

STRATEGY WITH FOCUS

CREDIT SUISSE GLOBAL PAPER & PACKAGING
CONFERENCE
NEW YORK

February 2010

Jussi Vanhanen

President

Engineered Materials

UPM IN BRIEF

STRATEGY WITH FOCUS

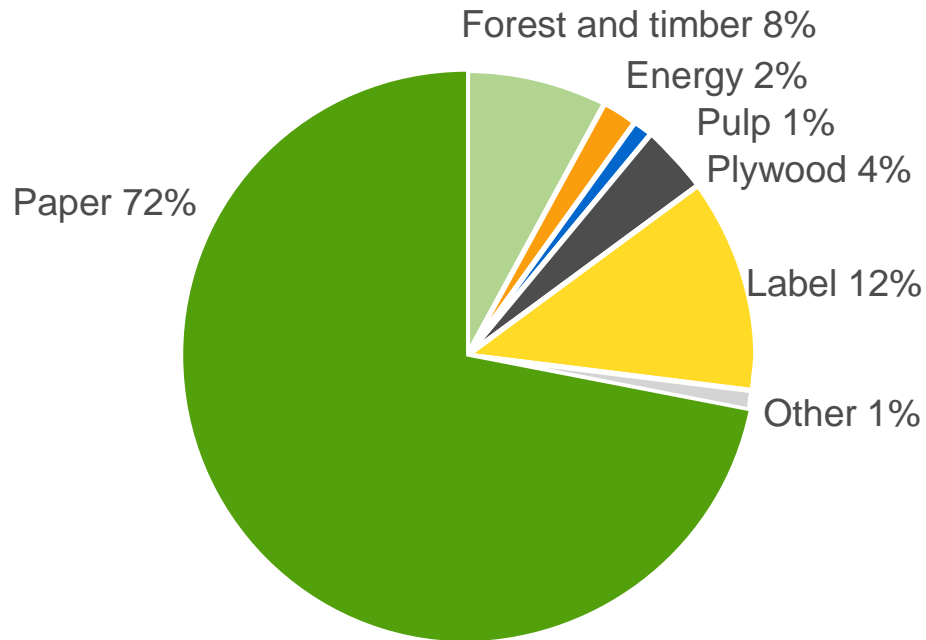


UPM IN BRIEF

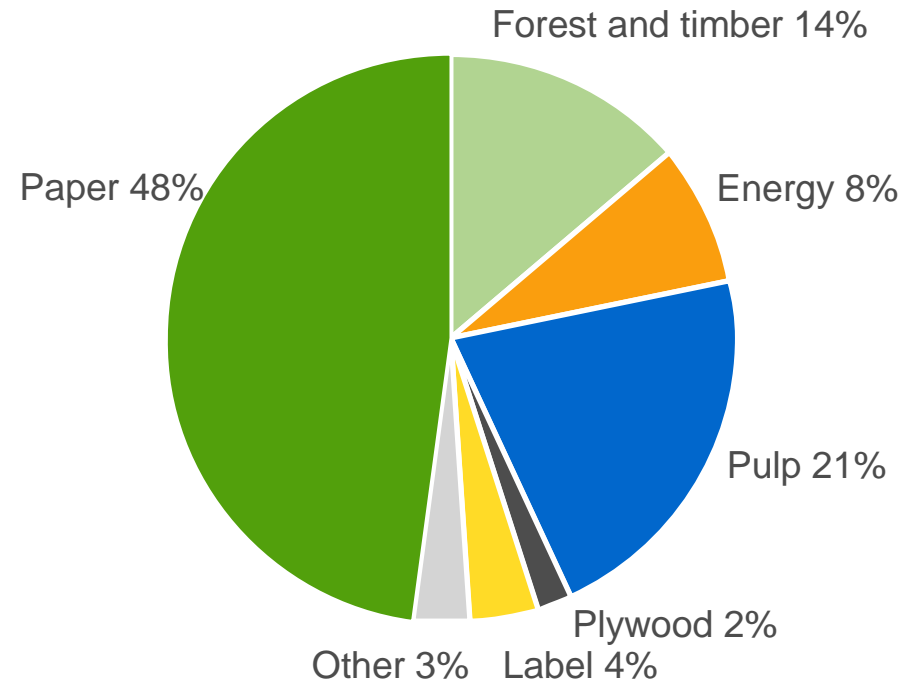
UPM's business portfolio in 2009



Sales*) €
7,719 million



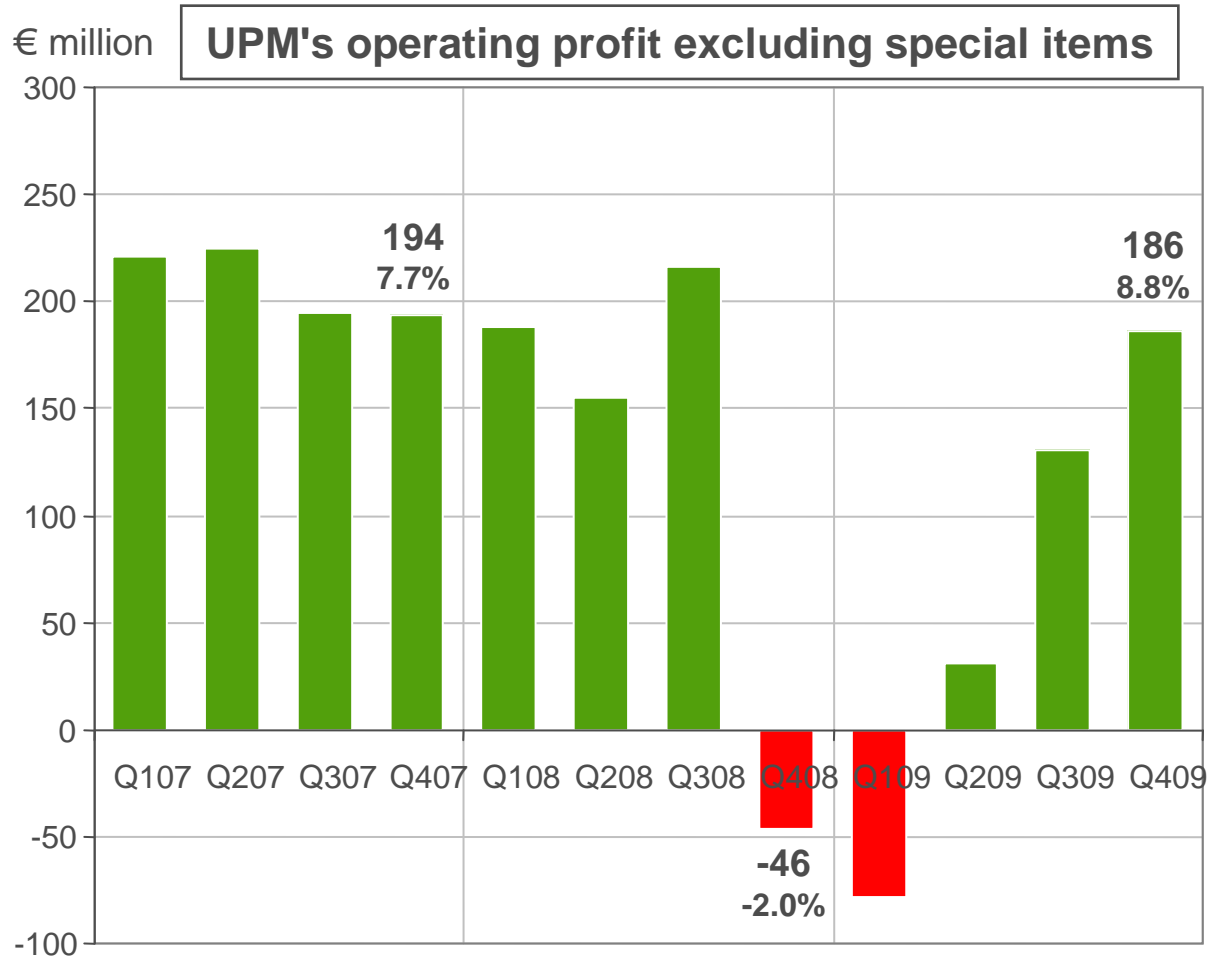
Capital employed
31.12.2009 € 11,066 million



* % of external sales

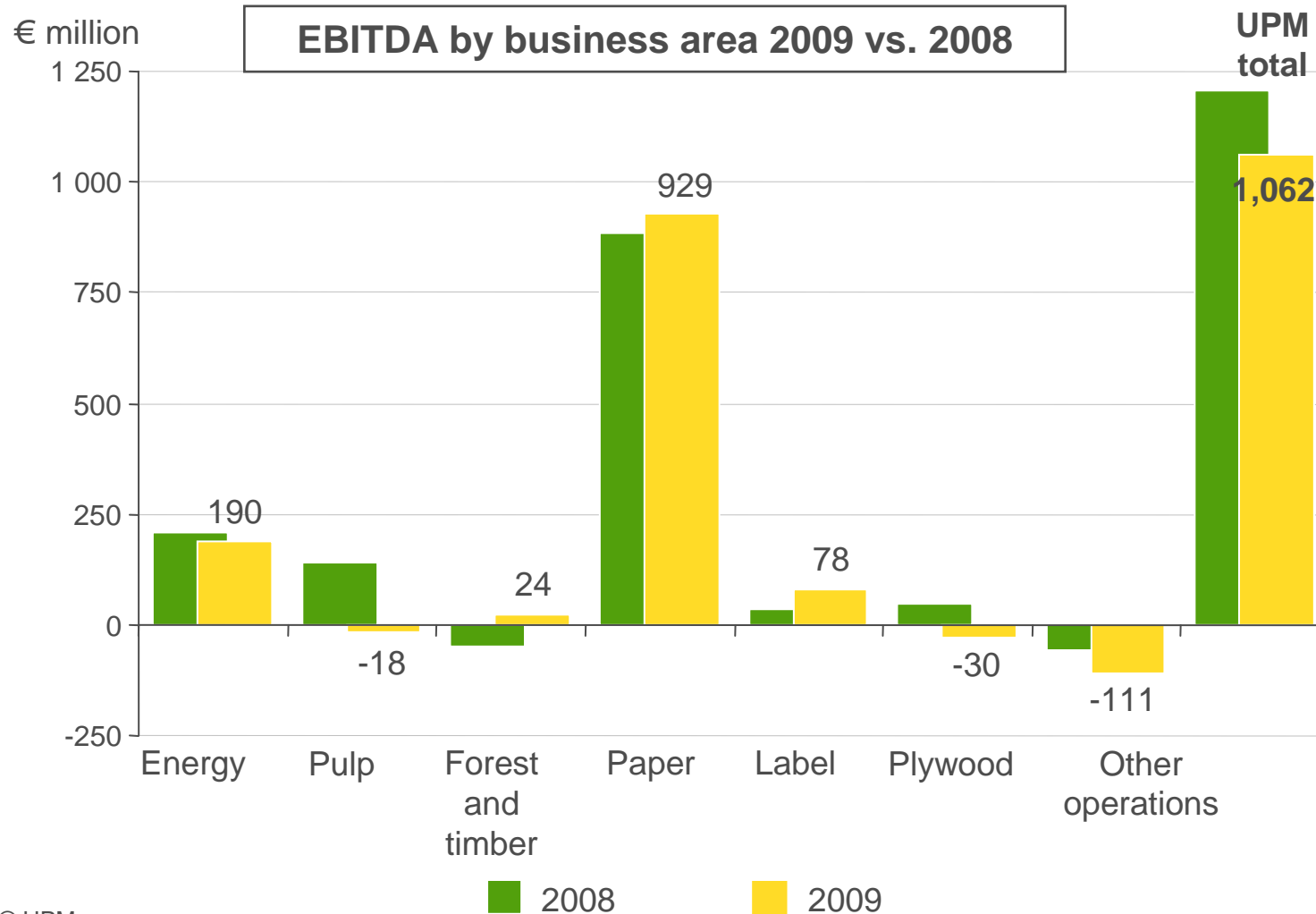
UPM IN BRIEF

Profitability rebounded in Q3 and Q4 due to focus on cost control and savings measures



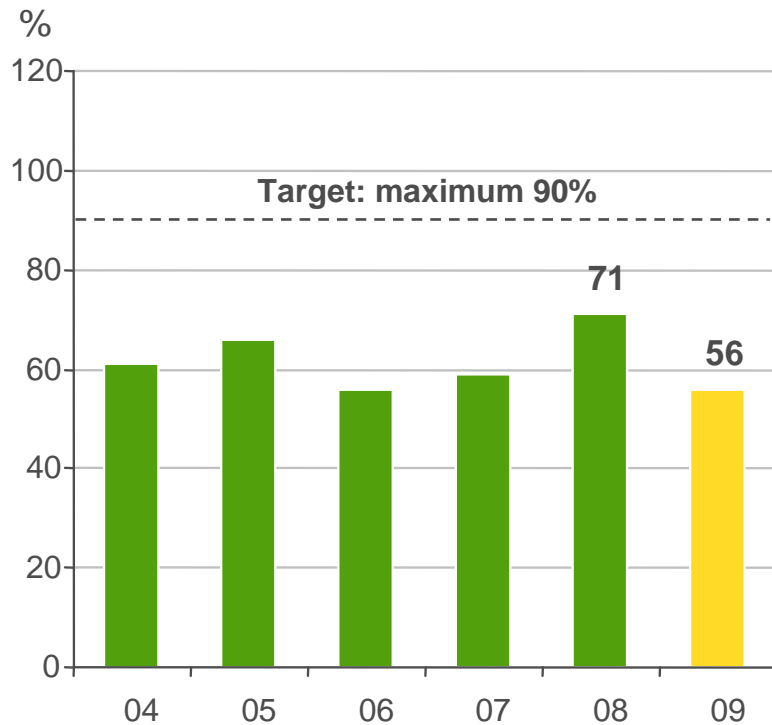
2009 EBITDA:

Paper and Label performed – Pulp disappointed

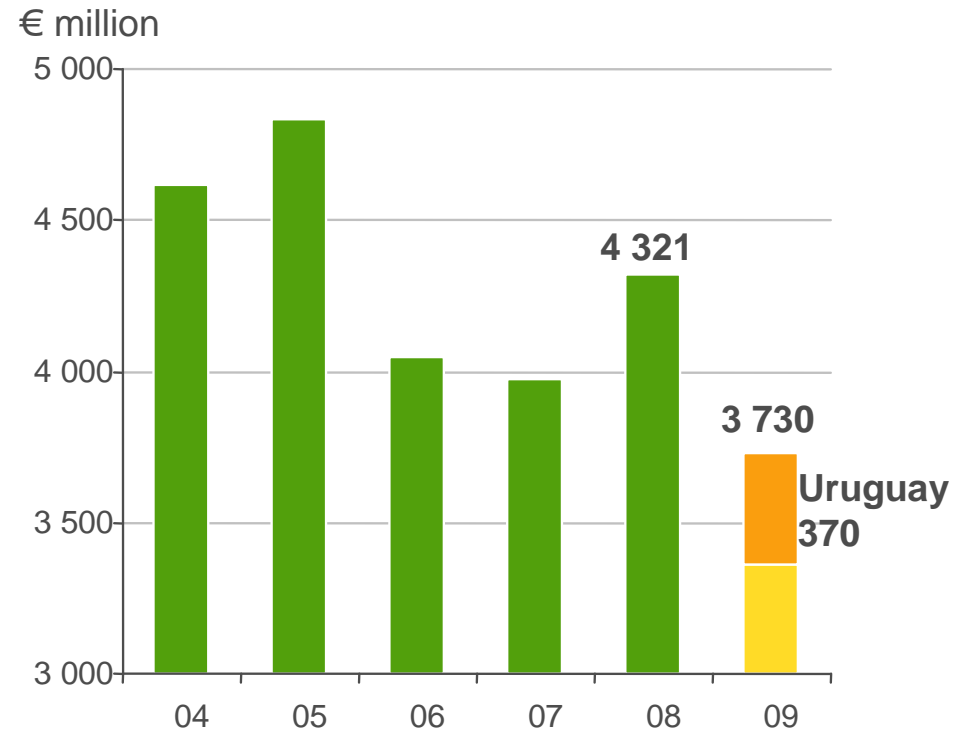


Strong balance sheet –gearing ratio improved and net interest-bearing liabilities decreased

Gearing ratio
- improved by 15%



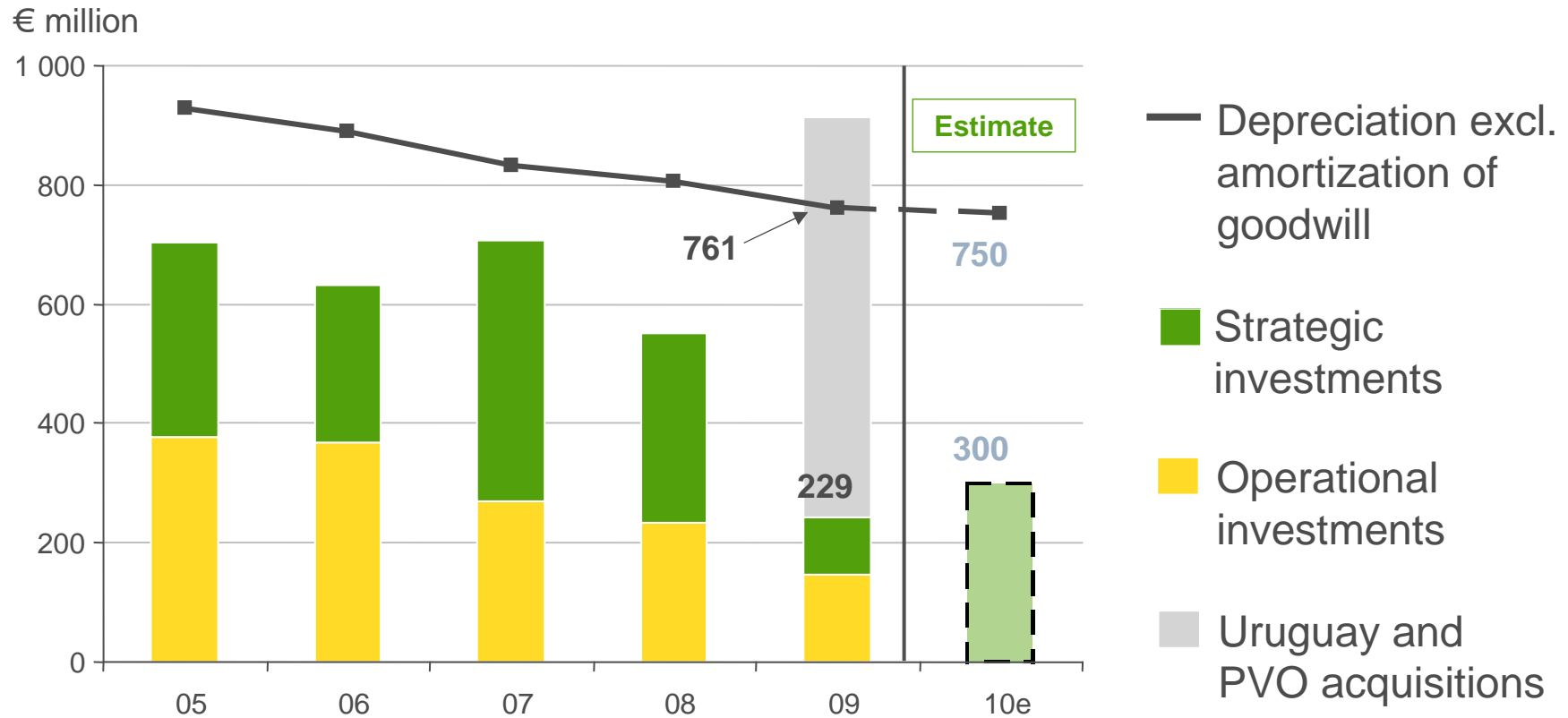
Net debt
- decreased by € 591m



Liquidity increased to €2.2bn
repayments less than €0.6bn in 2010-11

UPM IN BRIEF

Capital expenditure remained low – modern mill park needs only low operational investments



UPM IN BRIEF

STRATEGY WITH FOCUS



VISION

UPM - The Biofore Company.

As the frontrunner of the new forest industry UPM leads the integration of bio and forest industries into a new, sustainable and innovation-driven future.

PURPOSE

We create value from renewable and recyclable materials by combining expertise and technologies within fiber based, energy-related and engineered materials businesses. We reshape markets through cost leadership, change readiness and leading innovation.





Energy and pulp

- Expand in cost competitive low emission energy, including biofuels
- Increase the share of cost competitive pulp
- Strengthen position in the forest biomass market

Paper

- Focus on customer interface, cost leadership and supply chain management
- Consolidation in Europe
- Growth in China and other emerging markets

Engineered materials

- Industry leadership in self-adhesive label materials
- Growth in Plywood
- Drive product renewal and develop new businesses based on proprietary know how

STRATEGY WITH FOCUS - ENERGY

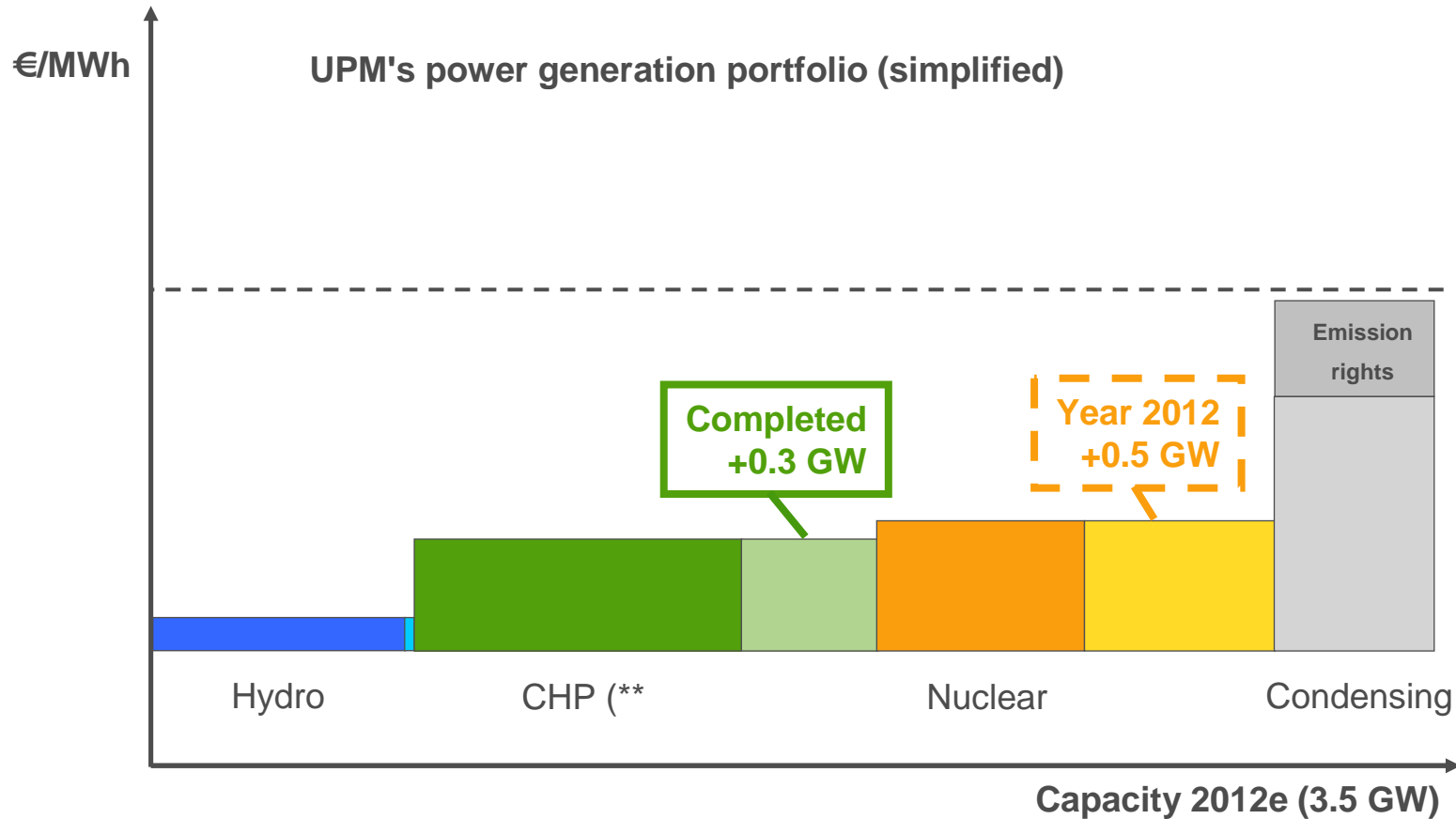
Strategy: "Expand in cost competitive low emission energy"



- Investments in biomass-based CHP at paper mills
- Acquired 1.2% of PVO in 2009
- Ongoing investment project: TVO's nuclear reactor (OL3)
- Growth opportunities
 - biomass-based power, nuclear power (OL4)
 - biofuels, including biodiesel, in which piloting and environmental assessments ongoing



UPM's power generation portfolio is well diversified and very cost competitive

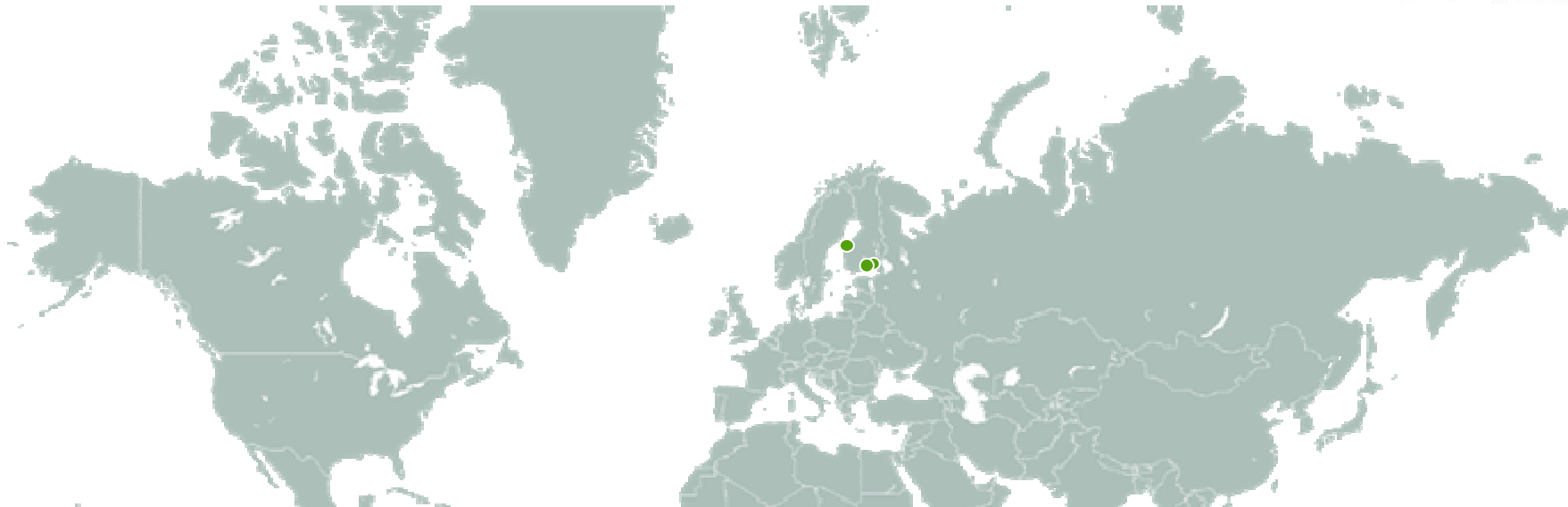


*) including investment decisions already made

) **Combined **H**eat and **P**ower

STRATEGY WITH FOCUS - PULP

Pulp capacity 3,2 million tons – produced at four modern mills



Fray Bentos pulp mill
 Forestal Oriental plantations

Chemical pulp capacity	1,000 tons	
Fray Bentos	1,100	Start-up 2007
Kymi	540	Rebuild 2008
Pietarsaari	800	Rebuild 2004
Kaukas	740	Rebuild 1996
Total own capacity	3,180	
17% of Botnia's capacity	400	
Total	3,580	

STRATEGY WITH FOCUS - PULP

UPM's strategy in Pulp business area: "Increase the share of cost-competitive pulp"

- Increase the share of plantation based pulp
- Restructuring Botnia's ownership 2009
 - acquired Fray Bentos 1.1 million t/a pulp mill and plantations in Uruguay
 - reduced ownership in Finnish Botnia to 17% from 47%
- Invest in existing capacity's competitiveness
 - Kymi recovery island € 360m 2008
- Close uncompetitive capacity
 - Tervasaari 210kt 2008
- Growth opportunities in Latin America and Russia



STRATEGY WITH FOCUS - PAPER

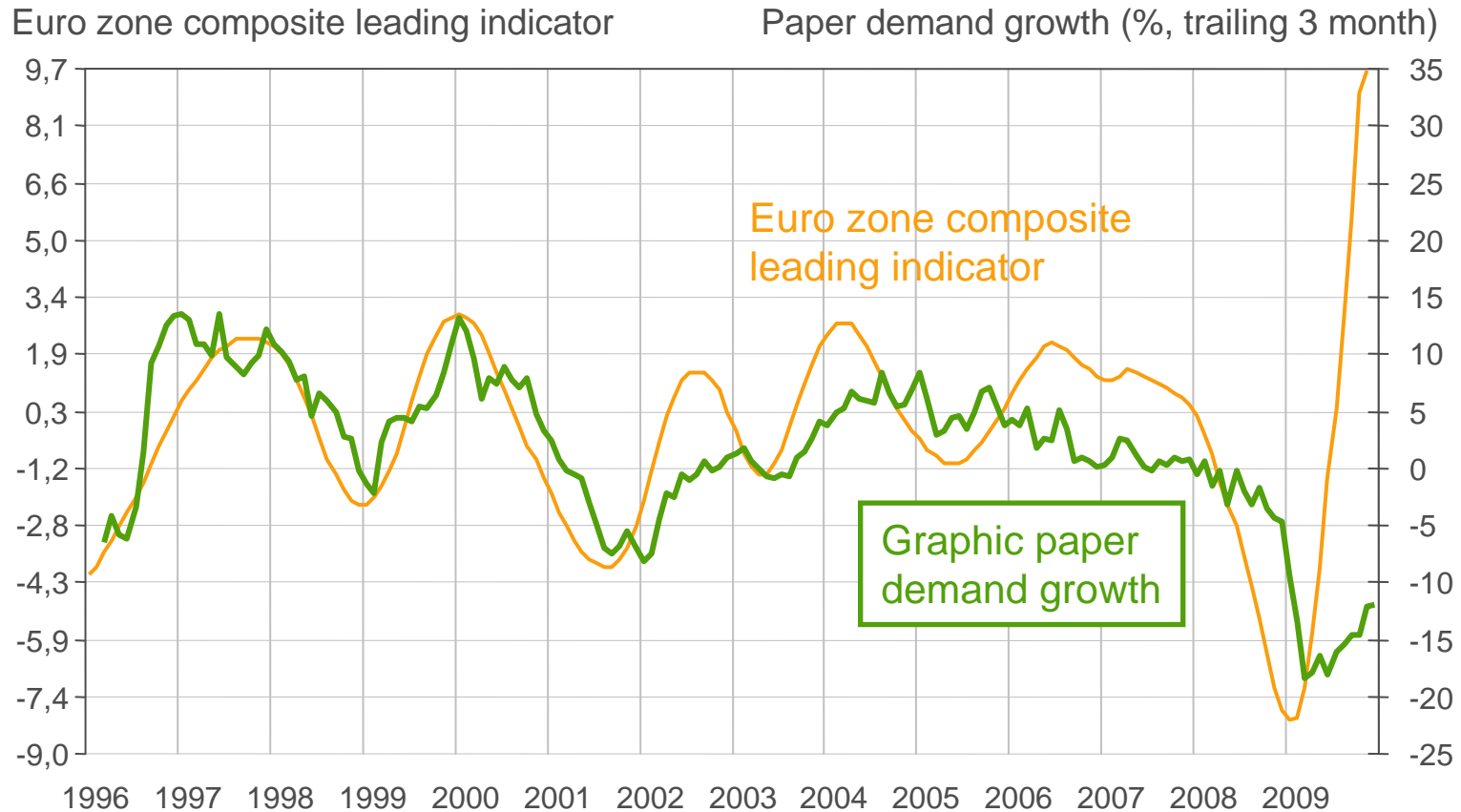
Strategy: "Focus on European profitability"



- Improved mill portfolio (11.5 million t/a) by closing 1.8 million t/a of uncompetitive capacity in 2006-08
- Cut fixed costs (UPM by €300m in 2009)
- Lean investments (capex €136m in 2009)
- Ready for consolidation in Europe to gain
 - optimal production portfolio through restructuring
 - lower cost per delivered ton
 - better profitability



Economic indicators have improved and signs of recovery are visible in paper demand

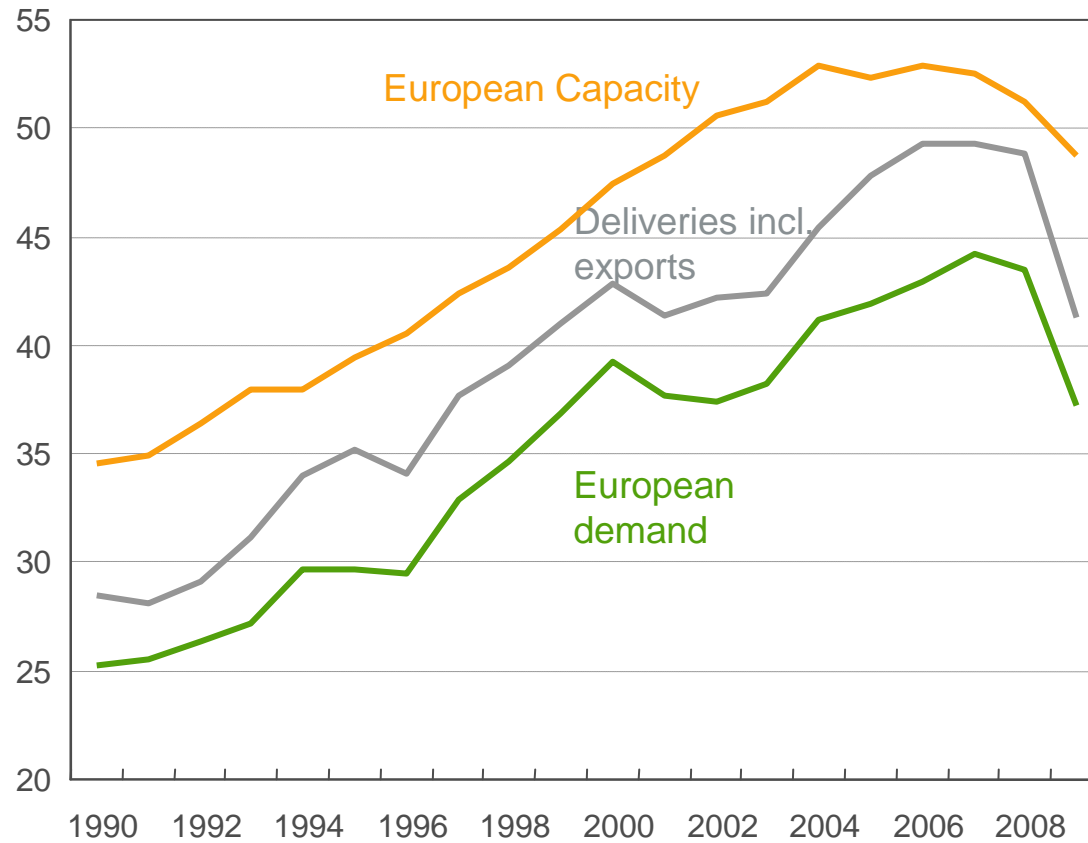


Sources: Cepiprint, Cepifine, OECD

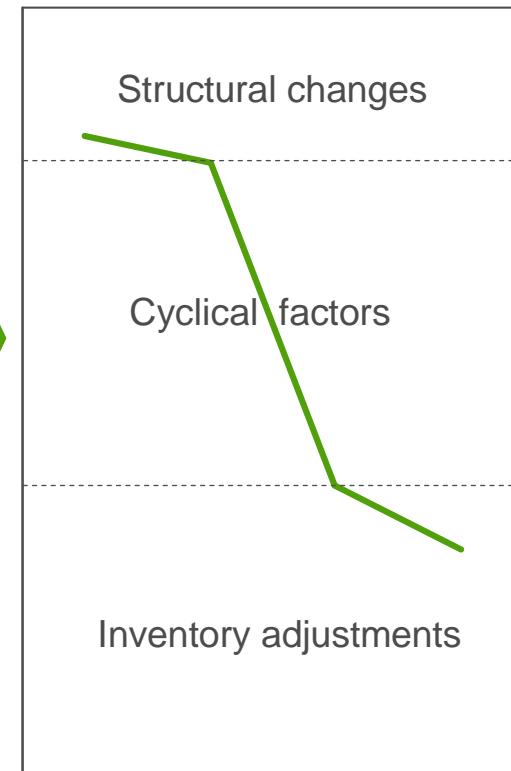
Most of the 2009 paper demand drop is cyclical



Million tons **Graphic paper deliveries and capacity in Europe**



Demand drop is influenced by ...



STRATEGY WITH FOCUS - PAPER

Investments in renewable energy and environmental leadership – combined with cost competitiveness



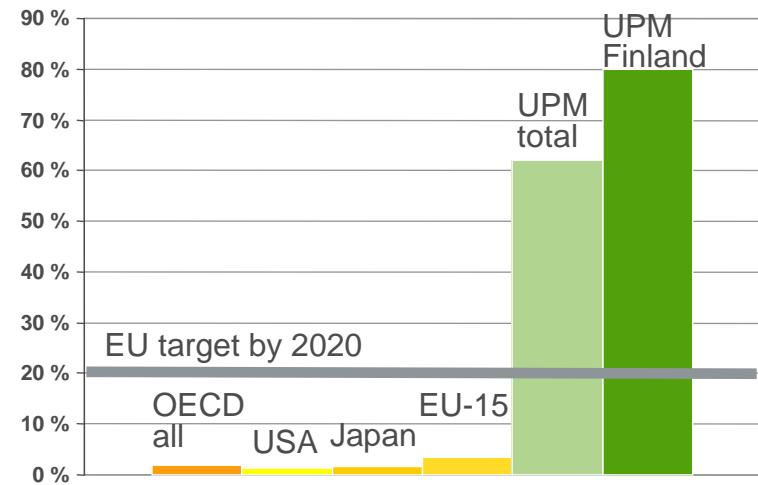
- Investments in biomass- based CHP (combined heat and power) at paper mills

- Kaukas (with PVO) 2009
- Caledonian 2009
- Kymi 2008
- Chapelle 2007
- Rauma (with PVO) 2006
- Shotton 2006

- Ongoing investment in RCP concept

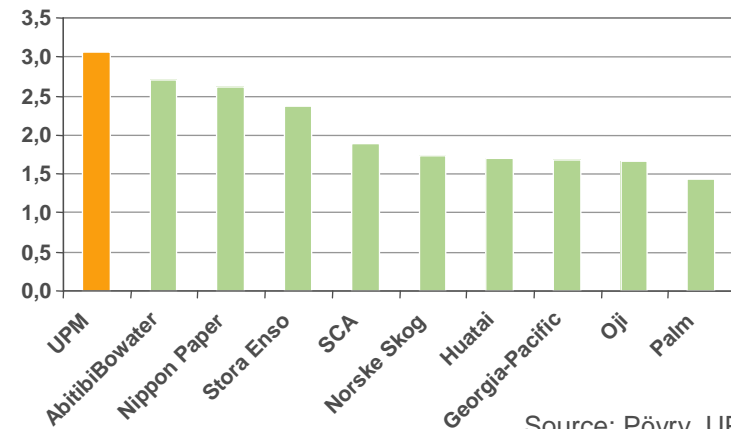
- Shotton materials recovery facility 2011

Share of renewable fuels in energy generation



Source: IEA, UPM

mt/a World's biggest producers of deinked pulp



Source: Pöyry, UPM

STRATEGY WITH FOCUS - PAPER

Industry restructuring in Europe

Much to be gained

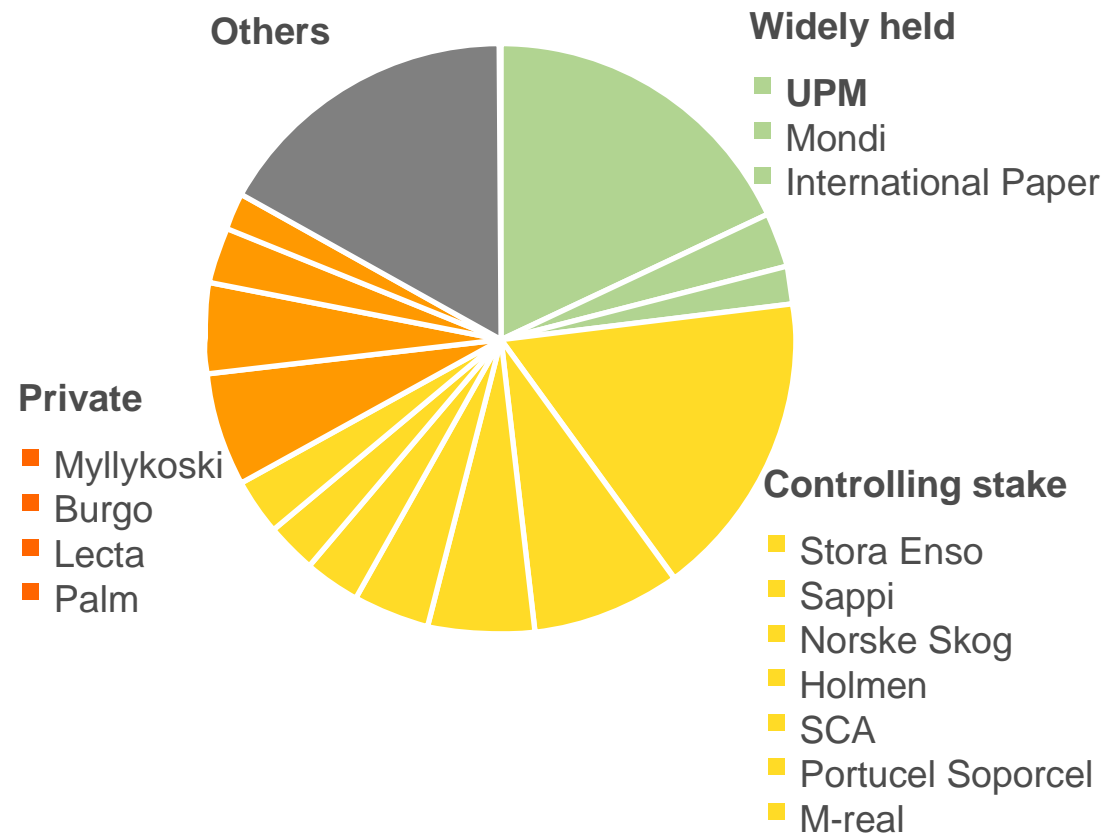
- cost synergies
- optimal capacity actions
- investment synergies

Hard to achieve

- fragmented industry
- rigid ownership structure
- high net debt to book ratios

Objective to improve

- print media competitiveness
- paper industry competitiveness
- lower cost per delivered ton



European graphic paper capacity
52 mill. tons by producer

STRATEGY WITH FOCUS - PLYWOOD

Strategy: "growth in Plywood"

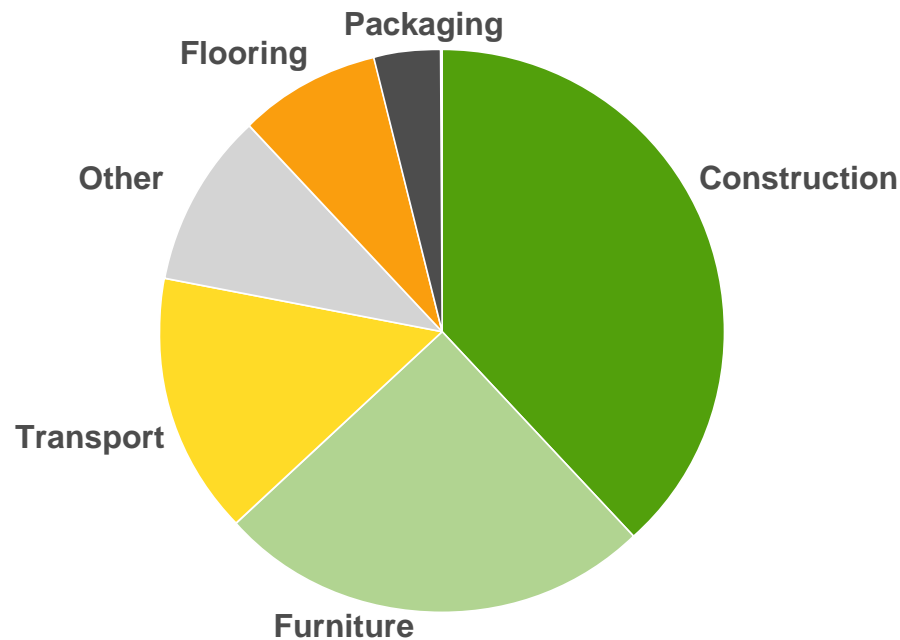


- Plywood hit by cyclical demand drop
- To secure profitability and raise competitiveness in value added products, UPM
 - Closes Heinola and Kaukas plywood mills (50,000 m³ and 80,000 m³) and the Lahti processing plant
 - Streamlines the organization at all remaining facilities
 - Invests € 25 million, mostly to make Finnish Savonlinna mill the world's most efficient unit
- Growth potential not sacrificed – can respond to returning demand



STRATEGY WITH FOCUS - PLYWOOD

Plywood end-uses are late cyclical



Plywood demand by end-use in Europe (2008)

8,5 million m³ (without Russia)

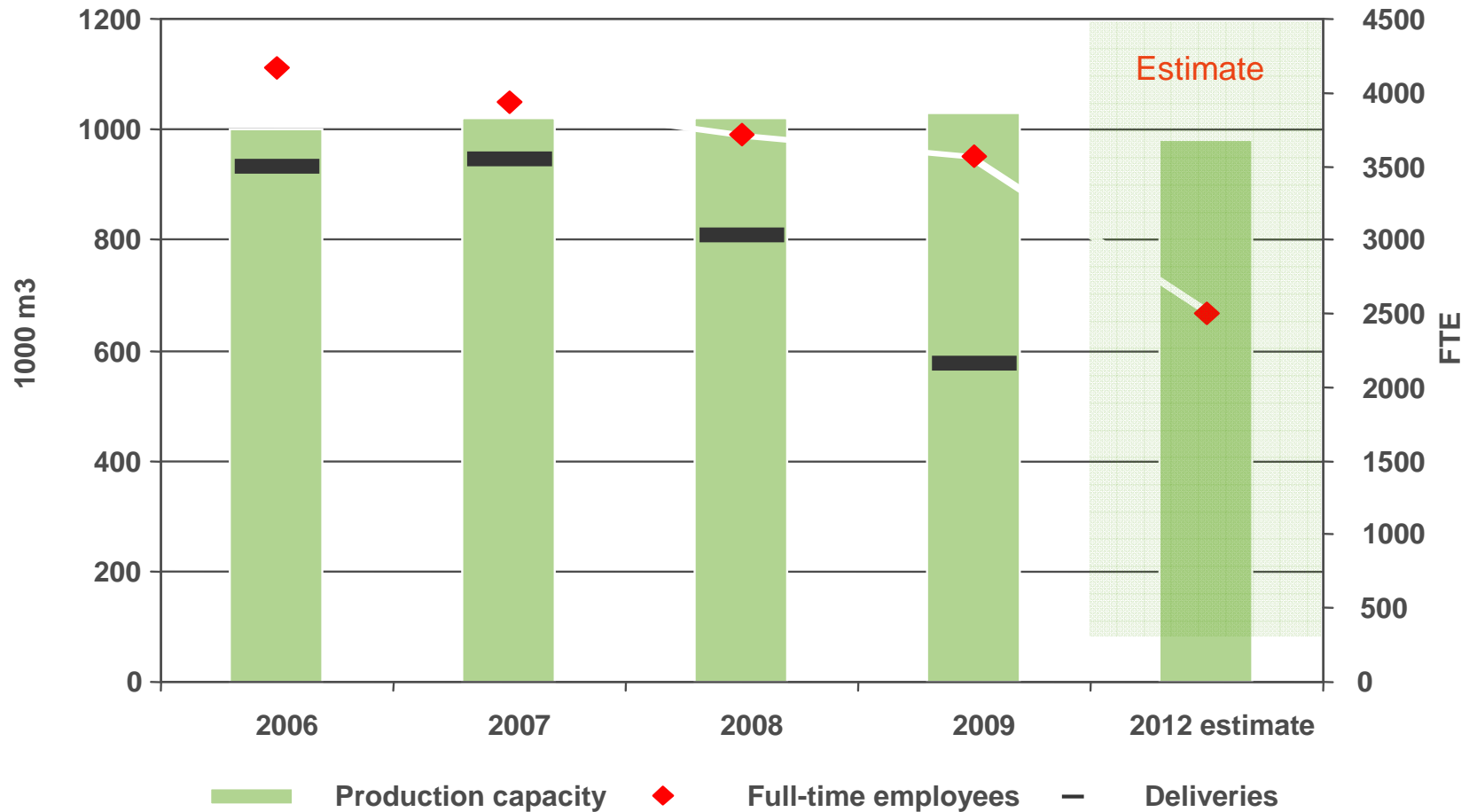
Main drivers

- Construction activity
- Industrial production
- Growth in new products and applications
- Multiple end-uses provide a divergent set of customer needs and opportunities for product development

Source: FEIC,FAOSTAT

STRATEGY WITH FOCUS - PLYWOOD

Once the rebuilt Savonlinna mill is up and running, we will be able to produce peak volumes with >35 % less personnel



STRATEGY WITH FOCUS - LABEL

Strategy: "Industry leadership in self-adhesive labelstock"

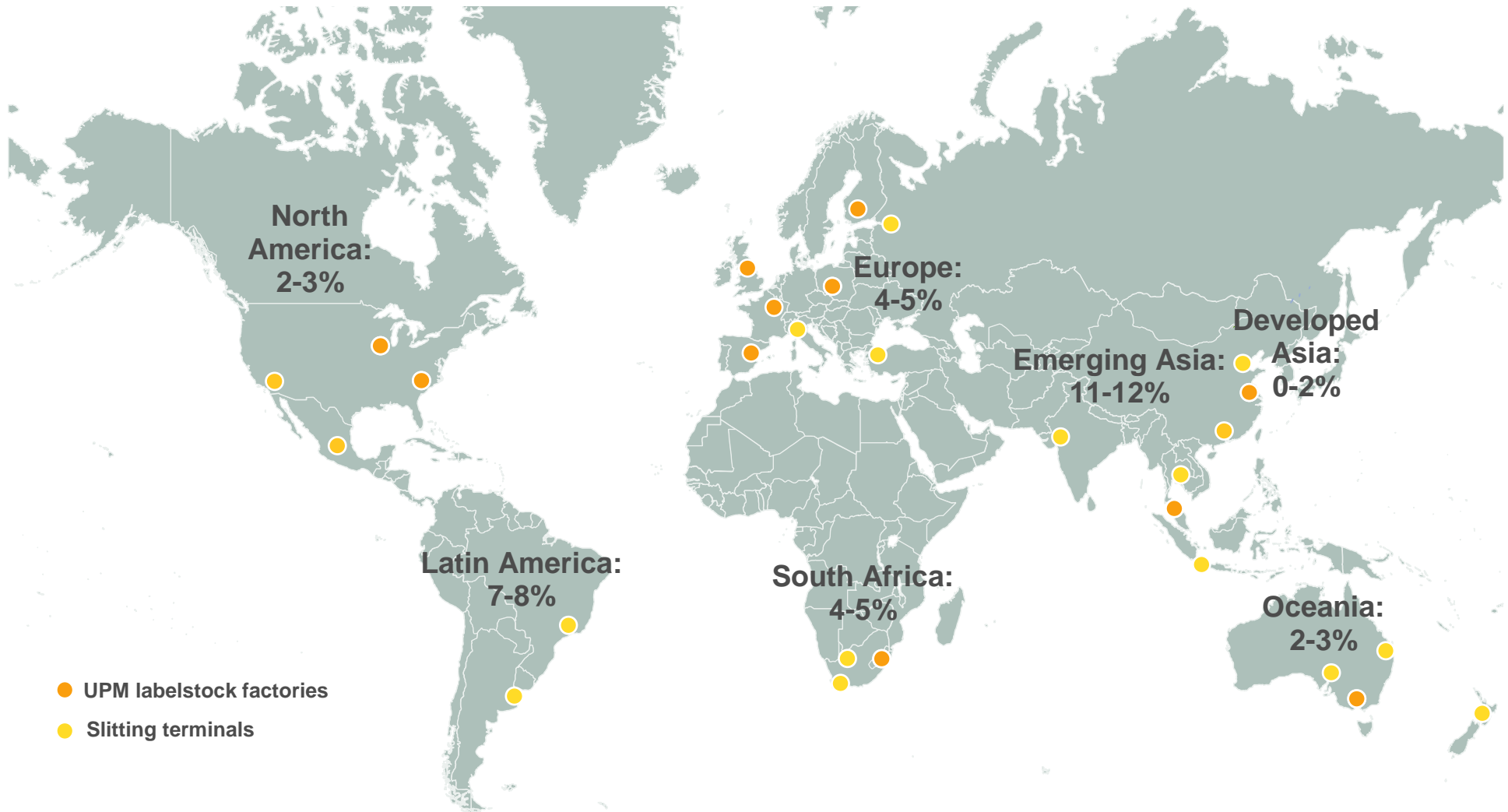


- Major investment programme (M€ >200 in total) completed:
 - Wroclaw, Poland 2008
 - Dixon, U.S. 2008
 - Changshu, China 2007
- Profitability turn-around achieved
 - European restructuring in 2009
 - Cost leadership
- Growth
 - Growing market
 - New products and applications



STRATEGY WITH FOCUS - LABEL

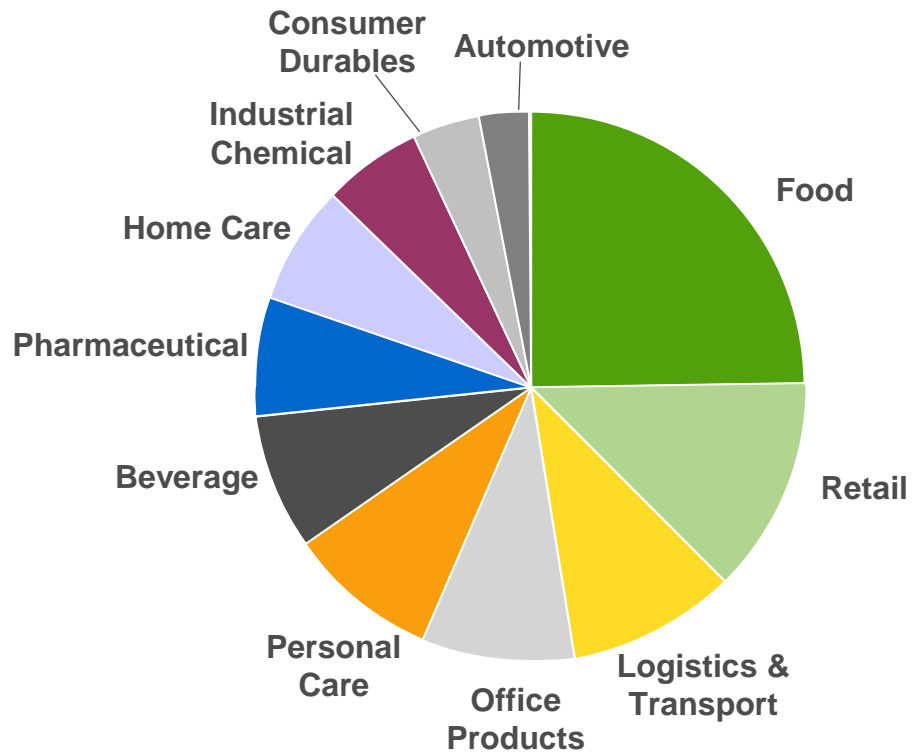
UPM Raflatac's global operating platform is well positioned to take advantage of expected market growth in coming years



- UPM labelstock factories
- Slitting terminals

STRATEGY WITH FOCUS - LABEL

Labelstock end-uses are early cyclical



Global self-adhesive label materials demand

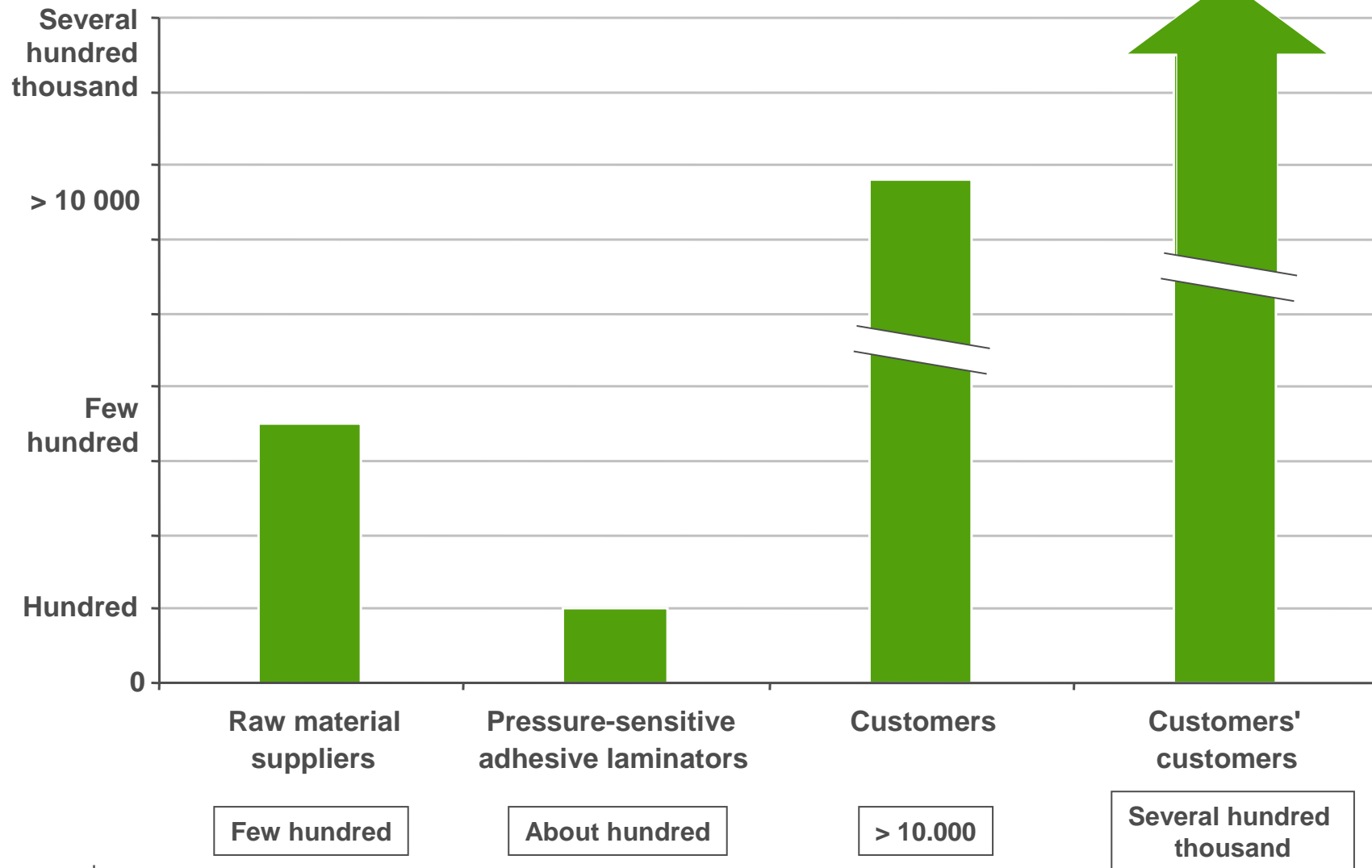
Growth drivers

- 80 % Consumer demand
- 20% Industrial demand
- Continuous product development creates new end-use applications

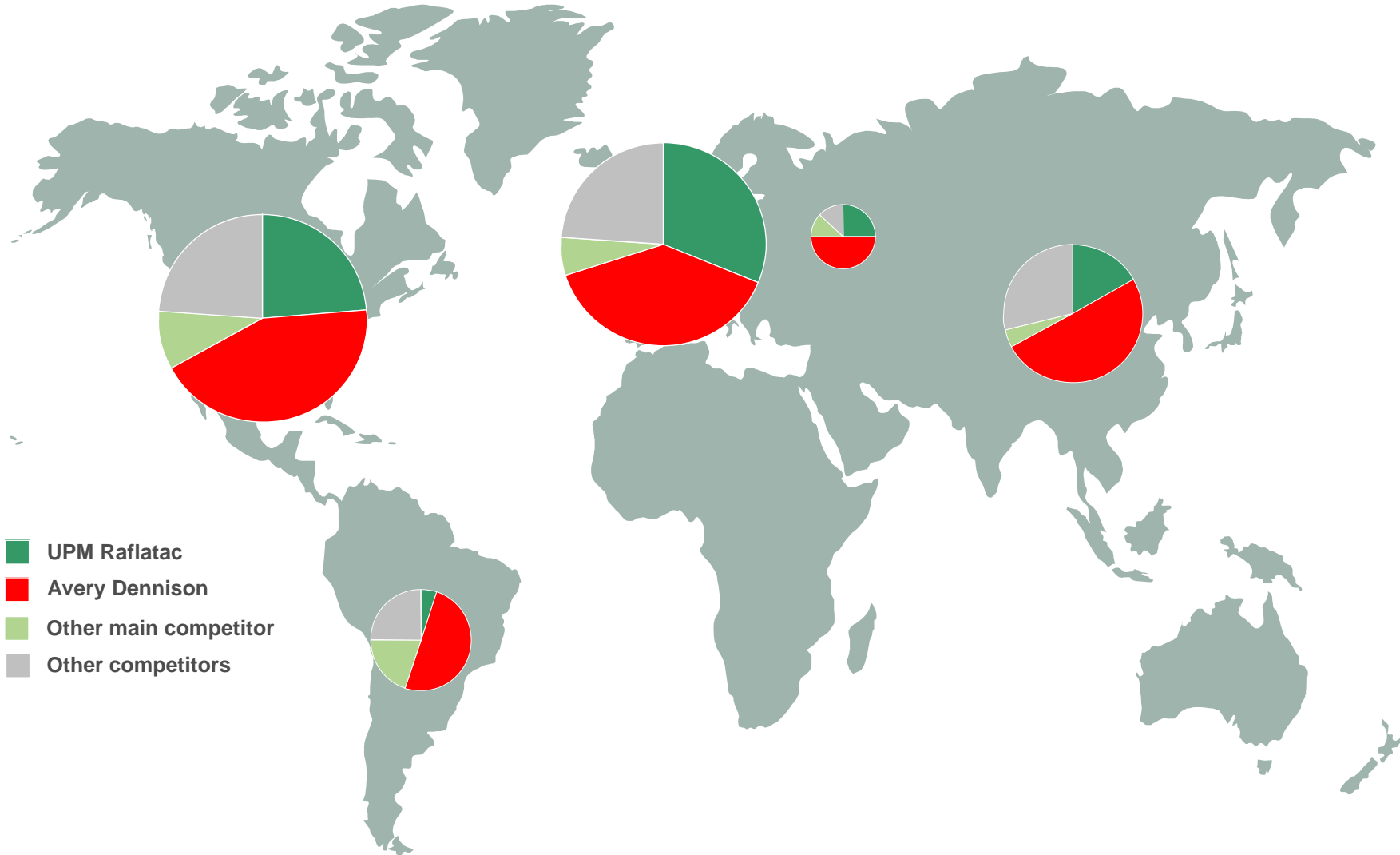
Sources: AWA, UPM Raflatac estimates





STRATEGY WITH FOCUS - LABEL

Our value chain positioning provides a great base for developing profitable business



Two global companies in the labelstock business



-  UPM Raflatac
-  Avery Dennison
-  Other main competitor
-  Other competitors

Summary

- UPM is coming out of the recession with a solid business platform to grow and generate cash flow.
- Each of UPM's business areas has a clear strategy based on distinct competitive advantages. Many important steps in implementation taken in 2009 – we will continue on the same path.
- Management commitment to profitability and value creation.

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.



UPM

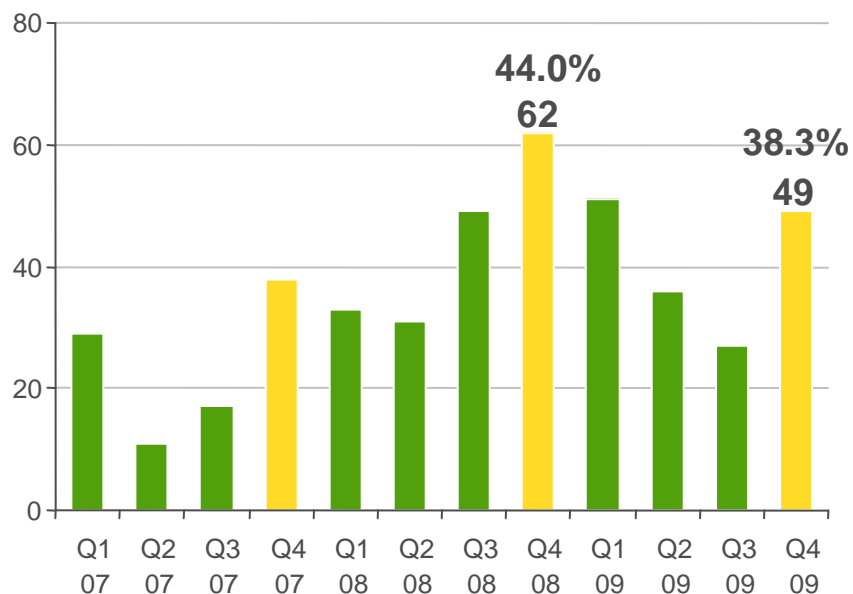
The Biofore
Company

FINANCIALS

Energy 2009 vs. 2008

- 32 % lower hydropower generation led to
 - 13 % lower delivery volumes and
 - higher cost of procurement
- Average sales price for electricity increased by 17%

€, million Operating profit excluding special items

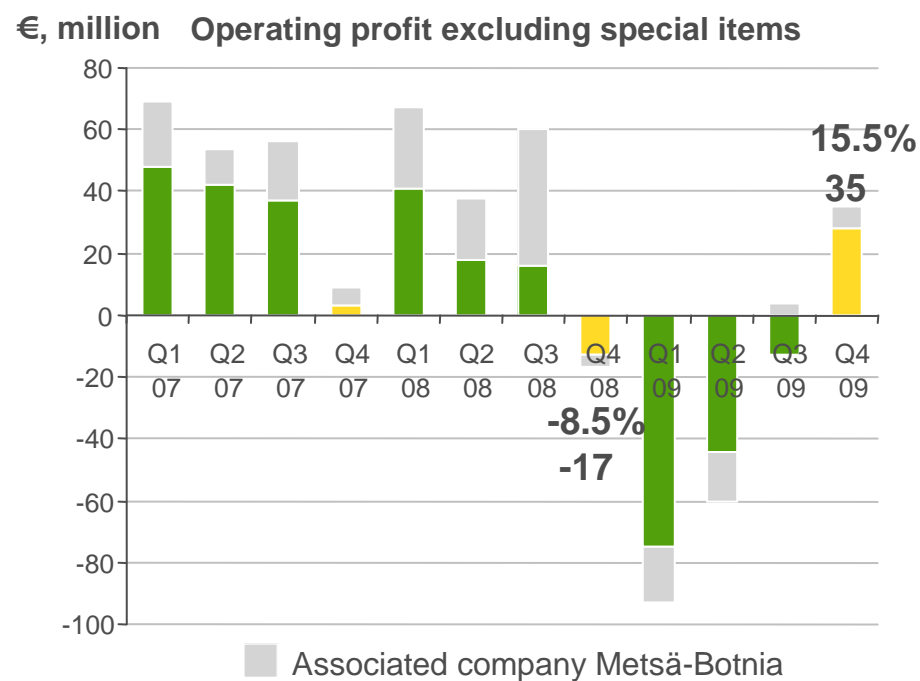


	2009	2008
Sales, M€	472	478
Operating profit M€ excl. special items	163	175
Average price, change %	17%	n.a.
Electricity sales, TWh	8.9	10.2

FINANCIALS

Pulp 2009 vs. 2008

- Operating loss due to 23% lower pulp price and lower deliveries
- Wood cost remained high until autumn but started to decline towards end of the year
- Inventories decreased



	2009	2008
Sales, M€	653	944
Operating profit M€ excl. special items	-127	148
Average price, change %	-23%	n.a.
Pulp deliveries, 1,000 t	1,759	1,982

Pro forma key figures – Botnia transaction

- Pro forma as if the Botnia transaction had occurred January 2009 1
- Pro forma adjustments include 11 months of 2009
- Uruguay operations included in reported figures from December 2009

Pro forma key figures - Group

€m	Reported 2009	Pro forma ¹⁾ adjustments	Pro forma 2009
Sales	7,719	204	7,923
EBITDA	1,062	92	1,154
Operating profit excl. special items	135 270	67 38	202 308
Profit before tax excl. special items	187 107	52 23	239 130
Profit for the period	169	50	219

Pulp business area pro forma key figures

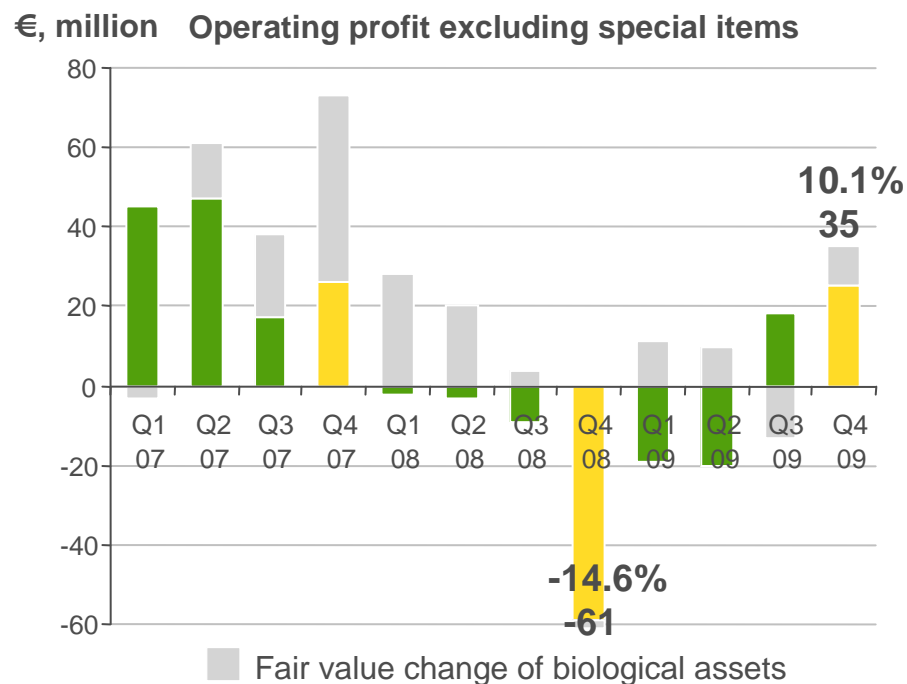
€m	Reported 2009	Pro forma adjustments	Pro forma 2009
Sales	653	350	1,003
EBITDA	-18	92	74
Operating profit excl. special items	-156 -127	67 38	-89 -89

¹⁾ Sales total of € 350 million include sales of € 146 million to UPM's units. Adjustments, among others include reversal of special items of € 29 million related to the closure of Kaskinen mill.

FINANCIALS

Forest and timber 2009 vs. 2008

- Comparison period included a wood inventory write down of € 36 million (booked at the end of 2008)
- Sawn timber deliveries were lower and sales prices decreased by 7%
- Wood inventories decreased significantly from the beginning of the year
- UPM will permanently close the sawmill in Heinola and the further processing mill in Parkano during the first half of 2010



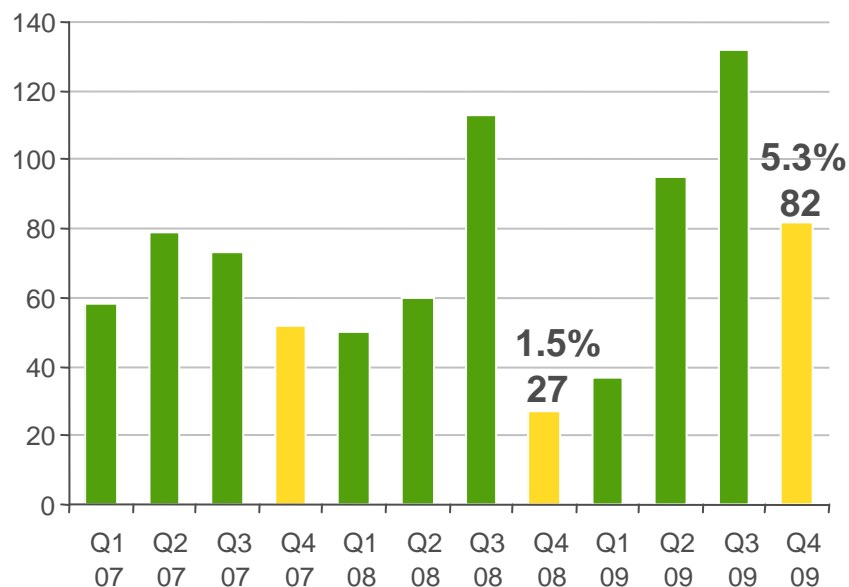
	2009	2008
Sales, M€	1,337	1,920
Operating profit M€ excl. special items	22	-23
Fair value change of biological assets	18	50
Average price of sawn timber, change %	-7%	n.a.
Sawn timber deliveries, 1,000 m ³	1,497	2,132

FINANCIALS

Paper 2009 vs. 2008

- Operating profit improved by €96m
- Lower sales price and lower deliveries were more than offset by:
 - lower fibre costs and
 - significant savings in fixed costs

€, million Operating profit excluding special items



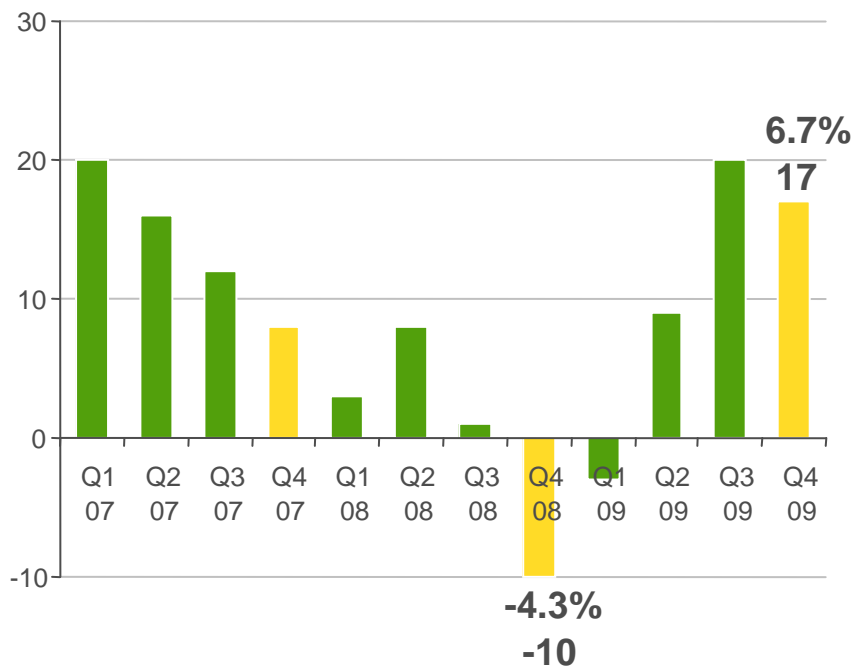
	2009	2008
Sales, M€	5,767	7,011
Operating profit M€ excl. special items	346	250
Average price, change %	-3%	n.a.
Paper deliveries, 1,000 t	9,021	10,641

FINANCIALS

Label 2009 vs. 2008

- Operating profit increased due to improved sales margin
- Average sales prices converted into euros increased by 3%
- Clear turnaround after restructuring operations

€ million Operating profit excluding special items



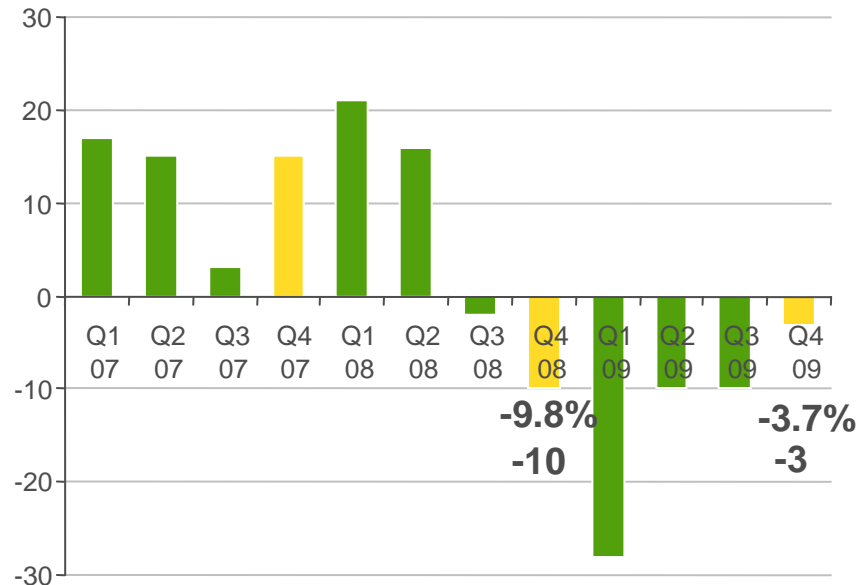
	2009	2008
Sales, M€	943	959
Operating profit M€ excl. special items	43	2
Average price, change % (converted into euros)	3%	n.a.

FINANCIALS

Plywood 2009 vs. 2008

- Operating profit declined due to significantly (-30%) lower delivery volumes and lower prices
- Fixed costs decreased significantly
- UPM will permanently close the Heinola and Kaukas plywood mills during the first half of 2010

€, million Operating profit excluding special items



	2009	2008
Sales, M€	306	530
Operating profit M€ excl. special items	-51	25
Plywood deliveries, 1,000 m ³	567	806



The Biofore Company

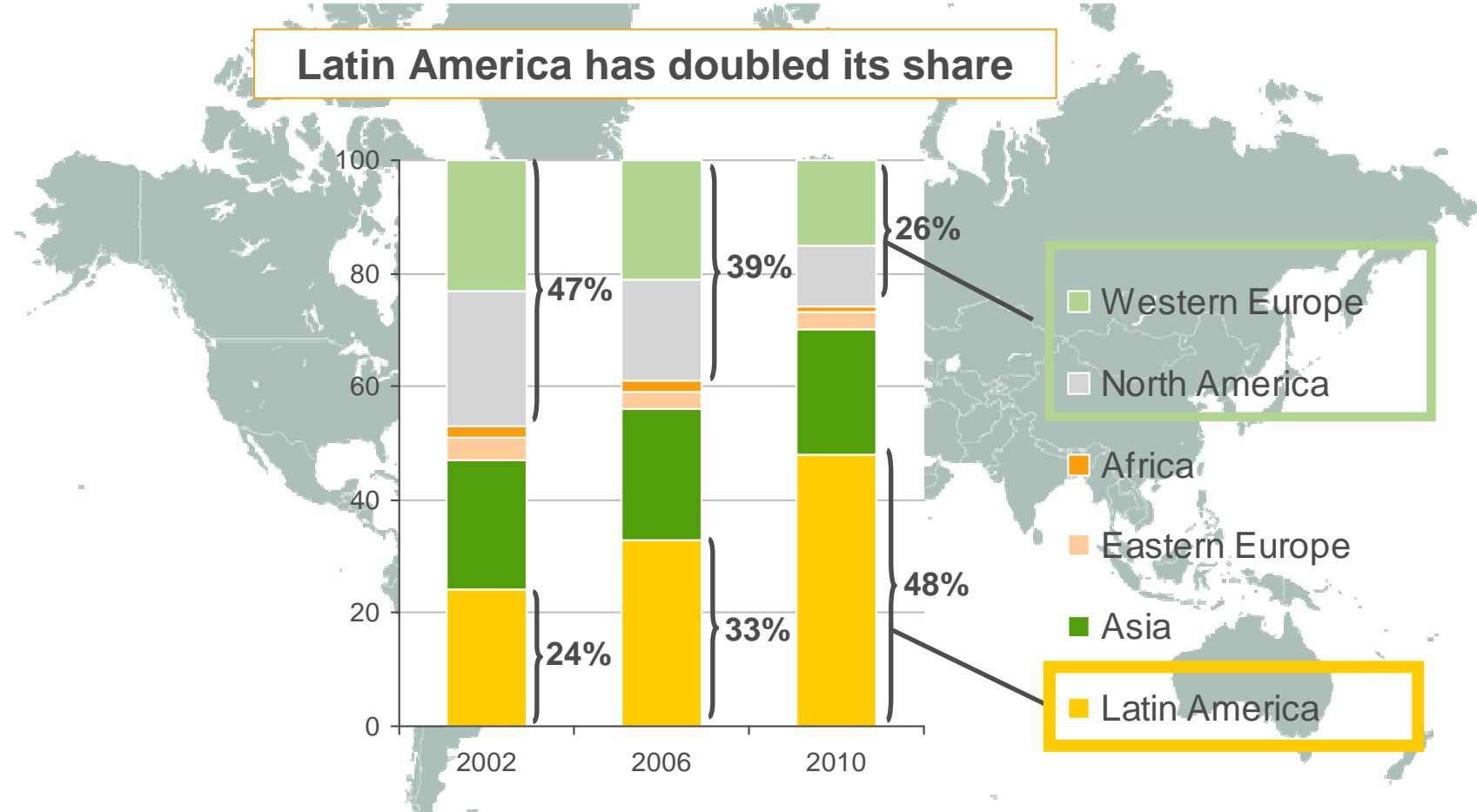
UPM

UPM's valuable asset base

- **Forests** 1.2 million ha
 - one million hectares in Northern hemisphere
 - 180,000 hectares of own land in Uruguay
- **Pulp mills** 3.3 million tons
 - Fray Bentos – one of the most competitive pulp mills in the world
 - three modern well invested mills in Finland
- **Power plants (stand-alone)** 1.6 GW
 - hydropower, nuclear power
 - in addition, 29% of the new nuclear power plant under construction in Finland
- **UPM Raflatac**
 - global #2 producer of self-adhesive label materials with recently completed growth investments
- **Plywood mills** 1.1 million m³
- **Modern paper mills** 11.5 million tons
 - including 900,000 tons in China
 - integrated biofuel-based CHP power plants (1.2 GW)

Plantations are cost-competitive fiber sources

Latin America has doubled its share



Distribution of global Bleached Hardwood Market Kraft Pulp (BHKP) capacity