



# UPM Financial Review 2010

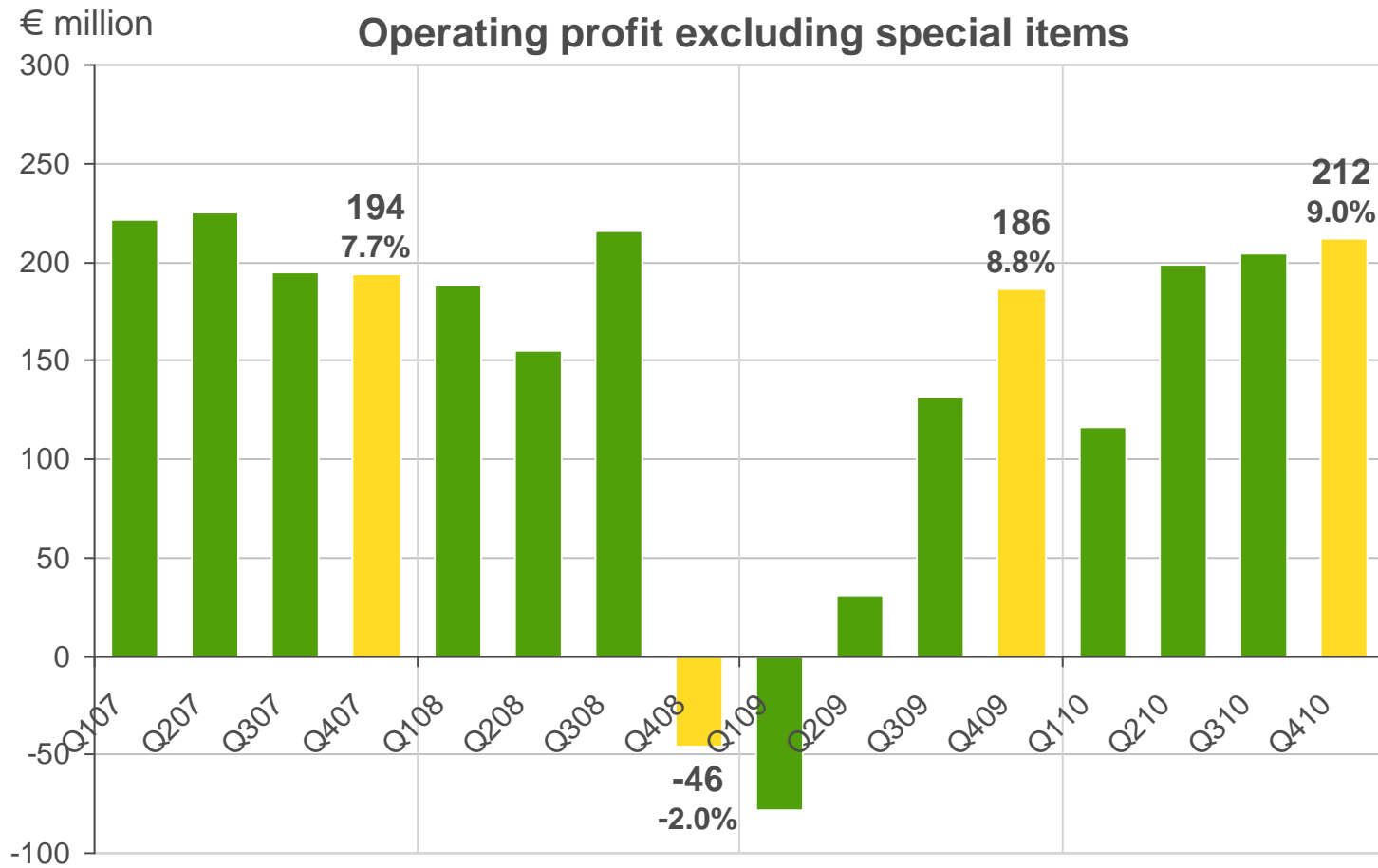
Jussi Pesonen  
President and CEO  
2 February 2011

## 2010 in brief

- Solid top-line recovery in all businesses
  - 2010 sales grew by 16%, driven by volumes
  - Q4 sales grew by 12%, driven by sales prices and volumes
- Global commodity price inflation reappeared
  - variable costs increased, especially for fibre
- EBITDA clearly improved to EUR 1,343 (1,062) million
  - Q4 negatively impacted by higher than average maintenance and other costs
- Strong operating cash flow EUR 982 (1,259) million
  - net debt decreased by EUR 444 million
  - dividend proposal for 2010 is EUR 0.55 (0.45) per share
- UPM advanced the European paper business consolidation with the acquisition of Myllykoski

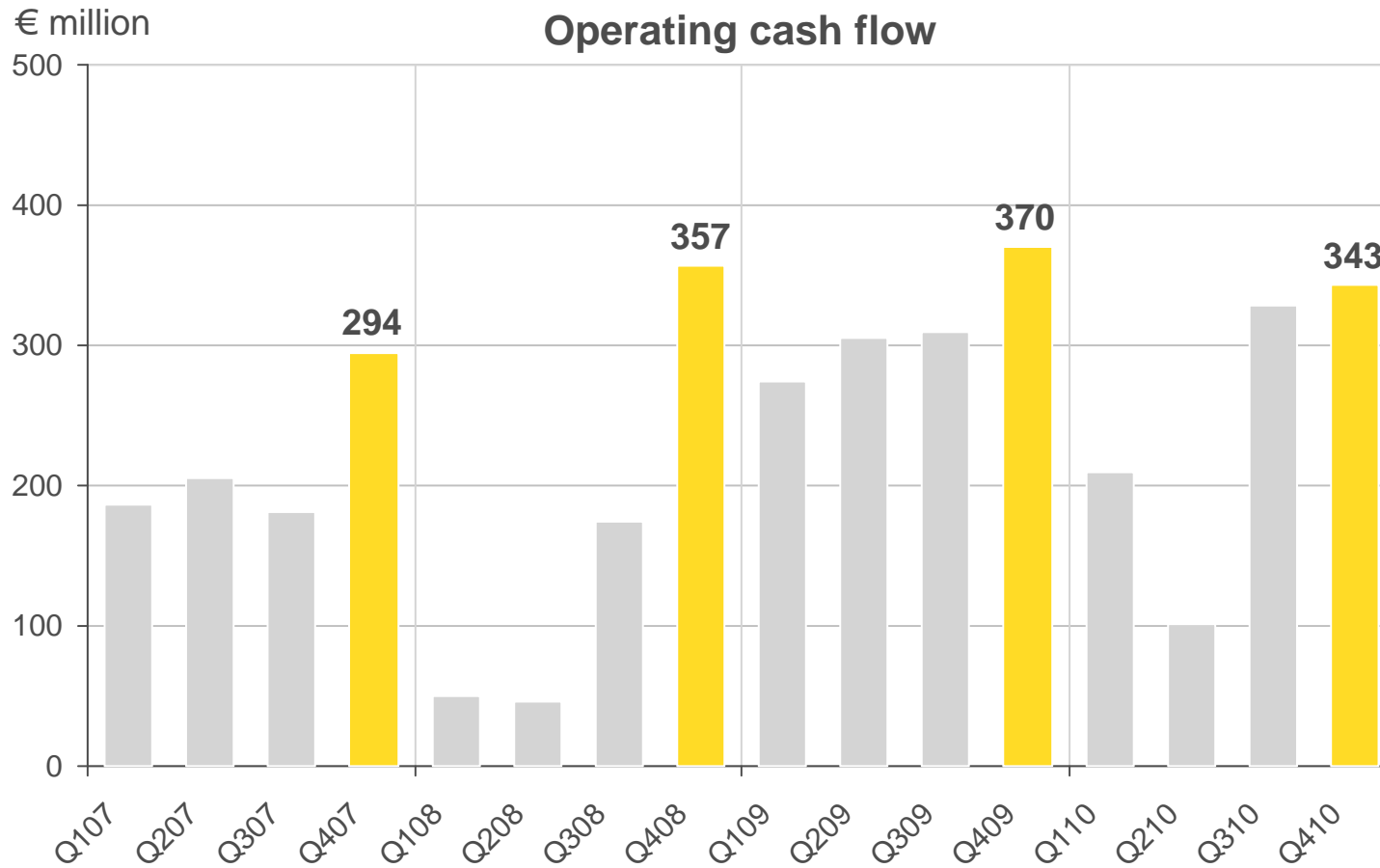
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Operating profit recovered to the pre-recession level



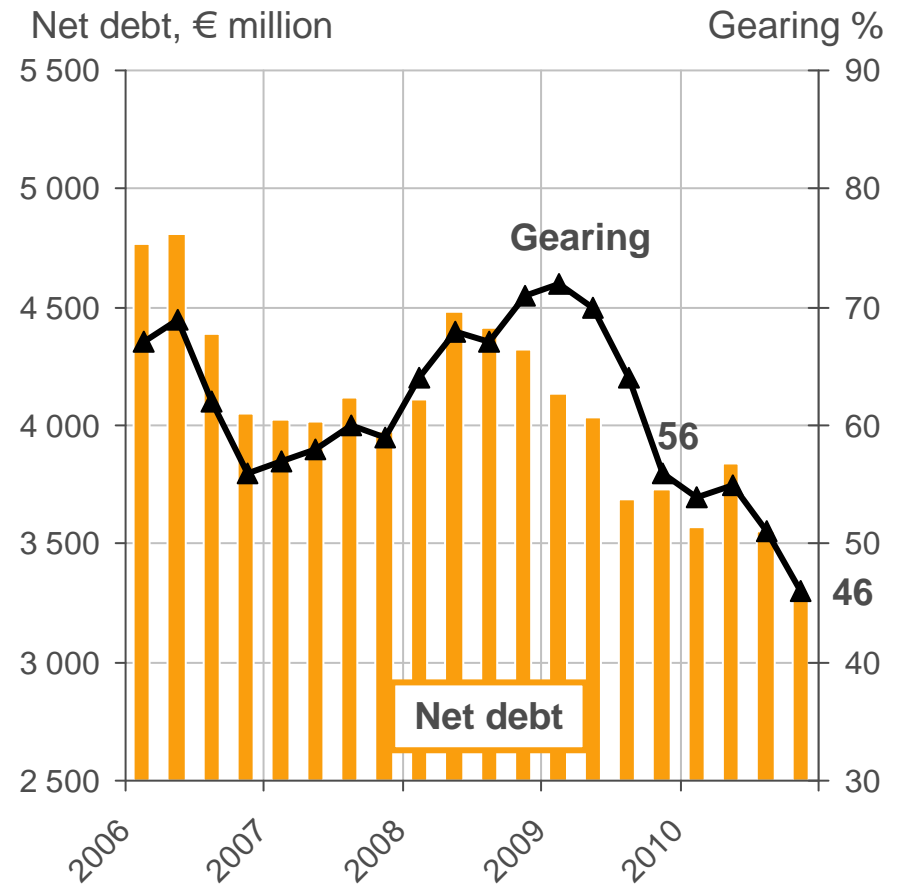
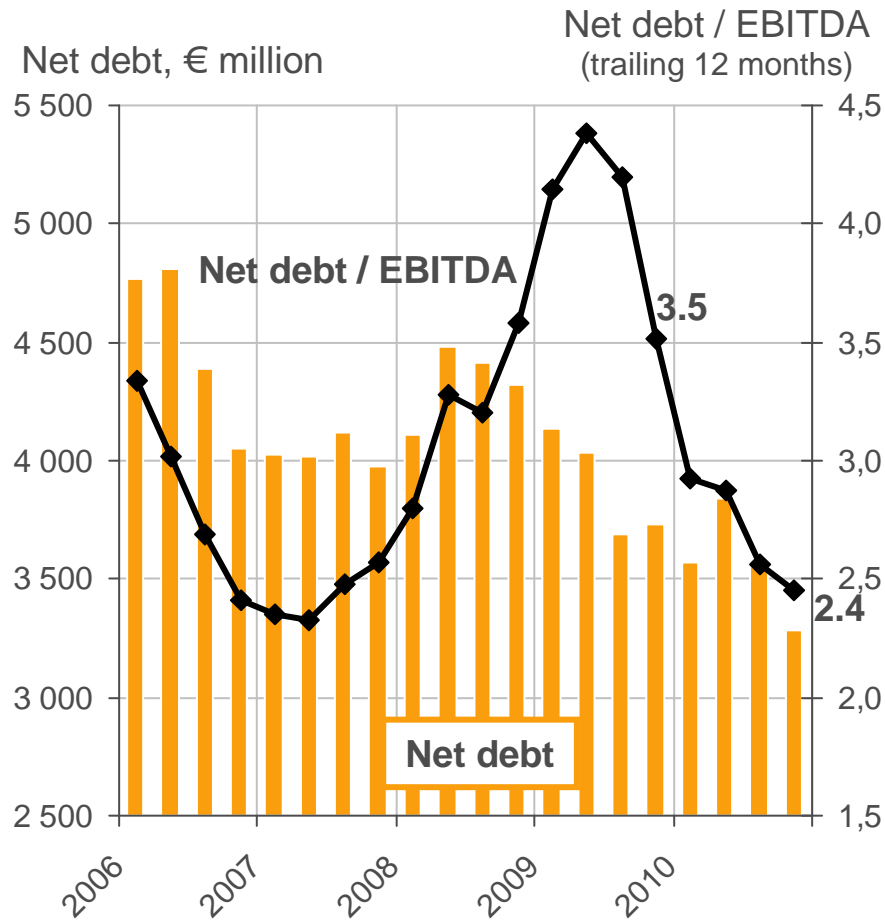
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# Strong cash flow – Q4 was the best quarter in 2010



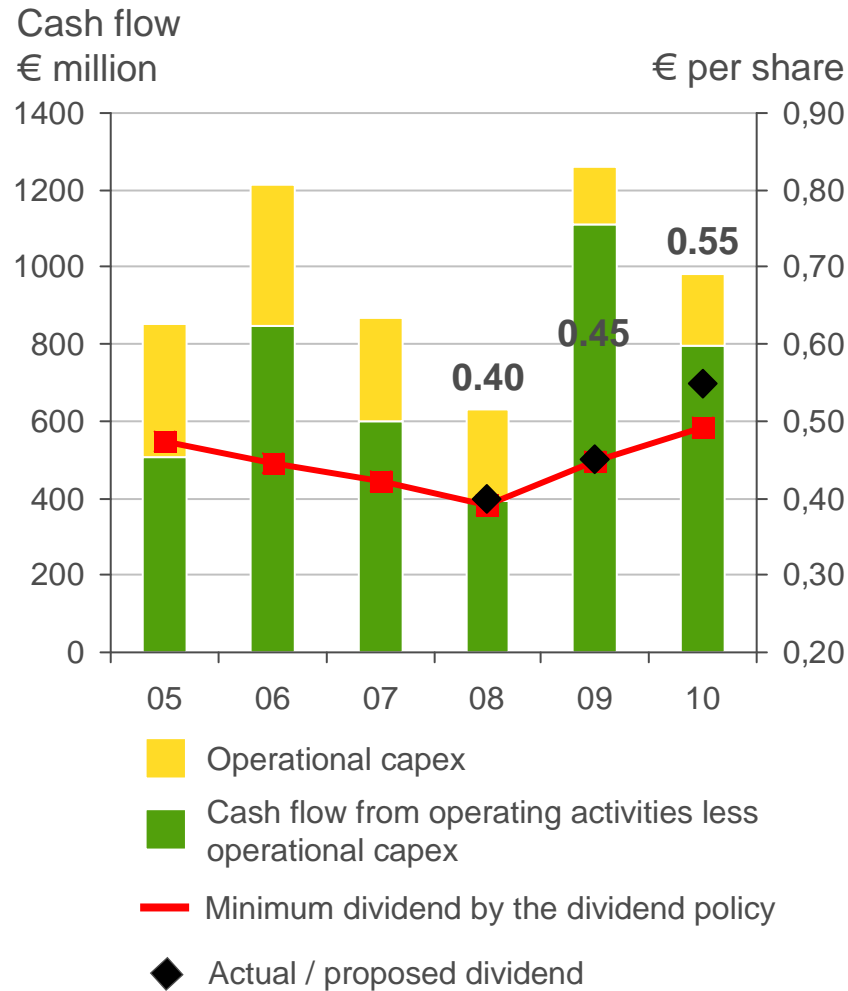
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Balance sheet strengthened, improving room for strategic manoeuvring



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# Dividend proposal for 2010



## Dividend policy

- at least 1/3 of net cash flow from operating activities less operational capital expenditure
- net cash flow calculated as an average over three years

## Minimum dividend for 2010 according to dividend policy

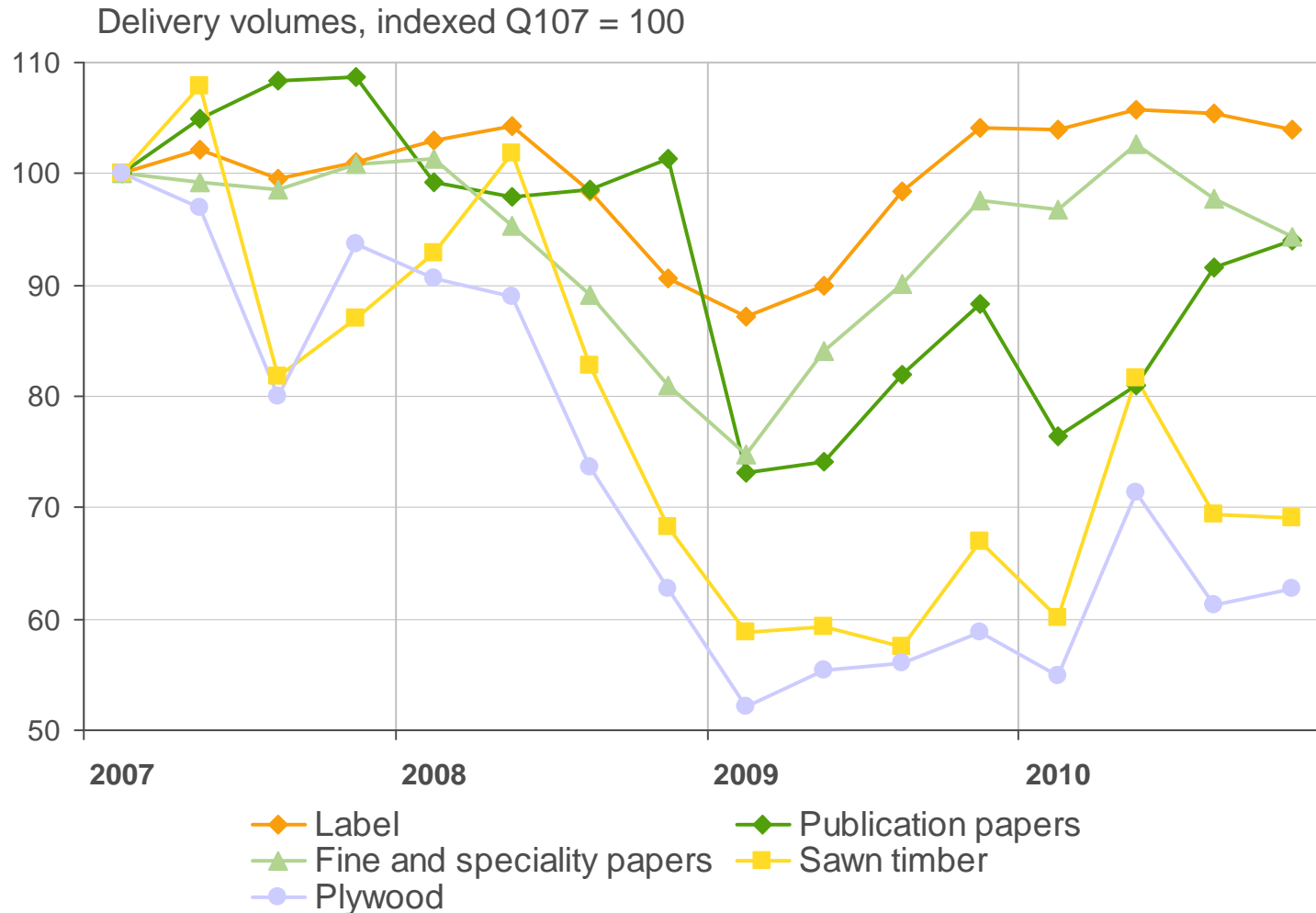
- EUR 0.50 per share

## Board's dividend proposal for 2010

- EUR 0.55 (0.45) per share

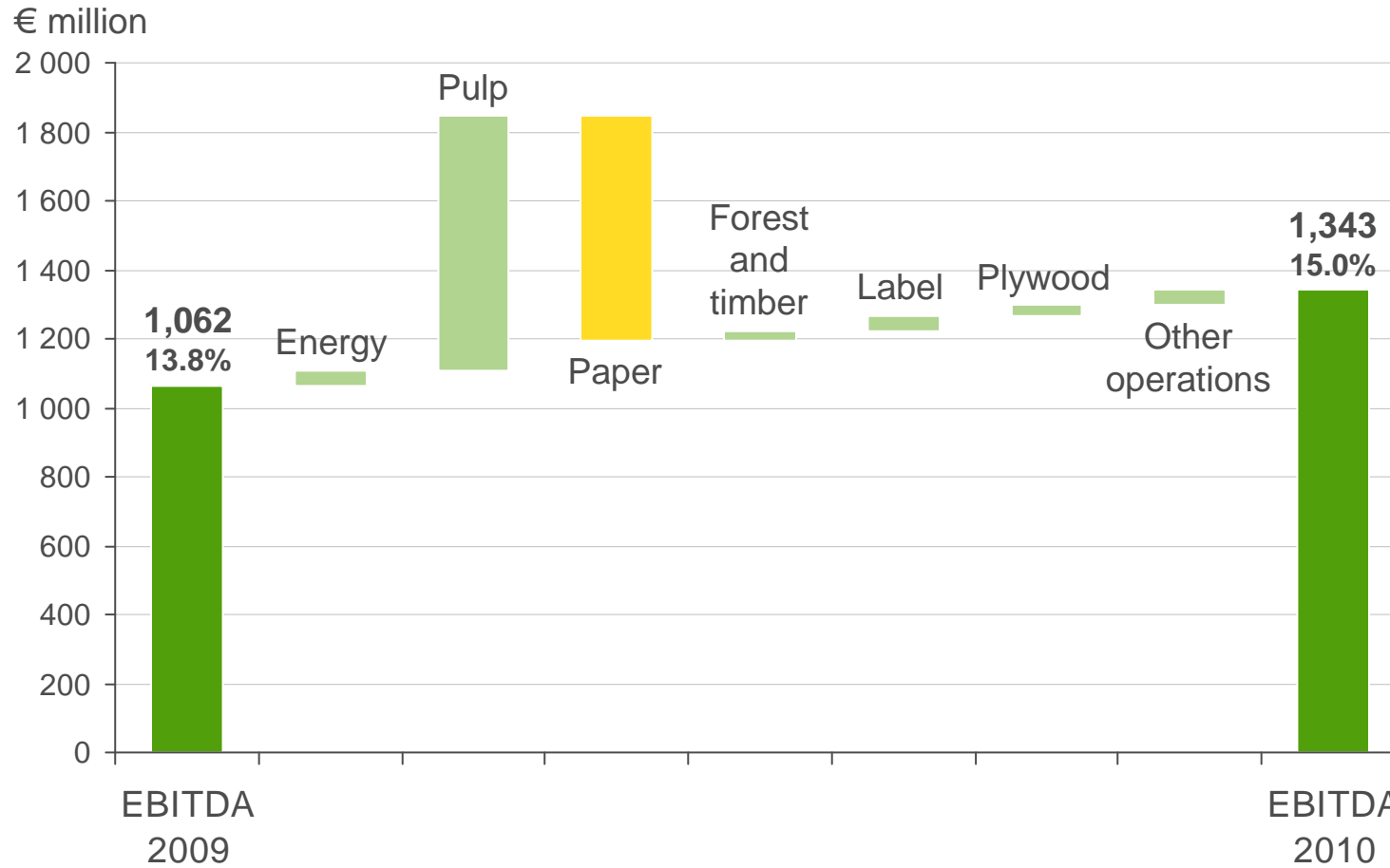
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## 2010 was a year of improving demand



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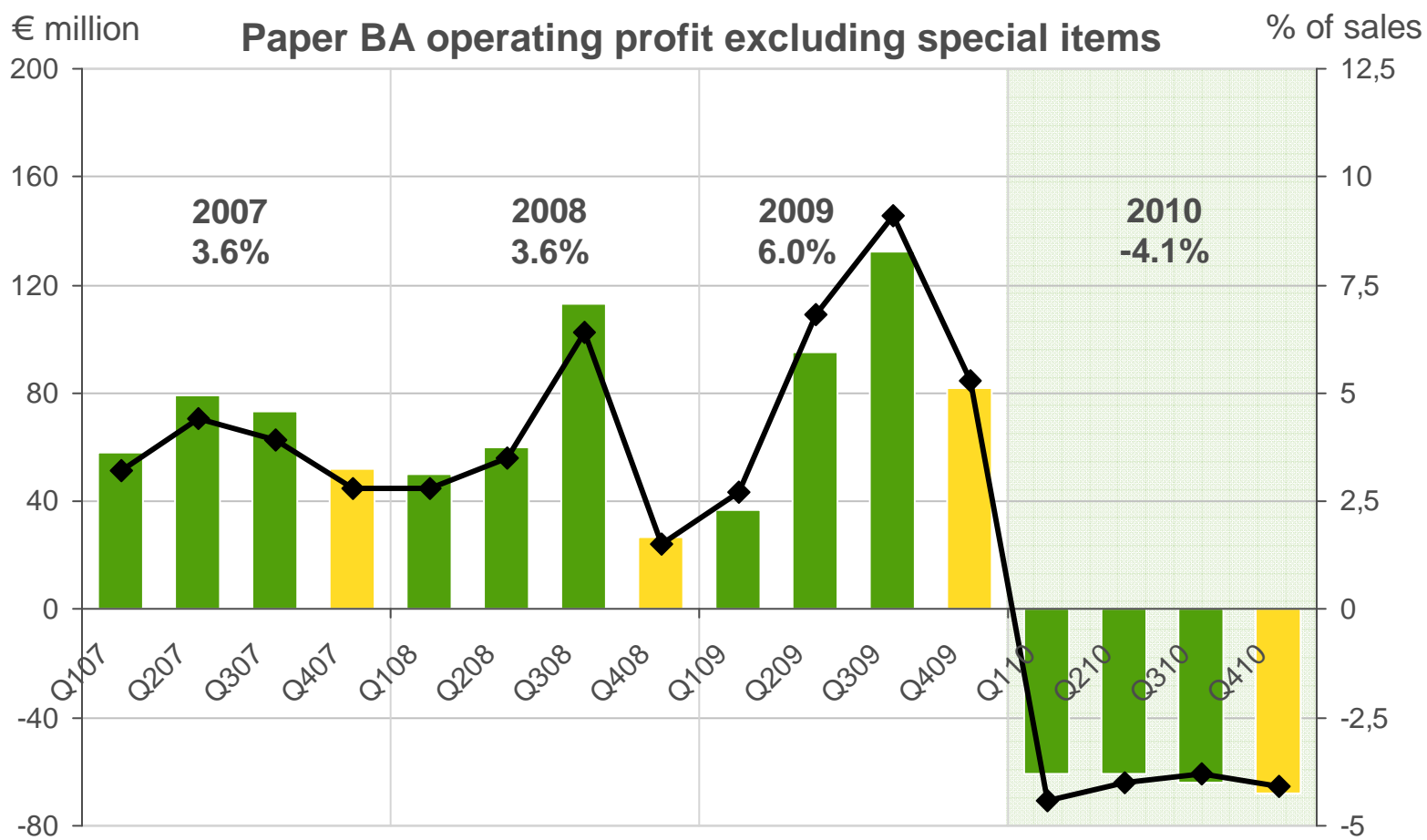
**EBITDA development in 2010 vs. 2009:  
Paper weaker, all other businesses improved**





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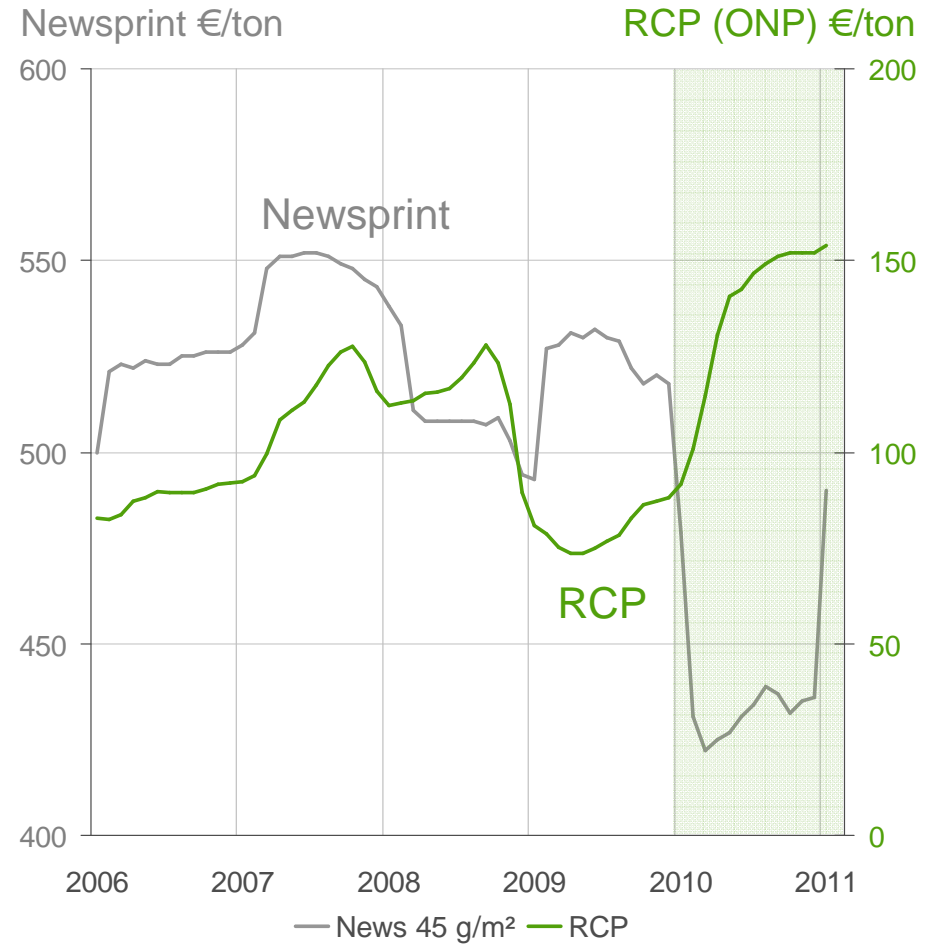
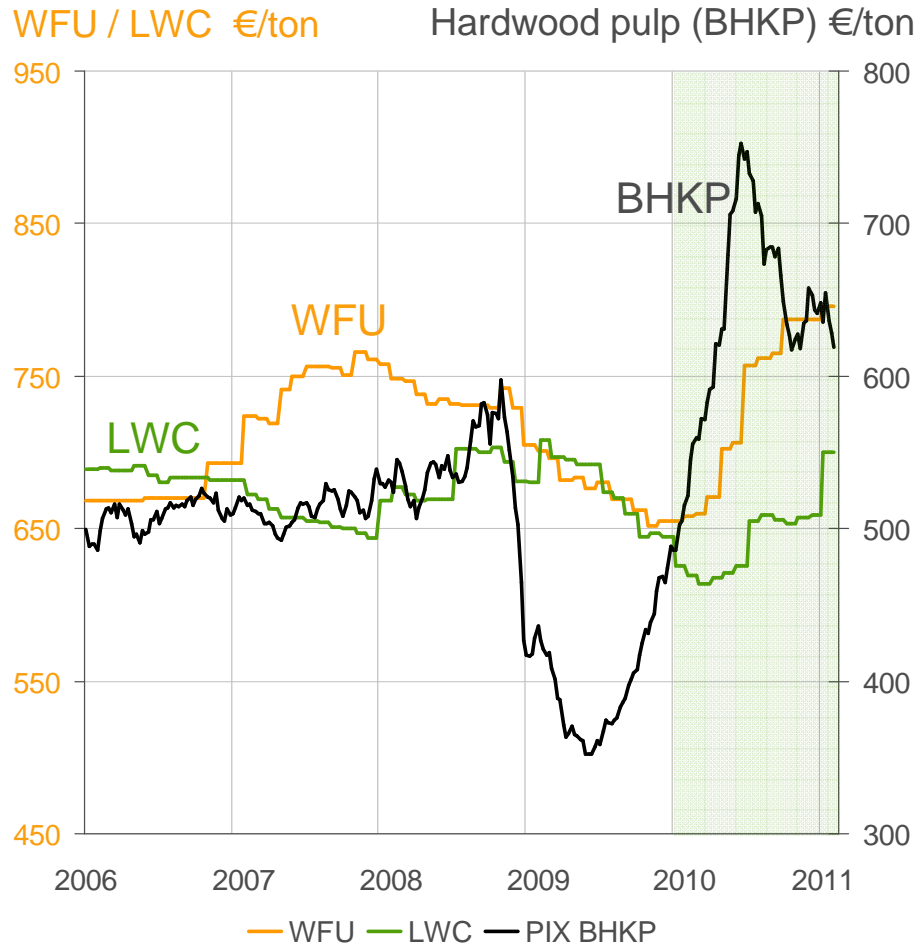
# Loss-making year for Paper due to higher fibre costs and lower paper prices



- 4-year average operating profit margin 2.3%

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Fibre prices squeezing paper makers' margins



Source: FOEX Indexes Ltd., PPI, RISI

## 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  
– higher paper prices recover part of the realised fibre cost inflation

# UPM agreed to acquire Myllykoski Corporation and Rhein Papier



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
Hûrth (RP)	News	310	102
<b>TOTAL</b>		<b>2,830</b>	<b>2,600 *)</b>

Source: Myllykoski

\*) incl. non-mill personnel



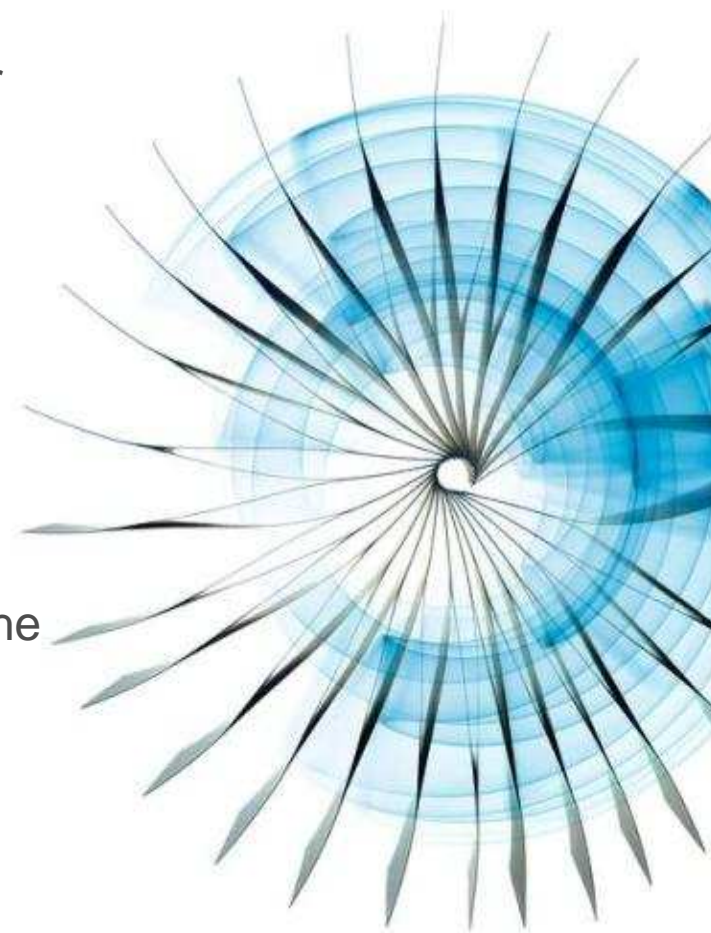
- Enterprise value EUR 900 million
  - 0.8 % in PVO, valued at EUR 70 million
- Financing
  - UPM issues 5 million shares and agreed EUR 800 million financing
- The agreement subject to customary closing conditions
  - Closing expected by the end of Q2 2011



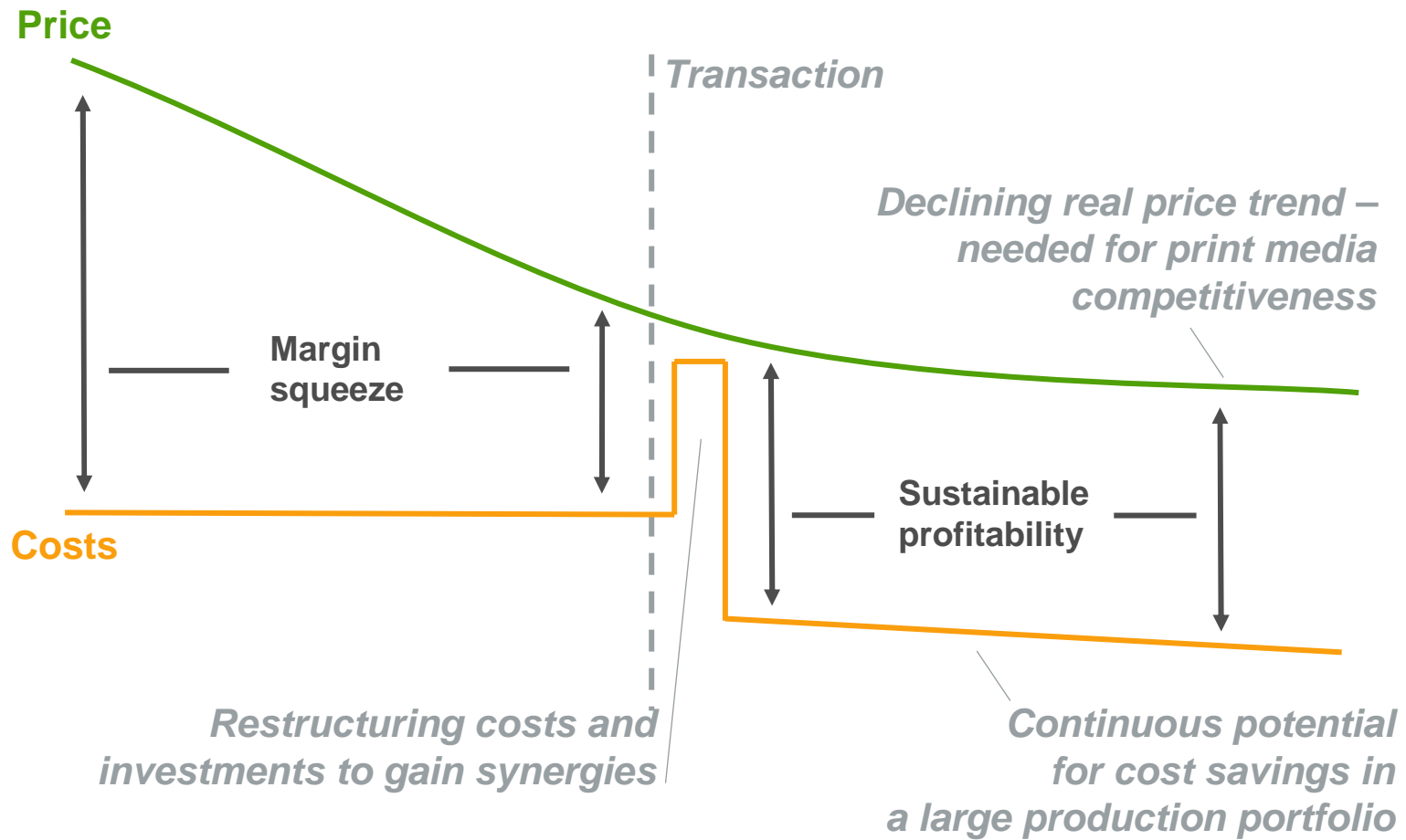
The Biofore Company **UPM**

## Benefits of the Myllykoski acquisition

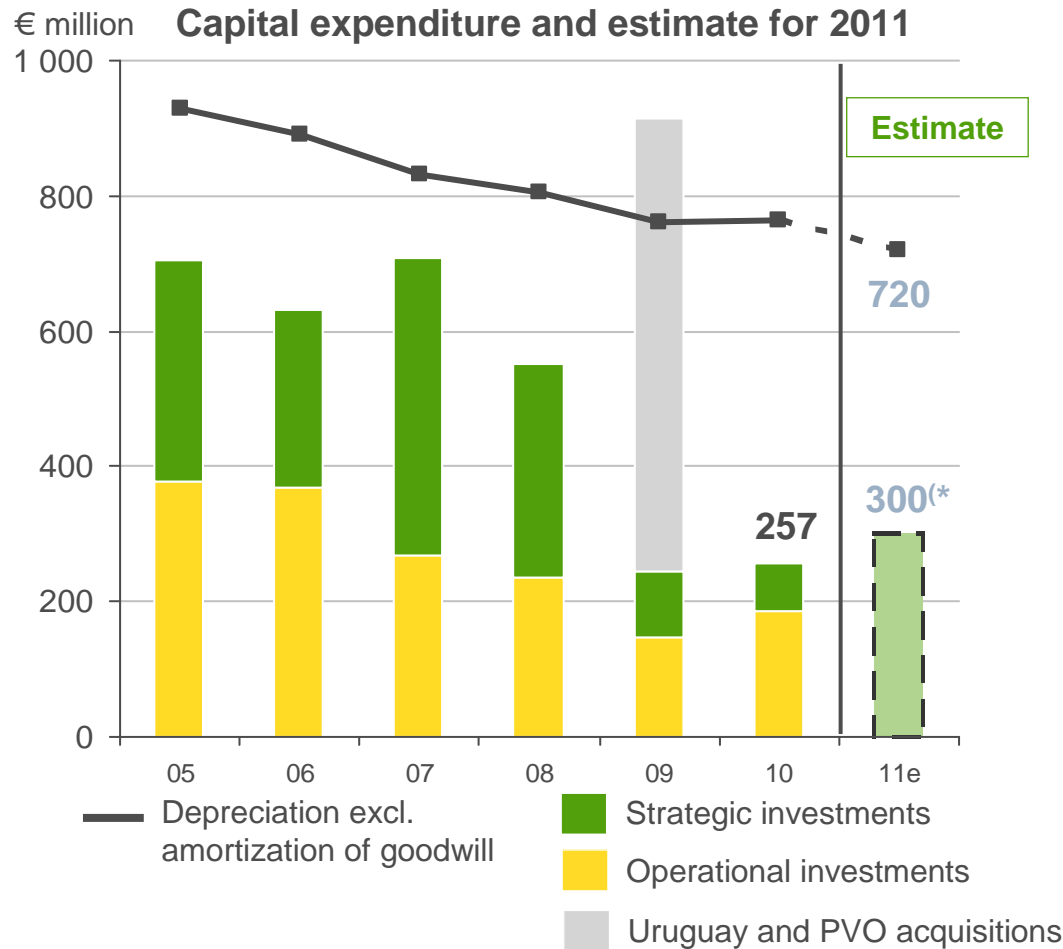
- Forming a cost efficient European paper supplier committed to print media
- Contributing to the cost competitiveness of the print media
- Strengthening customer service and supply security closer to our customers
- Enabling efficiency improvement necessary for the future development of the European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



# Achieve sustainable cost structure through consolidation



# Capital expenditure and investment options



## Priority investment options

- Investments in European cost efficiency
- Biofuels projects in Finland or in France
- Changshu paper mill expansion – permit received from authorities
- Expansion in chemical pulp

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**Outlook for 2011 (\*)**

- Guidance for operating profit excluding special items
  - 2011 to improve from 2010
  - H1 2011 to improve clearly from H1 2010
- Variable cost inflation expected to moderate from 2010
- Business area drivers for 2011 vs. 2010

2011 vs. 2010	Prices	Deliveries
Energy	↓	→
Pulp	→	↑
Sawn timber	→	→
Paper	↑	→
Label	↑	↑
Plywood	↑	↑
<b>UPM average</b>	↑	↑





## Summary

- 2010 was a year of recovering demand – profitability recovered to pre-recession level
- Global commodity price inflation reappeared
- Sales prices in UPM's products started to increase in 2010 – 2011 begins with higher prices, especially in Paper
- Stable or improving demand, increasing product prices and moderating cost inflation provide a base for continued profitability improvement in 2011
- Dividend proposal for 2010 EUR 0.55 (0.45) per share
- With the acquisition of Myllykoski, UPM is strengthening its position as a cost efficient reliable partner for paper customers



**UPM**

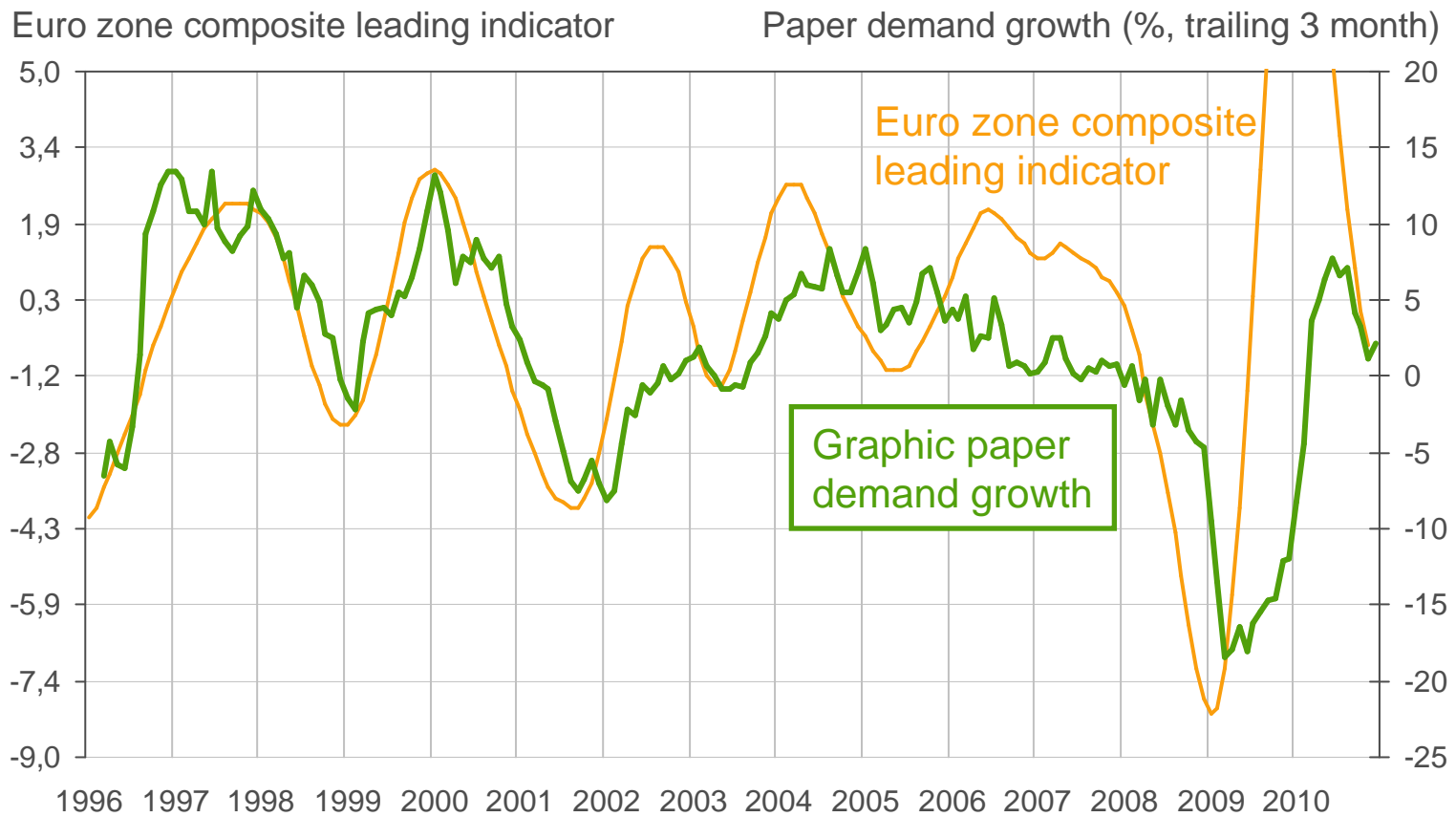
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# BUSINESS DRIVERS



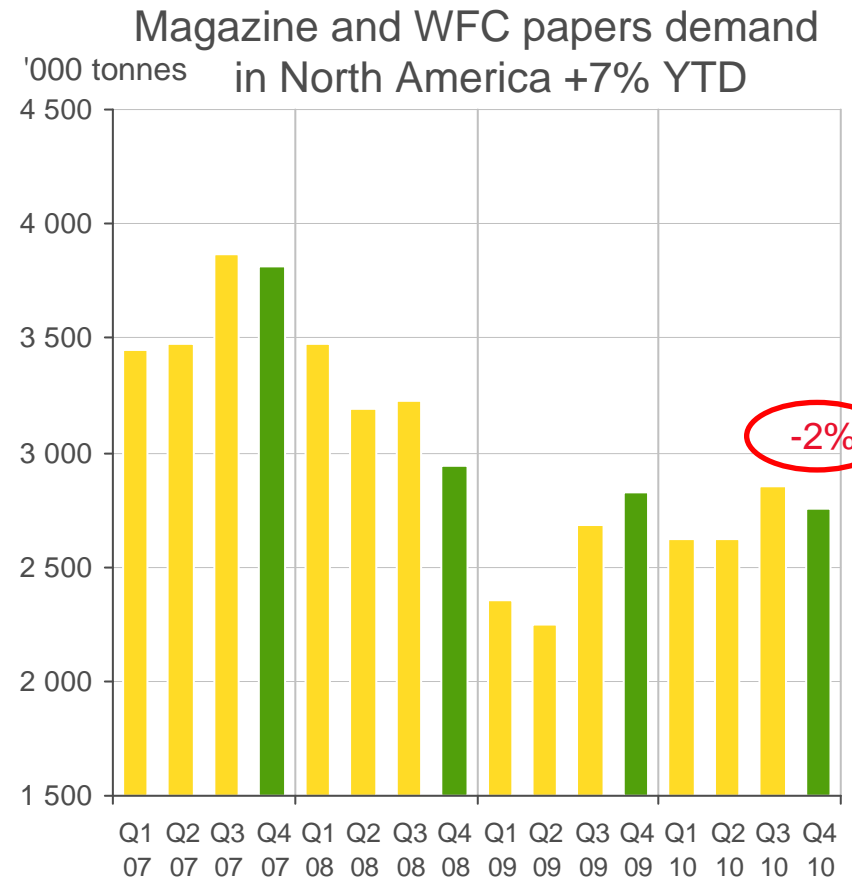
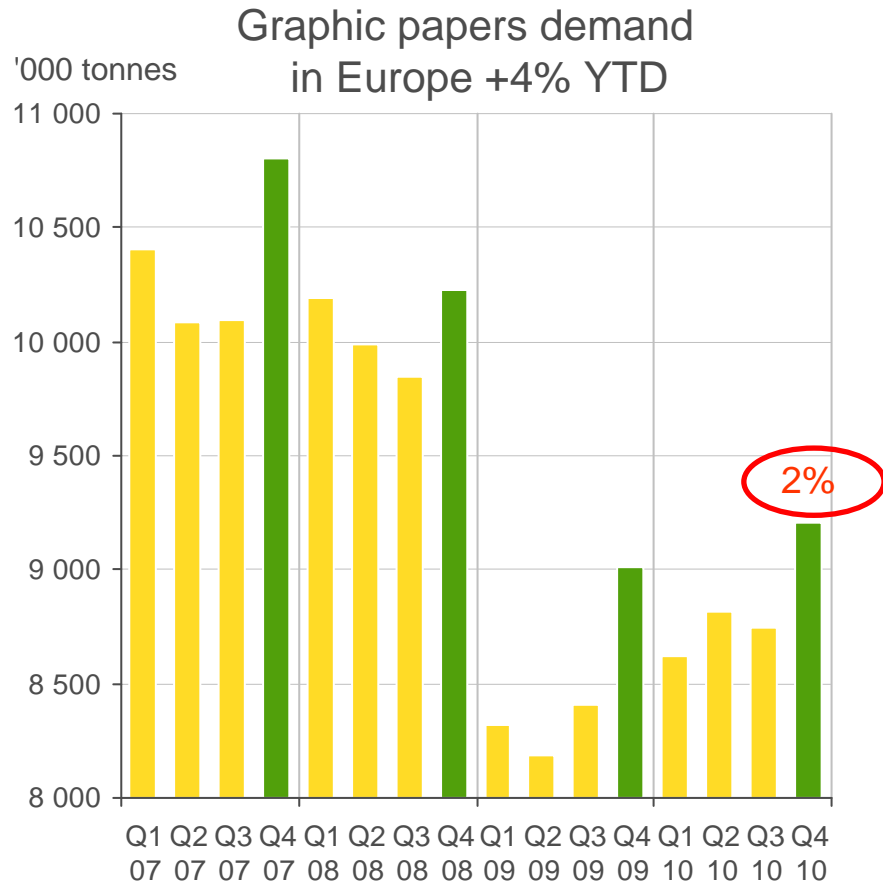
BUSINESS DRIVERS

# Demand rebound after recession has slowed down



# BUSINESS DRIVERS

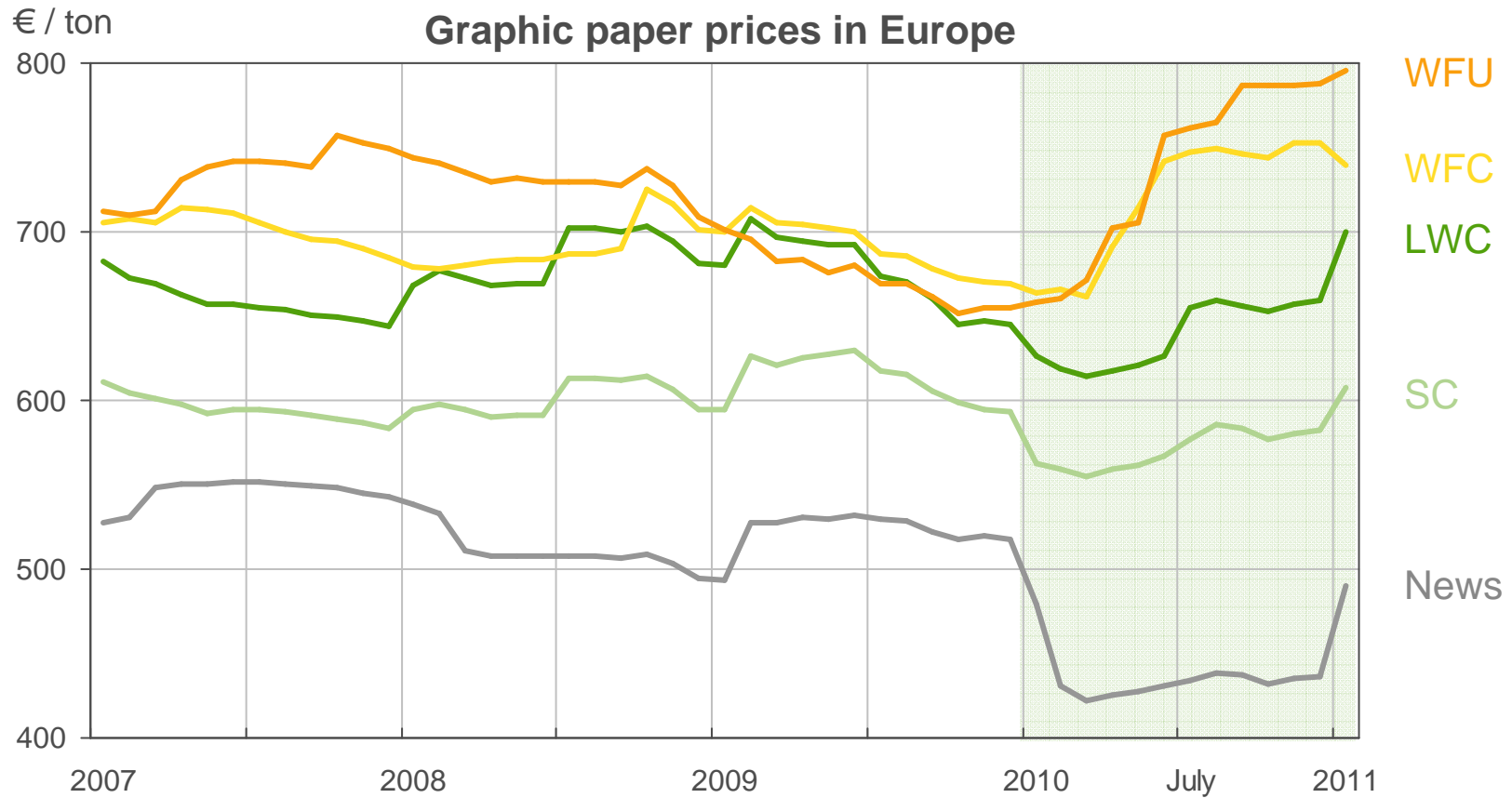
## Graphic papers demand



Source: Cepiprint/fine, PPPC

BUSINESS DRIVERS

# Paper prices have started to follow fibre price development

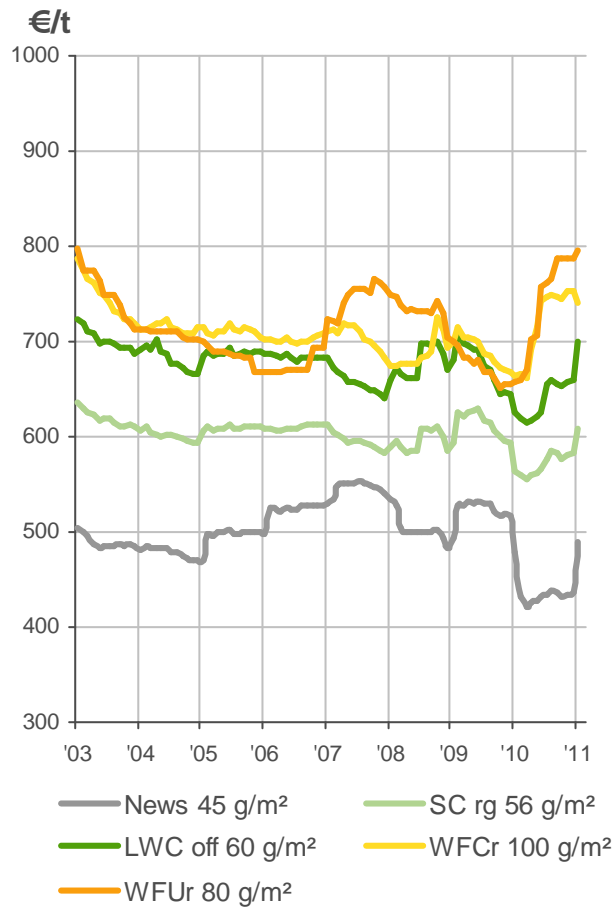


# BUSINESS DRIVERS

## Graphic paper prices

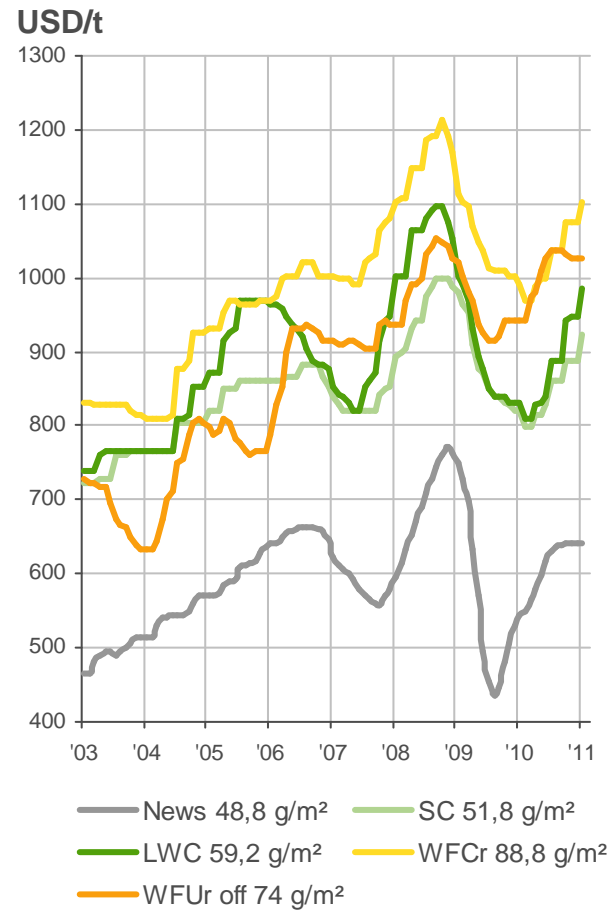


### Europe

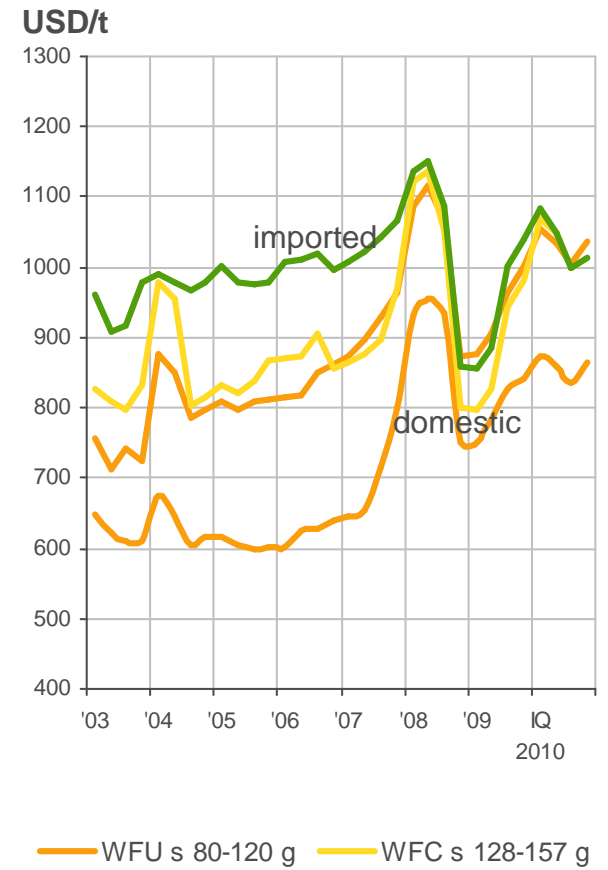


Source: PPI, RISI  
23 | © UPM

### North America



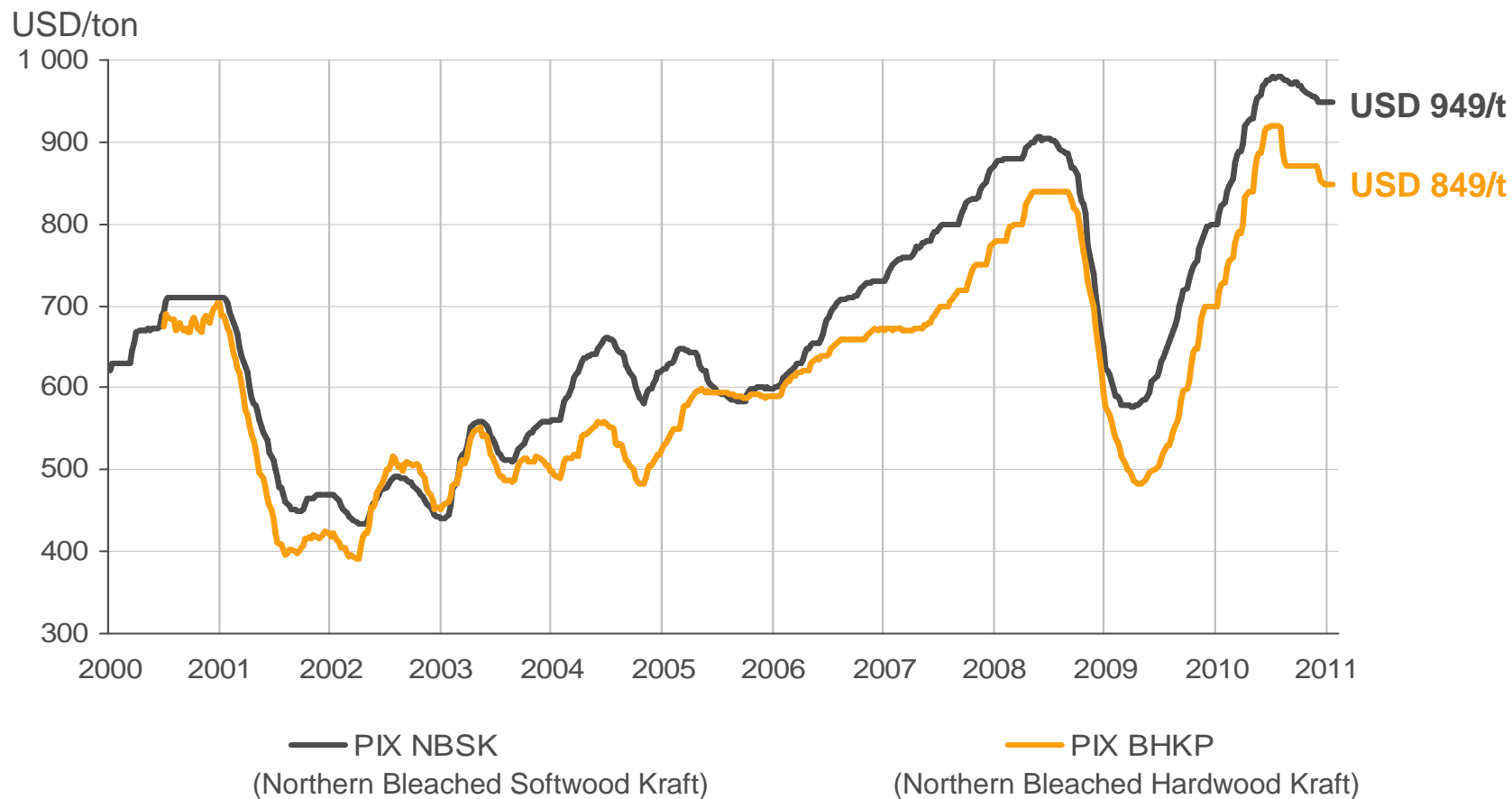
### China



imported  
domestic

## BUSINESS DRIVERS

# Chemical pulp market price



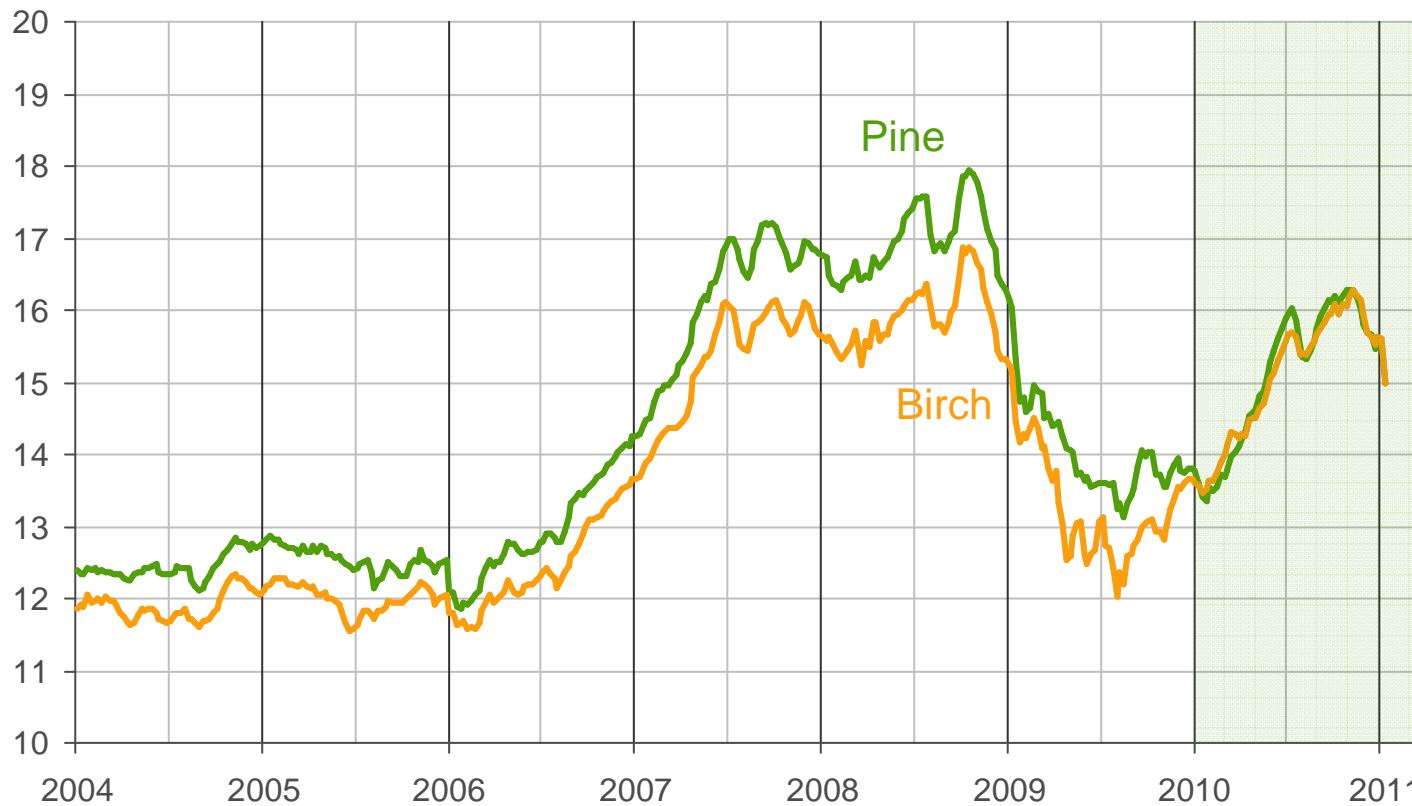
Source: FOEX Indexes Ltd.



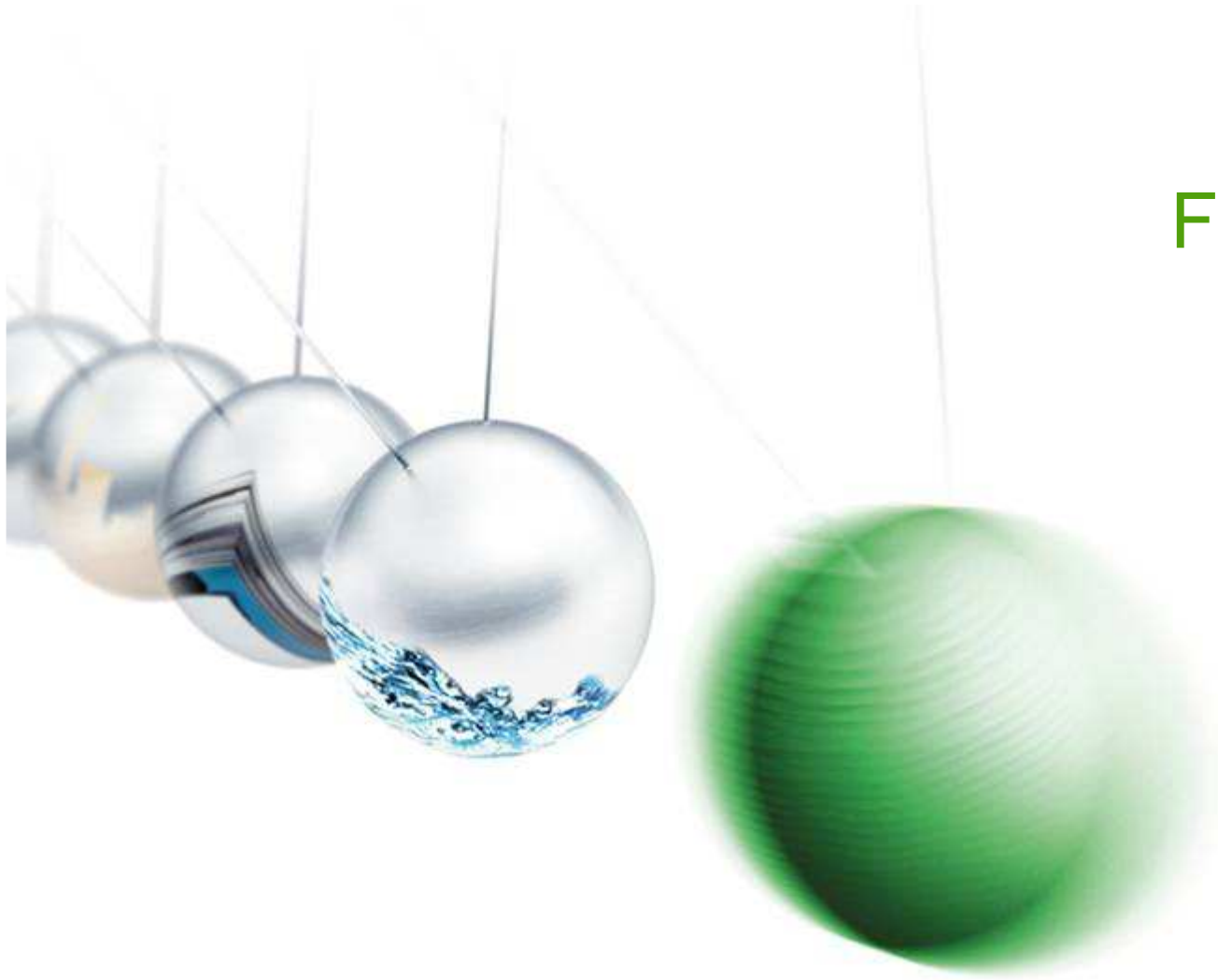
## BUSINESS DRIVERS

# Wood prices at a high level

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



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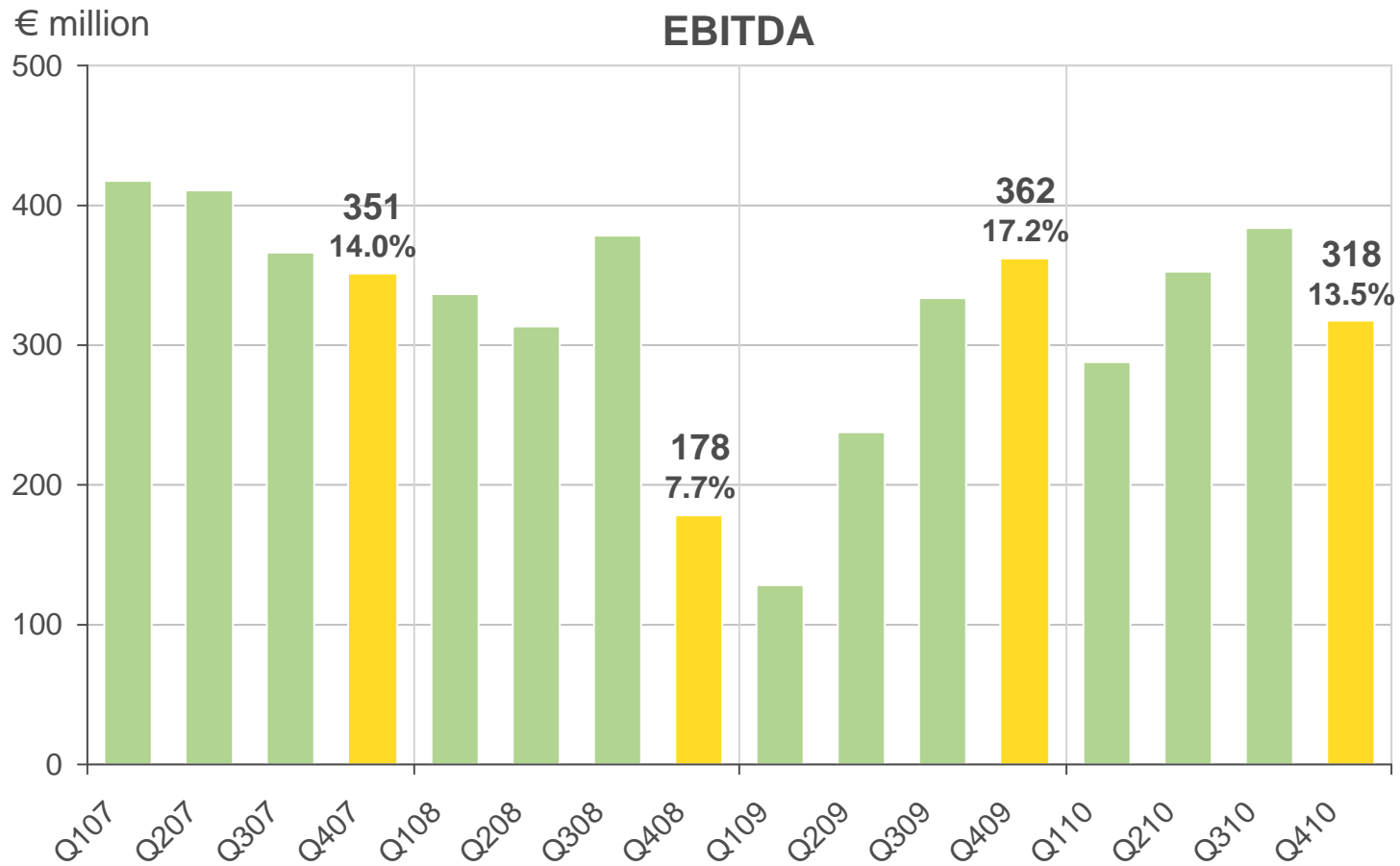
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### Key financials

	Q4 2010	Q4 2009	2010	2009
Sales, €m	2,357	2,108	8,924	7,719
Sales growth (%)	12%	-9%	16%	-18%
EBITDA, €m	318	362	1,343	1,062
% of sales	13.5	17.2	15.0	13.8
Operating profit, excl. special items, €m	212	186	731	270
EPS excl. special items, €	0.27	0.21	0.99	0.11
Net cash from operating activities, €m	343	370	982	1,259

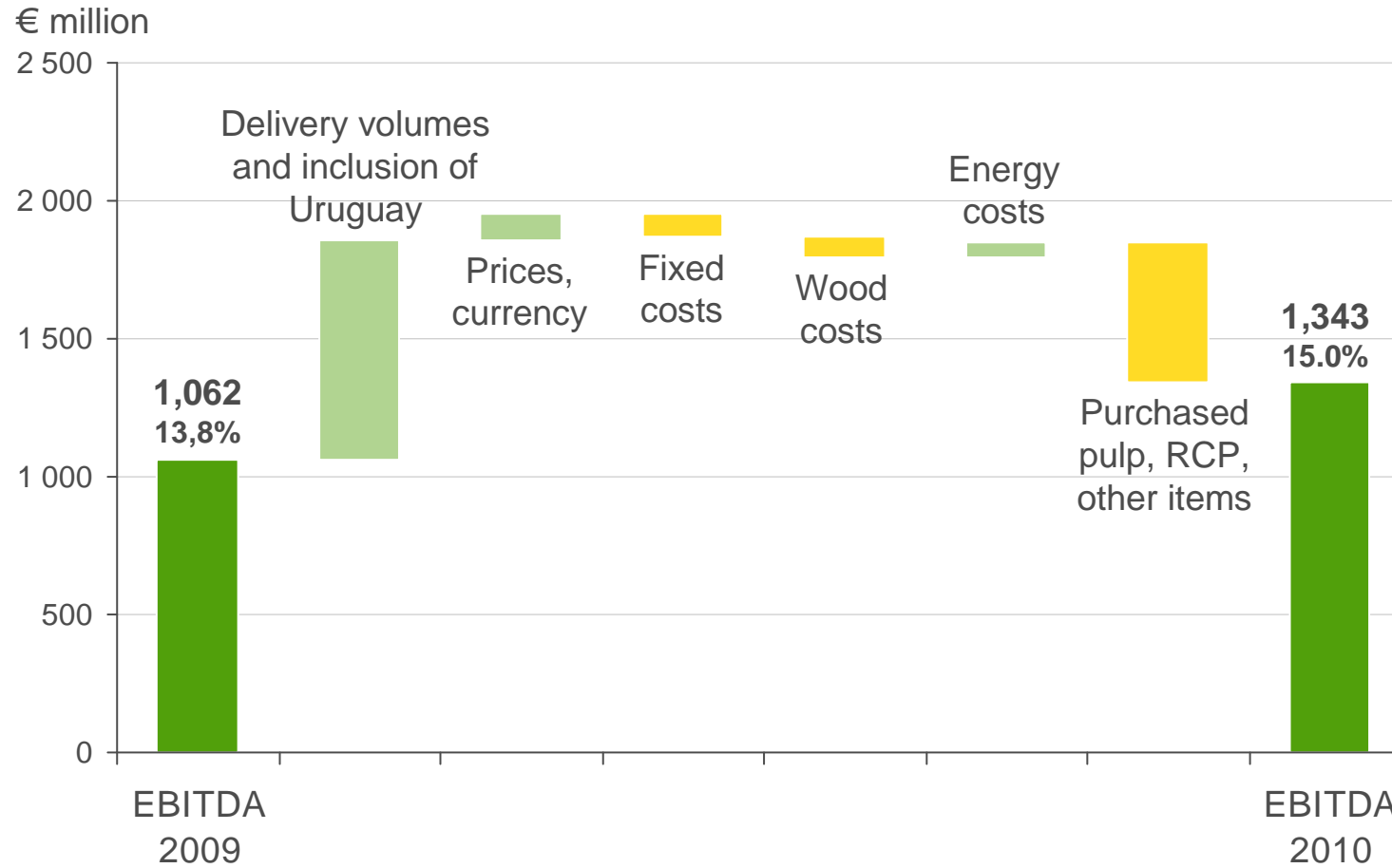
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# Q4 EBITDA negatively impacted by higher than average maintenance and other costs



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**EBITDA development in 2010 vs. 2009:  
Improvement from higher volumes**



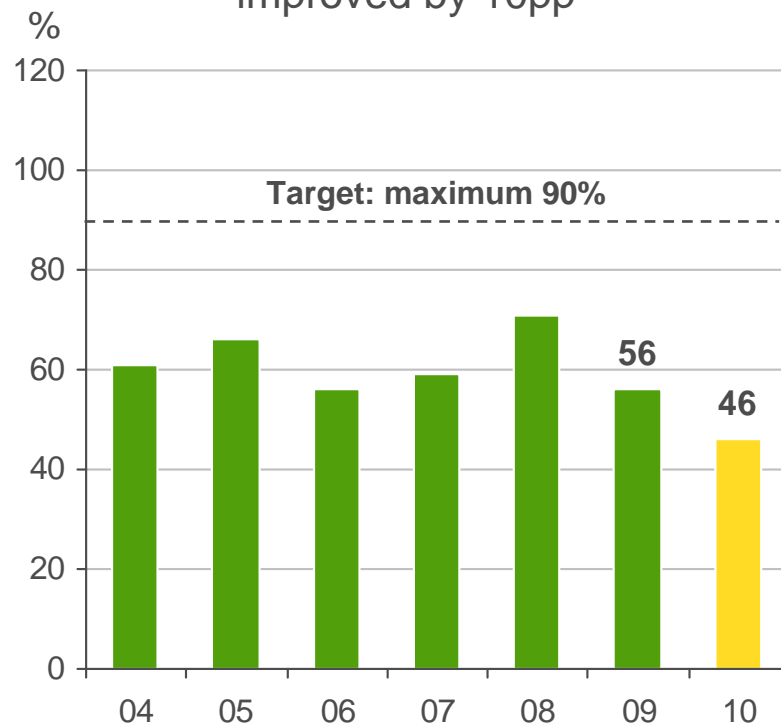
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### Cash flow

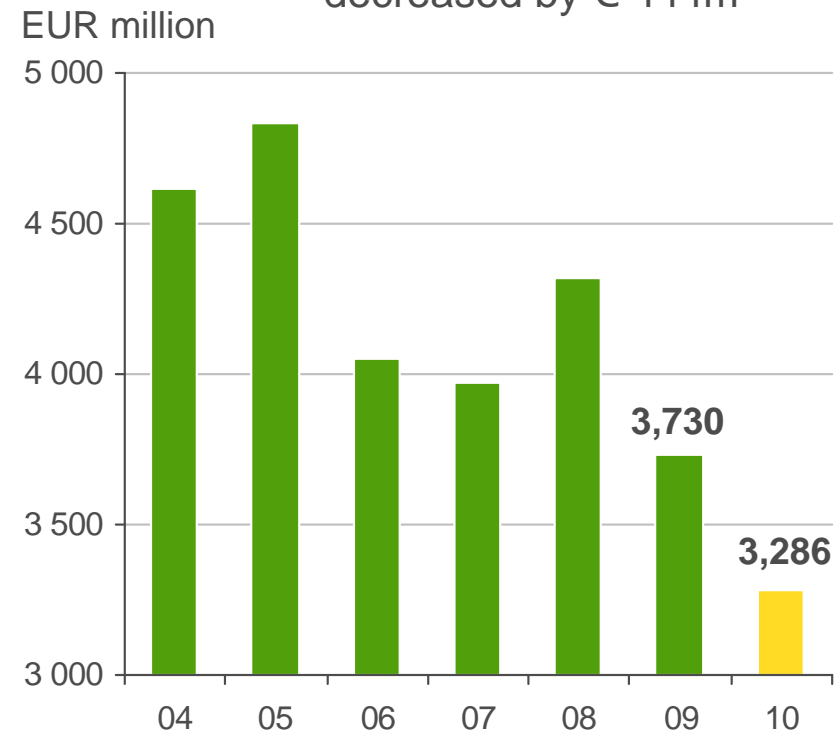
€, million	Q4/10	Q4/09	2010	2009
<b>EBITDA</b>	<b>318</b>	<b>362</b>	<b>1,343</b>	<b>1,062</b>
Cash flow before change in working capital	332	332	1,301	941
Change in working capital	98	95	-139	532
Finance costs and income taxes	-87	-57	-180	-214
<b>Net cash from operating activities</b>	<b>343</b>	<b>370</b>	<b>982</b>	<b>1,259</b>
Capital expenditure	-91	-45	-241	-236
Asset sales and acquisitions	1	-14	46	22
<b>Cash flow after investing activities</b>	<b>253</b>	<b>311</b>	<b>787</b>	<b>1,045</b>

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Balance sheet

**Gearing ratio**  
improved by 10pp



**Net debt**  
decreased by € 444m



**Liquidity** was € 2.1bn  
repayments € 1.1bn in 2011-12

# Maturity profile and liquidity

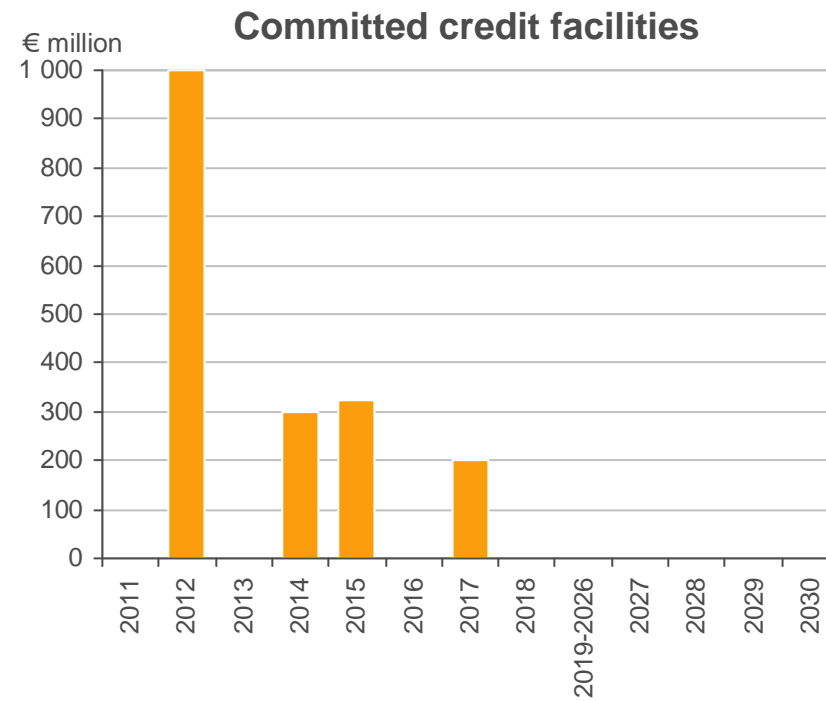
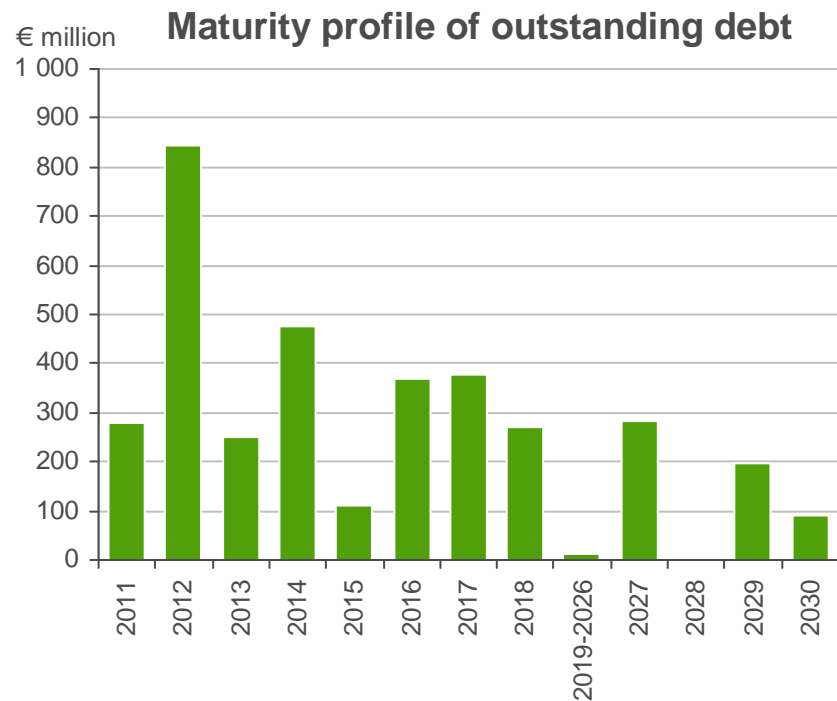
## Liquidity

Liquidity on 31 December 2010 was € 2.1bn

- cash € 269 million and unused credit facilities EUR 1,825 million

## Committed credit facilities

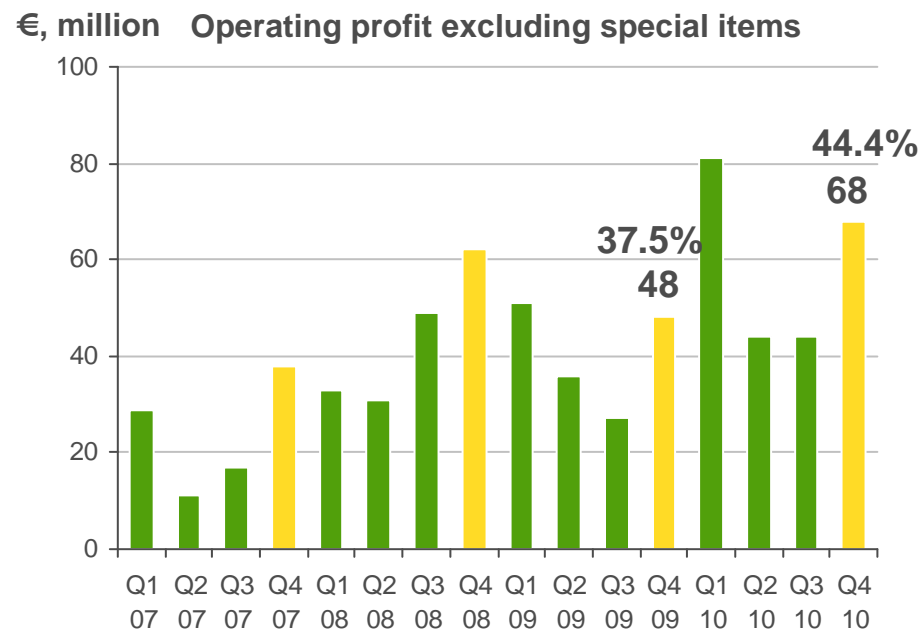
- syndicated credit facility EUR 1bn
- bilateral committed credit facilities EUR 825 million





## FINANCIALS Energy 2010 vs. 2009

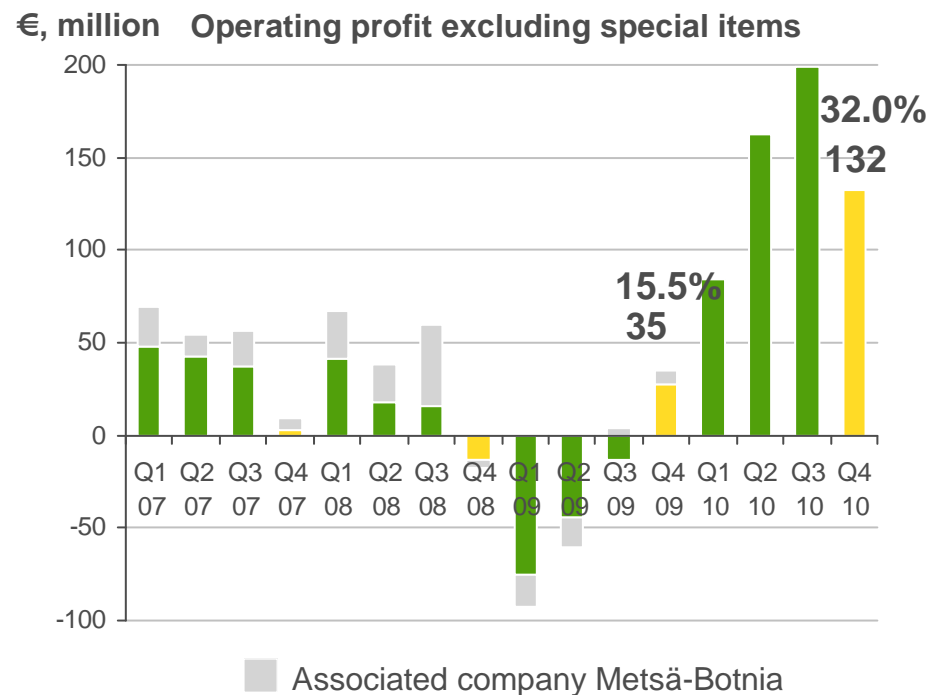
- Average sales price for electricity increased by 9%
- Electricity sales volume was higher
- The average price of procured electricity was higher due to increased condensing production volumes



	2010	2009
Sales, M€	567	472
EBITDA, M€	236	190
Operating profit M€ excl. special items	237	162
Average price, change %	9%	17%
Electricity sales, TWh	9.4	8.9

## FINANCIALS Pulp 2010 vs. 2009

- Uruguay operations were included in the Pulp business area as of December 2009
- Operating profit improved due to higher average pulp sales price and volumes
- External sales represented about 23% of total sales

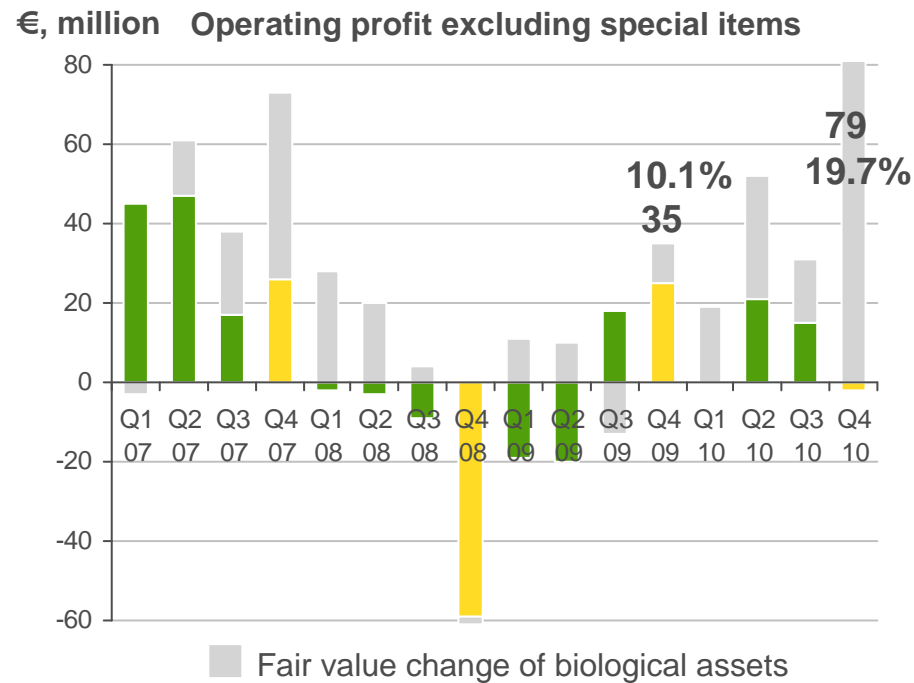


	2010	2009
Sales, M€	1,698	653
EBITDA, M€	723	-18
Operating profit M€ excl. special items	577	-127
Pulp deliveries, 1,000 t	2,919	1,759

## FINANCIALS

# Forest and Timber 2010 vs. 2009

- Operating profit improved due to higher delivery volumes and prices of timber products
- Increase in the fair value of biological assets net of wood harvested was € 147 million
- The increase includes a change in estimated timing of wood harvested

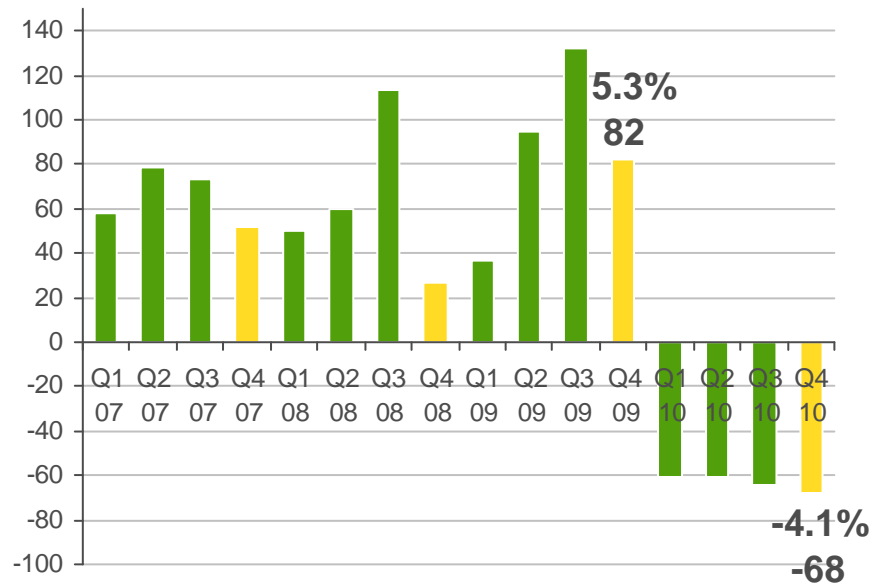


	2010	2009
Sales, M€	1,521	1,337
EBITDA, M€	52	24
Operating profit M€ excl. special items	181	22
Fair value change of biological assets	147	18
Sawn timber deliveries, 1,000 m <sup>3</sup>	1,729	1,497

## FINANCIALS Paper 2010 vs. 2009

- Cost of fibre increased significantly
- Average paper price decreased by 1%
- Delivery volumes increased by 10%

€ million Operating profit excluding special items

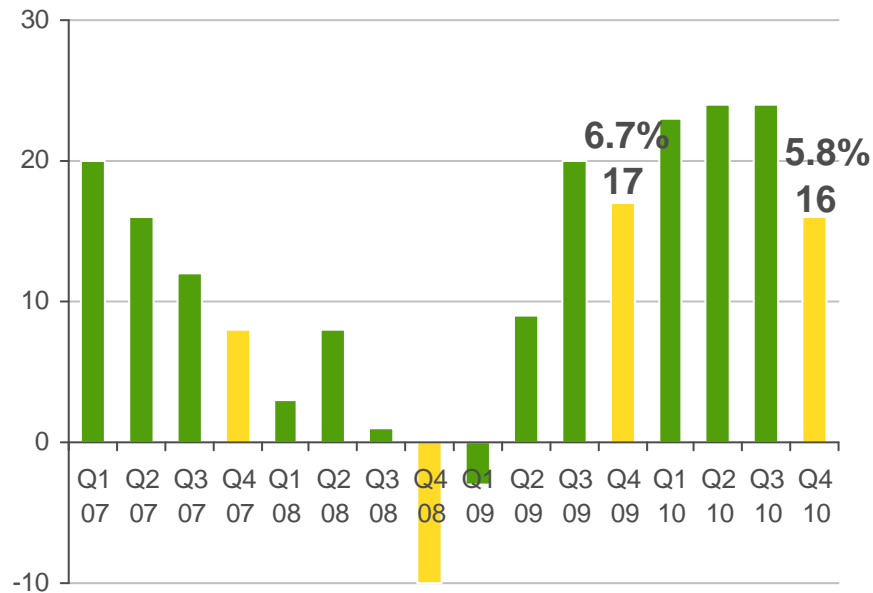


	2010	2009
Sales, M€	6,269	5,767
EBITDA, M€	275	929
Operating profit M€ excl. special items	-254	346
Average price, change %	-1%	-3%
Paper deliveries, 1,000 t	9,914	9,021

## FINANCIALS Label 2010 vs. 2009

- Operating profit improved mainly due to higher sales volumes
- Average sales prices increased, compensating for the higher raw material costs

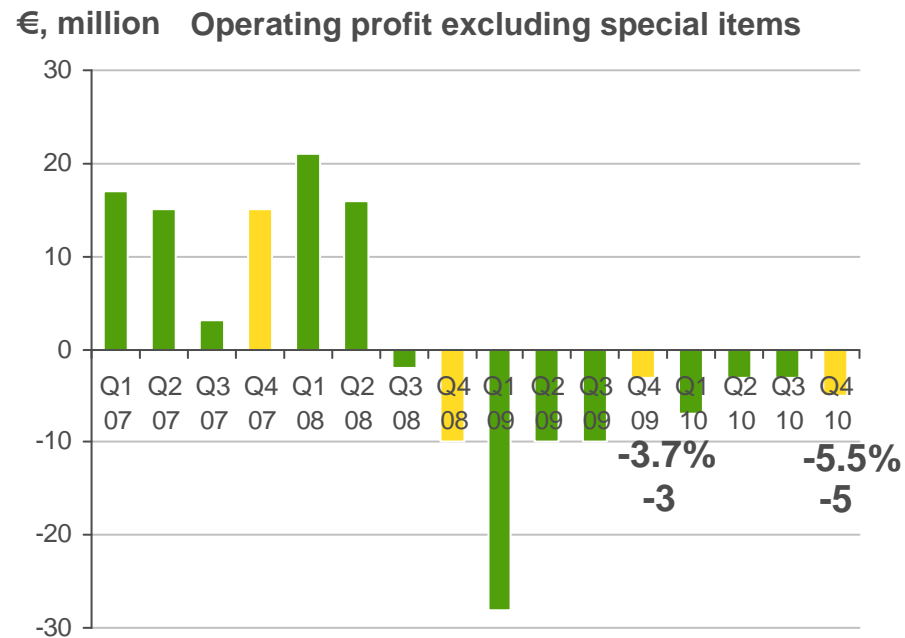
€, million Operating profit excluding special items



	2010	2009
Sales, M€	1,100	943
EBITDA, M€	123	78
Operating profit M€ excl. special items	87	43

## FINANCIALS Plywood 2010 vs. 2009

- Operating loss decreased mainly due to higher delivery volumes
- Sales prices were slightly higher than last year



	2010	2009
Sales, M€	347	306
EBITDA, M€	1	-30
Operating profit M€ excl. special items	-18	-51
Plywood deliveries, 1,000 m <sup>3</sup>	638	567



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