

# UPM corporate presentation

## Balance between supply and demand 2011 - 2014

### SHB Materials Seminar

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10 March, 2011

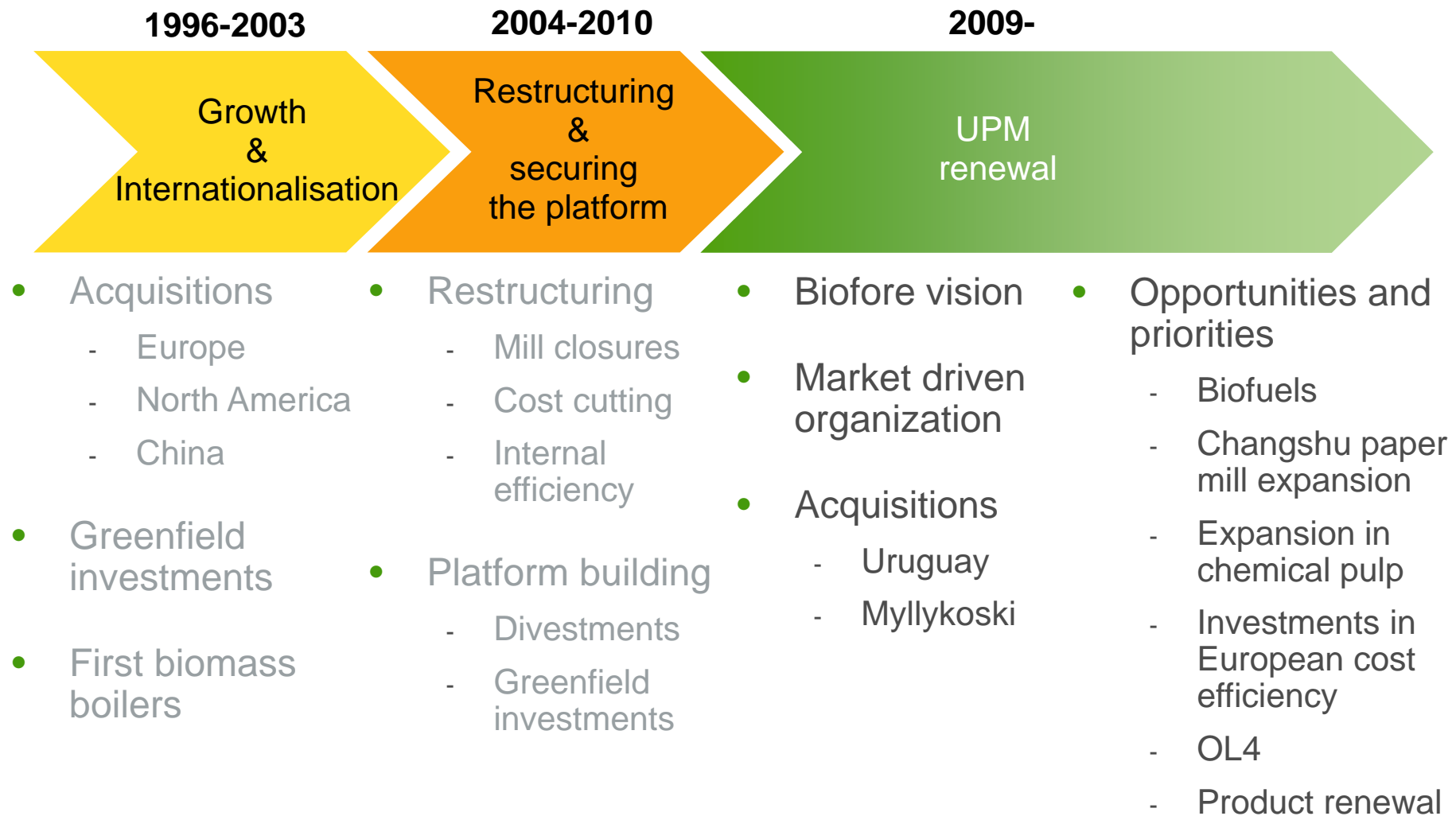


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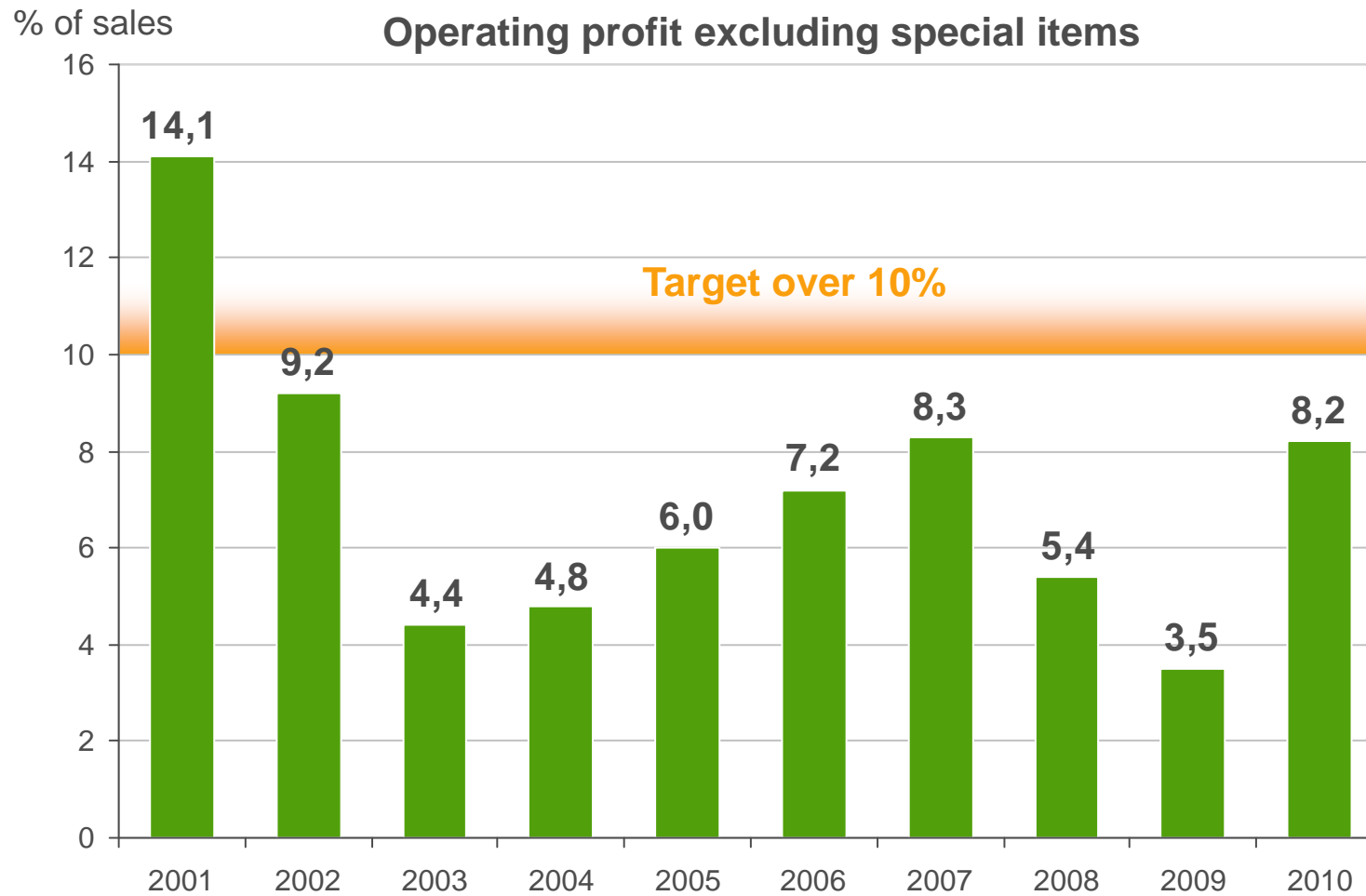
## STRATEGY AND FINANCIALS

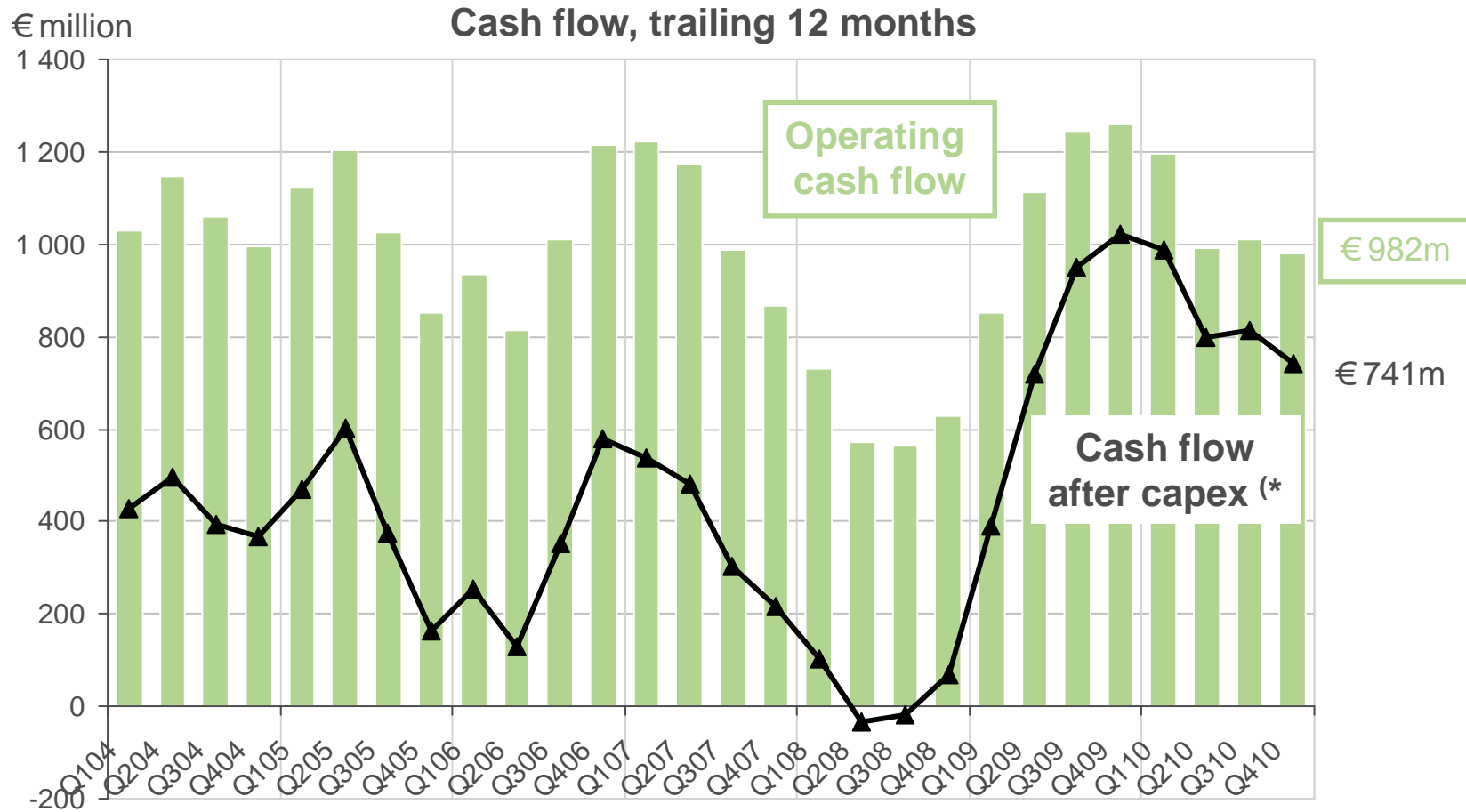
# Restructuring has been a prerequisite for improved profitability and UPM's renewal



# STRATEGY AND FINANCIALS

## Heading there

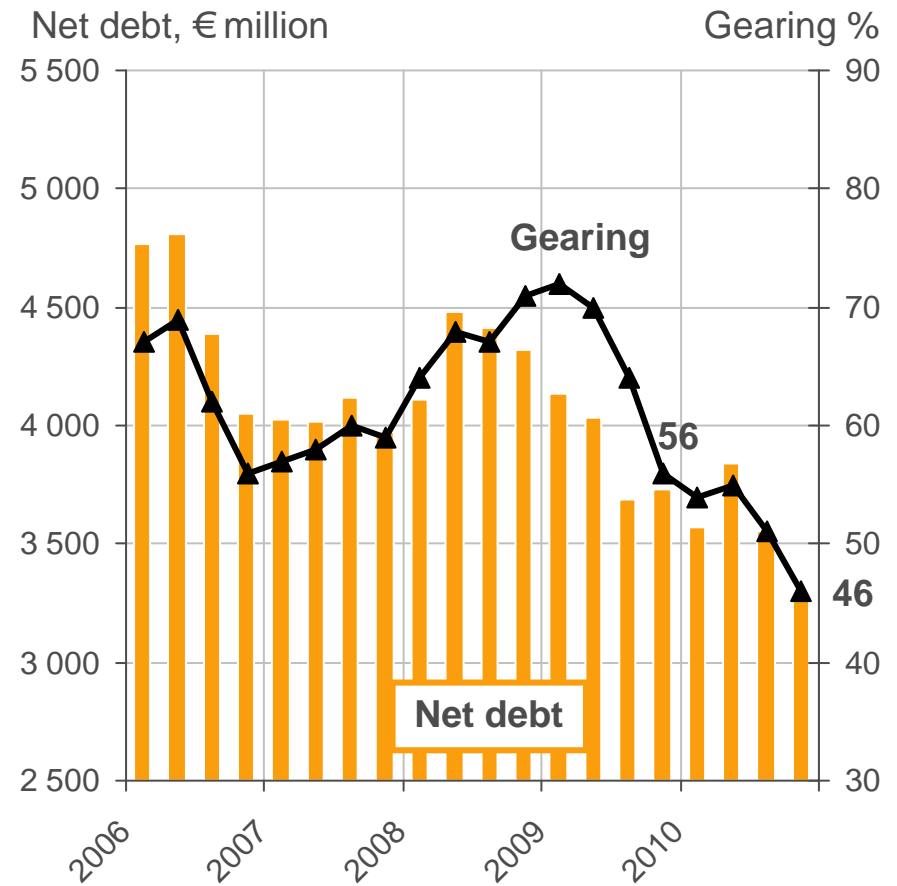
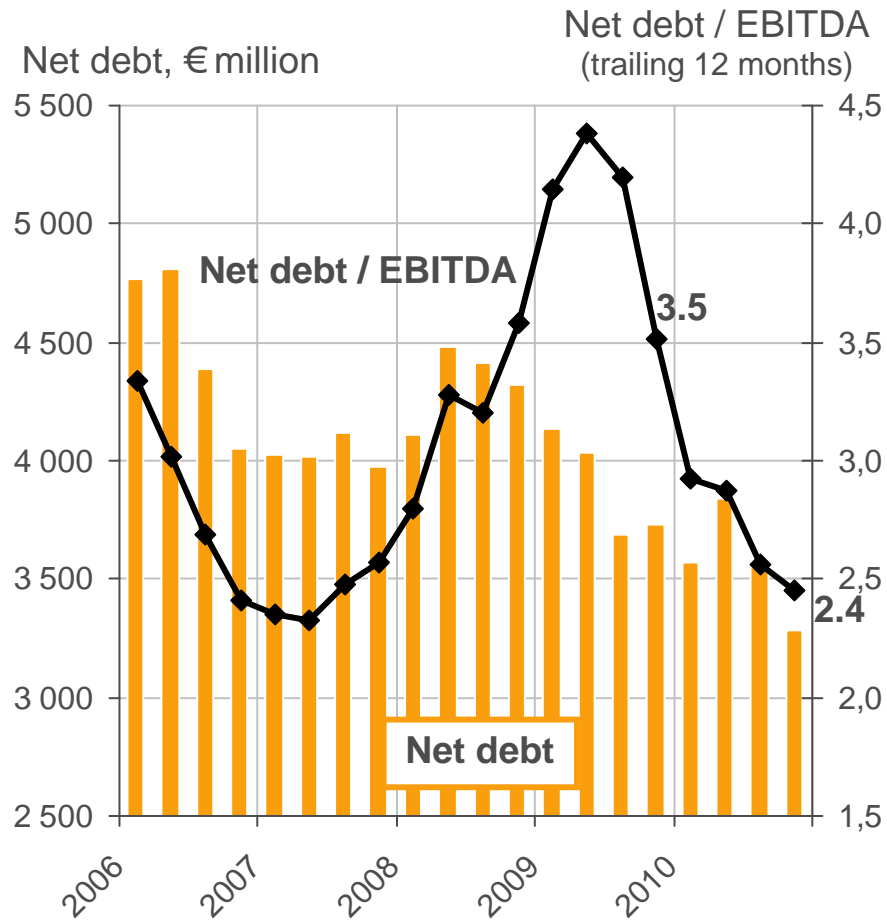




\*) excluding acquisitions and divestments

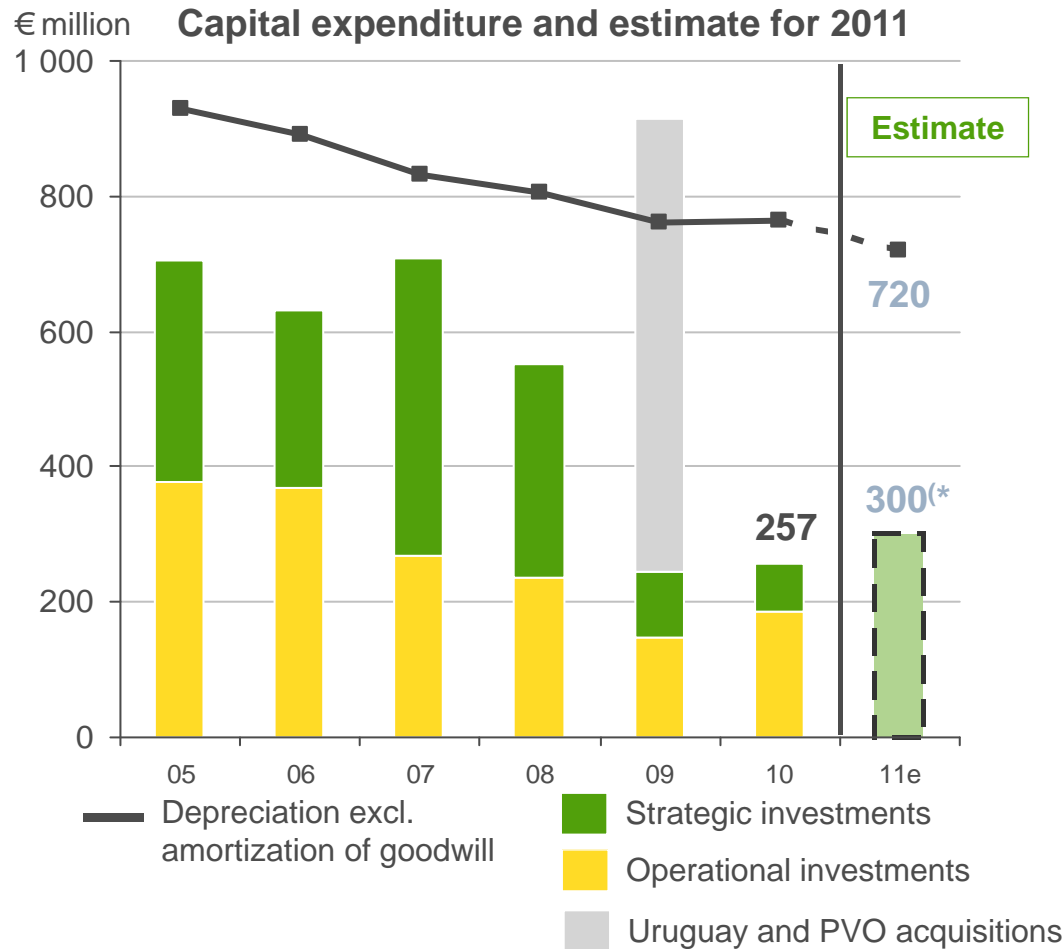
STRATEGY AND FINANCIALS

UPM's asset base provided strong cash flow through the recession



STRATEGY AND FINANCIALS

# Modern assets mean low investment needs on existing capacity



## Low operational capex requirements

- Large scale pulp mills and paper machines
- Modern machines require less maintenance than old

## Few must-do investments

- No pulp mill rebuilds

➔ UPM capex is discretionary



## Outlook for 2011 (\*)

- Guidance for operating profit excluding special items
  - 2011 to improve from 2010
  - H1 2011 to improve clearly from H1 2010
- Variable cost inflation expected to moderate from 2010
- Business area drivers for 2011 vs. 2010

2011 vs. 2010	Prices	Deliveries
Energy	↓	→
Pulp	→	↑
Sawn timber	→	→
Paper	↑	→
Label	↑	↑
Plywood	↑	↑
<b>UPM average</b>	↑	↑



# MYLLYKOSKI ACQUISITION



## MYLLYKOSKI ACQUISITION

# UPM acquires Myllykoski



- UPM has signed an agreement to acquire Myllykoski Corporation and Rhein Papier GmbH
- Enterprise value EUR 900 million
- Financing
  - UPM issues 5 million shares
  - UPM raises bank loans of EUR 800m
- The agreement subject to customary closing conditions, incl. approvals from competition authorities – expected to close in the Q3 2011
- Main rationale is to improve profitability and cost efficiency in UPM European paper business

## MYLLYKOSKI ACQUISITION

# Summary of the financial impacts



### Earnings impact

- Estimated annual synergies over EUR 100 million – materialising from 2012
- Cash flow enhancing immediately after closing
- Earnings per share enhancing in 2012

### Other

- UPM will book a one-off gain of approximately EUR 300 million
- Estimated restructuring costs and investments total EUR 100-150m

### Balance sheet impact

- Net debt increases by approximately EUR 800 million
- Gearing estimated to increase by 8 percentage points
- Group's assets increase by about EUR 1.6 billion

## MYLLYKOSKI ACQUISITION

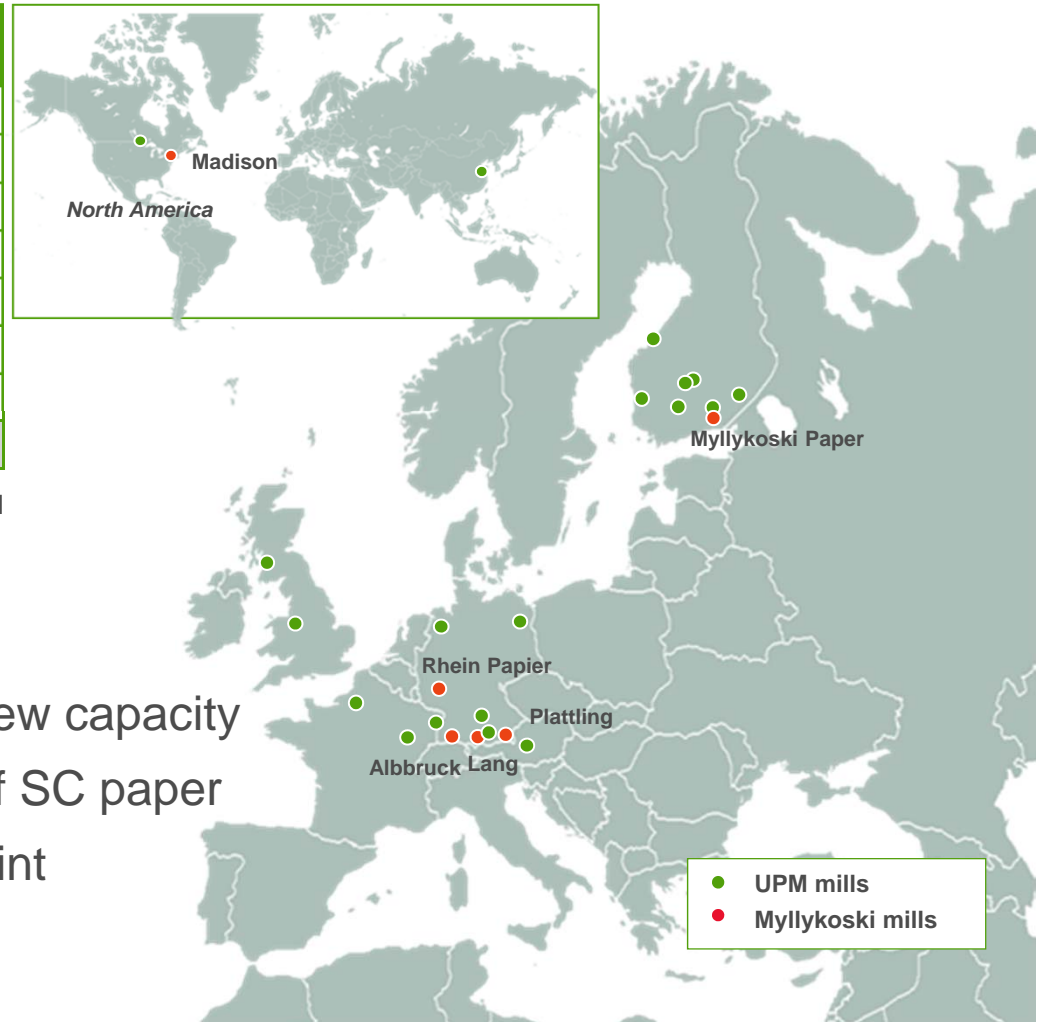
# Paper operations to be acquired



Mills	Grade	Cap. 1,000 t	Personnel Q3/2010
Myllykoski Paper	LWC, SC	600	469
MD Albrbruck	MWC/LWC	320	544
Lang Paper	News, SC	600	413
MD Plattling	LWC	400	387
Madison Paper	SC	220	229
Plattling Papier (RP)	SC	380	114
Hürth (RP)	News	310	102
<b>TOTAL</b>		<b>2,830</b>	<b>2,600 *)</b>

Source: Myllykoski

\*) incl. non-mill personnel

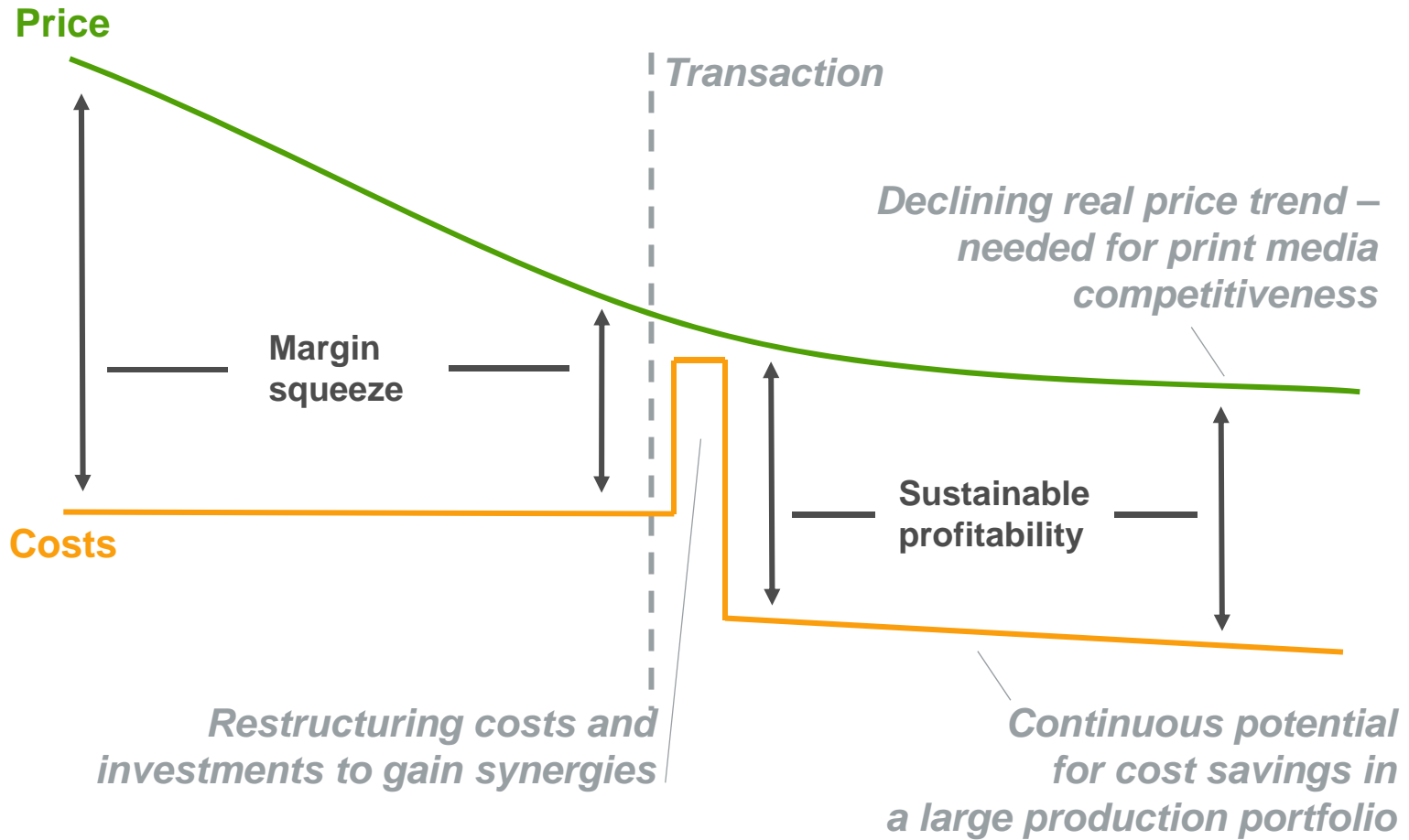


Invested recently over EUR 700m on new capacity

- Plattling PM 1 (2007); 380,000 t/a of SC paper
- Hürth (2002); 310,000 t/a of newsprint

MYLLYKOSKI ACQUISITION

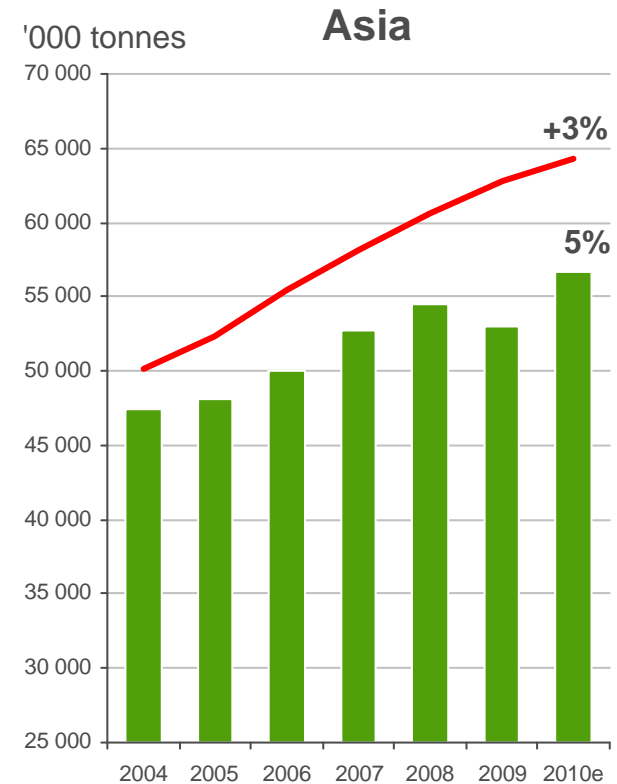
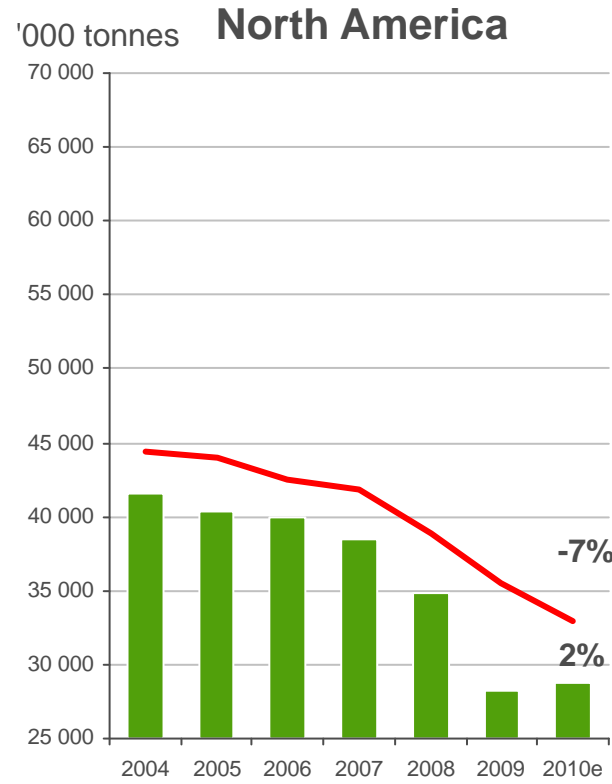
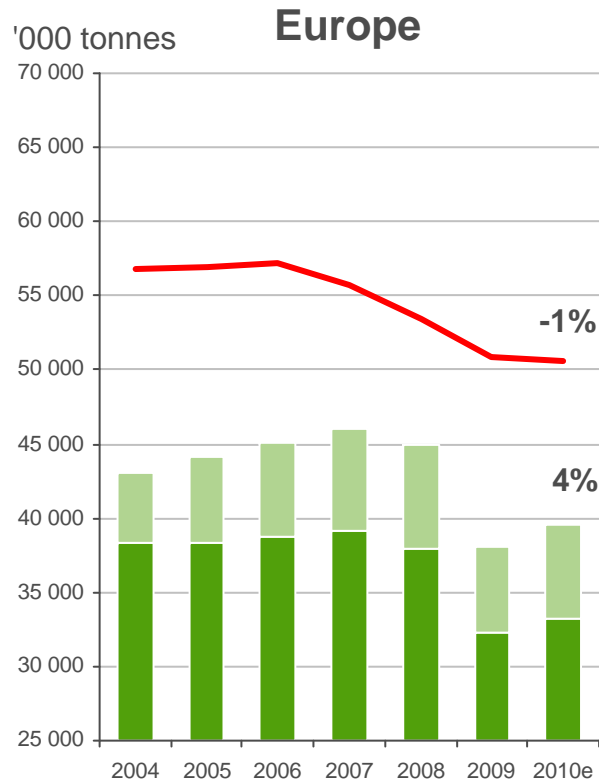
Achieve sustainable cost structure through consolidation



# PAPER MARKETS



PAPER  
**Graphic papers demand improved in all regions in 2010**



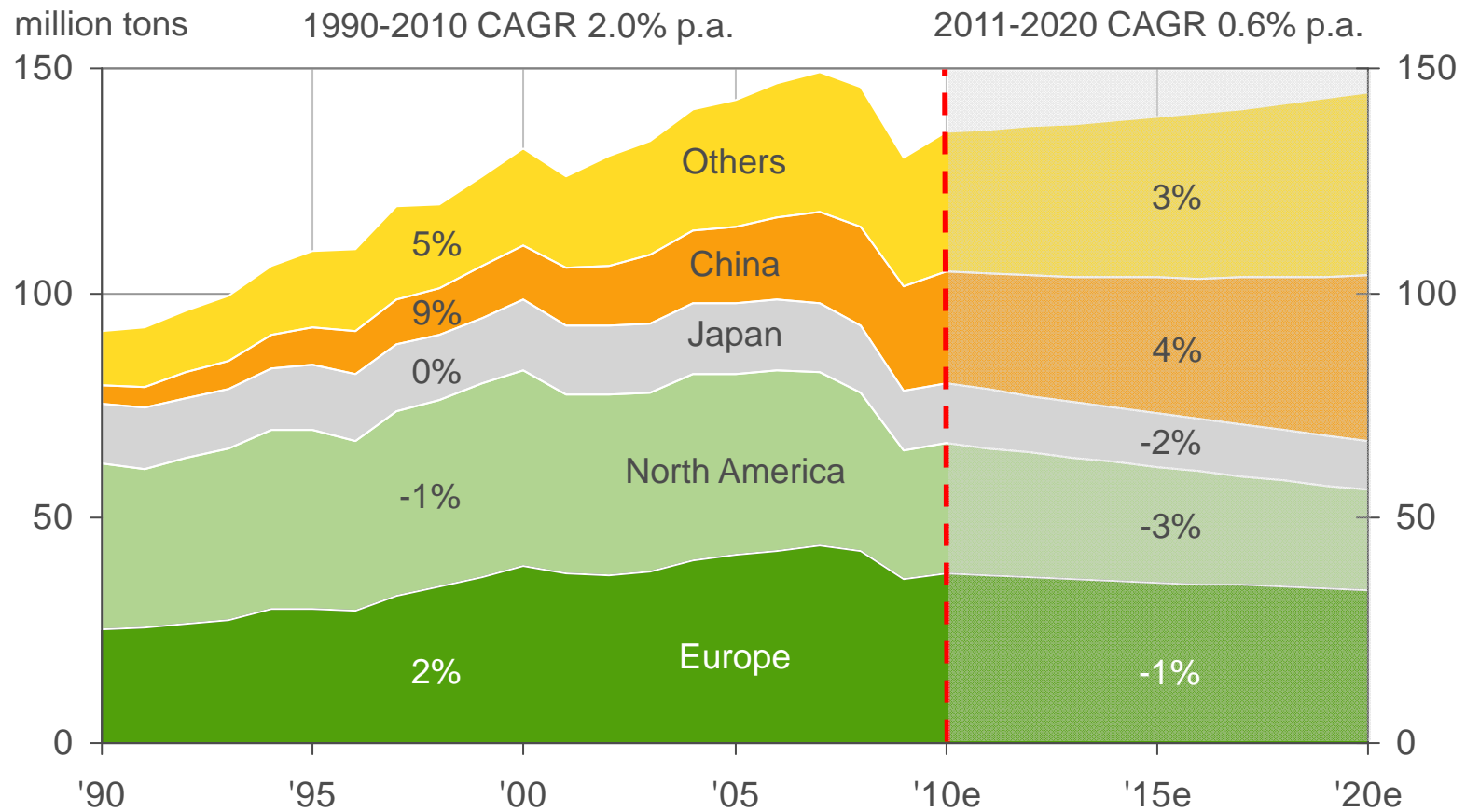
■ W. Eur demand ■ E. Eur demand — Capacity

■ NA demand — Capacity

■ Asia demand — Capacity

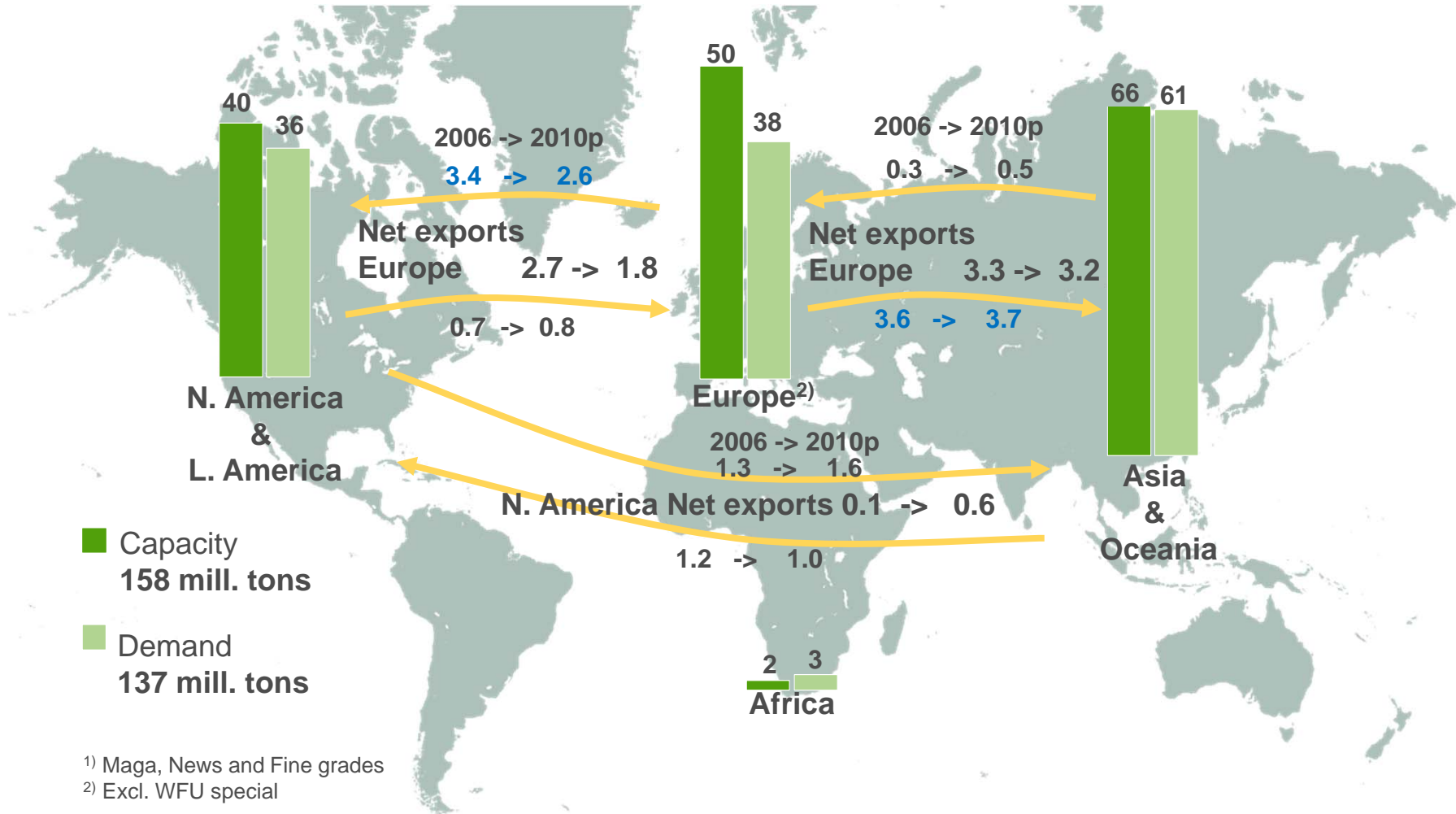
PAPER

# Graphic papers demand is shifting to growth markets





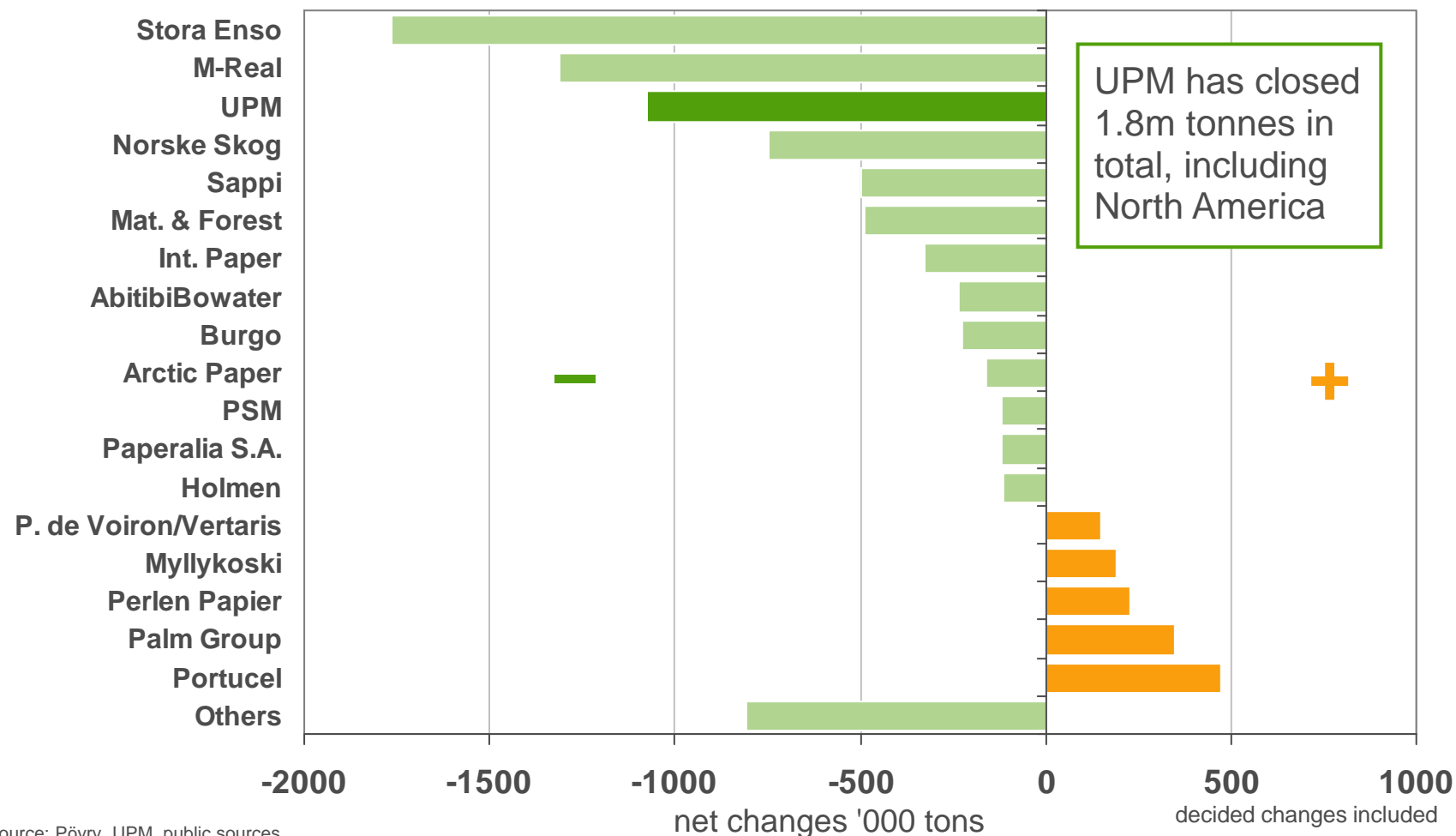
# Graphic papers<sup>1)</sup> trade flow changes 2006-2010 – net exports from Europe are declining



PAPER

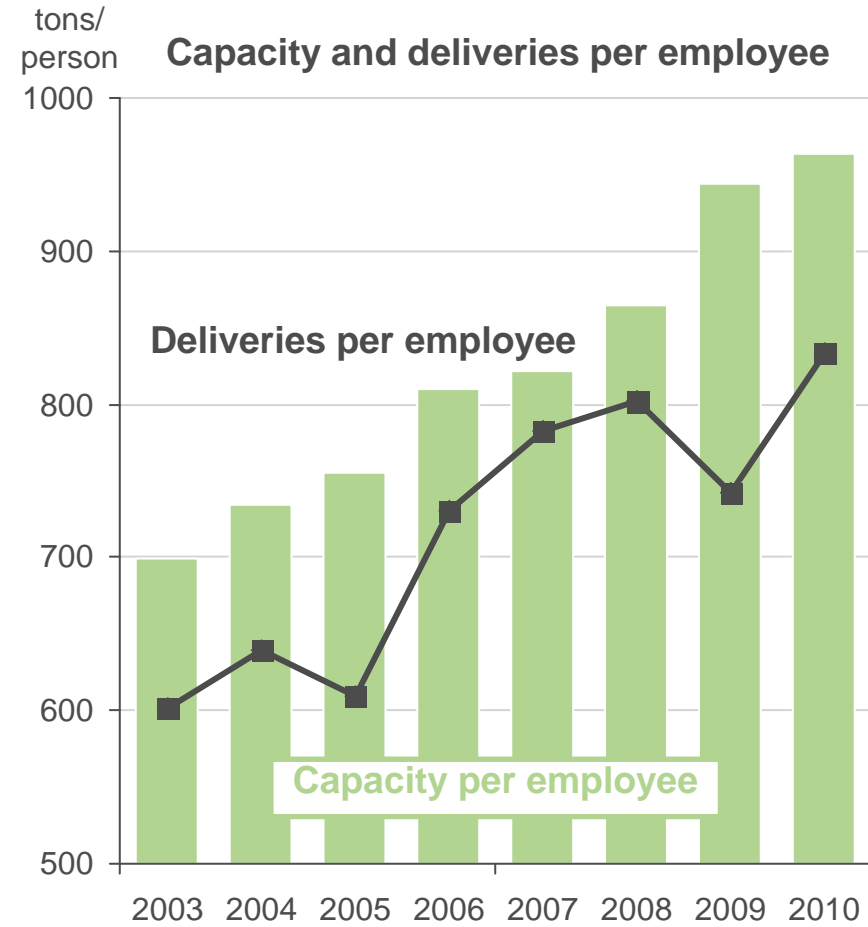
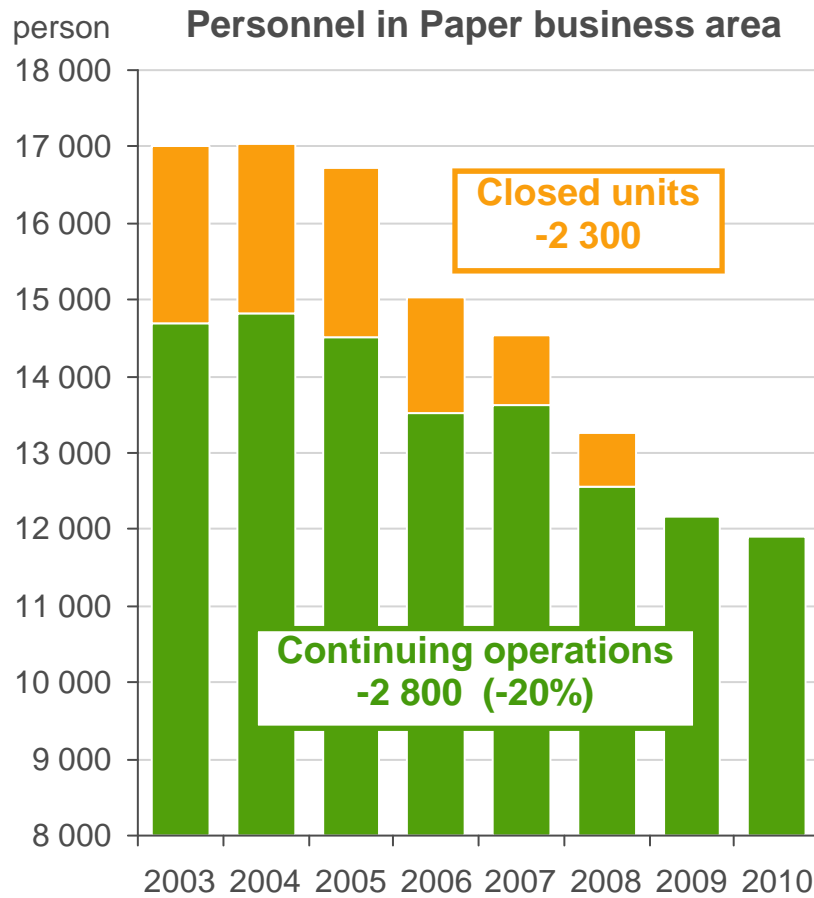
# Net capacity reduction by company

6.6 million tonnes (12%) in Europe in 2005–2011e



Source: Pöyry, UPM, public sources  
18 | © UPM

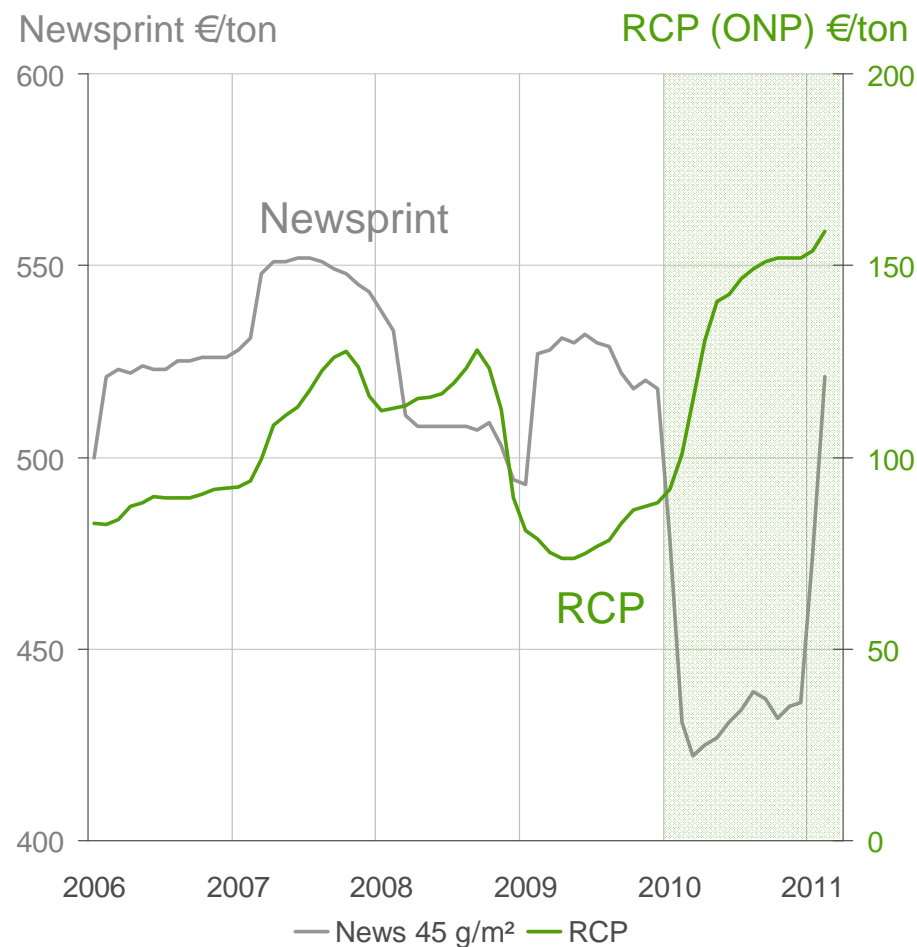
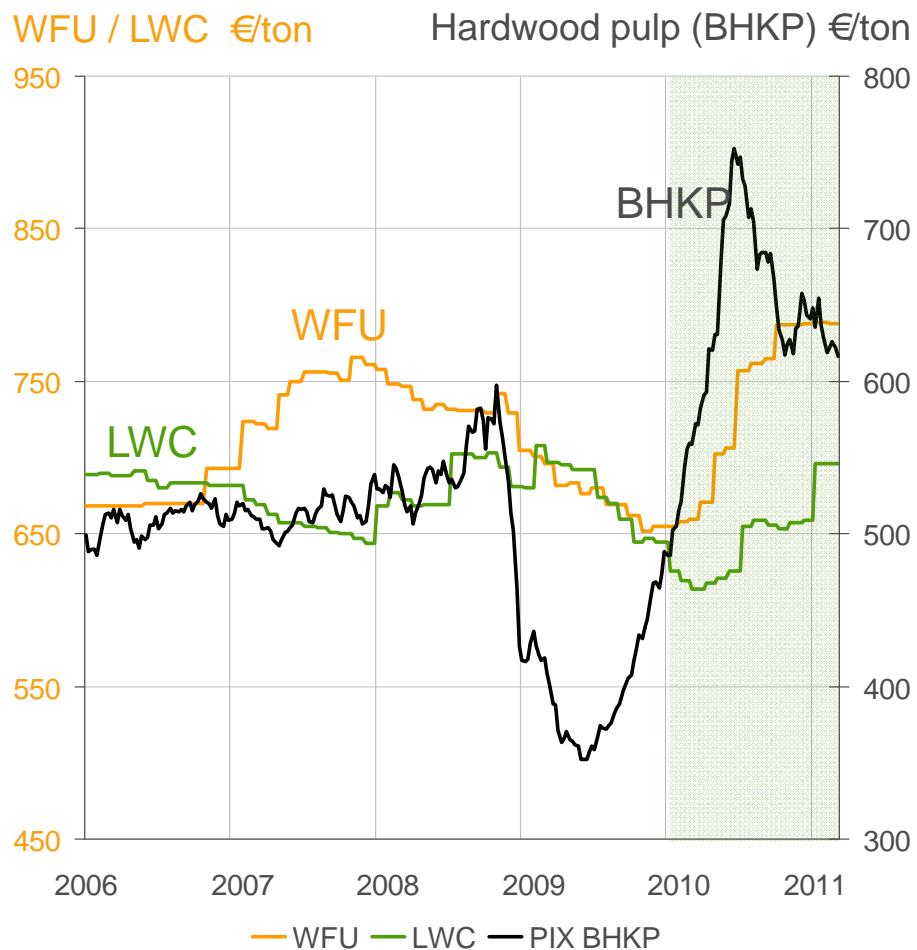
# UPM has completed major restructuring in 2006-2009



Note: no significant outsourcing

PAPER

# Fibre prices squeezing paper makers' margins



Source: FOEX Indexes Ltd., PPI, RISI  
20 | © UPM

## PAPER

### UPM's paper prices in 2011

- UPM has increased paper prices in the beginning of 2011.  
Examples in Europe:
  - Magazine papers                      about + 5-8%
  - Newsprint                                about + 20%
  - Fine and speciality papers        no material changes
- The average price for UPM's paper deliveries is expected to increase by about 6% in the beginning of the year from Q4 2010
- Publication paper prices return broadly to 2009 level
- Raw material costs have increased substantially from 2009

# PULP MARKETS

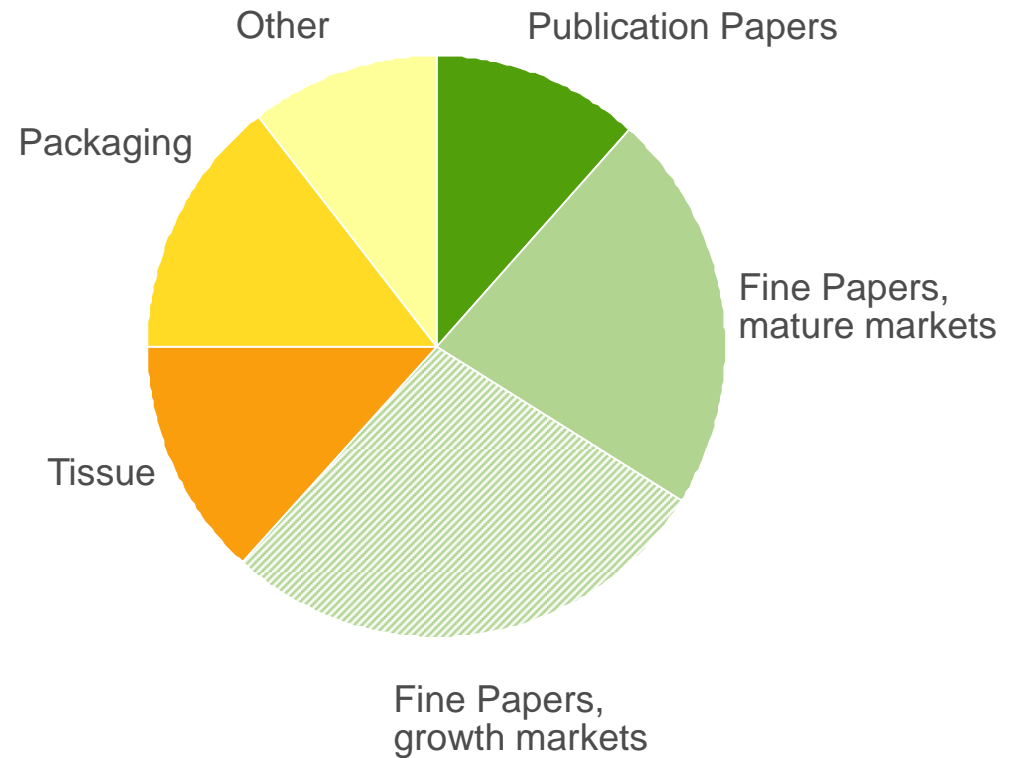
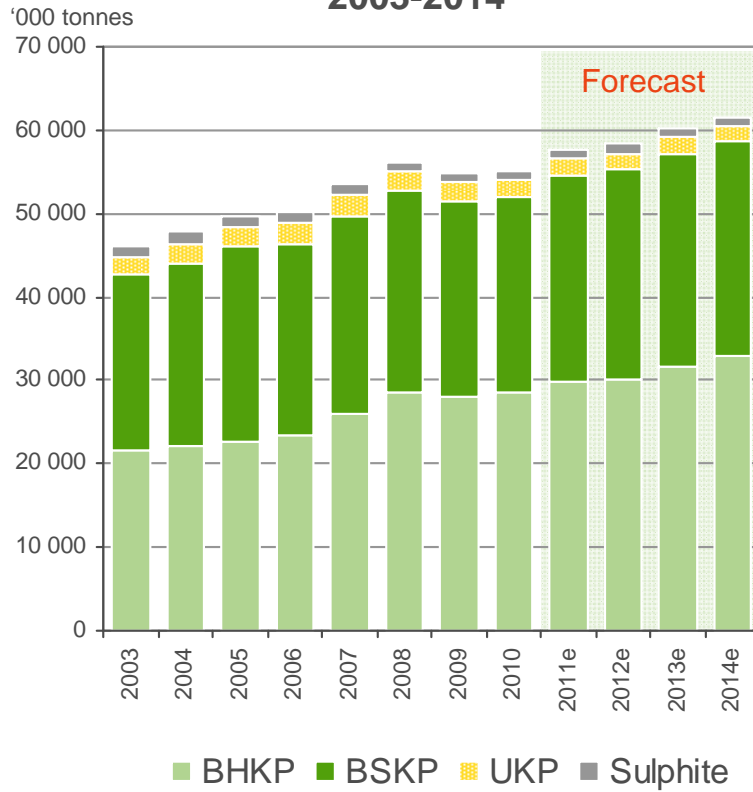


# PULP

## Chemical pulp demand is growing driven by various end-uses

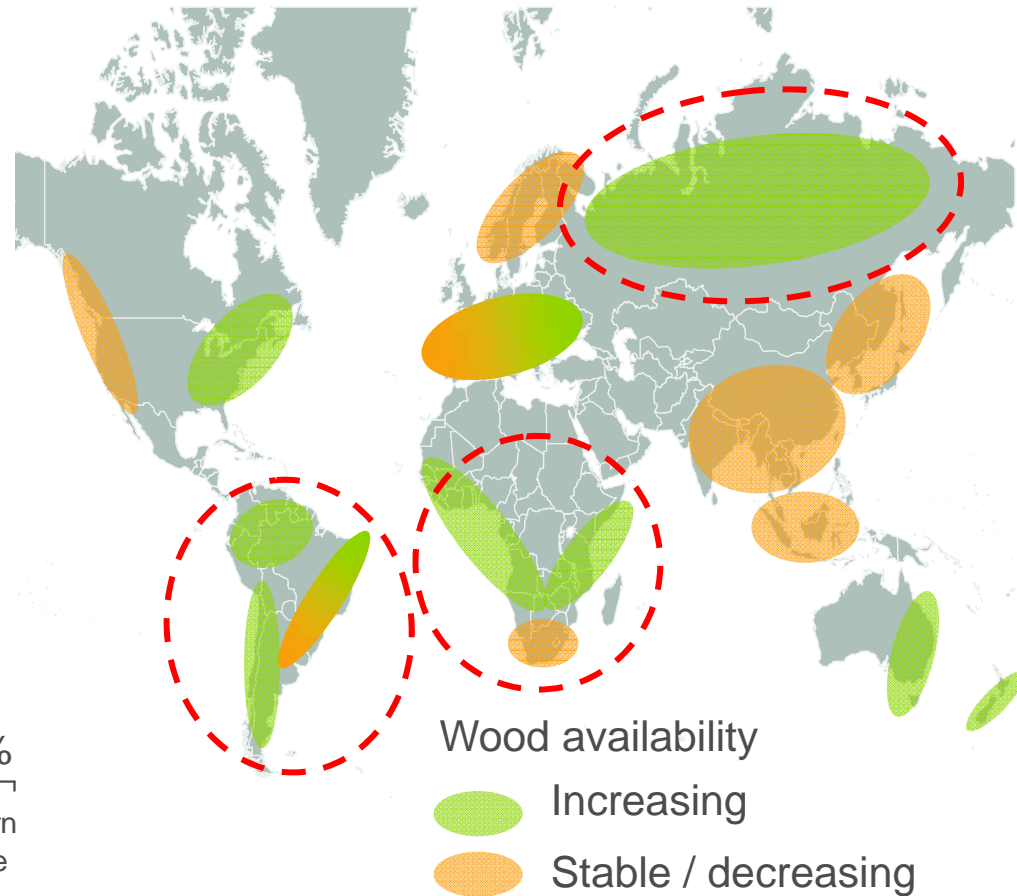
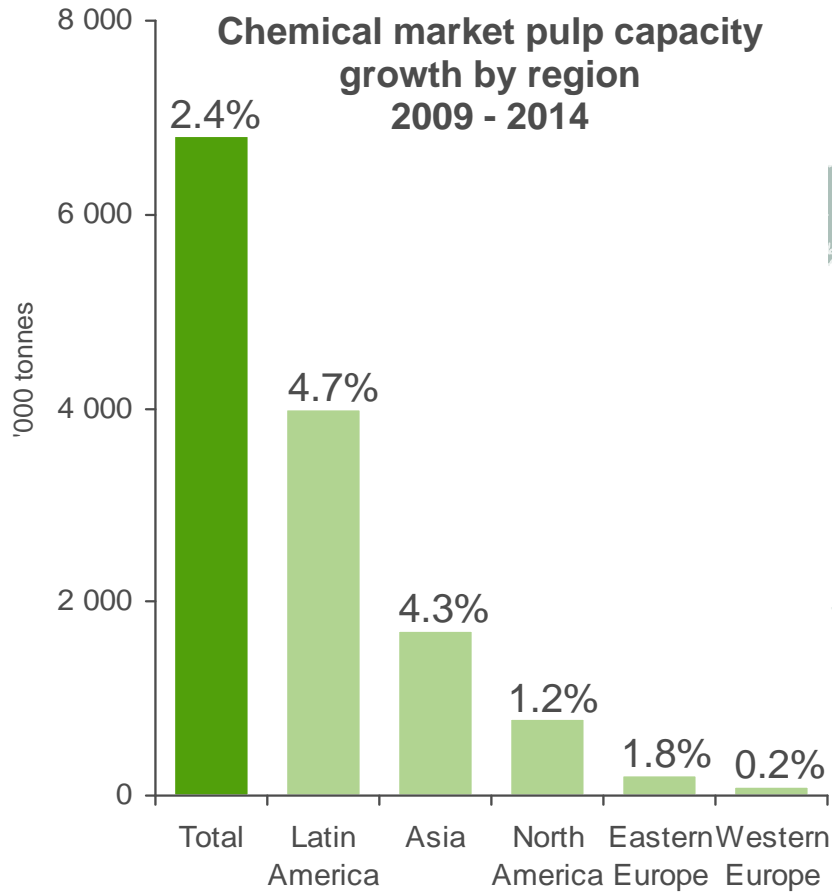


**Market pulp demand development 2003-2014**



# PULP

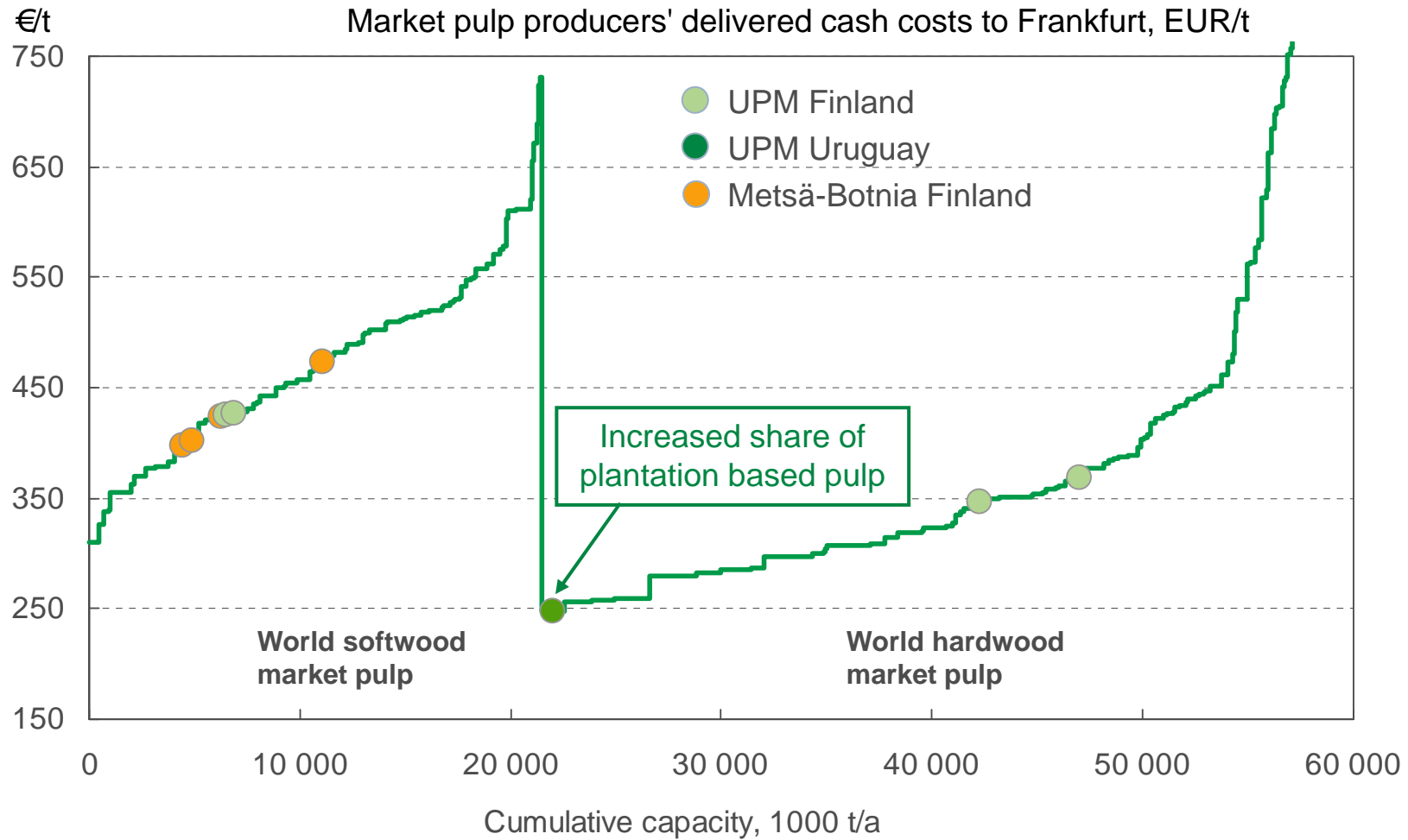
Capacity growth is focused on regions with increasing wood availability and cost efficient plantation operations





PULP

# UPM's cost competitive pulp capacity 3.2 million tons is produced at four modern mills

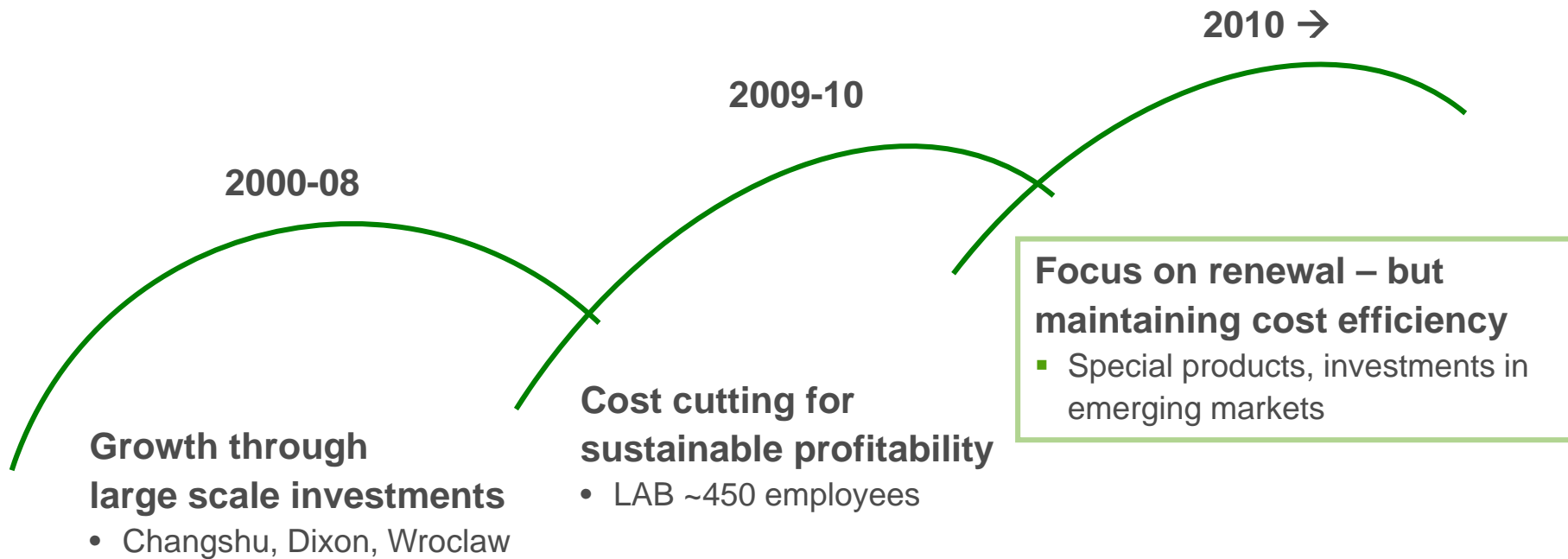




# LABEL MARKETS

LABEL

# Development from cost cutting to renewal provides long-term profitability for Label

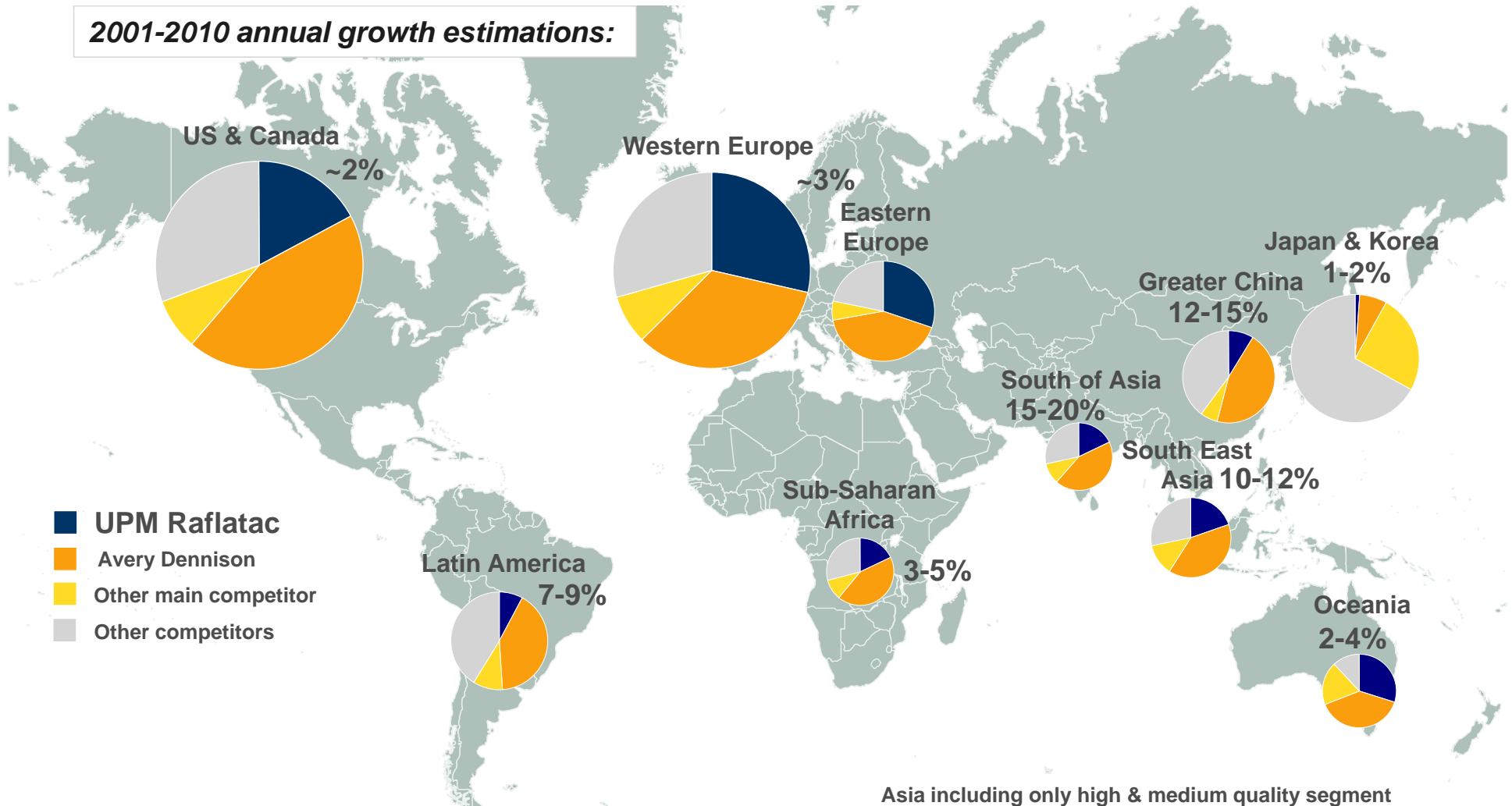


**LABEL**

**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:*

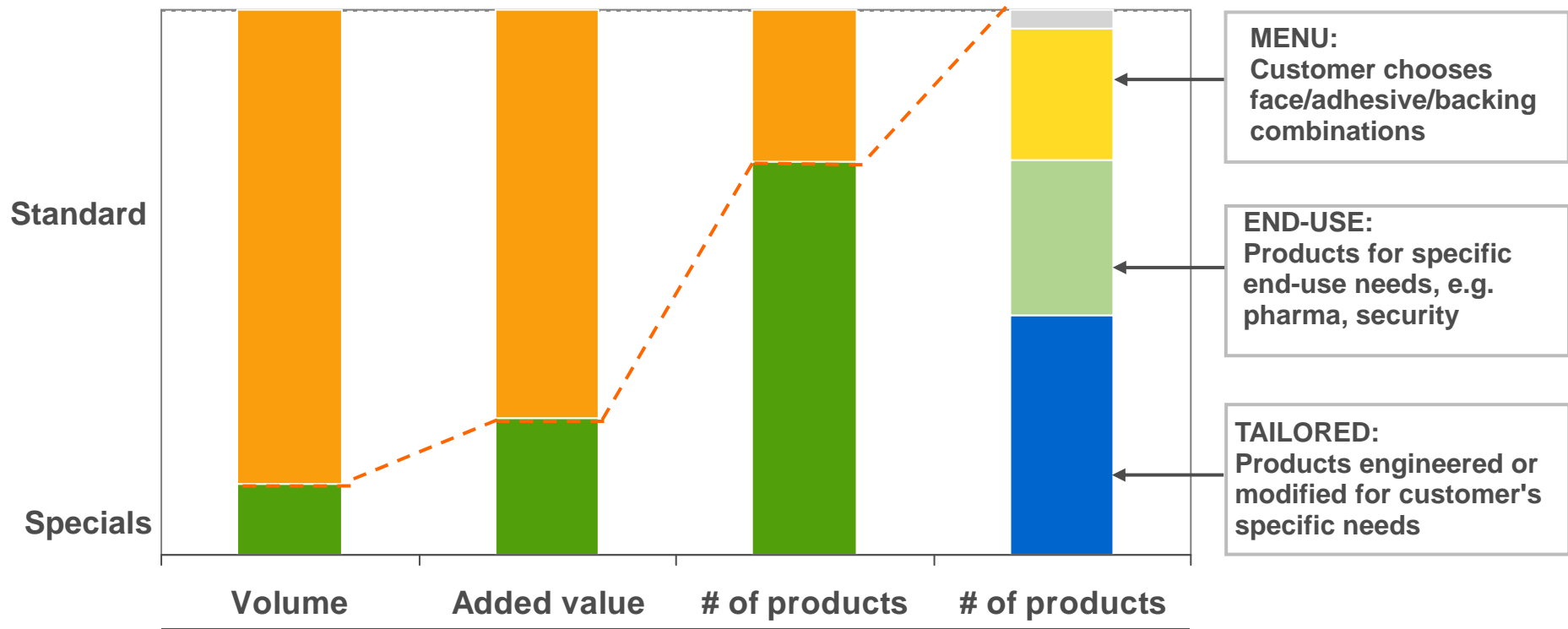


- UPM Raflatac
- Avery Dennison
- Other main competitor
- Other competitors

Asia including only high & medium quality segment

LABEL

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



# SUMMARY



## Summary

- UPM is committed to real profitability and cost efficiency improvement
- Strong cash flow and balance sheet give means to realise growth opportunities in the future
- UPM is leading paper consolidation in Europe – enables efficiency improvement and sustainable cost structure
- UPM is well positioned to benefit from growing chemical pulp and label markets

## Vision

### UPM – The Biofore Company

As the frontrunner of the new forest industry **UPM leads the integration of bio and forest industries** into a new, sustainable and innovation-driven future. We reshape markets through **cost leadership, change readiness and leading innovation.**

## Purpose

We create **value from renewable and recyclable materials** by combining expertise and technologies within fiber based, energy-related and engineered materials businesses.







**UPM**

The Biofore  
Company