

UPM

SEB Enskilda Finnish Blue Chip Seminar 2011

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President and CEO
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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

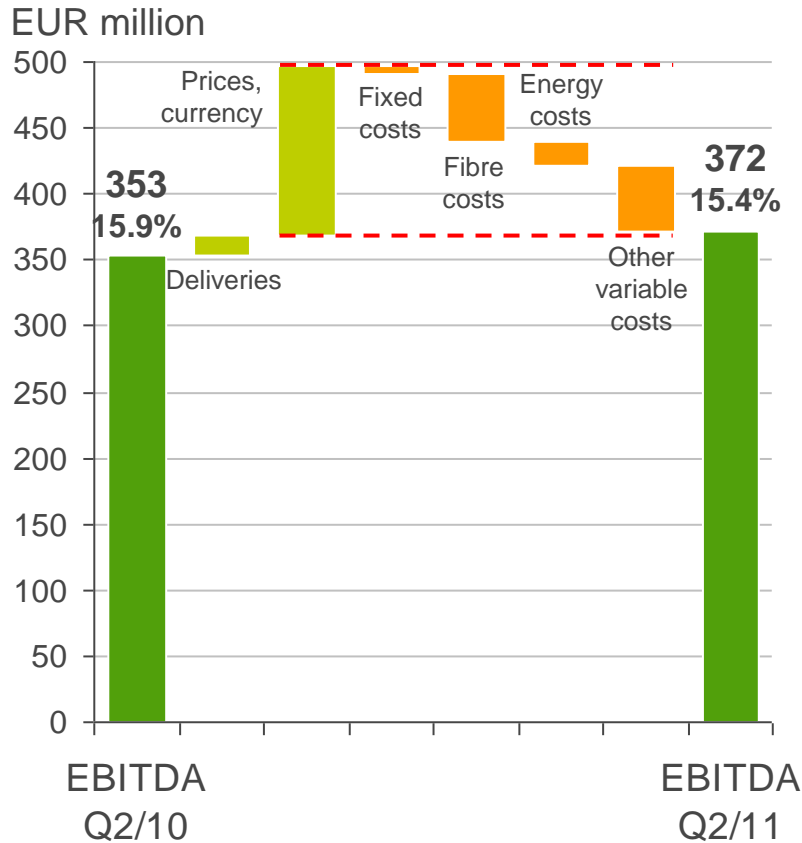
EBITDA			
EUR 751 m		+110 m	
Operating cash flow			
EUR 446 m		+135 m	
Net debt			
EUR 3,162 m		-675 m	
Gearing			
44%		-11 pp	

*) excluding special items

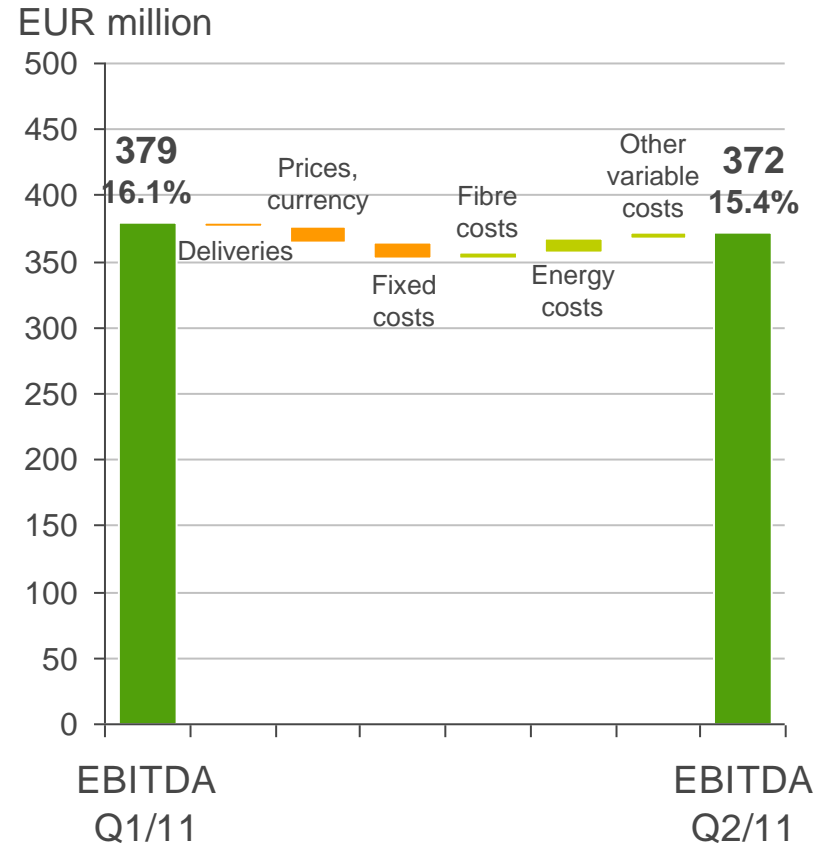
FINANCIALS

Q2 2011 EBITDA increased from last year

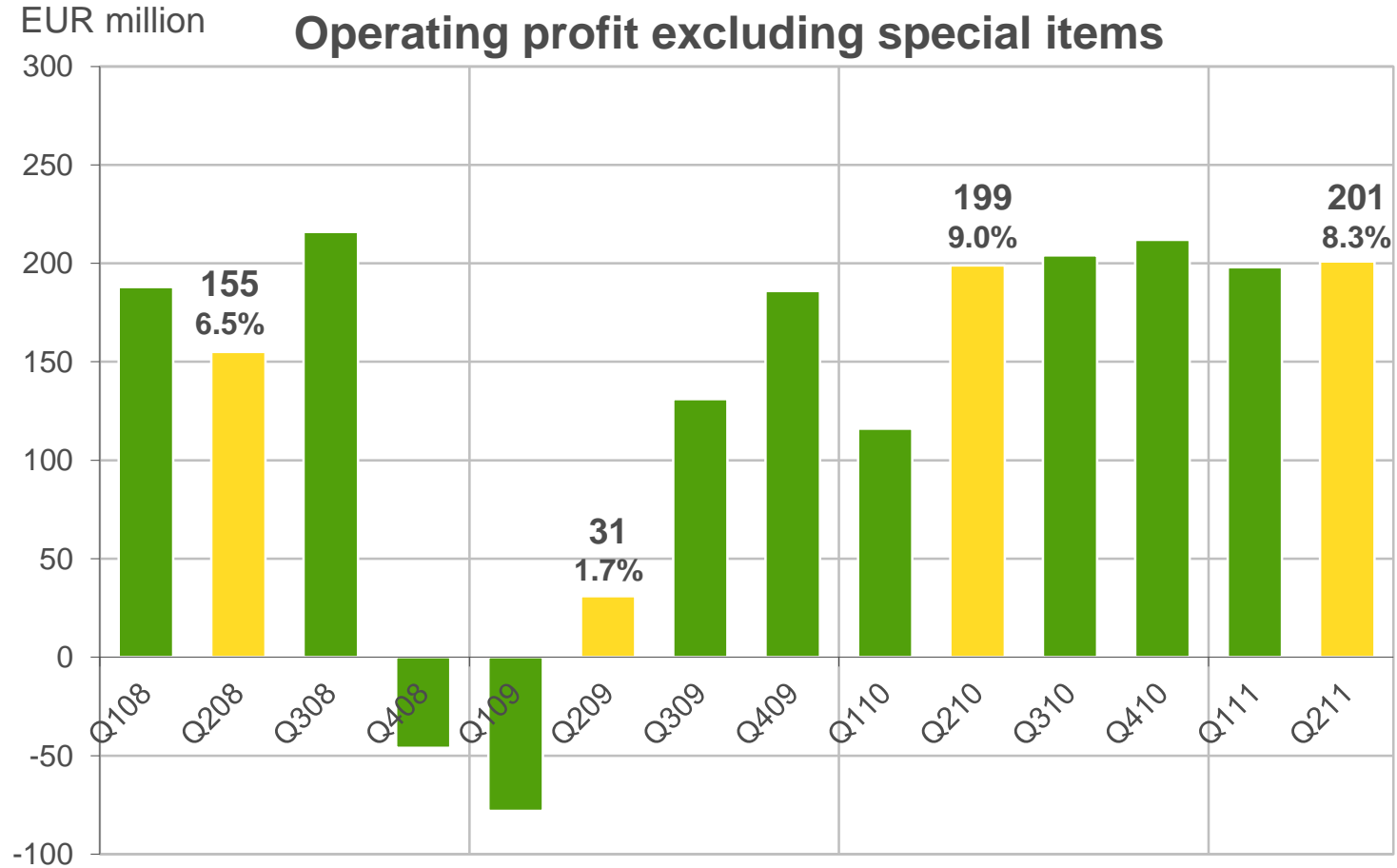
Higher prices offset the rise in costs in Q2 vs. Q2 2010



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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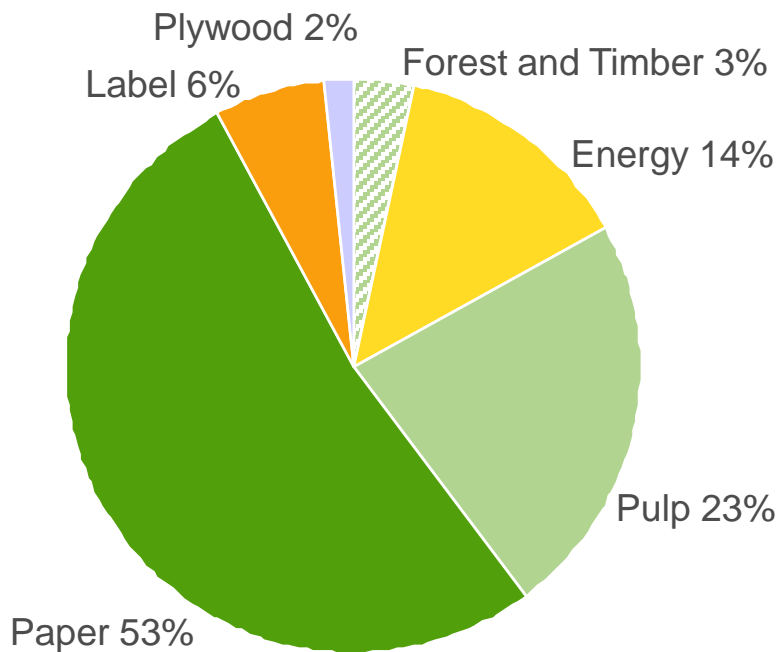
STRATEGIC FOCUS AREAS

Operating profit recovered to the pre-recession level

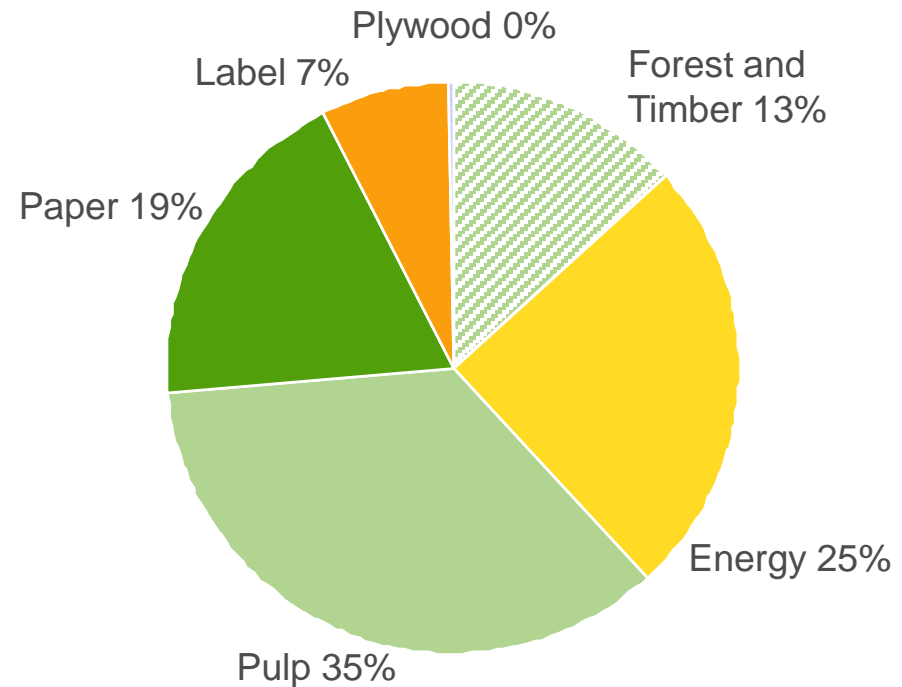


Operating profit evenly distributed – Paper is a major source of cash flow

**Cumulative
EBITDA 2007 – H1 2011**

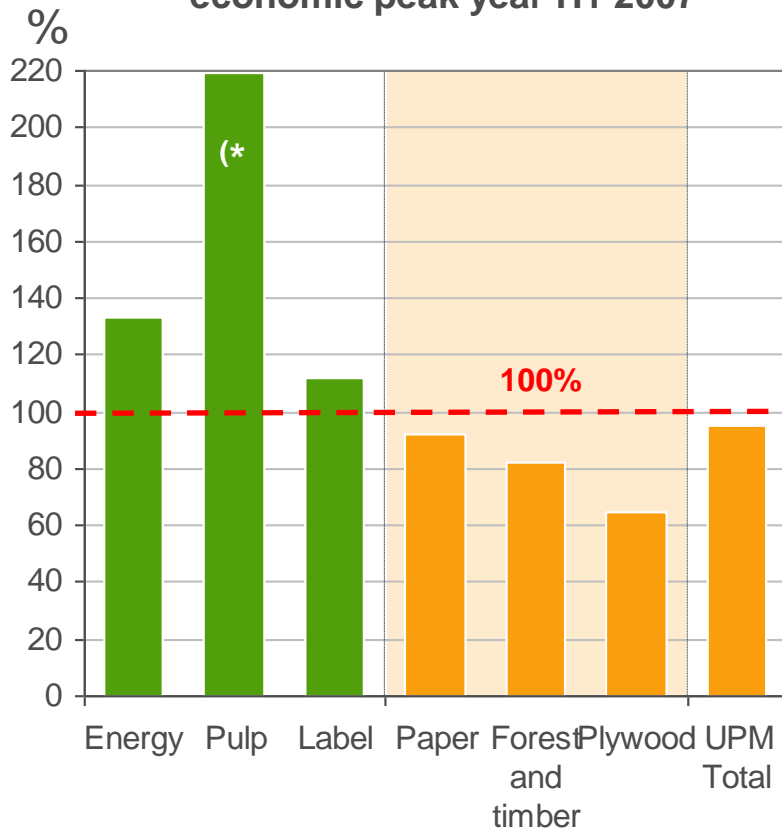


**Cumulative
Operating profit 2007 – H1 2011
excluding special items**

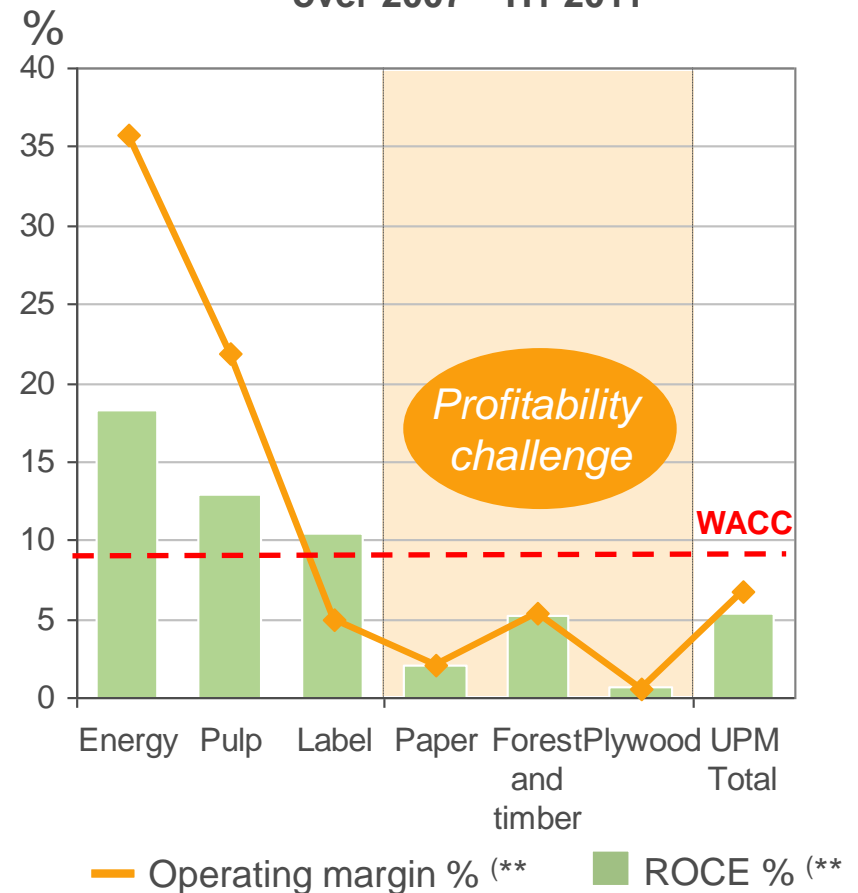


UPM's business portfolio and performance over the recession

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



Average margins and returns over 2007 – H1 2011



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



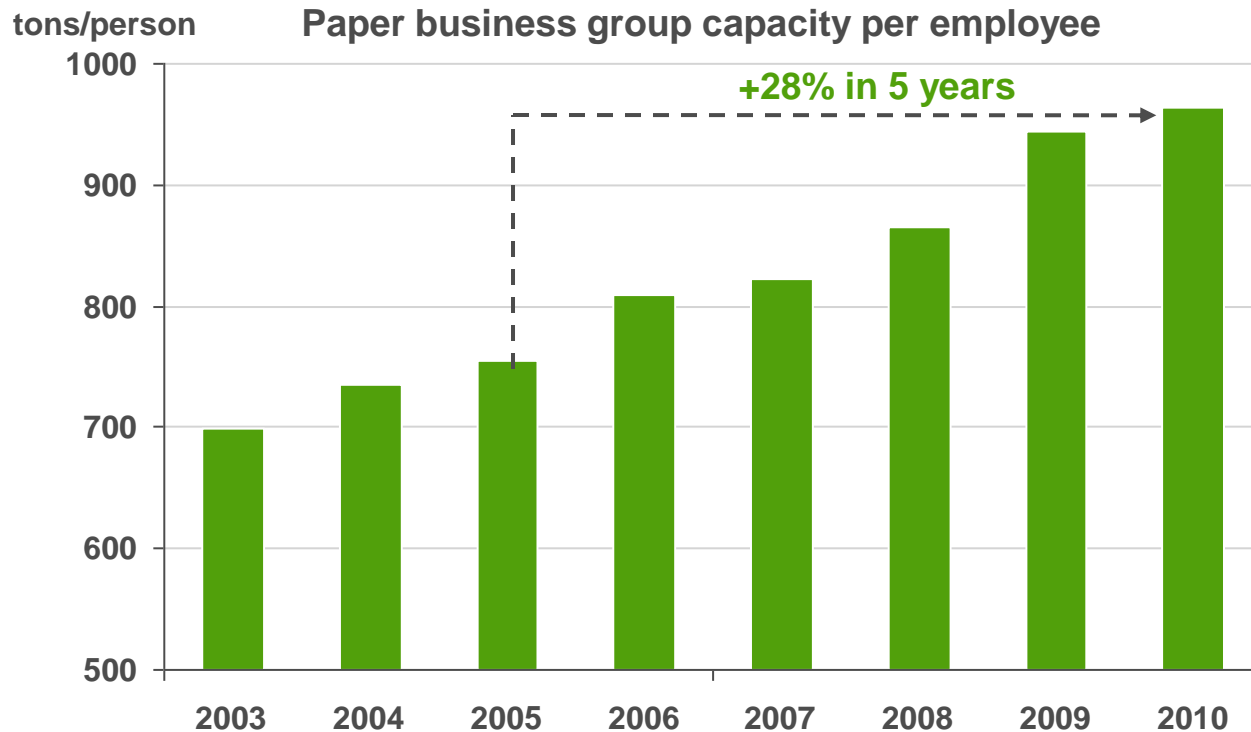
Managing change

– UPM has a consistent track record

Restructuring and efficiency improvement

Cost competitiveness and cash flow

Improved financial flexibility



Managing change

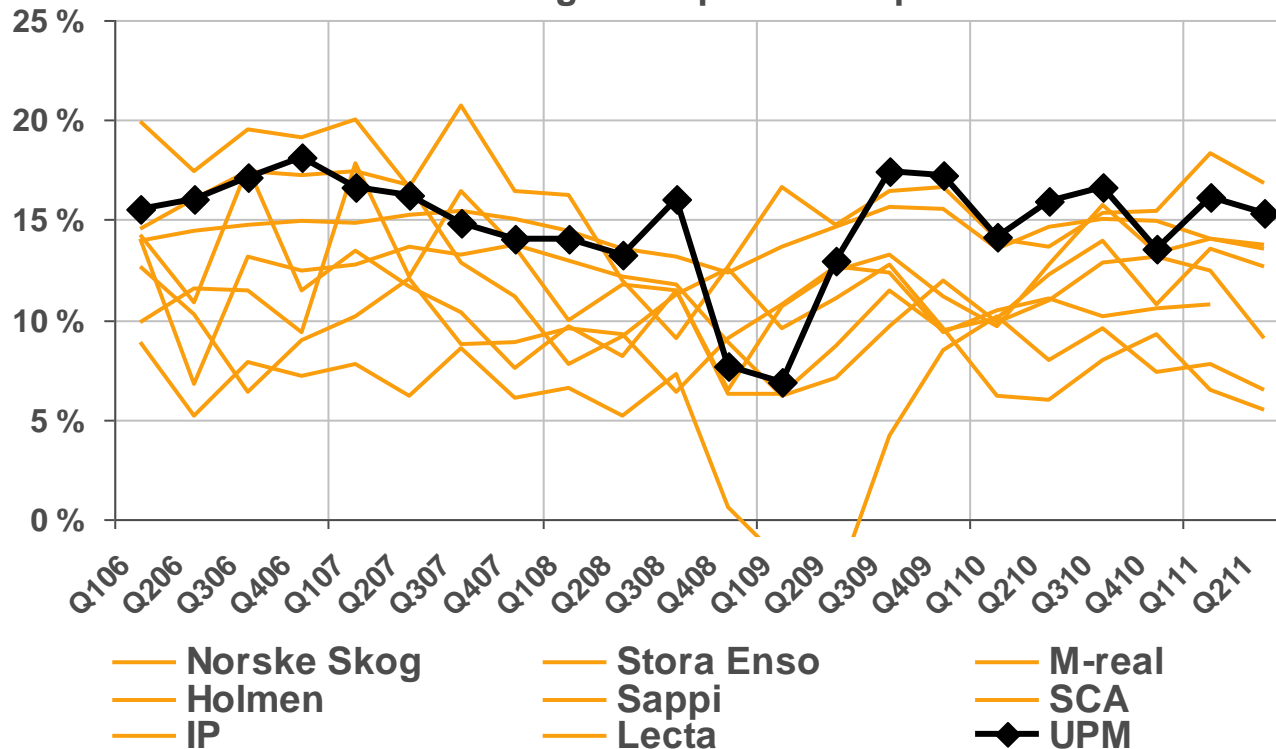
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Restructuring and efficiency improvement

Cost competitiveness and cash flow

Improved financial flexibility

EBITDA margin compared with peers



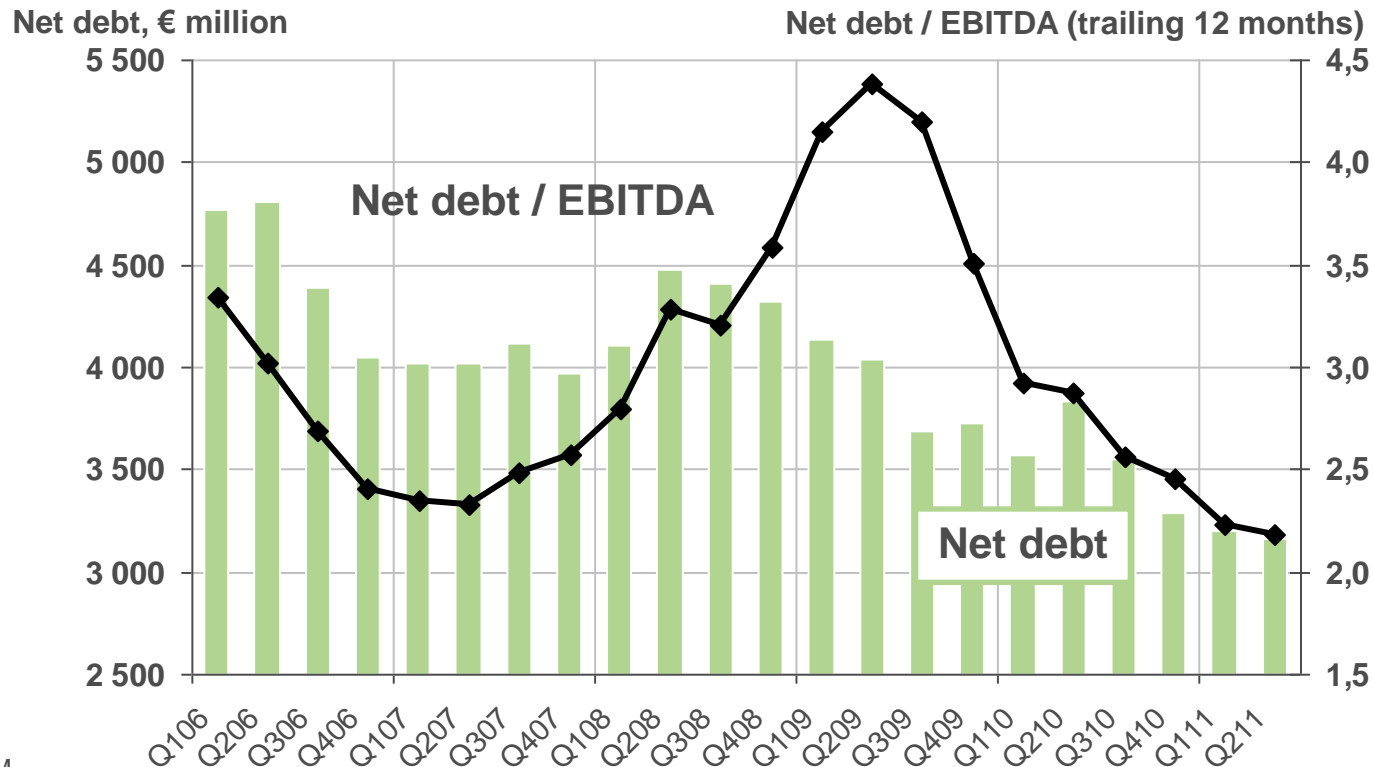
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Restructuring and efficiency improvement

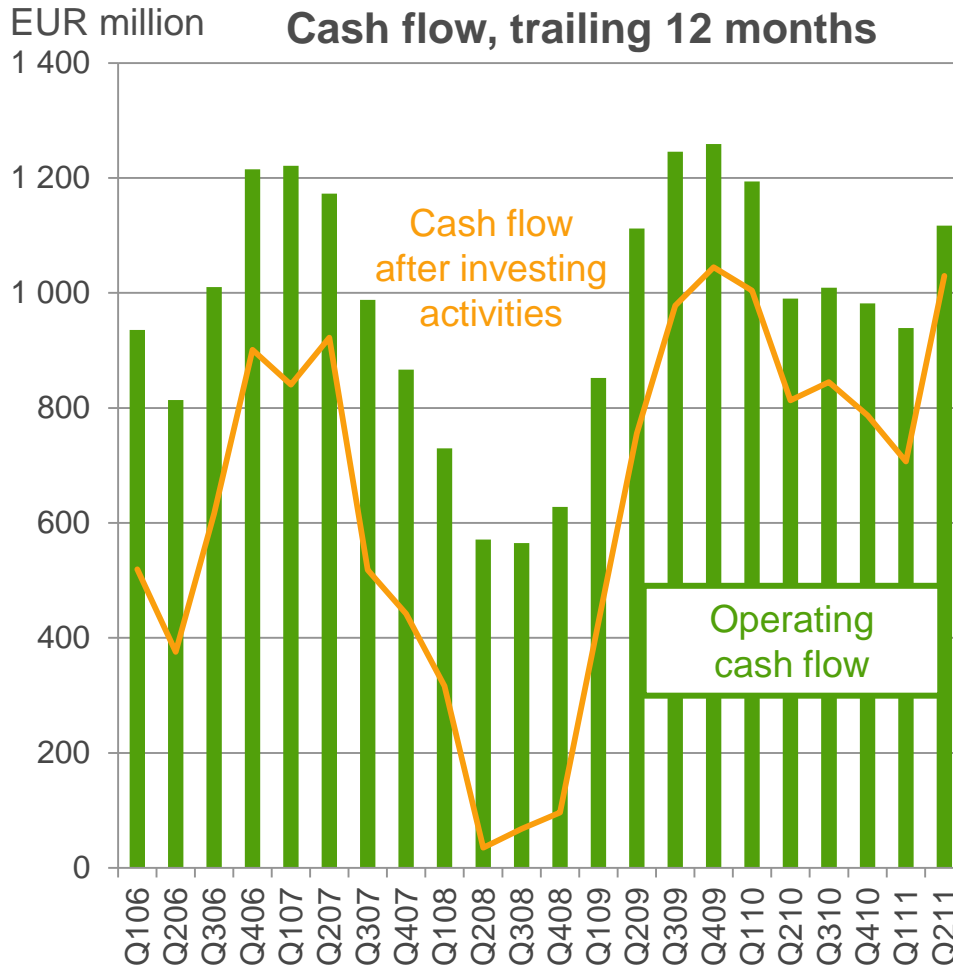
Cost competitiveness and cash flow

Improved financial flexibility



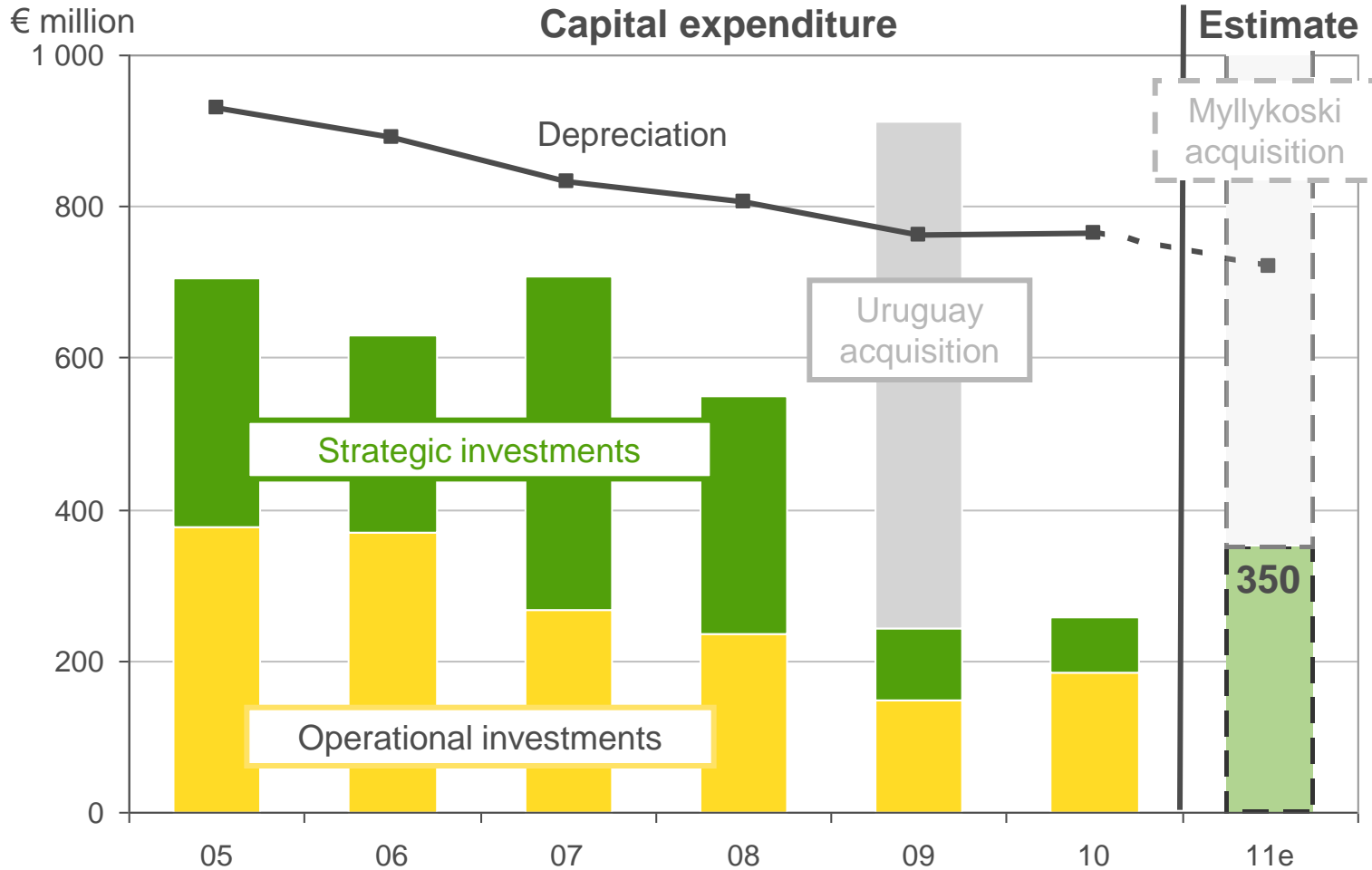
Strong free cash flow

– supporting room for strategic actions

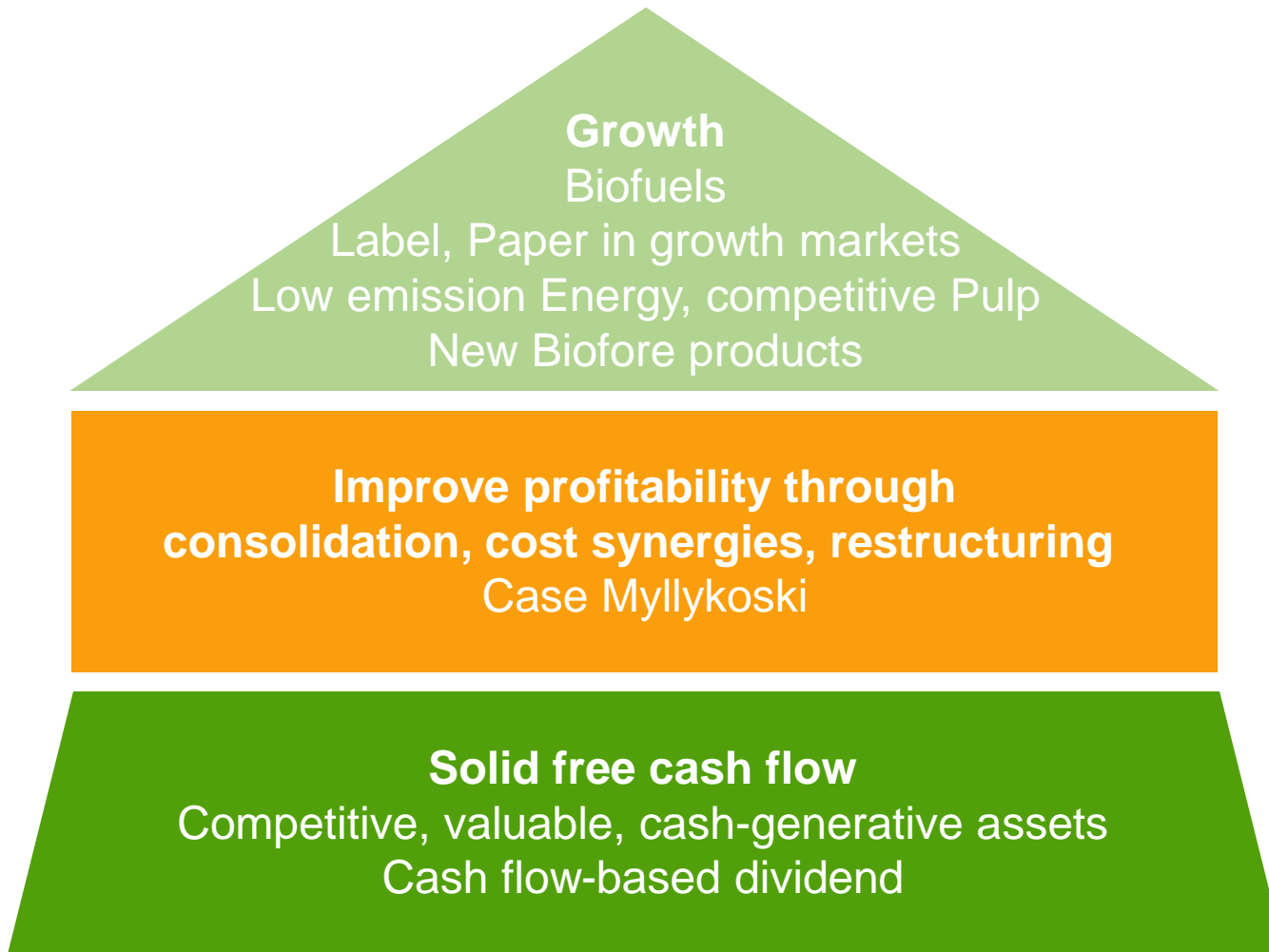


- Q2 2011 operating cash flow was EUR 280m (102m)
- Cash flow after investing activities was EUR 1,030m in the past 12 months
- Fast digestion of the additional debt from the Myllykoski transaction
- Room for strategic actions
- Cash flow-based dividend

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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