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UPM

MEET THE MANAGEMENT

May 26, 2009

Helsinki



# 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.

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# UPM STRATEGY

Jussi Pesonen  
President & CEO

May 26, 2009

## 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.



STRATEGY

## UPM's three business groups



Energy and pulp

Paper

Engineered materials

# New business structure leverages the company's competitive advantages



- sets the basis for market driven operations in all three Business Groups
- develop energy related and pulp businesses
- strengthen the cost leadership by optimizing resources, production and investments as well as decreasing complexities in Paper
- increase the weight of fast growing higher value added businesses in Engineered Materials
- new segment reporting to increase transparency of the results and value creation in the company

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

## Strategy actions

- Grow in biomass based energy incl. biofuels
- Leverage high self sufficiency in electricity after OL3 nuclear power plant
- Increase share of low cost pulp
- Sawmilling for wood and biomass sourcing

- Magazine
- Newsprint
- Fine
- Speciality papers

### Strategy actions

- Focus on European profitability: cost leadership, supply chain management and lean investments
- Growth in China and other emerging markets
- Consolidation in Europe



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

## Strategy actions

- Industry leadership in label materials
- Grow in Plywood
- Develop new businesses like RFID, Wood plastic composite based on proprietary know how

# Strategy actions – portfolio of choices and opportunities

## Energy & Pulp

- Grow in biomass based energy incl. biofuels
- Leverage high self sufficiency in electricity after OL3 nuclear power plant
- Increase share of low cost pulp
- Sawmilling for wood and biomass sourcing

## Paper

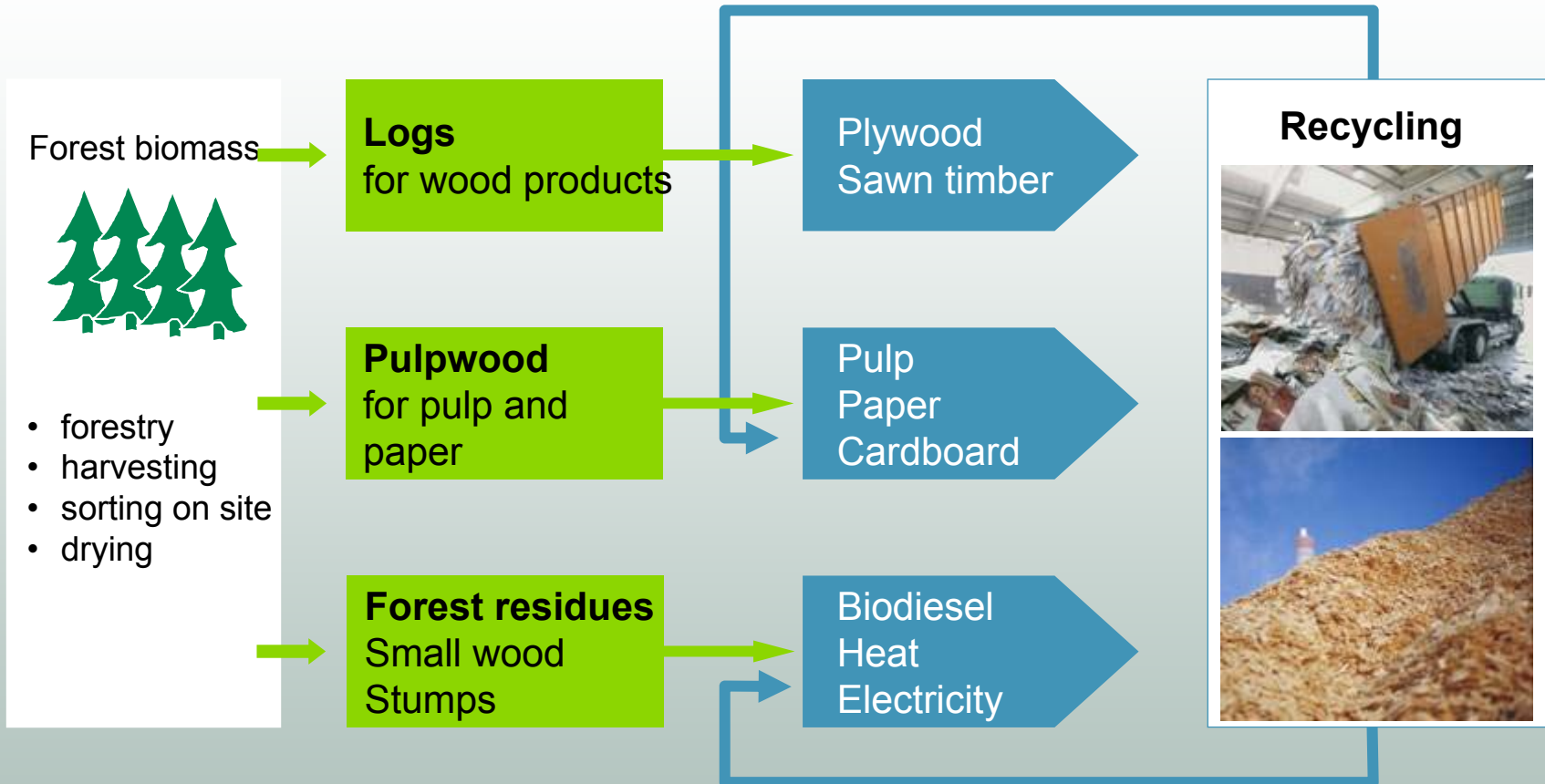
- Focus on European profitability: cost leadership, supply chain management and lean investments
- Growth in China and other emerging markets
- Consolidation in Europe

## Engineered Materials

- Industry leadership in label materials
- Grow in Plywood
- Develop new businesses like RFID, Wood plastic composite based on proprietary know how

# Biomass value chain offers strategic opportunities

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# UPM strategy - Key messages

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## Short to medium term

**Secure profitability and cash flow through undisputed cost leadership.**

## Long term

**UPM will reshape its portfolio: new markets, engineered materials and energy related businesses broaden our scope. Fibre based businesses continue to form the cornerstone of our strategy.**

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# ENERGY AND PULP

Tapio Korpeinen  
President

May 26, 2009

# ENERGY AND PULP

## Contents

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### Energy and Pulp Business Group

Energy

Pulp

Forest and timber

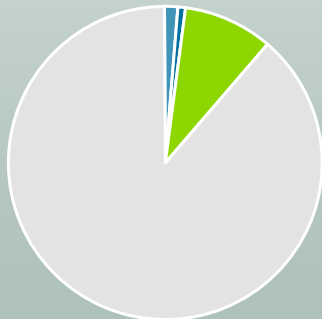
Biofuels

Conclusions

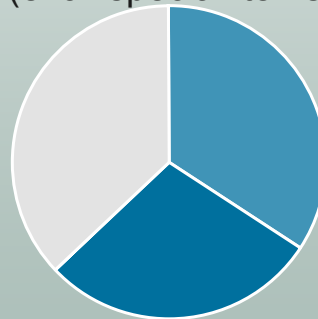
- Energy
  - Hydropower assets and shares in energy companies
- Pulp
  - Pulp mills and the associated company Metsä-Botnia
- Forest and timber
  - UPM's forests, wood procurement, sawmills

Biofuels

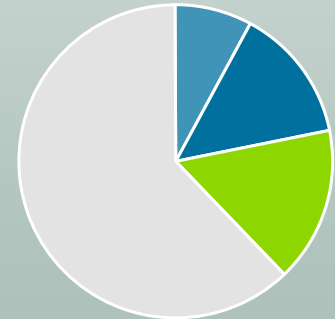
UPM's sales  
€ 9,461 million



UPM's operating  
profit € 513 million  
(excl. special items)



UPM's capital employed  
€ 11.2 billion





## Strategy – Energy and pulp

Energy and pulp are developed as market-driven businesses

### IMPROVED ASSET BASE:

Major share of UPM's  
strategic investments  
since 2003 on energy

Investments on cost  
competitive pulp

Close uncompetitive  
pulp capacity

### DEVELOPMENT AND GROWTH:

Biomass based,  
nuclear, and  
hydropower  
generation

Growth opportunities  
for pulp

Biofuel development

### TARGET:

Grow in low cost,  
emission free energy

Increase the share of  
low cost pulp

## Favourable long-term market outlook



- Electricity
  - growing demand in Europe and globally
  - need to replace old fossil fuel-based capacity
  - integration of the Nordic and central European markets
  
- Pulp
  - world pulp demand expected to grow regardless of North American and European paper demand scenario
  - low paper demand affects availability of recovered paper
  - capacity growth where wood is cheap and readily available
  
- Biofuels
  - demand for renewable energy is growing
  - EU energy directives – demand for biofuels and biomass

# ENERGY AND PULP

## Contents



Energy and Pulp Business Group

**Energy**

Pulp

Forest and timber

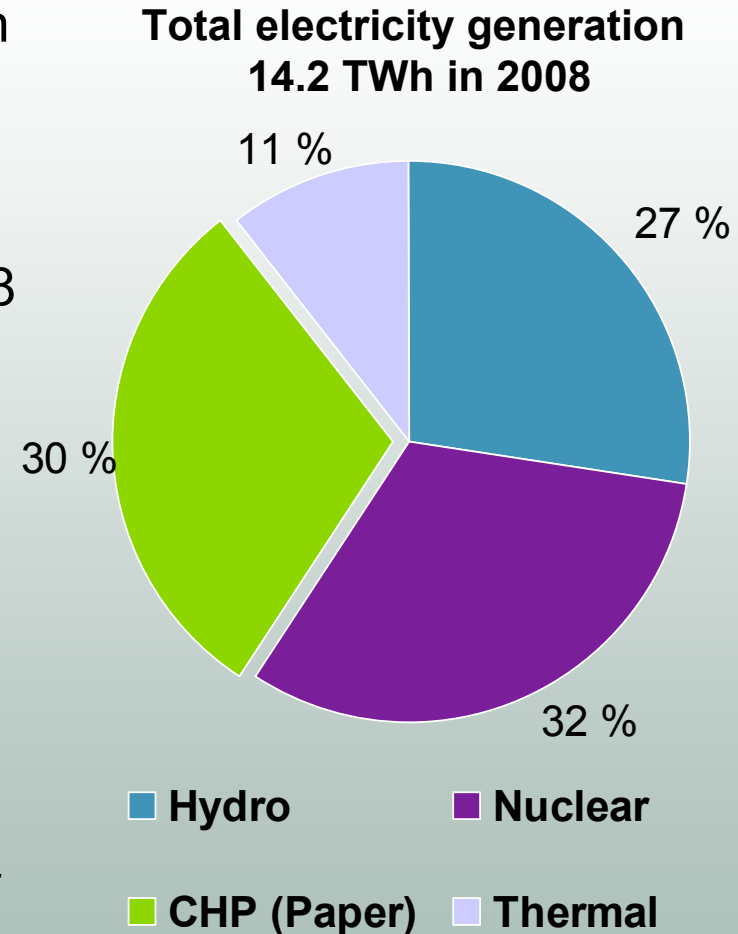
Biofuels

Conclusions

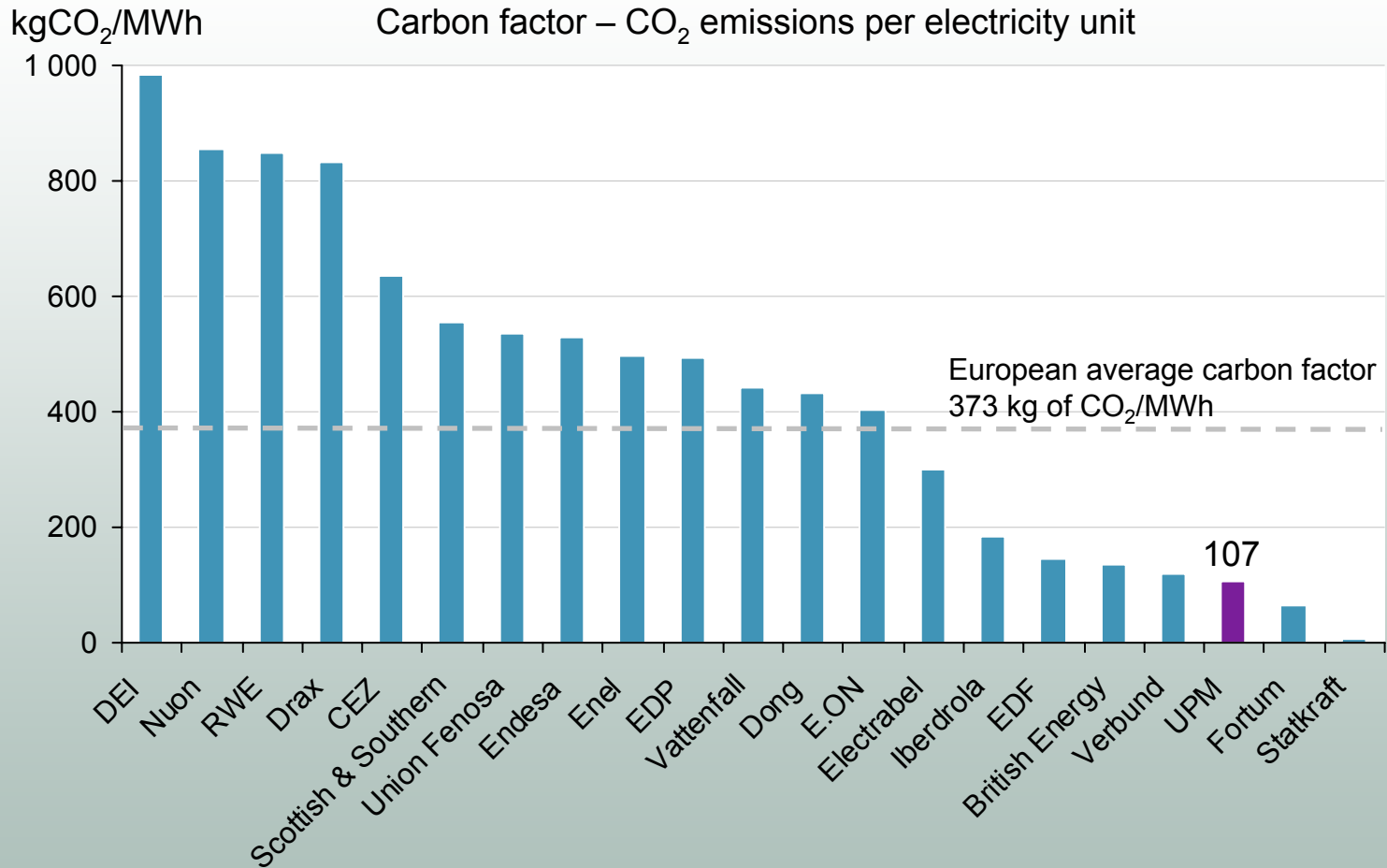
## Low-cost, low emission electricity generation



- Cost competitive electricity generation regardless of fuel and CO<sub>2</sub> prices
  - hydro, nuclear, biofuels-based CHP
- Electricity self-sufficiency 85% in 2008
  - net purchases 2.5TWh
  - net seller in Finland (2.5TWh)
- 62% of fuels used by UPM globally were biofuels in 2008
  - 81% in Finland
- Ongoing investment
  - TVO's new reactor will add 3.5TWh of nuclear power, starting in 2012



# Low CO<sub>2</sub> emission electricity sources



Source: PWC 2008, UPM

# UPM intends to grow further in emission-free electricity

- UPM invests in CO<sub>2</sub>-free electricity generation to grow in electricity business
  - investments
  - joint ventures
  - acquisitions
- After the start-up of TVO's OL3 in 2012 UPM's capacity grows by 468 MW (18%)
- UPM wants to participate and grow in CO<sub>2</sub>-free electricity market also in the future
  - TVO's OL4 application to build a new nuclear power unit



# ENERGY AND PULP

## Contents



Energy and Pulp Business Group

Energy

**Pulp**

Forest and timber

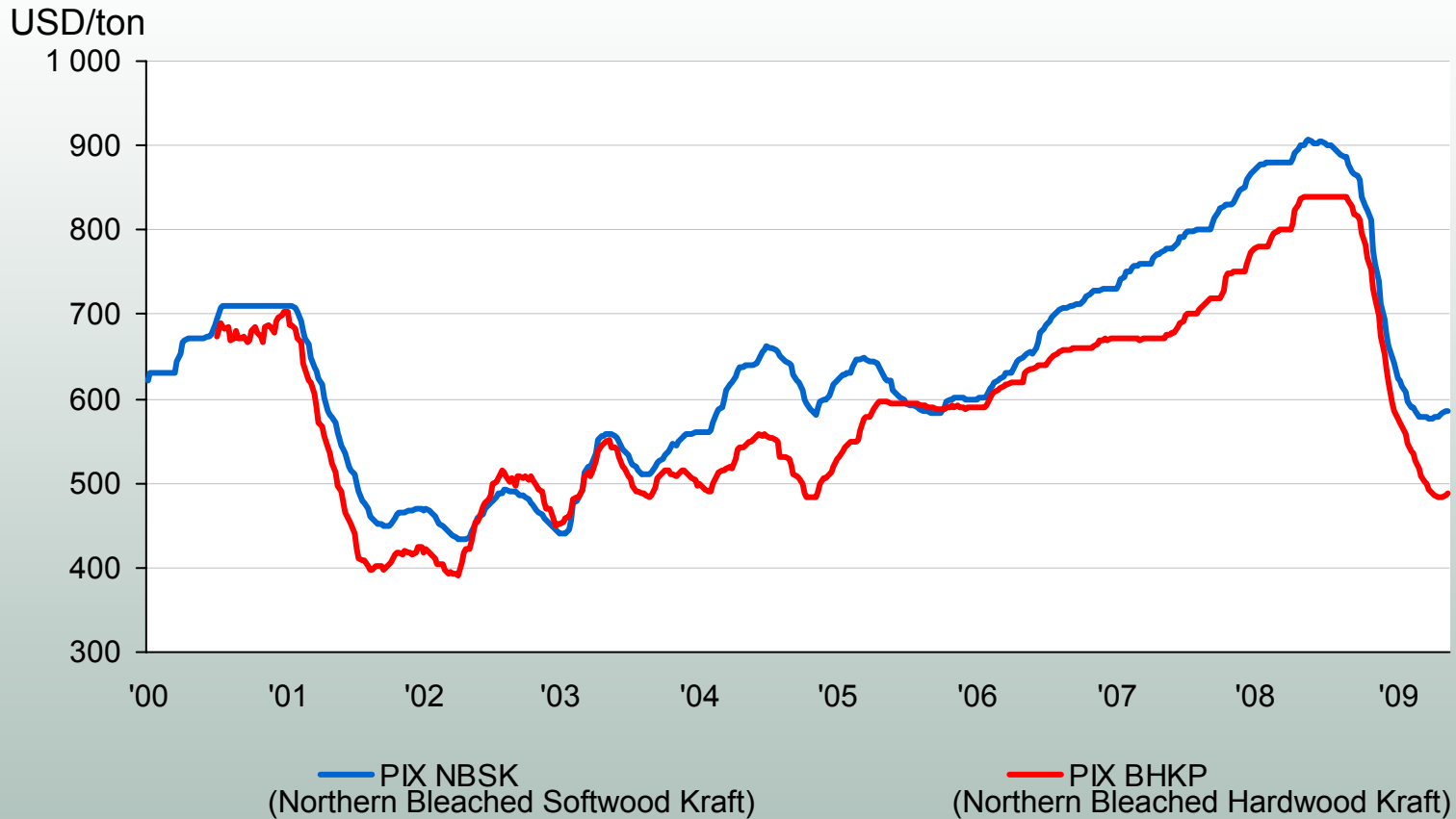
Biofuels

Conclusions

PULP

# Chemical pulp market prices

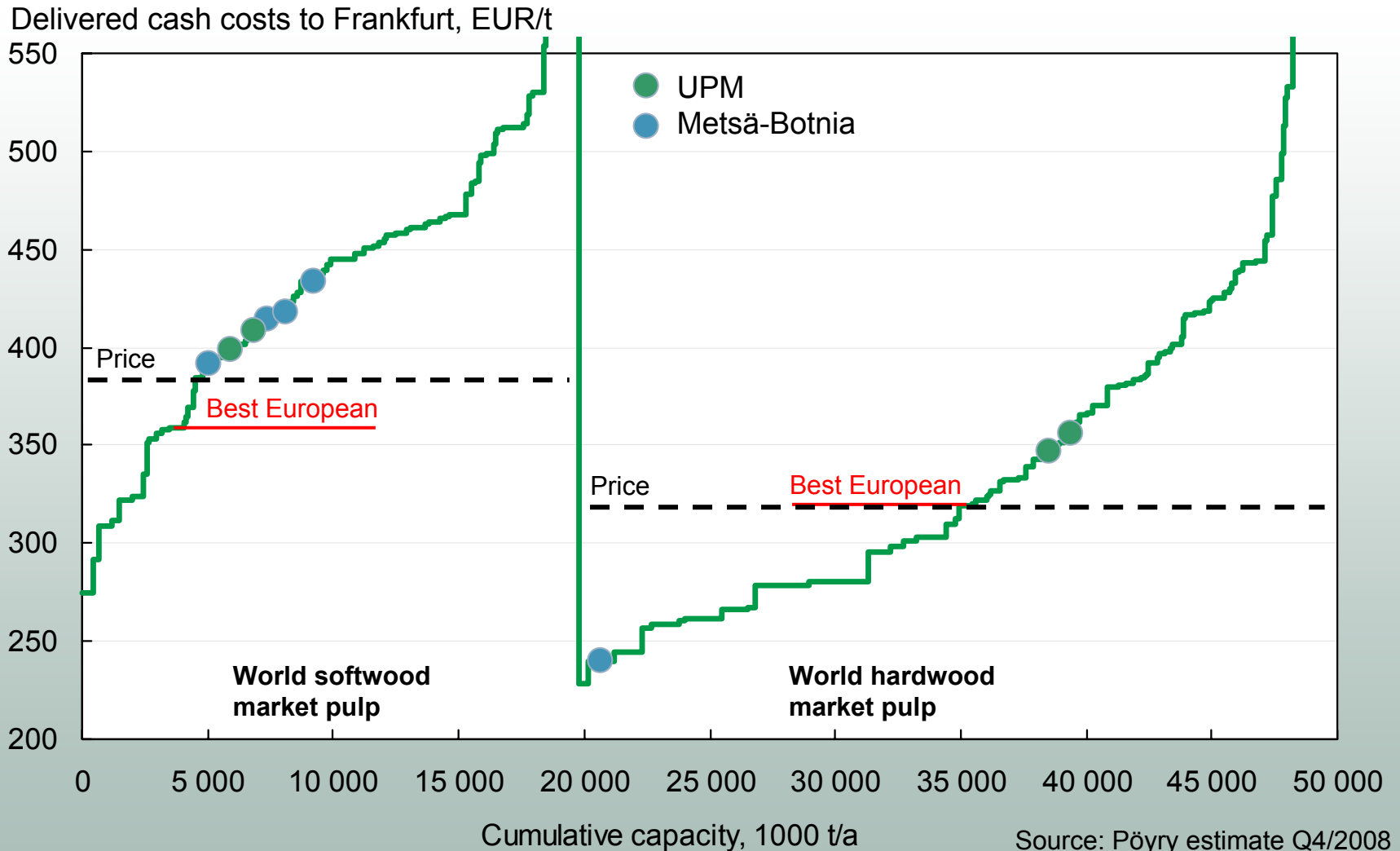
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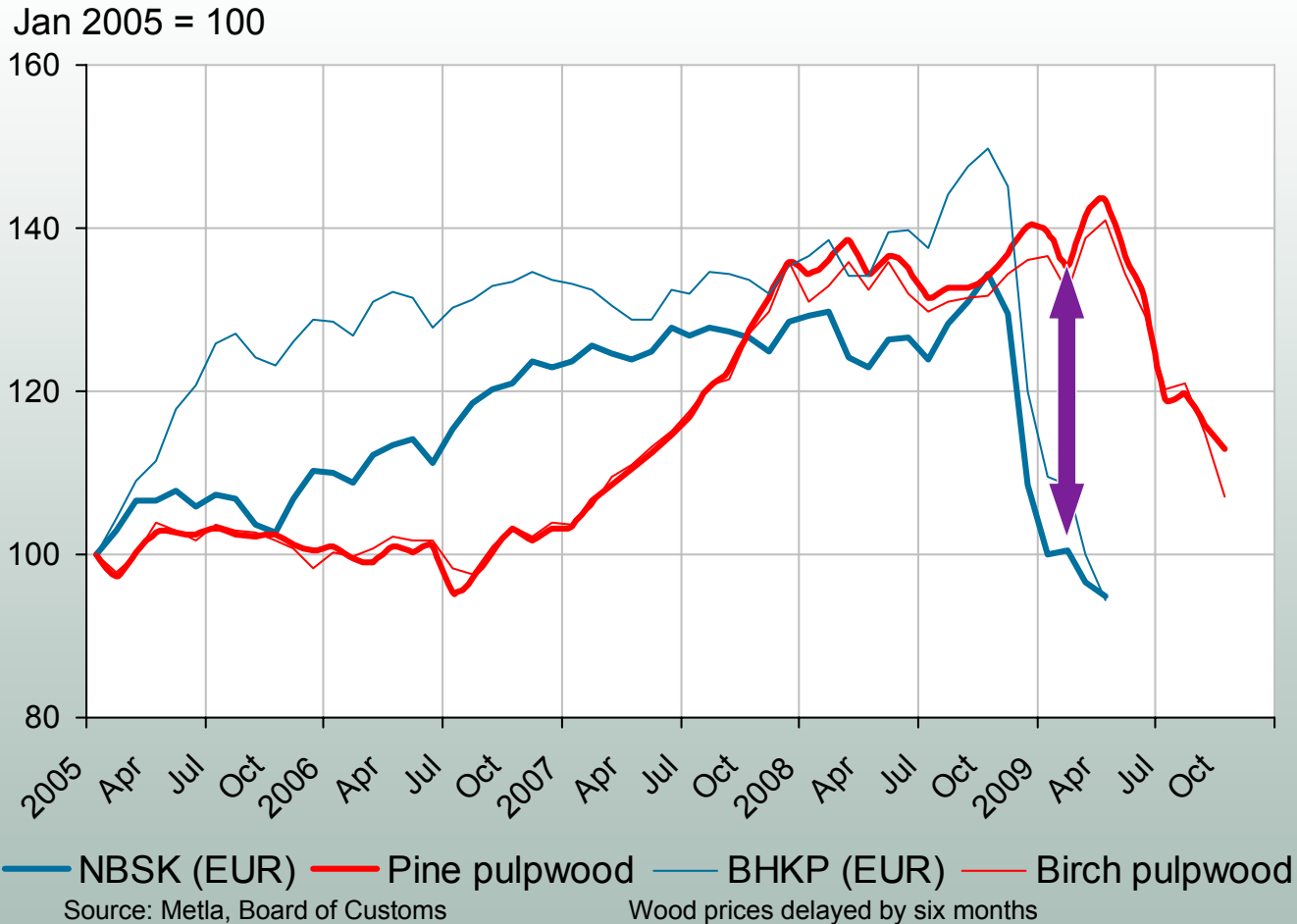
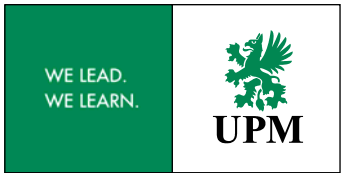
Source: FOEX Indexes Ltd.



# At current market prices over half of world market pulp capacity operates on negative EBITDA

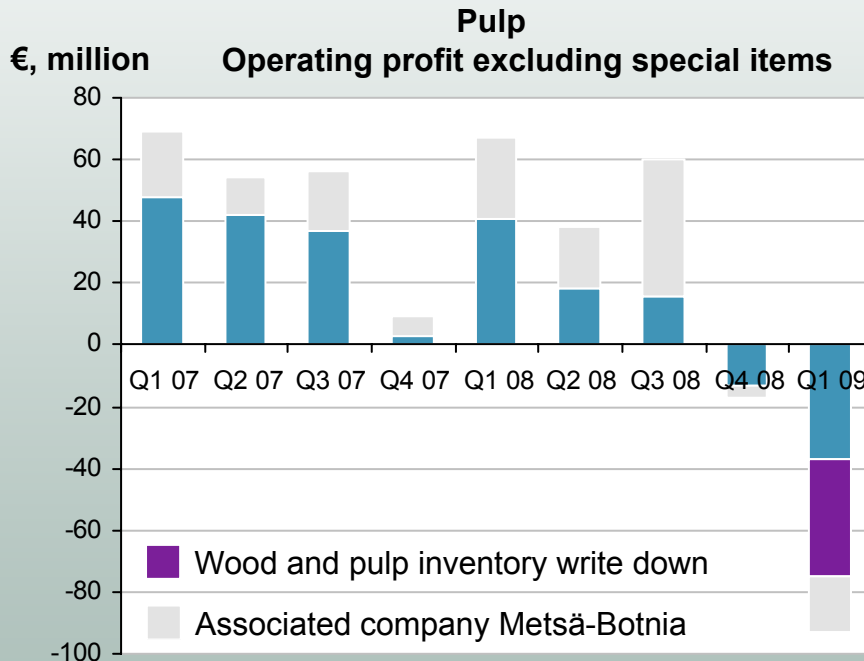


# Operating in the economic downturn: pulp prices have fallen while wood costs are still high in Finland



# Operating in the economic downturn

- Operating profit turned into losses due to lower pulp price and deliveries
- Wood cost remained high
- Wood and pulp inventory write downs of € 38 million in Q1 2009



Pulp	Q1 2009	Q1 2008
Sales, M€	139	269
EBITDA	-55	57
Operating profit M€ excl. special items	-93	67
Average price, change	-23%	n.a.
Deliveries, change	-33%	n.a.

## Increasing the share of low-cost pulp



### Investments

- Botnia's 1 million tonne pulp mill in Uruguay
  - Started in November 2007
- Evaluating new ventures, e.g. Borea J/V in Russia
  - Shareholders' agreement in 2008
  - Investment decisions are subject to the results of the final feasibility study and necessary approvals from relevant authorities

### Closures

- In Q4 2008, UPM closed its least competitive pulp mill
  - Tervasaari 210,000 tonnes
- In March 2009 Botnia closed its least competitive pulp mill
  - Kaskinen 450,000 tonnes, UPM's share 212,000 tonnes

# ENERGY AND PULP

## Contents



Energy and Pulp Business Group

Energy

Pulp

**Forest and timber**

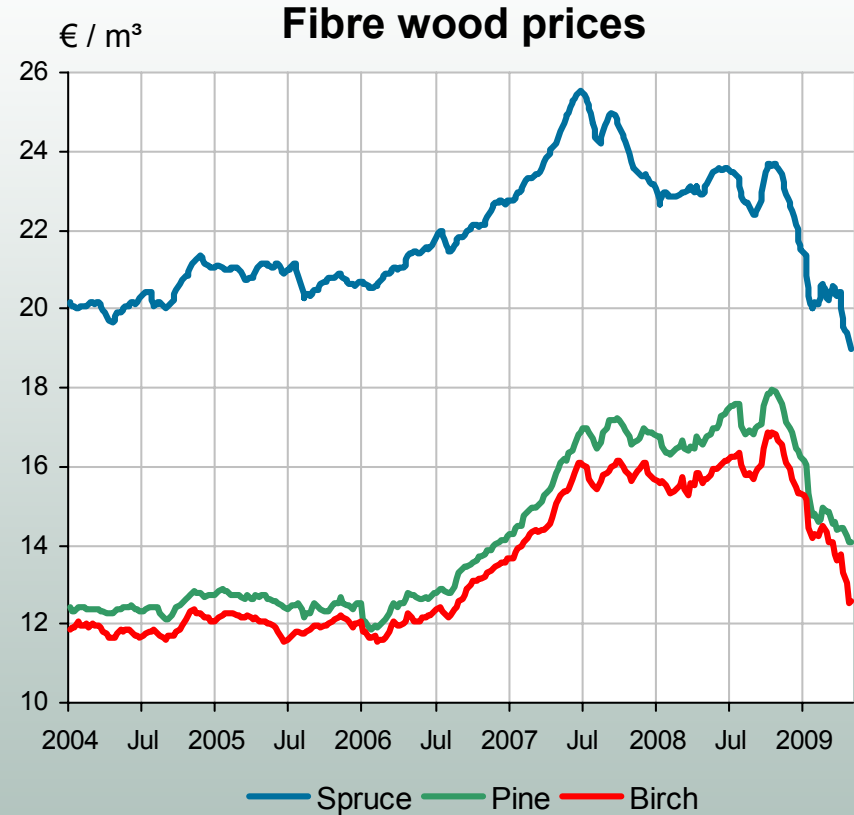
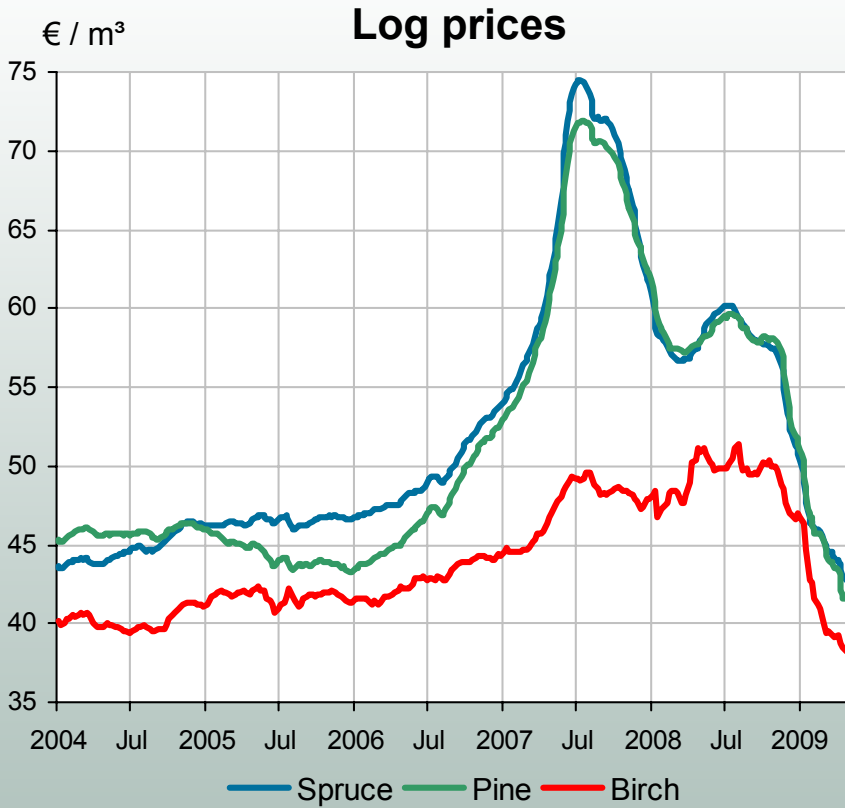
Biofuels

Conclusions

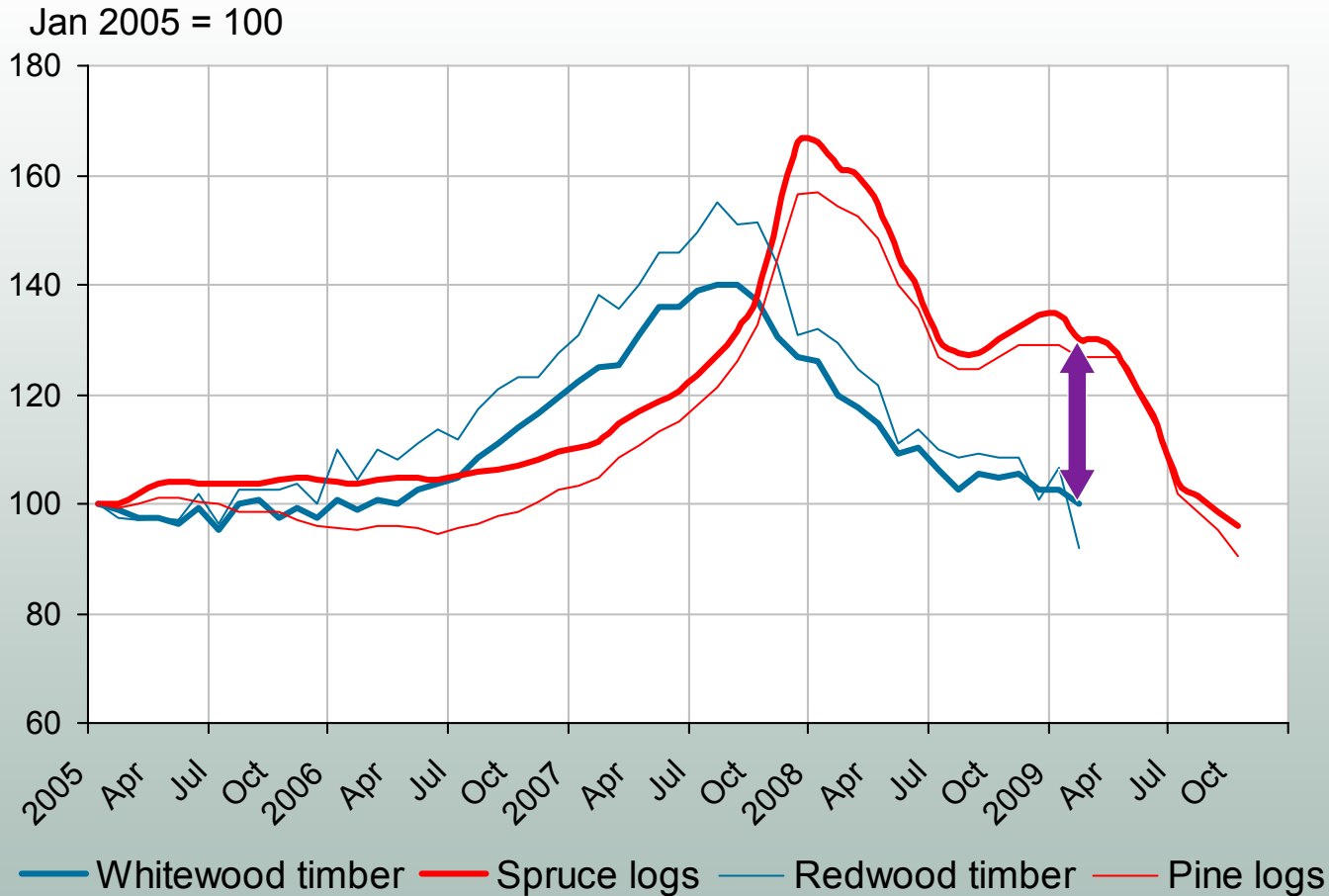
# Forest biomass sourcing and sawmilling

- UPM's wood consumption was 24.8 million m<sup>3</sup> in 2008
  - paper, pulp and plywood mills, sawmills and bioenergy plants
  - supplied forest biomass equivalent to 3.4 GWh of energy
- Forests
  - UPM owns 1 million hectares of forest land
  - supplies 10% of UPM's wood consumption
  - other forests under management 0.7 million hectares
- Sawmilling has an important role in biomass sourcing
  - annual capacity for sawn timber 2.4 million m<sup>3</sup>
- Forest biomass value chain is important in bioenergy

# Wood prices in Finland returning to 2005 levels



# Operating in the economic downturn: sawn timber prices have fallen while log costs are still high



Source: Metla, Board of Customs

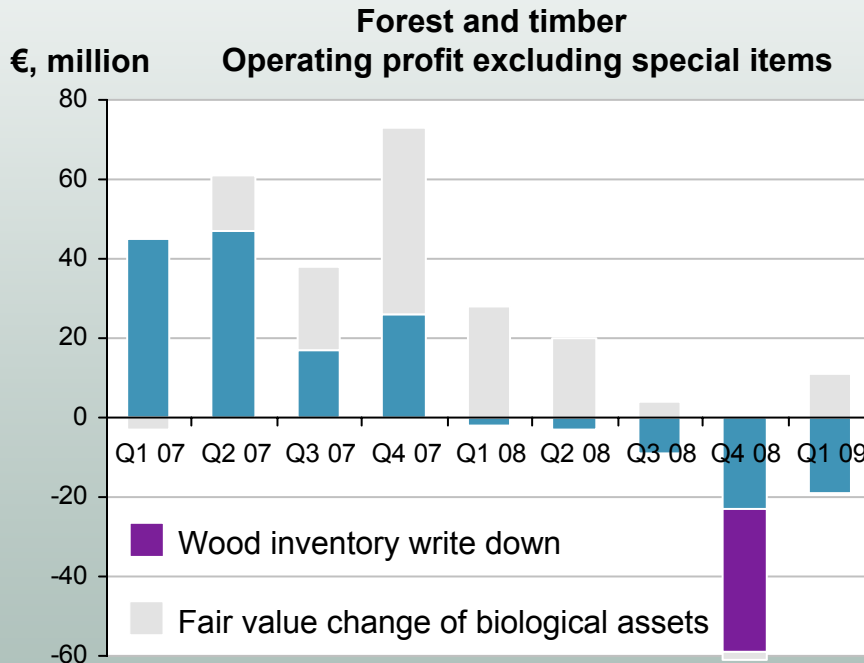
Wood prices delayed by six months



# Operating in the economic downturn



- Operating losses mainly due to lower price and deliveries of sawn timber
- Cost of logs remained at a high level
- Fair value of biological assets increased less than a year ago



Forest and timber	Q1 2009	Q1 2008
Sales, M€	385	508
EBITDA	-15	4
Operating profit M€ excl. special items	-8	26
Average price of sawn timber, change	-21%	n.a.
Sawn timber deliveries, change	-37%	n.a.

# ENERGY AND PULP

## Contents



Energy and Pulp Business Group

Energy

Pulp

Forest and timber

**Biofuels**

Conclusions

- UPM's biofuel development utilises synergies within the pulp and paper value chain, instead of competing with food value chain
  
- 2nd generation biofuels
  - high quality and lowering impact on CO<sub>2</sub> emissions throughout the value chain
  
- EU directive
  - biofuels 10% of all transportation fuels by 2020
  - 2nd generation biofuels counted with 2x weight
  
- UPM is piloting concepts for biodiesel, bioethanol and bio-oil
  - Technical requirements for investment decisions in place by the end of 2009

# ENERGY AND PULP

## Contents



Energy and Pulp Business Group

Energy

Pulp

Forest and timber

Biofuels

**Conclusions**

## ENERGY AND PULP

# Conclusions



- Low-cost, low emission electricity generation
- Competitive pulp mill assets
- Investment requirements in the current assets are low
- Current business environment is challenging
  - pulp and sawn timber prices have fallen and demand is low
  - wood costs to decline in 2H09
- Favourable long-term market outlook
  - growth opportunities in electricity, pulp and biofuels

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# PAPER

Jyrki Ovaska  
President

May 26, 2009



## Paper Business Group

Structural advantage and cost leadership

Operating in the low-demand environment

Conclusions

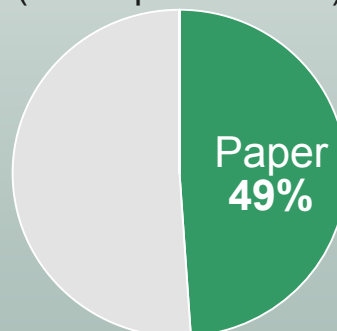


- Publication papers (magazine papers and newsprint) and fine and speciality papers
- Customers are publishers, printers, merchants and paper converters
- 19 paper mills in Europe, China and the US, sales representation in 55 countries
- Paper includes the mechanical and deinked pulp production and the combined heat and power (CHP) plants operating on paper mill sites (1/3 of UPM's total power generation)
- Combined annual paper production capacity ~11.5 million tonnes

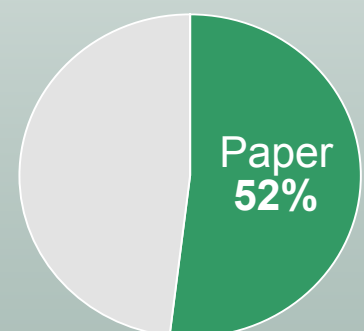
**UPM's sales €  
9,461 million**



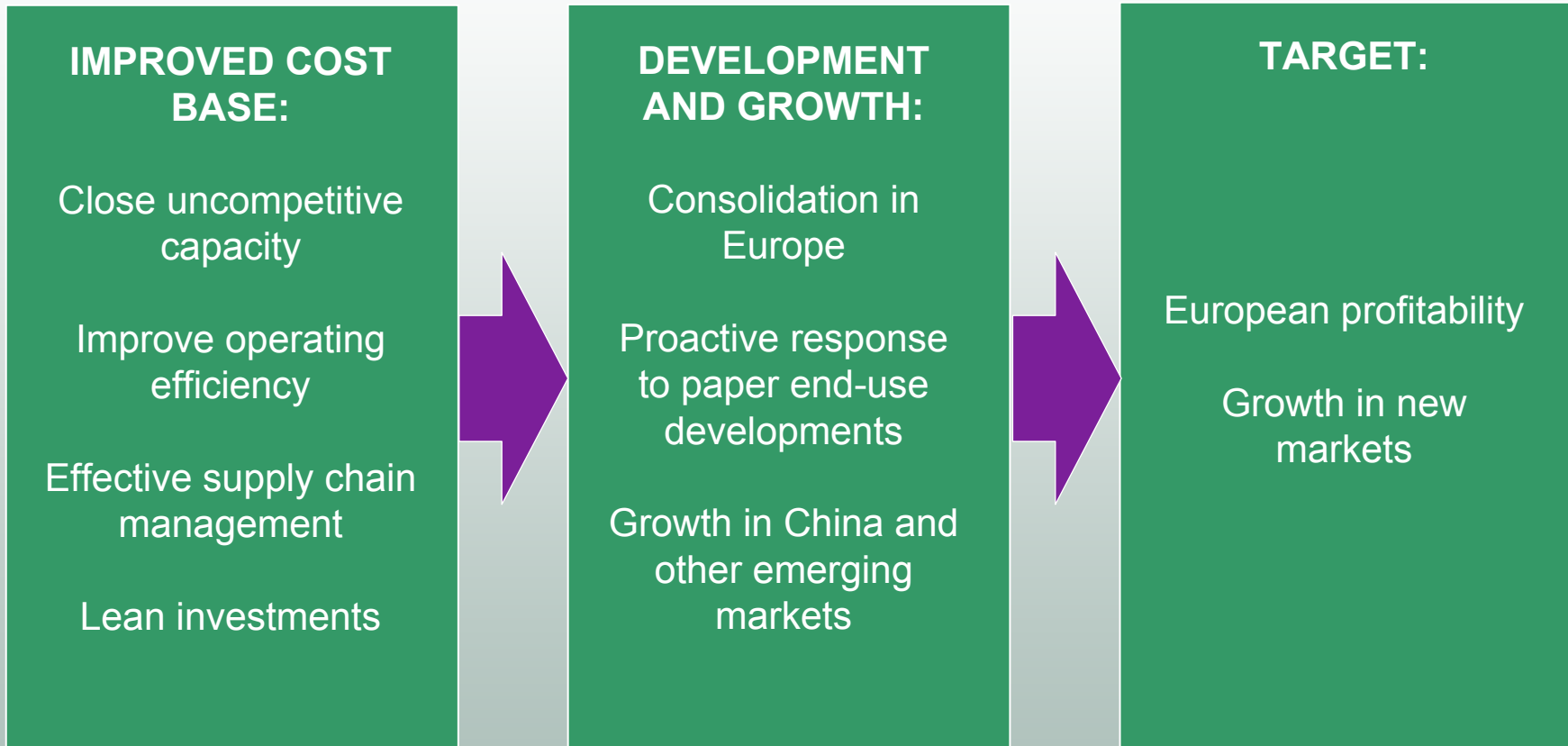
**UPM's operating  
profit € 513 million**  
(excl. special items)



**UPM's capital employed  
€ 11.2 billion**



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



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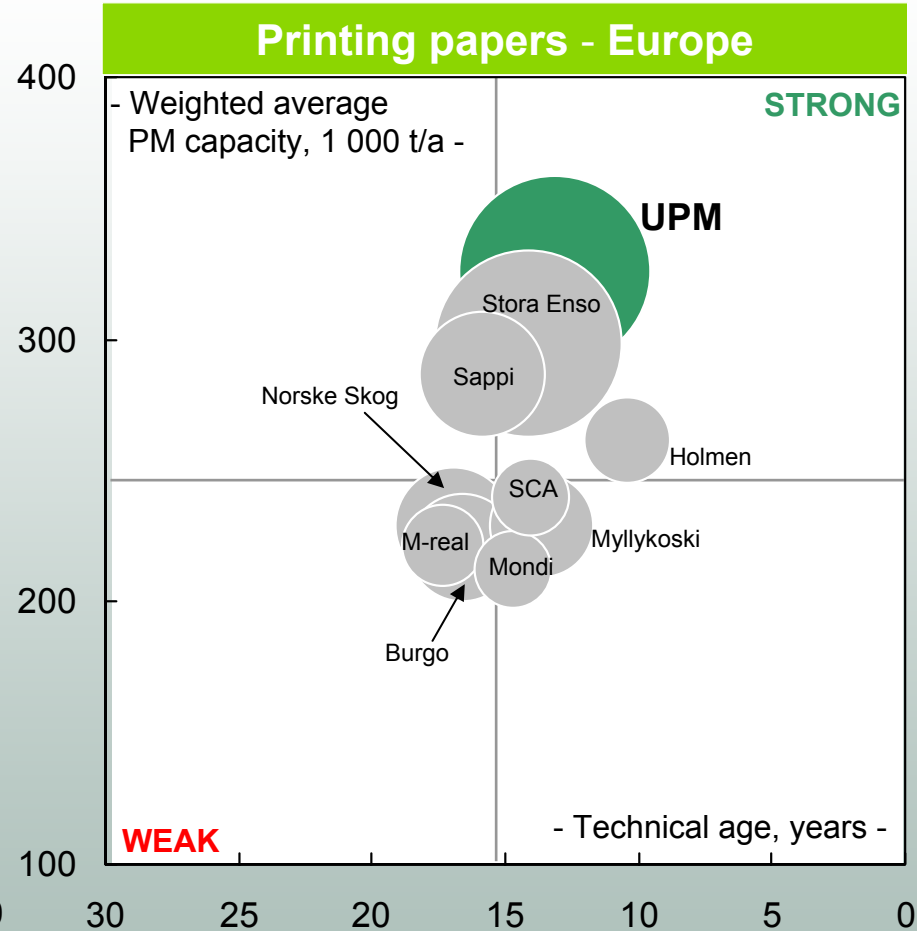
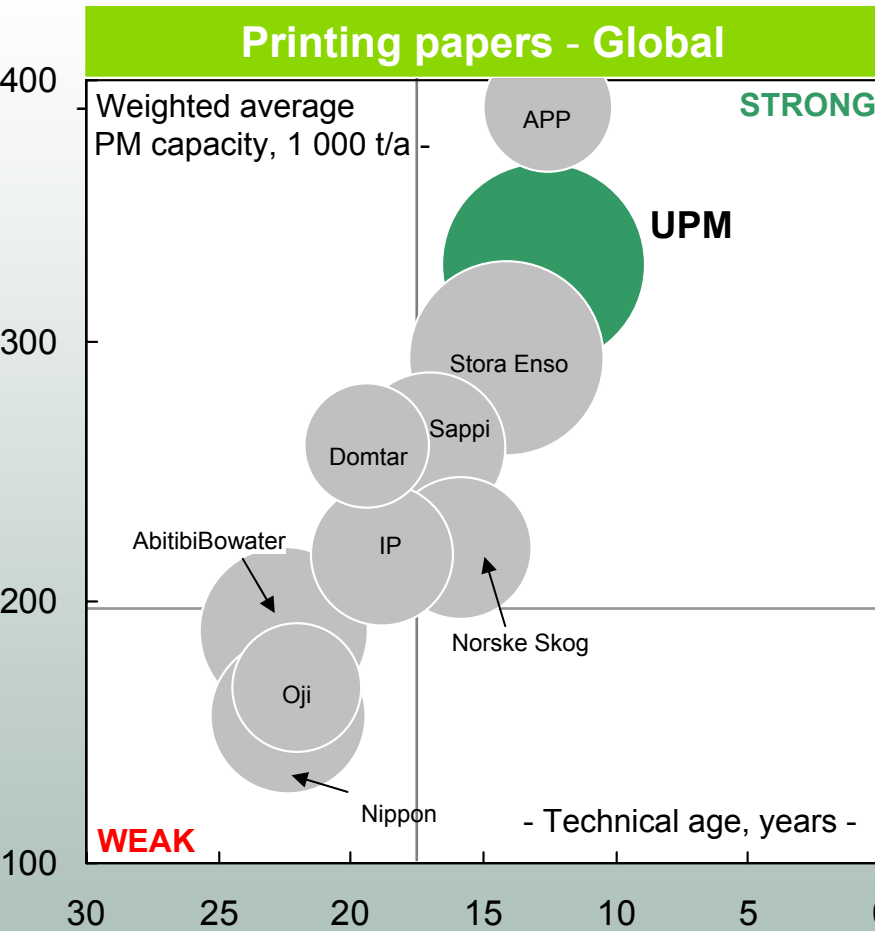
Paper Business Group

**Structural advantage and cost leadership**

Operating in the low-demand environment

Conclusions

# UPM has modern well invested assets with limited investment needs



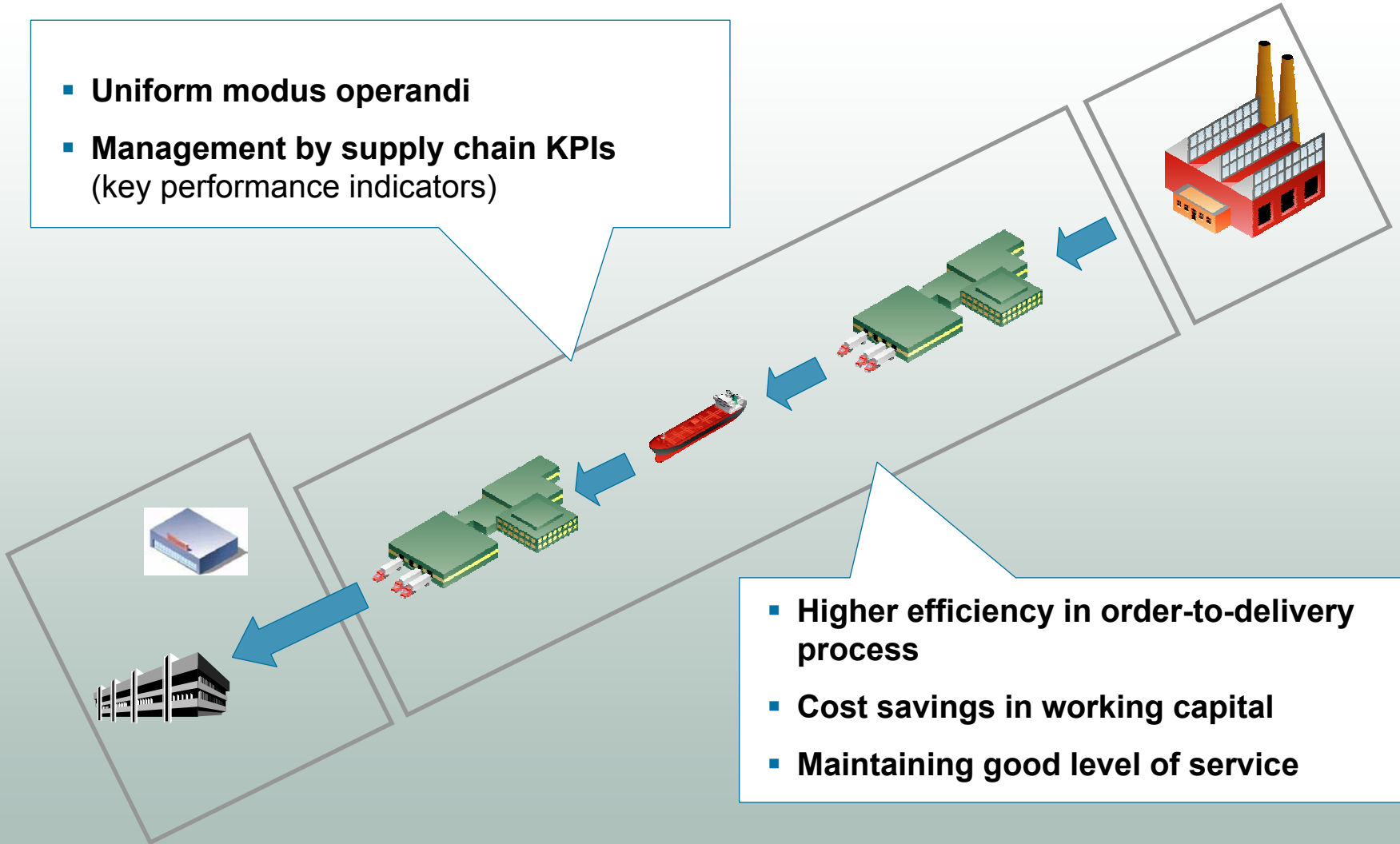
Source: Pöyry

Including newsprint, MFS, SC, CWC, std. CWF, std. UWF

NOTE: Currently idled Nordland PM2 is excluded from the analysis

# Effective supply chain management

- **Uniform modus operandi**
- **Management by supply chain KPIs**  
(key performance indicators)



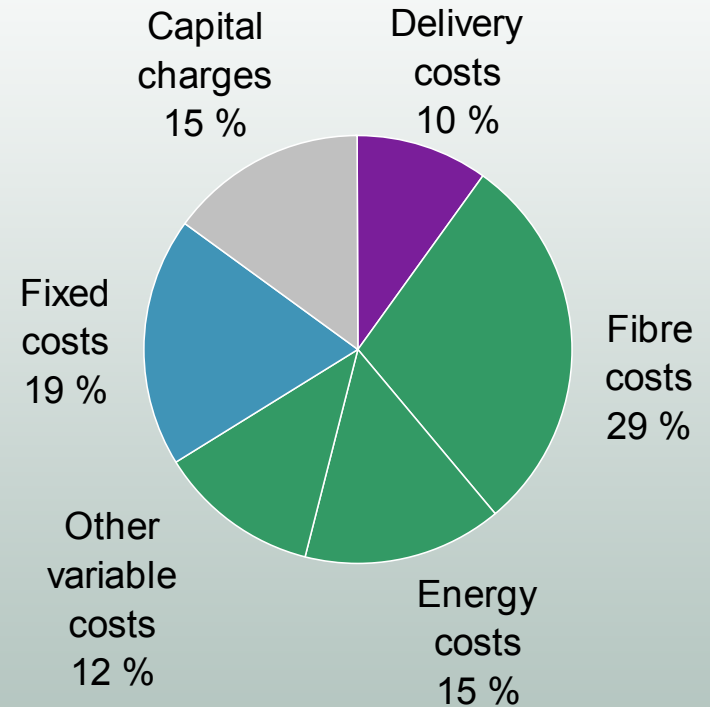
- **Higher efficiency in order-to-delivery process**
- **Cost savings in working capital**
- **Maintaining good level of service**

# Cost inflation is easing up



- Chemical pulp pricing is significantly coming down
- RCP prices are declining
- Wood cost will remain high through Q2 and then reduce
- Electricity prices are declining, but with a long time delay
- Oil based chemicals and logistics cost
- Temporary layoffs
- Fixed costs are expected to be lower

**European graphic papers producers**  
**Average cost structure**

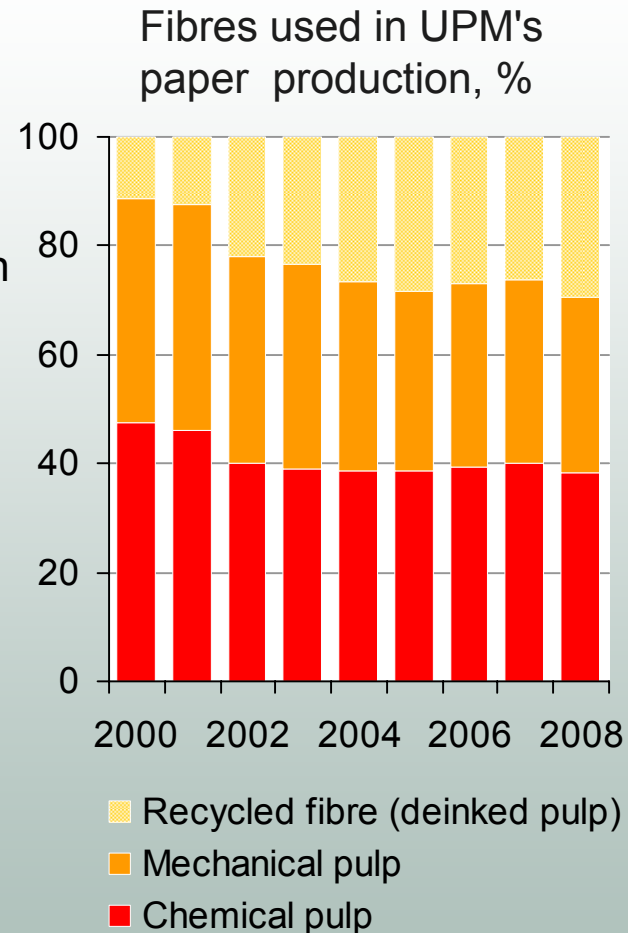


# Optimization of diversified fibre base has improved the cost structure



- Optimisation of diversified fibre portfolio
  - Hardwood pulp – net buyer incl. Botnia
  - Softwood pulp – net seller incl. Botnia
  - Mechanical pulp – integrated into paper production
  - RCP – procurement to be involved in the value chain

➔ **Diversified fibre portfolio enables development of different fiber mixes**



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Paper Business Group

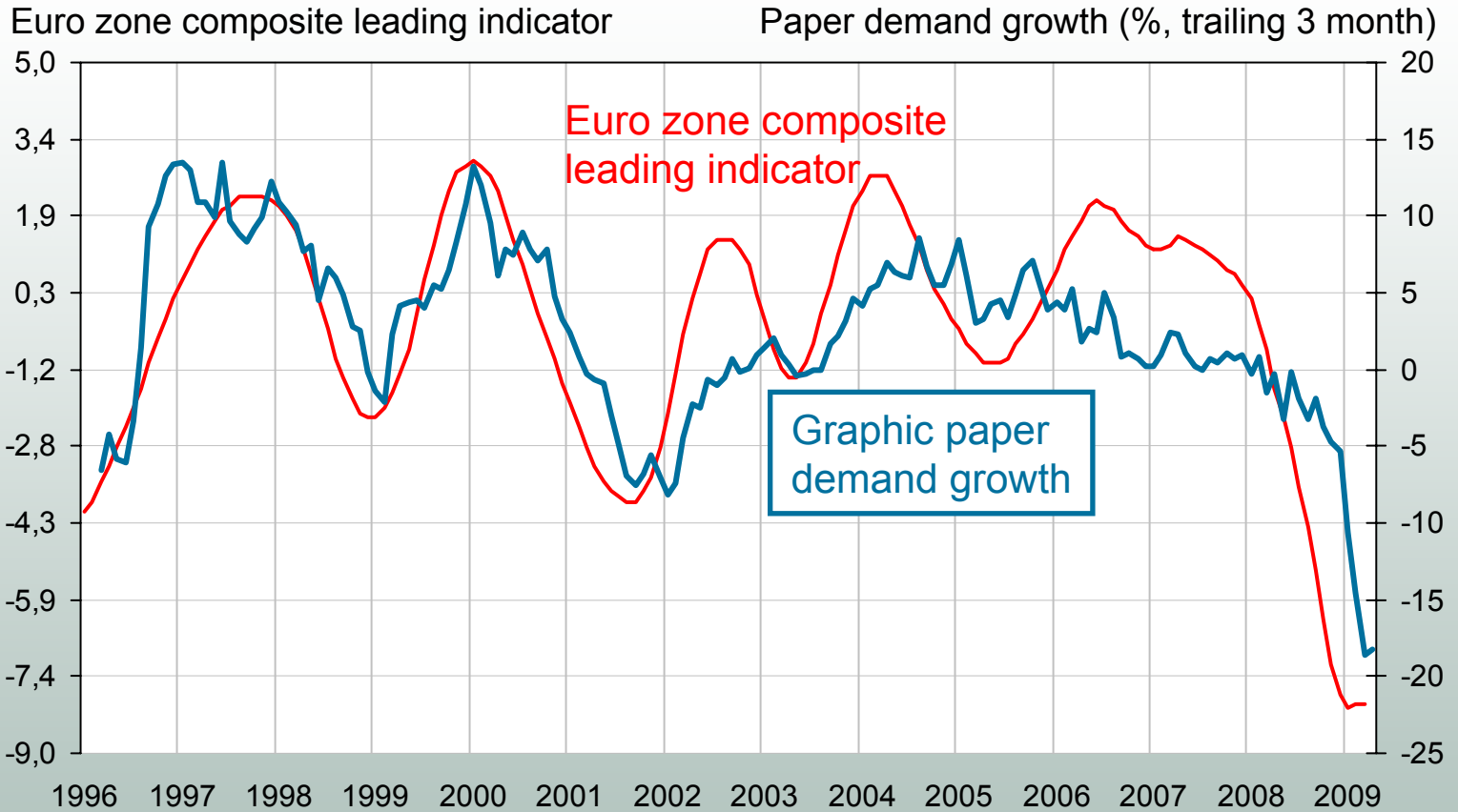
Structural advantage and cost leadership

**Operating in the economic downturn**

Conclusions



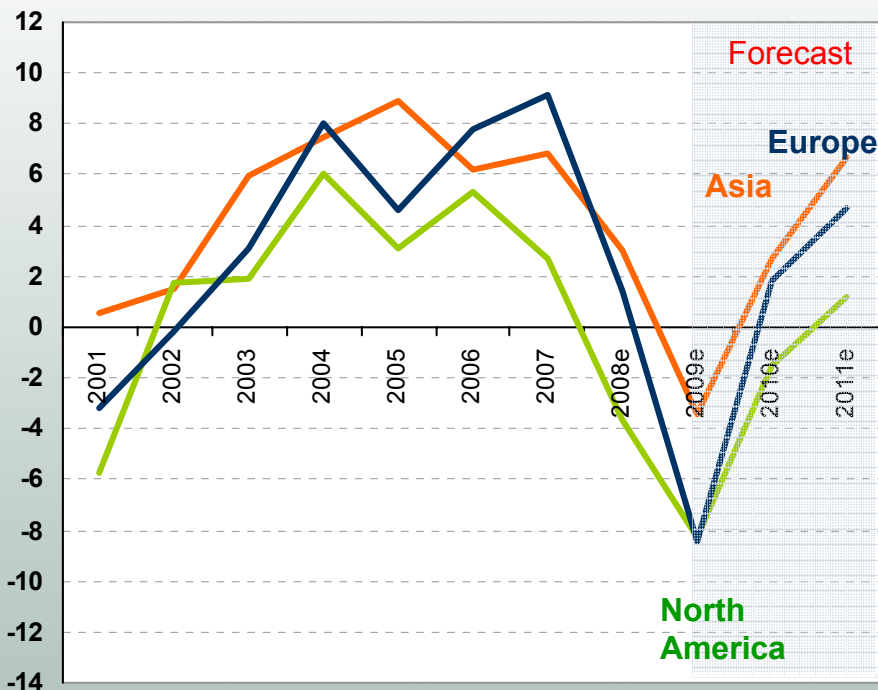
# Weaker economic growth affects demand for European graphic paper demand



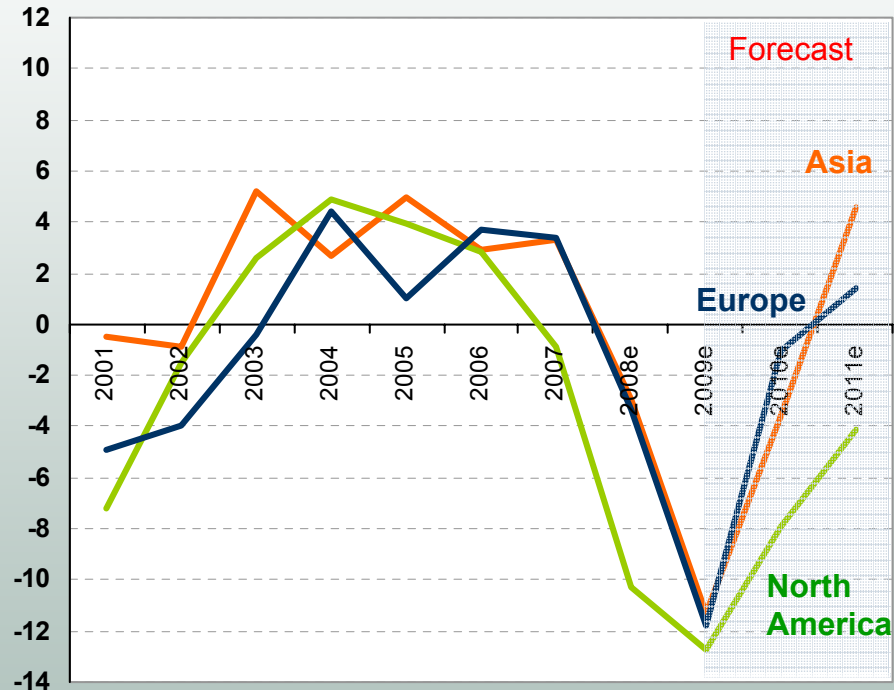
# Growth of advertising expenditure – recovery is forecasted from 2010



Total advertising expenditure growth, %



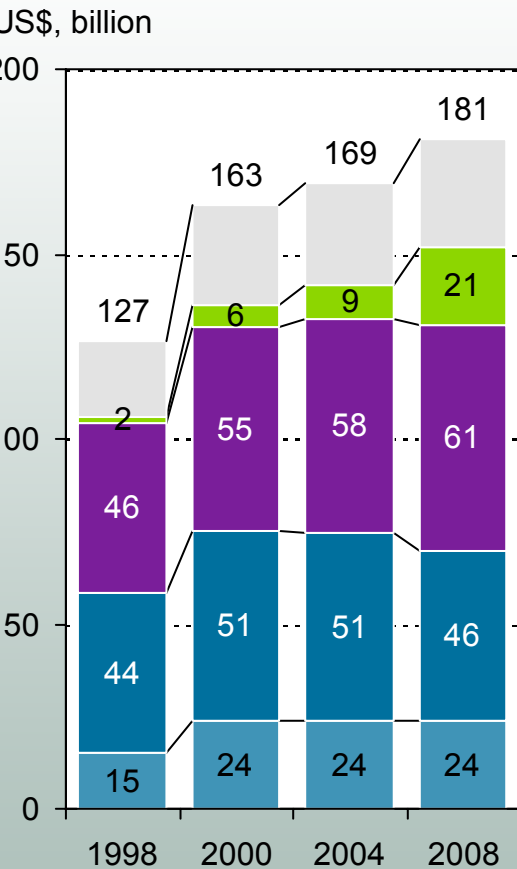
Print media advertising growth by region  
(excl. direct mail), %



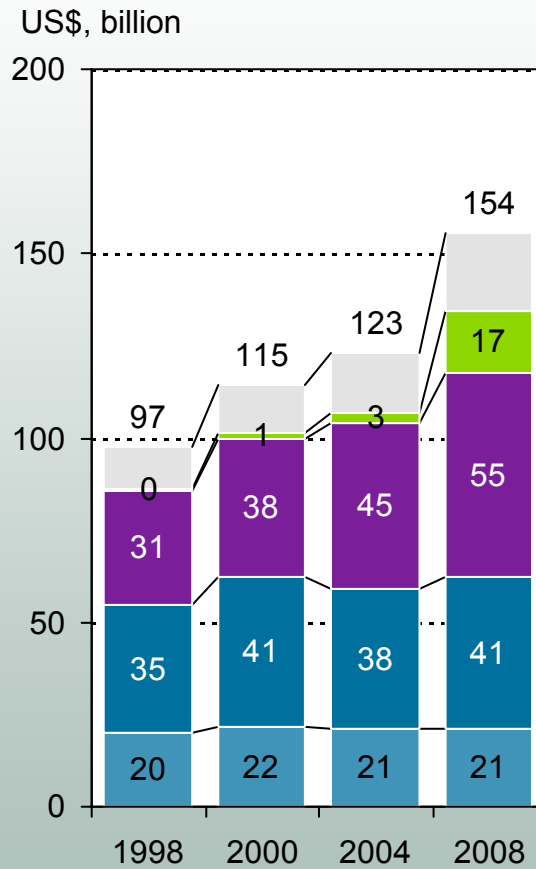
# Development of ad-spend last 10 years – change in role of print media vs. the Internet



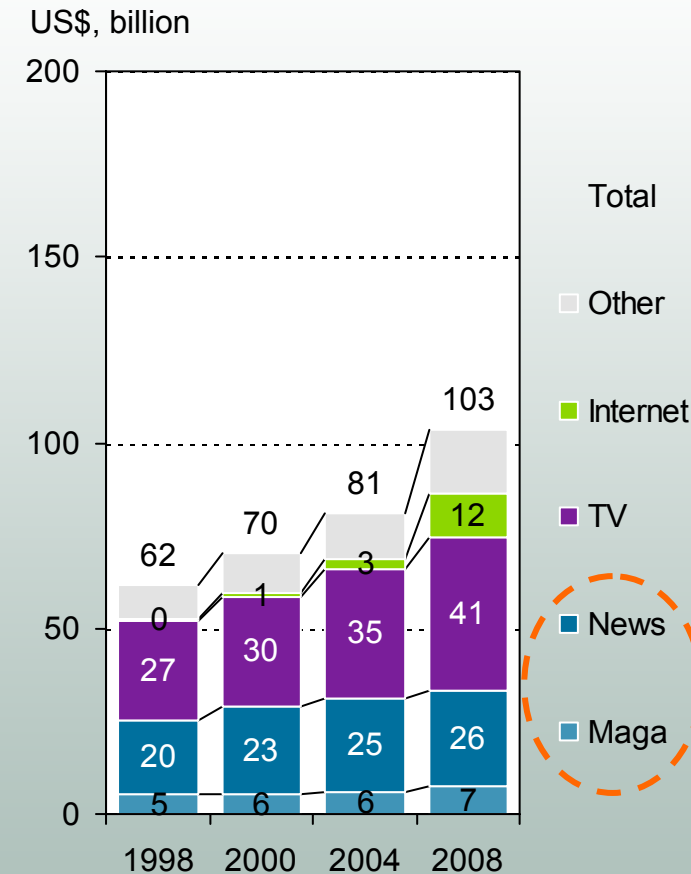
## NORTH AMERICA



## EUROPE

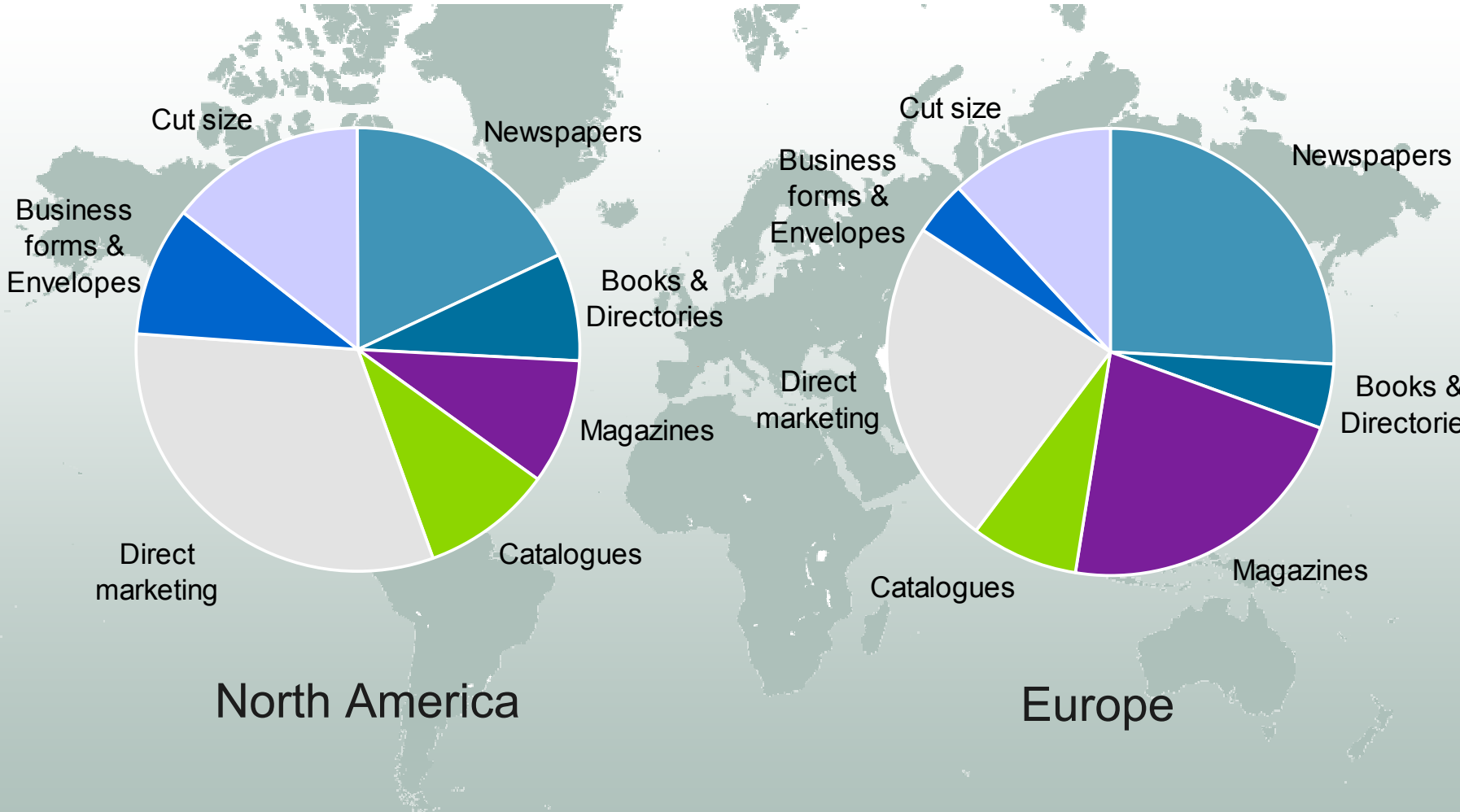


## ASIA PACIFIC



# PAPER

## Regional paper demand by end-use 2008



# Customers have a choice: different paper grades for the same end-use



End-use Grade	Publishing			Advertising material		Consumer papers	
	Newspaper	Book/ Directories	Magazines	Catalogues	Direct marketing	Business forms + Envelopes	Copy paper
Newsprint	Dark Green						
MFS		Light Green					
SC			Light Green	Light Green			
LWC			Light Green	Light Green	Light Green		
WFC		Light Green	Light Green	Light Green	Light Green		
WFU		Light Green			Light Green	Dark Green	Dark Green

Paper grade's share of total end-use consumption



# UPM is prepared to cope with the lower demand environment in Europe



## ■ Improved cost competitiveness

- lower fixed costs due to less machines and improved operational efficiency of large and cost competitive production units
- closed 2.1 million tonnes of paper making capacity
- restructuring, streamlining and targeted investments
- achieved better product and market mix
- optimisation of diversified fibre base

## ■ Effective supply chain management

- reduction of working capital
- improved internal efficiency

- Sales declined by 22%
- Higher prices maintained
- Significant reduction in fixed costs through restructuring and flexible way of working
- Lower pulp costs compensated for the increase in energy costs

Paper	Q1 2009	Q1 2008	2008
Sales, M€	1,367	1,773	7,011
Sales growth, %	-22%	-1%	-4%
EBITDA, M€	187	209	885
EBITDA, % of sales	13.7	11.8	12.6
Operating profit, M€ excl. special items	37	50	250
Paper deliveries, 1,000 t	2,028	2,753	10,641
Paper deliveries, % change	-26%	0%	-7%

➔ EBITDA margin increased to 13.7% (11.8%)

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Paper Business Group

Business environment

Structural advantage and cost leadership

**Conclusions**



## Conclusions

- **Focus in market driven operations**
  - flexibility with good customer service and wide range of graphic papers
  - customer segmentation for good targeting
  
- **Cost competitiveness is # 1 priority**
  - cost leadership by optimising resources and production
  - tight investment policy
  - new ways of operating to leverage competitive advantages
  
- **UPM is well positioned**
  - focus to grow in the new markets (China, Eastern Europe, Russia)
  - readiness to benefit from industry restructuring in Europe

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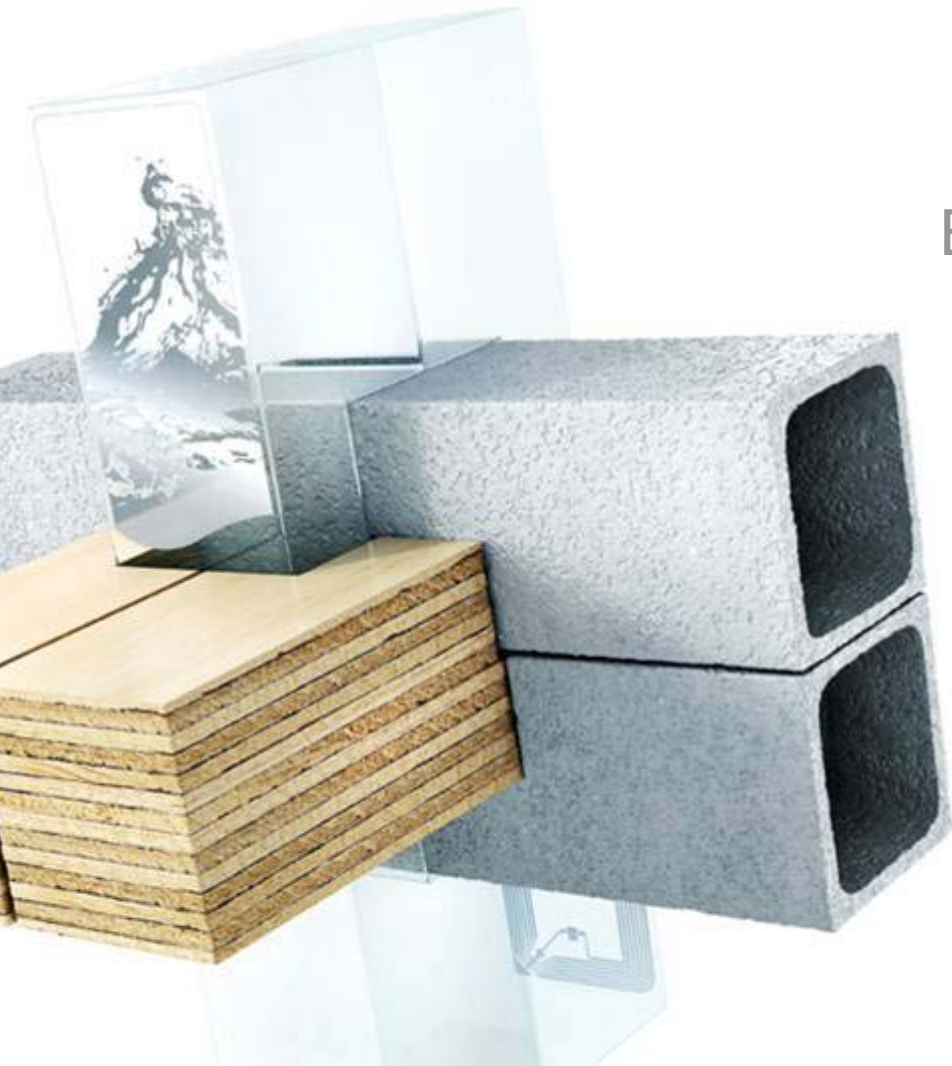
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# ENGINEERED MATERIALS

Jussi Vanhanen  
President

May 26, 2009



# Contents

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## Engineered Materials Business Group

Label

Plywood

New businesses

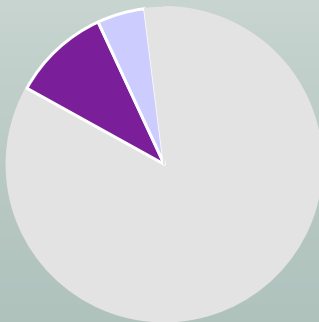
Conclusions

# Businesses in the Business Group

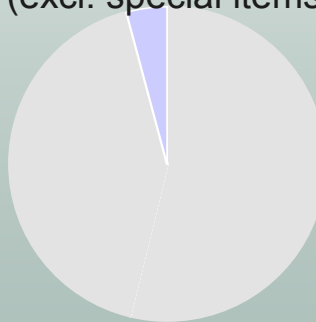


- Label**      Self-adhesive label materials for product labelling and variable information printing
- Plywood**      Technical birch and spruce products for construction and industrial end-uses
- RFID**      RFID tags and inlays for information or data management
- Wood plastic composites** for outdoor constructions

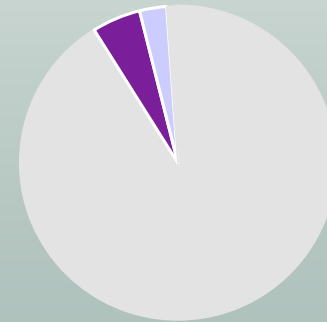
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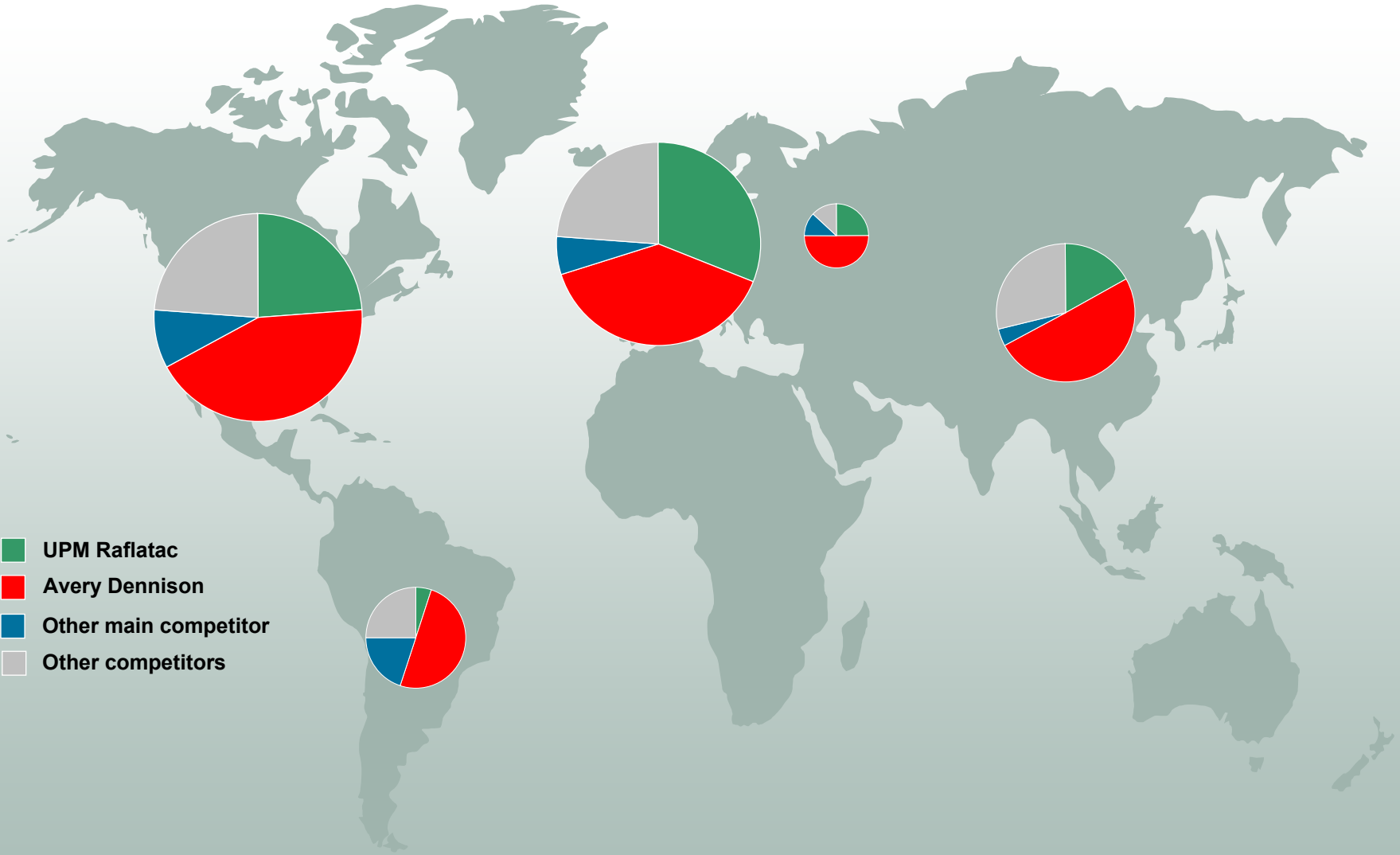


# What is common between the businesses?



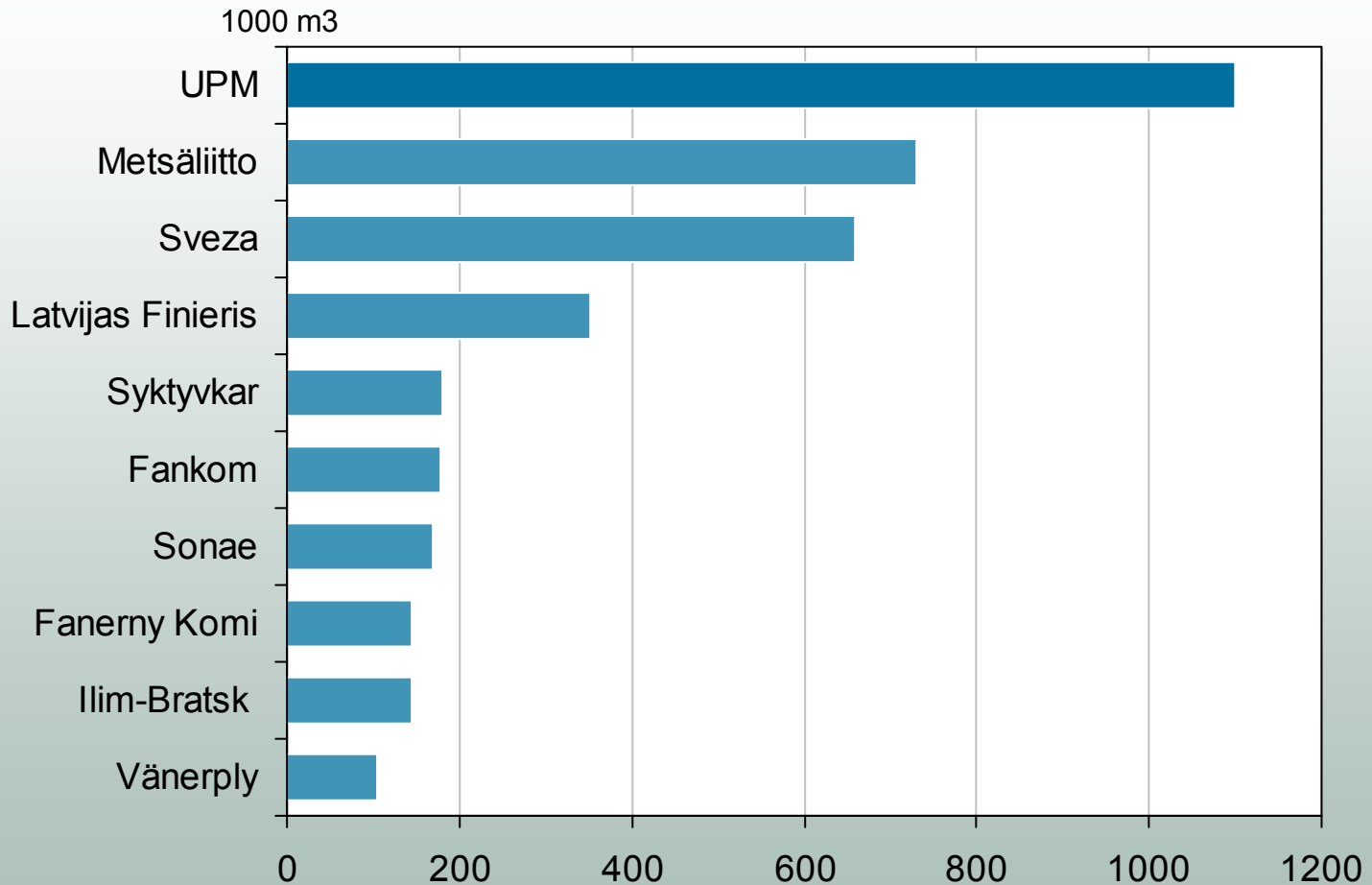
- Higher added value businesses with growth potential
  - Growing end-uses, UPM's market share
  
- Businesses with opportunity for renewal
  - New end-use areas
  
- In-house know-how and development plays a significant role
  
- There are some synergy advantages but
  - each business is operated independently and
  - the development potential of each business is maximised

# Two global companies in the labelstock business



Source: FINAT, TLMI and UPM Raflatac estimates.

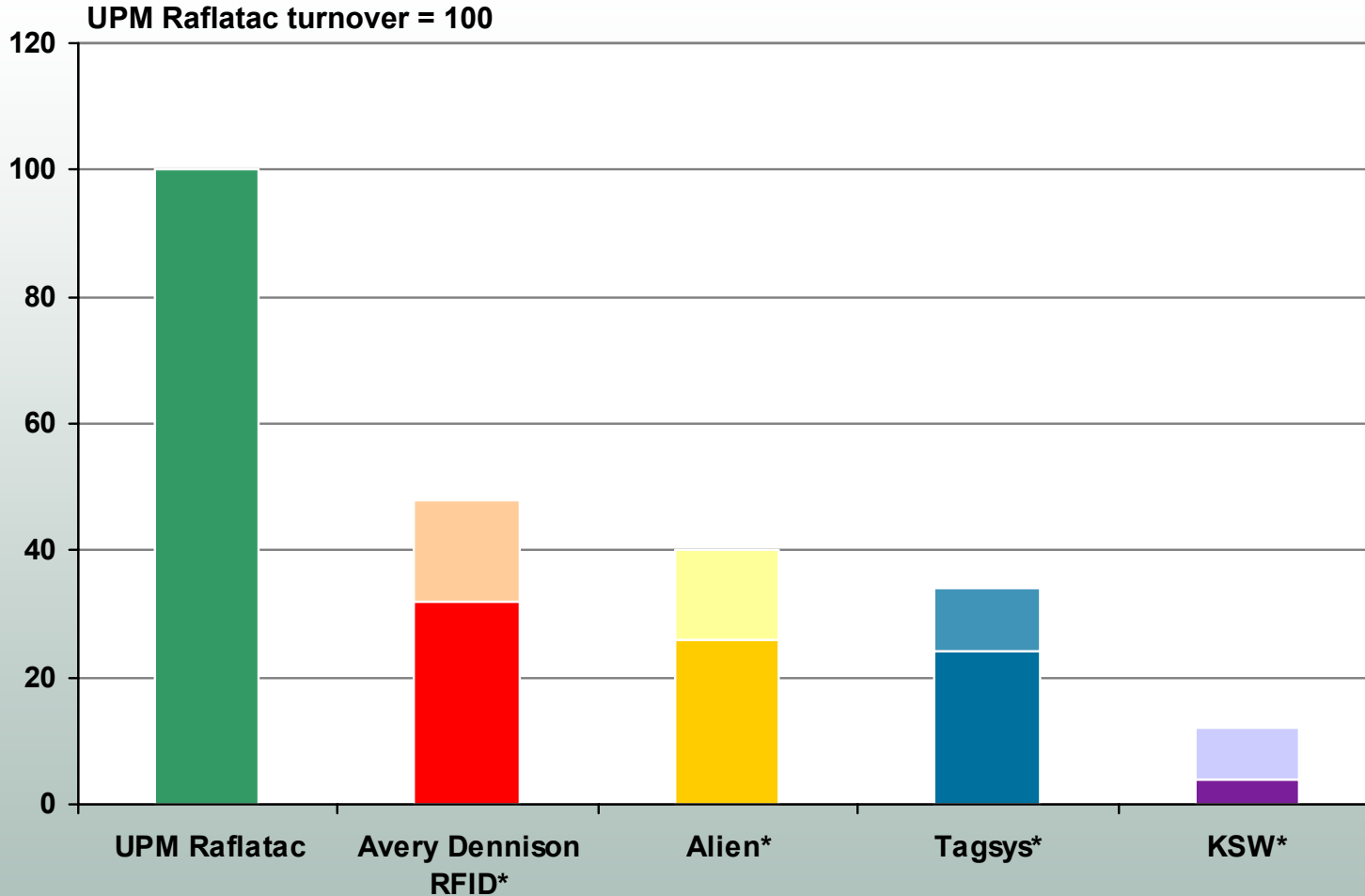
# UPM clear market leader in the plywood business





# UPM Raflatac market leader in RFID business

## Indexed inlay turnover in 2008



## Engineered Materials Business Group

### Label

Plywood

New businesses

Conclusions

## Label – operating in the economic downturn

- Sales declined by 10-20% depending on the region
- Prices increased by 9%, which fully compensated higher raw material costs
- Reduction in fixed costs even before restructuring benefits materializing
- The start-up of new factory in Wroclaw successful

Label	Q1 2009	Q1 2008
<b>Sales, M€</b>	<b>223</b>	<b>242</b>
<b>EBITDA, M€</b>	<b>6</b>	<b>11</b>
<b>EBITDA, % of sales</b>	<b>2.7</b>	<b>4.5</b>
<b>Operating profit, M€</b> excl. special items	<b>-3</b>	<b>3</b>
<b>Average price, change</b>	<b>+9%</b>	<b>n.a.</b>
<b>Deliveries, change</b>	<b>-10-20%</b>	<b>n.a.</b>

# Labelstock consumption is driven by consumer demand and shipping activity

**Food  
labelling**



**Beverage  
labelling**



**Personal Care  
labelling**



**Home Care  
labelling**



**Retail, Logistics  
& Transport  
labelling**



- **Current topics**

- Consumer demand has slowed down due to economic downturn
- Pricing discipline
- Completed investments and restructuring actions have secured a competitive asset base

# ENGINEERED MATERIALS

## Strategy – Label

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Label as a cost competitive growth business

### IMPROVED ASSET BASE:

Changshu, China  
2006

Dixon, USA  
2008

Wroclaw, Poland  
2008



### IMPROVED COST BASE:

Restructuring the  
European operations



### TARGET:

Cost leadership

Profitable growth  
through new product  
and service launches

Engineered Materials Business Group

Label

**Plywood**

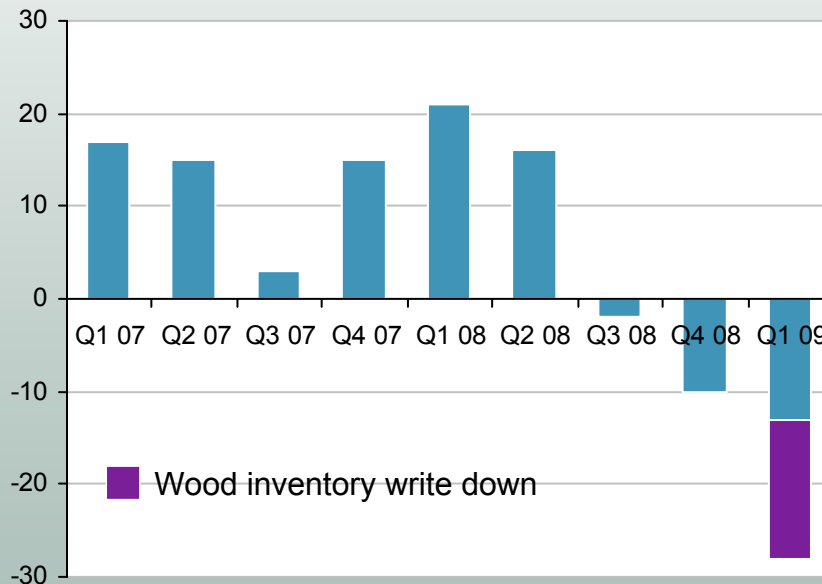
New businesses

Conclusions

# Plywood – operating in the economic downturn

- Operating profit declined due to significantly lower delivery volumes and lower prices
- Wood costs remained at a high level – write down taken
- Extensive production downtime was taken at all mills

€, million Operating profit excluding special items



	Q1 2009	Q1 2008
<b>Sales, M€</b>	<b>75</b>	<b>157</b>
<b>EBITDA</b>	<b>-23</b>	<b>26</b>
<b>Operating profit M€ excl. special items</b>	<b>-28</b>	<b>21</b>
<b>Average price of plywood, change</b>	<b>-11%</b>	<b>n.a.</b>
<b>Plywood deliveries, change</b>	<b>-42%</b>	<b>n.a.</b>

# Plywood demand driven by construction and transportation industry activity



## Construction



## Transportation



## Furniture industry



- Current topics
  - Strong deceleration in construction and transportation
  - Capacity management
  - Cost cutting in general



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Label

Plywood

**New businesses**

Conclusions

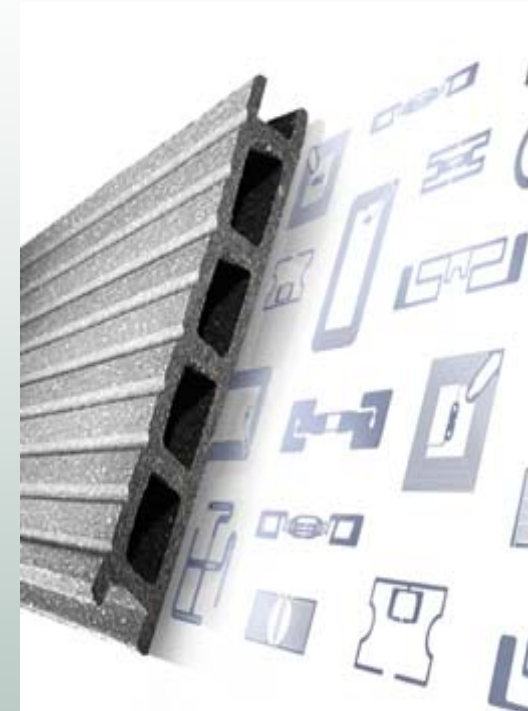
# New businesses: in-house know-how forms the basis for further business development

### ■ RFID

- Basis of development: joint customer base with labelstock business and material know-how
- UPM has a strong position as a reliable, long-term supplier of RFID tags and inlays
- Current focus: make full use of Chinese factory and widen product portfolio

### ■ UPM ProFi

- Wood plastic composite materials made from waste deriving from UPM Raflatac value chain
- Current focus: extension of distribution reach and ramping up new German factory
- Exploring new end-uses for the material



Engineered Materials Business Group

Label

Plywood

New businesses

**Conclusions**

## Conclusions

- Secure the profitability in an environment of strong but temporary slowdown of demand, without risking future opportunities
- Seek ways to utilize the economic slowdown for improving our long-term prospects
- Profitable growth through new product and service launches
- New, synergetic and significant business opportunities
- Favourable long-term market outlook

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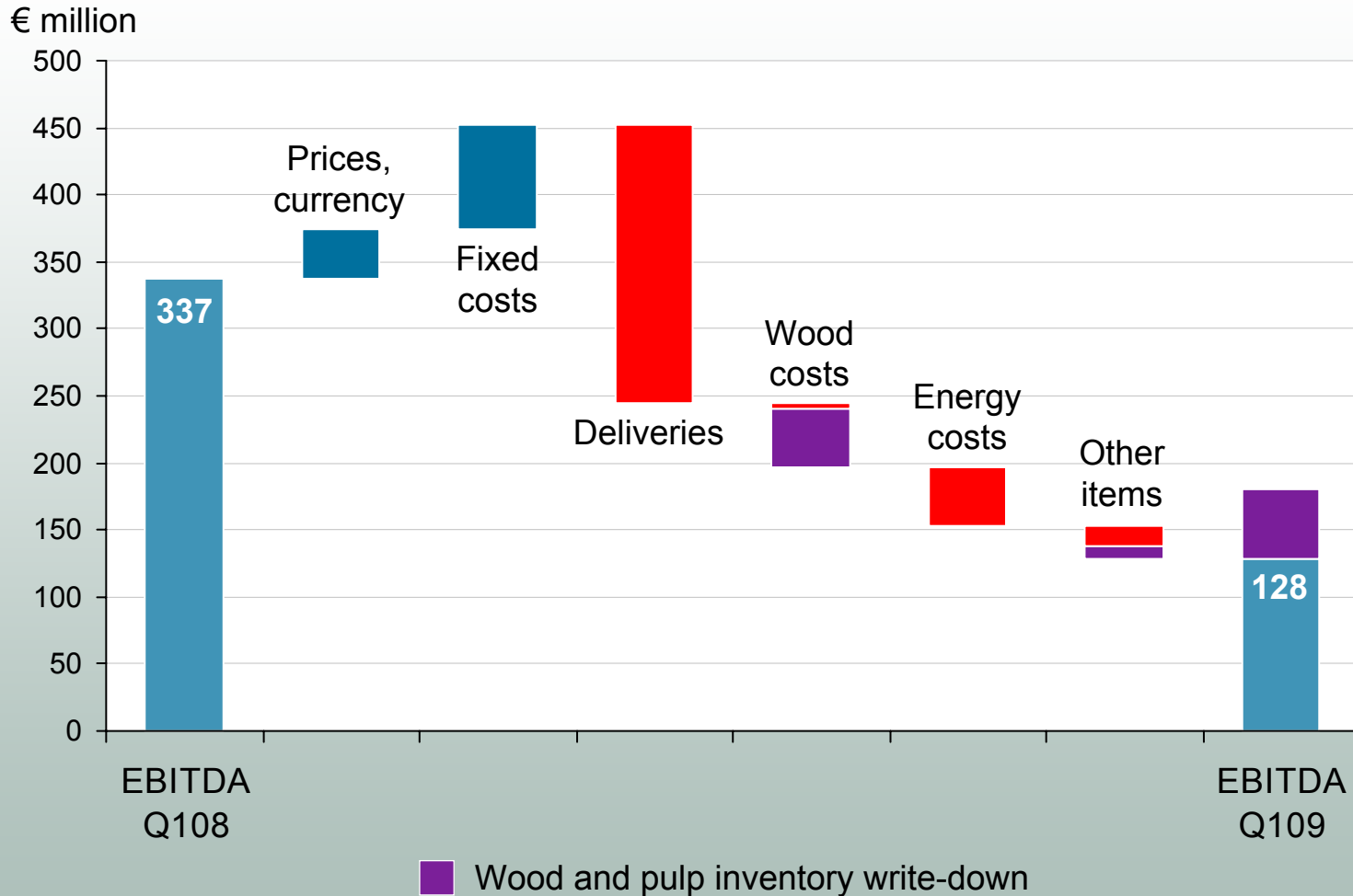
# FINANCIALS

Jyrki Salo  
CFO

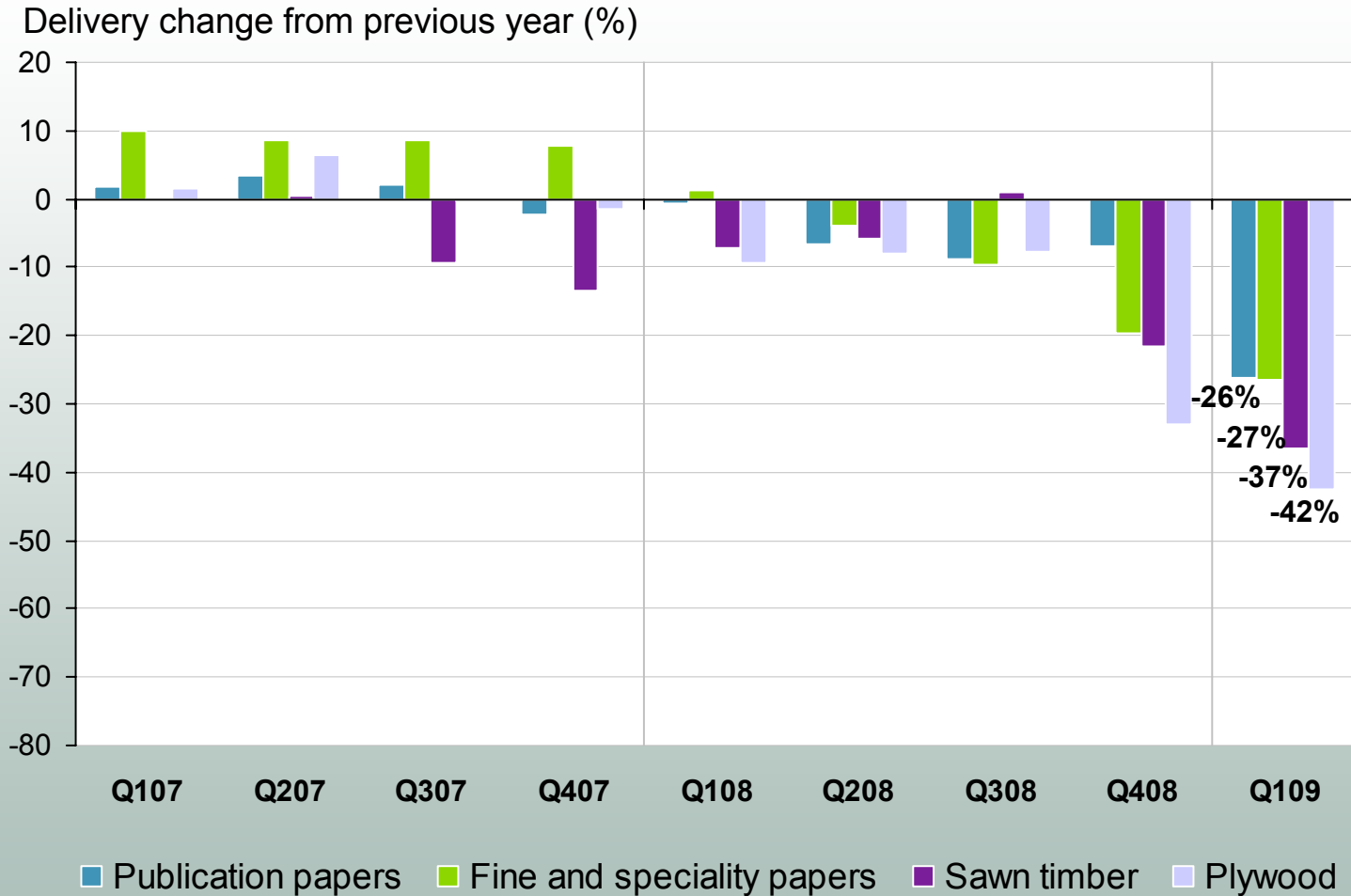
May 26, 2009

# FINANCIALS

## EBITDA development in Q1 2009



# UPM's production has been curtailed to respond to changes in demand



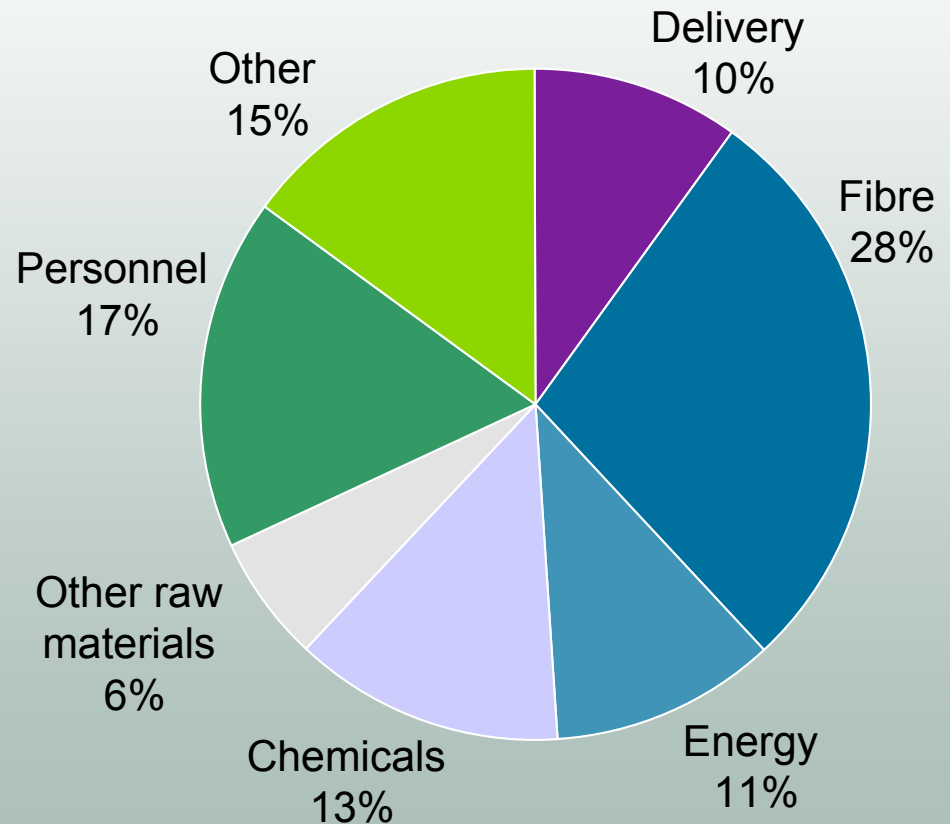


# Cost deflation materialising with a delay



- Fixed costs
  - permanent savings
  - temporary lay-offs
- Fibre costs
  - wood
  - RCP
  - purchased pulp
- Energy costs
- Oil-based chemicals and logistics costs

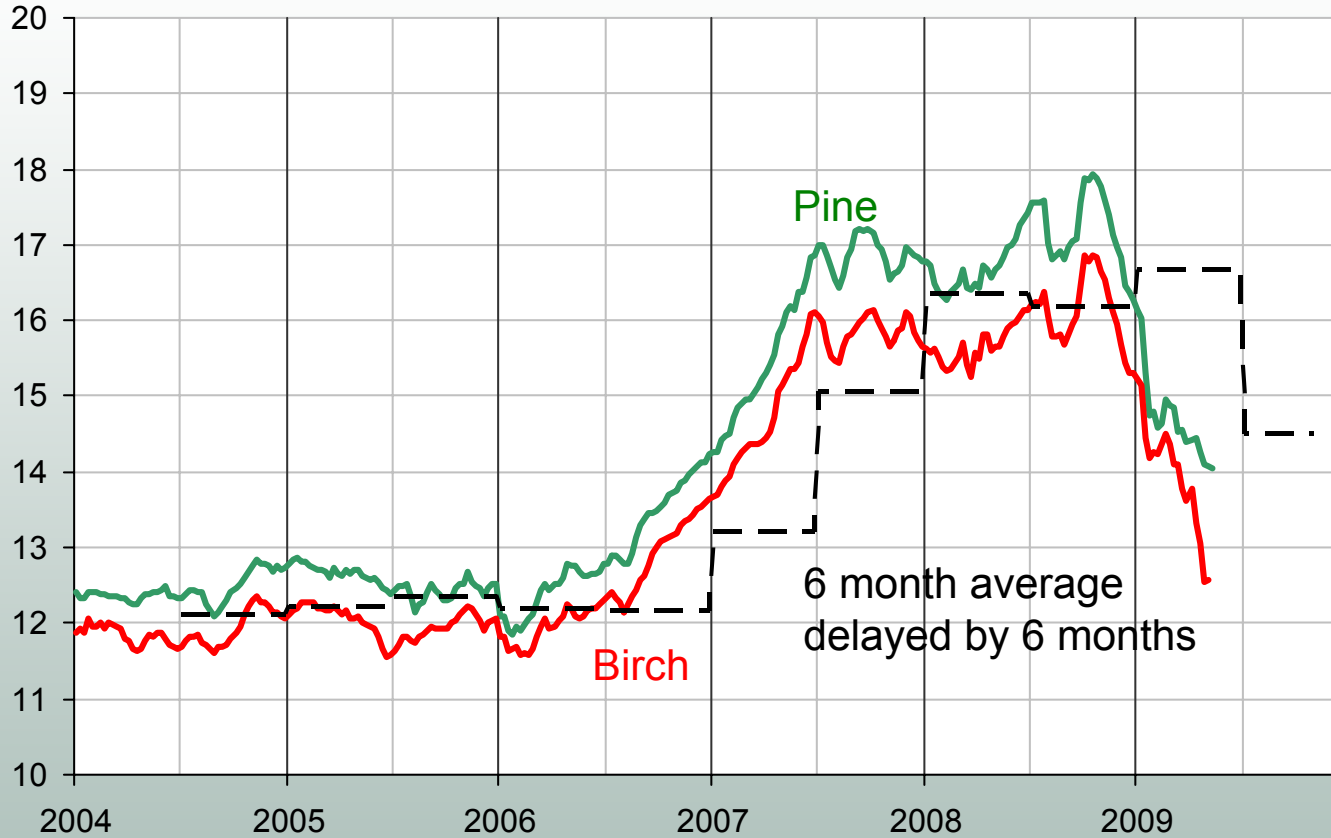
**Cost breakdown  
total €8.4bn in 2008**



# Wood prices in Finland returning to 2005 levels – 2009 still burdened by high wood costs



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



UPM's wood costs expected to decrease with a delay

# FINANCIALS

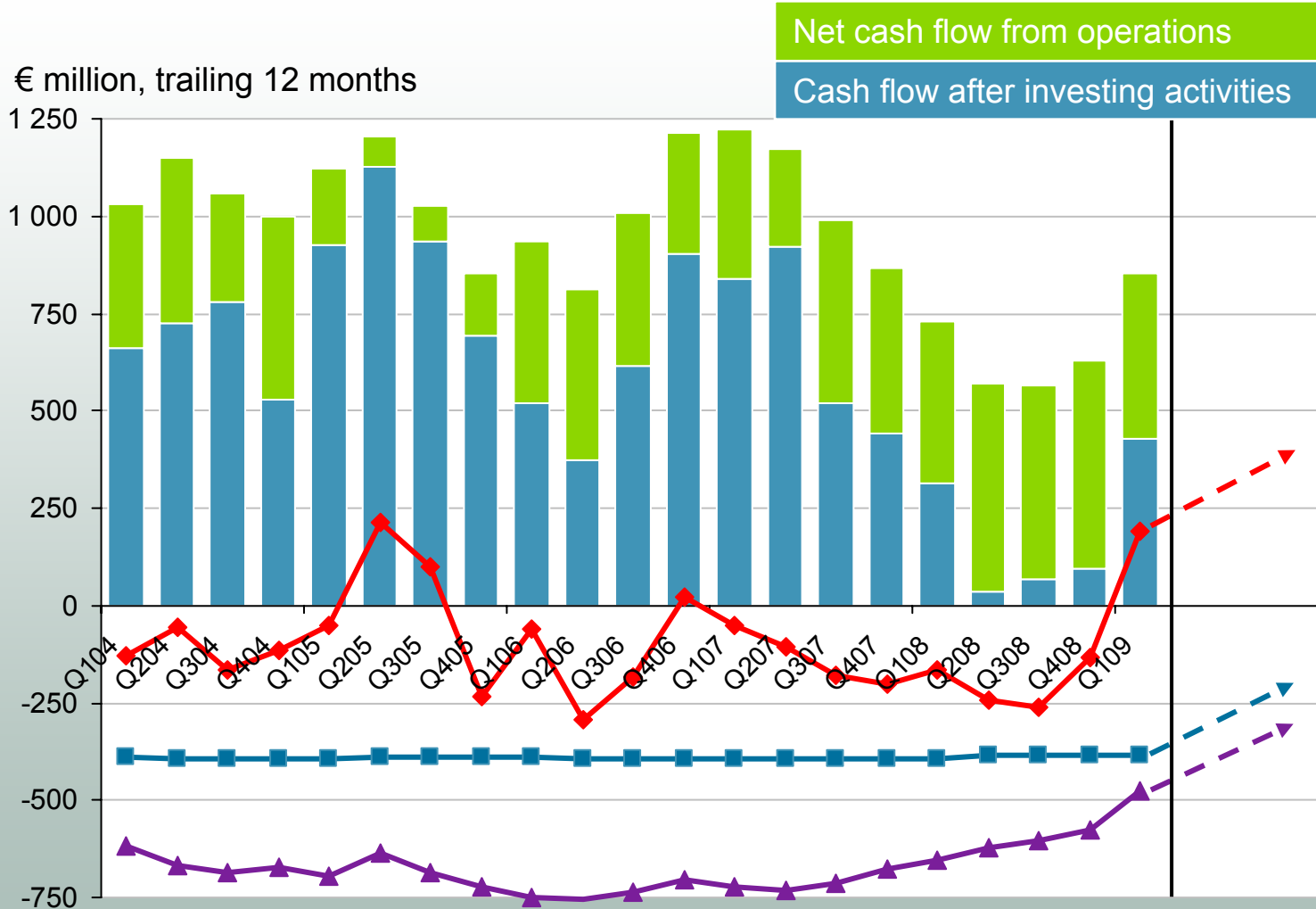
## Cash flow

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€, million	Q1 2009	Q1 2008	2008
<b>EBITDA</b>	<b>128</b>	<b>337</b>	<b>1,206</b>
Cash flow before change in working capital	131	255	1,052
Change in working capital	216	-106	-132
Finance costs and income taxes	-73	-99	-292
<b>Net cash from operating activities</b>	<b>274</b>	<b>50</b>	<b>628</b>
Capital expenditure	-78	-175	-558
<b>Cash flow after capex</b>	<b>196</b>	<b>-125</b>	<b>70</b>
Asset sales and acquisitions	14	4	26
<b>Cash flow after investing activities</b>	<b>210</b>	<b>-121</b>	<b>96</b>

# Cash flow and actions to preserve cash



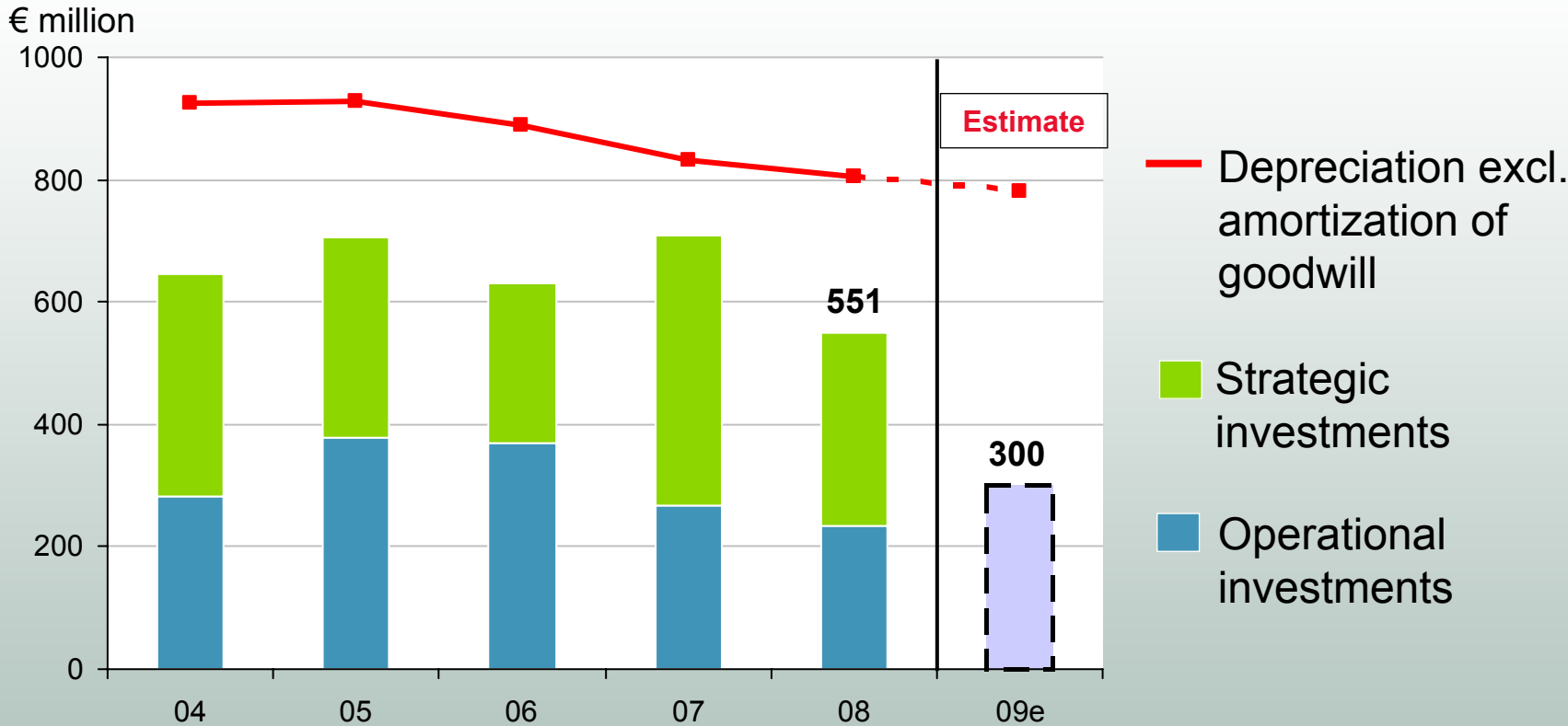
Cash flow improvement from:

WOC reduction

Dividend cut  
Capex cut

# FINANCIALS

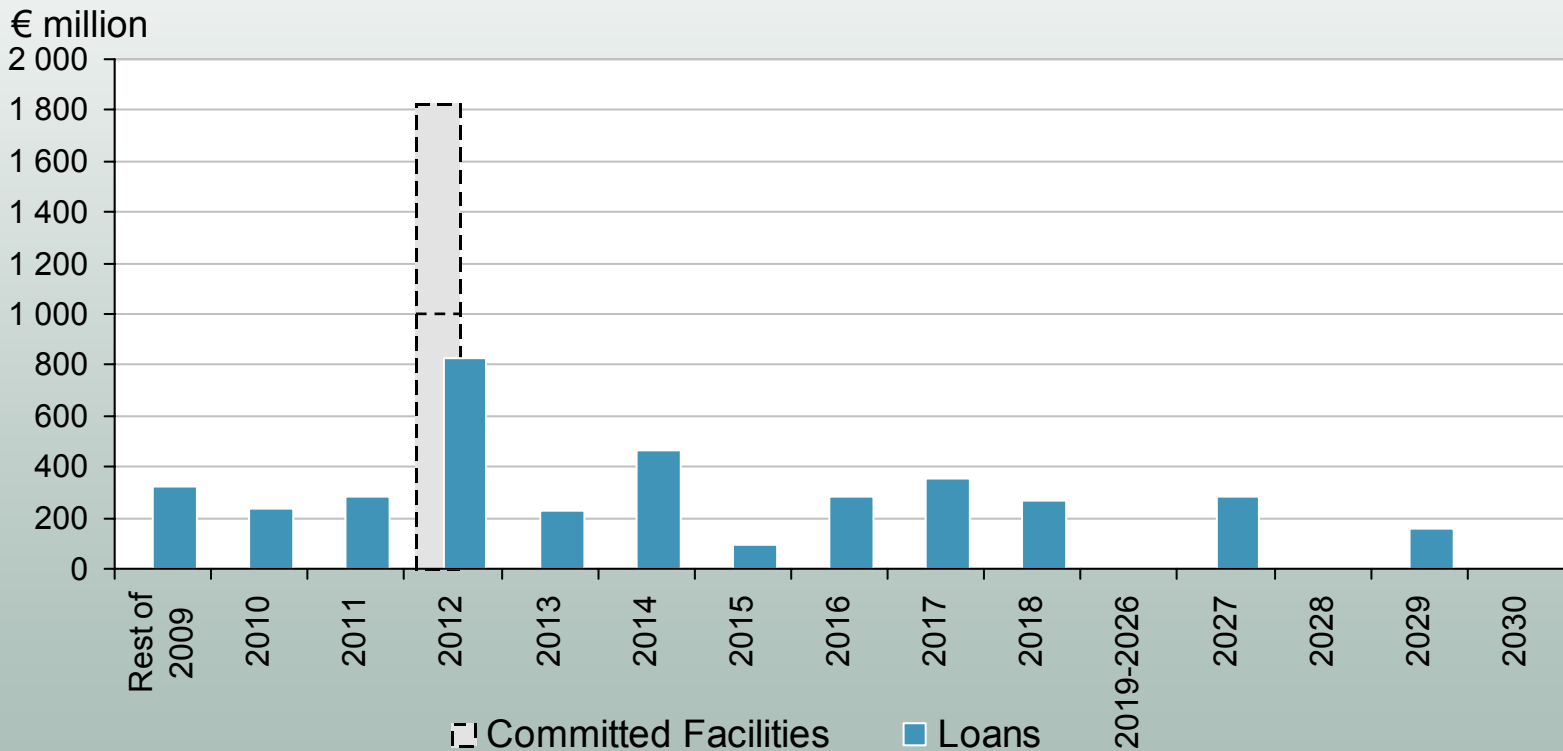
## Capital expenditure 2009 estimate € 300 million



Q1 2009 capital expenditure was € 67 million

# Maturity profile – moderate repayments for the next three years

- Liquidity on 31 March 2009 was € 1.7bn
- In March, the € 1.5bn loan facility maturing in 2010 was replaced by a new three-year € 825m facility



- # 1 Priority: cash preservation and profitability
- Cost deflation materialising with a delay
- Solid balance sheet and good liquidity
- Balance demand and supply with temporary lay-offs

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