The Biofore Company UPM

# UPM FINANCIALS

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# EBITDA improved by 26% in 2010 vs. 2009: Paper weaker, all other businesses improved

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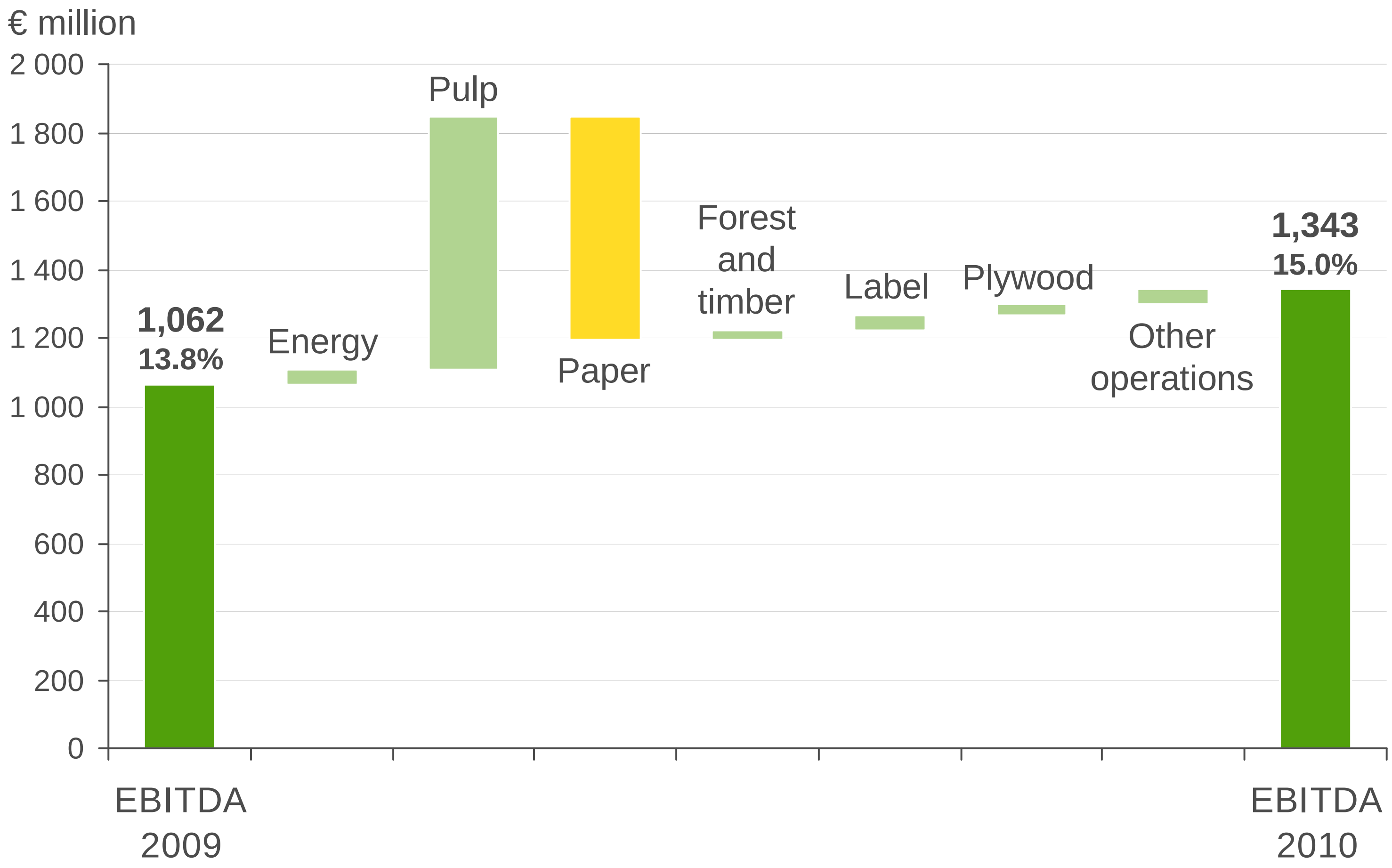


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# Operating leverage – operating profit recovered to the pre-recession level

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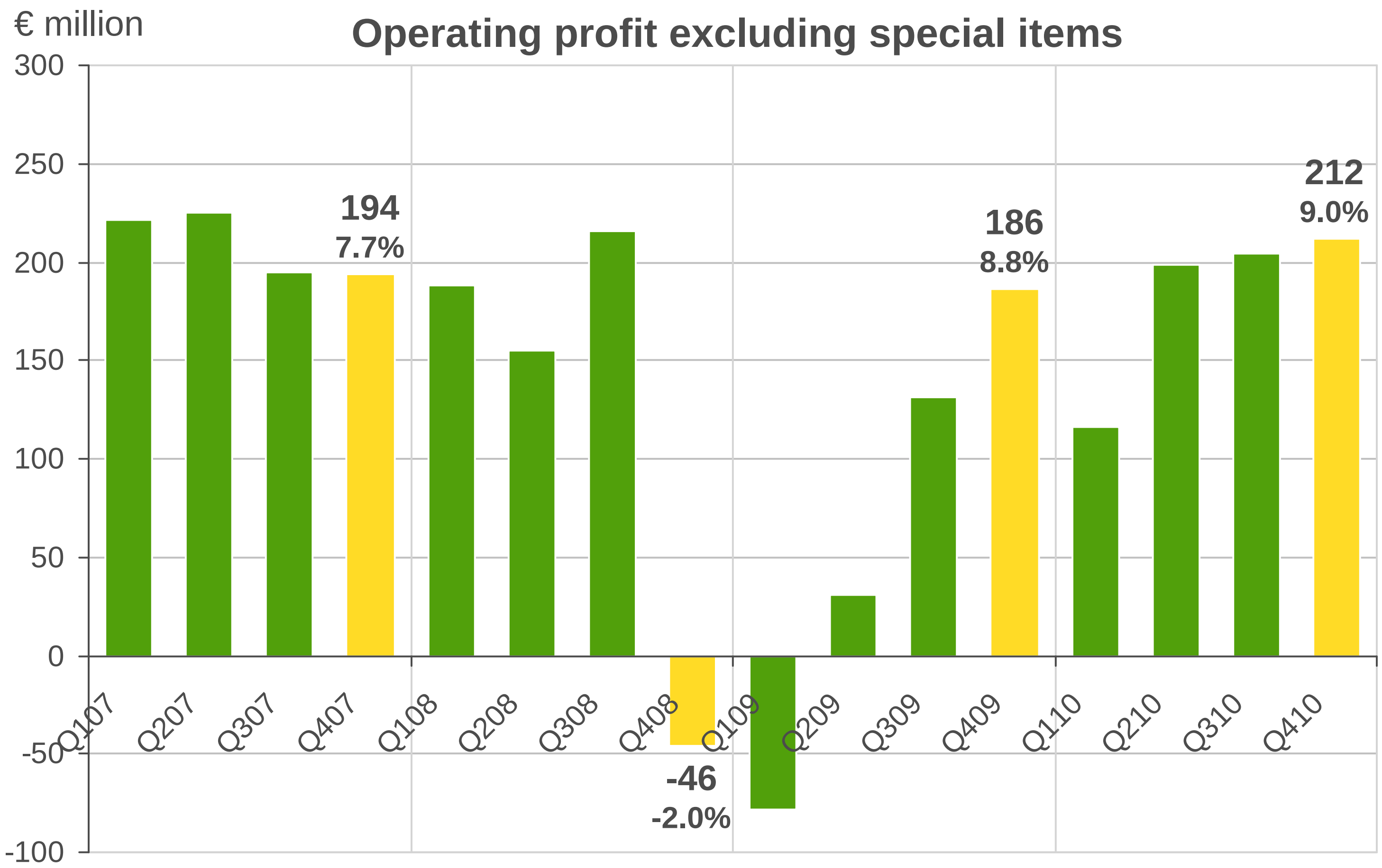


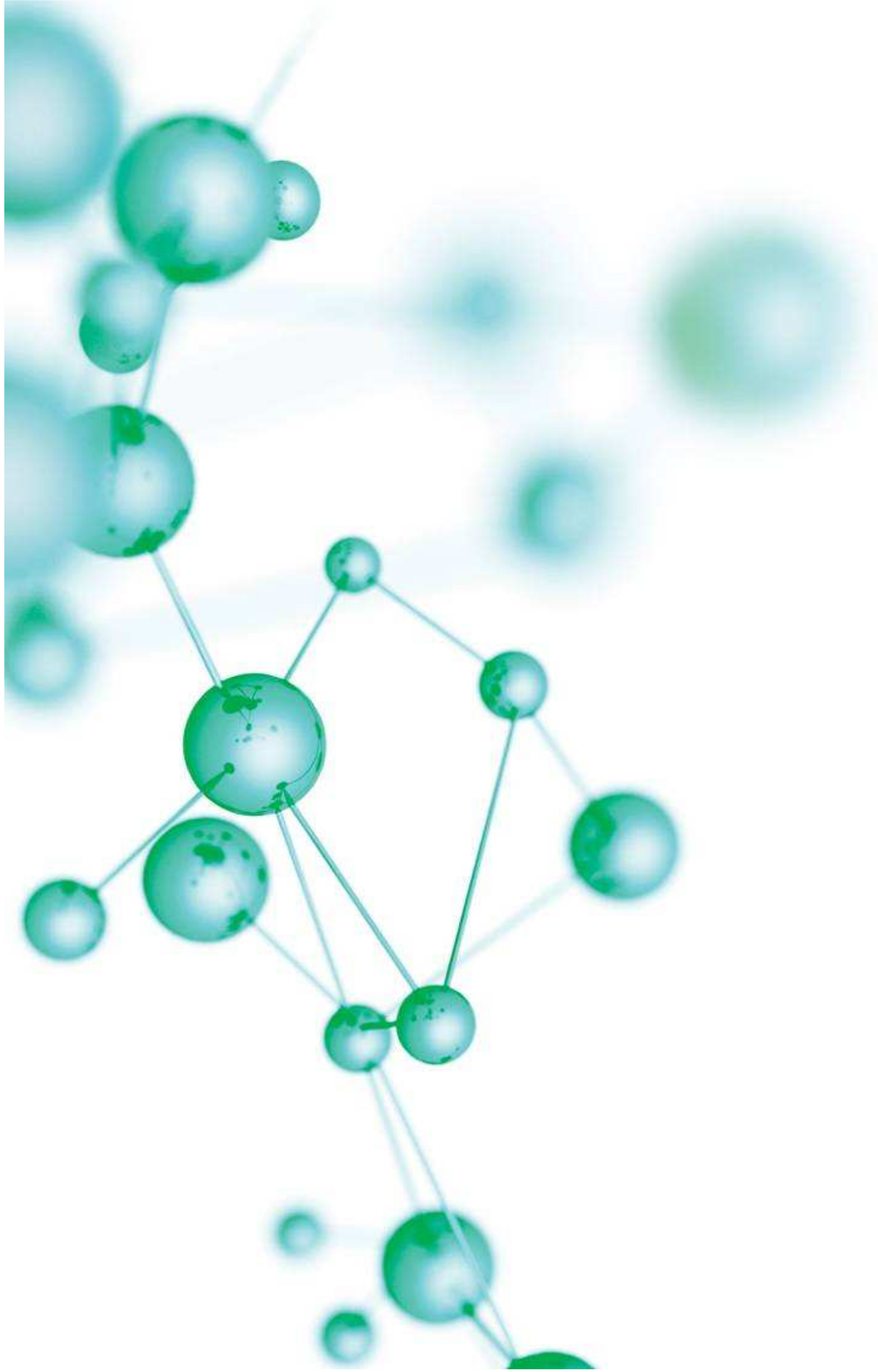
# Outlook for 2011 (*



- 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 | ↑ | ↑ |
| **UPM average** | ↑ | ↑ |

(* See complete wording of the "Outlook" in the Financial Review 2010



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# Cash flow

# Longer perspective – cash flow over a full cycle

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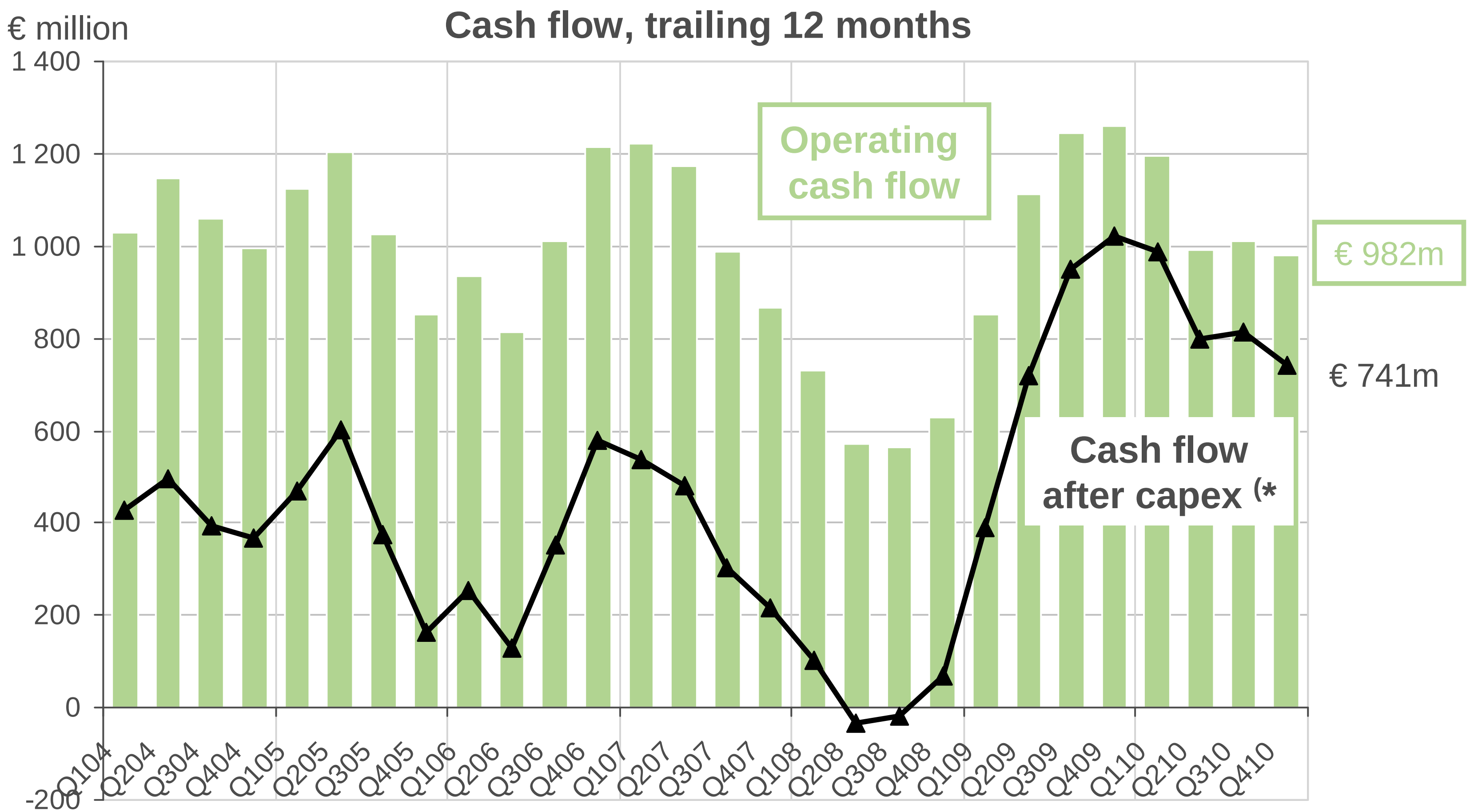


*) excluding acquisitions and divestments

# Modern assets mean low investment needs on existing capacity

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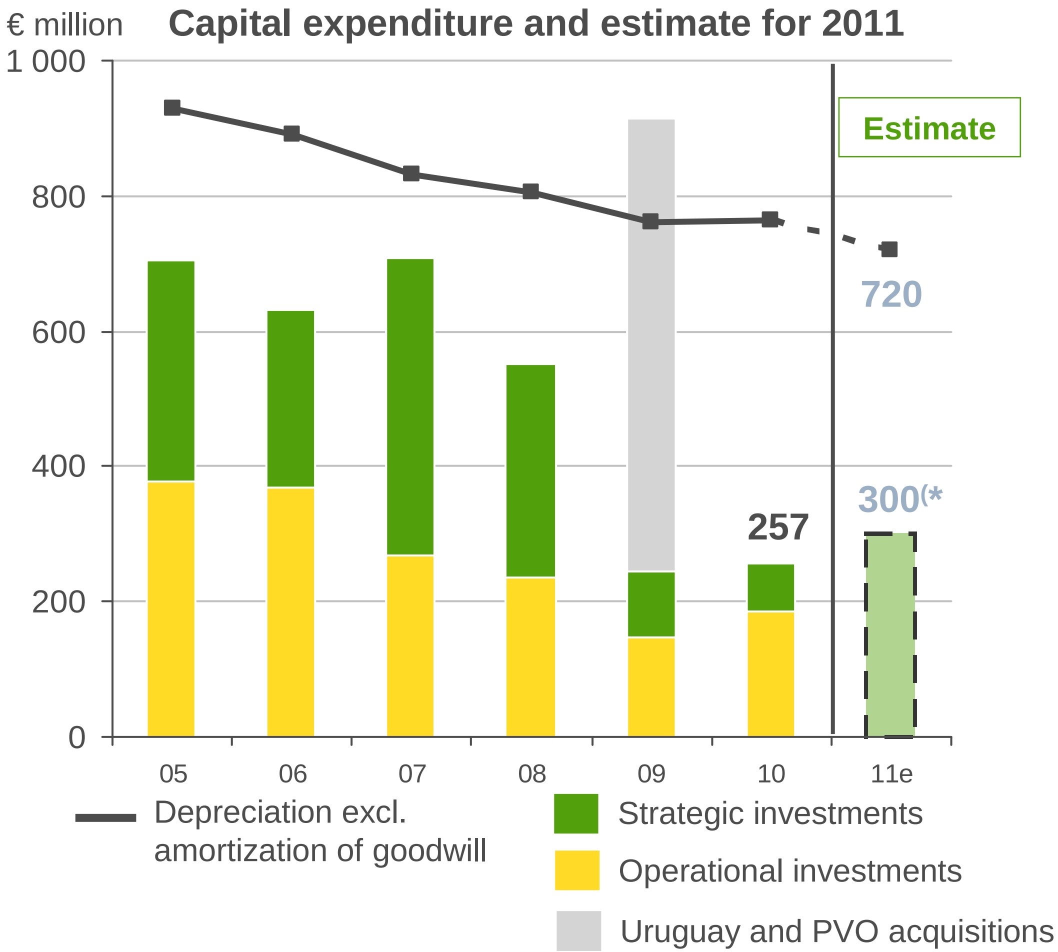


Low operational capex requirements

- Large scale pulp mills and paper machines
- Modern machines require less maintenance than old

Few must-do investments

- No pulp mill rebuilds

UPM capex is discretionary

*) excluding acquisitions

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# Dividend policy linked to cash flow generation

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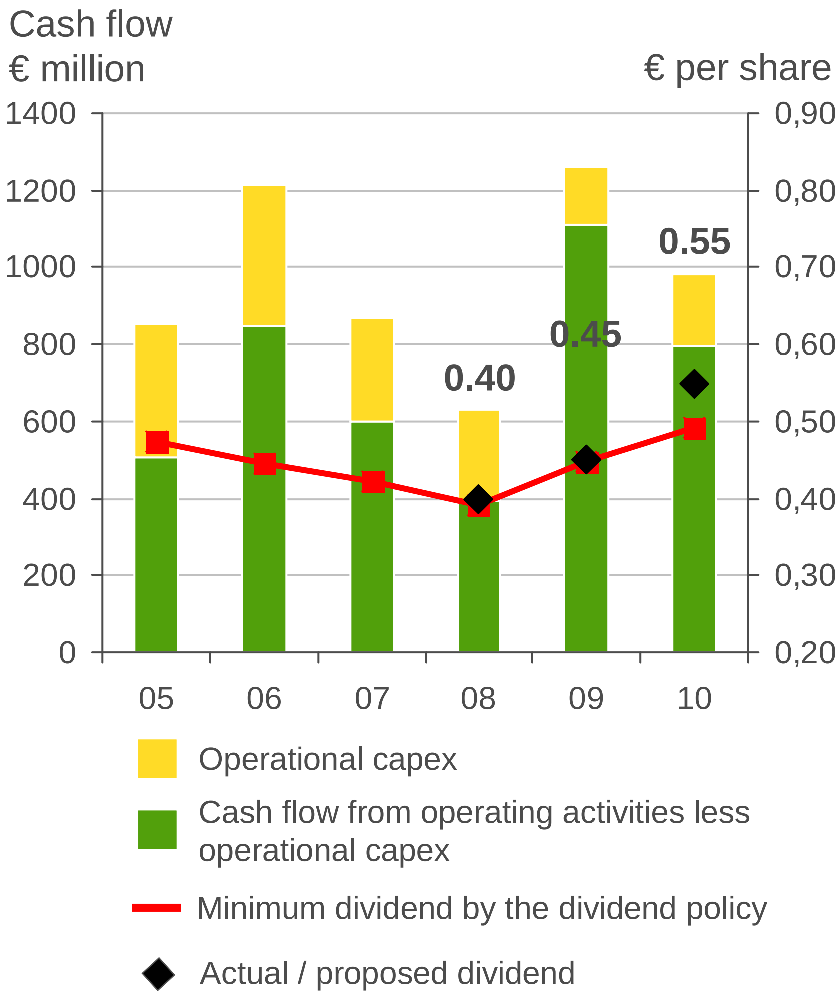


## Dividend policy

- 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

# Balance sheet

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# UPM's asset base provided strong cash flow through the recession

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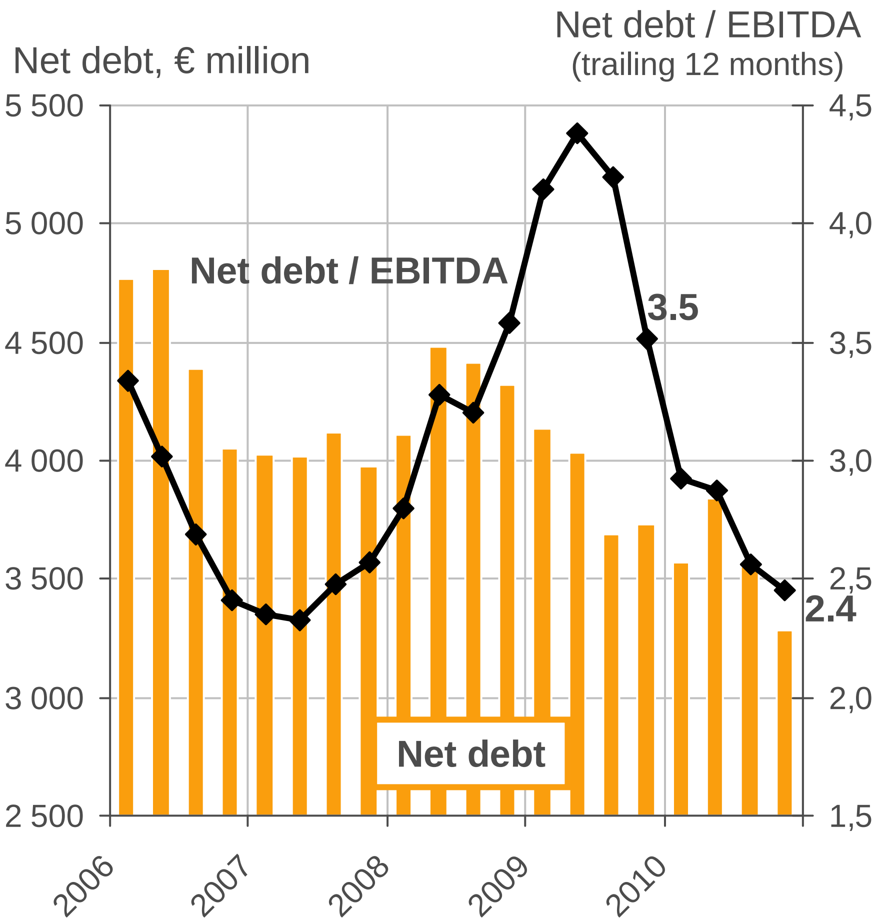


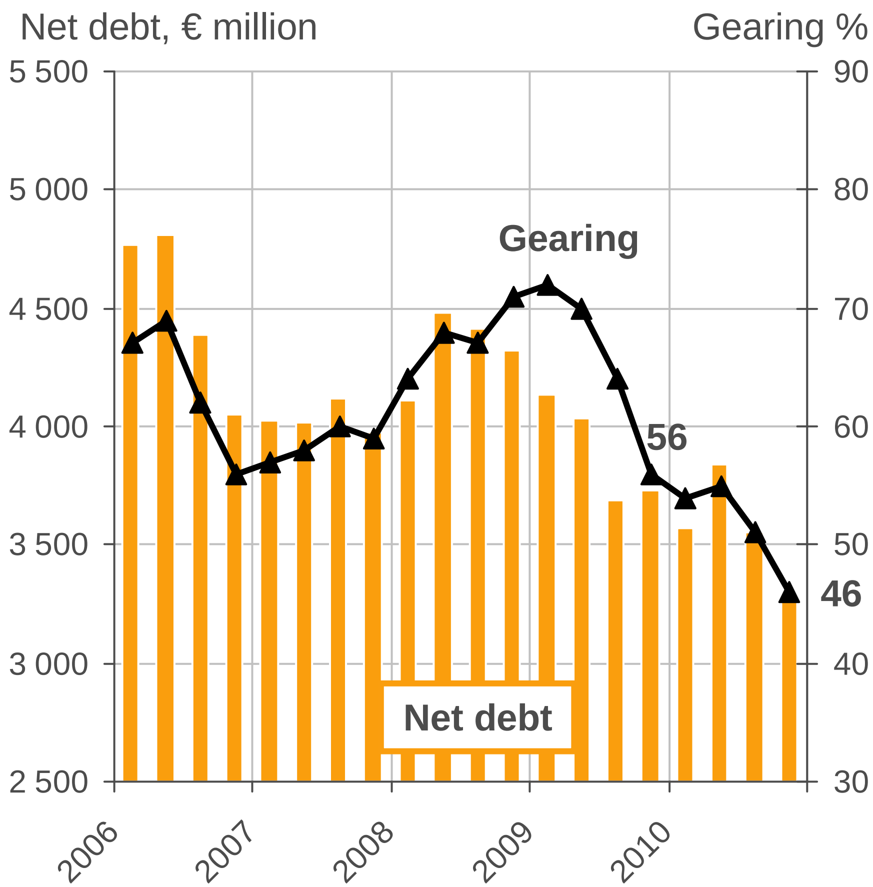

# Maturity profile and liquidity

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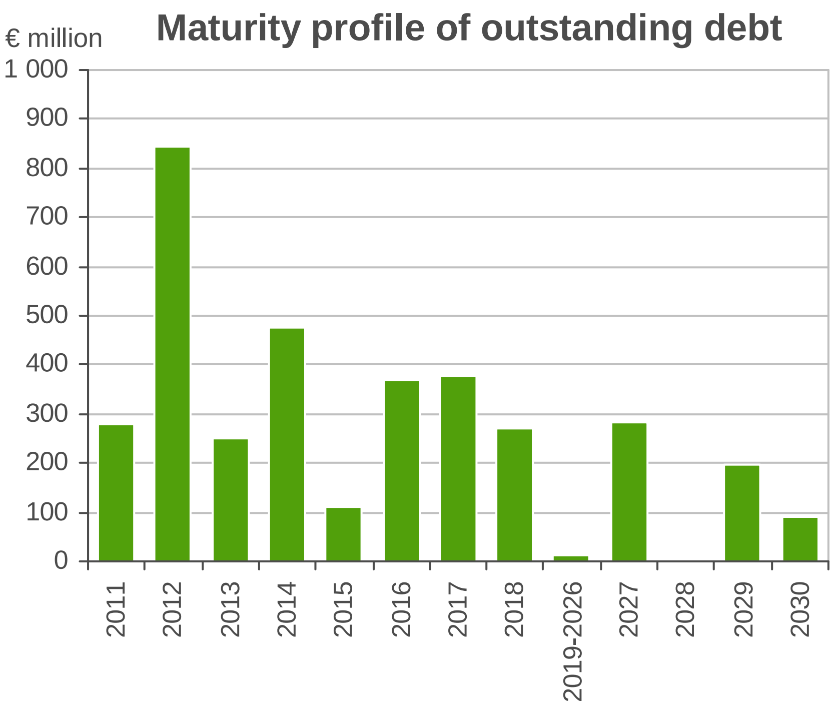
## Liquidity

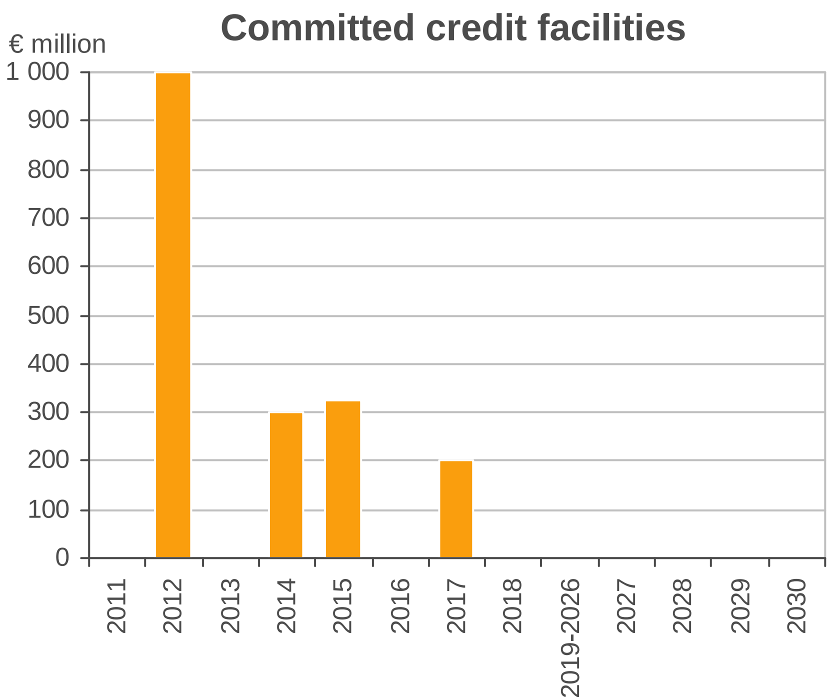
Liquidity on 31 December 2010 was € 2.1bn

- 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



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# UPM business portfolio

# Operating profit evenly distributed – Paper is a major source of cash flow

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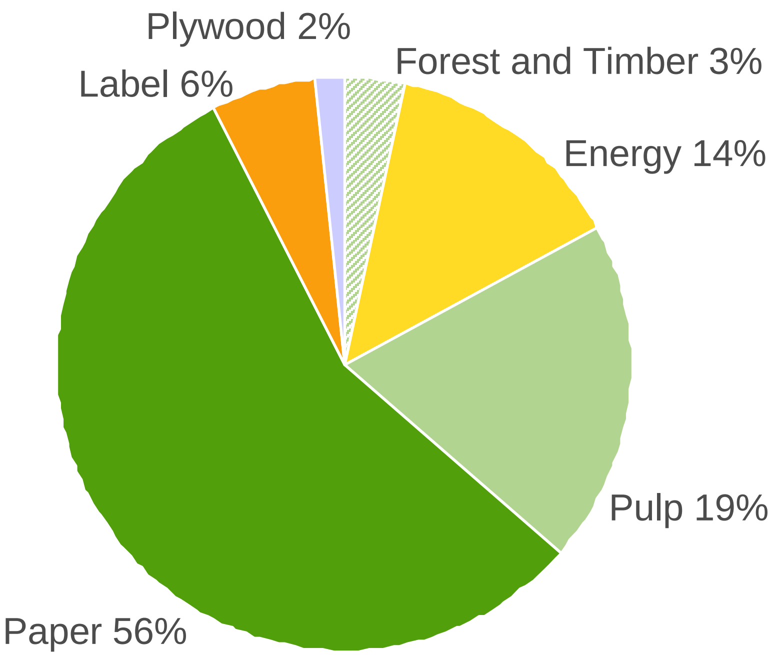
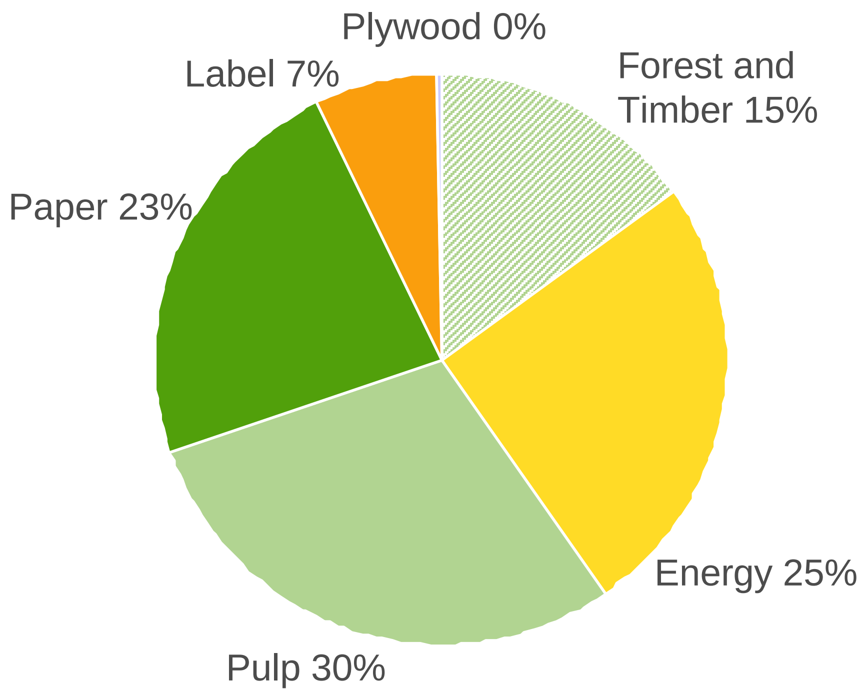
**Cumulative EBITDA 2007-2010**




**Cumulative Operating profit 2007-2010 excluding special items**



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# UPM's valuable asset base

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- Forests and plantations — 1.1 million ha
  - 900,000 hectares in Northern hemisphere
  - 200,000 hectares of own land in Uruguay
- Pulp mills — 3.2 million tons
  - Fray Bentos – one of the most competitive pulp mills in the world
  - three modern well invested mills in Finland
  - 17% of Botnia
- Power plants (stand-alone) — 1.6 GW
  - hydropower, nuclear power
  - in addition, 30% of the new nuclear power plant under construction in Finland
- Modern paper mills — 11.5 million tons
  - including 900,000 tons in China
- UPM Raflatac
  - global #2 producer of self-adhesive label materials with recently completed growth investments
- Plywood mills — 1 million $m^3$

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# UPM's business portfolio and performance over the deep recession

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Uruguay

Growth

Late cyclical

**Average margins and returns over 2007-2010**
**Sales compared with economic peak year 2007**

| | Energy | Pulp | Forest & timber | Paper | Label | Plywood | UPM |
|---|---|---|---|---|---|---|---|
| Sales in 2010, % of 2007 | 150 | 210 | 75 | 86 | 110 | 59 | **89** |
| EBITDA margin % | 40 | 25 | 3 | 11 | 8 | 5 | **14** |
| Operating margin % (* | 35 | 19 | 6 | 2 | 5 | 0 | **6** |
| ROCE % (* | 18 | 11 | 6 | 2 | 10 | 1 | **5** |

Profitability challenge

*) excluding special items

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# Myllykoski acquisition

## Financing and financial impacts

# UPM acquires Myllykoski

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- UPM has signed an agreement to acquire Myllykoski Corporation and Rhein Papier GmbH
- Enterprise value EUR 900 million
- Financing
  - UPM issues 5 million shares
  - UPM raises bank loans of EUR 800m
- The agreement subject to customary closing conditions, incl. approvals from competition authorities – expected to close by the end of Q2 2011
- Main rationale is to improve profitability and cost efficiency in UPM European paper business

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All figures apart from the number of shares are approximates

# Summary of the financial impacts

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## 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

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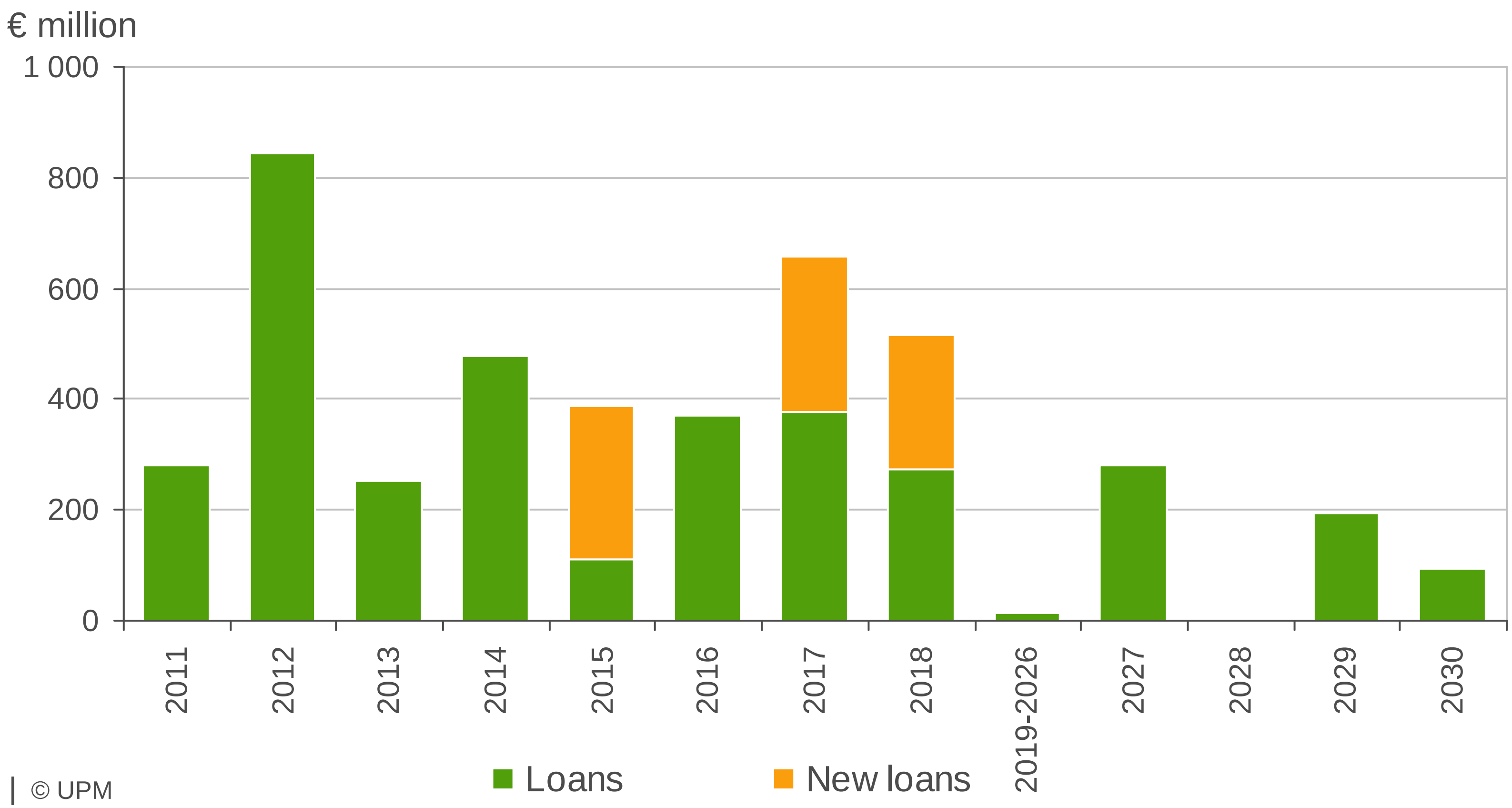
# Maturity profile including agreed financing

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



# Summary

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- 2010 was a year of recovering demand – profitability recovered to pre-recession level
- Stable or improving demand, increasing product prices and moderating cost inflation provide a base for continued profitability improvement in 2011
- UPM has strong and reliable cash flow – investments are discretionary
- UPM strengthened its balance sheet significantly during the recession
- The main rationale of the Myllykoski acquisition is to improve profitability and cost efficiency in UPM's European paper business

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