



PRODUCT RENEWAL - A SOURCE FOR LONG-TERM PROFITABILITY

Jussi Vanhanen
President
Engineered Material Business Group

Contents

- Engineered Materials – from cost cutting to product renewal
- Label BA as a profitable growth business
- Plywood renewal – focus on customer benefits
- Summary

ENGINEERED MATERIALS

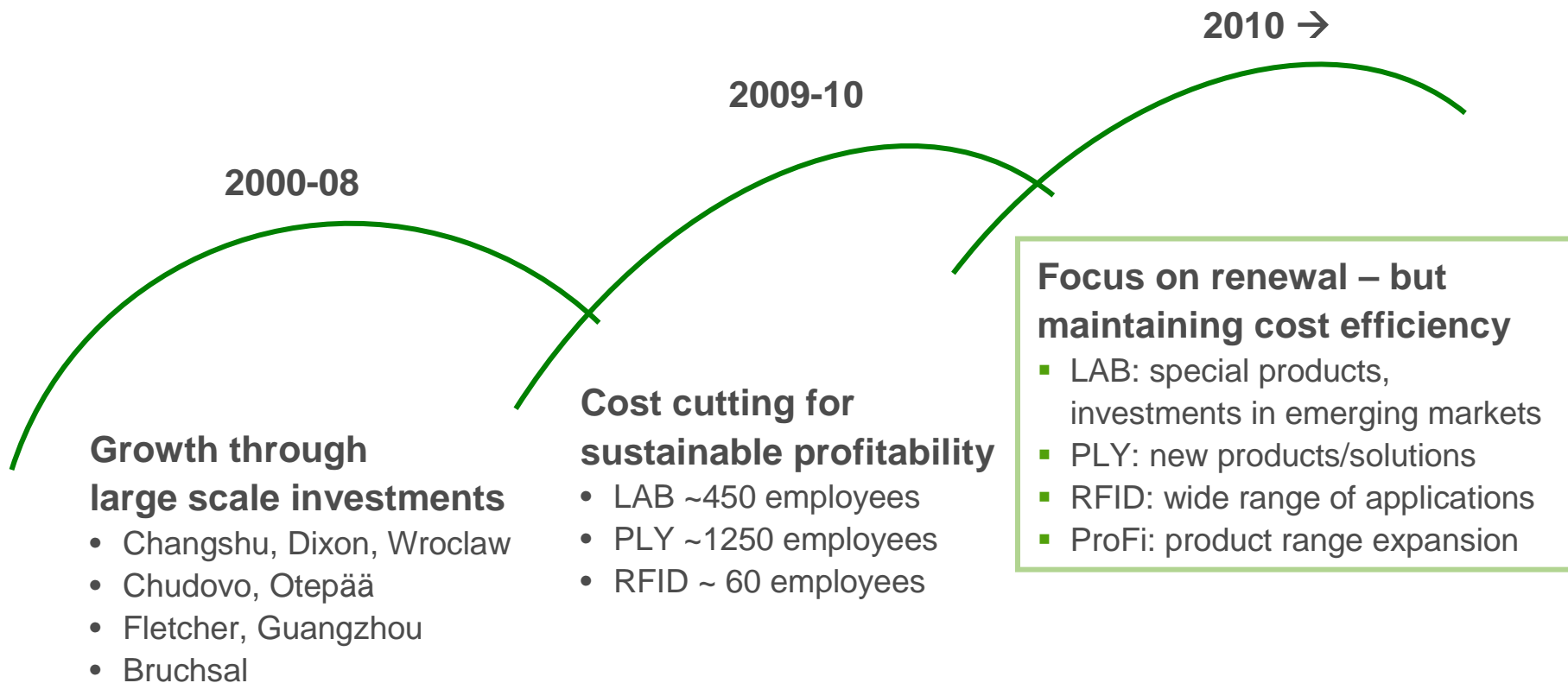
Engineered Materials Business Group in a nutshell



- Labelstock and Plywood Business Areas
- RFID and UPM ProFi development units
- Higher added value businesses with growth potential
- Businesses with opportunity for renewal
 - In-house know-how and development plays a significant role
 - New end-use areas, emerging markets
 - New businesses based on UPM's unique advantages

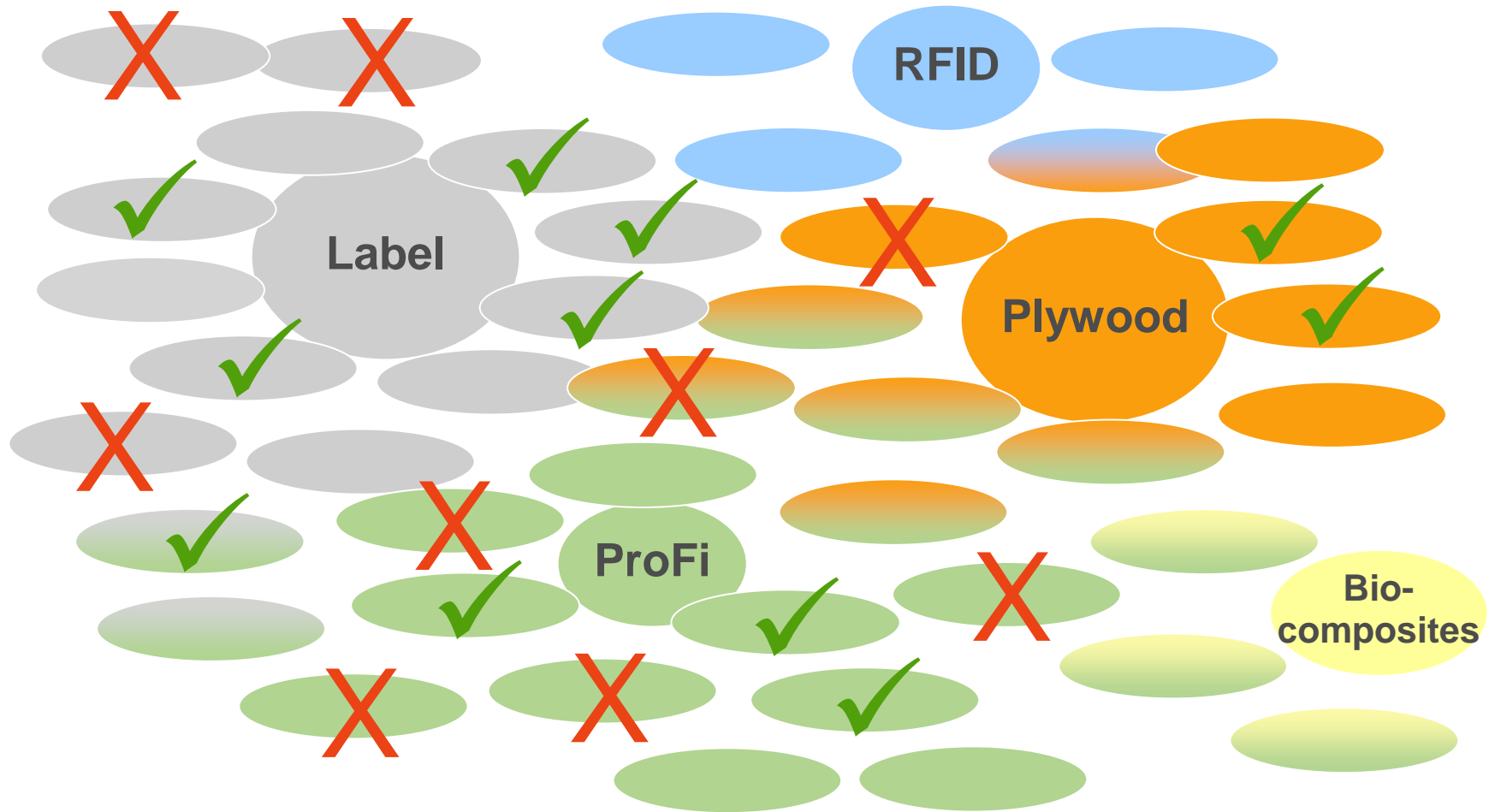
ENGINEERED MATERIALS

Development from cost cutting to renewal provides long-term profitability



ENGINEERED MATERIALS

Product renewal in Engineered Materials comes from a multitude of small or medium-sized opportunities





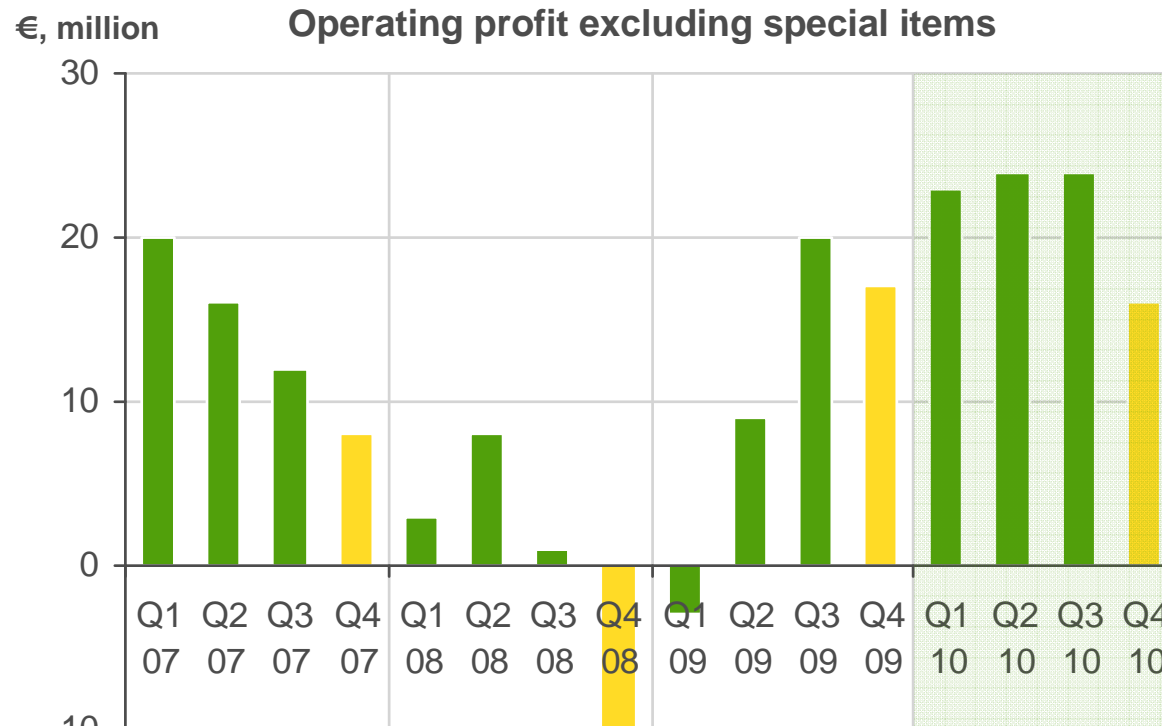
The Biofore Company **UPM**

LABEL BA AS A PROFITABLE GROWTH BUSINESS



LABEL

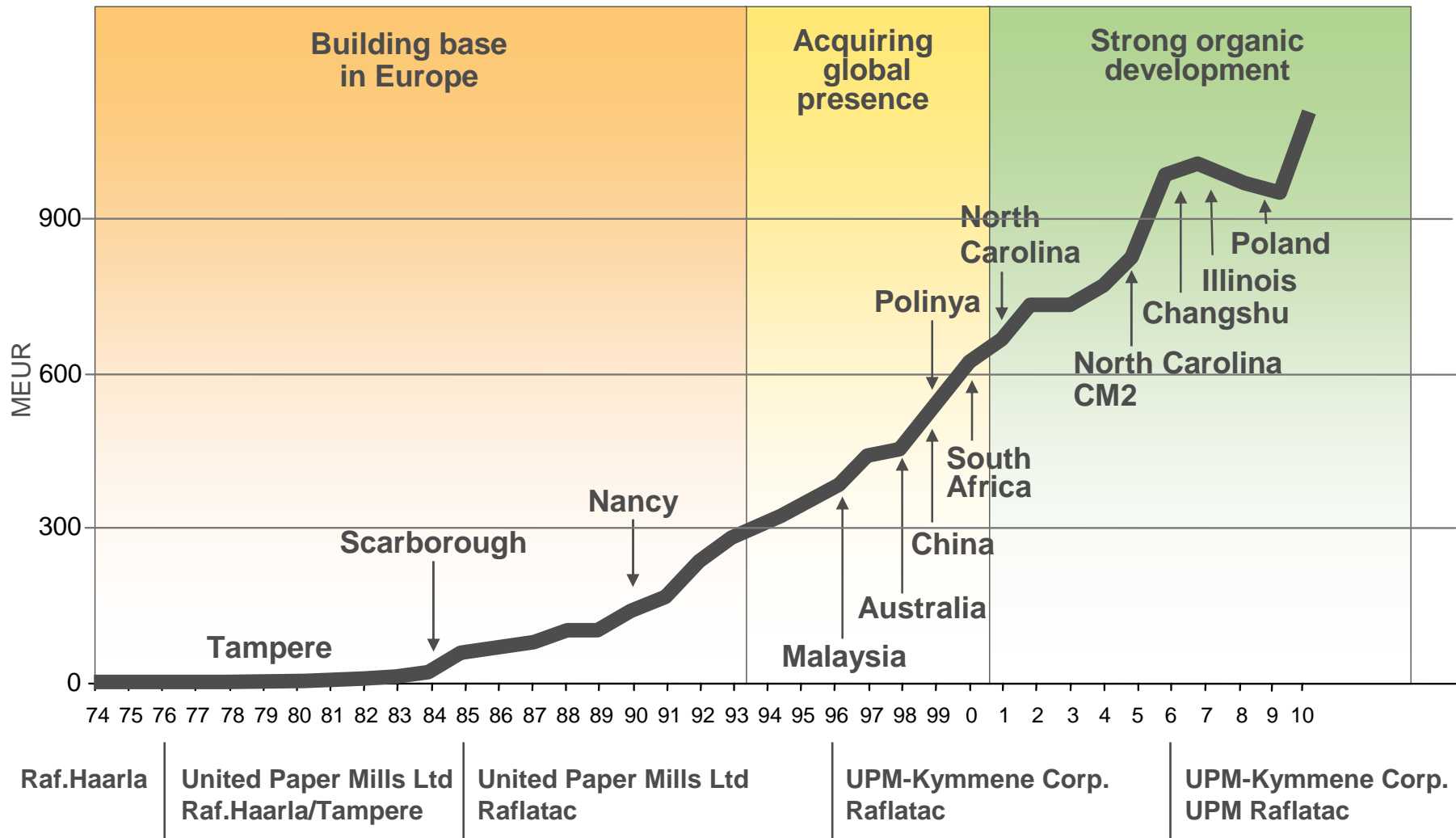
Good result in a year characterized by record high raw material cost inflation



EBITDA %	8.5%	3.5%	8.3%	11.2%
EBIT %	5.6%	0.2%	4.6%	7.9%
ROCE %	13.3%	0.4%	8.5%	17.1%

LABEL

Back on growth track through expansion of product range and emerging markets



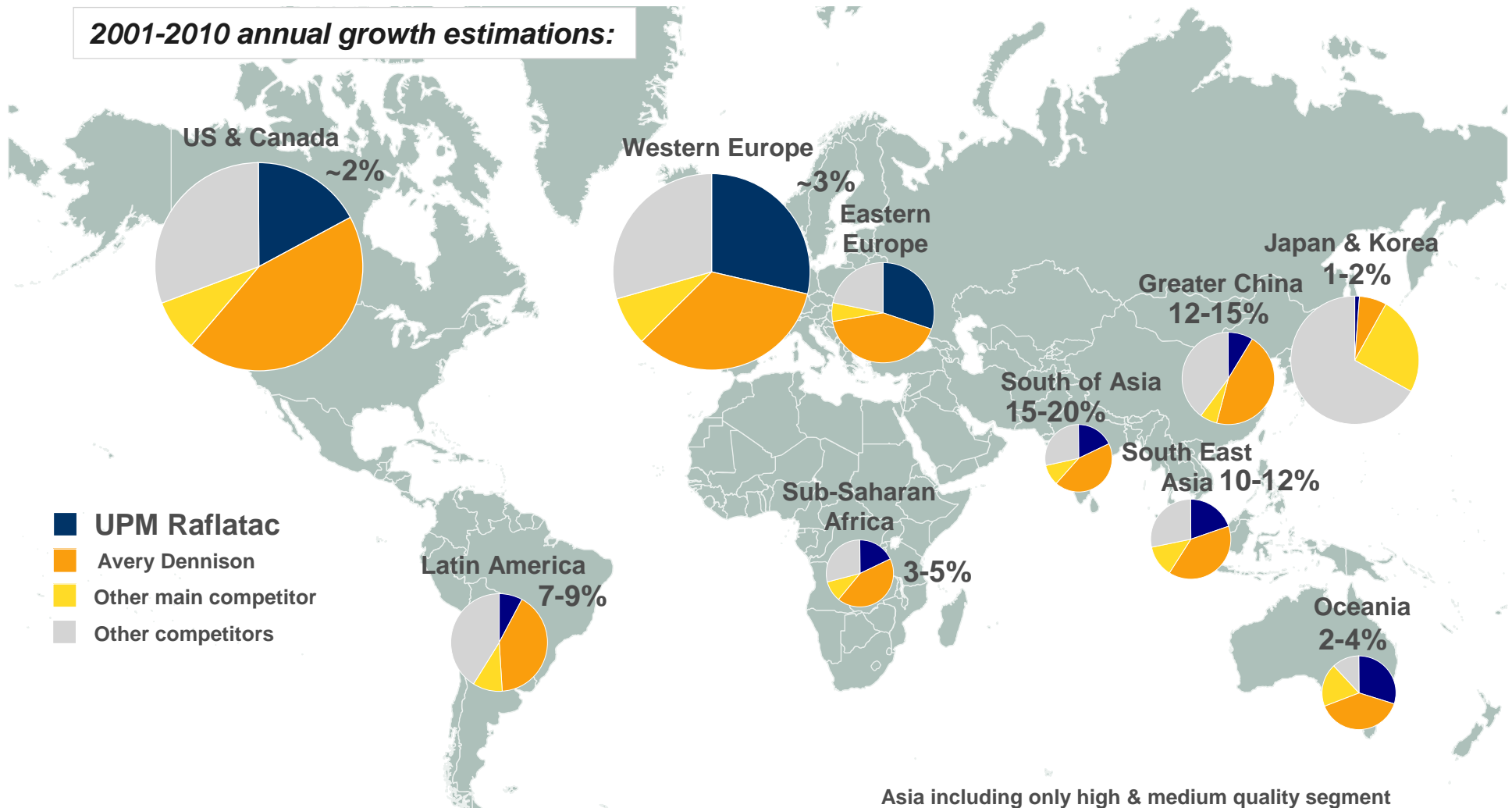
Raf.Haarla	United Paper Mills Ltd Raf.Haarla/Tampere	United Paper Mills Ltd Raflatac	UPM-Kymmene Corp. Raflatac	UPM-Kymmene Corp. UPM Raflatac
------------	----------------------------------------------	------------------------------------	-------------------------------	-----------------------------------

LABEL

Labelstock is a ~6 bn EUR growing business globally, UPM has the #2 position in most markets The Biofore Company **UPM**



2001-2010 annual growth estimations:



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

Sources: UPM Raflatac estimates, FINAT, TLMi

LABEL

A wealth of end-use areas offers growth potential in tailored solutions



Beverage labelling



Wine labelling



A4 & Cut-size labelling



Food labelling



Home & personal care labelling



Retail labelling



Security labelling



Pharmaceutical labelling



Logistics & Transport labelling



Durables labelling



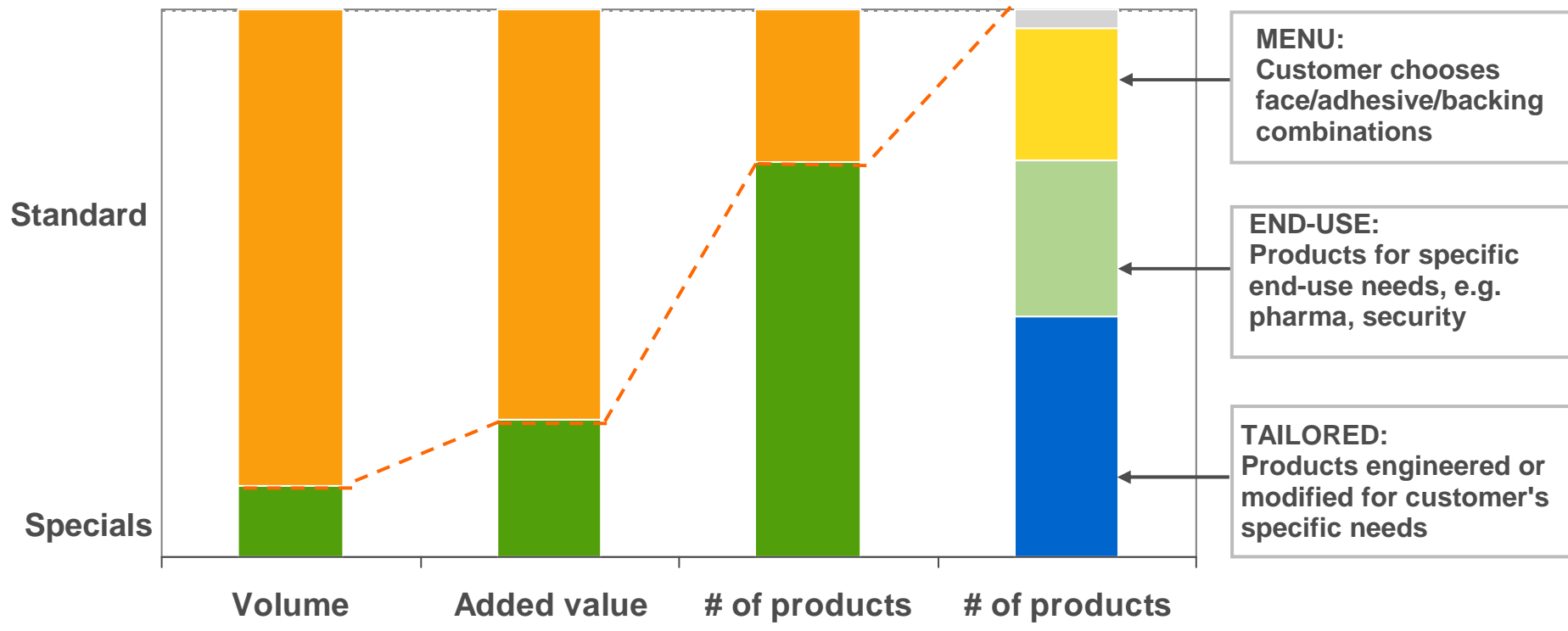
Tyre labelling



Oil & Industrial Chemical labelling

LABEL

Mastering product complexity deriving out of customers' specialized needs is key to a profitable labelstock operation



LABEL

Case: Thinnovation – ProLiner PP30

- Thin and strong liner material especially for moist environments
- Recyclable
- In-house technology development which enables large-scale production

Benefits for printers, packers and brands

- Faster press speeds
- Lower transportation costs, less warehouse space
- Waste liner has commercial value



LABEL

Case: Biodegradable RafBio range

- Fully biodegradable label – materials based on corn starch, cellulose and bio-adhesives
- Based on a specific, branding-based customer need
- Aimed for growing number of biodegradable packaging solutions in the food, beverage and personal care segments.

Benefits for brand-owners

- Biodegradable package can be composted with label on it
- All materials are completely biodegradable into carbon dioxide and water

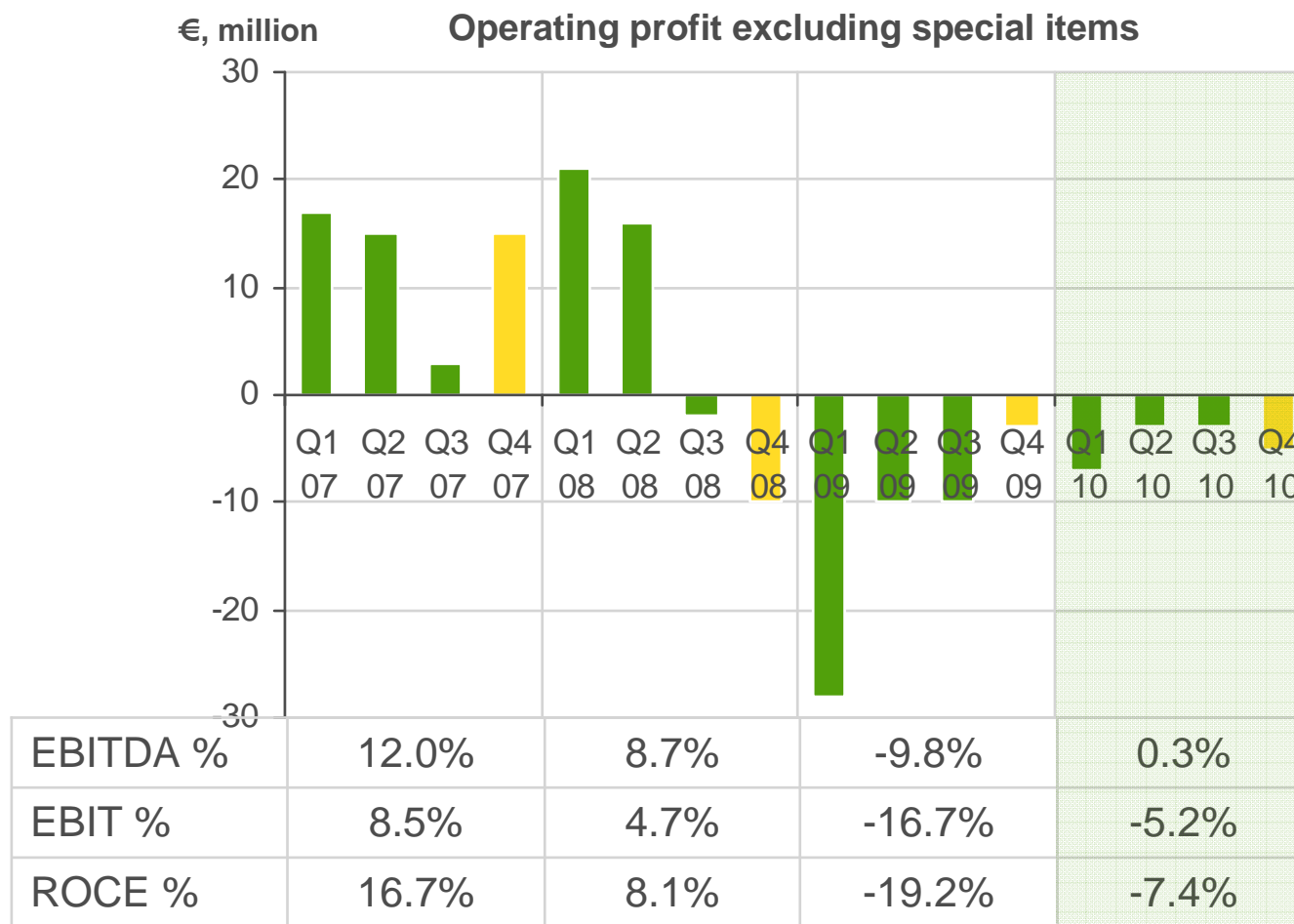


PLYWOOD RENEWAL – FOCUS ON CUSTOMER BENEFITS



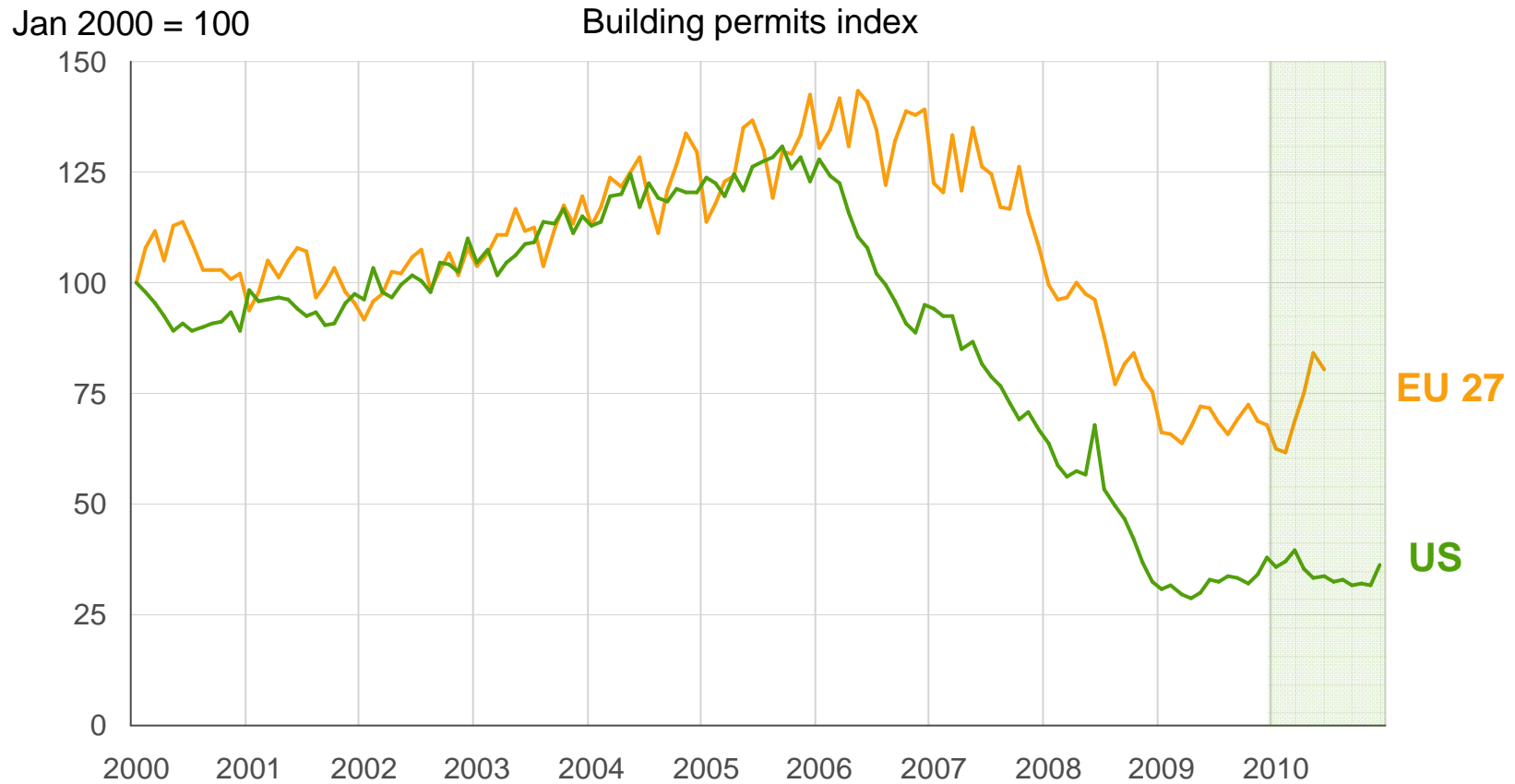
PLYWOOD

Significant cost cuts and prices are increasing
– delivery volumes still at a low level



PLYWOOD

Construction activity remains low affecting demand for plywood and sawn timber



Source: EU Commission - Economic and Financial affairs, U.S. Census Bureau

PLYWOOD

Cornerstones of strategy: cost competitiveness and product renewal



Ongoing actions to secure profitability and raise competitiveness

- Heinola and Kaukas plywood mills and the Lahti processing plant closed
- Doubling capacity and step-change in operating costs at Savonlinna mill on-going
- Strong focus on pricing

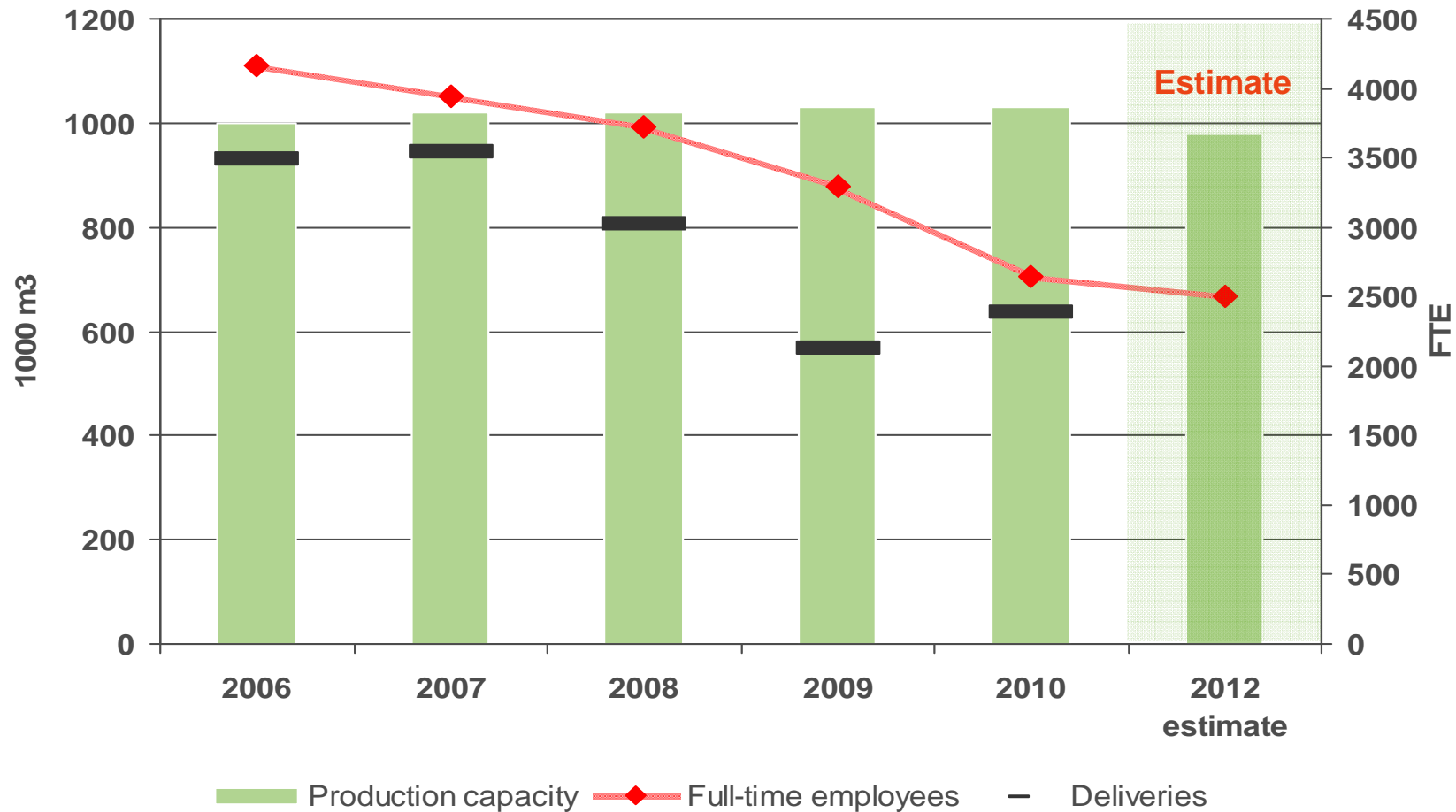
Growth opportunities

- Structurally good long-term prospects - plywood demand drop due to cyclical factors
- At the forefront of development: from products to solutions which enable significant process benefits to customers



PLYWOOD

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



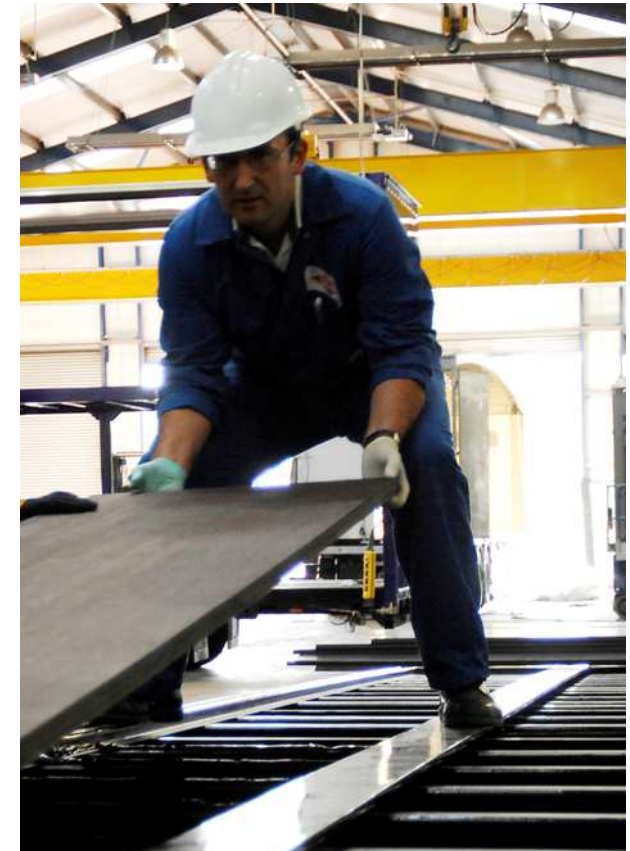
PLYWOOD

Case: WISA bonded floor solution

- **New effective solution to install trailer floor by bonding instead of screwing**
- **Co-development between UPM and Dow Automotive Systems; patent-protected**
- **Sold exclusively by UPM**

Benefits for manufacturers and truckers

- Rigid structure and more silent chassis
- Enables redesign for lighter chassis
- Improved durability and reduced maintenance need; less corrosion as no screw holes in chassis
- No loose screw damages to the load



PLYWOOD

Case: Formable plywood

- **New patent-protected technology to manufacture layered composites using a special adhesive film**
- **The first application of the technology is formable plywood which can be formed by heating after manufacturing**

Benefits for manufacturers

- Superior efficiency in form pressing; less process steps, less waste and shorter lead time
- Stronger and more stable products
- New design possibilities: thinner and lighter product with same strength, allows new forms



SUMMARY



Summary

- Engineered Materials consist of higher added value businesses with growth potential
- Product renewal and cost efficiency are the cornerstones of successful businesses
- UPM's position in the growing labelstock market is strong and current operation platform enables sustained organic growth
- Ongoing actions in Plywood secure profitability and raise competitiveness
- Increasing share of customer driven special products and solutions provides long-term profitability



UPM

The Biofore
Company