

UPM

MAGAZINE PAPER ASSET REVIEW

UBS Global Paper and Forest Products Conference

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The Biofore Company **UPM**

FINANCIALS Q2 2011



Solid result despite challenging cost environment

Q2/2011 vs. Q2/2010

Sales

EUR 2,423 m  +9%

EBITDA

EUR 372 m  +5%

Operating profit (*)

EUR 201 m  +1%

EPS (*)

EUR 0.26  -10%

H1/2011 vs. H1/ 2010

EBITDA

EUR 751 m  +110 m

Operating cash flow

EUR 446 m  +135 m

Net debt

EUR 3,162 m  -675 m

Gearing

44%  -11 pp

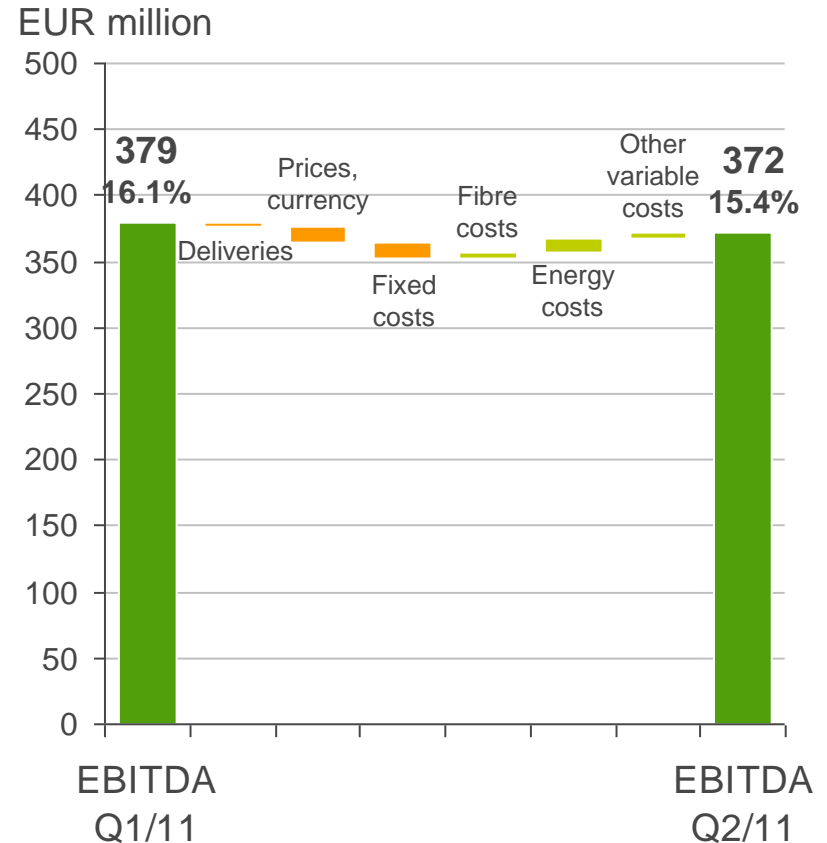
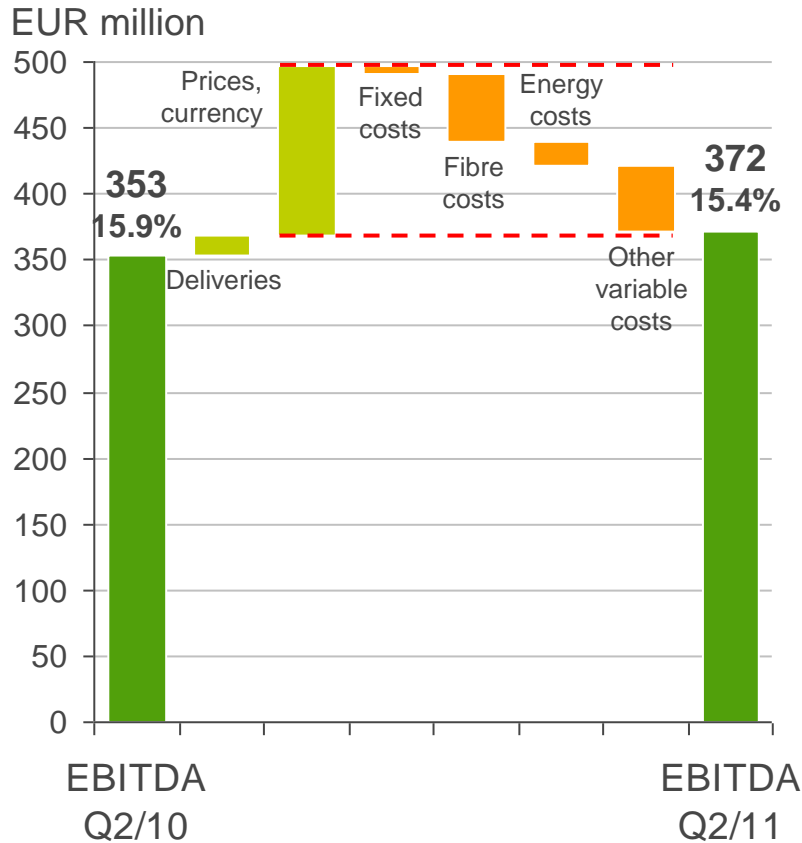
*) excluding special items



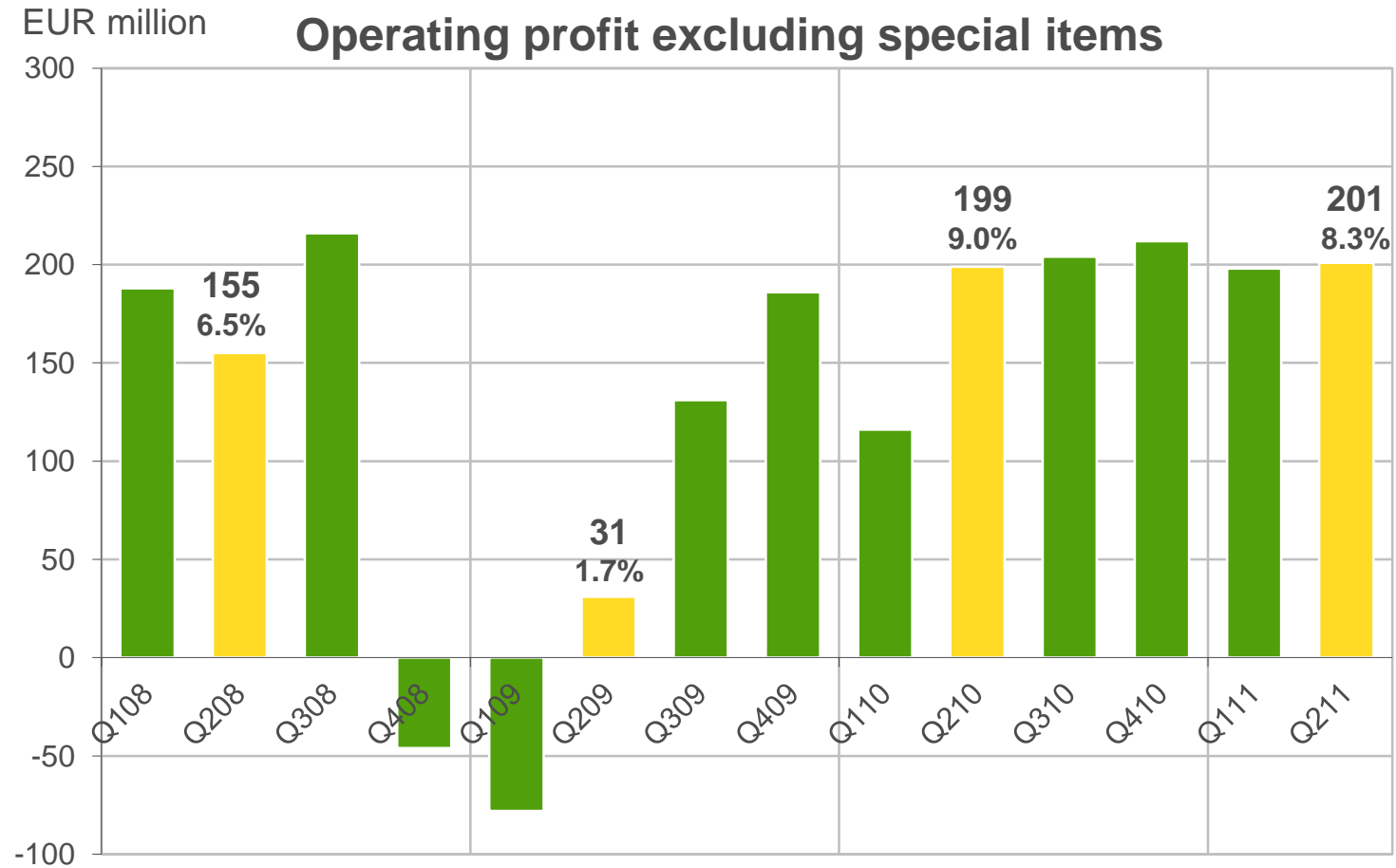
Q2 2011 EBITDA increased from last year

Higher prices offset the rise in costs in Q2 vs. Q2 2010

Price and cost development stabilised in Q2 vs. Q1 2011



Operating profit was steady





Earnings guidance for 2011 (*)

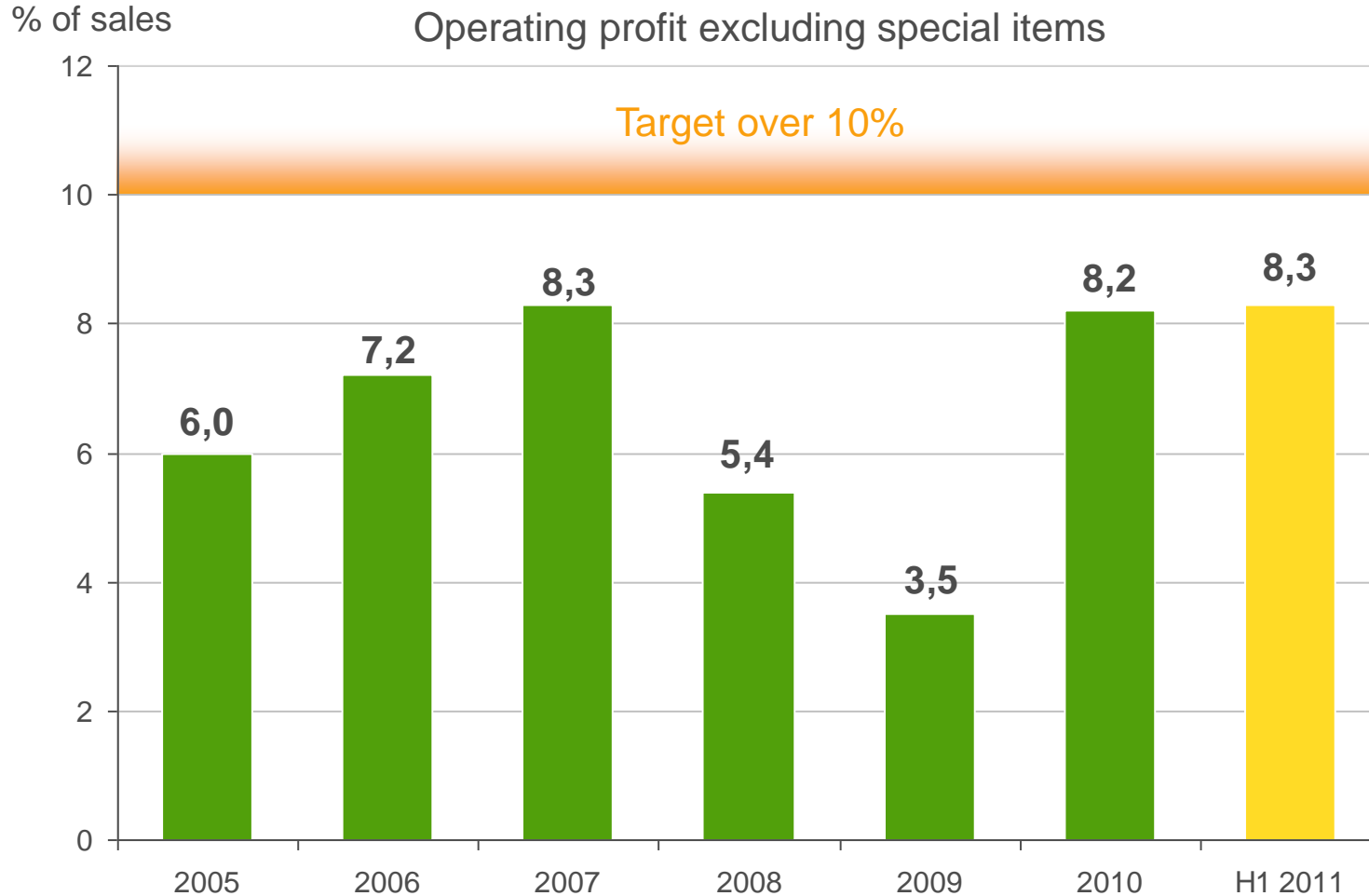
- UPM guidance for operating profit excluding special items
 - 2011 to improve from 2010
 - H2/11 to be on about the same level as H1/11
 - Guidance includes Myllykoski from 1 August onwards
- Broad-based solid demand growth has levelled off and the demand outlook for UPM's products is largely stable in H2
- Only minor variable cost increases expected in H2 from H1/11
- Prices have increased in publication papers, label materials and plywood in Q3 from Q2/11, broadly offsetting cost increases



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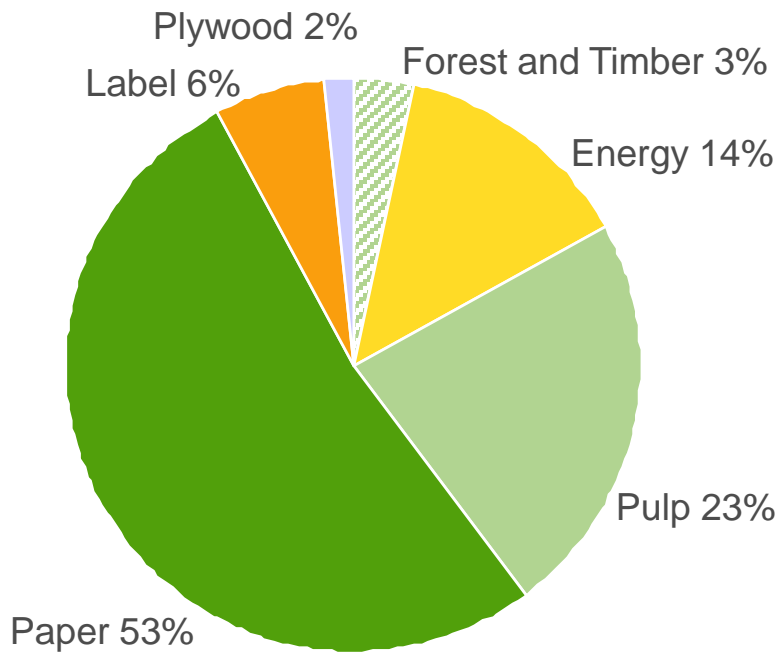
STRATEGIC FOCUS AREAS

Operating profit recovered to the pre-recession level

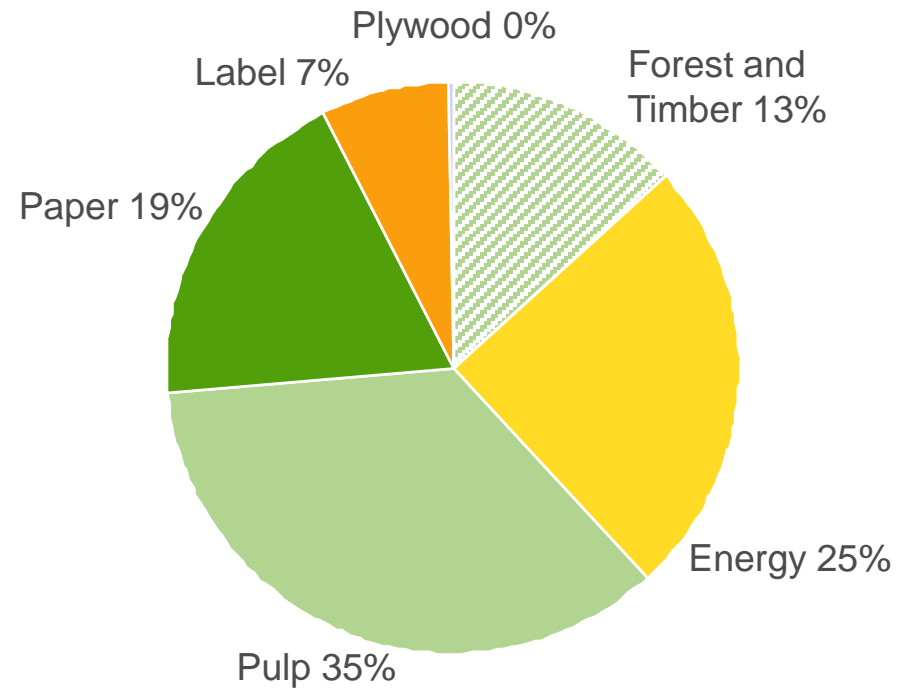


Operating profit evenly distributed – Paper is a major source of cash flow

Cumulative EBITDA 2007 – H1 2011



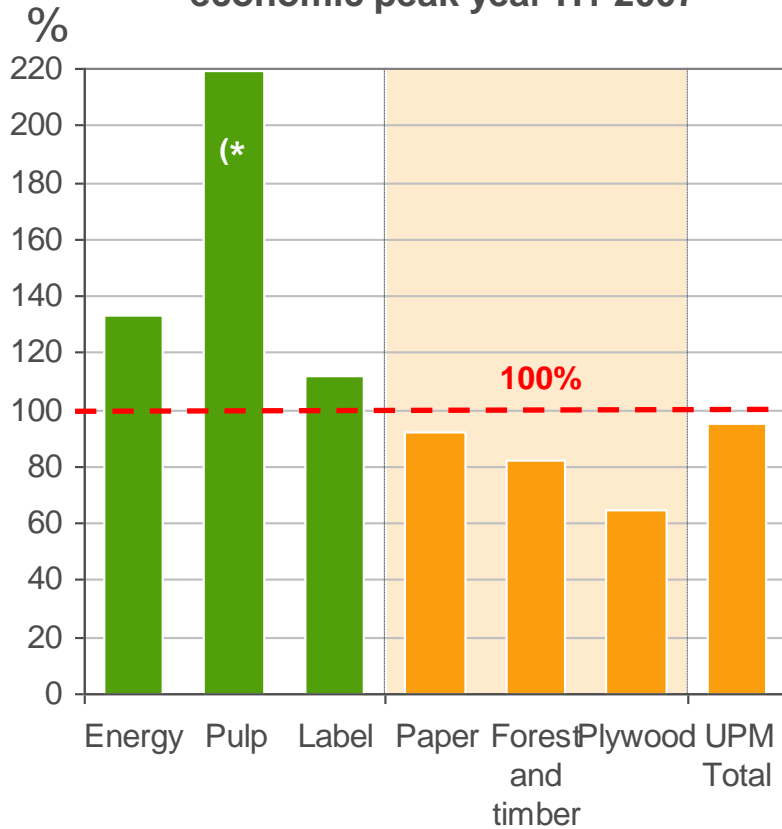
Cumulative Operating profit 2007 – H1 2011 excluding special items



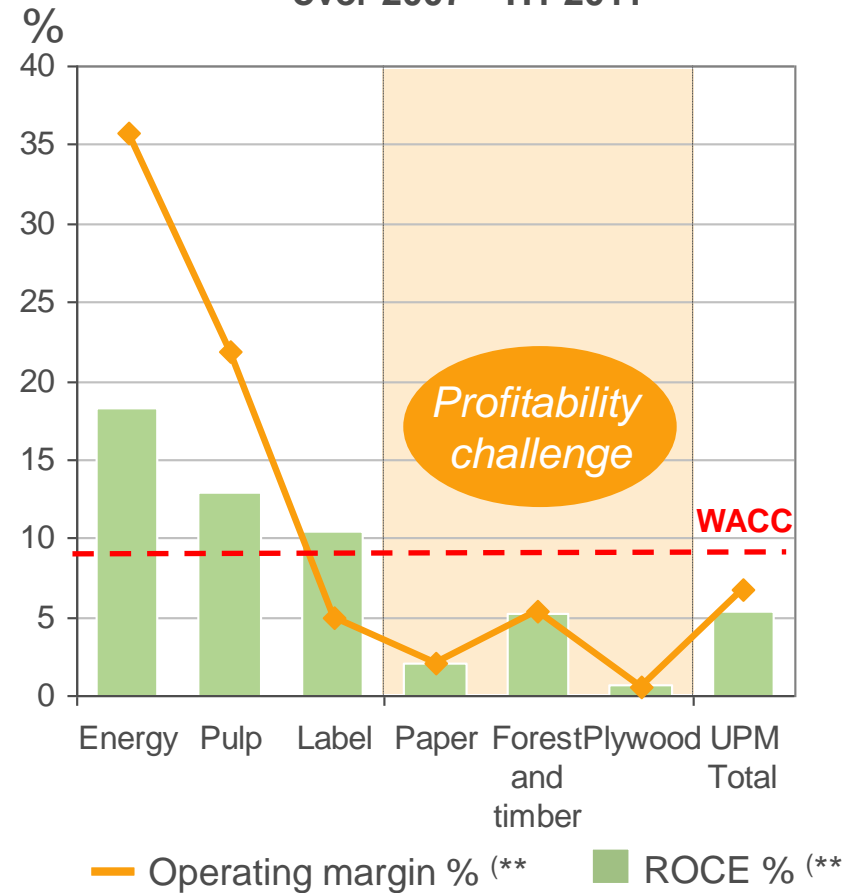


UPM's profitability challenge in Paper

Sales in H1 2011, as % of the economic peak year H1 2007



Average margins and returns over 2007 – H1 2011





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REVIEW OF MAGAZINE PAPER ASSETS' LONG TERM COMPETITIVENESS

Planned actions to improve profitability and cost efficiency in magazine paper production

- UPM plans to adjust its paper capacity to match the demand of its global customer base, confirming its position as a truly cost competitive paper supplier committed to print media
- UPM plans to reduce 1.3 million tons of paper capacity and to restructure overlapping organisation and functions
- Total reduction in personnel from these actions would be 1,110 employees
- The annual synergy benefits of Myllykoski acquisition after planned actions would be approximately EUR 200 million
- Planned measures would clearly lower unit costs in UPM magazine and newsprint production compared to UPM before the combination

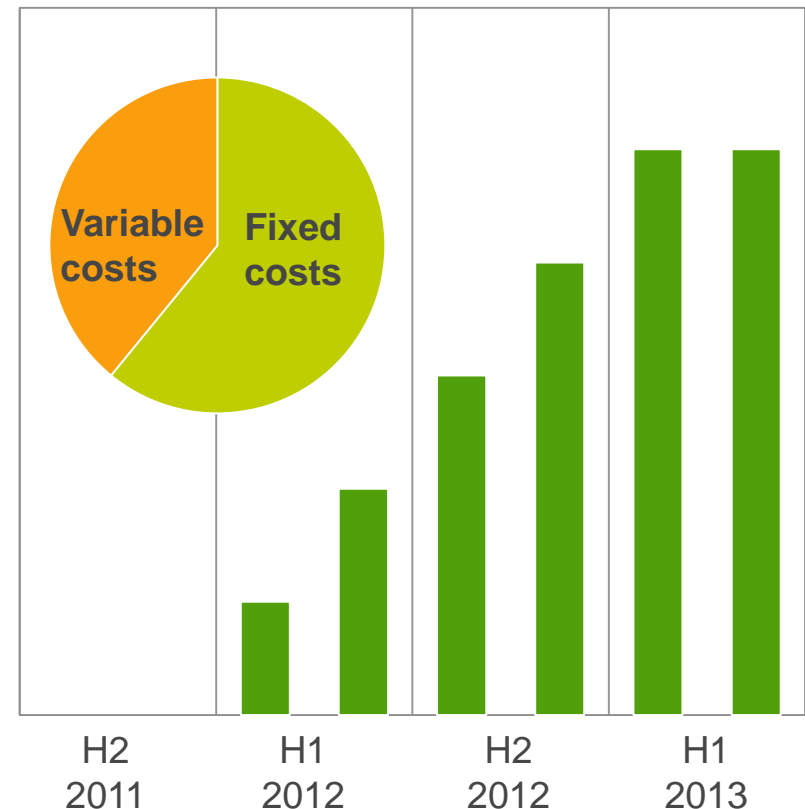
Planned actions – subject to employee negotiations and final decisions

Planned capacity closures and other actions	Capacity kt/a and paper grade	Reduction in personnel	Timeline
Permanent closure of the UPM Myllykoski paper mill in Finland	600,000 SC, LWC	375	By the end of 2011
Permanent closure of the UPM Albbrock paper mill Germany	320,000 LWC	557	By the end of 2011
Permanent closure of the UPM Ettringen PM3 in Germany	110,000 Newsprint	66	By the end of 2011
Transfer of sheeting lines from UPM Albbrock mill to UPM Plattling mill in Germany			During H1 2012
Sale or other exit of the UPM Stracel paper mill in France from UPM Paper business	280,000 LWC		Within 12 months
Restructuring of overlapping paper sales and supply chain networks and global functions		210 (of which 98 included in above figures)	Based on the transition plan
TOTAL IMPACT	1,310,000	1,110	

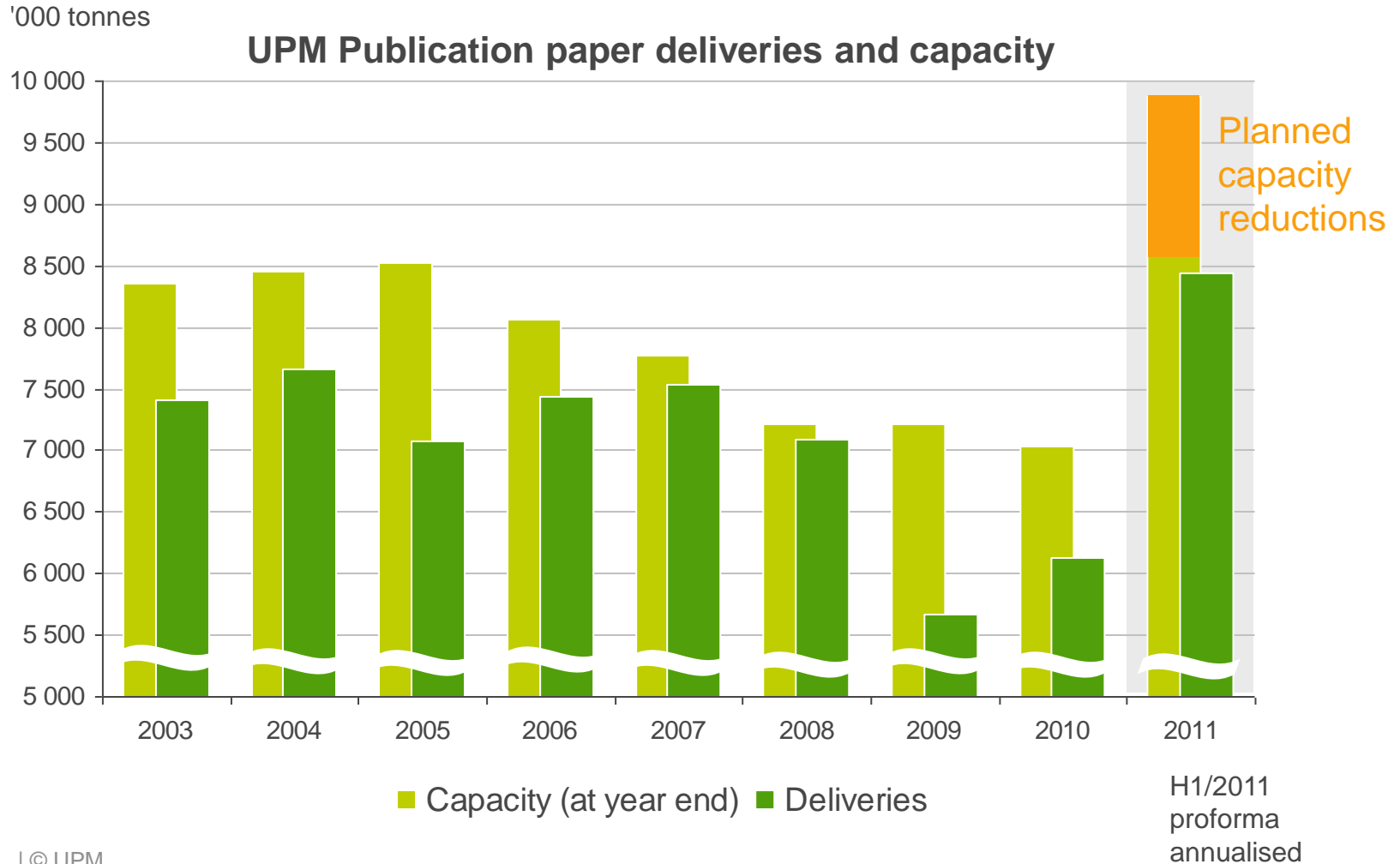
Financial impacts – annual cost synergies estimated to total EUR 200 million

- Annual cost synergies from the plan would total approx. EUR 200 million
- Net cash restructuring costs would total approx. EUR 170 million
 - Provision for personnel reduction, dismantling and other closure costs in Q3 2011 is estimated to be approx. EUR 200 million. Cash impact would take place mainly during 2012
 - Asset disposals(*) are expected to total EUR 30 million, mainly during 2012
- Fixed asset write-off of approx. EUR 70 million in Q3 2011

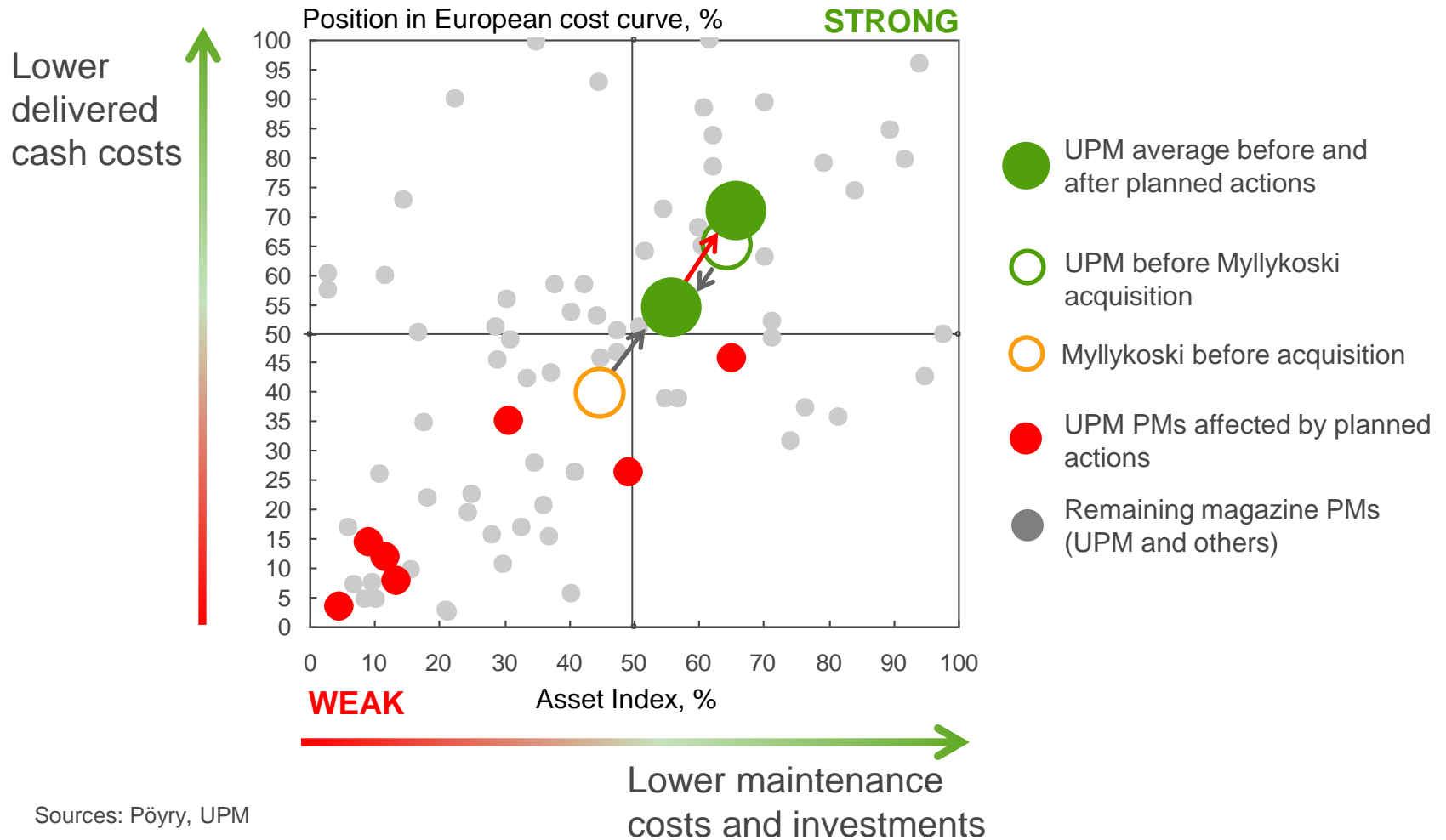
Estimated timing and sources of planned EUR 200m cost synergies



Planned actions would enable more efficient use of UPM's capacity



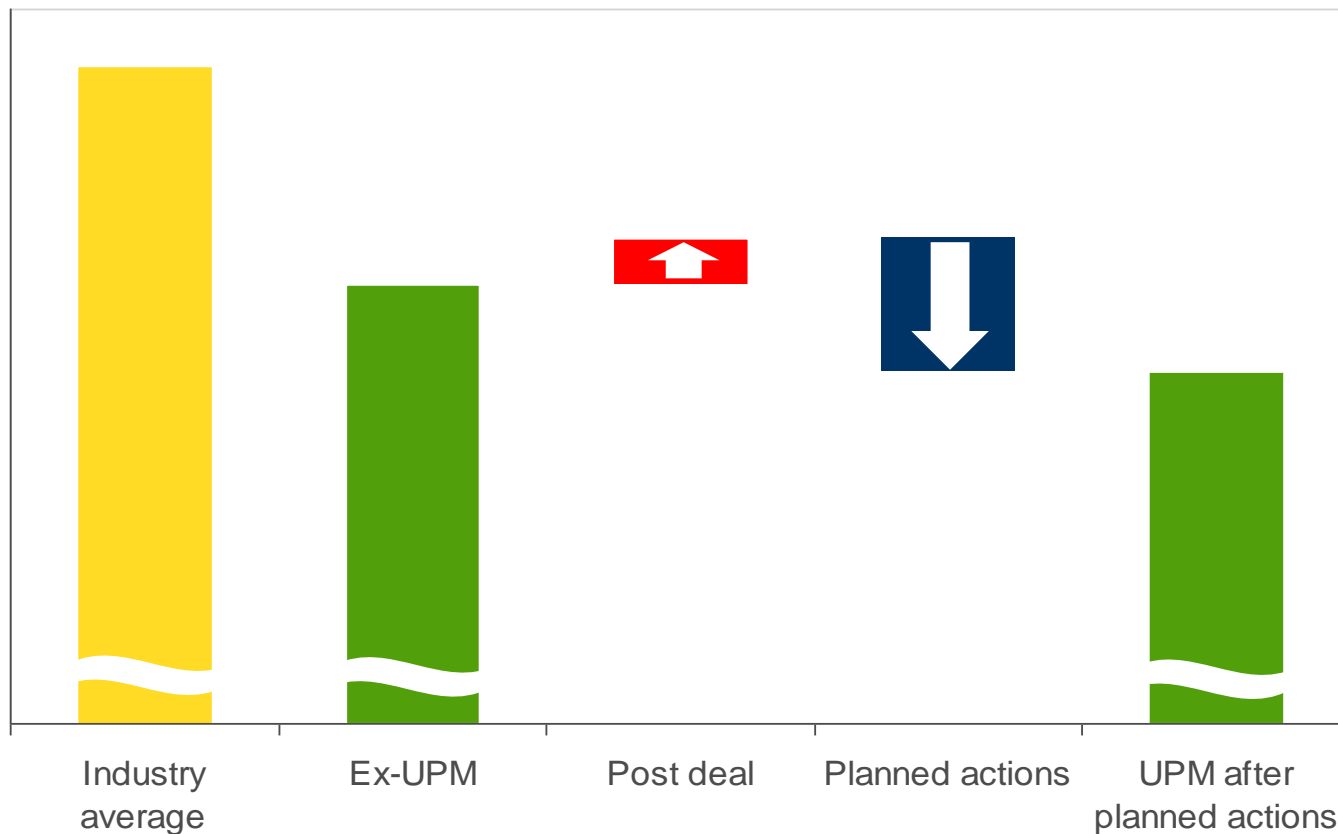
Planned actions would strengthen UPM's competitiveness in European magazine paper



Sources: Pöyry, UPM

After planned actions UPM's unit costs would be lower than both UPM's and Myllykoski's before the combination

Unit delivered cost in magazine papers €/t



Sources: Pöyry, UPM

Myllykoski acquisition merits revisited based on plans

- Larger synergies – improved cost position confirmed
- Cash flow enhancing immediately excluding restructuring costs, EPS enhancing in 2012
- Improved geographic positioning and optimal product portfolio

Valuation multiples

	Myllykoski 2009	Myllykoski LTM Sept/2010	After planned actions, incl. cost synergies (*
Paper EV / capacity	EUR 293 / t	EUR 293 / t	EUR 556 / t
EV / Sales	0.6x	0.6x	0.7x
EV / EBITDA	4.8x	11.7x	4.0x

*) EV includes net cash restructuring costs of EUR 170 million

Sales: 2x H1/11 Myllykoski sales

EBITDA: 2x H1/11 Myllykoski EBITDA + cost synergies of EUR 200m



Other UPM plans

Paper and Pulp

- UPM plans to temporarily close PM 2 at UPM Nordland Papier in Germany (annual production capacity 200,000 tonnes of uncoated fine paper)
- UPM plans to streamline operations in Pietarsaari pulp and paper mills in Finland by the end of 2011. The planned reduction in personnel is approximately 60.

Plywood

- UPM plans to streamline of sales, functions and maintenance by the end of 2011 to improve efficiency and competitiveness
- The planned reduction in personnel is a maximum of 125 divided in several locations

Timber

- UPM prepares for production curtailments and temporary layoffs in its sawmills in Finland as a response to weak market demand

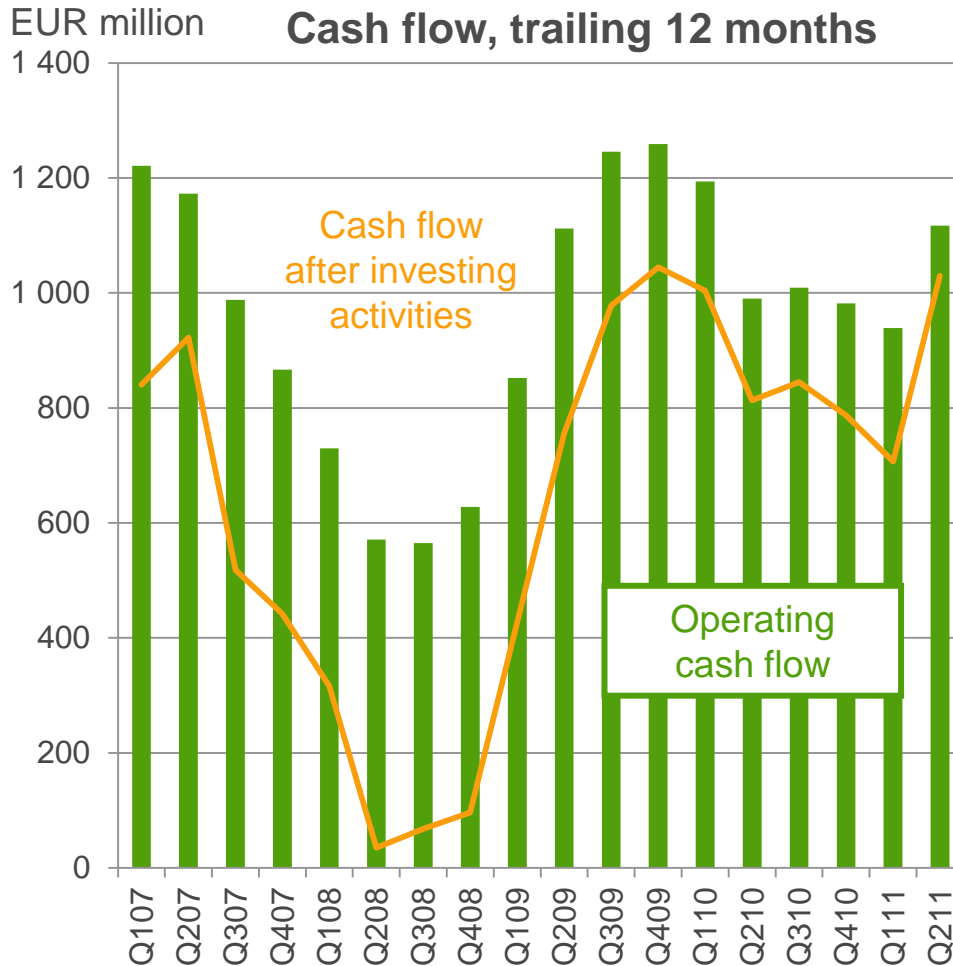


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POTENTIAL FOR INCREASING SHAREHOLDER VALUE

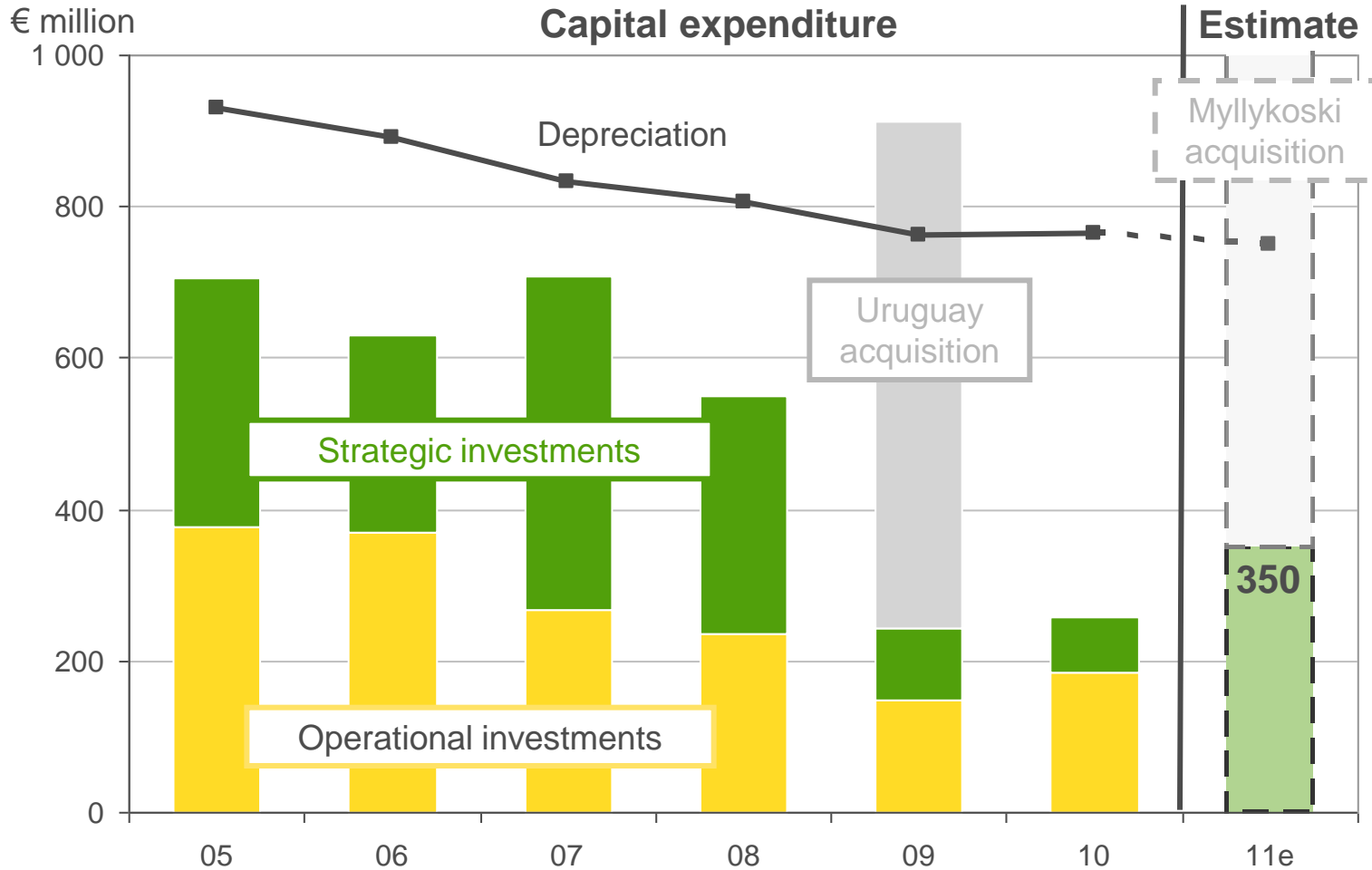
Strong free cash flow

– supporting room for strategic actions

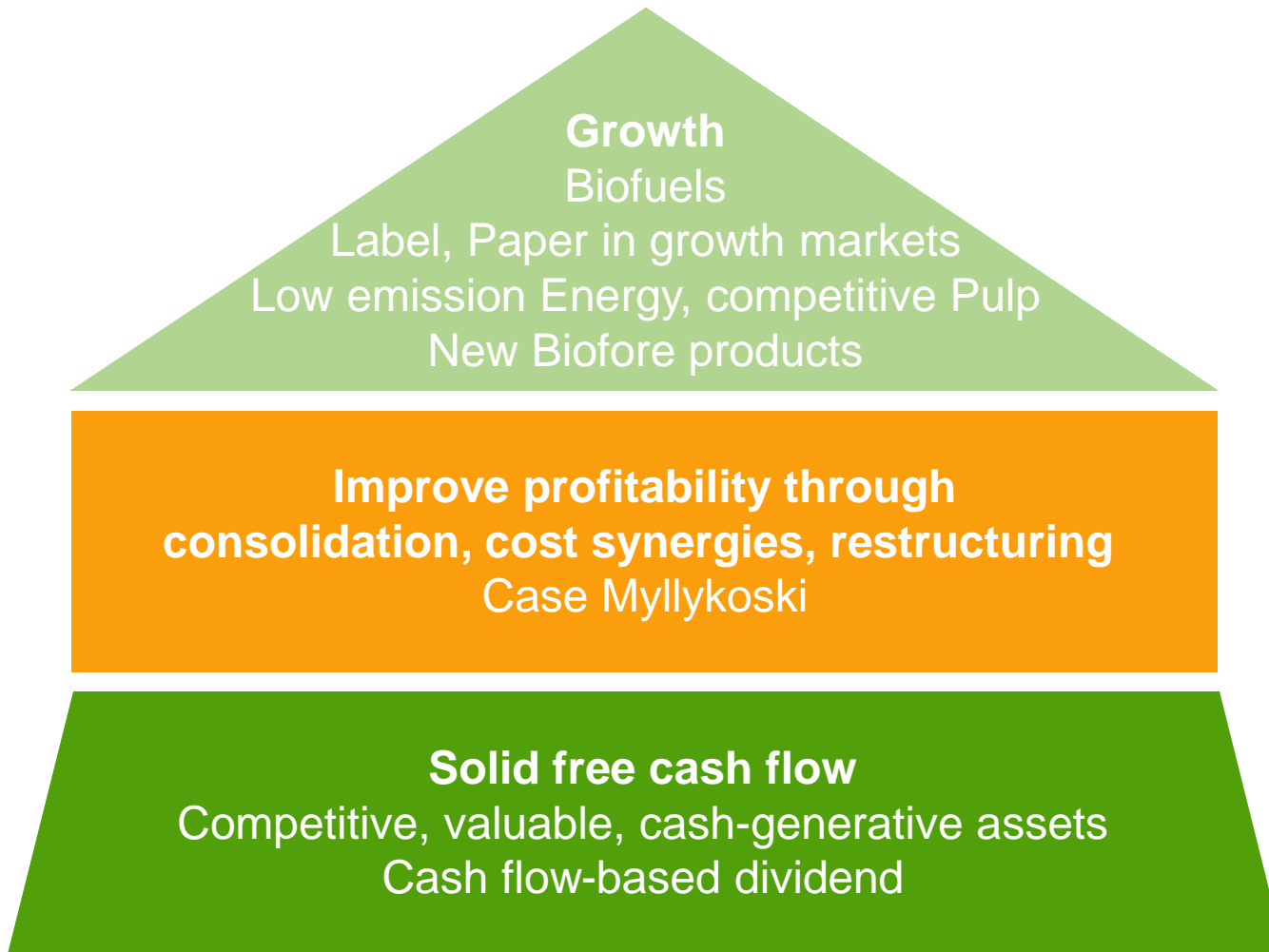


- Q2 2011 operating cash flow was EUR 280m (102m)
- Cash flow after investing activities was EUR 1,030m in the past 12 months
- Fast digestion of the additional debt from the Myllykoski transaction
- Room for strategic actions
- Cash flow-based dividend

Low operational investments – strategic capex focused on value enhancing M&A



UPM has potential for increasing shareholder value



Mid- to long-term:
increase valuation multiples by growth and reshaping portfolio

Short- to mid-term:
improvement in profitability and cash flow

Strategic enabler
floor for share price



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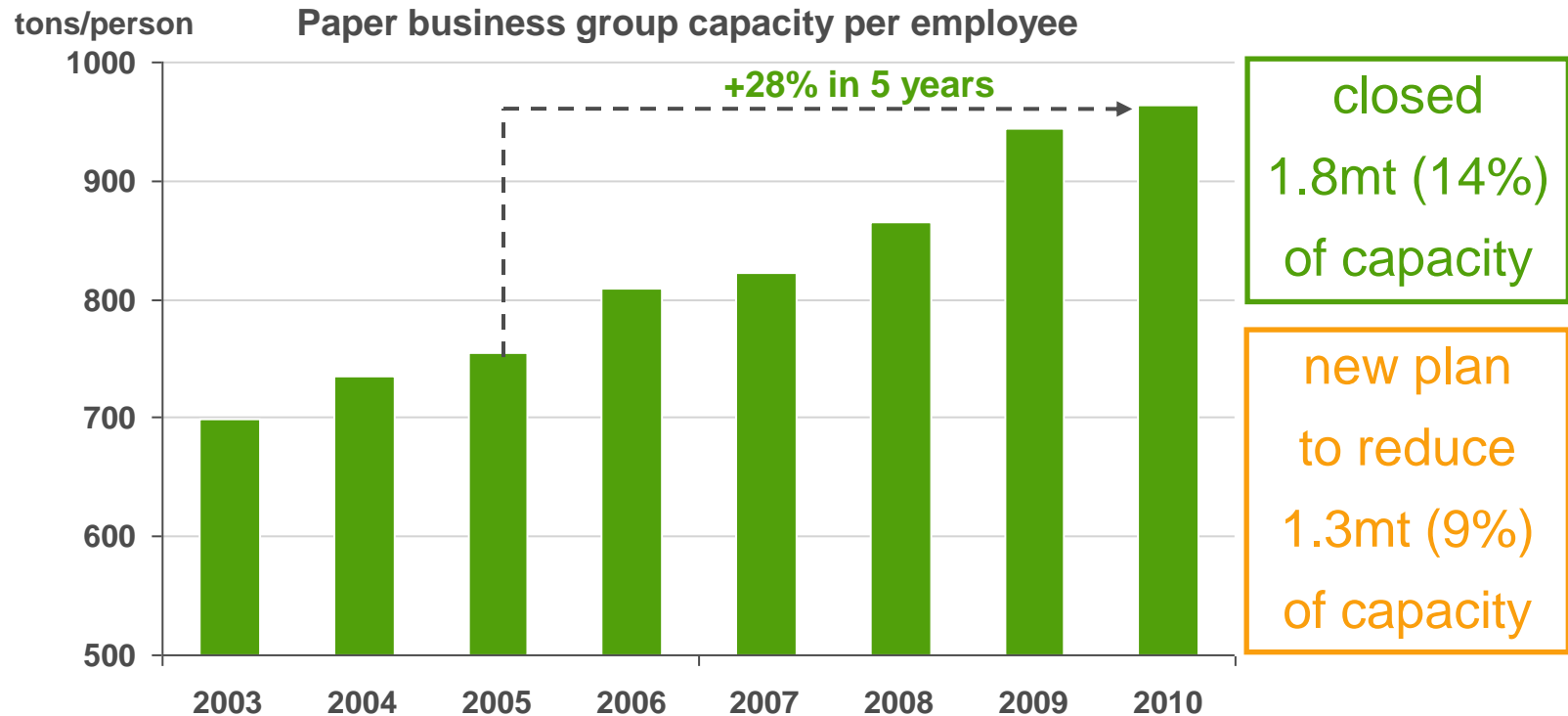
Managing change

– UPM has a consistent track record

Restructuring and efficiency improvement

Cost competitiveness and cash flow

Improved financial flexibility



Managing change

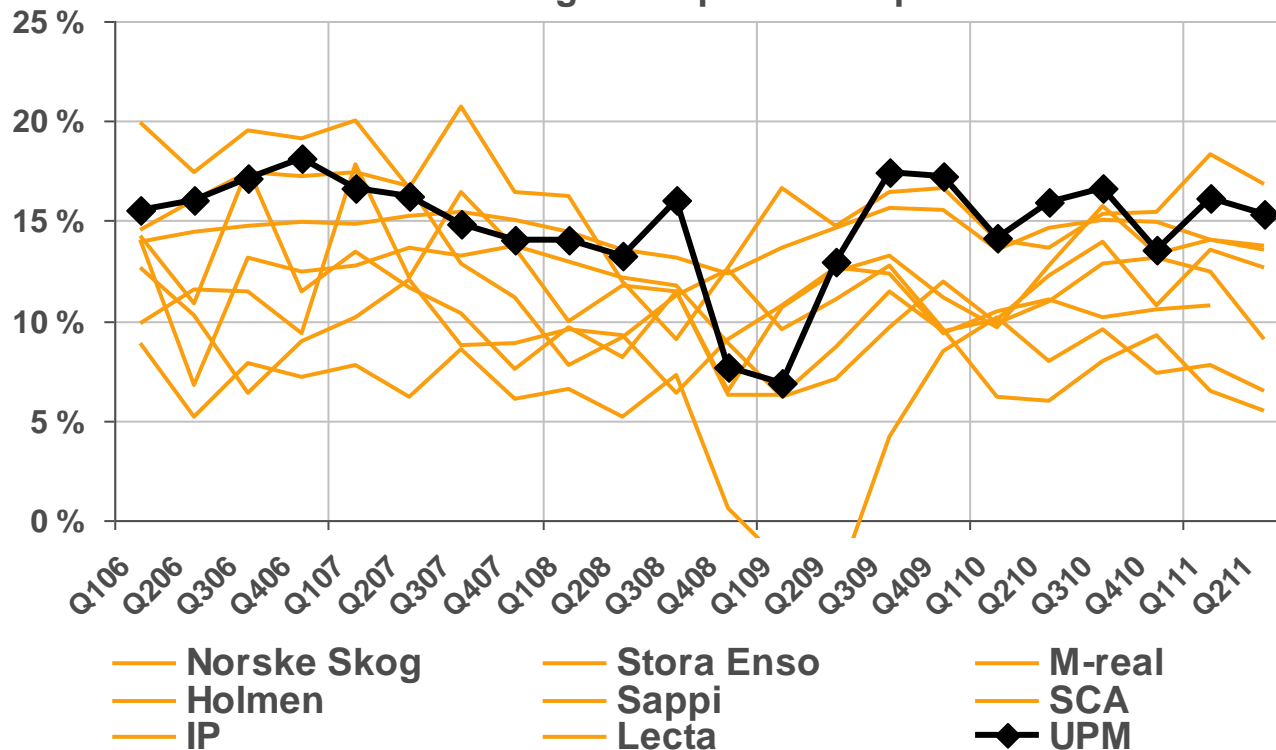
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Improved financial flexibility

EBITDA margin compared with peers



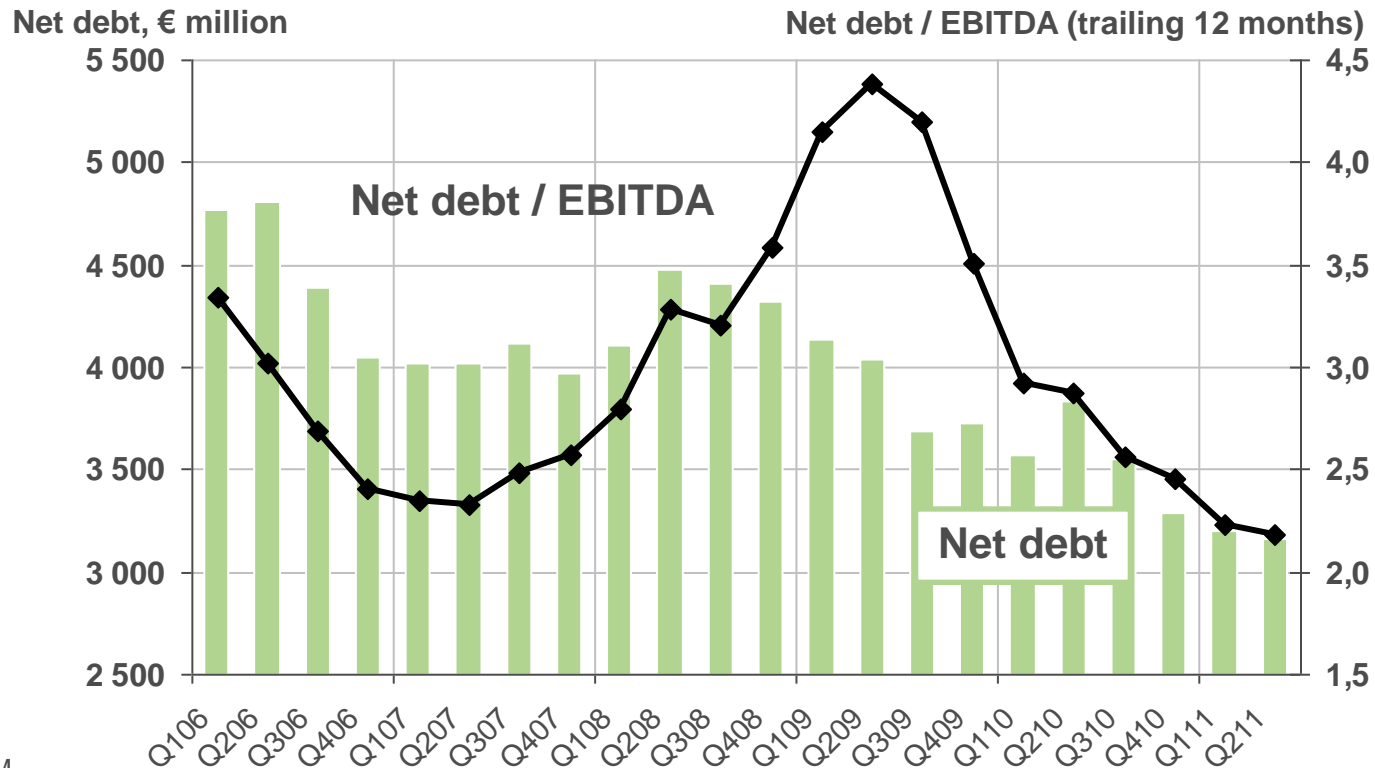
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