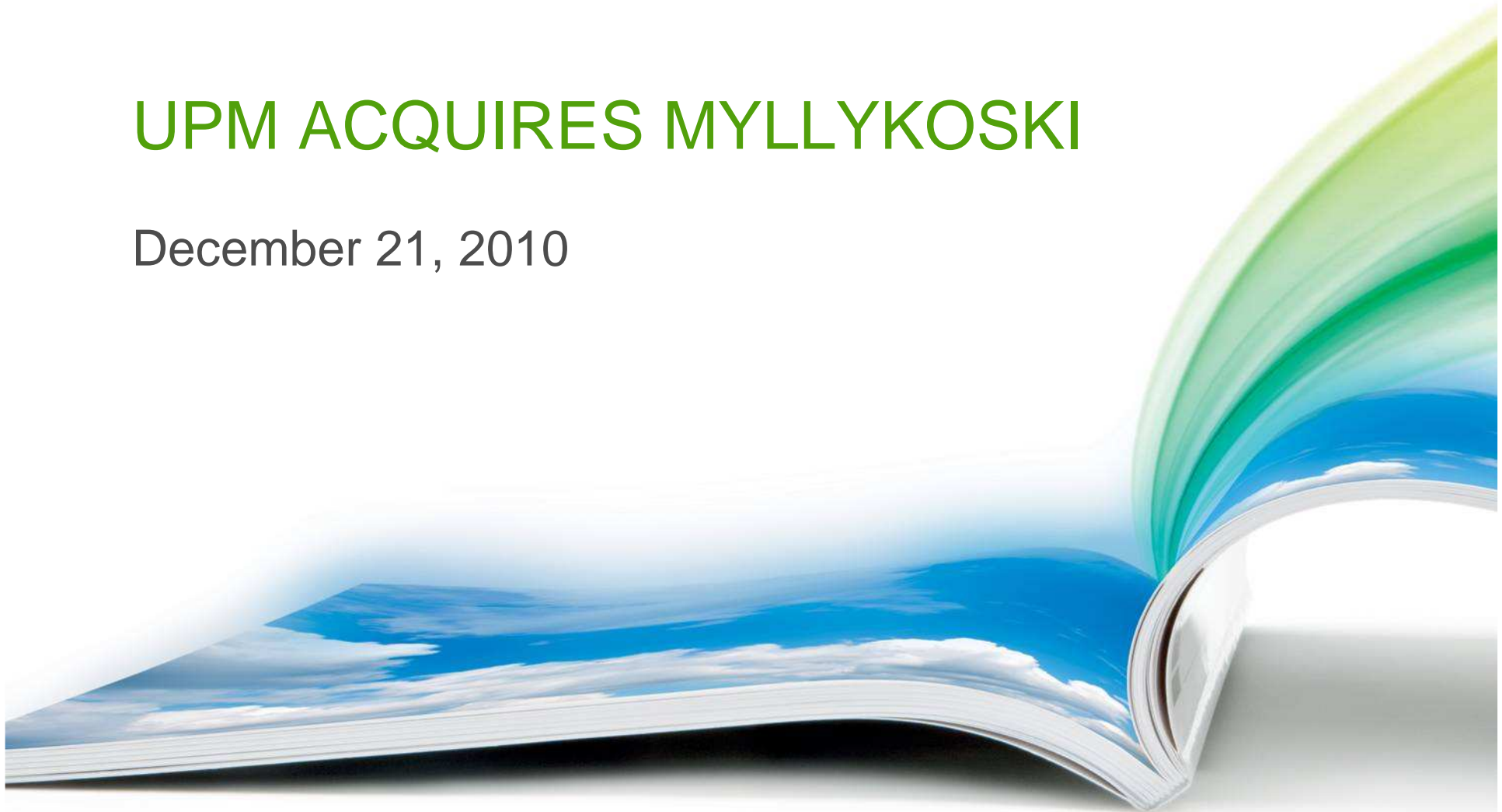


# UPM ACQUIRES MYLLYKOSKI

December 21, 2010



## Contents

- Description of the transaction
- Strategic rationale
- Myllykoski – acquired operations
- Combined operations
- Financial impact and financing the transaction
- Summary



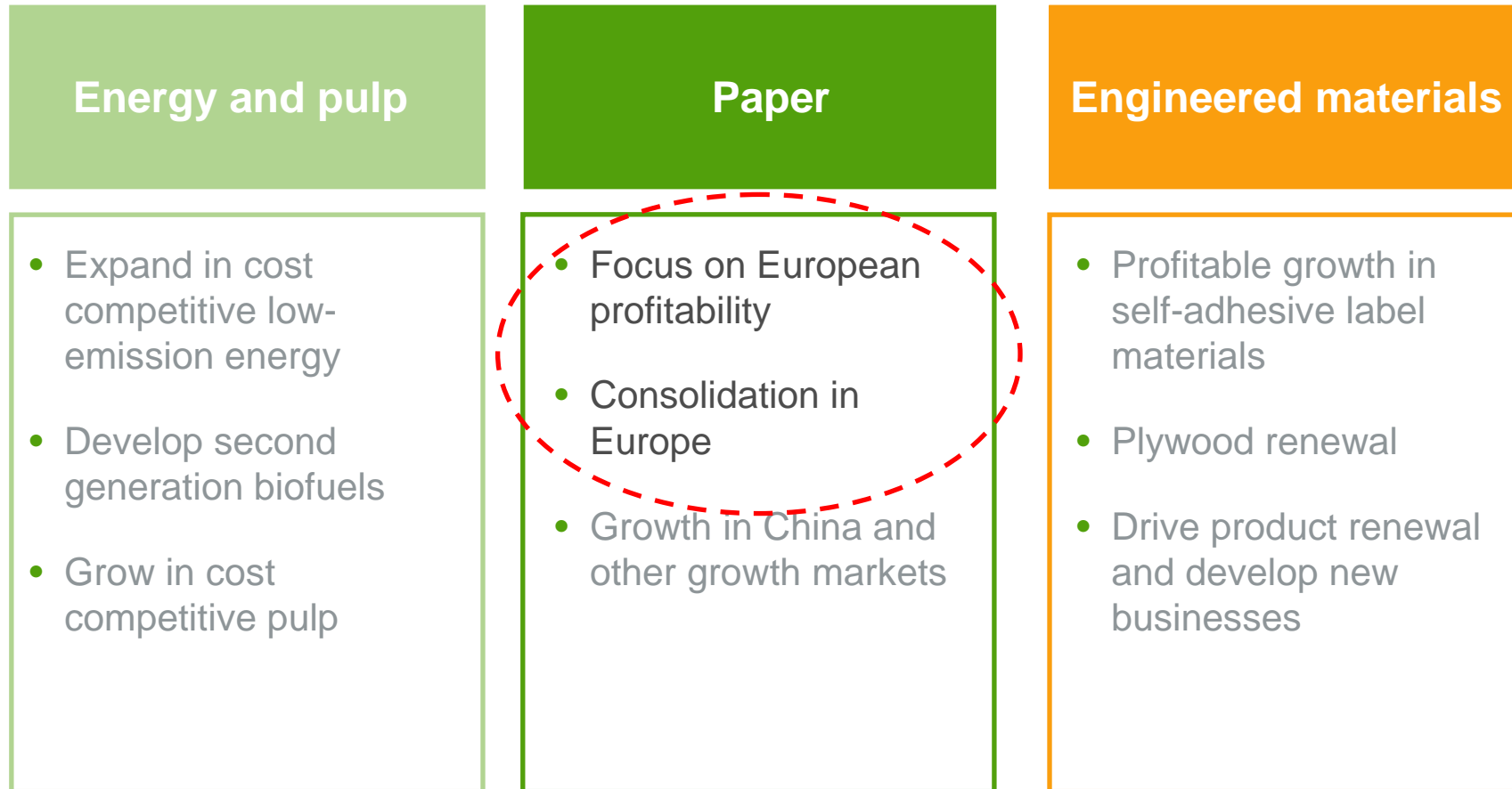
## UPM acquires Myllykoski

- UPM has signed an agreement to acquire Myllykoski, consisting of Myllykoski Corporation and Rhein Papier GmbH
  - seven paper mills in Germany, Finland and the US, with total publication paper capacity of 2.8 million tons
  - 0.8% stake in Pohjolan Voima Oy (PVO), with a value of EUR 70 million
- Enterprise value EUR 900 million
- Financing
  - UPM issues 5 million shares (current market value EUR 60 million)
  - UPM raises bank loans of EUR 800m
- Main rationale is to improve profitability and cost efficiency in UPM European paper business
- The agreement subject to customary closing conditions, incl. approvals from competition authorities – expected to close by the end of Q2 2011

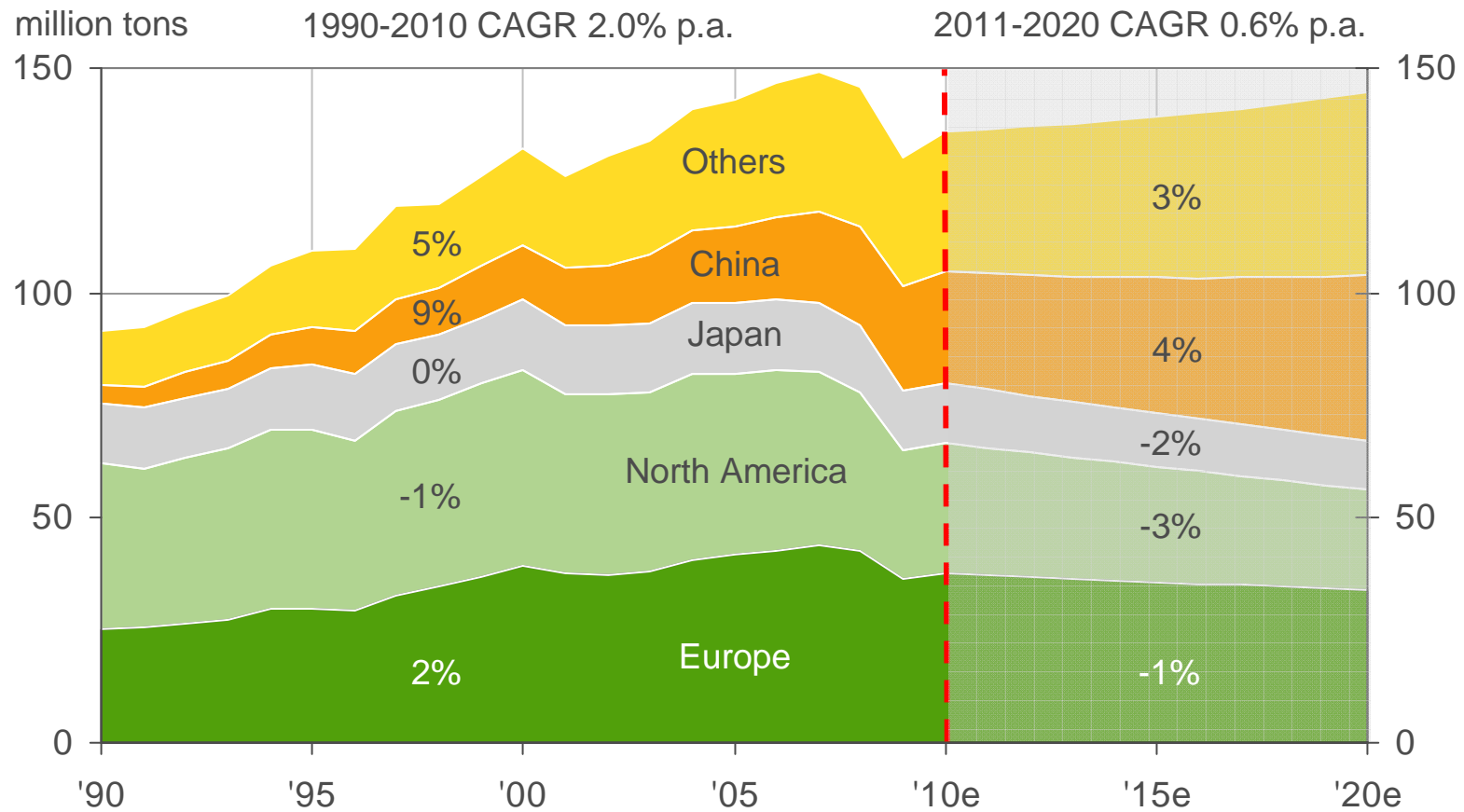


# STRATEGIC RATIONALE

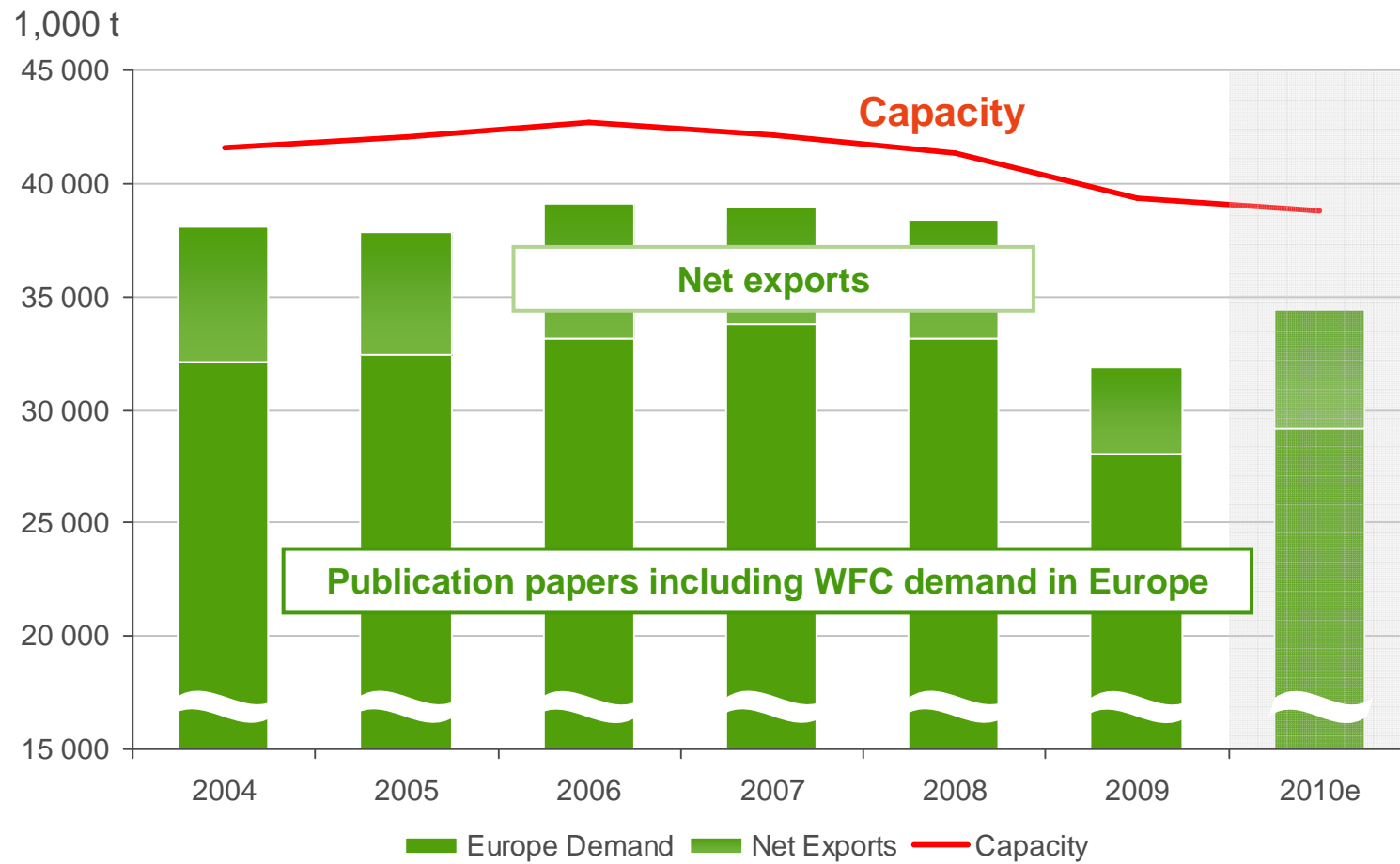
# Strategic priority – improve profitability in UPM's European paper business



# Graphic papers demand is declining in mature markets – globally shifting to growth markets



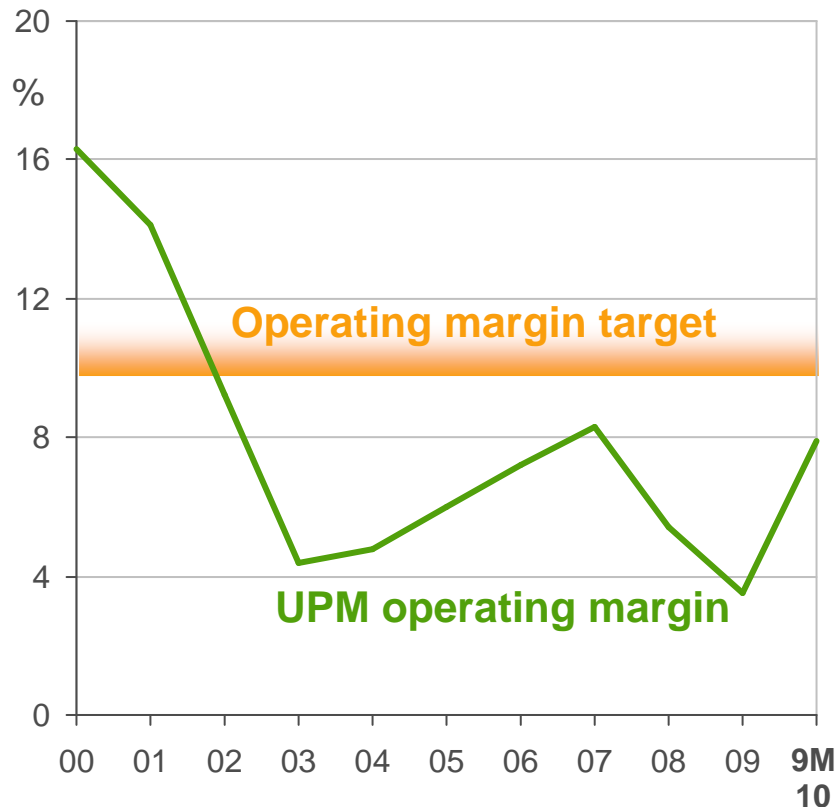
# There is structural overcapacity in the European graphic paper market





# Profitability has remained unsatisfactory, despite past restructuring actions

Operating profit excluding special items



In the past 5 years, Paper BG has:

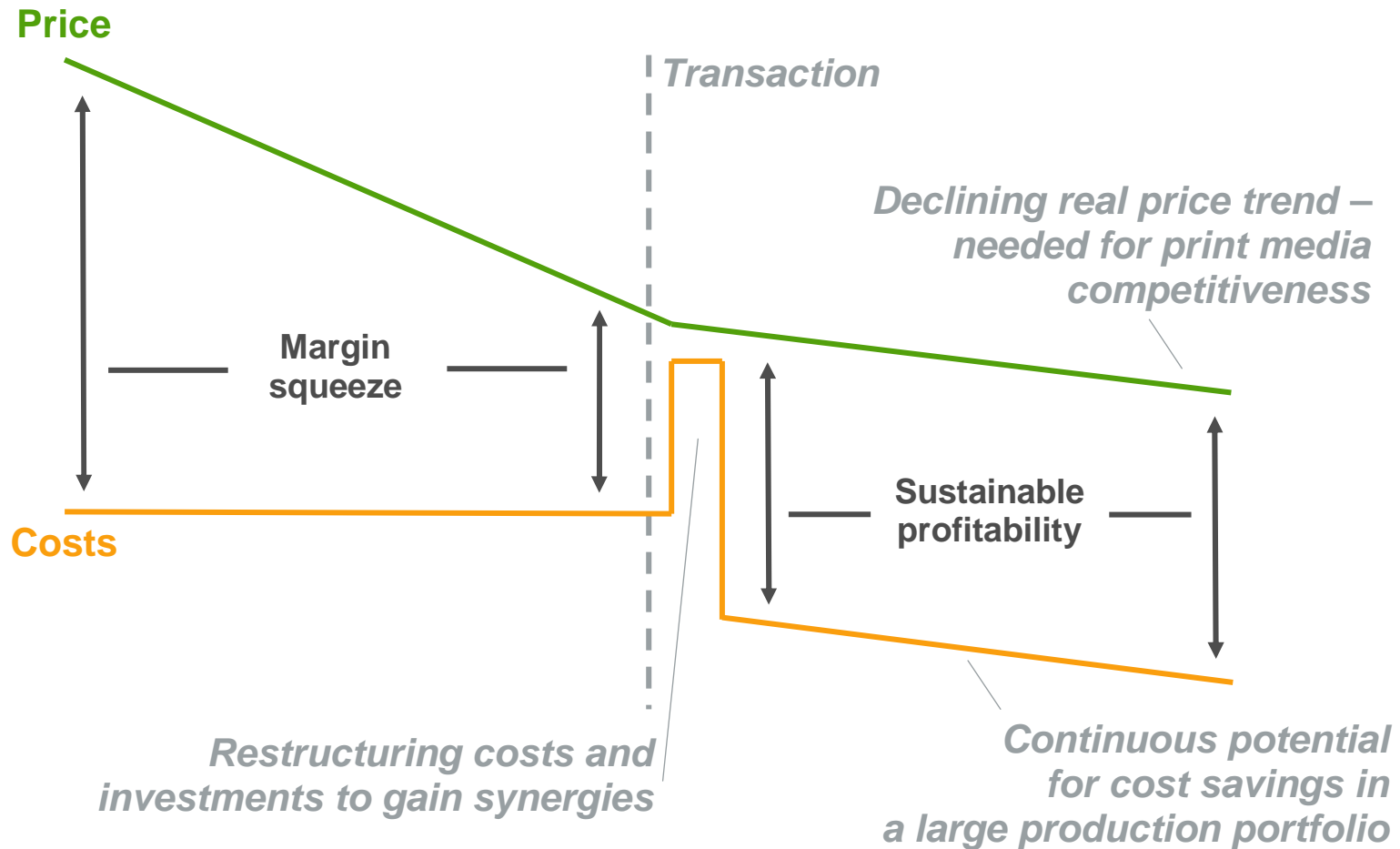
- closed 1.8mt (14%) of paper capacity
- improved productivity by 28% (capacity per employee)
- reduced fixed costs

**Consolidation is prerequisite for further cost savings**

- Cost synergies
- Optimal capacity actions



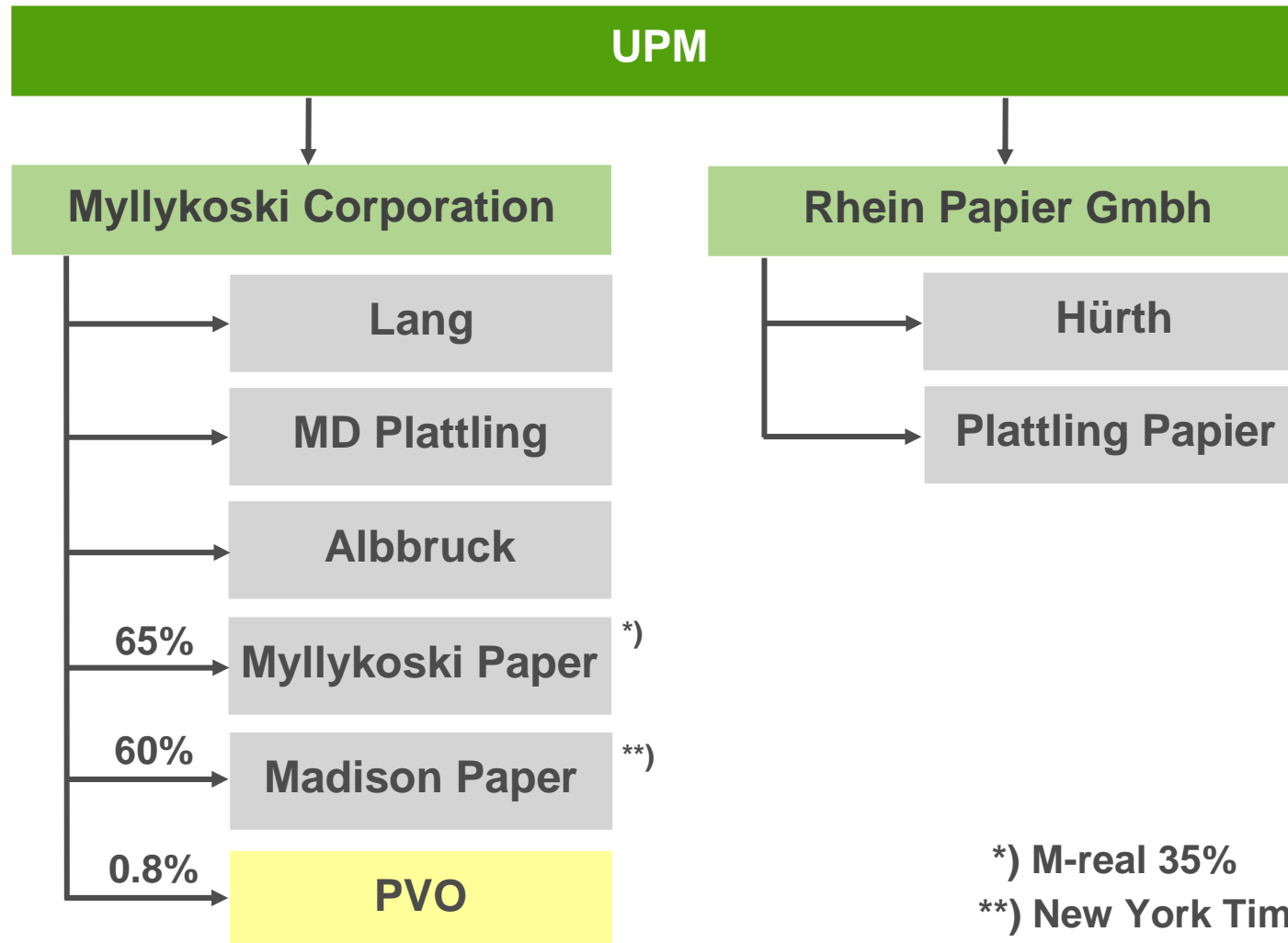
# Consolidation objectives: sustainable profitability combined with print media competitiveness



# MYLLYKOSKI – ACQUIRED OPERATIONS



# Myllykoski – operations to be acquired



\*) M-real 35%  
\*\*) New York Times 40%



## Paper operations to be acquired

Mills	Grade	Cap. 1,000 t	Personnel Q3/2010
Mylykoski 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
Hürth (RP)	News	310	102
<b>TOTAL</b>		<b>2,830</b>	<b>2,600 *)</b>



Invested recently over EUR 700m on new capacity

- Plattling PM 1 (2007); 380,000 t/a of SC paper
- Hürth (2002); 310,000 t/a of newsprint

## Mylykoski pro forma financials

### Mylykoski Corporation and Rhein Papier GmbH

(EUR million)	2009	Q1-Q3 2010
Sales	1,571	1,056
EBITDA (excl. special items)	187	47
EBITDA margin (excl. special items)	11.9%	4.5%
Operating profit (excl. special items)	48	-50
Paper deliveries (1,000 tons)	2,505	1,841

# COMBINED OPERATIONS



# UPM – Myllykoski Combined paper capacities (\*)

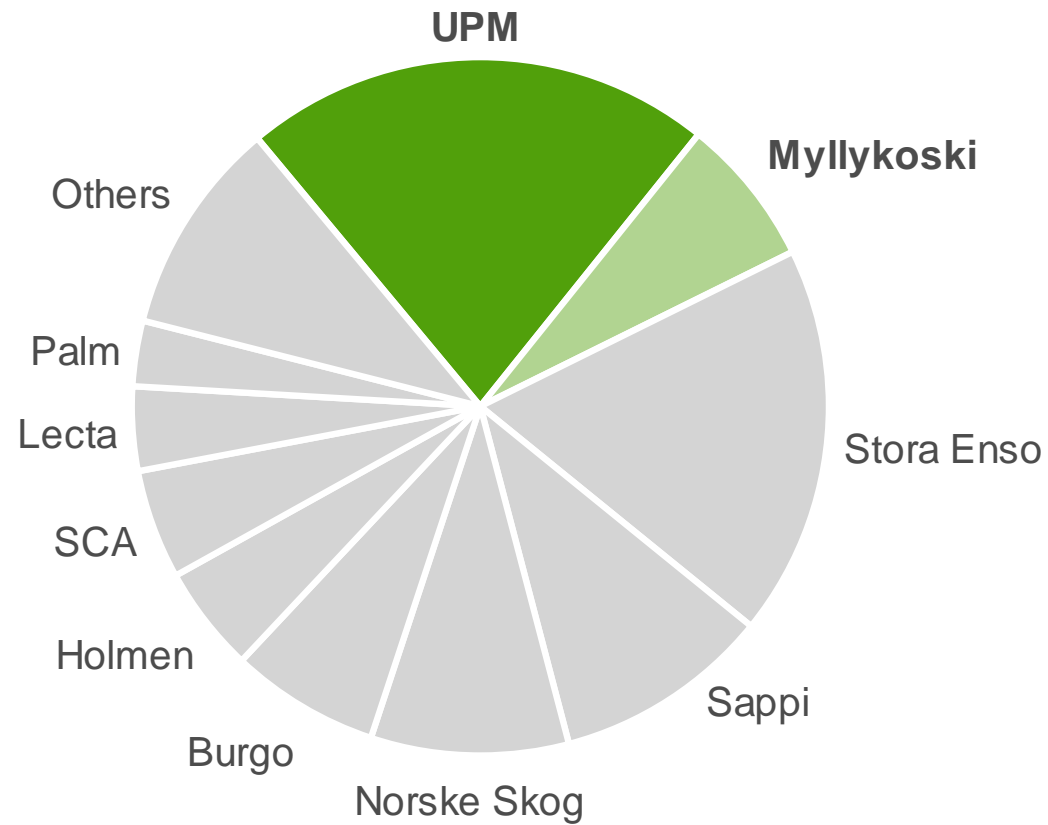
Grade	Capacity 1,000 t
<b>Magazine papers</b>	<b>7,160</b>
<i>UPM</i>	4,750
<i>Myllykoski</i>	2,410
<b>Newsprint</b>	<b>2,880</b>
<i>UPM</i>	2,410
<i>Myllykoski</i>	420
<b>Fine papers</b>	<b>3,415</b>
<b>Speciality papers</b>	<b>850</b>
<b>Total capacity</b>	<b>14,305</b>





# In Europe, capacity share increases by 7 percentage points to 29% (\*)

## PUBLICATION PAPERS INCLUDING WFC CAPACITY



\*) subject to closing of the transaction

## Better response to customer requirements and end-use developments

### Central Europe

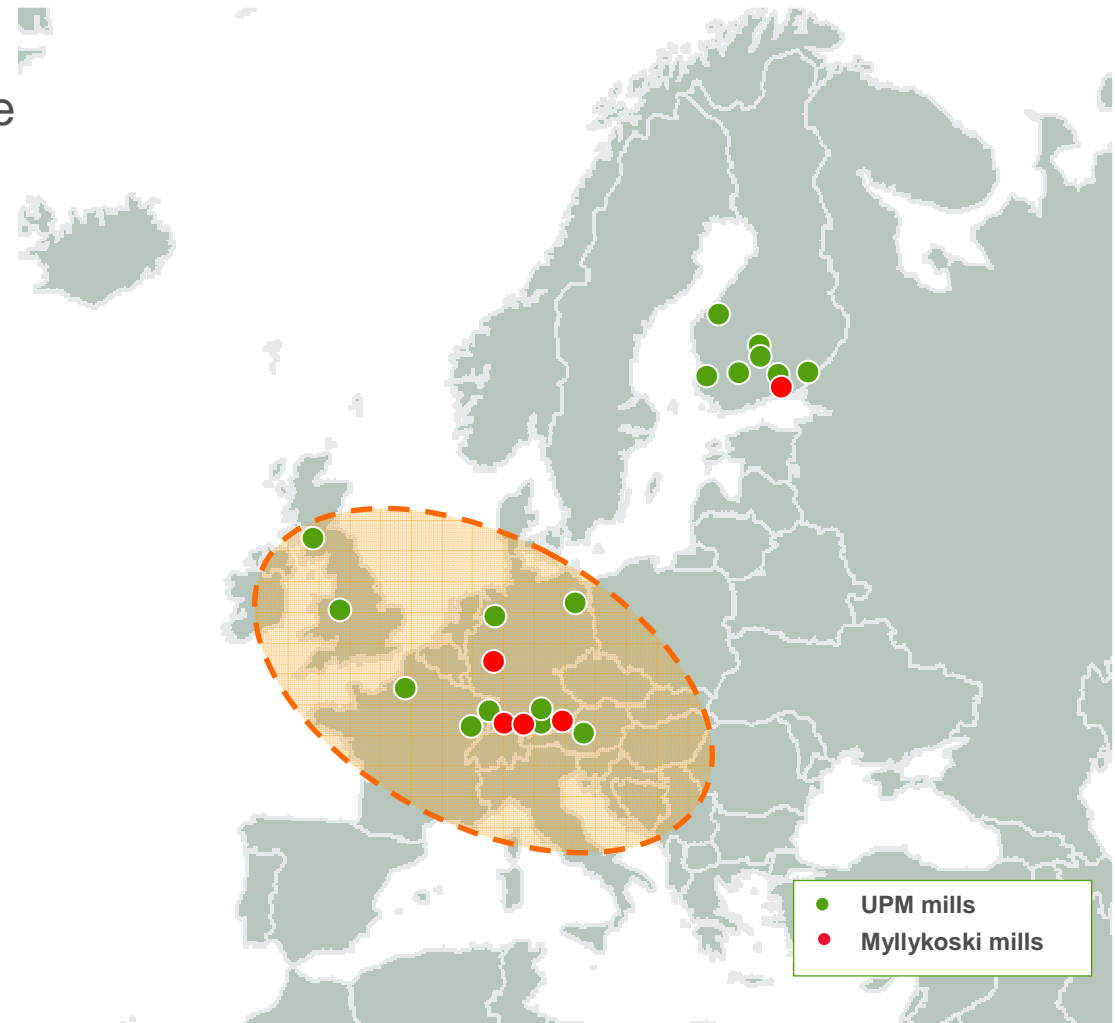
- Improved local presence in the heart of European markets
- Better response to various end-uses

### Finland

- Modern and cost competitive paper capacity
- Optimal product portfolio for export markets

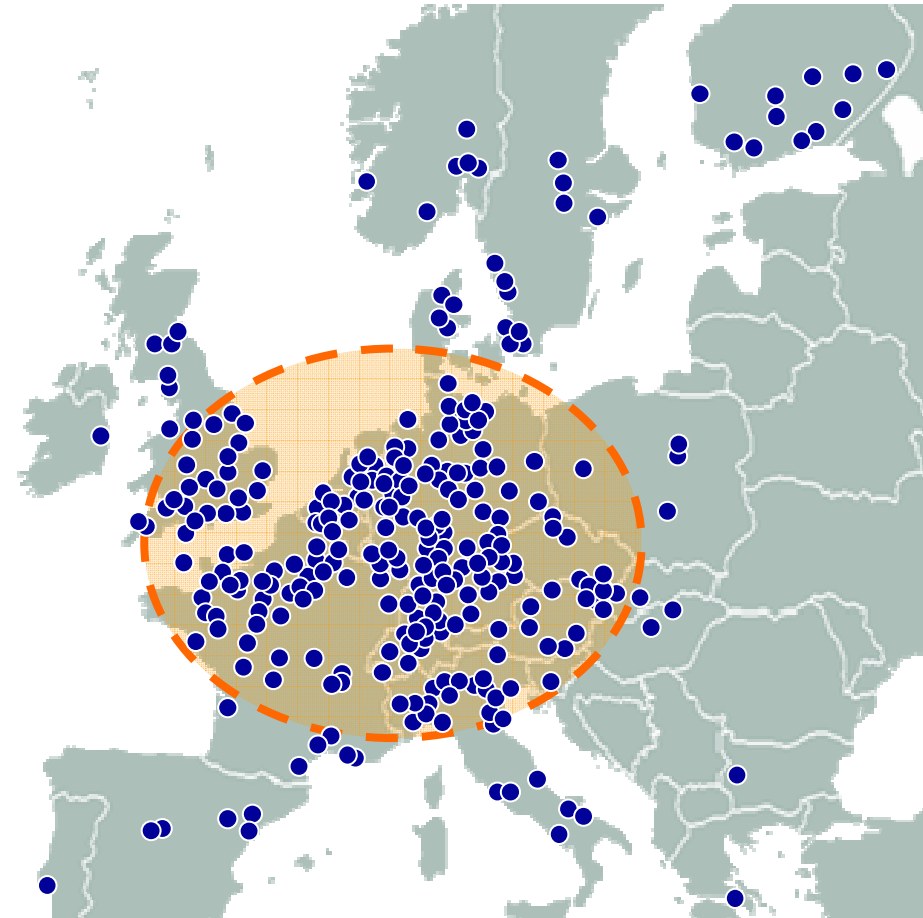
### North America

- Local SC production
- Broad product range



## Improved presence close to large customers in Central Europe

- Local supplier for over 80% of European printing capacity
- Improved flexibility to serve central European customers
- Complementing product range and manufacturing assets



● Printing plant (offset or rotogravure)

# FINANCIALS



## Summary of the financial impacts

### Earnings impact

- Estimated annual synergies over EUR 100 million – materialising from 2012
- Cash flow enhancing immediately after closing
- Earnings per share enhancing in 2012

### Other

- UPM will book a one-off gain of approximately EUR 300 million
- Estimated restructuring costs and investments total EUR 100-150m

### Balance sheet impact

- Net debt increases by approximately EUR 800 million
- Gearing estimated to increase by 8 percentage points
- Group's assets increase by about EUR 1.6 billion

## Valuation

- Myllykoski enterprise value EUR 900 million
  - Paper operations: EUR 830 million
  - PVO shares: EUR 70 million
  - Latest twelve month EBITDA multiple reflects the extraordinarily poor profitability in the paper making sector in 2010

	2009	LTM Sept/2010
Paper EV / capacity	EUR 293 / t	EUR 293 / t
EV / Sales	0.6x	0.6x
EV / EBITDA	4.8x	11.7x

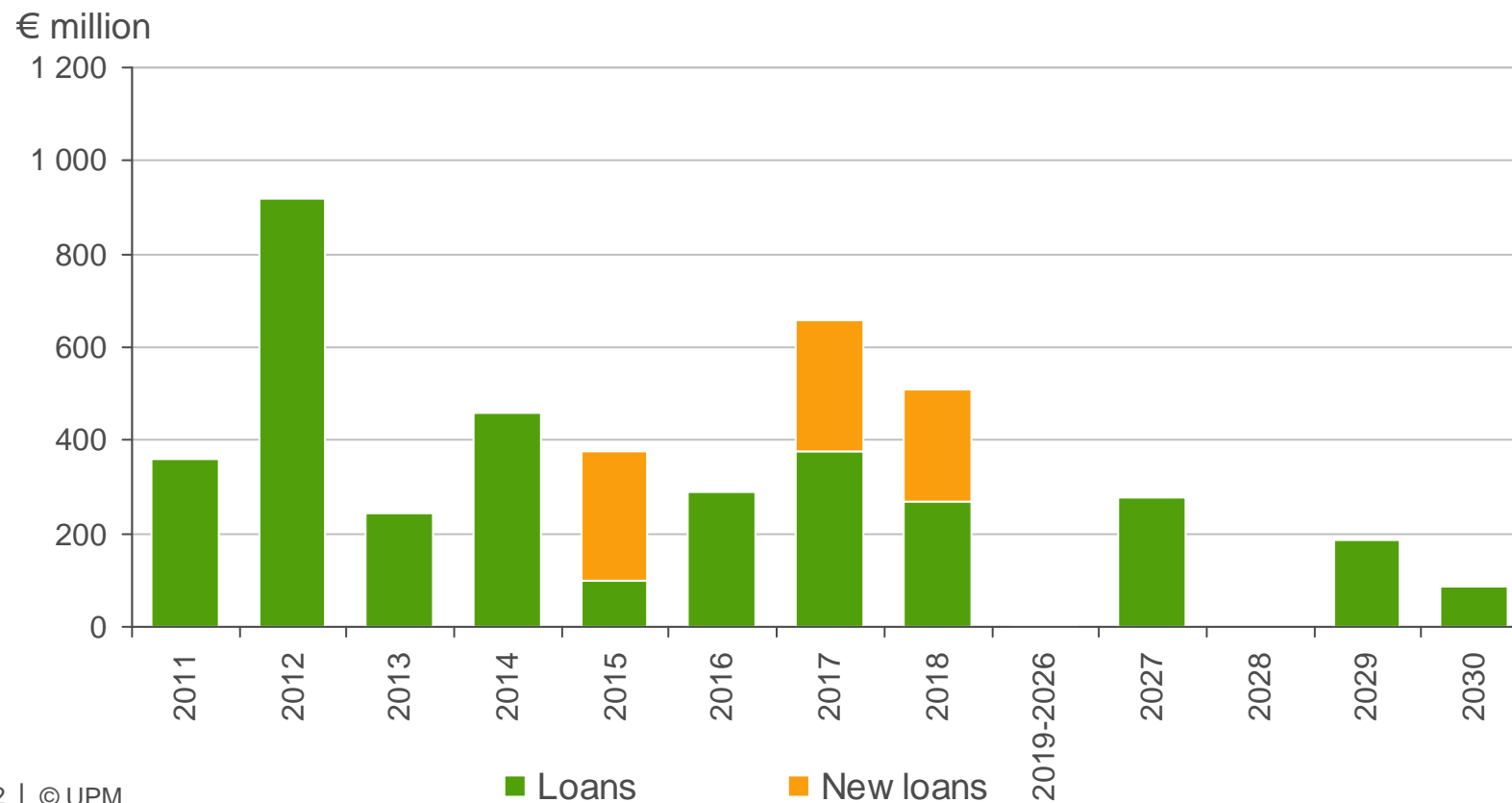
All figures excluding special items

Latest twelve months (LTM) until September 2010:  
sales EUR 1,438 million, EBITDA EUR 77 million



## Maturity profile including agreed financing

- UPM raises bank loans of EUR 800m
  - Average maturity over 5 years





## Next steps

### UPM priorities for 2011-2012

- Integration of Myllykoski and realisation of the synergies
- Debt reduction
- Prepare for the growth investments



## Summary – UPM acquires Myllykoski

- Acquisition includes 2,8 million tonnes of paper making capacity and 0.8% stake in PVO
- Enterprise value of EUR 900 million, financed with EUR 800 million loans and a directed share issue of 5 million shares
- The transaction is subject to closing conditions. It is estimated to be concluded by the end of Q2 2011
- Improves cash flow immediately and earnings in 2012

### Rationale

- Key step to improve profitability in UPM's European paper business
- As a cost efficient producer UPM is a stable partner for its paper customers
- Improved profitability increases resources towards implementing growth options

## 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.



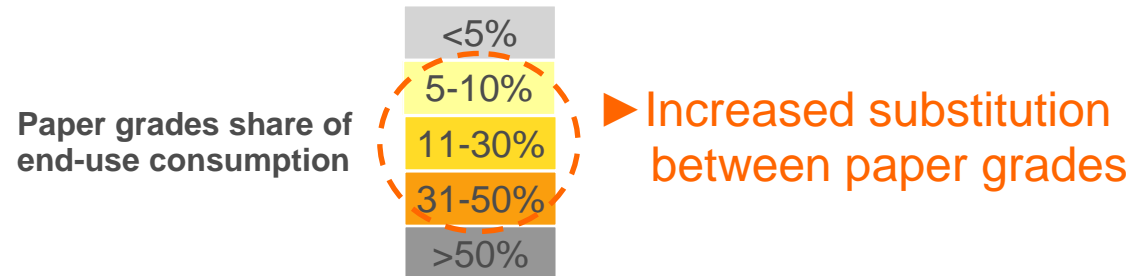
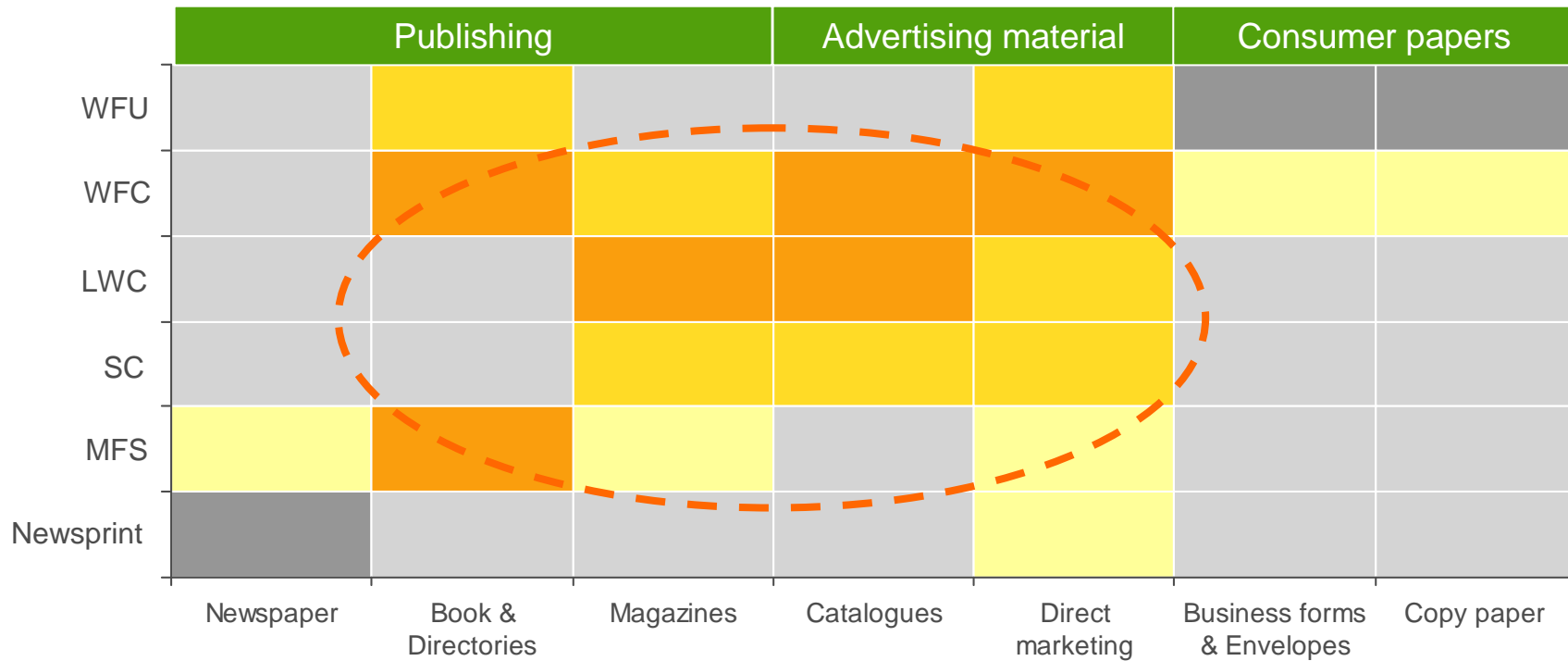
**UPM**

The Biofore  
Company

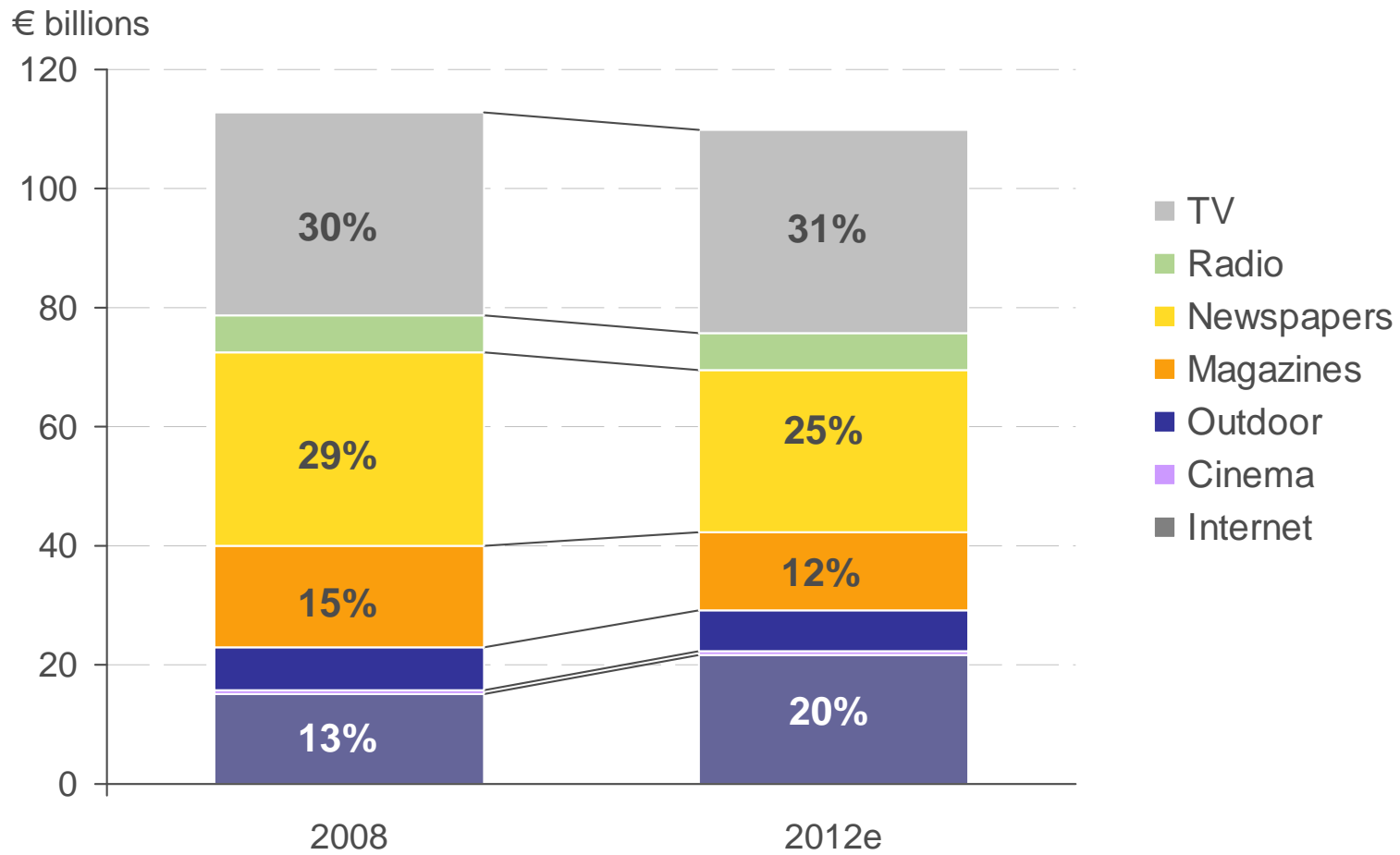
# BACKGROUND



# Print faces substitution from e-media, and end-use development is increasing substitution between paper grades



# Print advertising challenged by internet in Western Europe

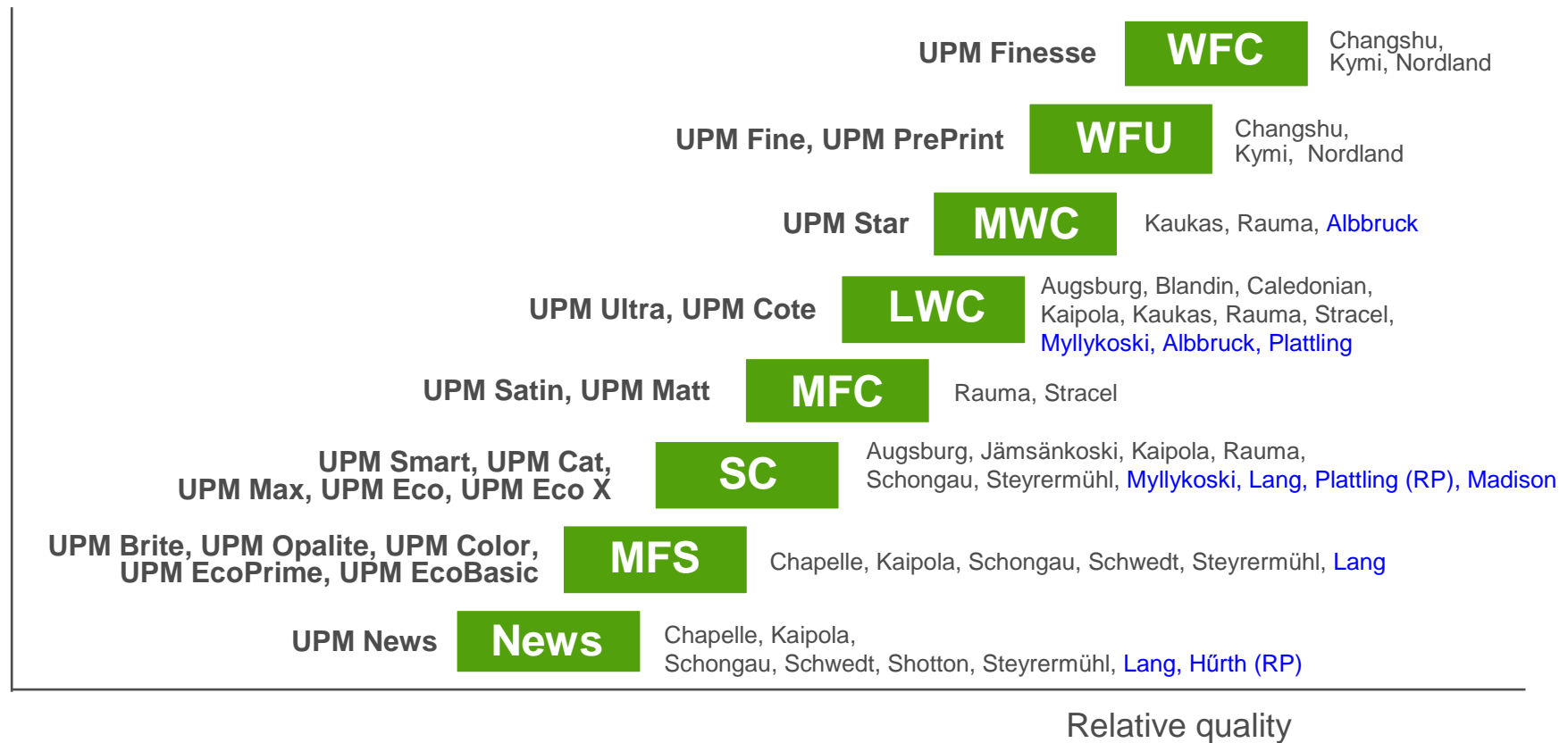




# Myllykoski is complementing UPM's product portfolio (\*)



Relative price



\*) subject to closing of the transaction