The Biofore Company UPM

UPM FINANCIAL REVIEW 2011

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President and CEO
1 February, 2012

Weaker economy towards the end of 2011, continuous progress according to strategy

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2011: EBITDA and operating cash flow improved from last year

- Succeeded in raising prices to cover substantial variable cost increases
- Board's dividend proposal EUR 0.60 (0.55) per share

Q4 2011: EBITDA decreased by 5% from last year

- Weaker demand especially in Europe, prices flat except in pulp
- Raw material market prices started to decline, but costs were still at peak
- Strong operating cash flow at EUR 310m

Consolidation, restructuring and renewal of business portfolio

- Myllykoski acquisition, the associated restructuring and Schongau energy investment to improve cost competitiveness
- Divesting packaging papers and RFID businesses
- First wood-based biodiesel project in the world

Q4 2011 – delivery volumes decreased while costs remained at their peak

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Q4/2011 vs. Q4/2010		2011 vs. 2010	
Sales EUR 2,686 m	+14%	EBITDA EUR 1,383 m	+40 m
EBITDA EUR 301 m	-5%	Operating cash flow EUR 1,041 m	+59 m
Operating profit (* EUR 147 m	-31%	Net debt EUR 3,592 m	+306 m
EPS (* EUR 0.16	-41%	Gearing 48%	+2 pp

*) excluding special items

Q4 2011 deliveries decreased in most businesses from last year – prices increased in publication papers, fine papers, Label and Plywood

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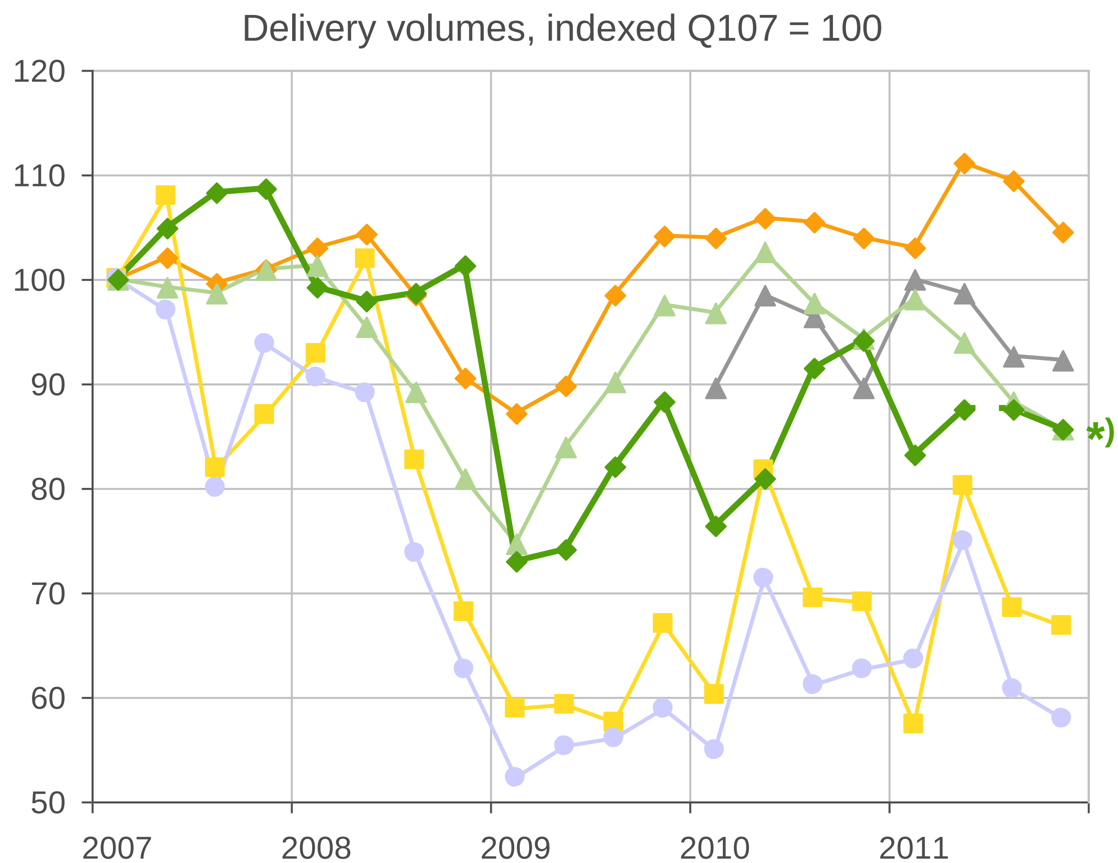

Change in deliveries, %	Q411/ Q410	Q411/ Q311	2011/ 2010
Label	0	-4	2
Pulp	3	0	3
Publication papers (*	-10	-2	-1
Fine and spec. papers	-9	-3	-7
Timber	-3	-2	-3
Plywood	-8	-5	3

*) publication paper development in Q4 and Q3 pro forma, including Myllykoski

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EBITDA decreased by 9% in Q4 2011 from Q3 2011

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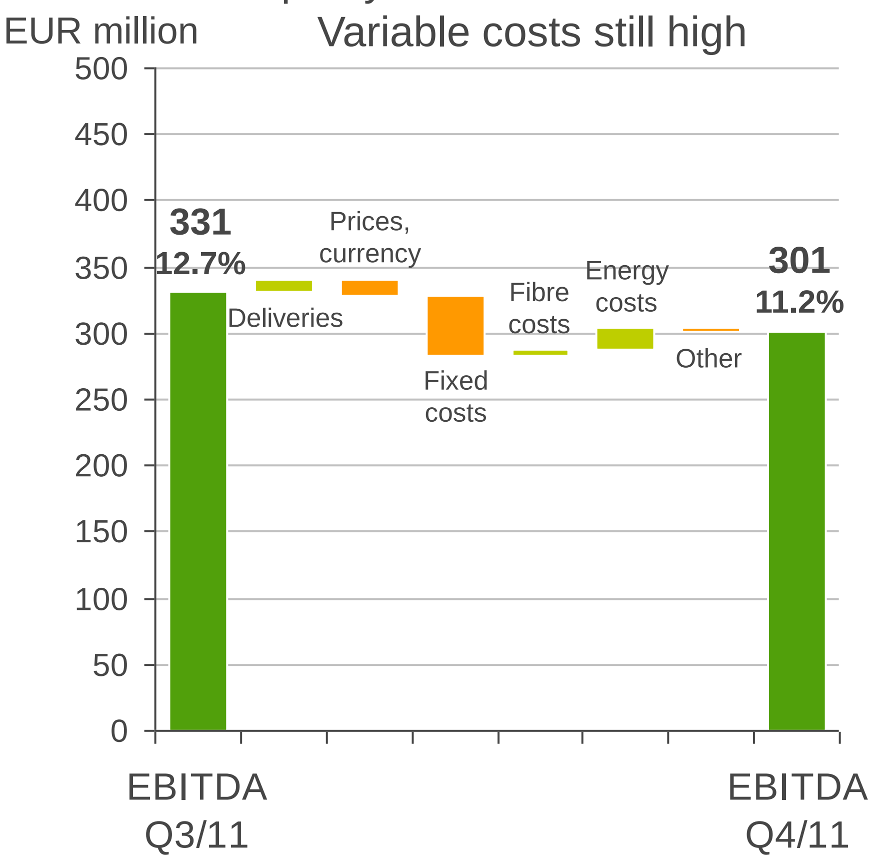
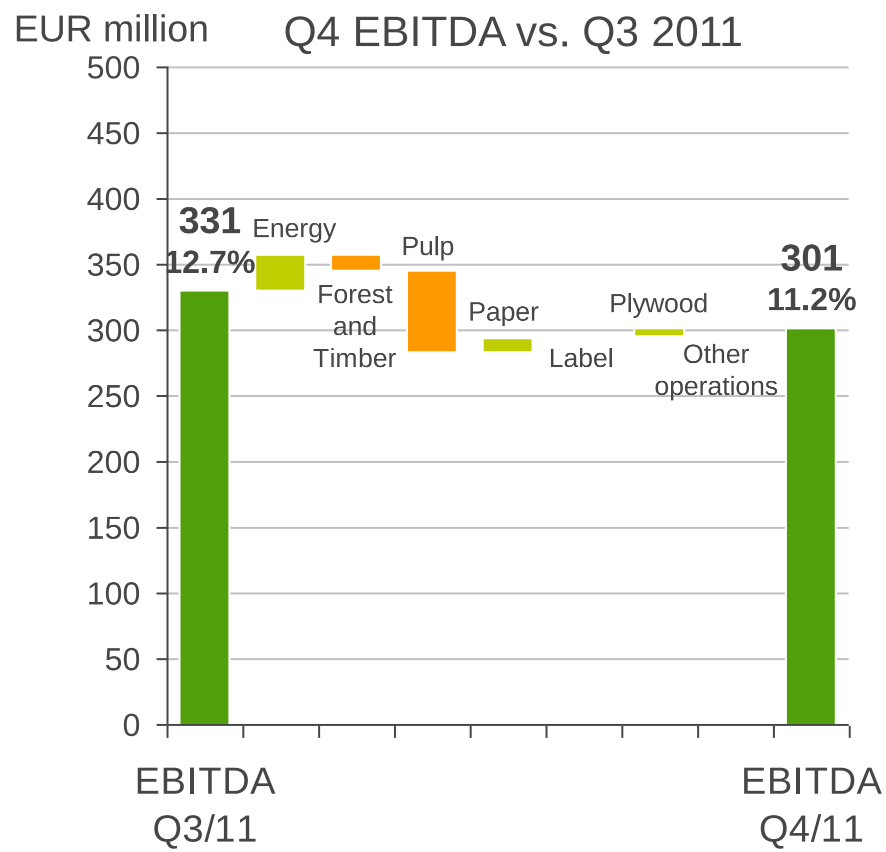
Seasonally high fixed costs in Q4, partly due to maintenance. Variable costs still high



Lower pulp prices and weaker sawn timber markets affected Q4 EBITDA vs. Q3 2011



Strong cash flow continued

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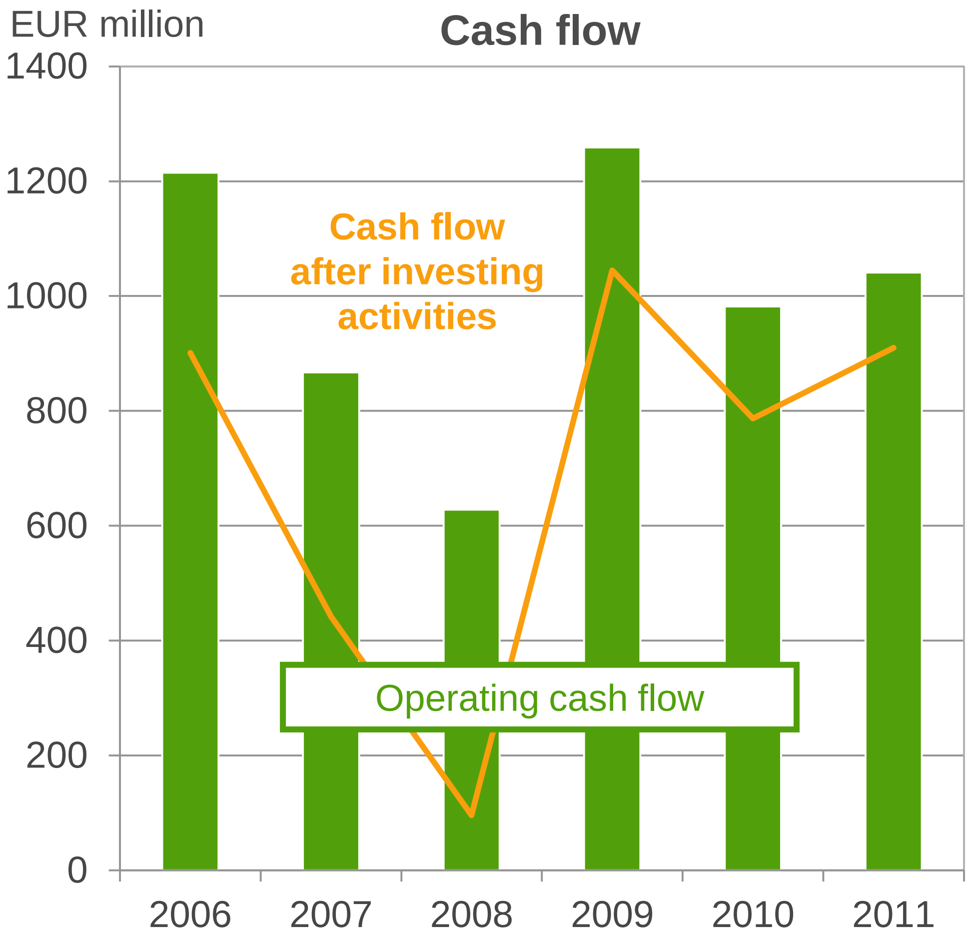

- Q4 2011 operating cash flow was EUR 310m (343m)
- Cash flow after investing activities was EUR 910m in 2011
- Fast digestion of the additional debt from the Myllykoski acquisition
- Room for strategic actions
- Cash flow-based dividend

Dividend proposal for 2011

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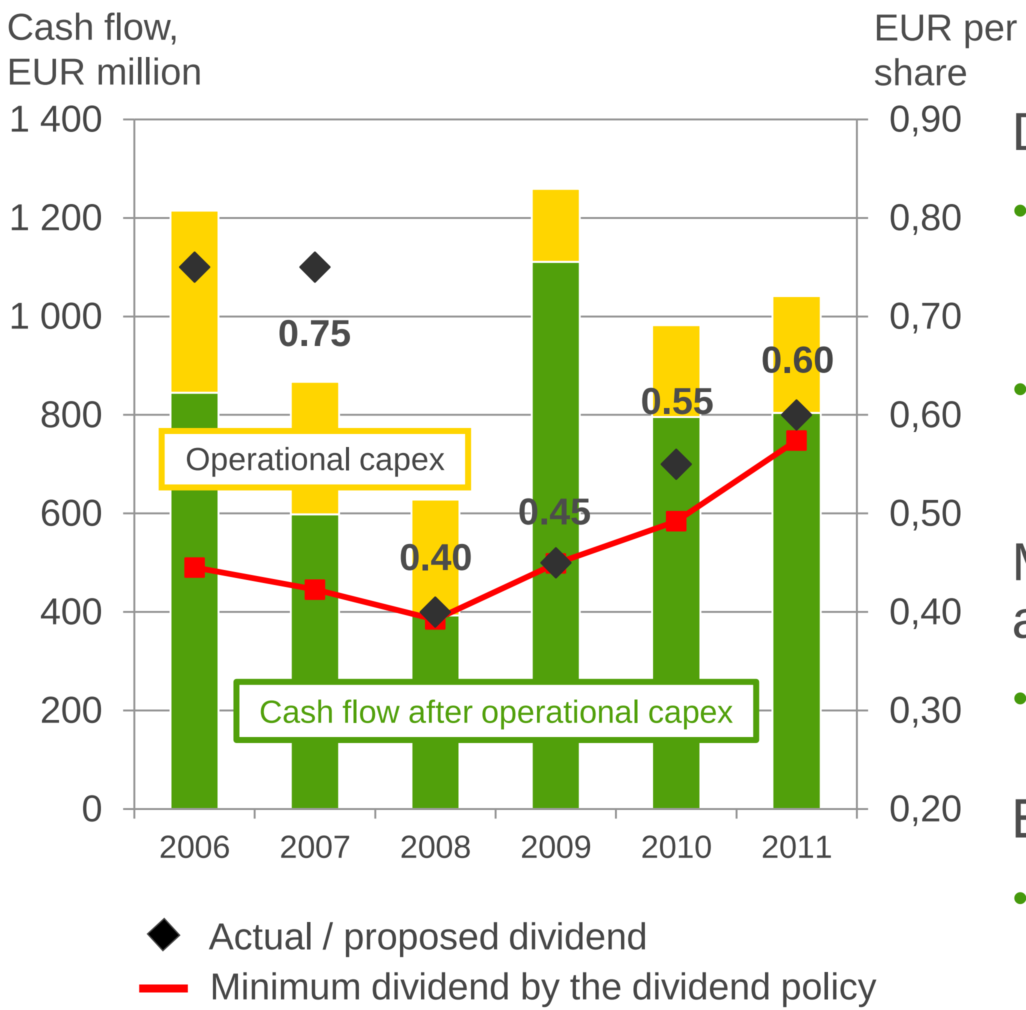

Dividend policy

- 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 2011 according to dividend policy

- EUR 0.58 per share

Board's dividend proposal

- EUR 0.60 (0.55) per share

Strong balance sheet – net debt increased by EUR 306m from last year

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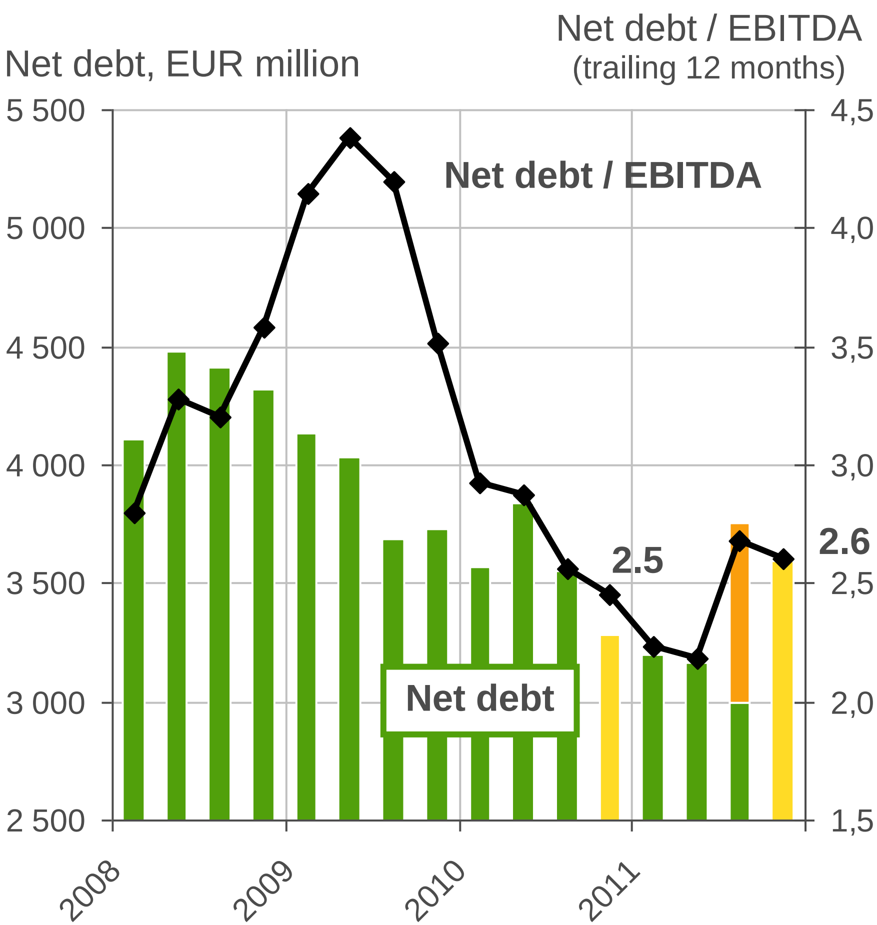

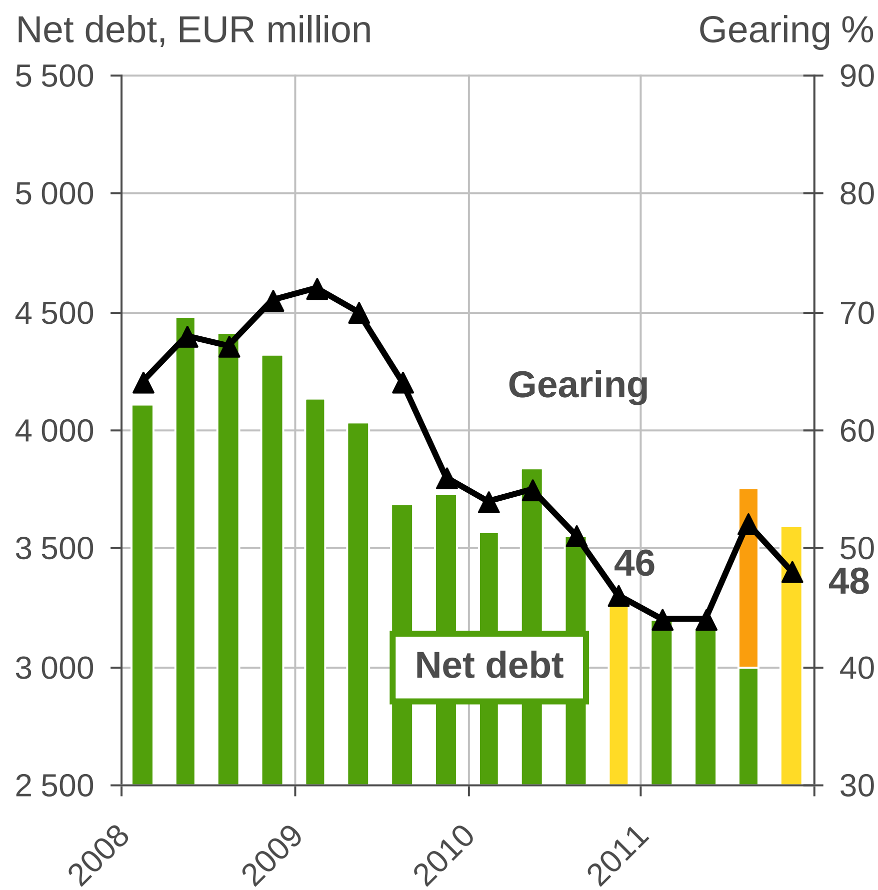

Outlook for 2012 (*

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- Operating profit excluding special items in H1/2012 is expected to be at around the same level as in H2/2011
- Mild recession is expected in Euro zone in early 2012, sovereign debt crisis introduces uncertainty
- In UPM's businesses, market conditions are estimated to have stabilised, taking into account seasonal variations
- Costs are expected to decrease in Q1/2012 from Q4/2011, both due to lower variable costs and materialising Myllykoski synergies
- Price outlook is broadly stable in Q1/2012 from Q4/2011
  - Average paper price in euros in Q1/2012 at about the same level as in Q4/2011
  - Pulp prices are expected to have reached the bottom by the end of 2011

(* See complete wording of the "Outlook" in the Financial Statements Release 2011

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STRATEGIC ACTIONS

CONSOLIDATION, RESTRUCTURING AND PORTFOLIO RENEWAL

Myllykoski integration and the associated cost competitiveness actions proceed on schedule

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- Target is to improve cost efficiency and profitability in Magazine papers, while improving customer offer
- UPM has closed down a total of 1 million tonnes of paper capacity
  - Myllykoski mill (600,000 tonnes of magazine papers) and Ettringen PM3 (110,000 tonnes of newsprint) in December 2011
  - Albbruck mill (320,000 tonnes of magazine papers) in January 2012, sheeting line transfer to Plattling mill in process
  - Stracel mill (280,000 tonnes of magazine papers) sales process continues
- Restructured overlapping paper sales networks
- Social plans implemented in order to alleviate the effects of personnel reductions in a responsible way
- New combined heat and power plant in Schongau mill to reduce energy costs (EUR 85m investment)

Myllykoski acquisition cost synergies on track

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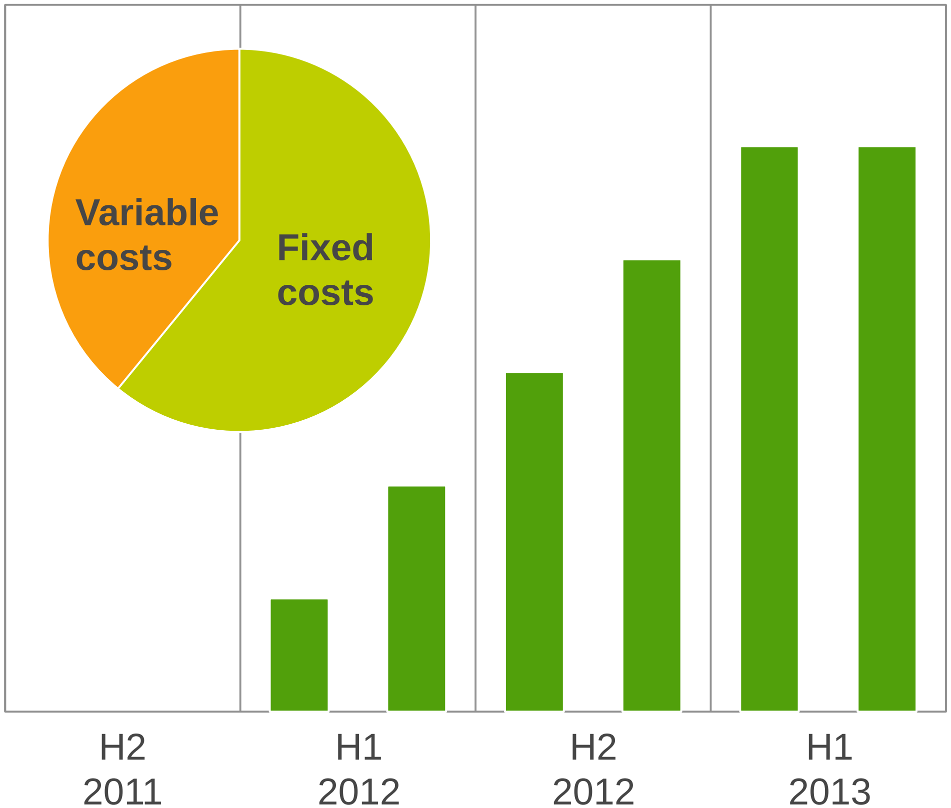
Estimated timing and sources of planned EUR 200m cost synergies



- Cost synergies started materialising in Q4/2011
- Actions implemented already for 65% of the total EUR 200m cost synergy
- More than EUR 100m is expected to be visible in 2012
- Full run-rate of EUR 200m expected in 2013

UPM divests its packaging paper assets

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- UPM sells its packaging paper production to Billerud AB for an enterprise value of EUR 130m
  - Pietarsaari PM 1 and Tervasaari PM 7, total capacity of approx. 300,000 tonnes, pro forma 2011 sales was EUR 220m and EBITDA EUR 18m
  - Mill real estates and infrastructure stay in UPM's possession
  - The companies have agreed on long-term market-based raw material and services agreements
  - 185 employees transfer to Billerud as old employees
  - UPM will report a one-off gain of approximately EUR 50m
  - Closing of the deal is expected during Q2/2012 (*
- Consolidation in the packaging papers business, Billerud is a solid leading producer
- Part of UPM paper business transformation, UPM is primarily focusing on graphic papers

*) subject to regulatory approval

UPM invests in wood-based biodiesel production in Lappeenranta

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- UPM invests in the world's first advanced wood based biodiesel production in Lappeenranta, Finland
- Main product is advanced, 2nd generation biodiesel
  - very close to fossil diesel EN590 standard quality, compatible with current diesel motors and fuel distribution network
  - 80% reduction in greenhouse gas emissions of transport
- Raw material is sustainably produced crude tall oil, a residue from pulp production
- Technology is based on UPM's innovations and long-term development work
- First step towards becoming a significant producer of advanced biofuels

UPM Lappeenranta biorefinery

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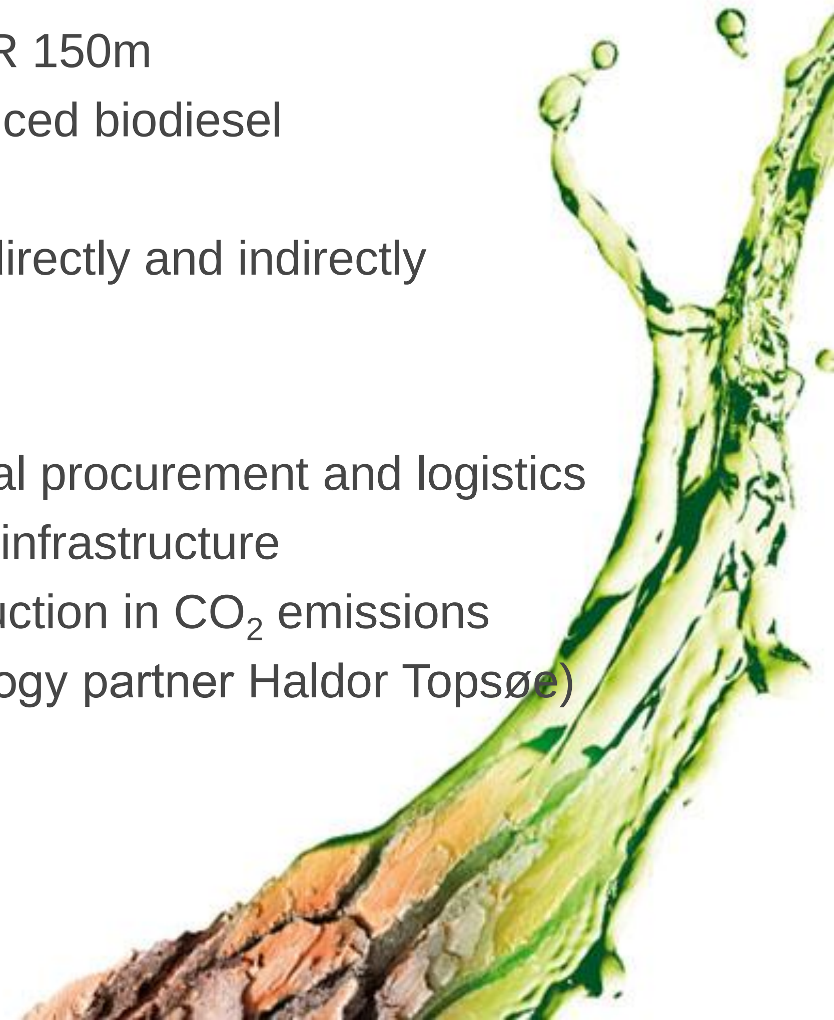
- Commercial scale industrial investment
  - Total investment of approximately EUR 150m
  - Production 100,000 tonnes/a of advanced biodiesel
  - Production starts in 2014
  - Employs approximately 200 persons directly and indirectly
- Profitable investment
  - Know-how and volumes in raw material procurement and logistics
  - Mill integrate synergies in energy and infrastructure
  - High quality product with genuine reduction in CO_2 emissions
  - UPM's innovative technology (technology partner Haldor Topsøe)
- Demand is growing fast



Demand for biofuels is growing fast

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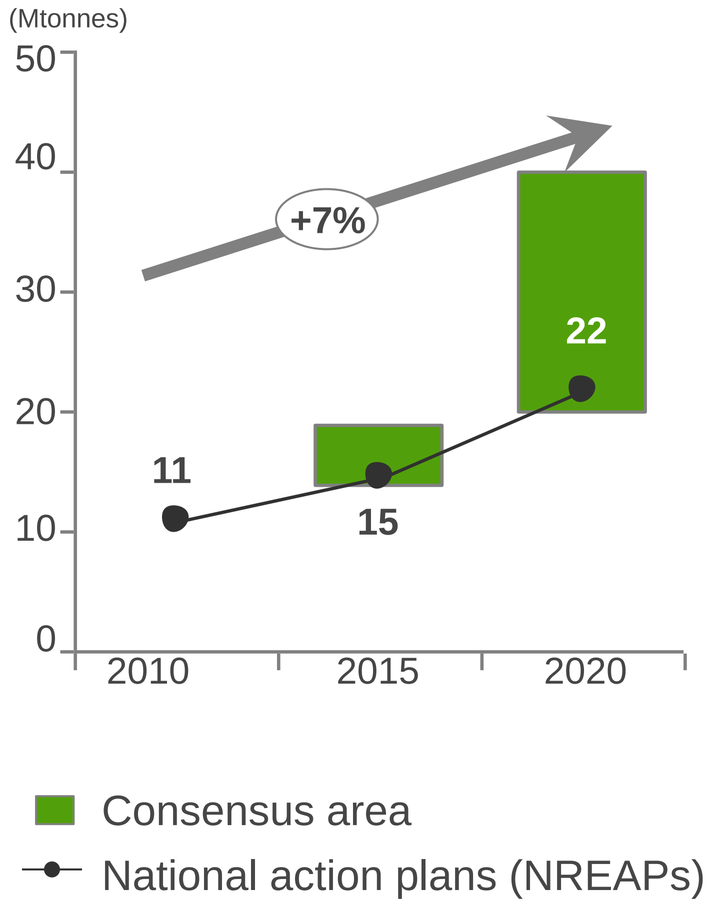
- Global demand is expected to exceed supply in the next few years
- Demand in EU is expected to grow by about 7% p.a.
- EU's target by 2020 is
  - to cut greenhouse gas emissions by 20%
  - to have 10% of renewable fuels in road transport (Finland 20%)
- UPM's markets are in the EU

DEMAND OF BIODIESEL IN EU



Source: Hart Global Biofuels Outlook 2010 – 2020

Growing UPM Kaukas mill site in Lappeenranta

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1 RESEARCH CENTRE
2 **BIOREFINERY**
3 BIOENERGY PLANT
4 PULP MILL
5 SAW MILL
6 PAPER MILL

Low needs for major investments to maintain existing assets

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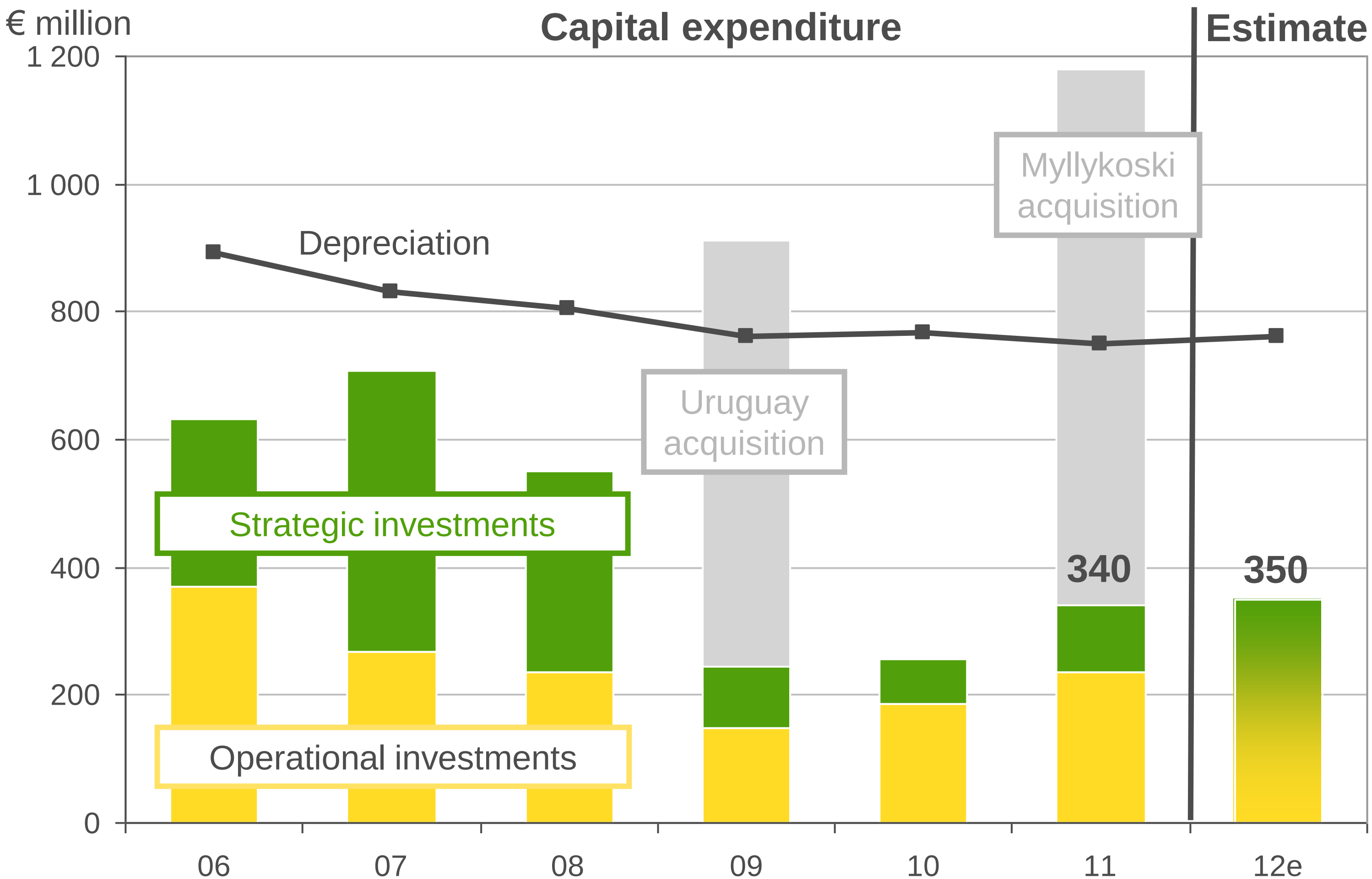

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SUMMARY

Summary

- 2011 EBITDA and operating cash flow improved from 2010
- Market conditions weakened and quarterly earnings decreased during H2/2011, but are estimated to have stabilised
- Market outlook is stable for the early part of 2012 and costs are expected to decrease from Q4/2011
- Board proposes an increased dividend of EUR 0.60 (0.55)
- UPM continues to implement its strategy and reshape its portfolio
  - Myllykoski integration and synergy implementation on track
  - Divestment of packaging papers and RFID businesses represent consolidation in their markets and portfolio renewal for UPM
  - First advanced wood-based biodiesel project announced

BUSINESS DRIVERS

Economic outlook turned weaker and is affecting demand for UPM's products

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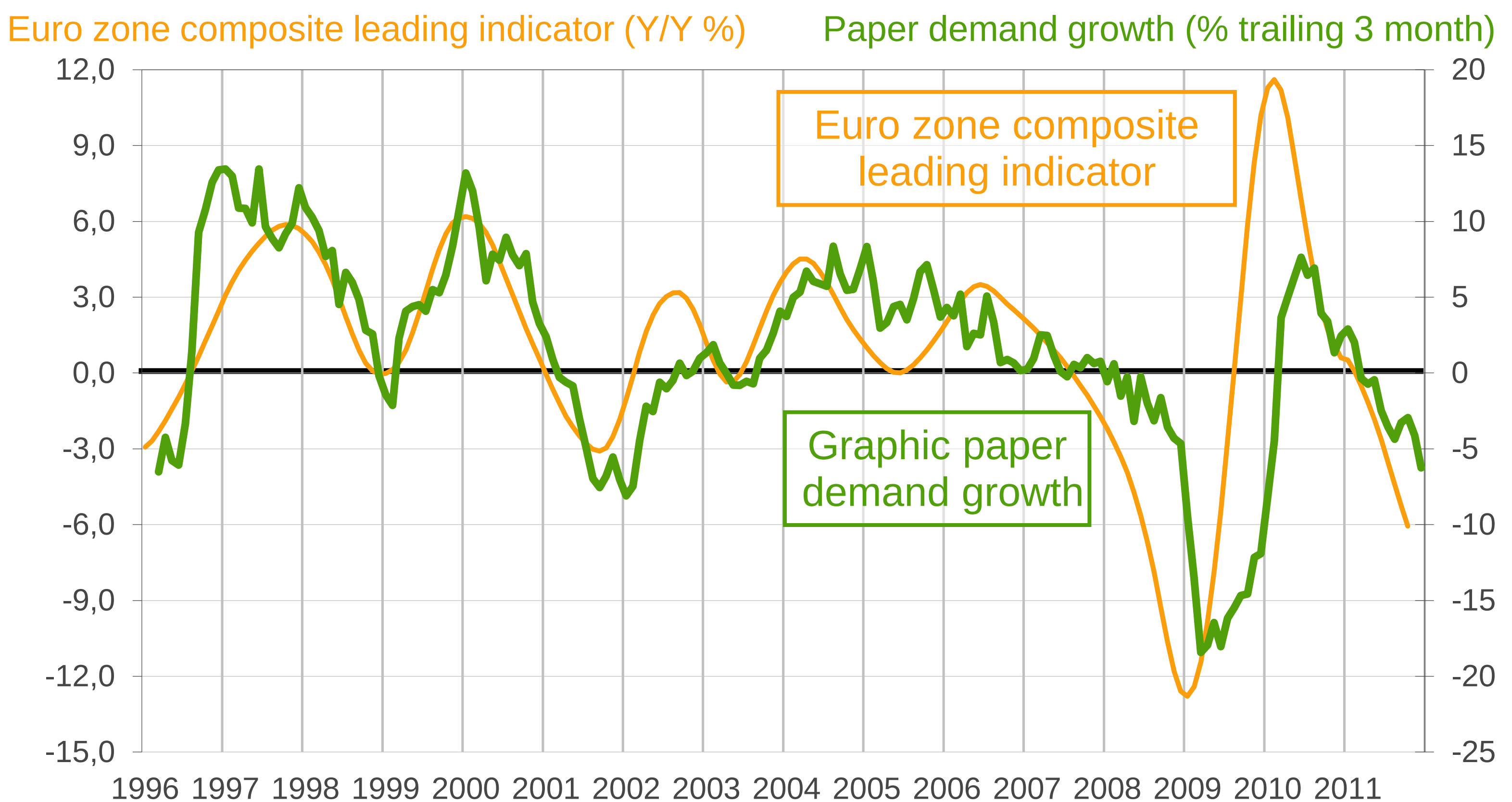

Sources: Cepiprint, Cepifine, OECD

BUSINESS DRIVERS

Graphic papers demand

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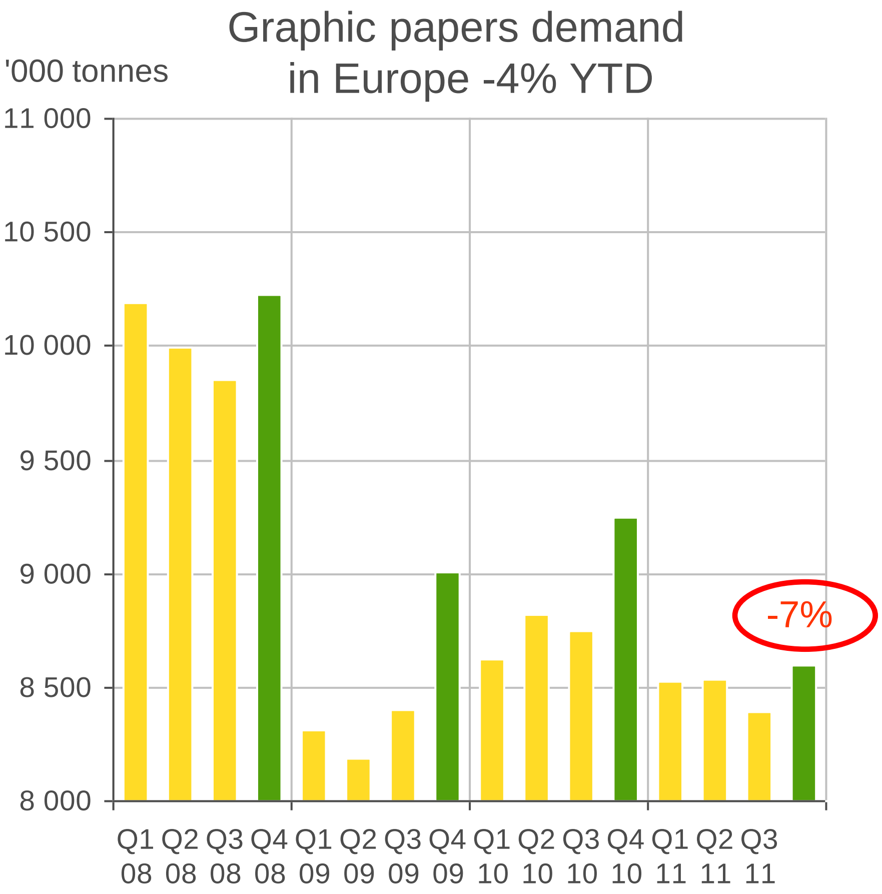

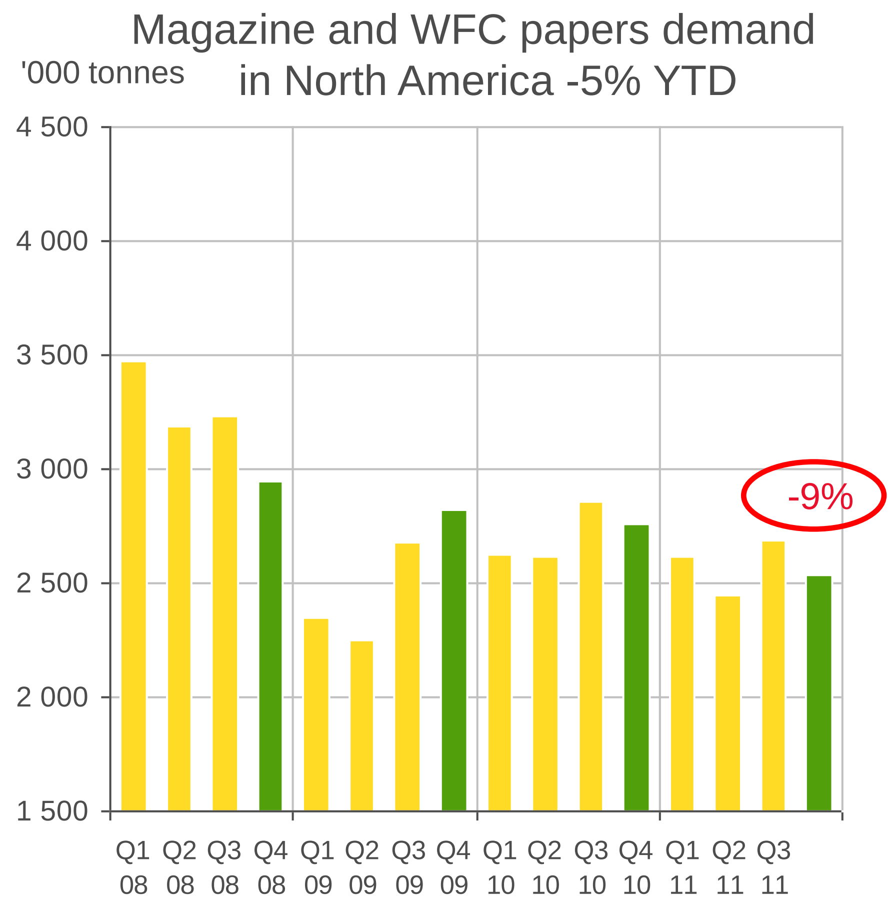

Source: Cepiprint/fine, PPPC

BUSINESS DRIVERS

Graphic paper prices

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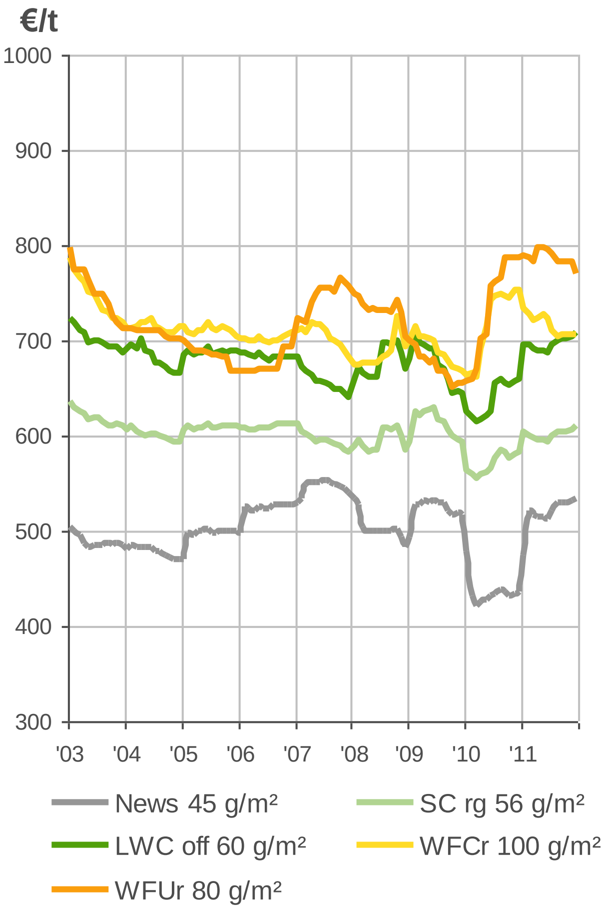
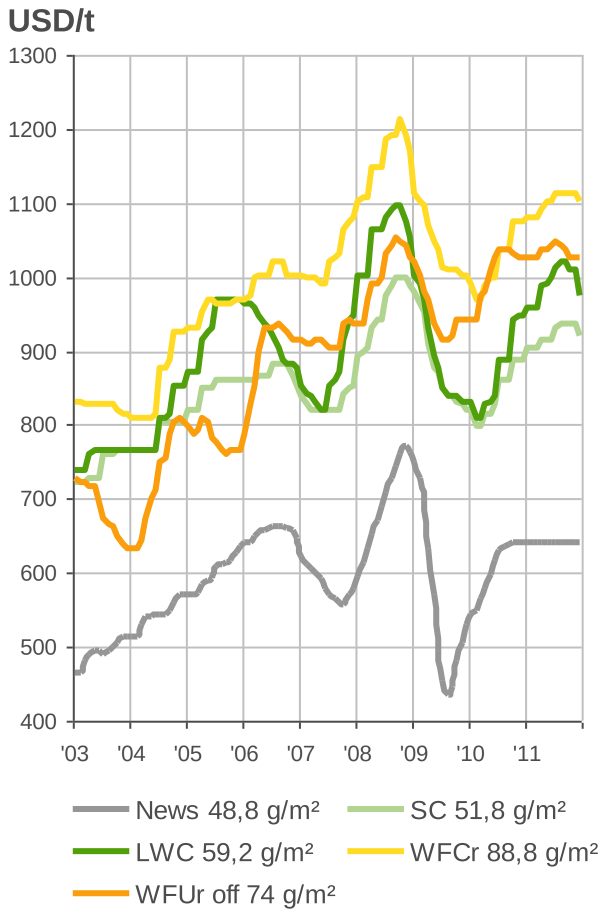
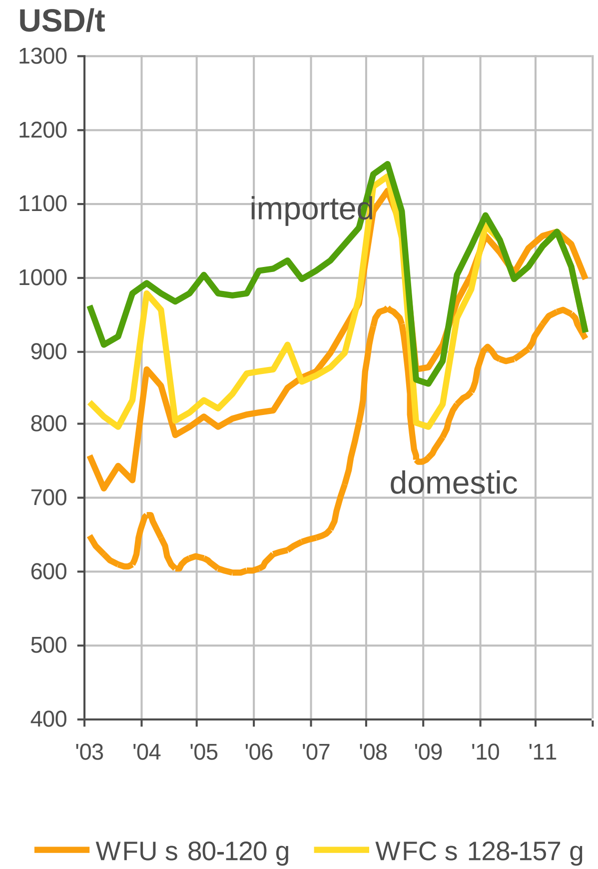
Europe



North America



China



Source: PPI, RISI

BUSINESS DRIVERS

Chemical pulp market

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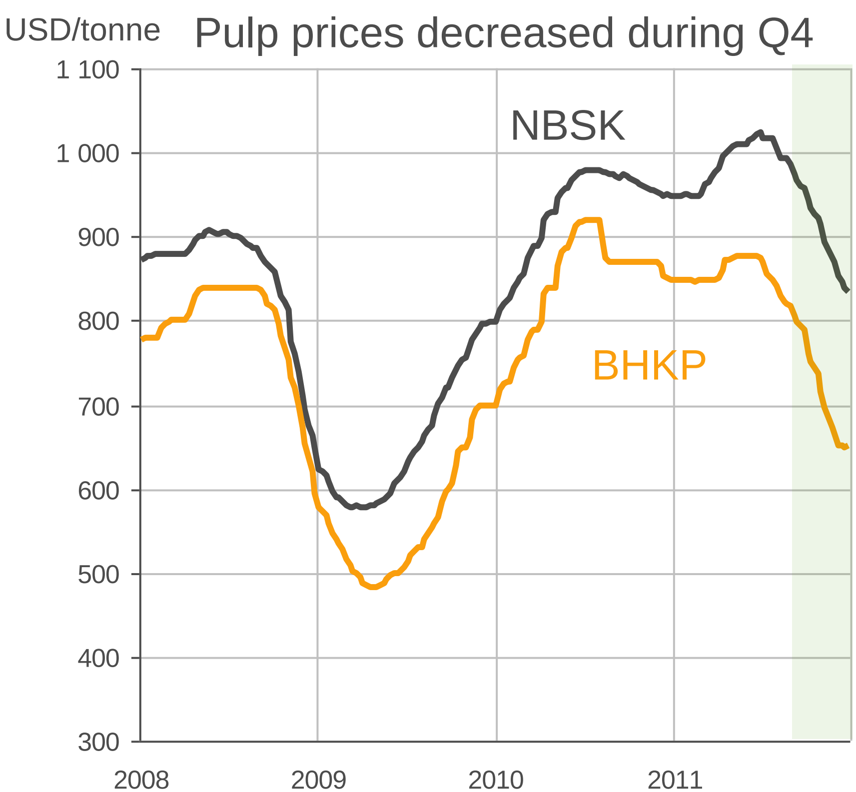
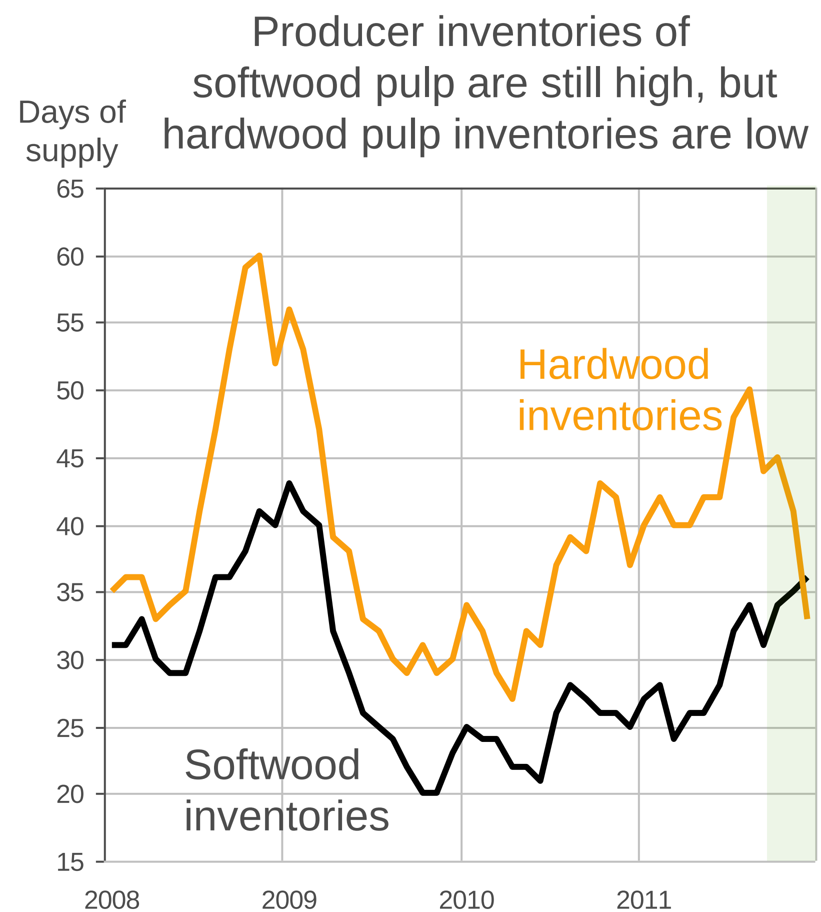


Source: FOEX Indexes Ltd.



Source: PPPC World-20 statistics

Wood, RCP and electricity prices are declining

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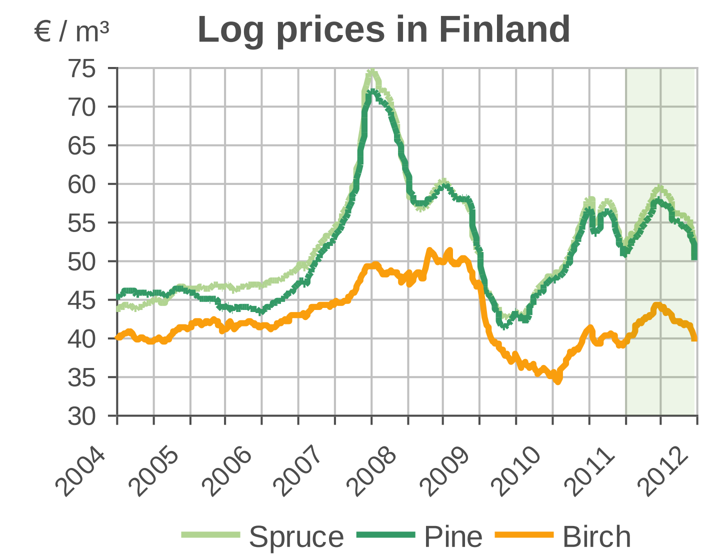

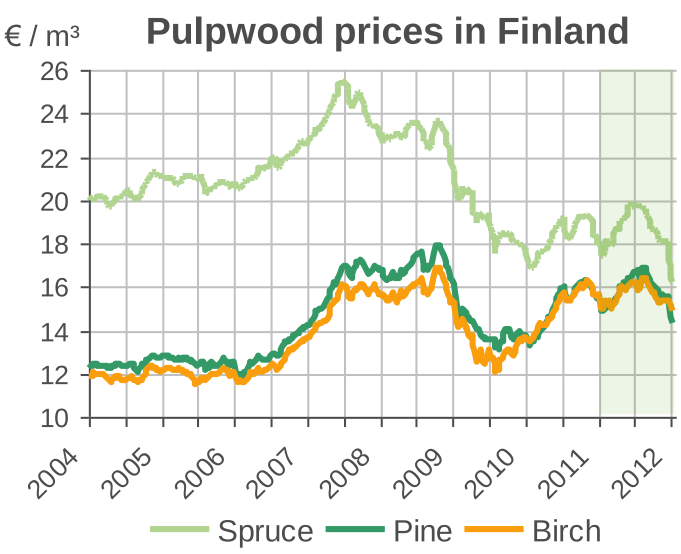

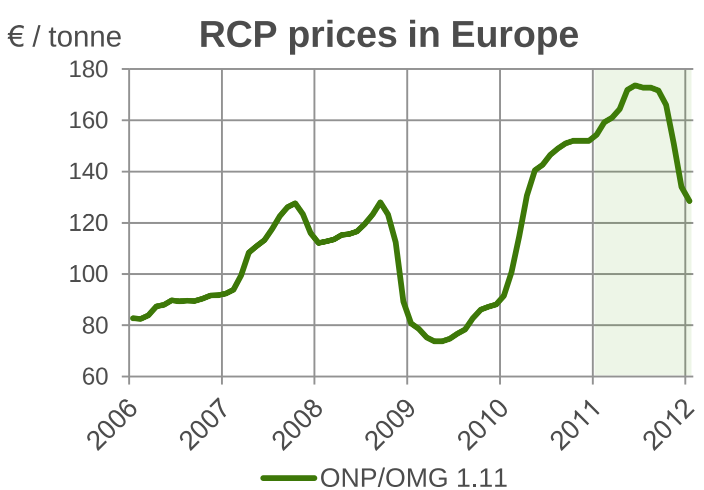

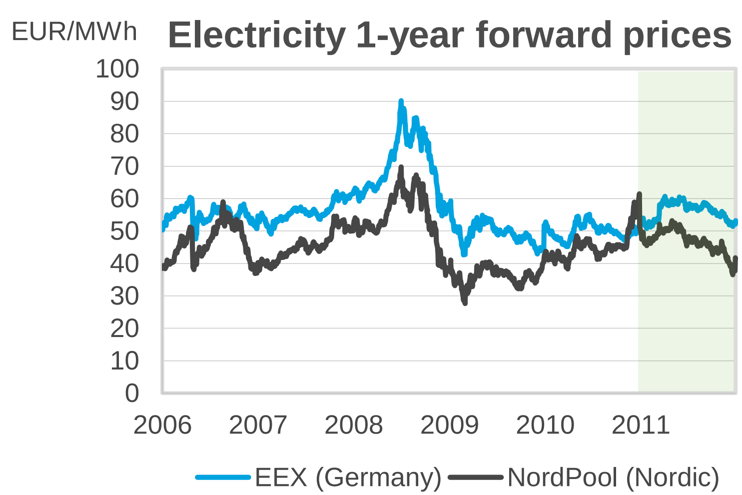

Source: Metla, FOEX Indexes Ltd, NordPool, EEX

FINANCIALS 2011

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Key financials

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	Q4 2011	Q4 2010	2011	2010
Sales, €m	2,686	2,357	10,068	8,924
Sales growth (%)	14%		13%	
EBITDA, €m	301	318	1,383	1,343
% of sales	11.2	13.5	13.7	15.0
Operating profit, excl. special items, €m	147	212	682	731
EPS excl. special items, €	0.16	0.27	0.93	0.99
Net cash from operating activities, €m	310	343	1,041	982

FINANCIALS – MYLLYKOSKI ACQUISITION

Pro forma financials – Group

	Reported 1-12/2011	Adjustments	Pro forma 1-12/2011
Sales, €m	**10,068**	**780**	**10,848**
EBITDA, €m	**1,383**	**40**	**1,423**
Operating profit, €m	**459**	**-8**	**451**
– *excl. special items, €m*	***682***	***-8***	***674***
Profit before tax, €m	**417**	**-25**	**392**
– *excl. special items, €m*	***572***	***-25***	***547***
Profit for the period	**457**	**-18**	**439**

2011 EBITDA increased by 3%, higher prices offset the rise in costs, improvement in Paper

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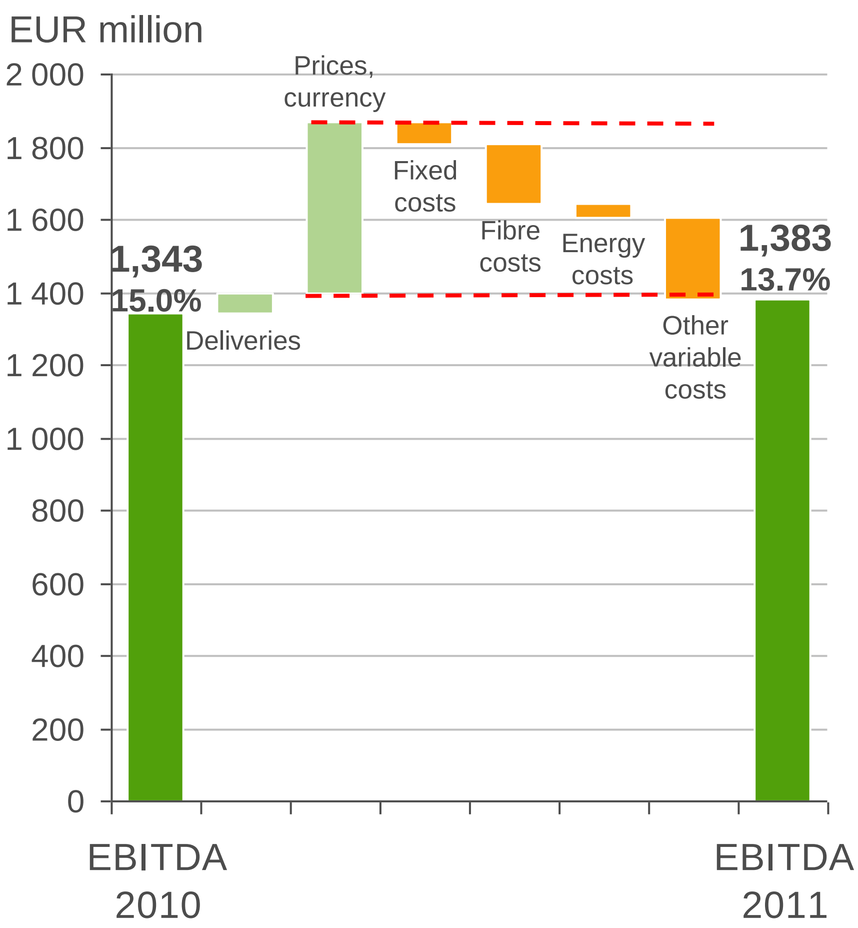

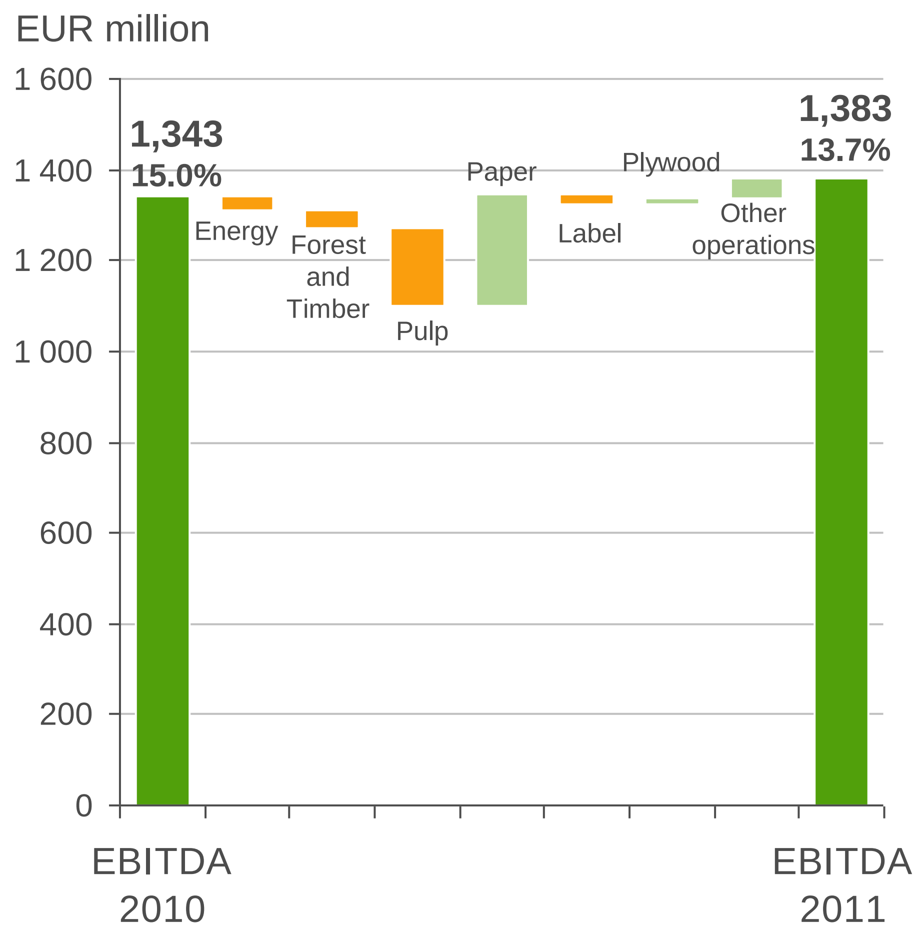

Q4 2011 EBITDA decreased from last year due to higher variable costs

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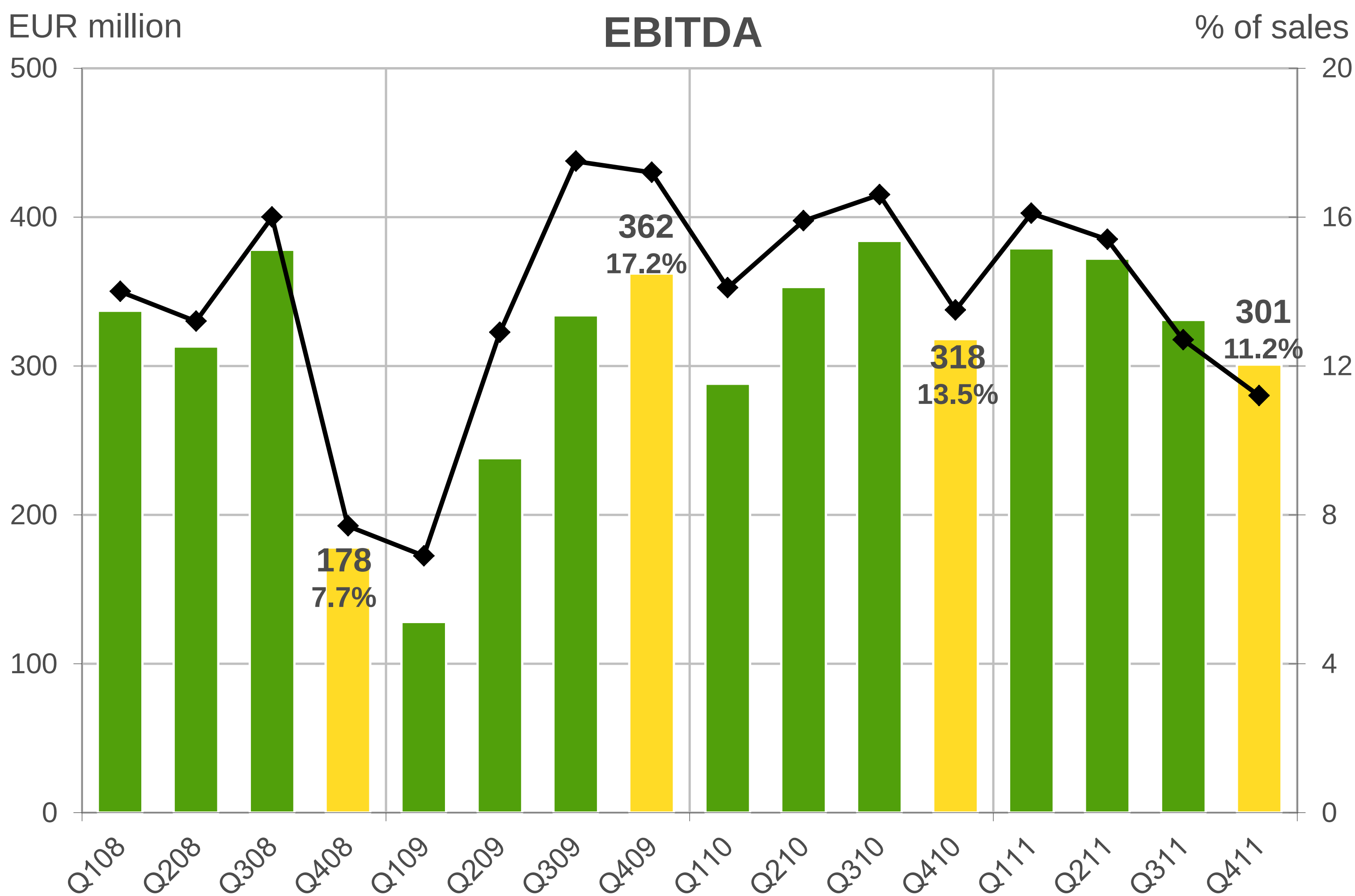
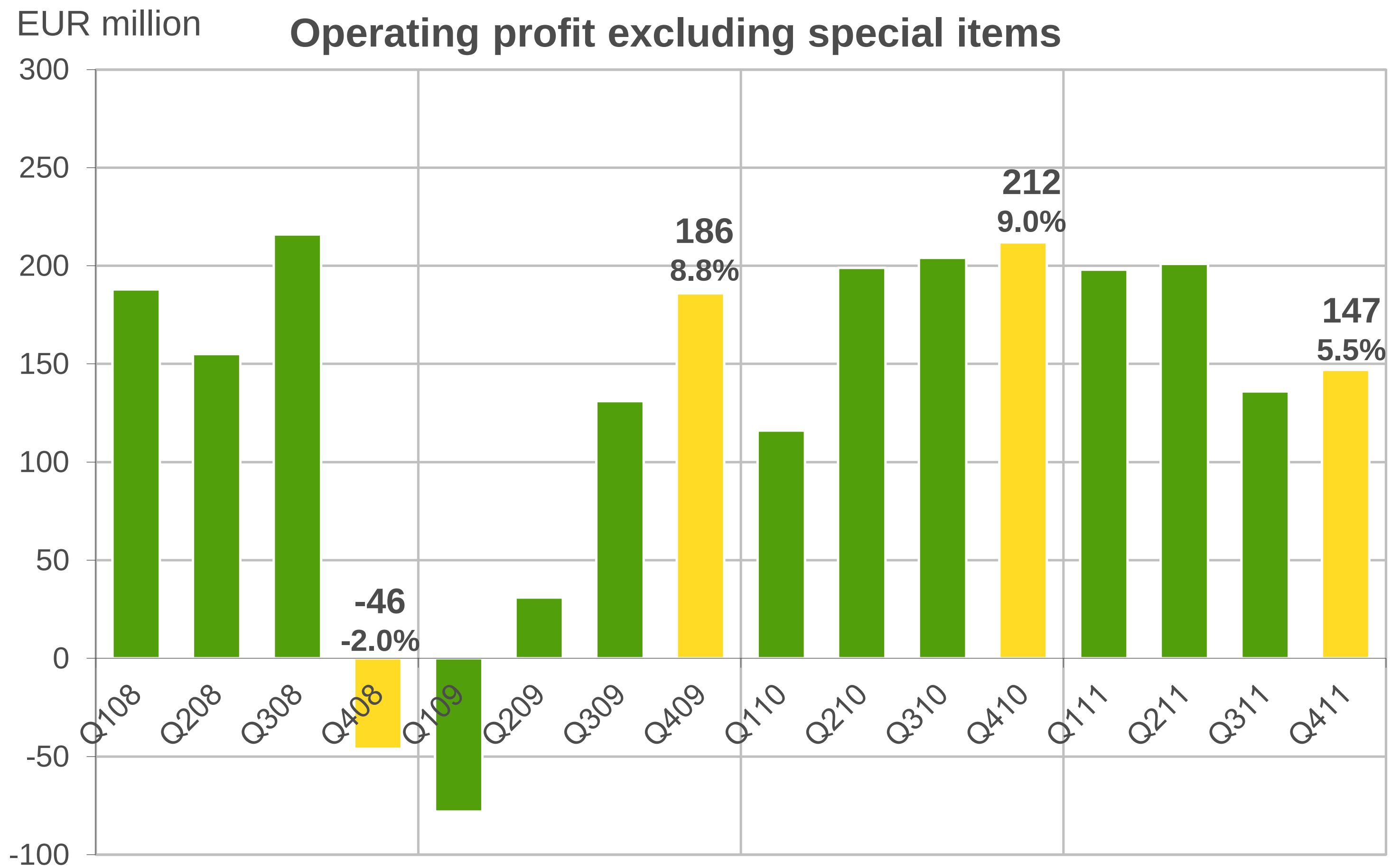


Operating profit decreased in H2 2011 as demand weakened and costs were at the peak



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Cash flow

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€ million	Q4/11	Q4/10	2011	2010
EBITDA	**301**	**318**	**1,383**	**1,343**
Cash flow before change in working capital	263	332	1,249	1,301
Change in working capital	91	98	-73	-139
Finance costs and income taxes	-44	-87	-135	-180
Net cash from operating activities	**310**	**343**	**1,041**	**982**
Capital expenditure	-93	-91	-286	-241
Asset sales and acquisitions	18	1	155	46
Cash flow after investing activities	**235**	**253**	**910**	**787**

Balance sheet

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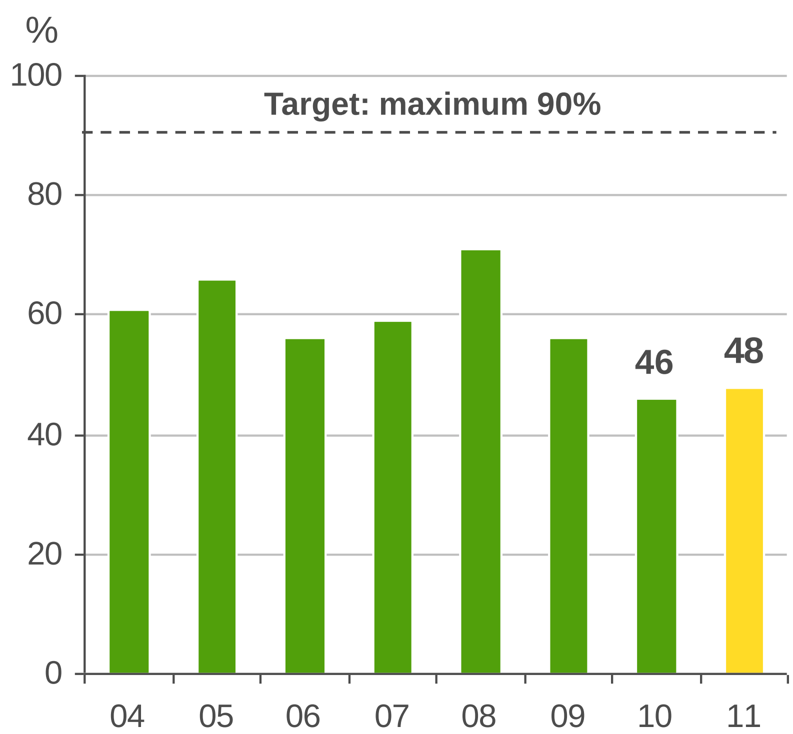
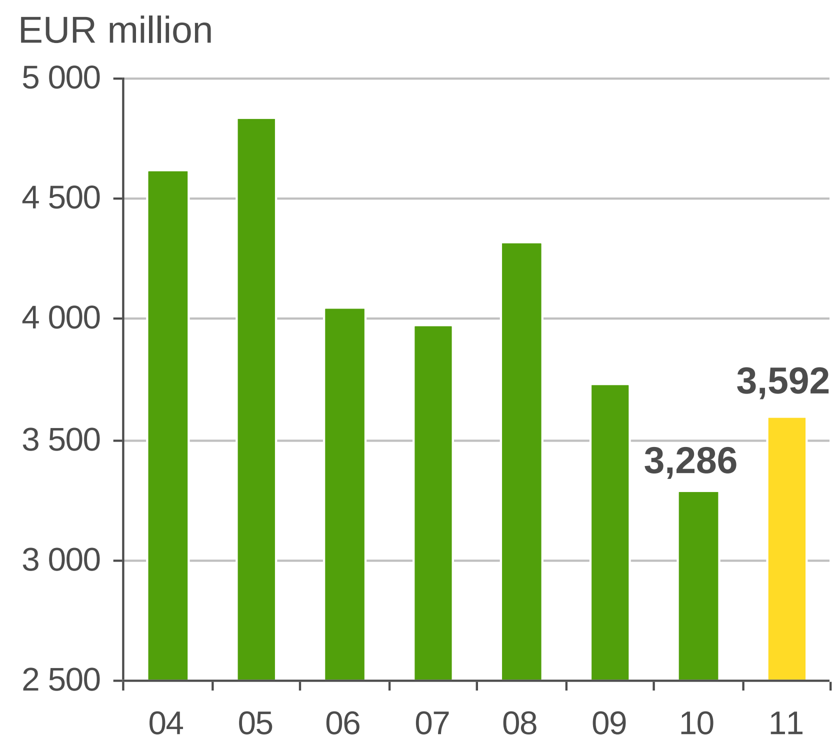
Gearing ratio



Net debt



Liquidity was EUR 1.9bn
repayments EUR 0.9bn in 2012

Maturity profile and liquidity

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Liquidity

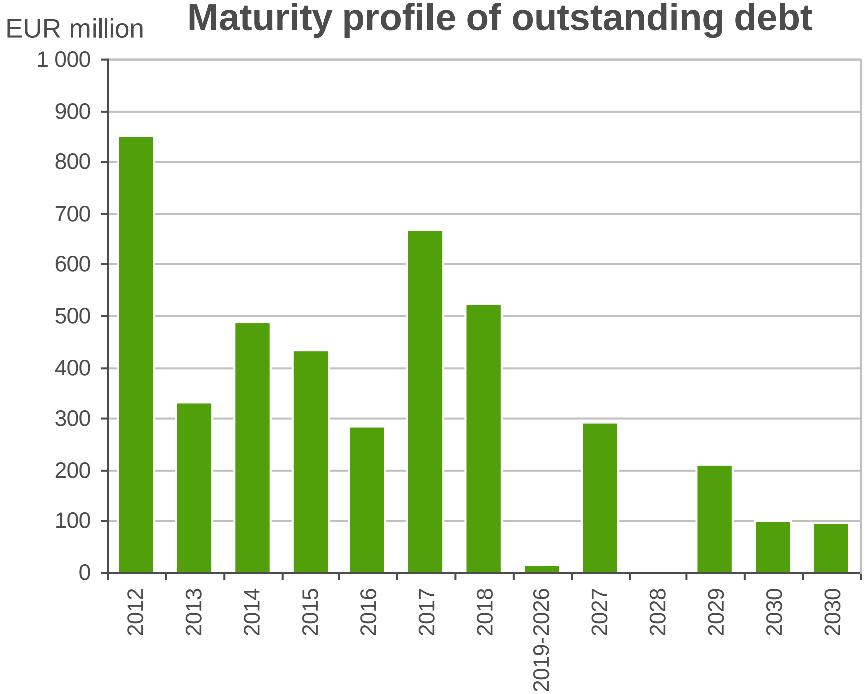
Liquidity on 31 December 2011 was € 1.9bn

(cash and unused credit facilities)

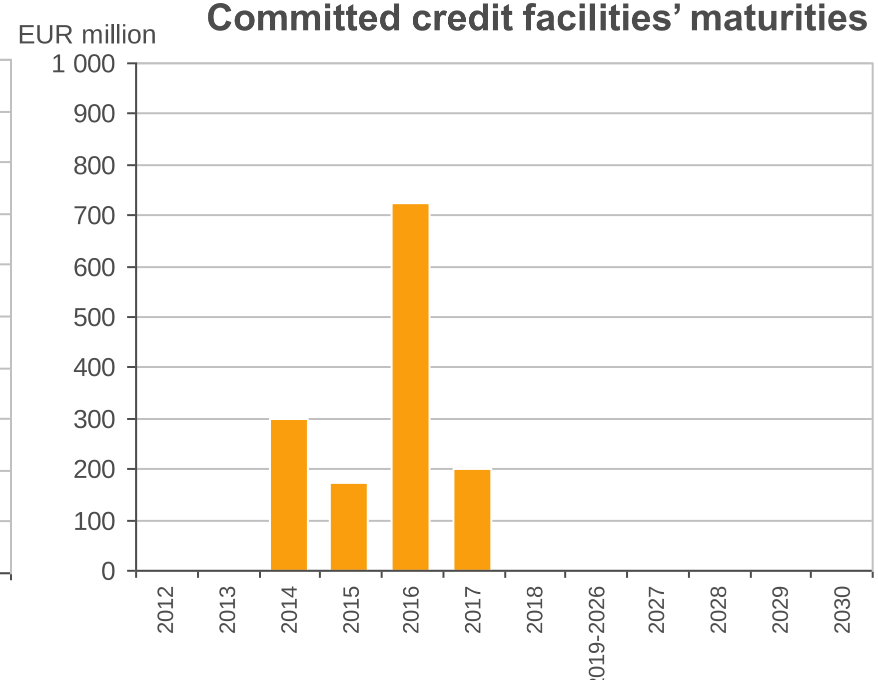
Committed credit facilities EUR 1.4bn

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

Maturity profile of outstanding debt



Committed credit facilities' maturities



Energy 2011 vs. 2010

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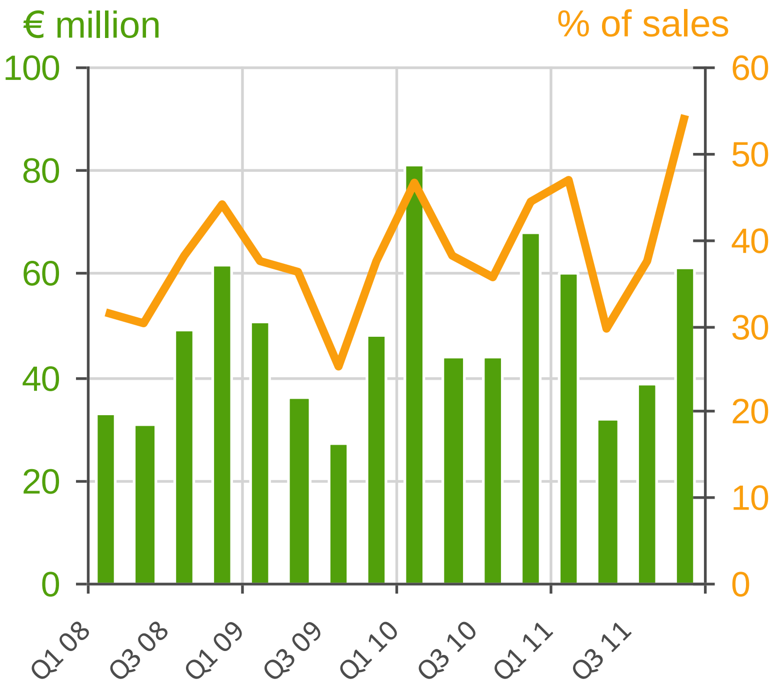
Operating profit excluding special items



- Operating profit decreased mainly due to lower sales price and condensing power generation
- Average sales price for electricity decreased by 6%

Sales EUR million	**2011**	**452**	-20%	Operating profit EUR million*)	**2011**	**192**	-45 EUR million
	2010	567			2010	237	

*) excluding special items

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Pulp 2011 vs. 2010

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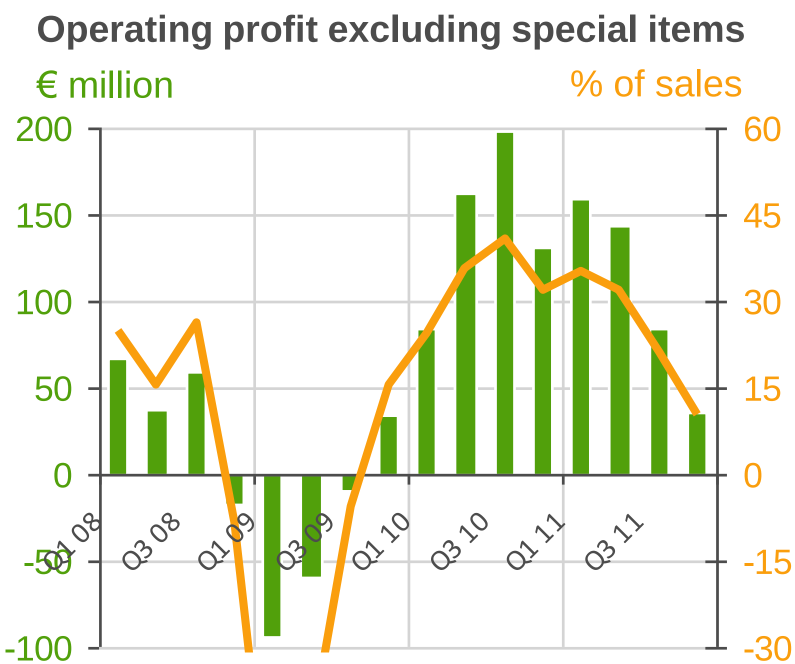

- Operating profit decreased due to lower sales price
- Higher wood costs had a negative impact on profitability

Sales EUR million	**2011**	**1,648**	-3%	
	2010	1,698		
Operating profit EUR million*)	**2011**	**423**	-154 EUR million	
	2010	577		

*) excluding special items

Forest and Timber 2011 vs. 2010

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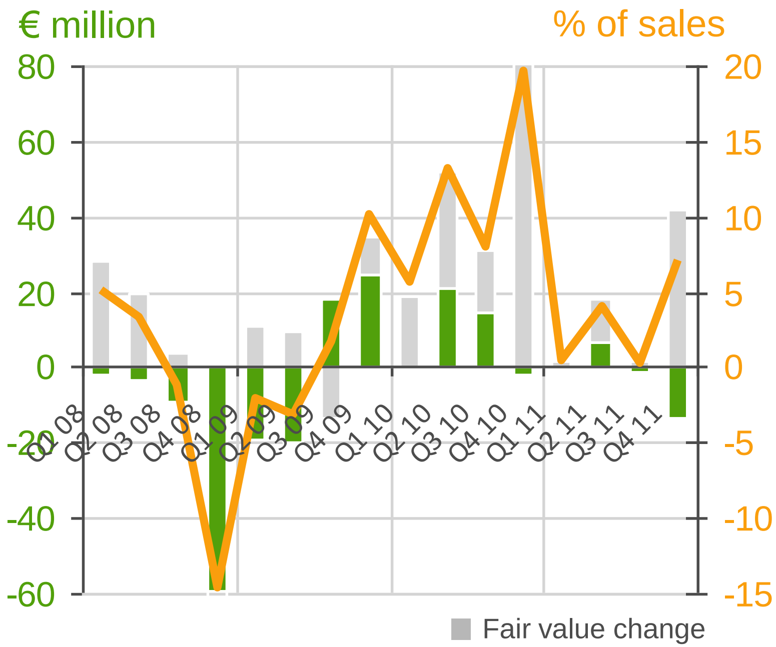
Operating profit excluding special items



- Operating profit decreased mainly due to a smaller increase in the fair value of biological assets
- The fair value of biological assets less wood harvested increased by EUR 57 million (147 million)
- In sawn timber wood costs were higher and average sawn timber prices decreased

Sales EUR million	2011	1,651	9%	Operating profit EUR million*)	2011	50	-131 EUR million
	2010	1,521			2010	181	

*) excluding special items

Paper 2011 vs. 2010

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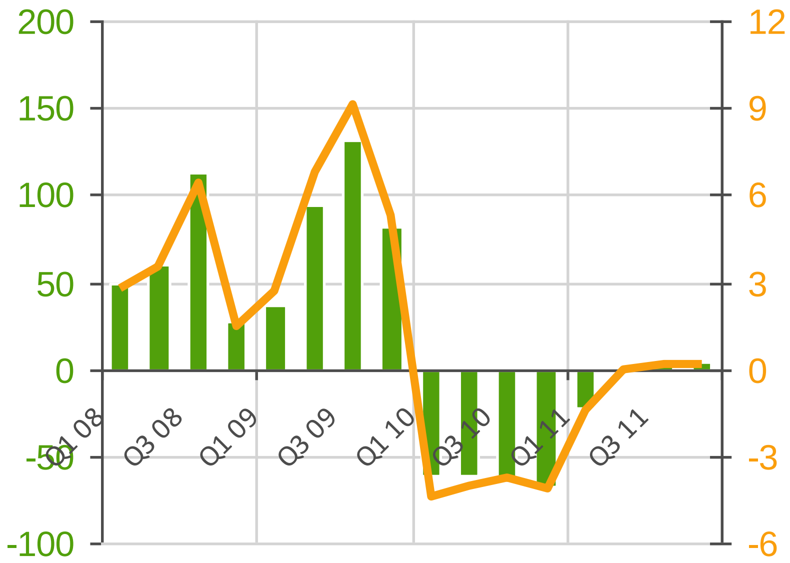
Operating profit excluding special items



- Operating profit improved significantly
- Average paper price increased by 7%
- Variable and fixed costs increased

Sales EUR million	2011	7,184	15%	Operating profit EUR million*)	2011	−16	+238 EUR million
	2010	6,269			2010	-254	

*) excluding special items

Pro forma financials – Paper business area

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	Reported 1-12/2011	Adjustments	Pro forma 1-12/2011
Sales, €m	**7,184**	**780**	**7,964**
EBITDA, €m	**517**	**40**	**557**
Operating profit, €m	**-315**	**-8**	**-323**
– *excl. special items, €m*	***-16***	***-8***	***-24***
Paper deliveries, 1,000 t	**10,615**	**1,261**	**11,876**

FINANCIALS

Label 2011 vs. 2010

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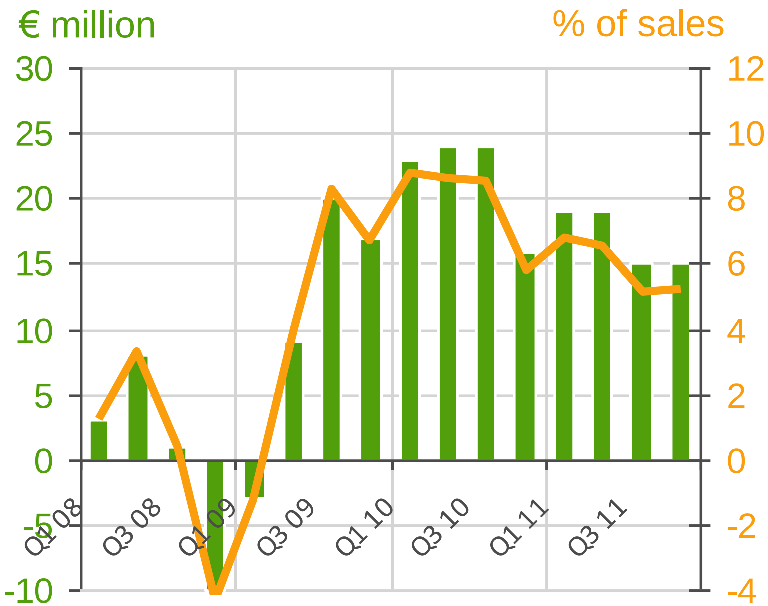
Operating profit excluding special items



- Operating profit decreased mainly due to significantly higher raw material costs
- Sales prices in local currencies increased clearly

Sales EUR million	**2011** 2010	**1,150** 1,100	**5%**	Operating profit EUR million*)	**2011** 2010	**68** 87	**-19** EUR million

*) excluding special items

Plywood 2011 vs. 2010

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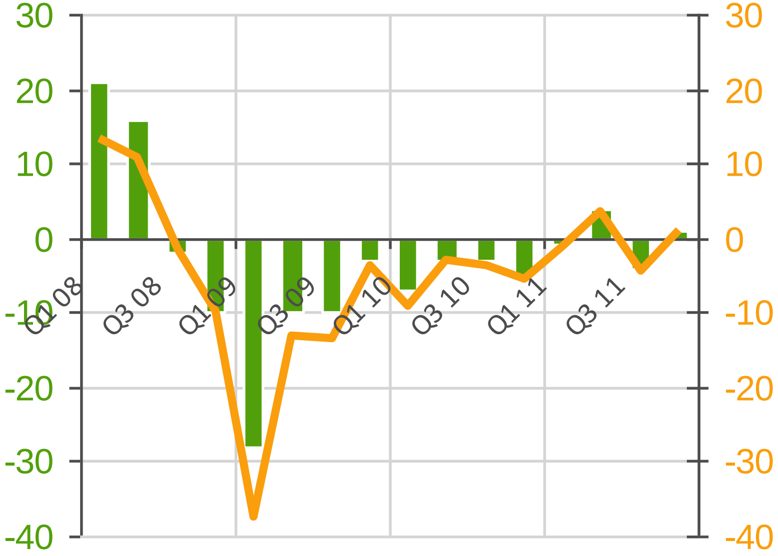
Operating profit excluding special items



- Profitability improved mainly due to higher sales prices and delivery volumes
- Deliveries increased by 3%

Sales EUR million	**2011**	**376**	**8%**	Operating profit EUR million*)	**2011**	**0**	**+18**
	2010	347			2010	−18	EUR million

*) excluding special items

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