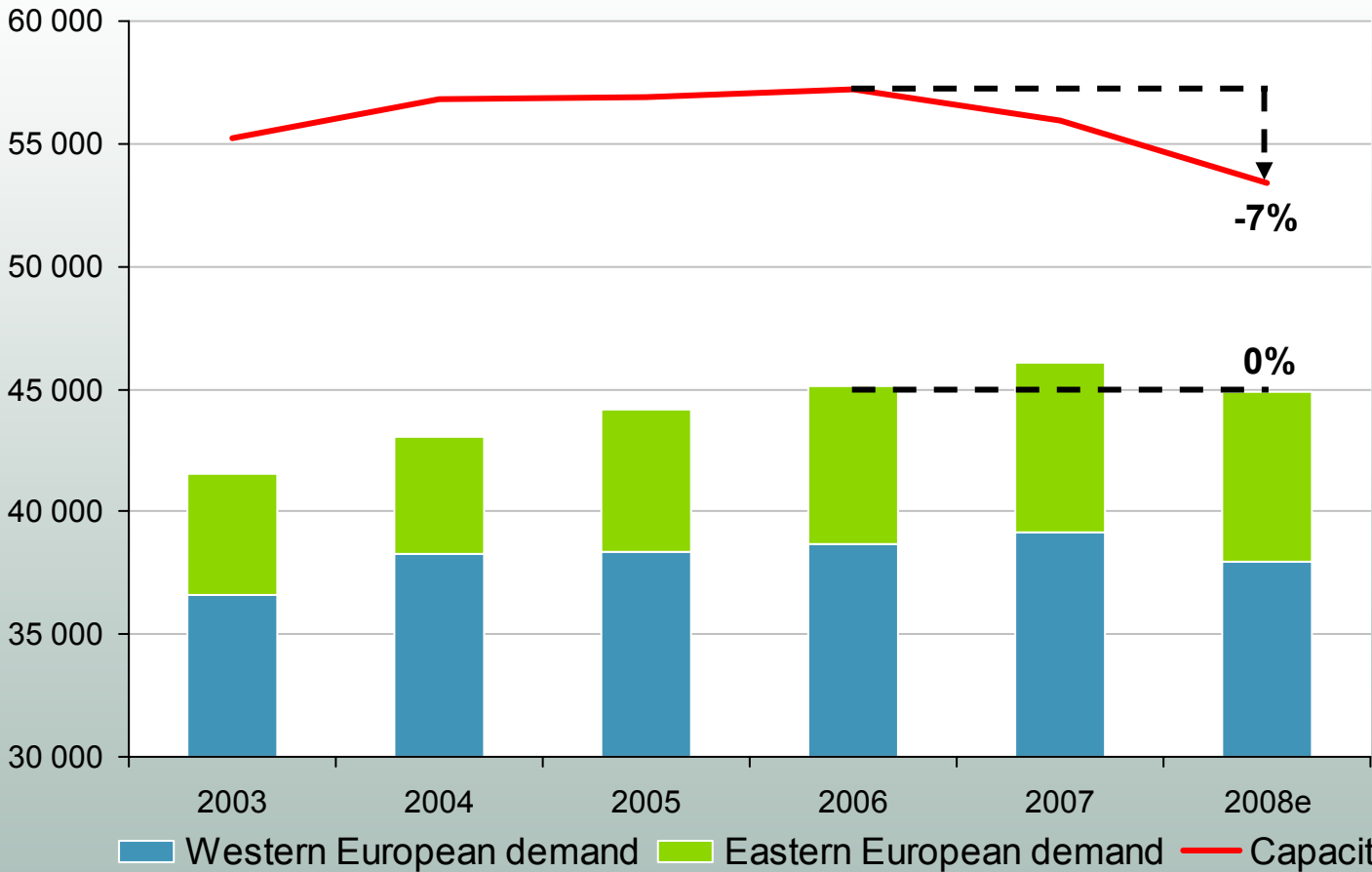


# Paper demand-supply balance improved in 2008



## Graphic paper capacity and demand in Europe

'000 tons



Capacity has decreased 3.8 mt since 2006

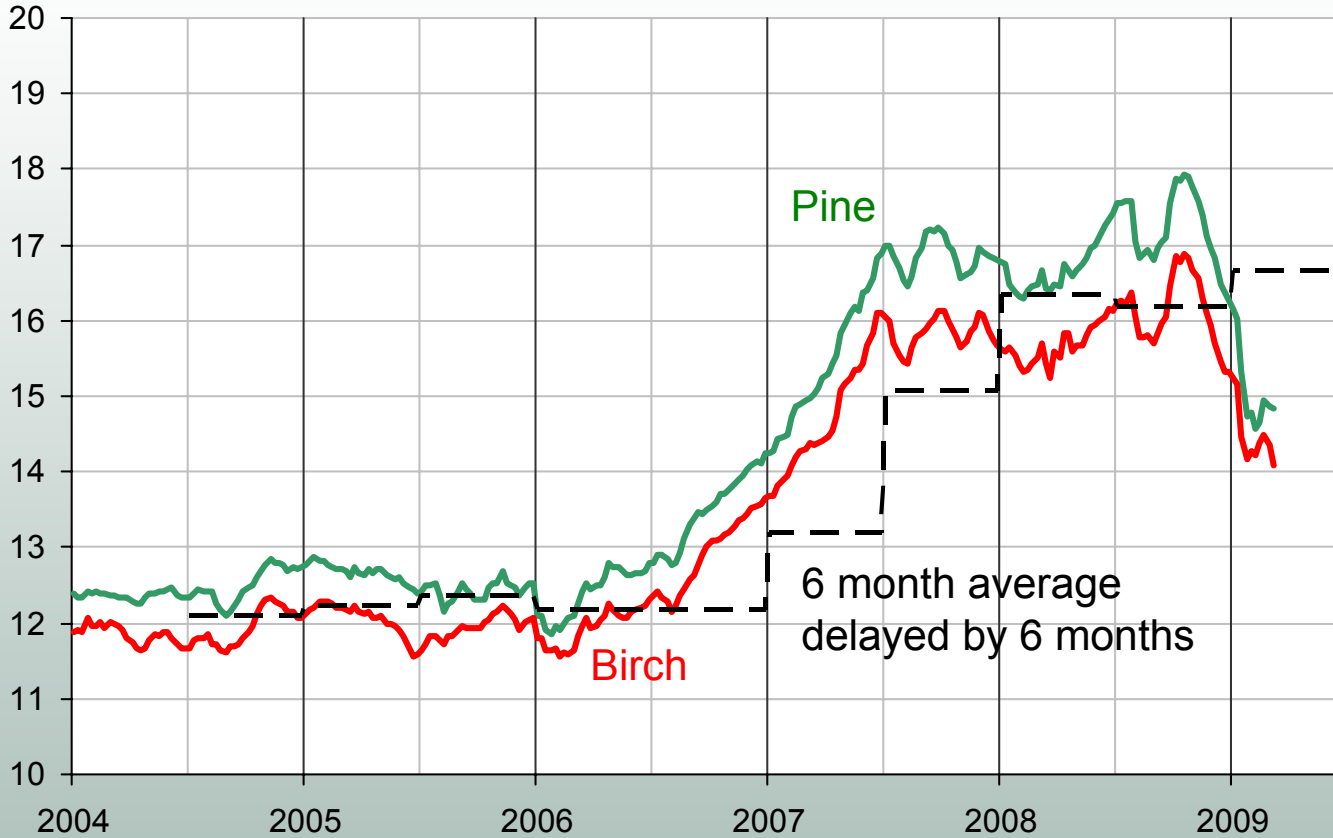
Demand in 2008 was at 2006 level

Sources: Cepiprint, Cepifine, PPI

# Costs – wood prices in Finland still high



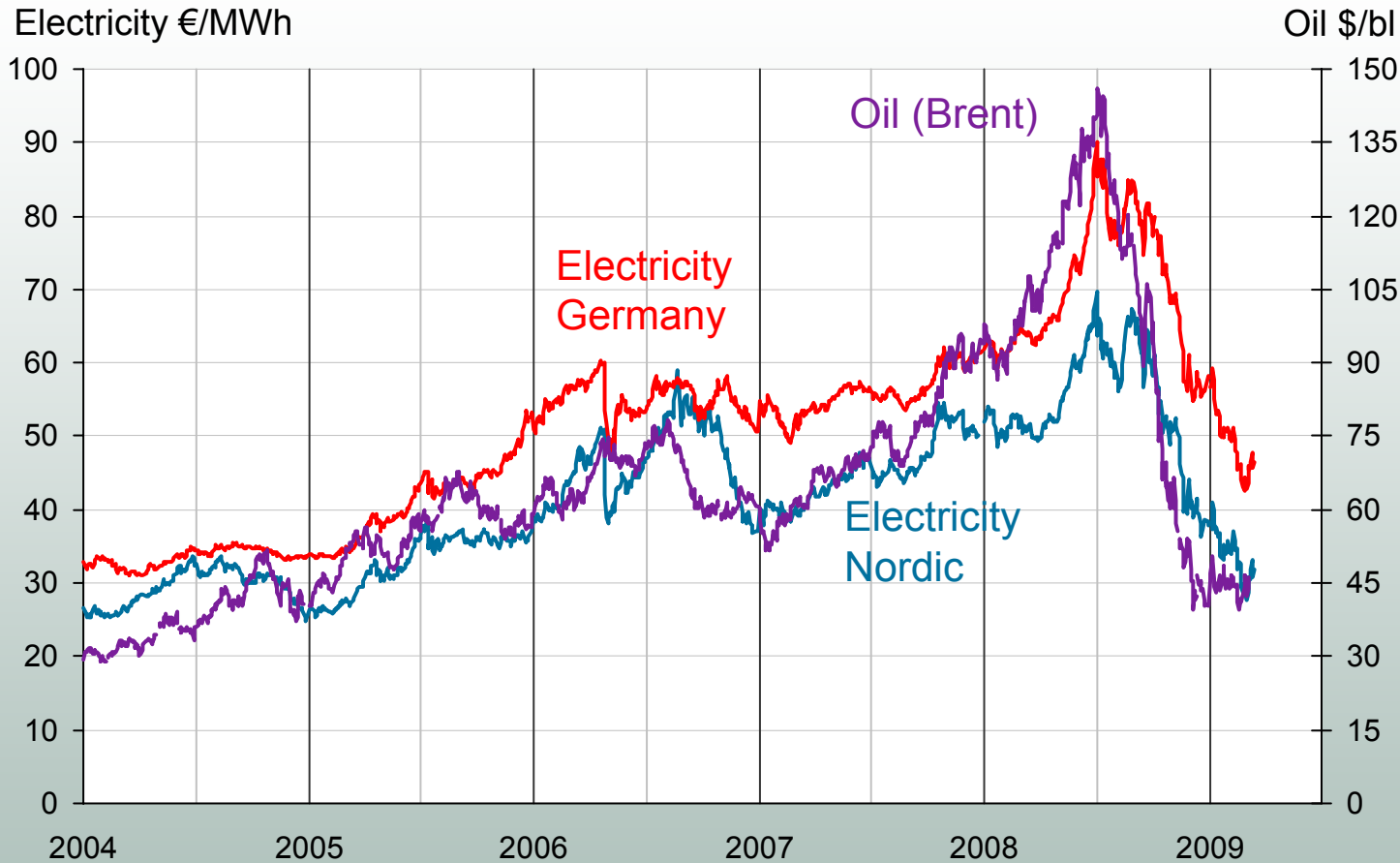
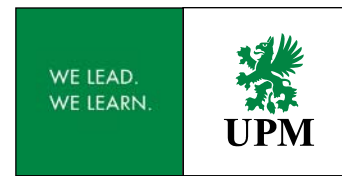
Fibre wood prices in Finland, € / m<sup>3</sup>



UPM's wood costs expected to decrease with a delay

Source: Metla

**Costs – energy costs increased until Q4 2008, energy market prices peaked in mid-2008**



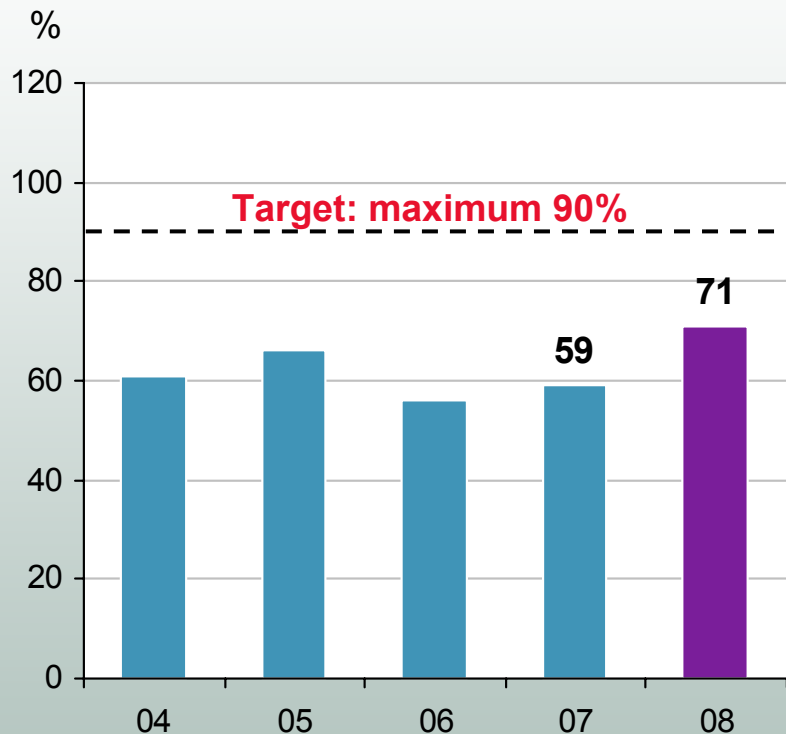
UPM's energy costs expected to decrease with a delay

Sources: NordPool, EEX

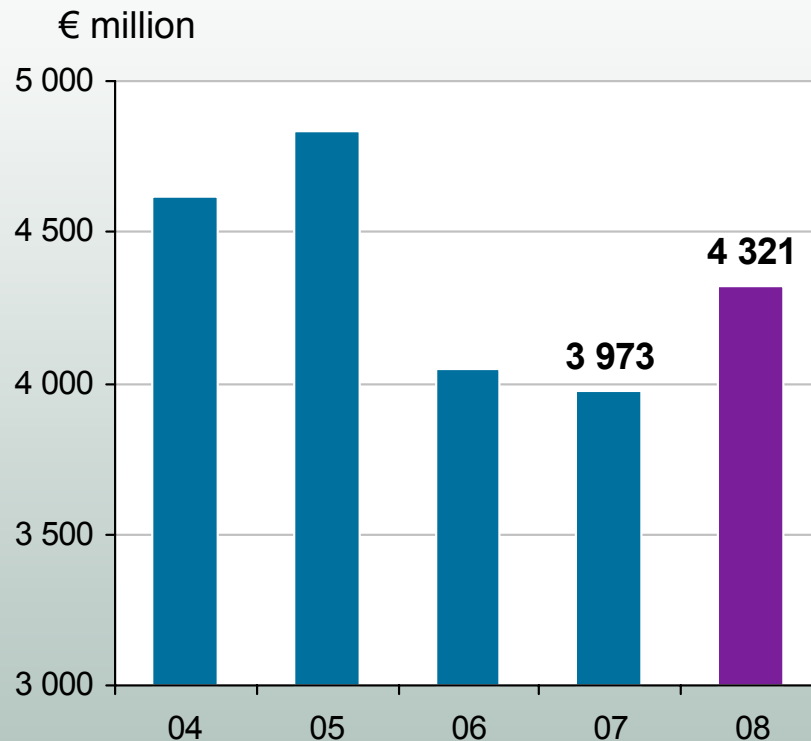
# Gearing ratio and net interest-bearing liabilities



## Gearing ratio

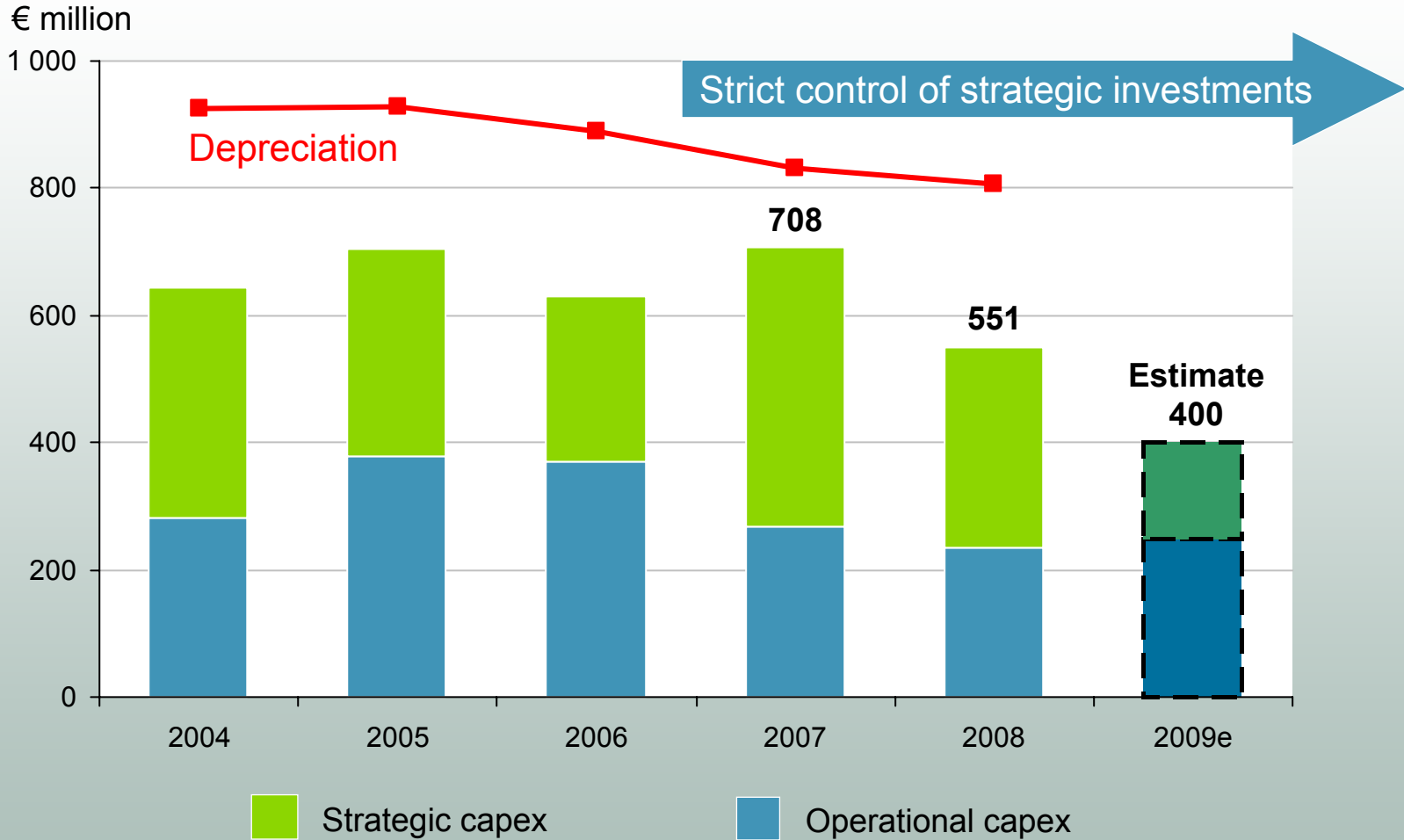


## Net interest-bearing liabilities

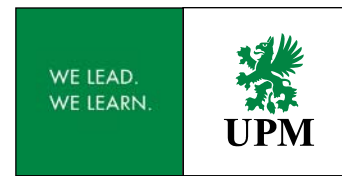


**Ratings:** Moody's Ba1, latest change February 13, 2009  
 S&P BBB-, under review for a possible downgrade, latest change February 24, 2009

# Capital expenditure



# Financial targets emphasize cash flow

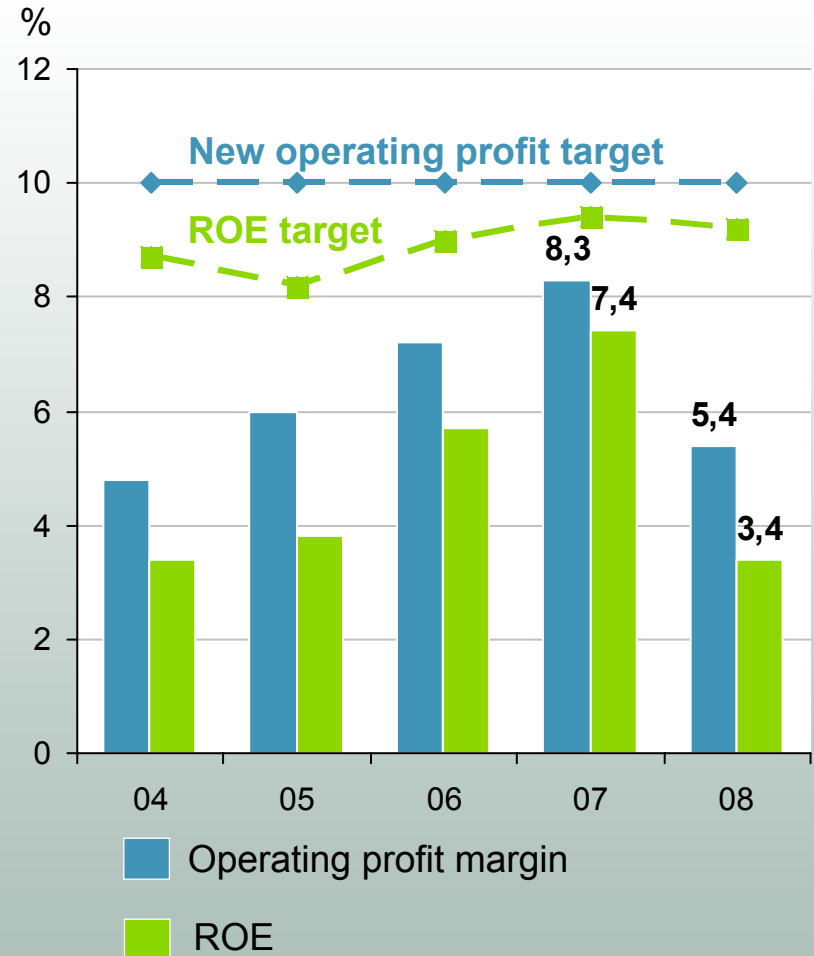


## New long term financial targets

- Operating profit margin over 10%
- ROE at least 5pp over risk-free 10-year investment
- Gearing ratio below 90 percent

## New targets emphasize

- Importance of cash flow
- Importance of financial flexibility, priority of debt reduction raised
- The aim to meet the requirements of an investment grade borrower



# Dividend and operating cash flow

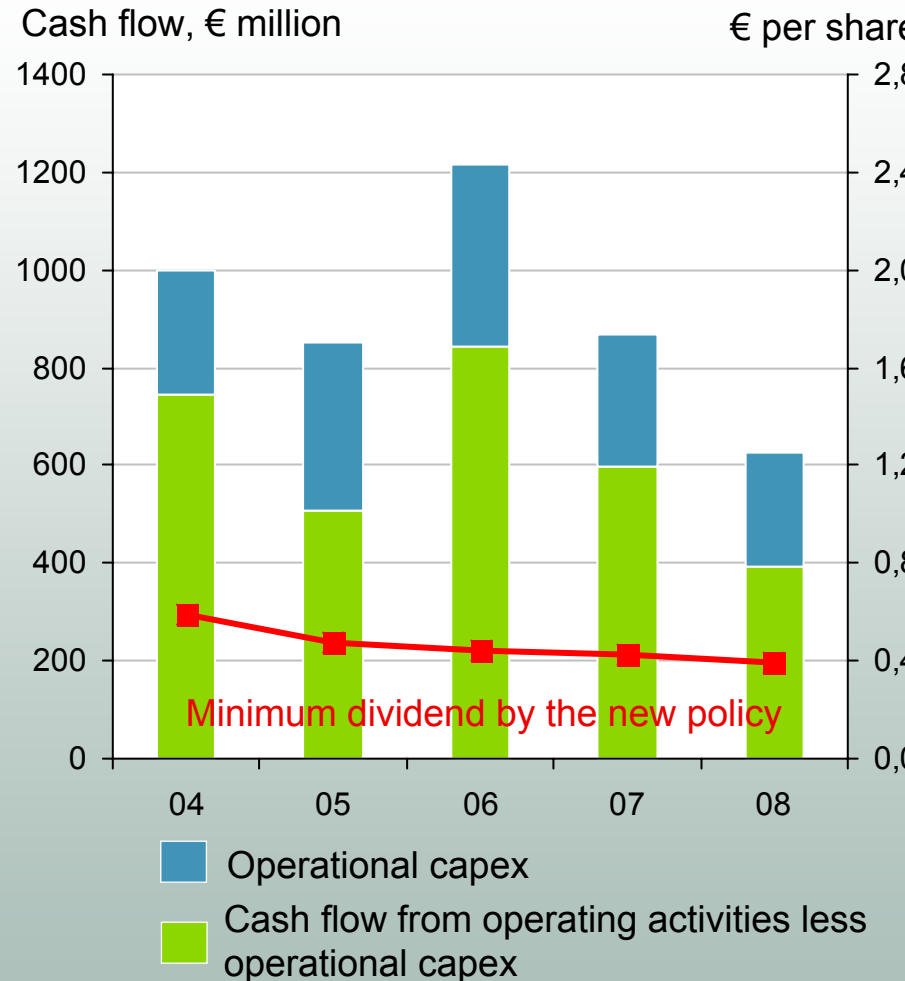


## New dividend policy

- 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



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# MARKETS

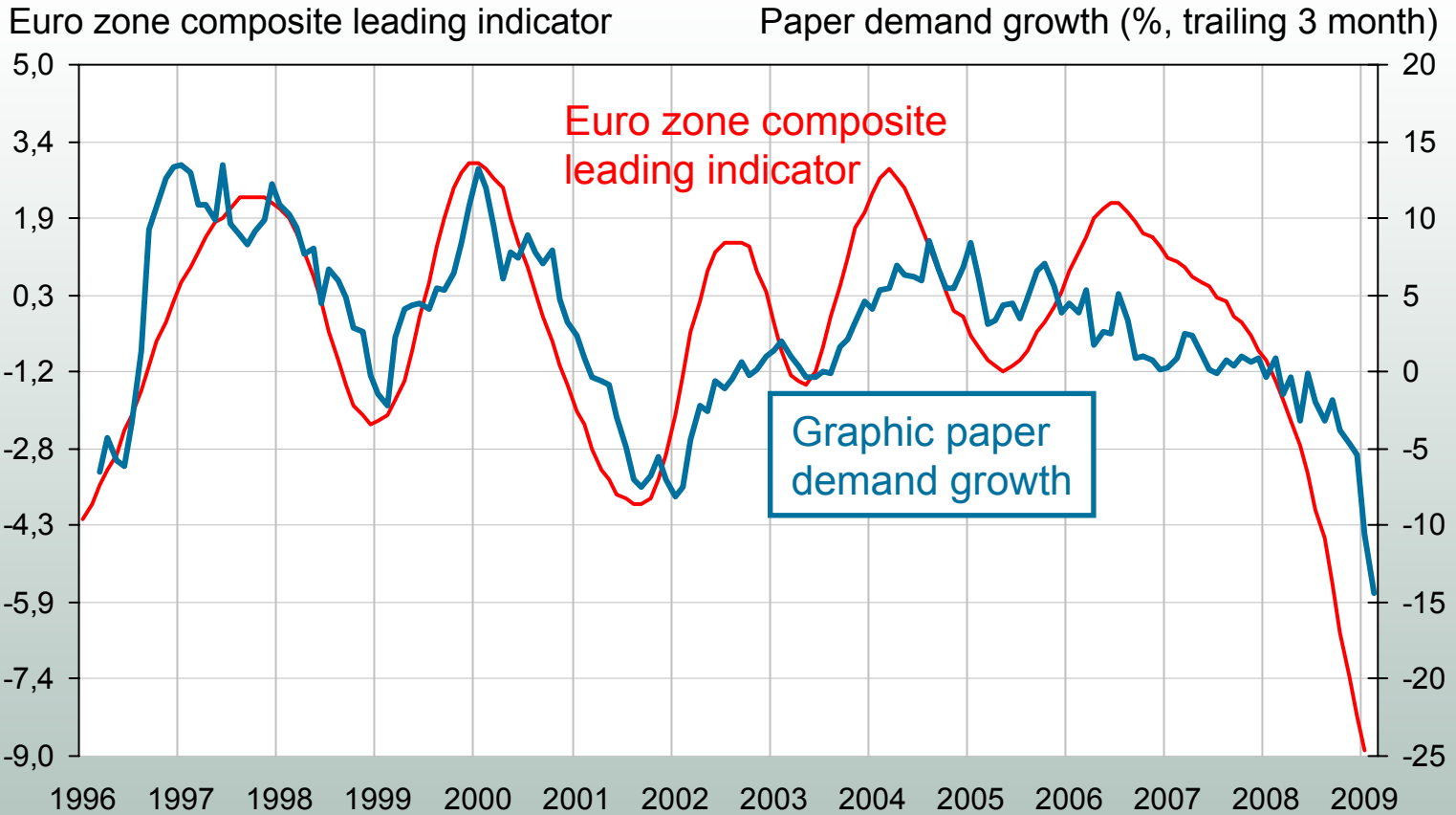




## Markets

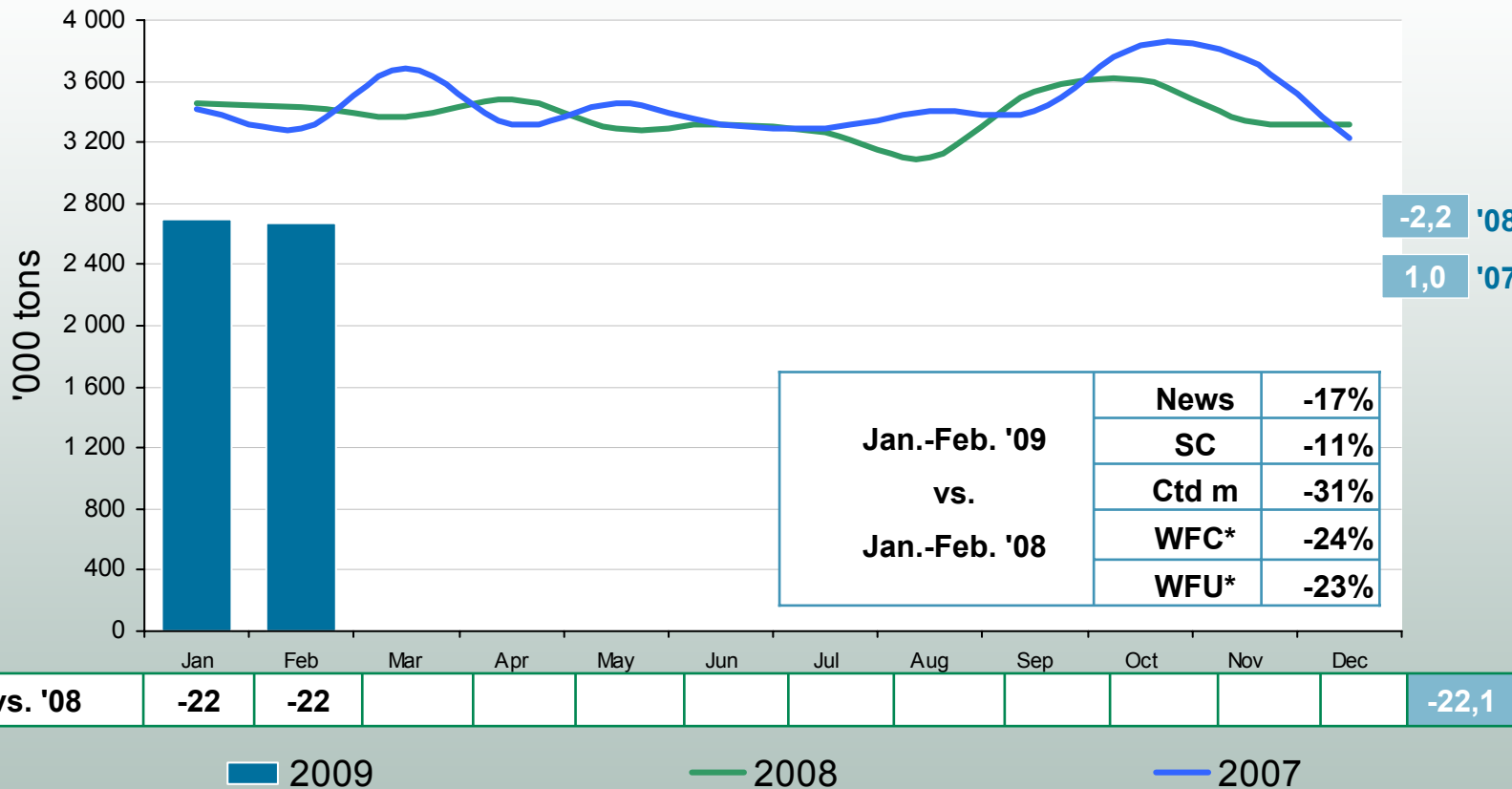
- Economic growth in UPM's main markets contracts
- Demand for UPM's products has weakened
  - paper deliveries for Q1/09 have been clearly lower than for Q4/08
  - demand for labelstock has declined slightly from last year
  - demand for plywood clearly lower than last year
- Average price for paper deliveries has been higher than during the Q4/2008
- For the group wood and other raw material costs are still high – for the whole year costs are expected to be lower than 2008
- UPM's production lines operate currently based on flexible operating mode in all markets

# Weaker economic growth affects demand for all of UPM's products



Sources: Cepiprint, Cepifine, OECD

# Graphic papers demand in Europe clearly lower than in Q4 2008



Sources: Cepiprint/fine, UPM estimated

\*) Imports from E. Europe included from 2005-> excl. Russia and other imports

# Significant competition benefits from weakened currencies




- Rapid changes in currencies in Jan - Feb 2008/2009

GBP/EUR -21%

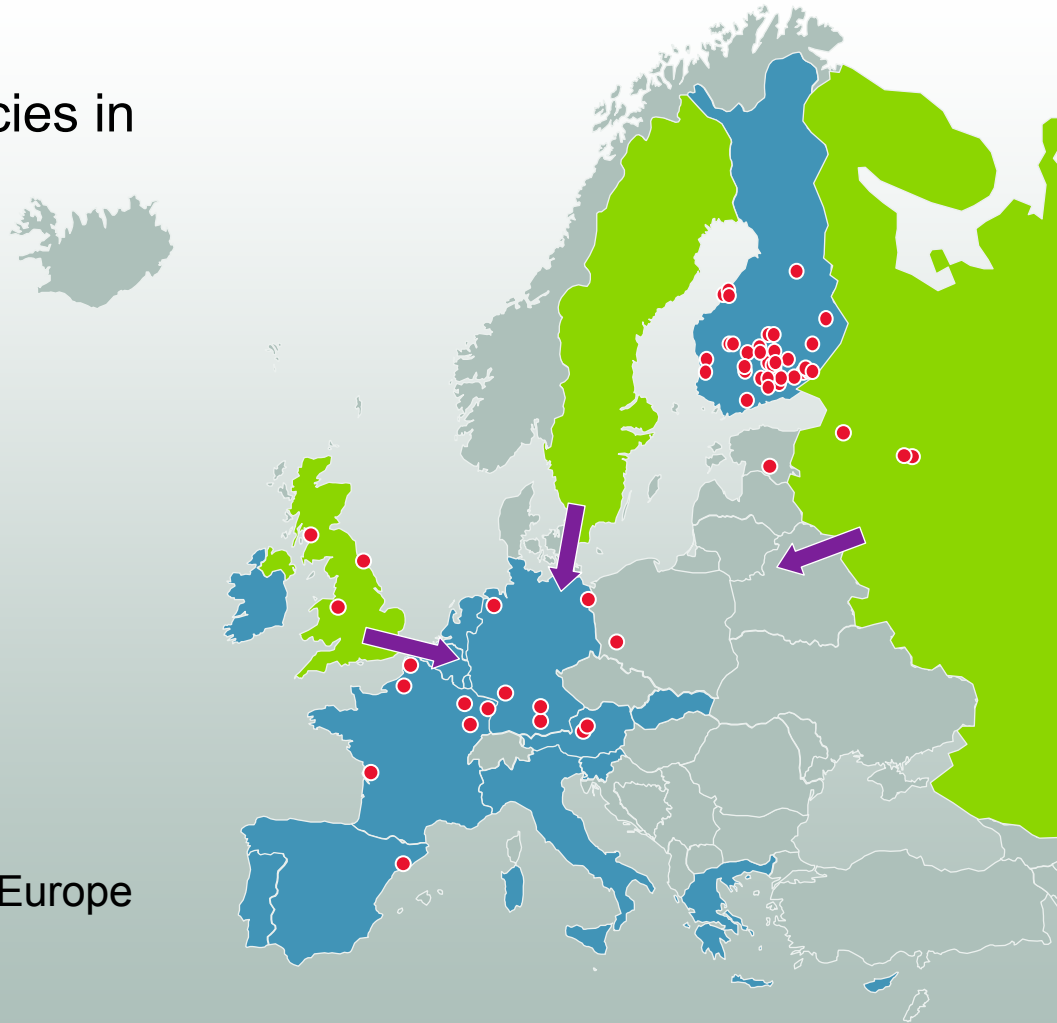
SEK/EUR -15%

RUB/EUR -22%

 Competing currencies

 Euro area

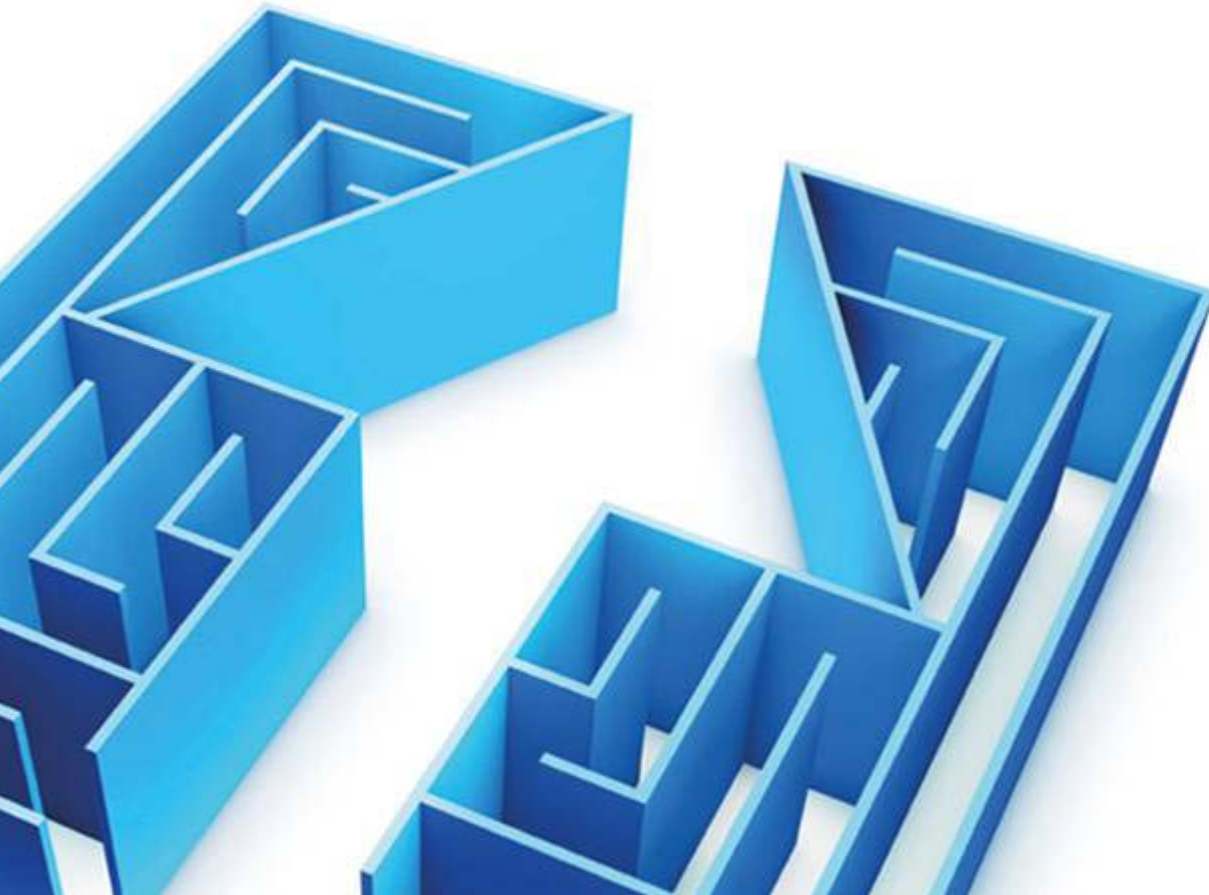
 UPM's Production plants in Europe



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# STRATEGY



## VISION

### **The front-runner of the new forest industry.**

In the new forest industry, we reshape markets through cost leadership, change readiness and leading innovation. We develop smart, sustainable products and solutions for customers worldwide.

## PURPOSE

We create value from renewable and recyclable materials by combining expertise and technologies within fibre based, energy-related and engineered materials businesses.



## UPM's three business groups



### Energy and pulp

- Pulp mills
- Hydro power assets
- Shares of associated companies in pulp and energy
- Forests & Timber
- Biofuels

#### CAPACITIES

- Electricity 1.6 GW
- Pulp 2.1 million t/a
- Forest 1 million hectares
- Sawn timber 2.4 million m<sup>3</sup>/a

### Paper

- Magazine
- Newsprint
- Fine
- Speciality papers

#### CAPACITIES

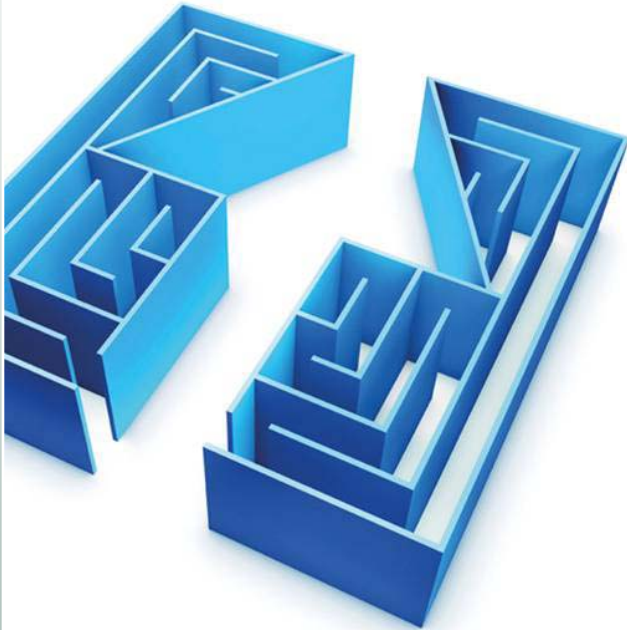
- Paper 11.5 million t/a

### Engineered materials

- Label
- RFID tags and inlays
- Plywood
- Wood plastic composites

#### CAPACITIES

- Label 11 factories
- Plywood 1.1 million m<sup>3</sup>/a



Profitability in Europe

New growth markets

New businesses



# STRATEGY

## Energy and pulp



- Expand in cost competitive, emission free energy
- Increase the share of low cost pulp
- Strengthen UPM's position in the forest biomass market



### ENERGY

	€m
sales	478
operating profit	175



### PULP

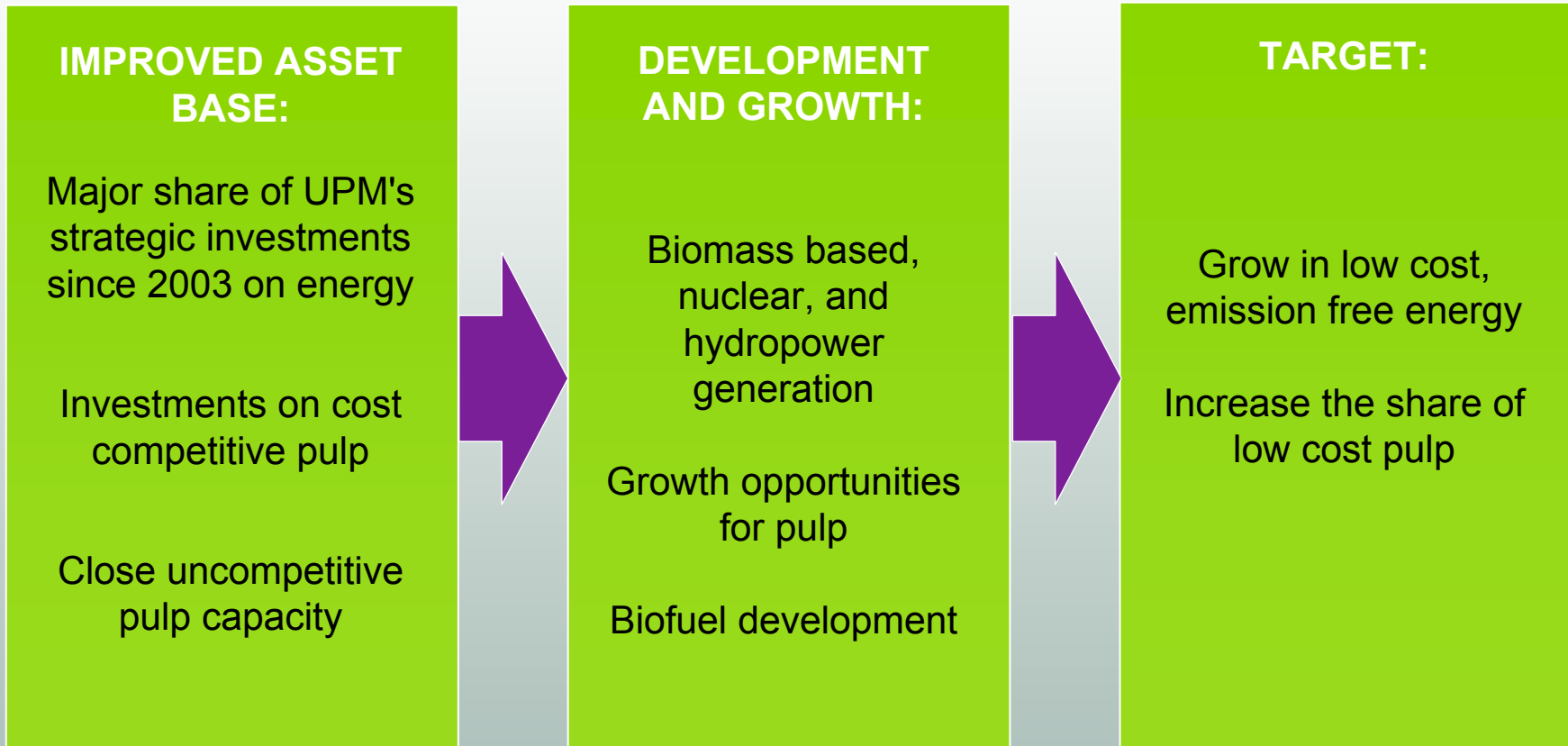
	€m
sales	944
operating profit	148



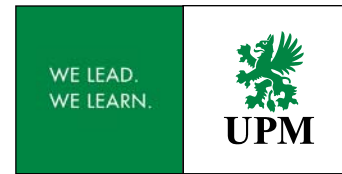
### FOREST AND TIMBER

	€m
sales	1,920
operating profit	-23

Energy and pulp are developed as market-driven businesses



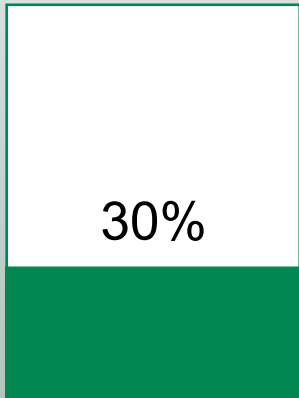
# Improvement of environmental efficiency important part of UPM's energy strategy



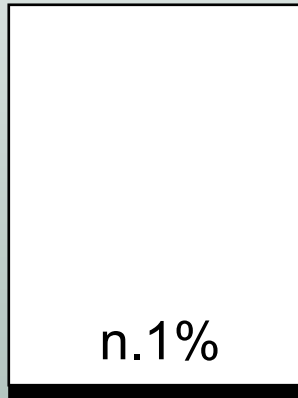
The front-runner in energy efficiency and biomass-based fuels

## UPM in Finland

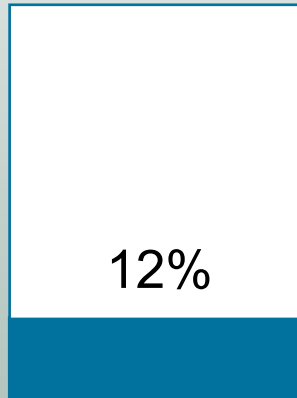
Generates renewable energy



Share of CO<sub>2</sub> emissions



Consumption of electricity



# STRATEGY

## Paper

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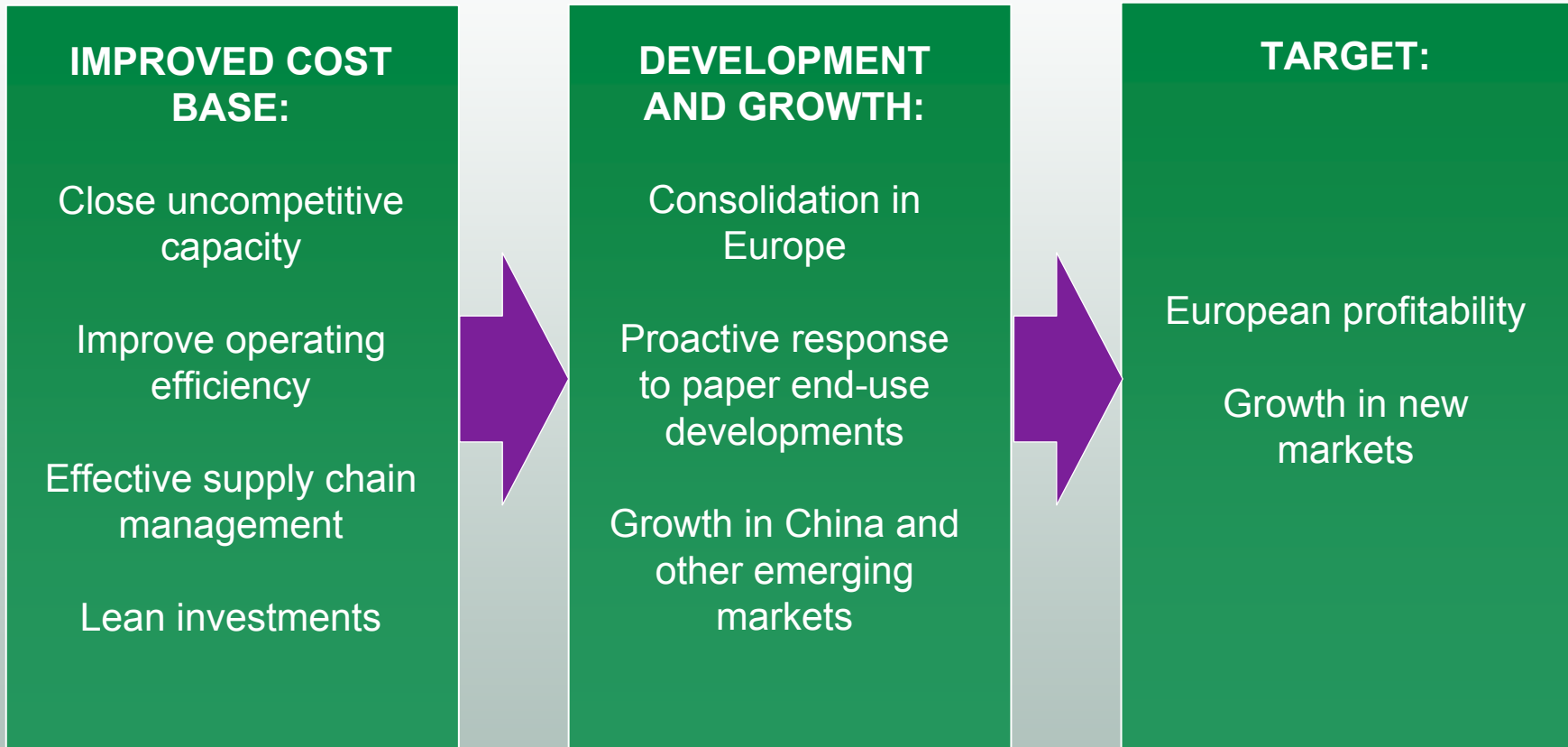
- European profitability: cost leadership, lean investments
- Growth in China and other emerging markets
- Consolidation in Europe



### PAPER

	€m
sales	7,011
operating profit	250

Paper is well positioned and ready to benefit from industry consolidation in Europe



# STRATEGY

## Engineered materials



- Industry leadership in self-adhesive label materials
- Growth in plywood
- Development of new business



### LABEL

	€m
sales	959
operating profit	2



### PLYWOOD

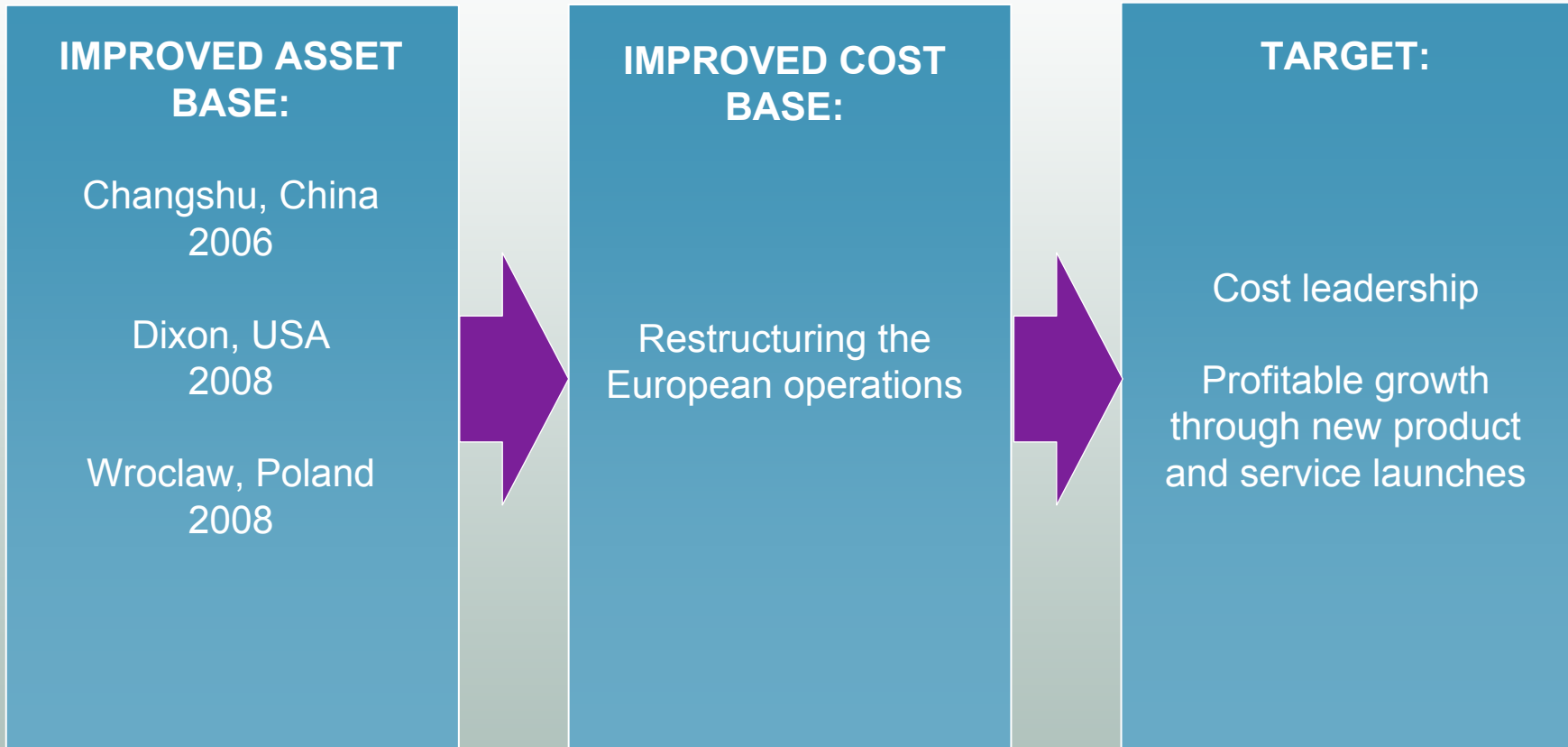
	€m
sales	530
operating profit	25



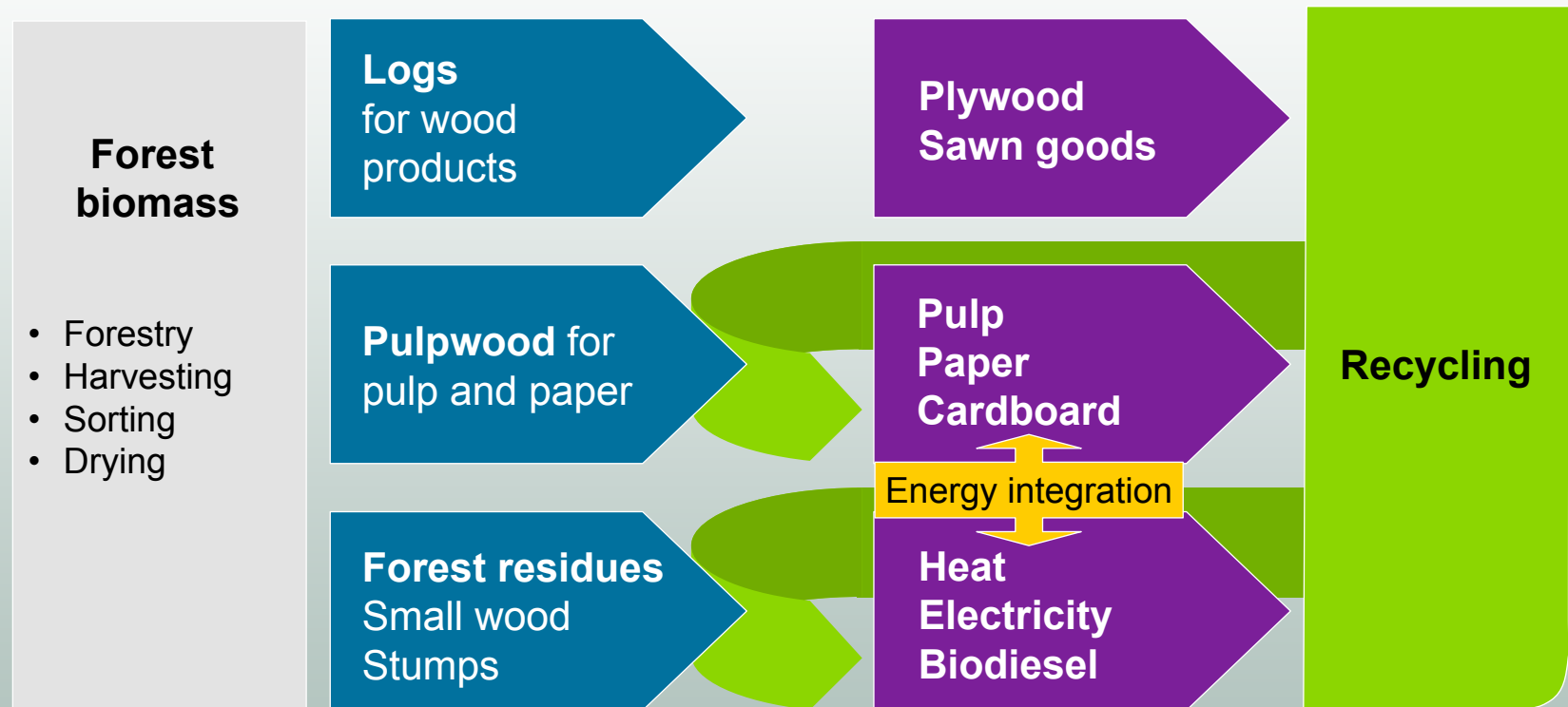
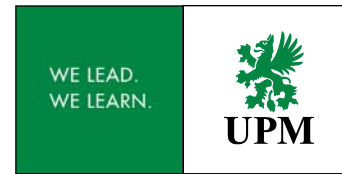
### NEW BUSINESSES

- RFID
- UPM ProFi

Label as a cost competitive growth business



# Biomass value chain offers strong strategic growth opportunities





# 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 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.

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