

# REVIEW OF MAGAZINE PAPER ASSETS' LONG TERM COMPETITIVENESS

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# 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



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# RATIONALE FOR THE PLANNED ACTIONS



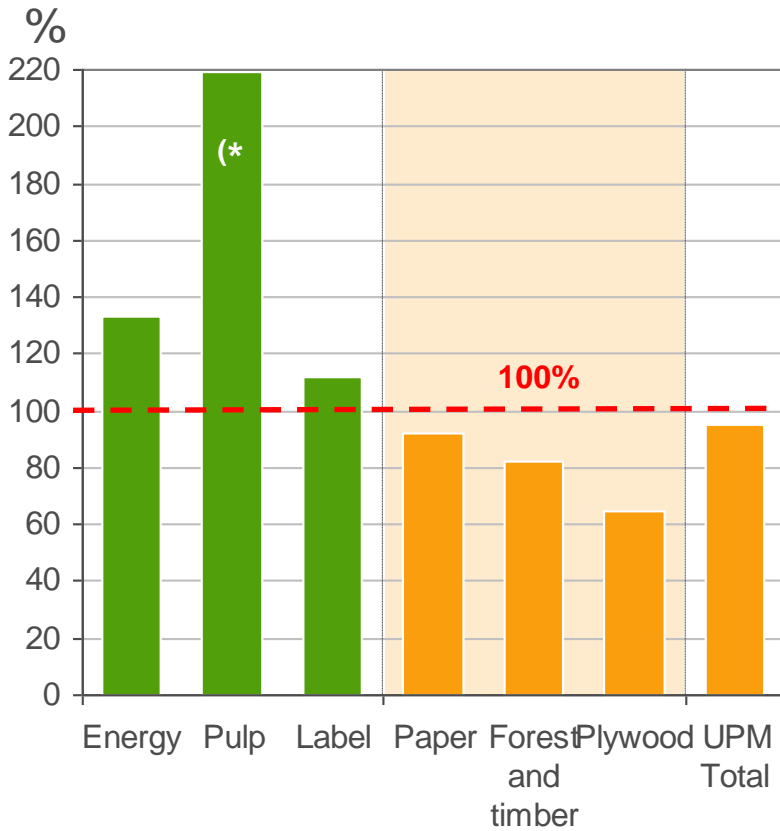
## Rationale for the asset review

- Weak profitability of UPM Paper – fundamental improvement in cost efficiency is necessary
  - Significant margin pressure from higher costs
  - Current overcapacity in Europe and the European demand is expected to decline in the long term
- UPM Paper targets undisputed cost leadership in order to reach sustainable long term profitability
- The acquisition of Myllykoski provides the opportunity to strengthen the cost leadership through optimising the magazine paper asset portfolio and realising cost synergies

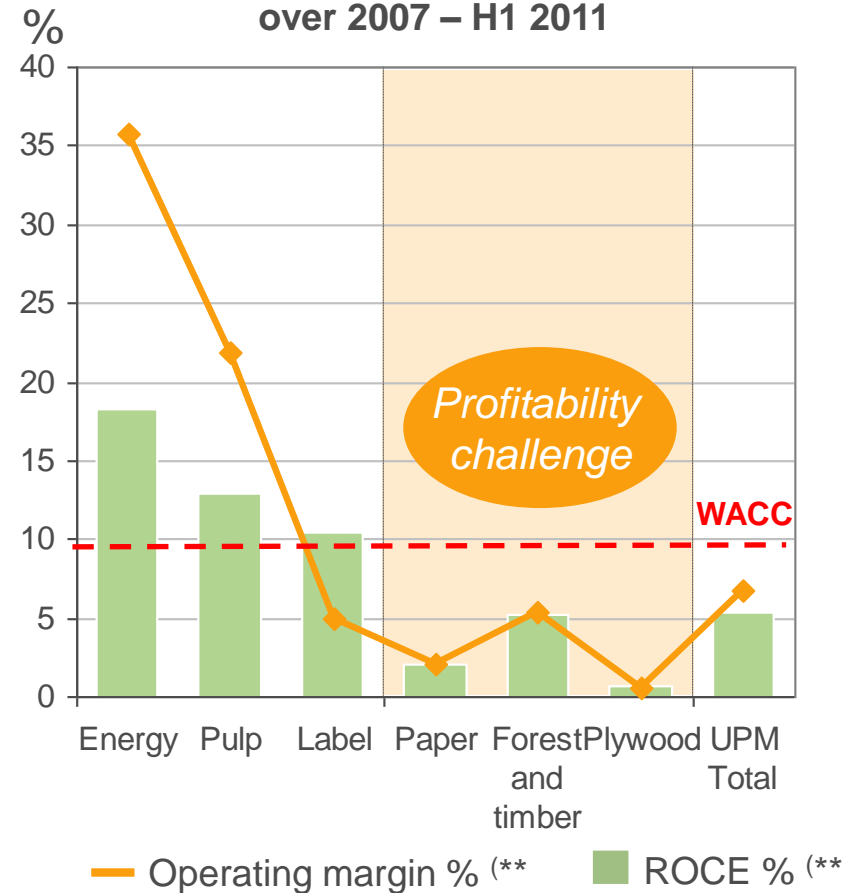


# Profitability challenge in Paper

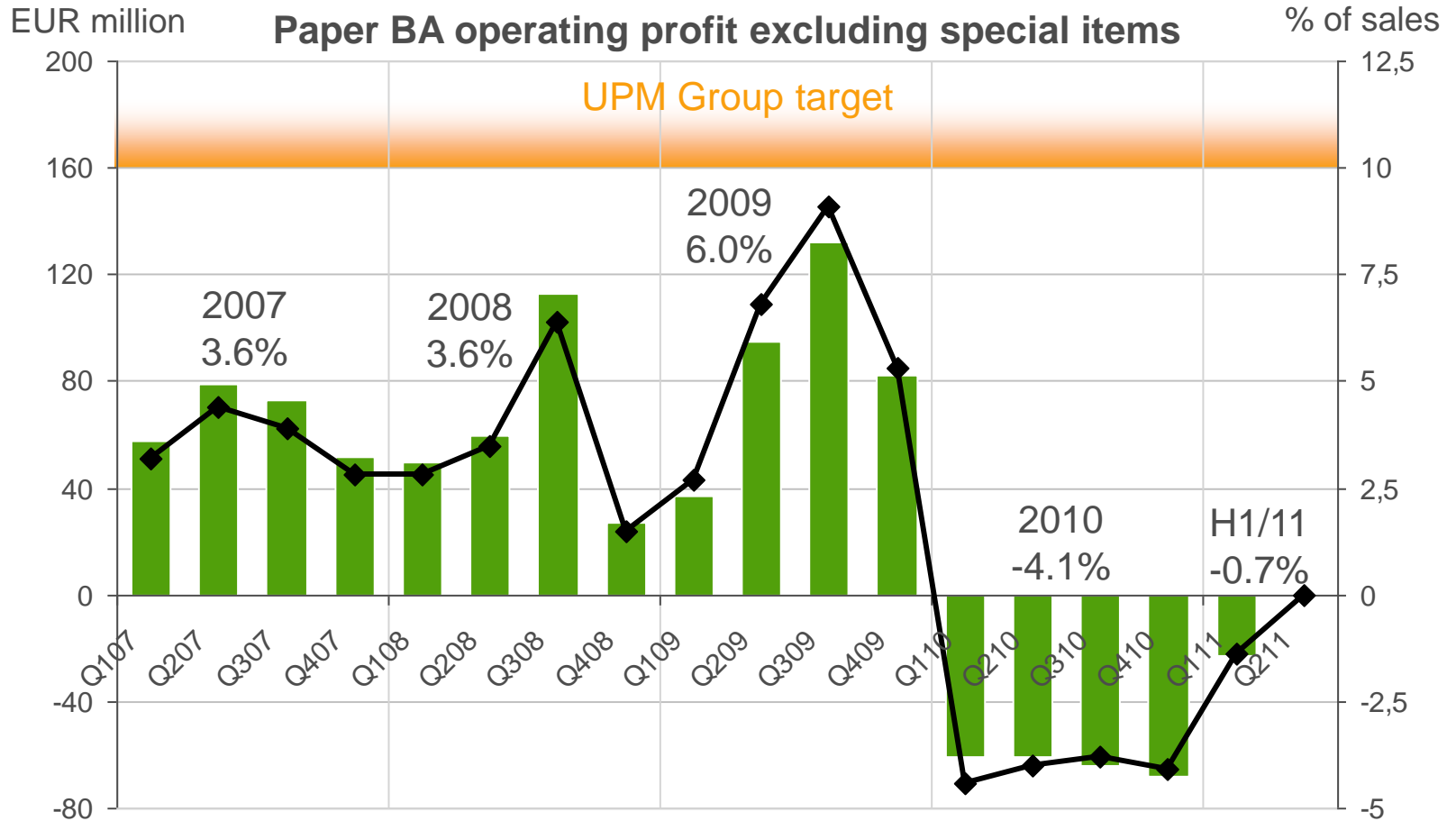
### Sales in H1 2011, as % of H1 2007



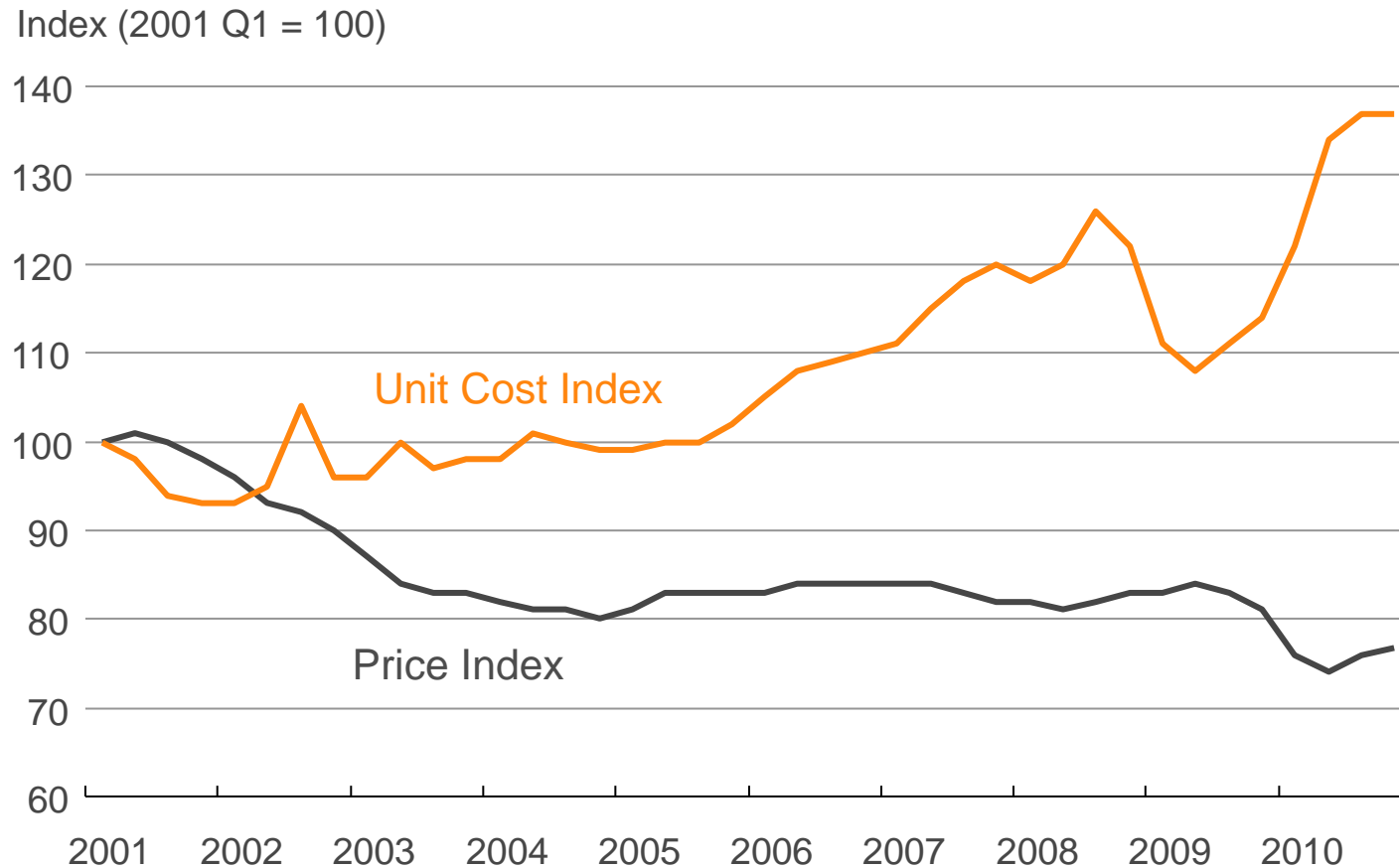
### Average margins and returns over 2007 – H1 2011



# UPM Paper Business Area profitability below the target for sustainable operations

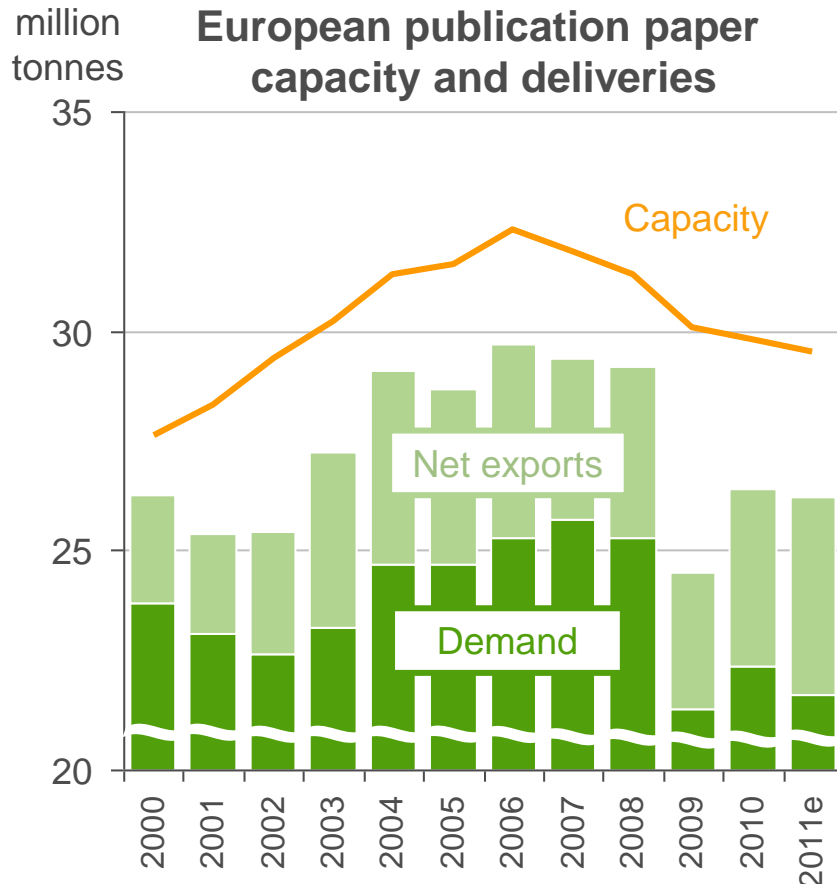


# European publication paper producers have faced significant margin pressure



Source: Pöyry

# Structural overcapacity in the European publication paper market results in significant efficiency losses

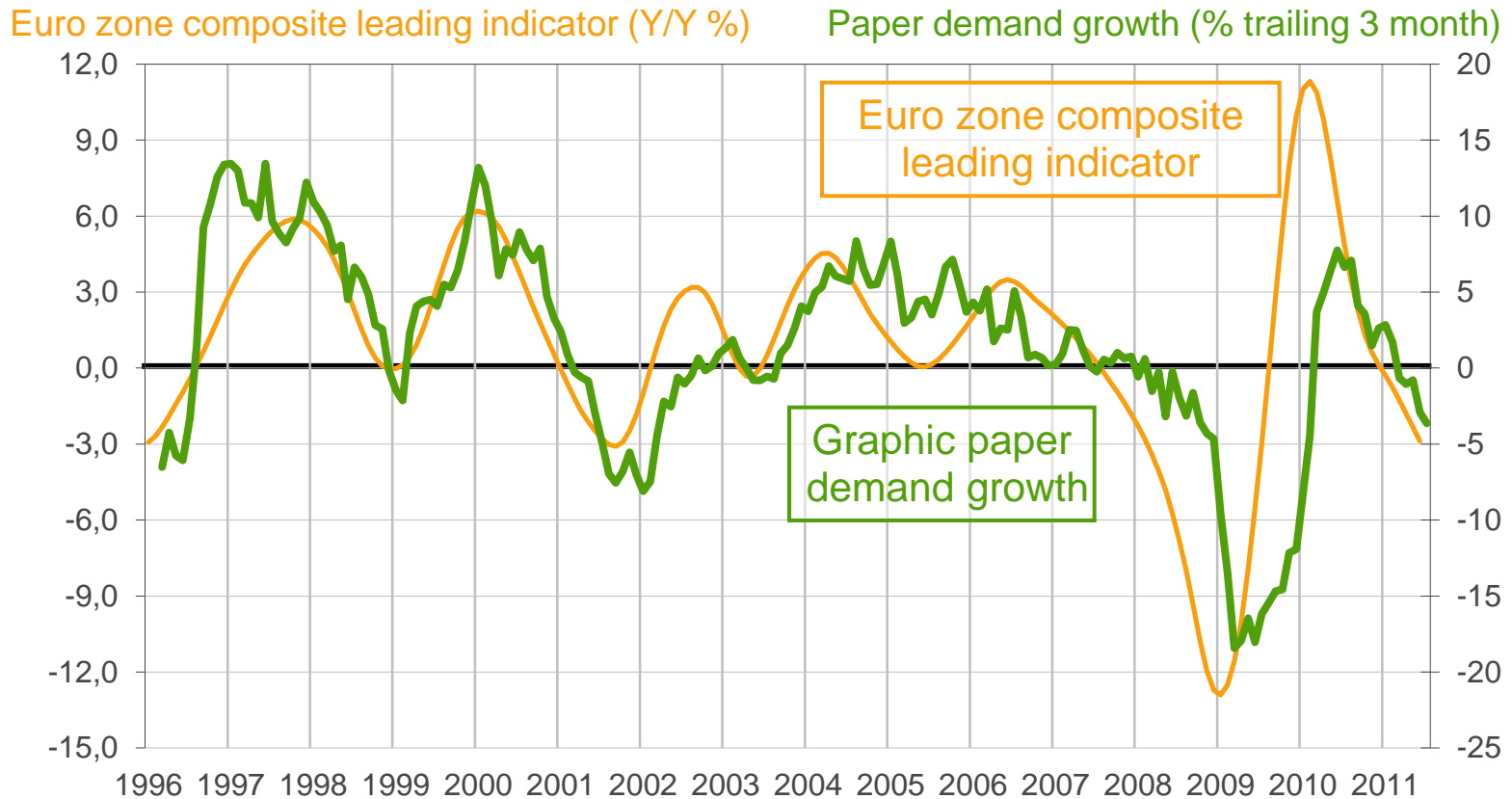


- Current overcapacity estimated to be about 10%
- The current weak economic growth in Europe does not support continuation of demand recovery
- Demand is expected to decline in Europe in the long term

Sources: Cepi, PPPC, EMGE, RISI, Pöyry



# Economic slowdown is affecting short-term demand. This supports the need for actions



Sources: Cepiprint, Cepifine, OECD



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# PLANNED ACTIONS

# 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
<b>TOTAL IMPACT</b>	<b>1,310,000</b>	<b>1,110</b>	



## Employee negotiations

- Employee negotiations about the plan start approximately within a week and are estimated to take 2-3 months to conclude
- UPM will carry out the restructuring negotiations in a responsible and professional manner in line with the national legislation of the respective countries
- UPM will consider options to establish a “From-job-to-job” programme appropriate to the local legislation and circumstances providing the plan proceeds to implementation. In the process, UPM will cooperate with different stakeholders and local authorities.



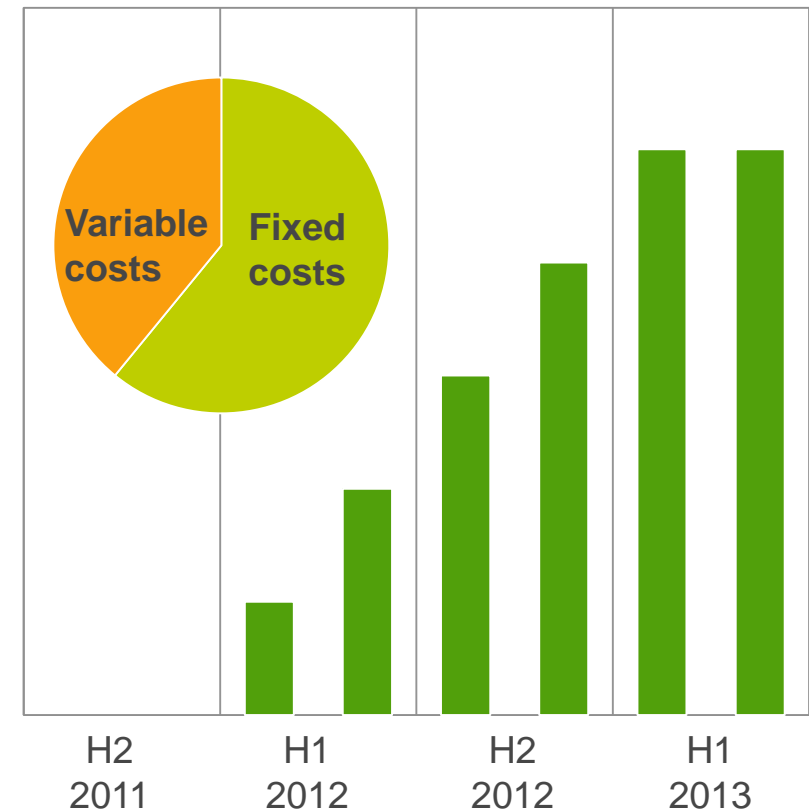
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# IMPACT OF THE PLANNED ACTIONS

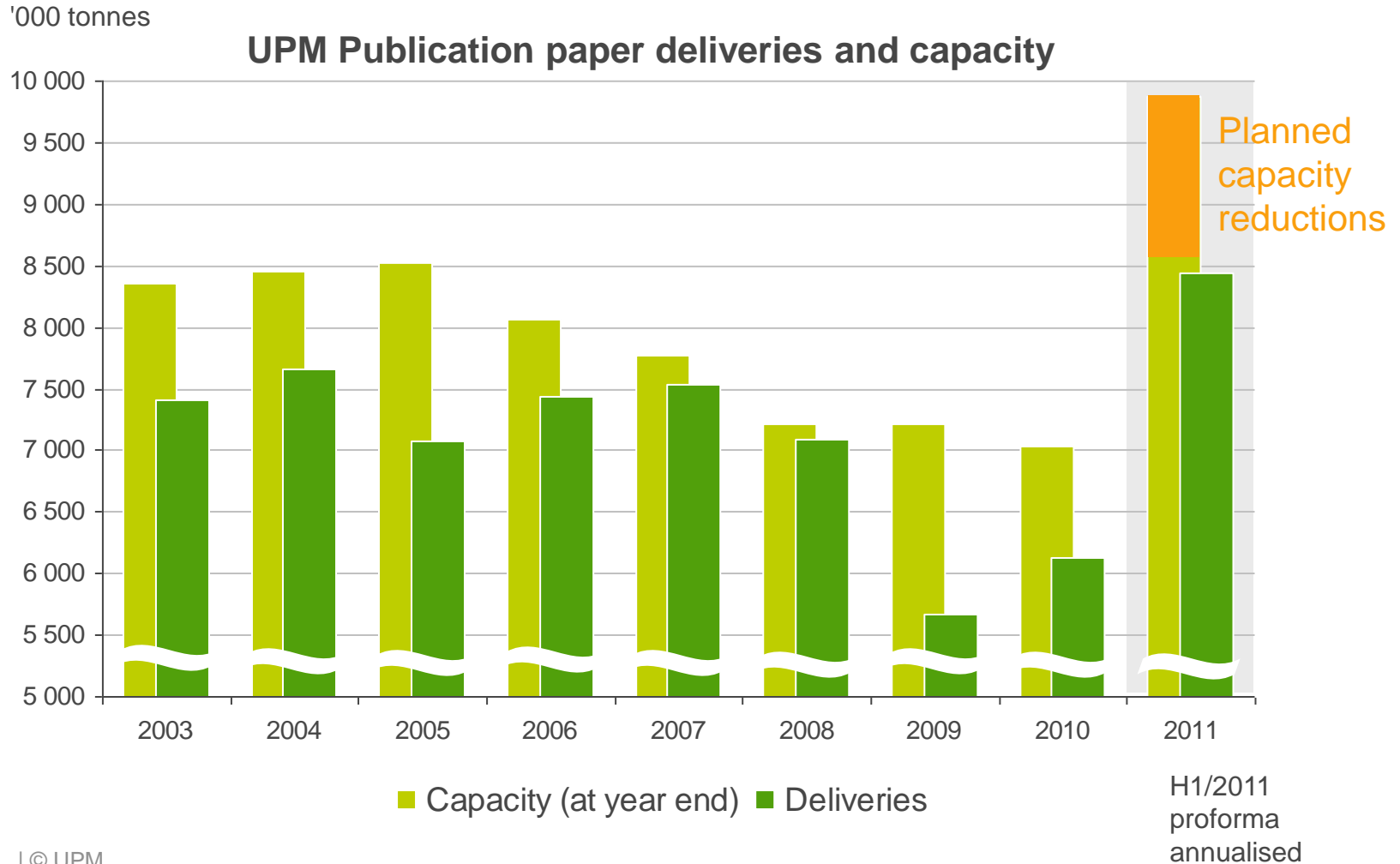
## Financial impacts – annual cost synergies estimated to total EUR 200 million

- 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<sup>(\*)</sup> are expected to total EUR 30 million, mainly during 2012
- Fixed asset write-off of approx. EUR 70 million in Q3 2011

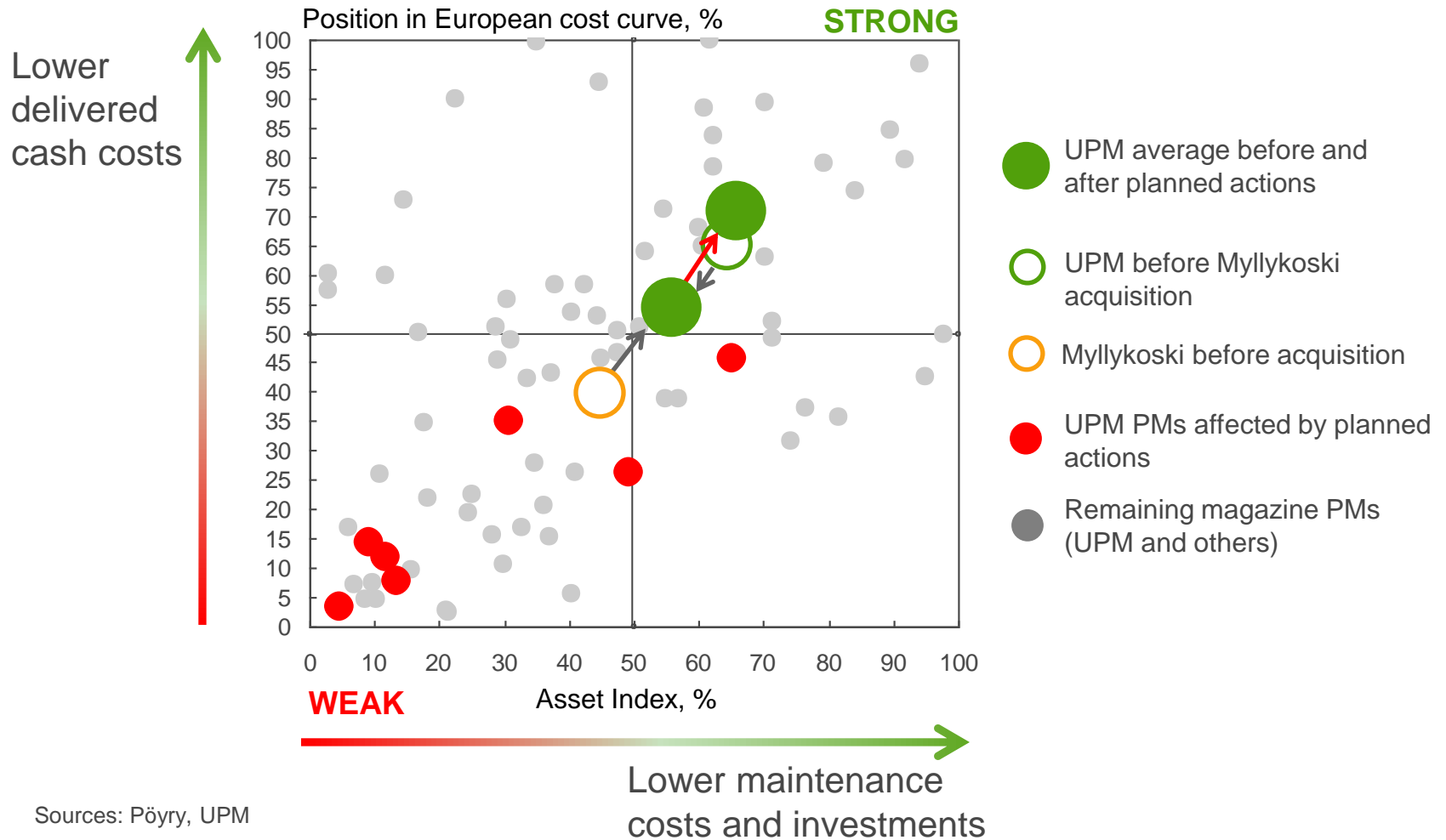
### Estimated timing and sources of planned EUR 200m cost synergies



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



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

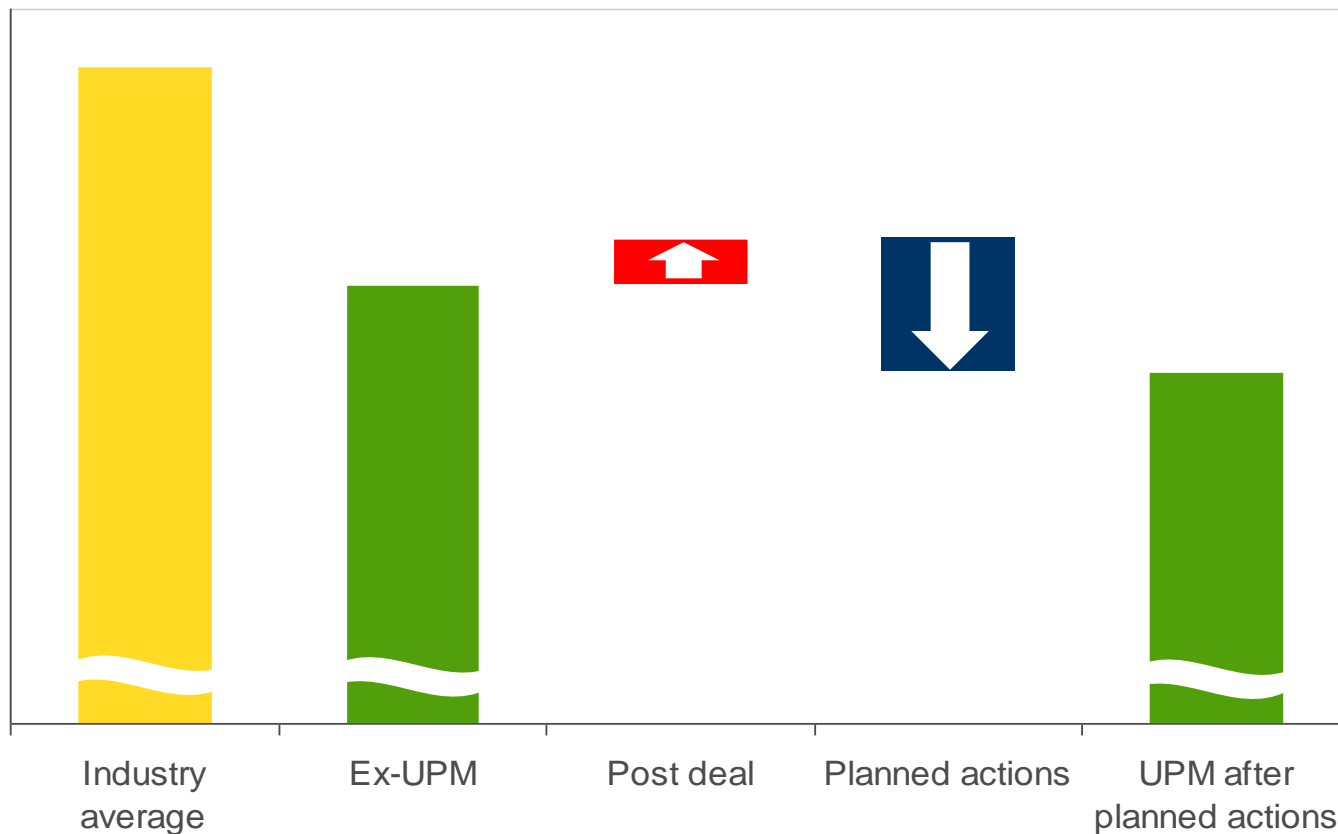


Sources: Pöyry, UPM



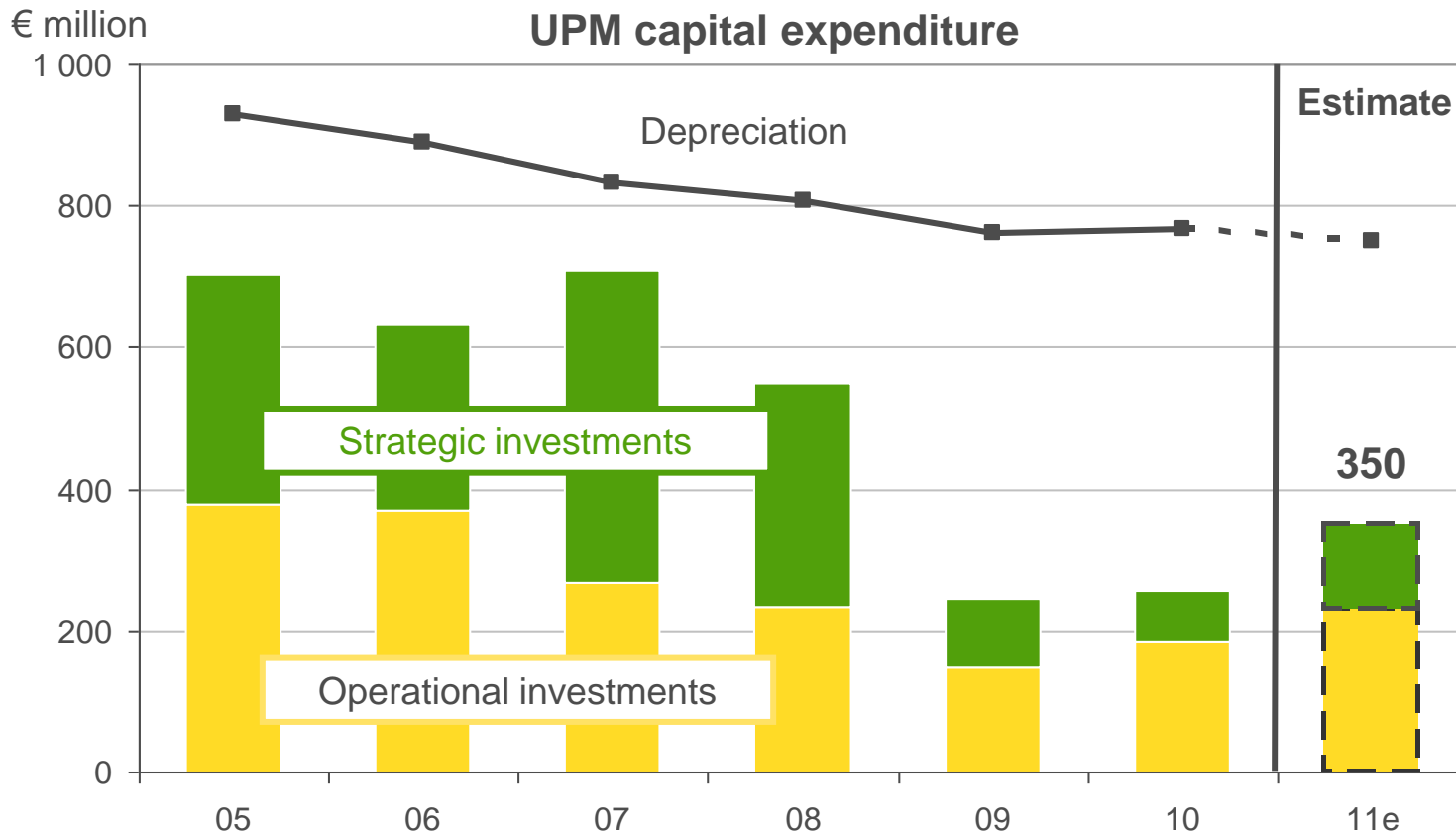
# After planned actions UPM's unit costs would be lower than both UPM's and Myllykoski's before the combination

Unit delivered cost in magazine papers €/t



Sources: Pöyry, UPM

# Low needs for major investments to maintain competitiveness



- Restructuring actions:**
- ▶ Voikkaa
  - ▶ Miramichi
  - ▶ Kajaani
  - ▶ Tervasaari pulp mill
  - ▶ Label operations
  - ▶ Plywood operations
  - ▶ Planned actions related to paper asset review

## 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



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# OTHER UPM PLANS



## 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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# SUMMARY

# Summary

- UPM plans to adjust its paper capacity to match the demand of its global customer base, by reducing 1.3 million tons capacity
- The annual cost synergy benefits of Myllykoski acquisition after planned actions would be approximately EUR 200 million
- Planned measures will strengthen UPM's cost leadership, leading to lower unit costs in UPM publication papers than before the Myllykoski acquisition
- Total reduction in personnel, including planned actions in Paper, Pulp and Plywood business areas would be 1,295 employees



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