

UPM Q2 RESULTS 2011 MYLLYKOSKI ACQUISITION

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President and CEO
3 August, 2011



Q2 2011 highlights

- Q2 2011 was a solid quarter despite challenging cost environment
- Cash flow was strong, supporting room for strategic actions
- With the Myllykoski acquisition UPM has unique momentum for a fundamental improvement in cost efficiency and profitability
- Unconditional approval from the EU Commission is a positive sign for further consolidation in the European paper business

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

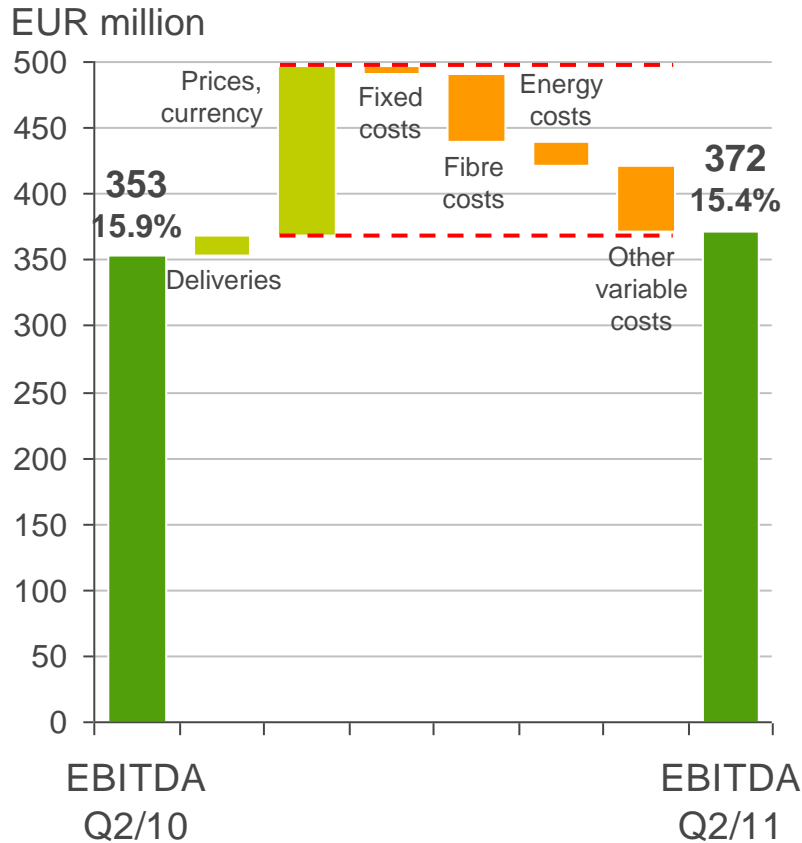
44%  -11 pp

*) excluding special items

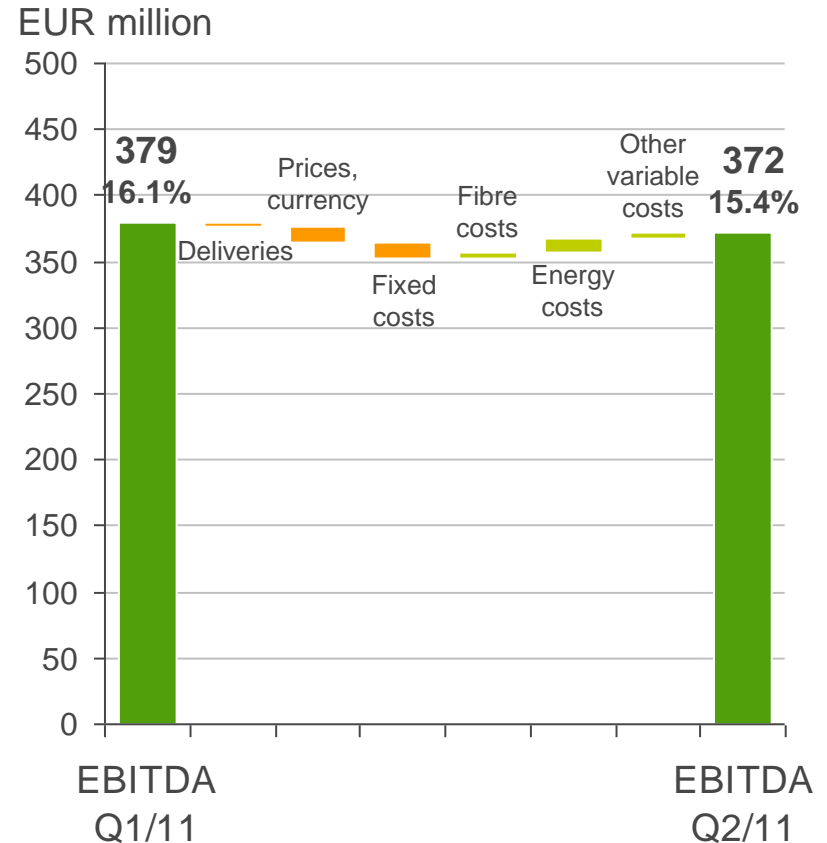
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Q2 2011 EBITDA increased from last year

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

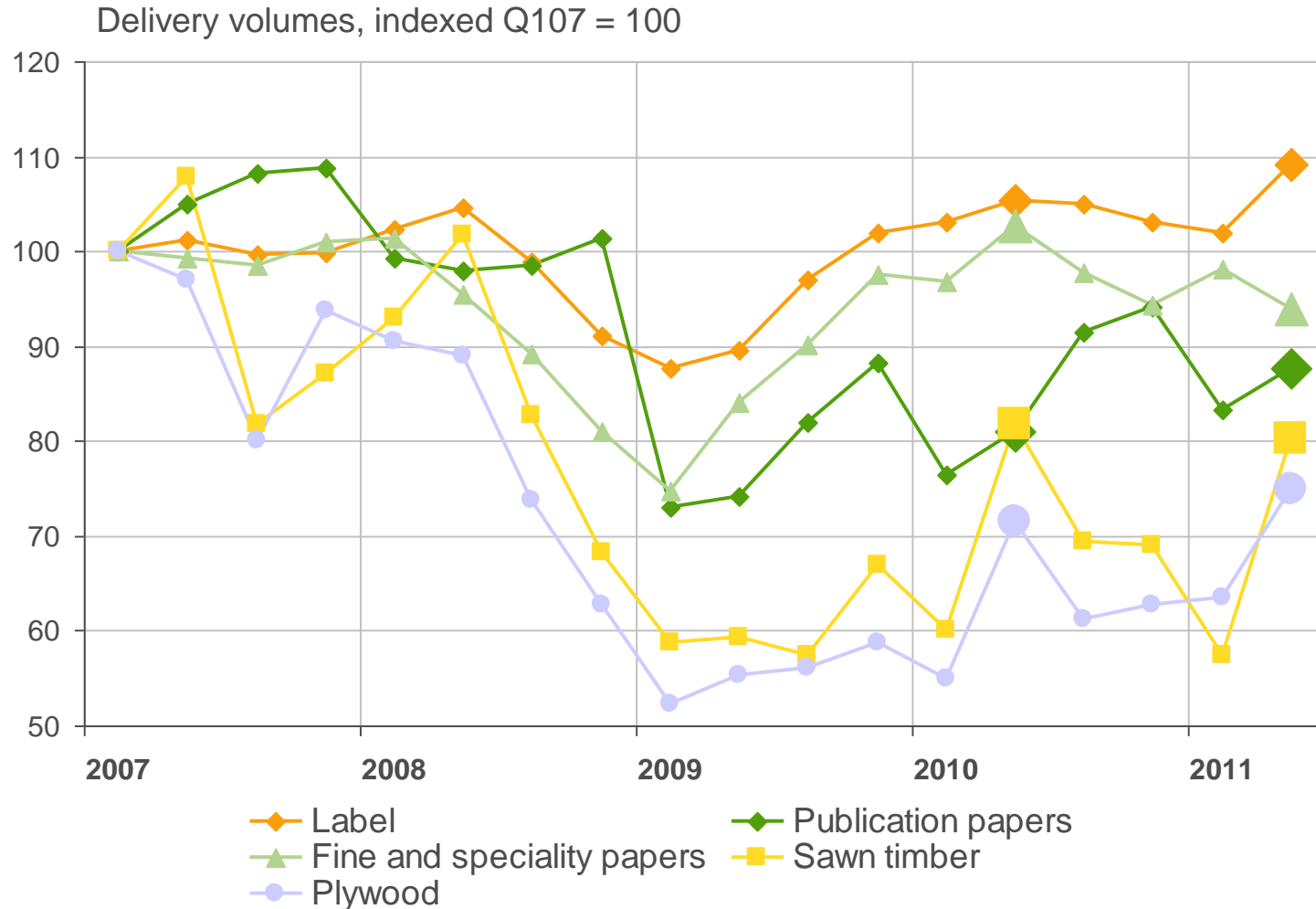


Price and cost development stabilised in Q2 vs. Q1 2011

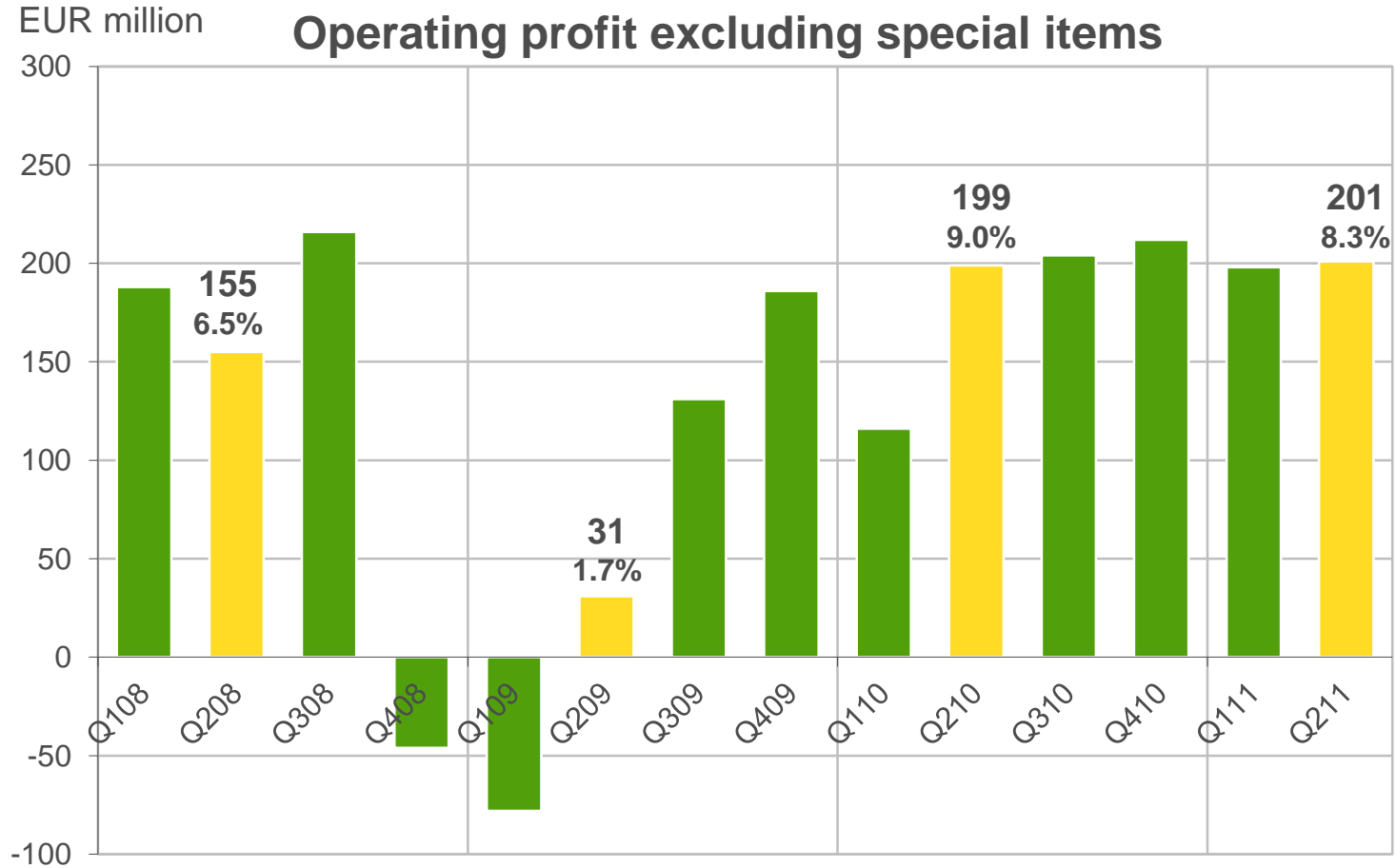


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Q2 2011 delivery volumes increased in Label, Paper and Plywood from last year



Operating profit was steady



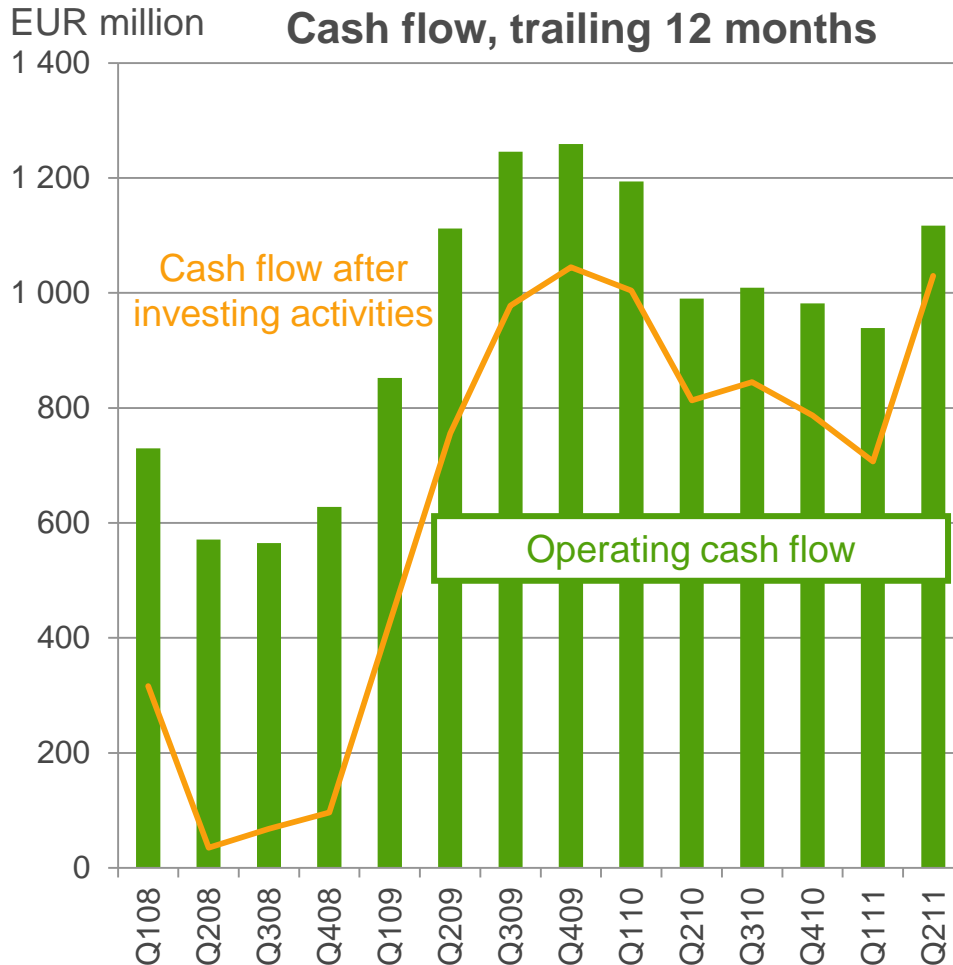
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Strong free cash flow

– supporting room for strategic actions



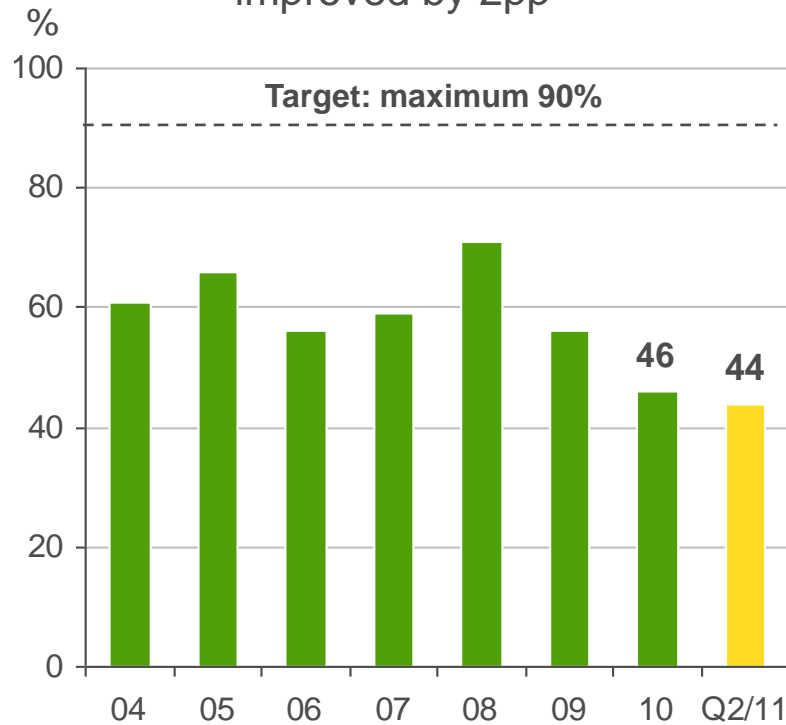
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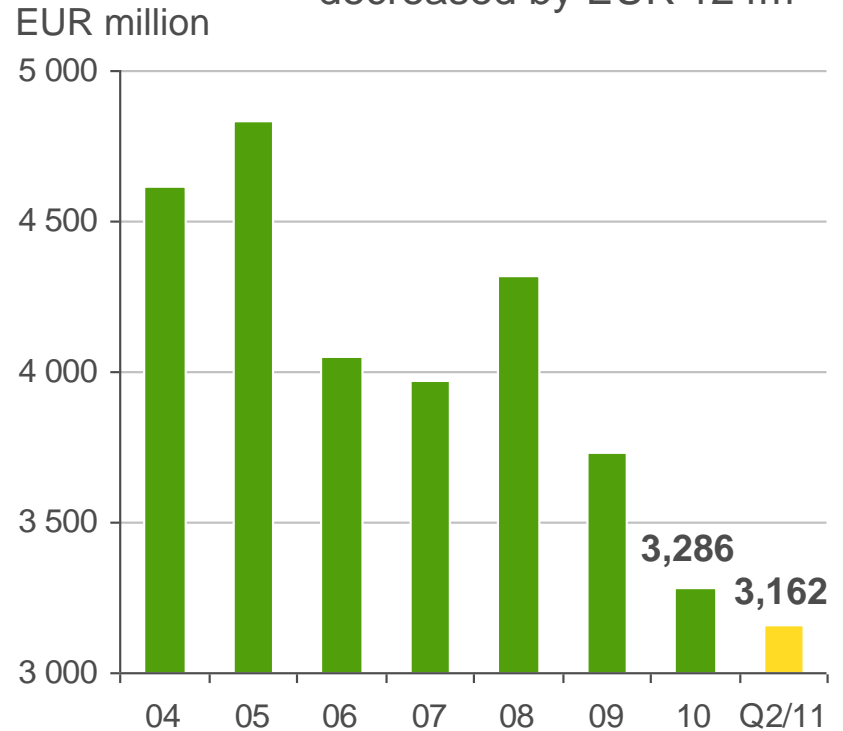
- Q2 2011 operating cash flow was EUR 280m (102m)
- Cash flow after investing activities was EUR 1,030m in the past 12 months
- Fast digestion of the additional debt from the Myllykoski transaction
- Room for strategic actions
- Cash flow-based dividend

Balance sheet continued to strengthen

Gearing ratio
improved by 2pp



Net debt
decreased by EUR 124m



Liquidity was EUR 1.7bn
repayments EUR 0.9bn in 2011-12

Earnings guidance for 2011 unchanged (*)

- 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

Myllykoski acquisition



Consolidation and restructuring are required to create value in the Paper business

- UPM is determined to be the cost leader in the European paper industry and the global leader in magazine papers
- A fundamental improvement in cost efficiency and value creation in the Paper business are necessary. These are best achieved through consolidation and restructuring
- The merits of the Myllykoski acquisition are clear. It creates UPM a unique momentum for profitability improvement

UPM aims for a step change in its Paper business profitability

MYLLYKOSKI ACQUISITION

Myllykoski acquisition

UPM acquired Myllykoski Oyj and Rhein Papier GmbH

- Enterprise value EUR 900 million
- Publication paper production capacity of 2.8 million tonnes
- 0.8% stake in Pohjolan Voima Oy (PVO)

EU Commission approved the transaction on 13 July 2011 and it was completed on 1 August

Financing

- UPM issued 5 million new shares at the subscription price of EUR 10.84 per share
- UPM raised bank loans of EUR 800 million

Summary of the financial impacts

Earnings and cash flow

- Preliminary estimate for annual cost synergies exceeds EUR 100 million
- Cash flow enhancing from the second half of 2011
- Earnings per share enhancing from 2012

Other

- UPM will book a one-off gain of approximately EUR 40 million in Q3 2011
- Preliminary estimate for restructuring costs and investments EUR 100-150m

Balance sheet

- Net debt increases by approximately EUR 800 million
- Gearing estimated to increase by 11 percentage points
 - UPM gearing on 30 June was 44%

MYLLYKOSKI ACQUISITION

Pro forma financials – Group

	Reported 1-6/2011	Adjustments	Pro forma 1-6/2011
Sales, €m	4,779	722	5,501
EBITDA, €m	751	33	784
Operating profit, €m	487	-7	480
– <i>excl. special items, €m</i>	399	-7	392
Profit before tax, €m	511	-24	487
– <i>excl. special items, €m</i>	355	-24	331
Profit for the period	464	-17	447

Near term focus

- Customers and brand alignment
- UPM introduction to Myllykoski employees
– learning of best practices and achieving together
- Speed in integration and prompt capturing of synergies
- Now access to detailed information.
The planning work to identify cost synergies is proceeding towards announcement as soon as possible, however latest by mid-September





Summary

- Q2 2011 was a steady quarter – earnings outlook for H2 is stable
- Broad-based demand growth has levelled off and cost increases are moderating
- Myllykoski acquisition gives UPM the momentum for a step change in its Paper business profitability
- The planning work to identify cost synergies is proceeding towards announcement as soon as possible, however latest by mid-September

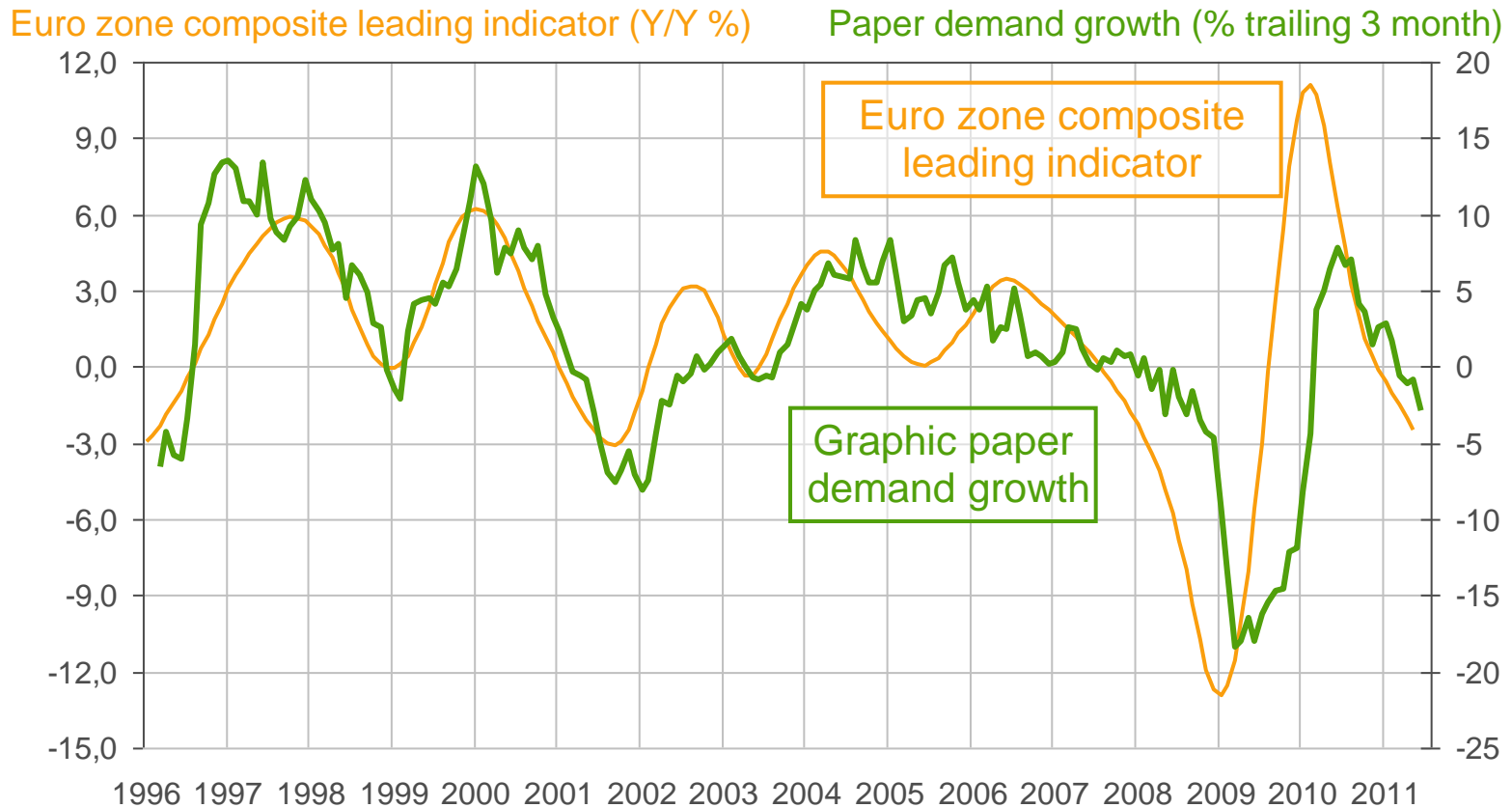


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BUSINESS DRIVERS

Expectations for the economy affect demand for UPM's products

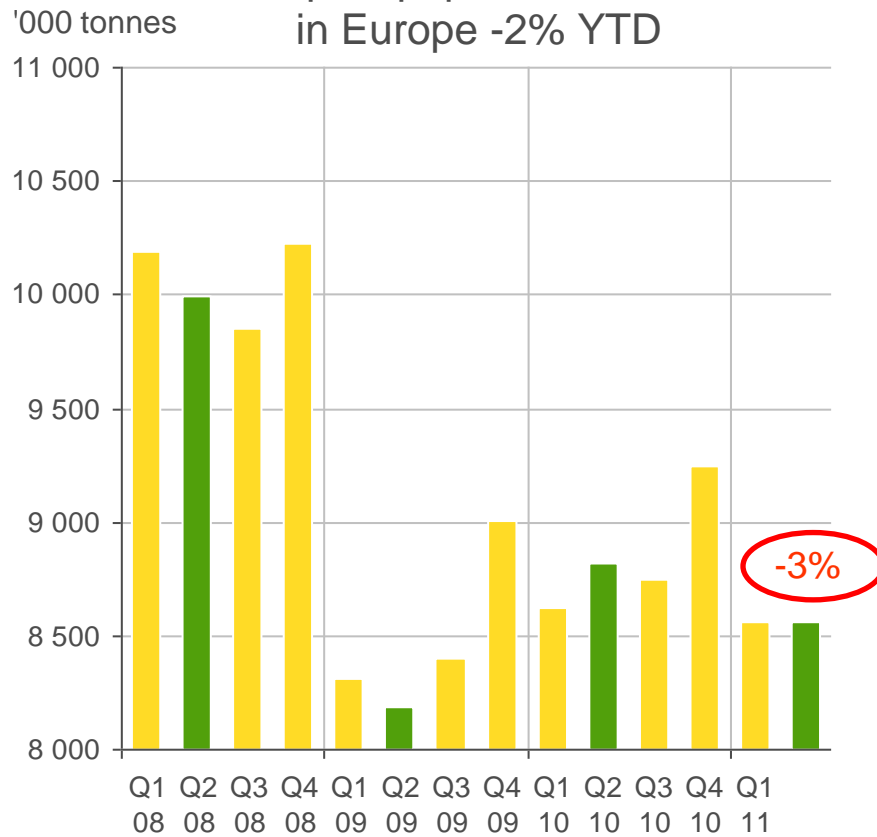


Source: Cepiprint, Cepifine, OECD

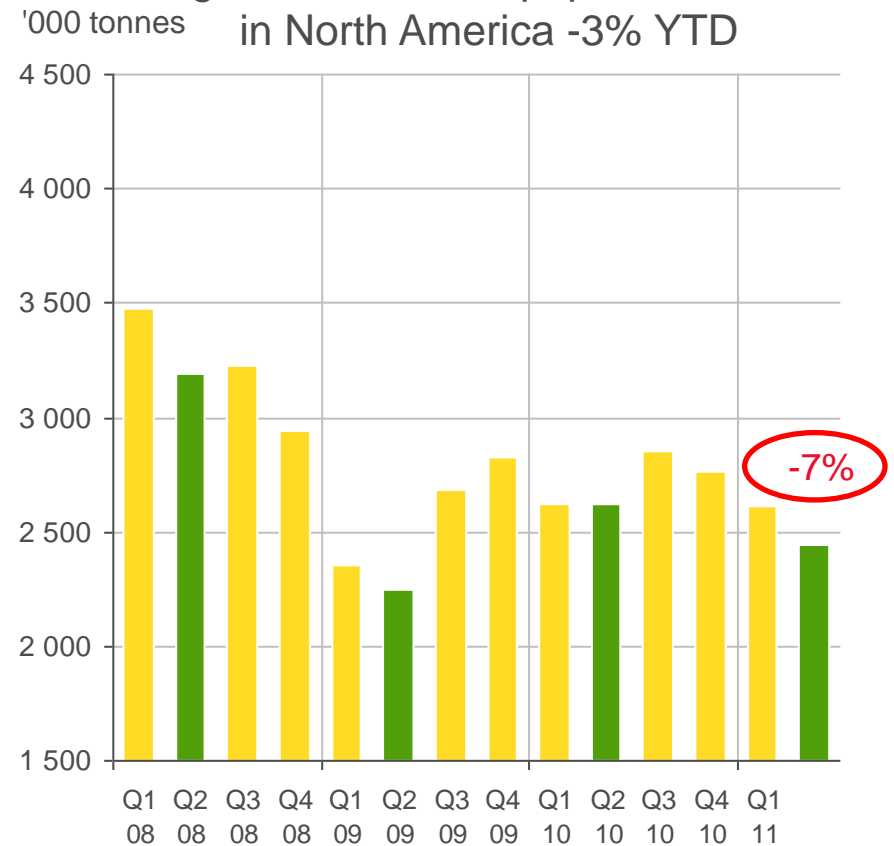
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Graphic papers demand

Graphic papers demand in Europe -2% YTD



Magazine and WFC papers demand in North America -3% YTD



Source: Cepiprint/fine, PPPC

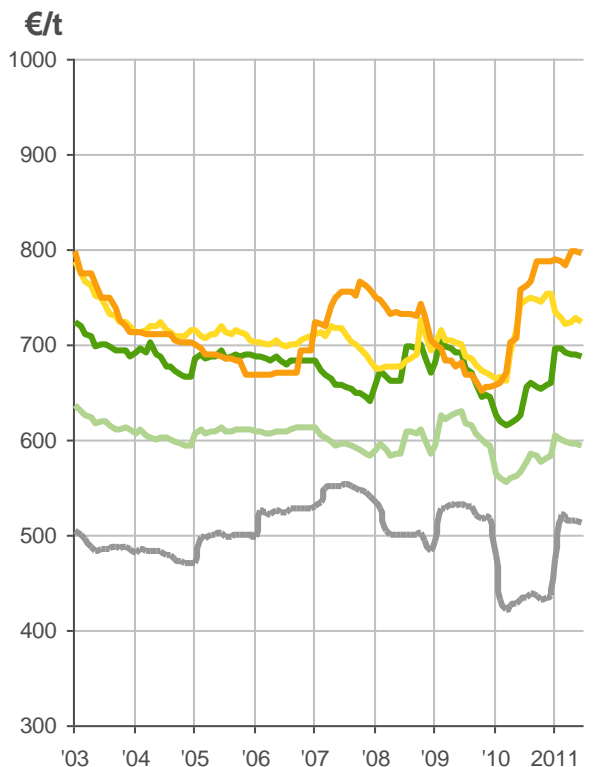
BUSINESS DRIVERS

Graphic paper prices

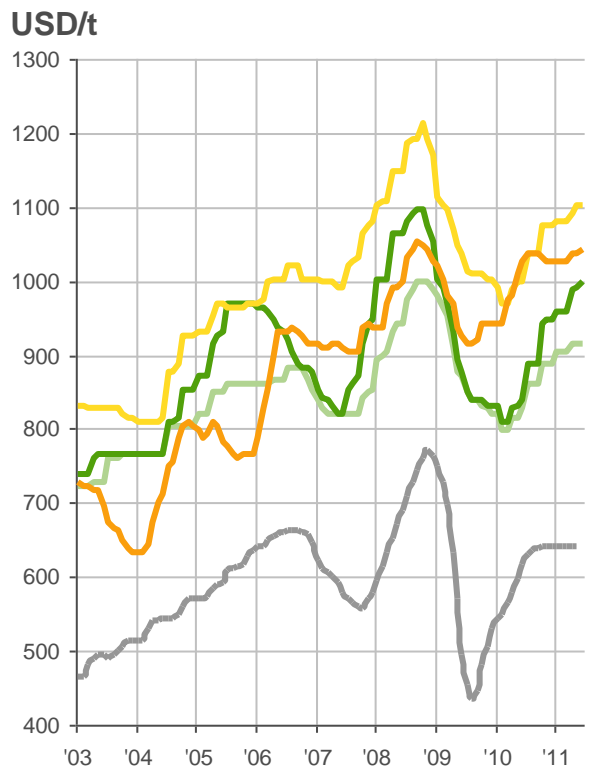


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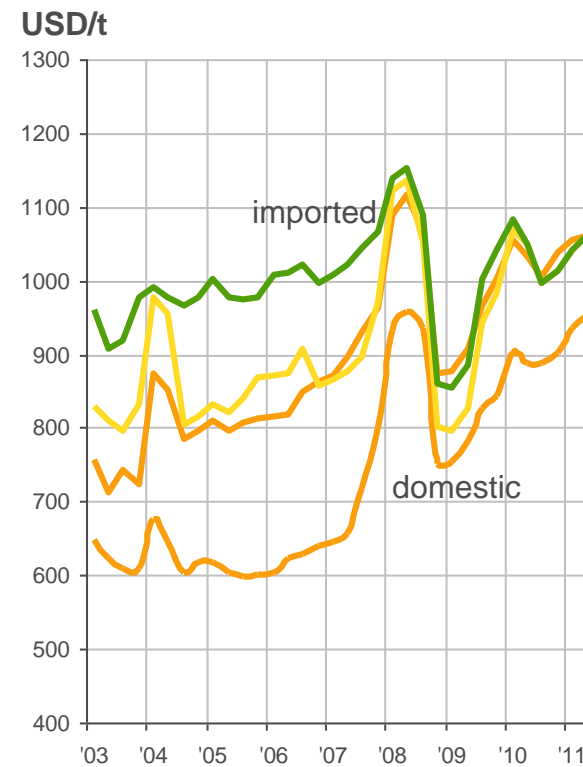
Europe



North America



China



- News 45 g/m²
- LWC off 60 g/m²
- WFUr 80 g/m²
- SC rg 56 g/m²
- WFCr 100 g/m²

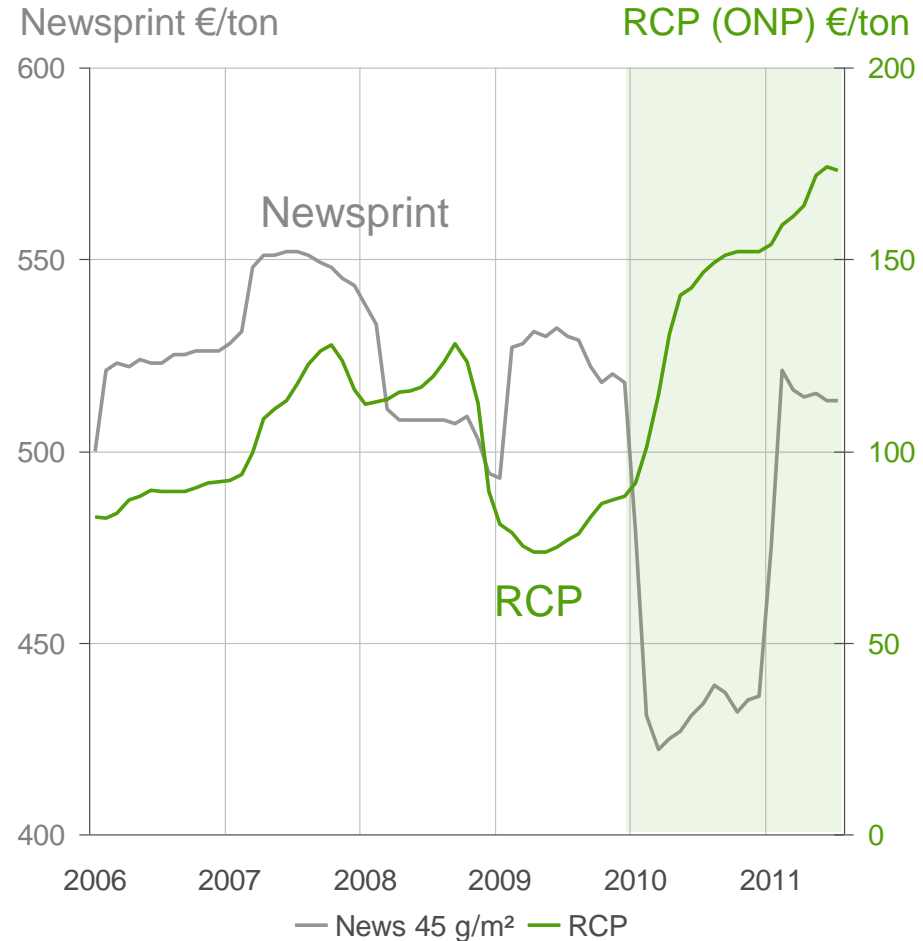
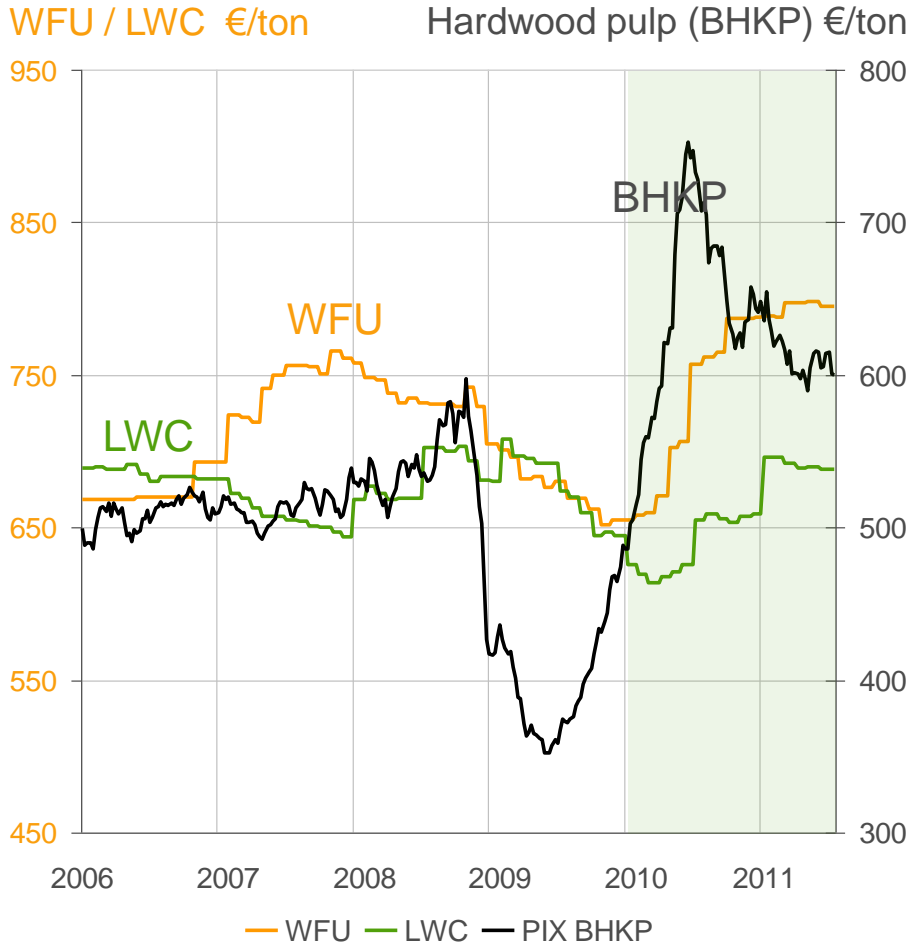
- News 48,8 g/m²
- LWC 59,2 g/m²
- WFUr off 74 g/m²
- SC 51,8 g/m²
- WFCr 88,8 g/m²

- WFU s 80-120 g
- WFC s 128-157 g

Source: PPI, RISI

BUSINESS DRIVERS

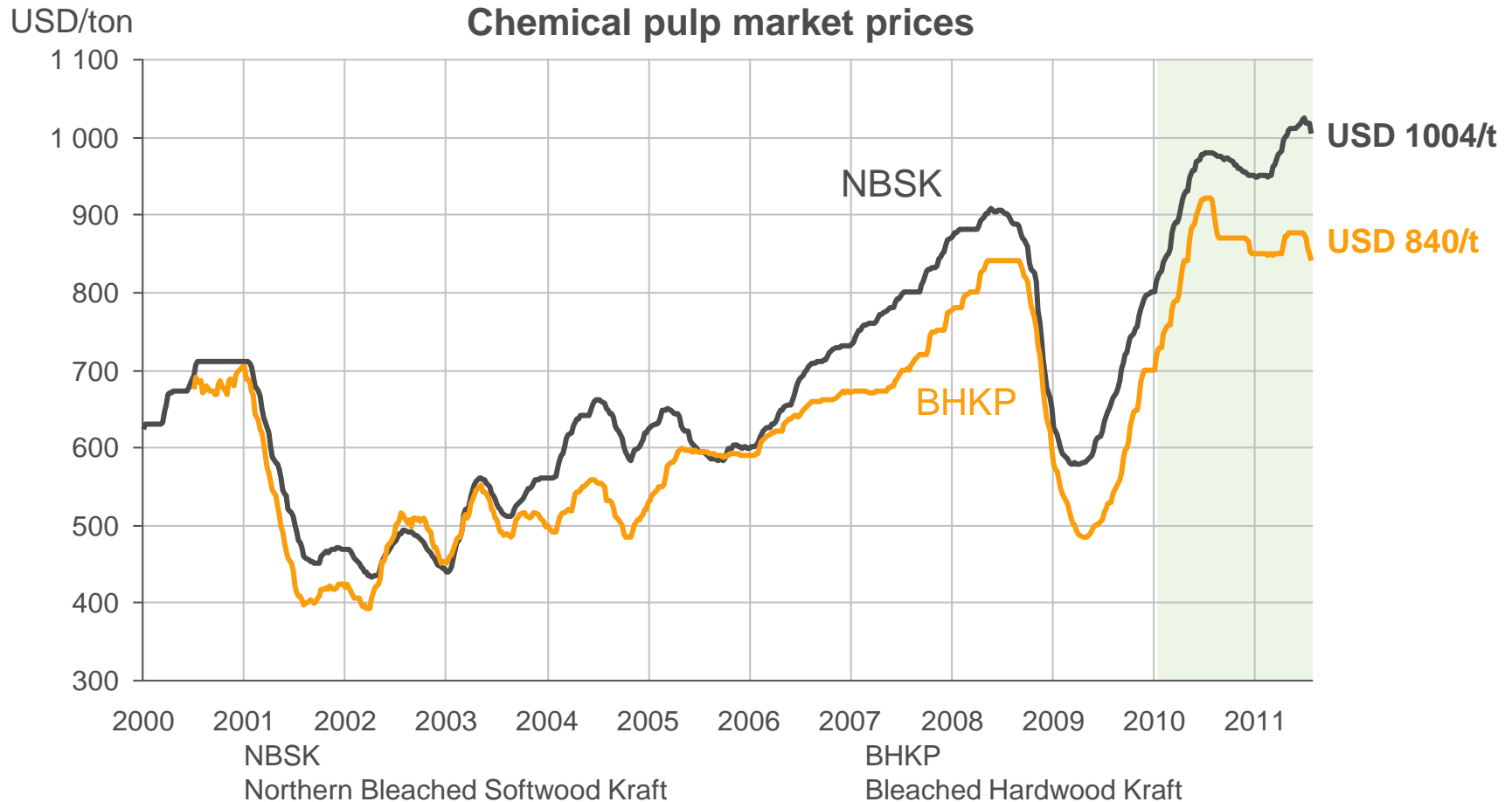
Paper prices increased from last year's bottom, but fibre cost pressure continues



Source: FOEX Indexes Ltd., PPI, RISI

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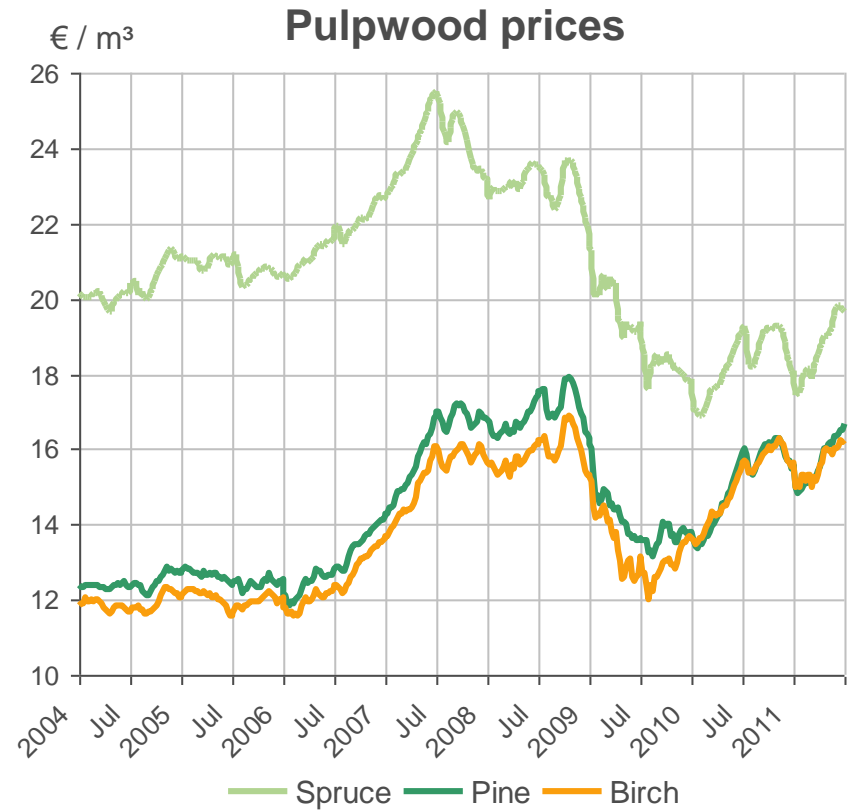
Chemical pulp market prices remained strong in Q2 2011



Source: FOEX Indexes Ltd.

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Stumpage prices in Finland



Source: Metla



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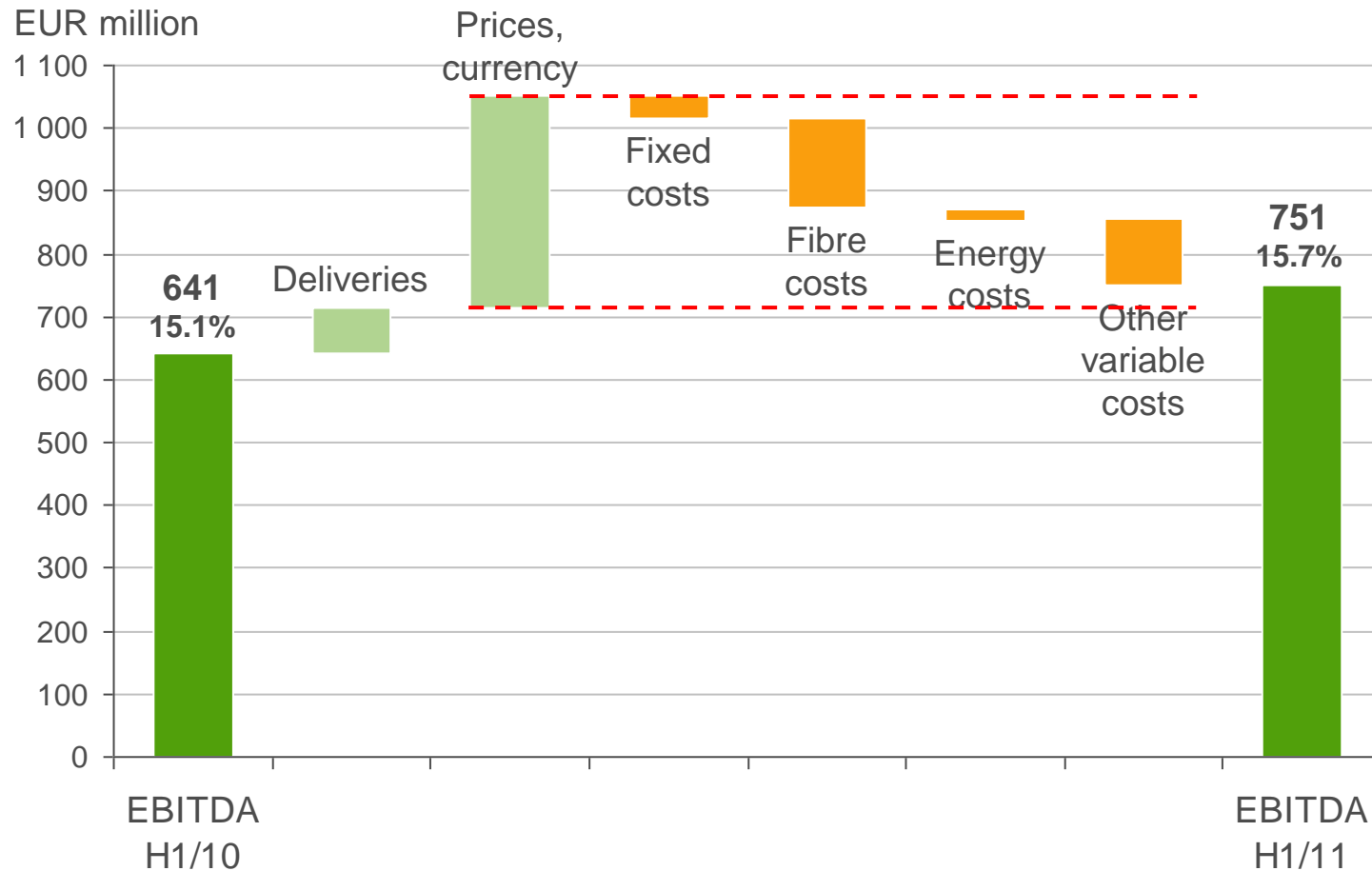
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Key financials

	Q2/11	Q2/10	Q1- Q2/11	Q1- Q2/10	2010
Sales, €m	2,423	2,216	4,779	4,255	8,924
Sales growth (%)	+9%		+12%		
EBITDA, €m	372	353	751	641	1,343
% of sales	15.4	15.9	15.7	15.1	15.0
Operating profit, excl. special items, €m	201	199	399	315	731
EPS excl. special items, €	0.26	0.29	0.58	0.44	0.99
Net cash from operating activities, €m	280	102	446	311	982

FINANCIALS

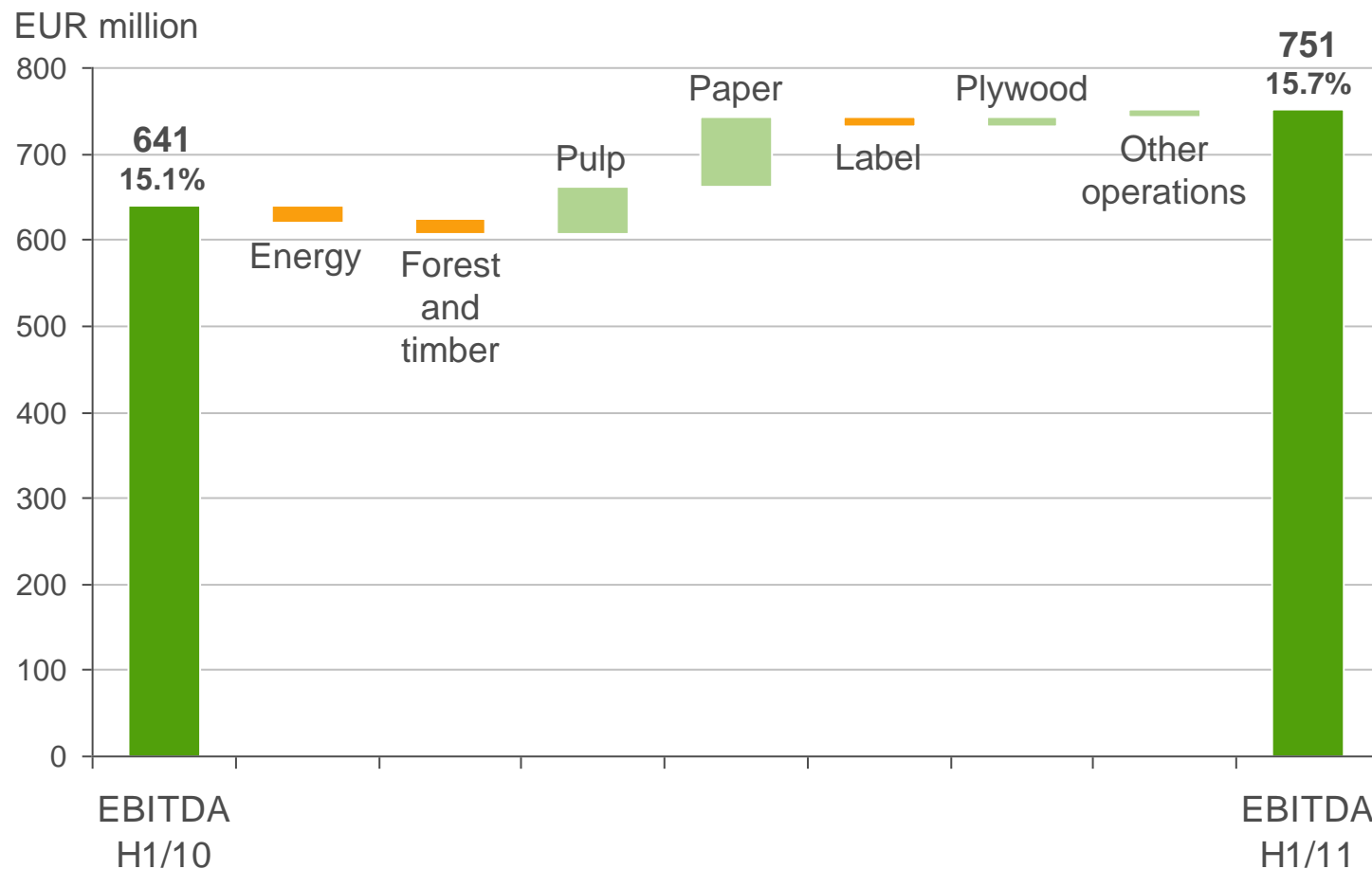
H1 2011 EBITDA increased by 17% higher prices offset the rise in costs



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H1 2011 EBITDA

main improvement in Paper and Pulp

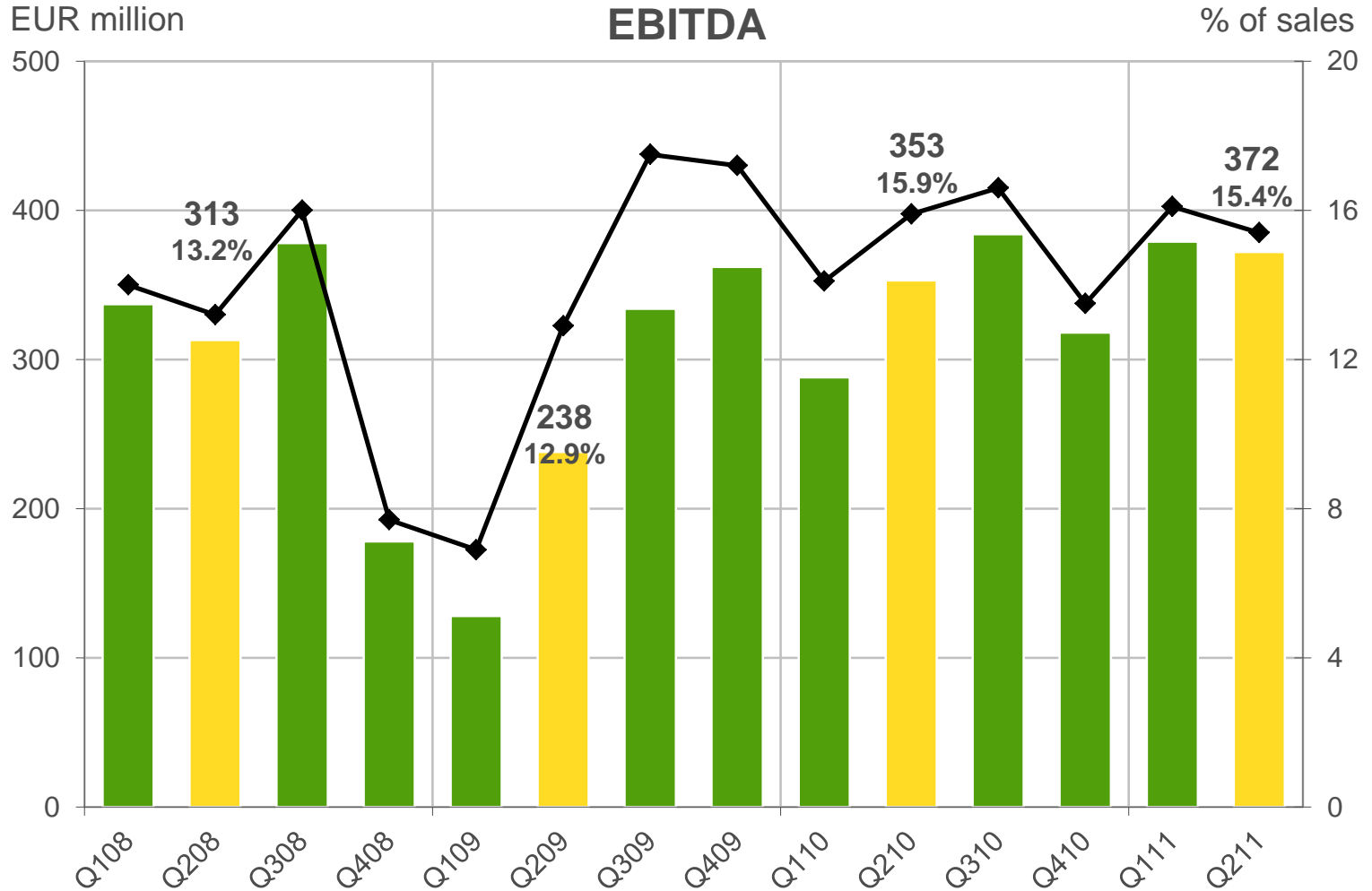


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Q2 2011 EBITDA increased by 5% from last year



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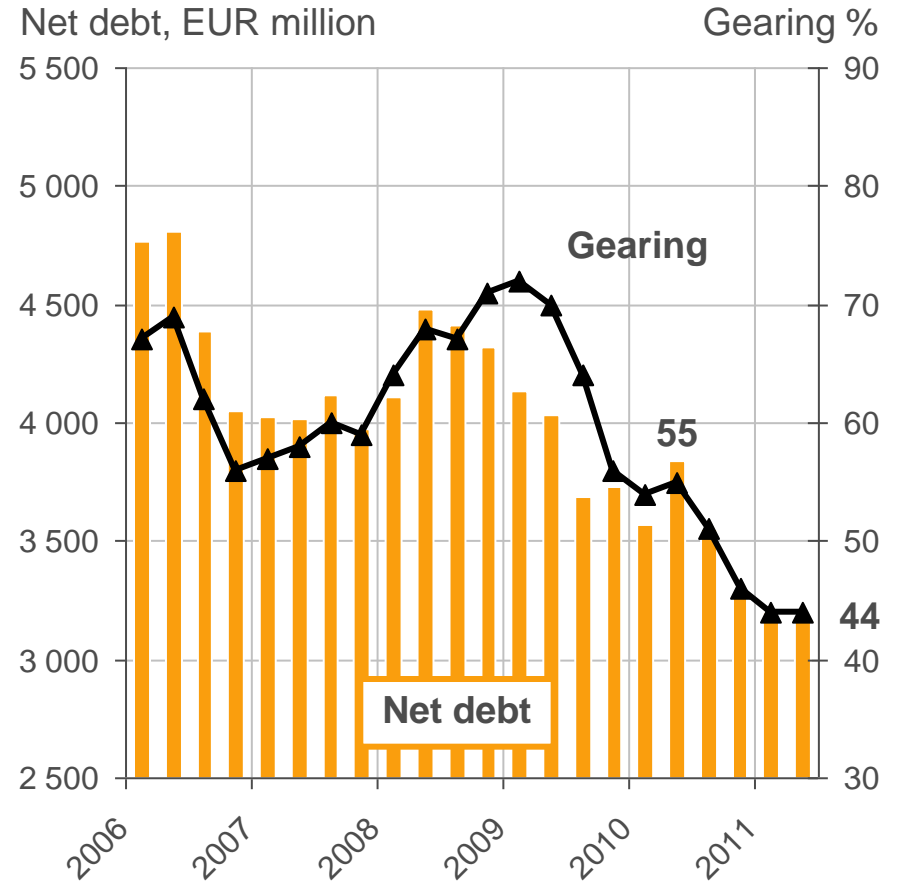
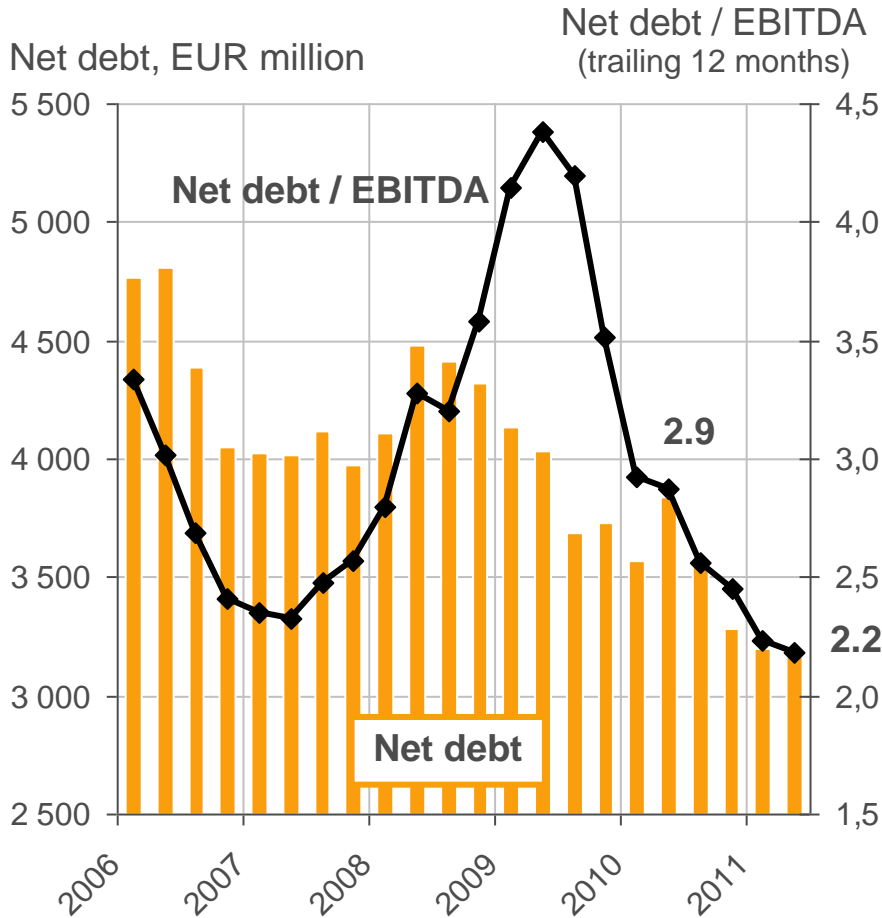
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Cash flow

€ million	Q2/11	Q2/10	Q1- Q2/11	Q1- Q2/10	2010
EBITDA	372	353	751	641	1,343
Cash flow before change in working capital	366	360	684	610	1,301
Change in working capital	-78	-224	-209	-242	-139
Finance costs and income taxes	-8	-34	-29	-57	-180
Net cash from operating activities	280	102	446	311	982
Capital expenditure	-51	-48	-131	-97	-241
Asset sales and acquisitions	150	2	153	11	46
Cash flow after investing activities	379	56	468	225	787

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Balance sheet strengthened in H1 – net debt decreased by EUR 124m and gearing by 2pp ^{*)}



^{*)} from the beginning of the year

Maturity profile and liquidity

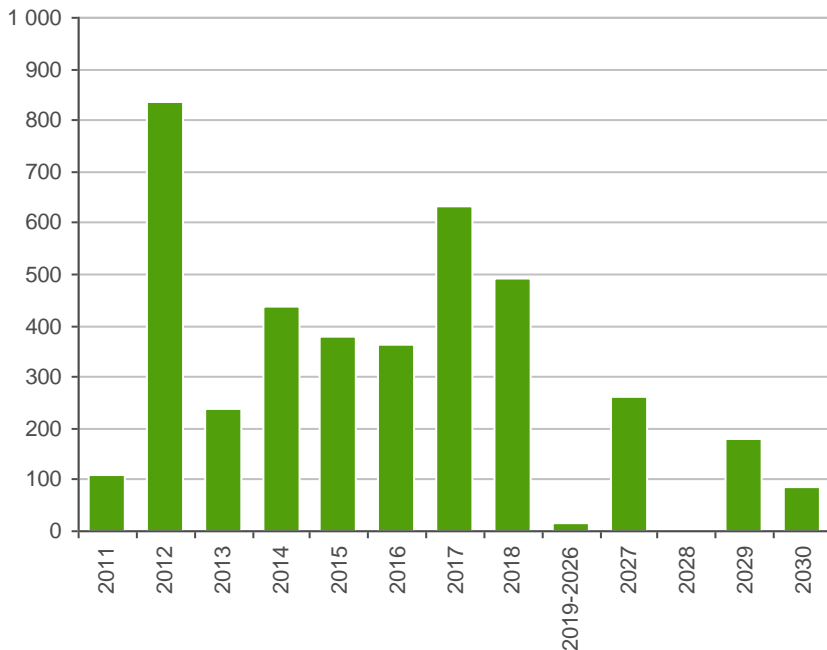
Liquidity

Liquidity on 30 June 2011 was € 1.7bn
(cash and unused credit facilities)

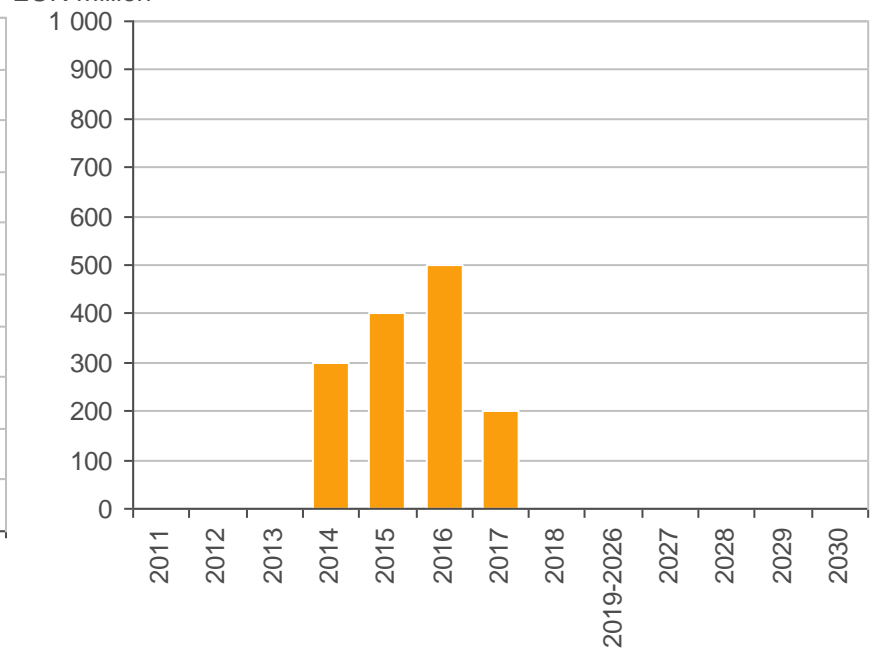
Committed credit facilities EUR 1.4bn

- syndicated credit facility EUR 500 million
- bilateral committed credit facilities EUR 900 million

EUR million **Maturity profile of outstanding debt (*)**



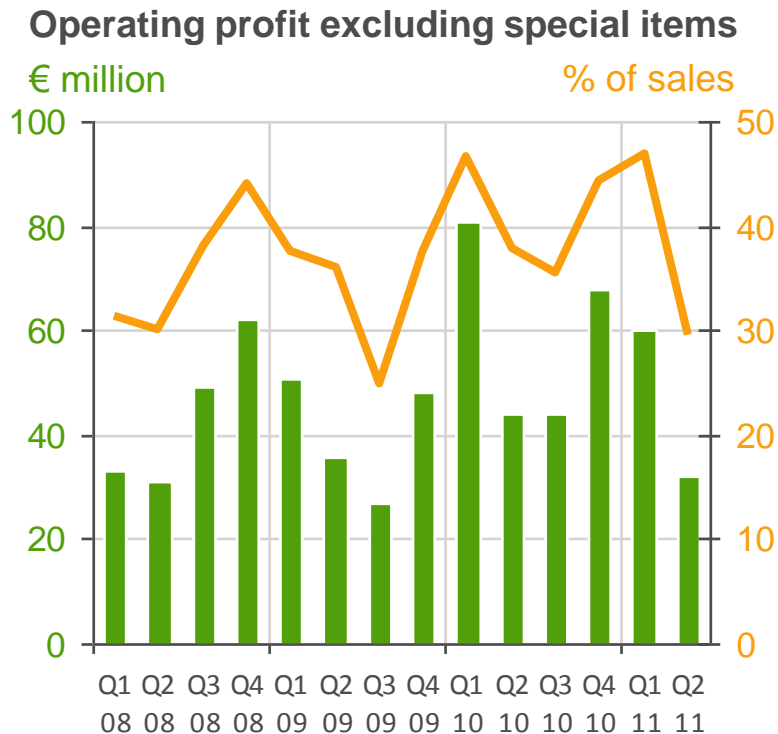
EUR million **Committed credit facilities' maturities**



*) Including the additional debt from the Myllykoski acquisition on 1 August


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Energy Q1-Q2/11 vs. Q1-Q2/10 – operating profit decreased due to the lower sales volume



- Average sales price for electricity decreased by 3%
- Electricity sales volume was 4% lower due to lower hydro production as a result of the weak hydrological situation in Finland

Sales **Q1-Q2 2011 236**  **-19%**
 EUR million Q1-Q2 2010 290

Operating profit **Q1-Q2 2011 92**  **-33**
 EUR million*) Q1-Q2 2010 125 EUR million

*) excluding special items

FINANCIALS

Pulp Q1-Q2/11 vs. Q1-Q2/10 – profitability

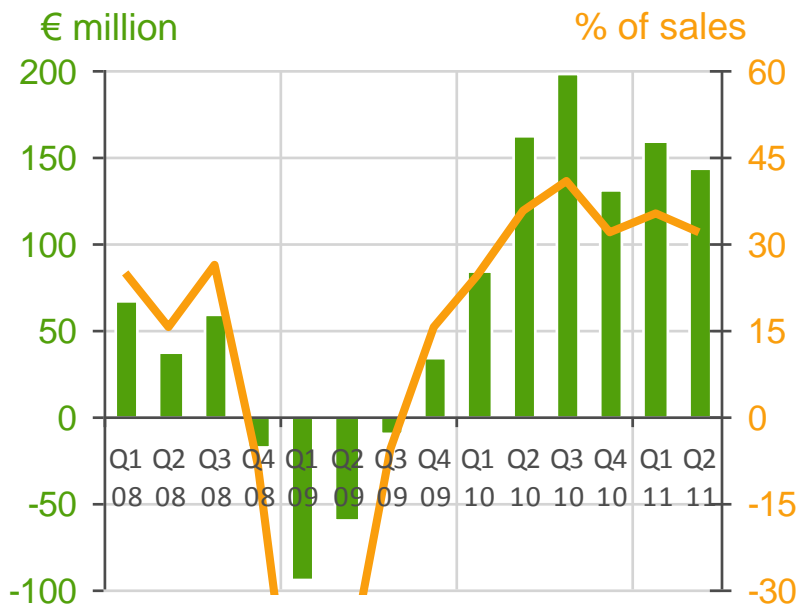
improved due to higher sales price and deliveries

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Operating profit excluding special items



- Operating profit improved due to higher average pulp sales price and delivery volumes
- Higher wood costs had a negative impact on profitability

Sales **Q1-Q2 2011 903** **13%**
 EUR million Q1-Q2 2010 796

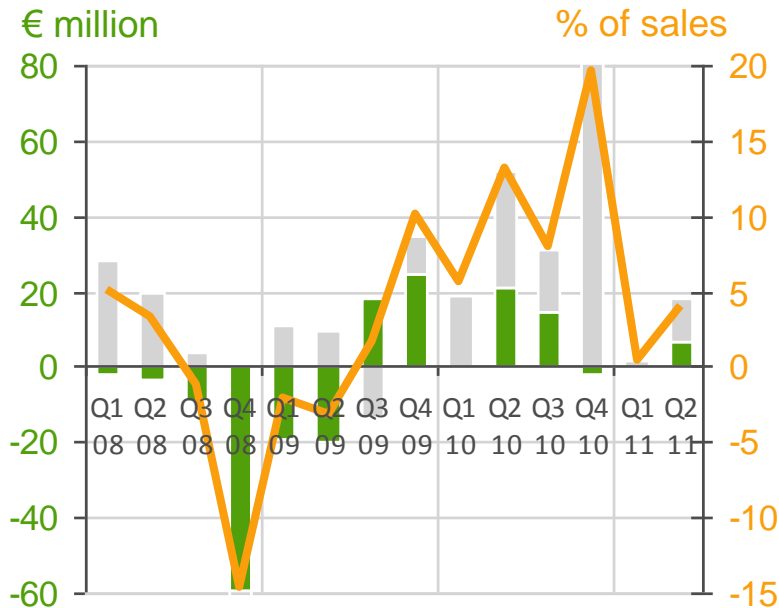
Operating profit **Q1-Q2 2011 303** **+57**
 EUR million*) Q1-Q2 2010 246 EUR million

*) excluding special items

Forest and Timber Q1-Q2/11 vs. Q1-Q2/10


– operating profit decreased due to smaller increase in the fair value of biological assets

Operating profit excluding special items



- Operating profit decreased due to a smaller increase in the fair value of biological assets
- The fair value of biological assets less wood harvested increased by EUR 13 million (50 million)

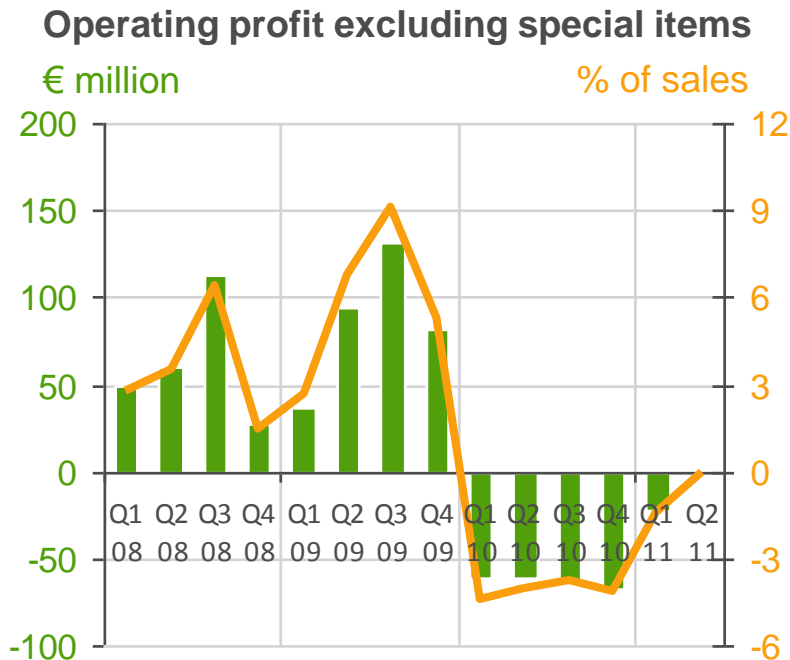
Sales **Q1-Q2 2011 834**  **14%**
 EUR million Q1-Q2 2010 732

Operating profit **Q1-Q2 2011 20**  **-51**
 EUR million*) Q1-Q2 2010 71 EUR million

*) excluding special items


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Paper Q1-Q2/11 vs. Q1-Q2/10 – operating loss decreased mainly due to higher paper prices



- Operating loss decreased - break even in Q2 2011
- Average paper price increased by 8%
- Variable costs increased, especially in recovered paper and chemical pulp

Sales **Q1-Q2 2011 3,313**  **13%**
 EUR million Q1-Q2 2010 2,941

Operating profit **Q1-Q2 2011 -23**  **+99**
 EUR million*) Q1-Q2 2010 -122 EUR million

*) excluding special items

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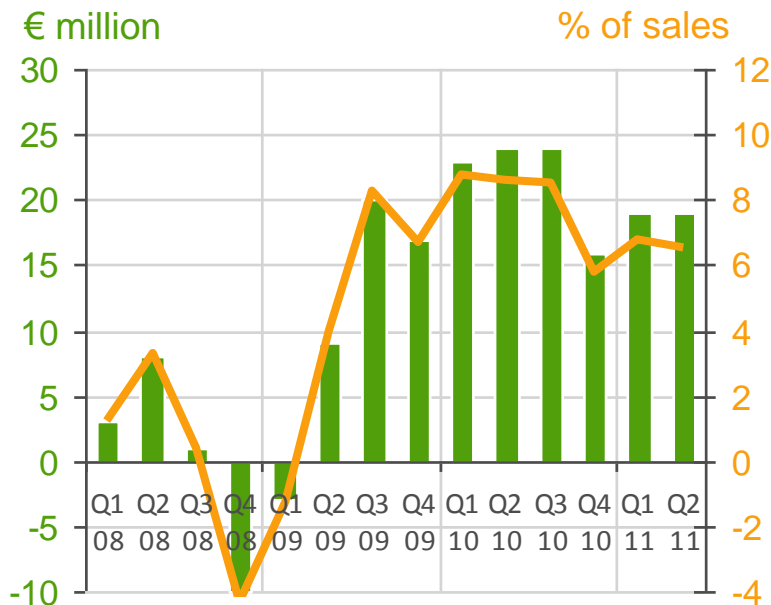
Pro forma financials – Paper business area

	Reported 1-6/2011	Adjustments	Pro forma 1-6/2011
Sales, €m	3,313	722	4,035
EBITDA, €m	228	33	261
Operating profit, €m	-21	-7	-28
– <i>excl. special items, €m</i>	-23	-7	-30
Paper deliveries, 1,000 t	4,909	1,169	6,078

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Label Q1-Q2/11 vs. Q1-Q2/10 – operating profit decreased due to higher raw material costs

Operating profit excluding special items



- Operating profit decreased due to higher raw material costs
- Sales prices and delivery volumes increased
- UPM completed the acquisition of Gumtac, the Brazilian labelstock and slitting business of BIC Group

Sales **Q1-Q2 2011 571**  **6%**
 EUR million Q1-Q2 201 540

Operating profit **Q1-Q2 2011 38**  **-9**
 EUR million*) Q1-Q2 2010 47 EUR million

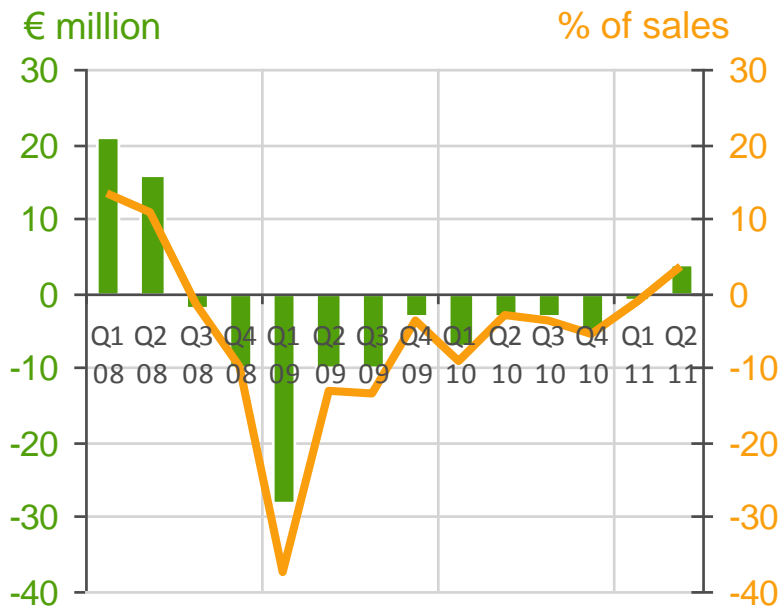
*) excluding special items

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Plywood Q1-Q2/11 vs. Q1-Q2/10 – operating profit increased due to higher deliveries and prices



Operating profit excluding special items



- First operating profit since the start of the recession
- Operating profit increased mainly due to higher delivery volumes and increased sales prices
- Deliveries increased by 10% from last year

Sales **Q1-Q2 2011 201** **16%**
 EUR million Q1-Q2 2010 173

Operating profit **Q1-Q2 2011 3** **+13**
 EUR million*) Q1-Q2 2010 -10 EUR million

*) excluding special items



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