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MAKINGS OF A CASH GENERATIVE PAPER BUSINESS

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Graphic papers demand in Europe has been declining since 2007

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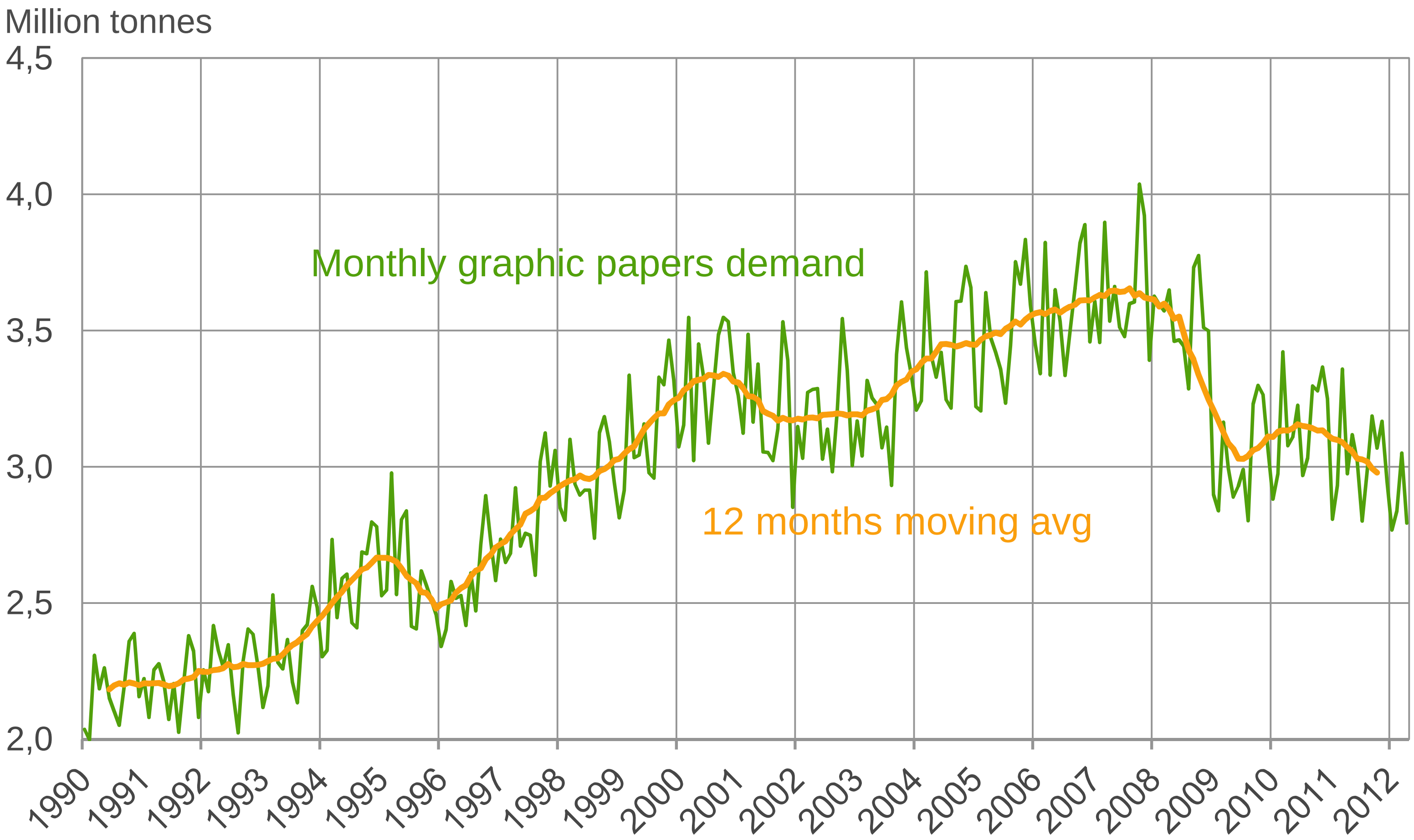

Source: EURO-GRAPH / PPPC

Structural changes have been affecting demand since 2005 – partly accelerated by the weak economy

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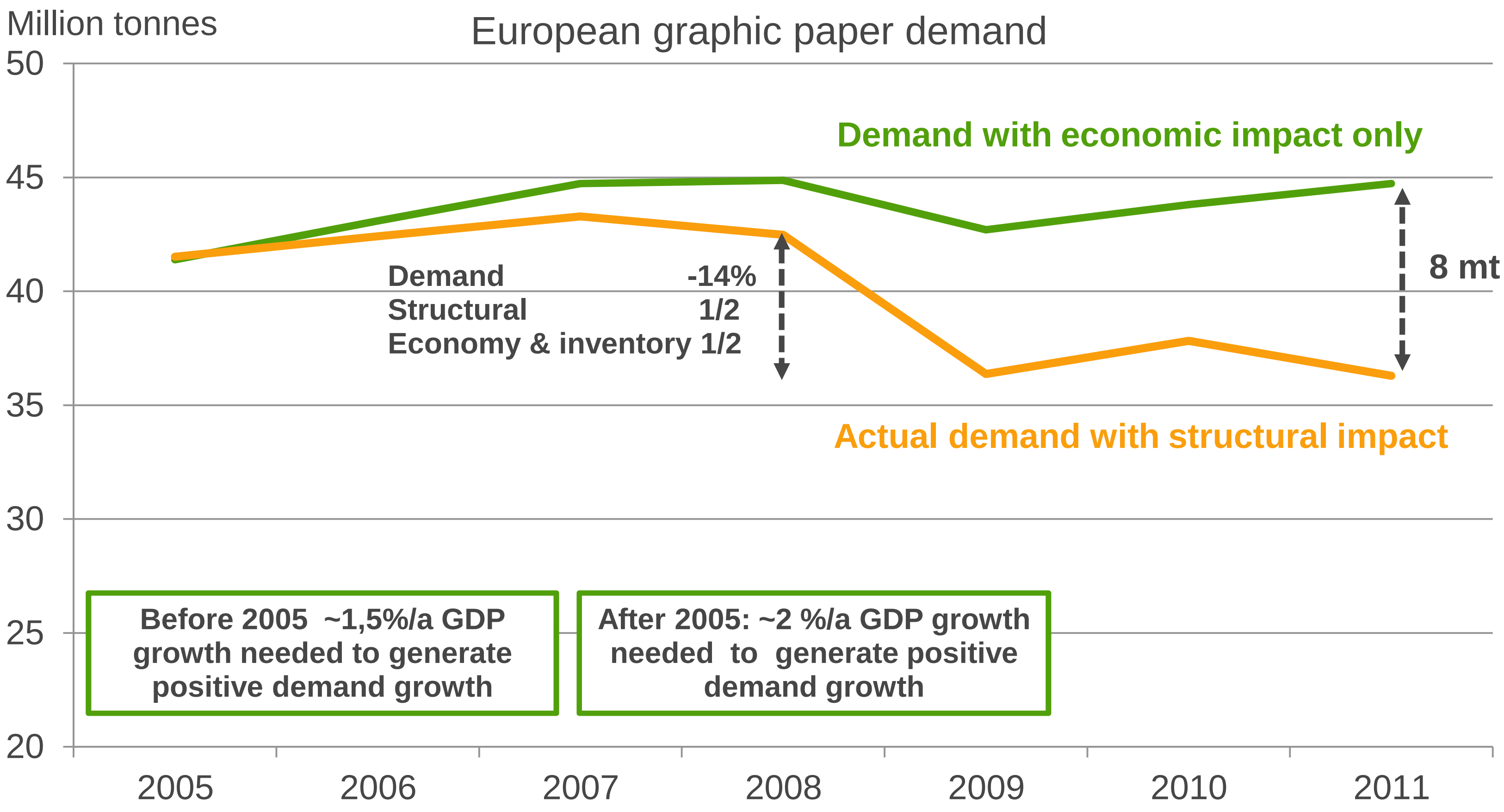

Asia is the largest market
European capacity reduction in line with demand

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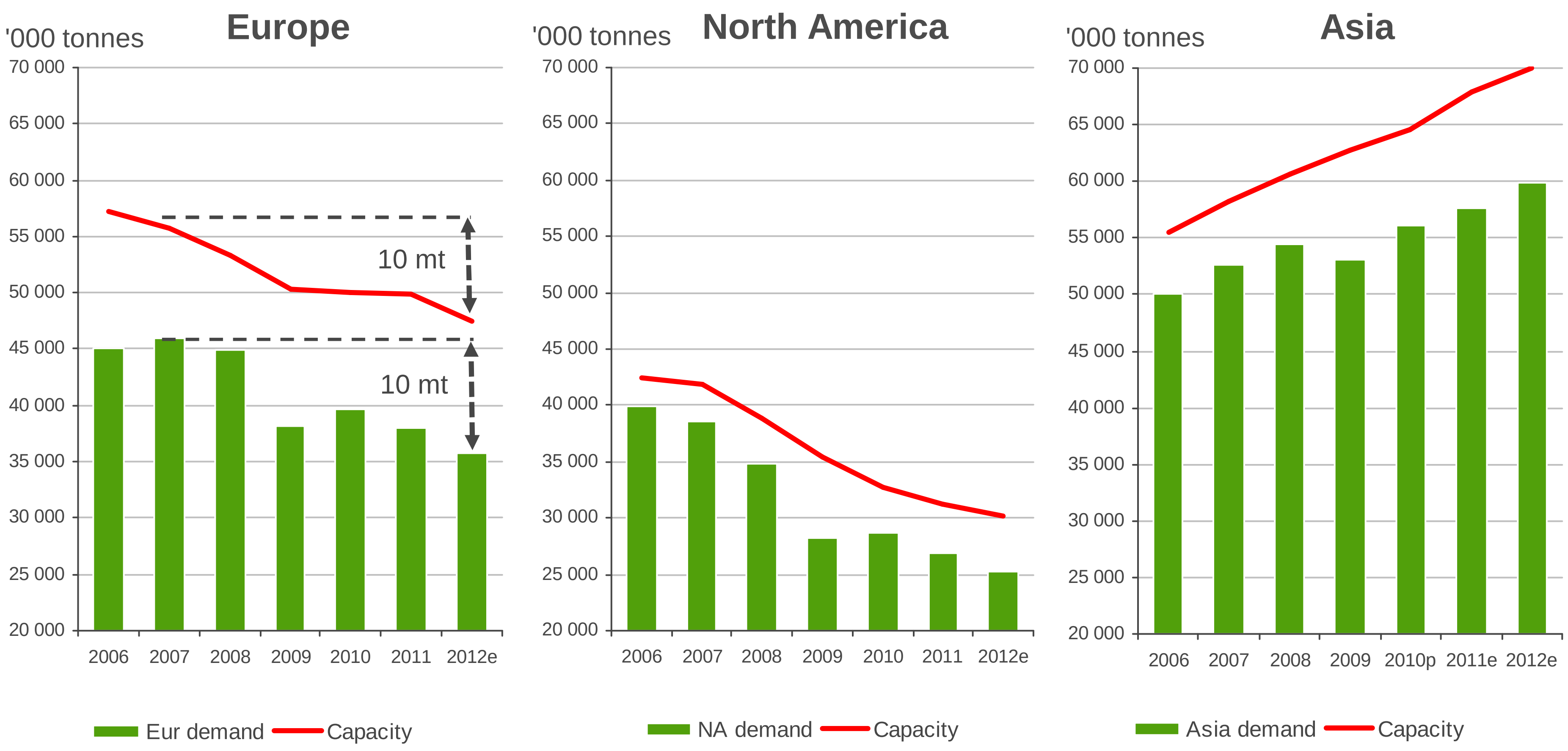

Source: Cepiprint, Cepifine, PPPC, PPI

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Significant regional differences in paper use

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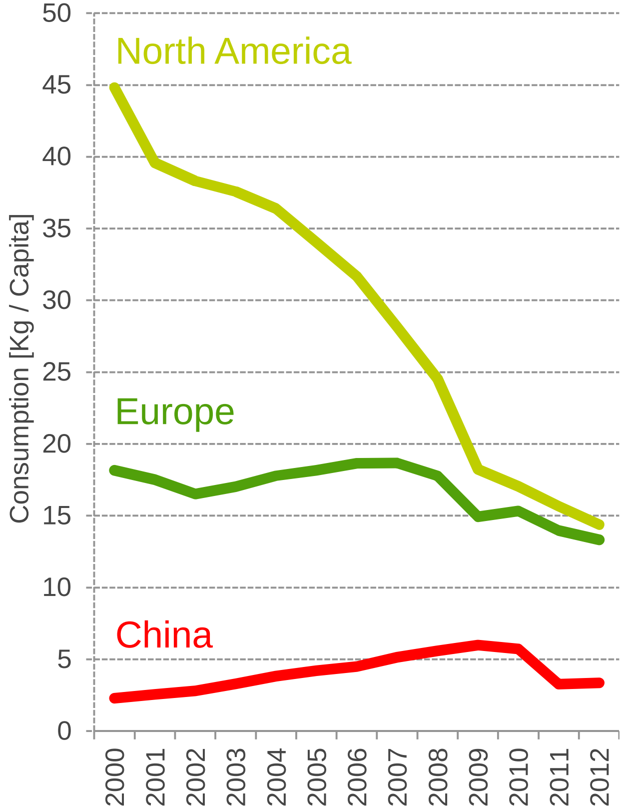
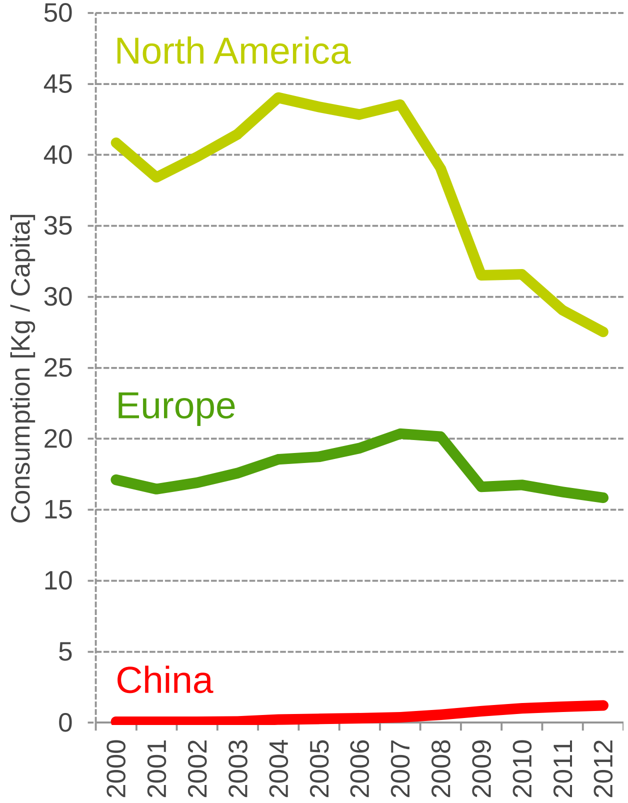
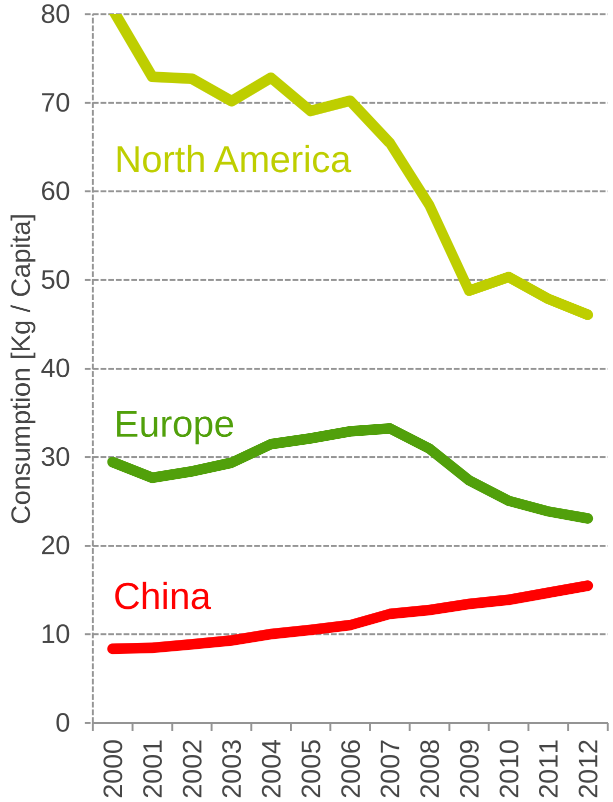
Newsprint



Magazine



Fine



Source: UPM, RISI

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Overcapacity is already visible in margins – it is increasingly crucial to be a low-cost producer

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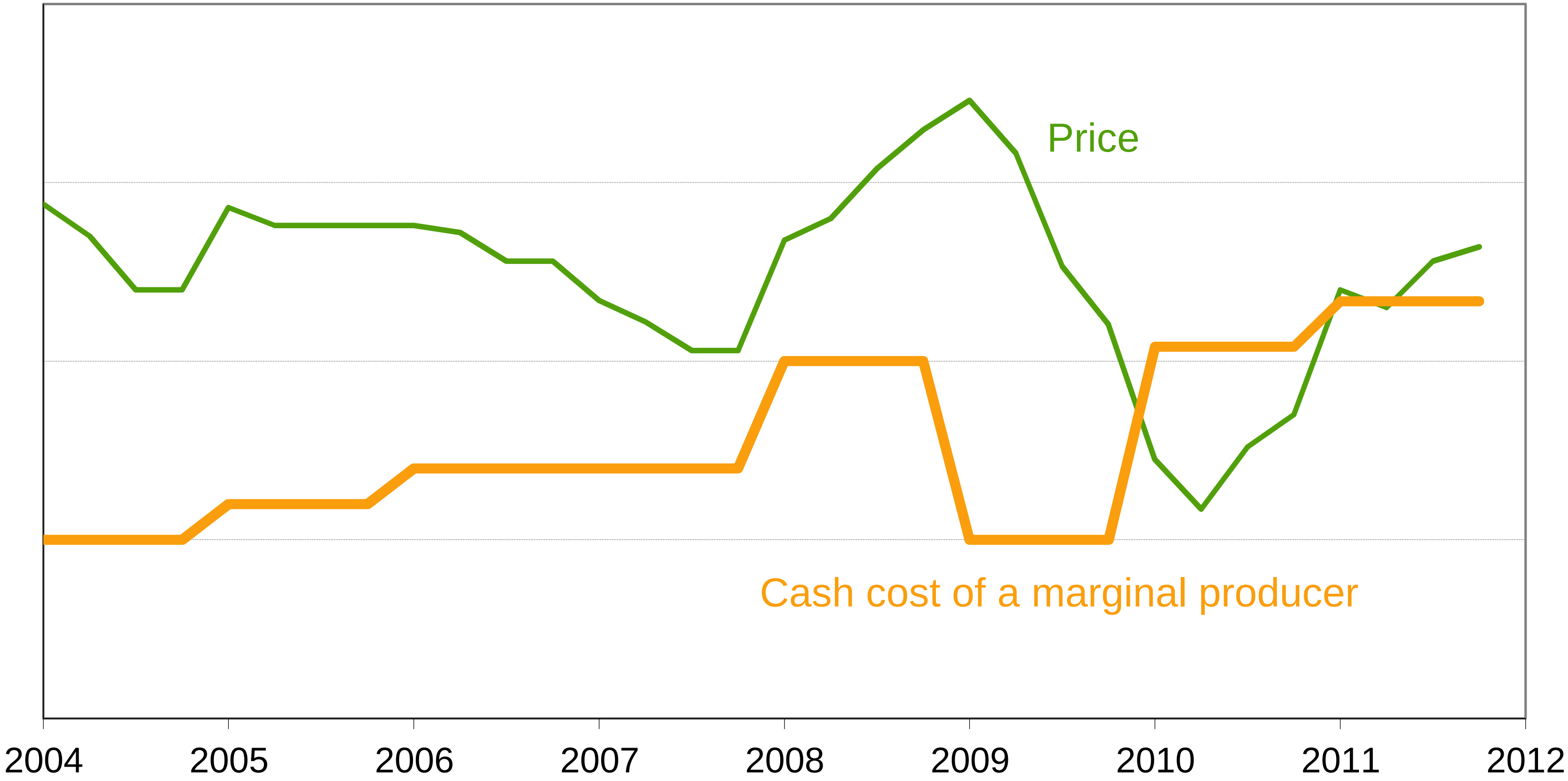
EUR/t Price hardly covers the cash costs of marginal producers



Source: PPI, RISI, Pöyry

Two speed paper markets

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- Graphic paper demand is declining in Europe and North America, and continues to grow in Asia
- Declining demand and weak demand supply balance is already visible in margins
- Significant sustainable improvement in sector profitability only achievable through sector restructuring and consolidation
- Low cost producers with low investment needs can sustain good free cash flow generation both in the short and long term

75% of UPM's European magazine paper capacity in first two cost quartiles

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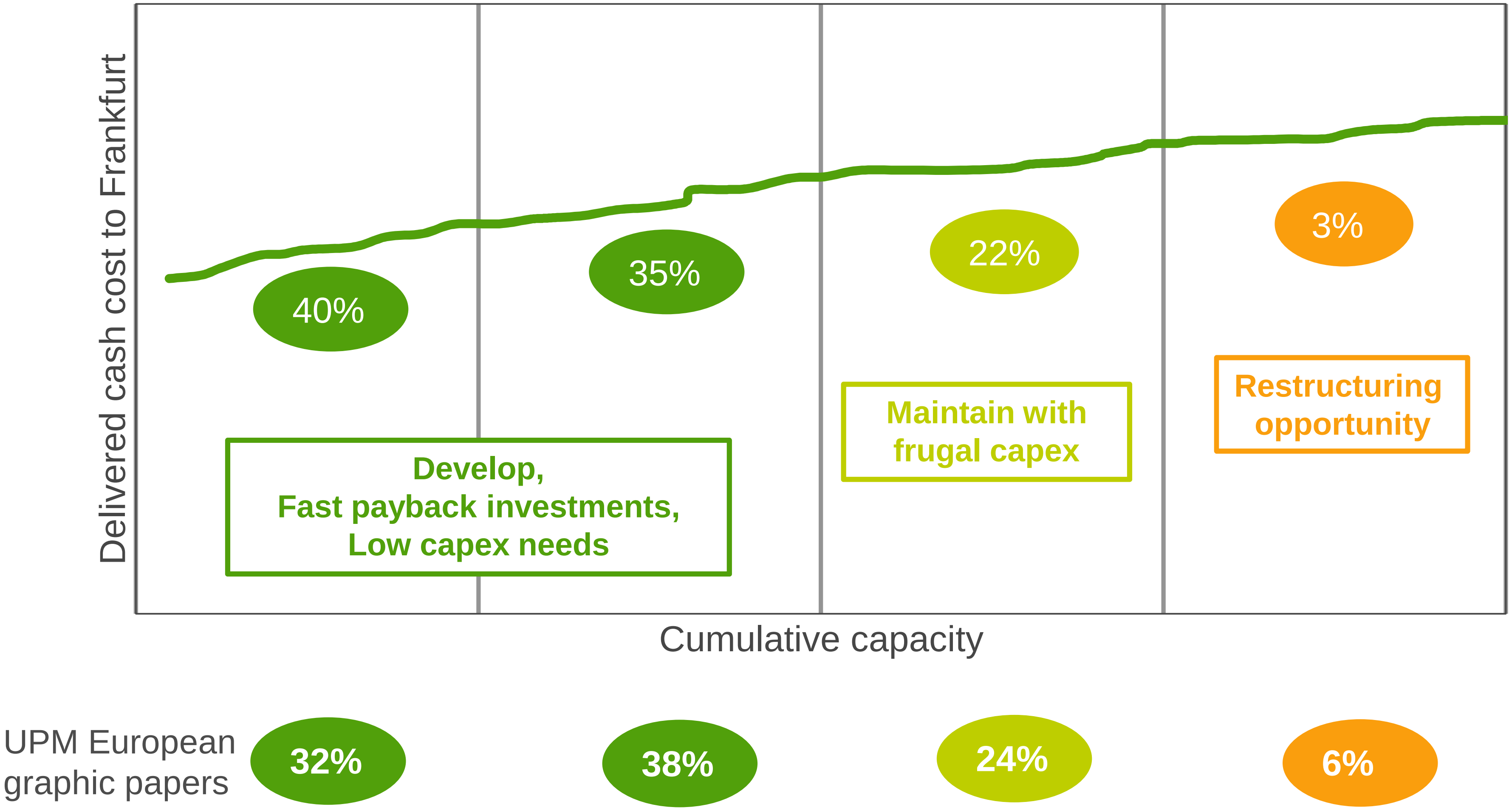

Source: Pöyry

How to maximise profitability and cash flow?

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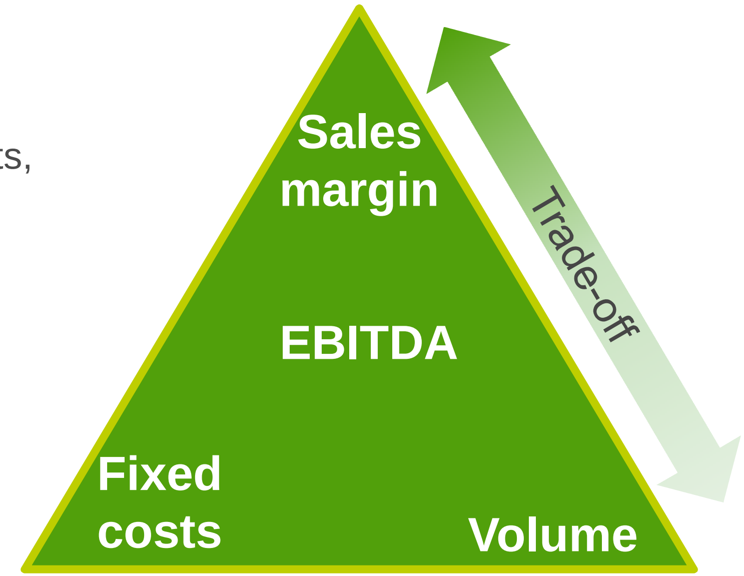
Optimisation dimensions

In addition, maintenance investments, WOC requirements are key for cash flow



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UPM focuses on improving margins to maximise cash flow

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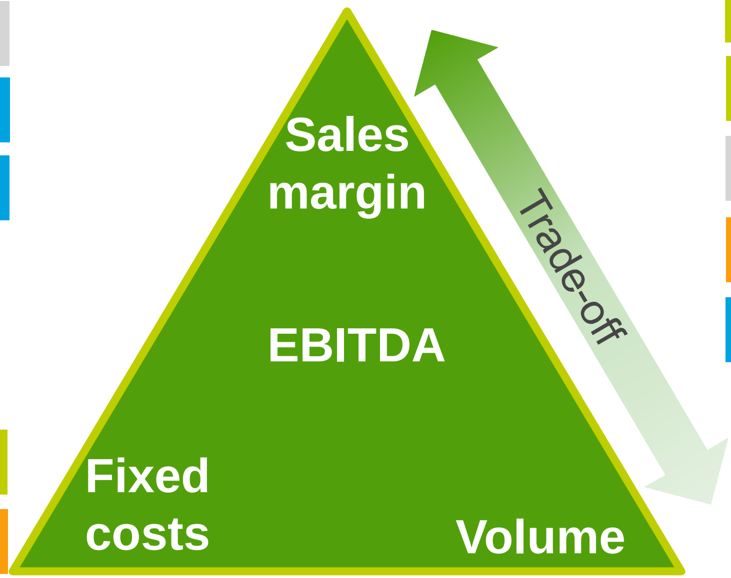
Frugal capital

- WOC management
- Low investment needs
- Investment synergies
- Divestments

Increase flexibility

- Flexible operations
- Cost savings initiatives
- Capacity closures
- Fixed cost synergies

Optimisation for UPM



Maximise margins

- Sales steering
- Energy and materials efficiency
- Products and services
- Fast pay-back investments
- Capacity closures
- Variable cost synergies

Sufficient volume

- Market share
- End-use mix

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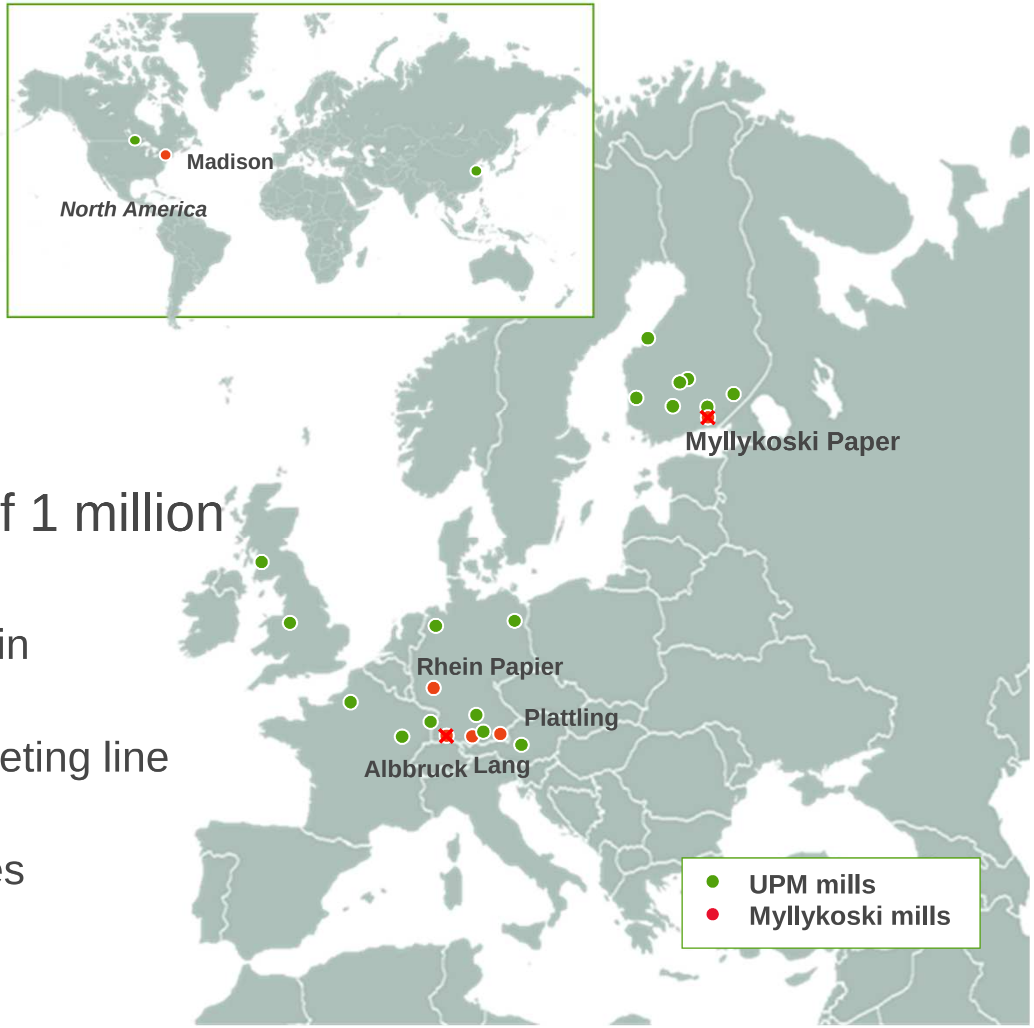
Myllykoski acquisition in 2011

- Enterprise value EUR 835 m
- Publication paper capacity of 2.8 million tonnes
- 0.8% stake in PVO

- UPM has closed down a total of 1 million tonnes of paper capacity
  - Myllykoski mill and Ettringen PM3 in December 2011
  - Albbruck mill in January 2012, sheeting line transfer to Plattling mill in process
  - Stracel mill sales process continues



Myllykoski acquisition cost synergies on track

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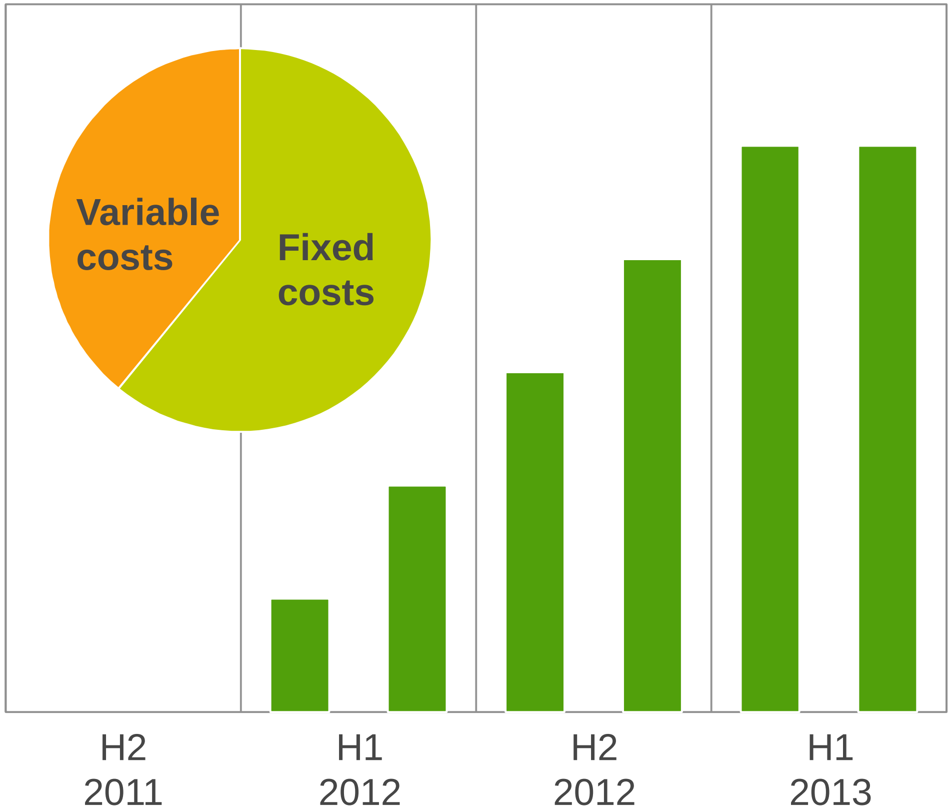
Estimated timing and sources of planned EUR 200m cost synergies



- Actions implemented already for 75% 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

Improved competitiveness in European magazine paper

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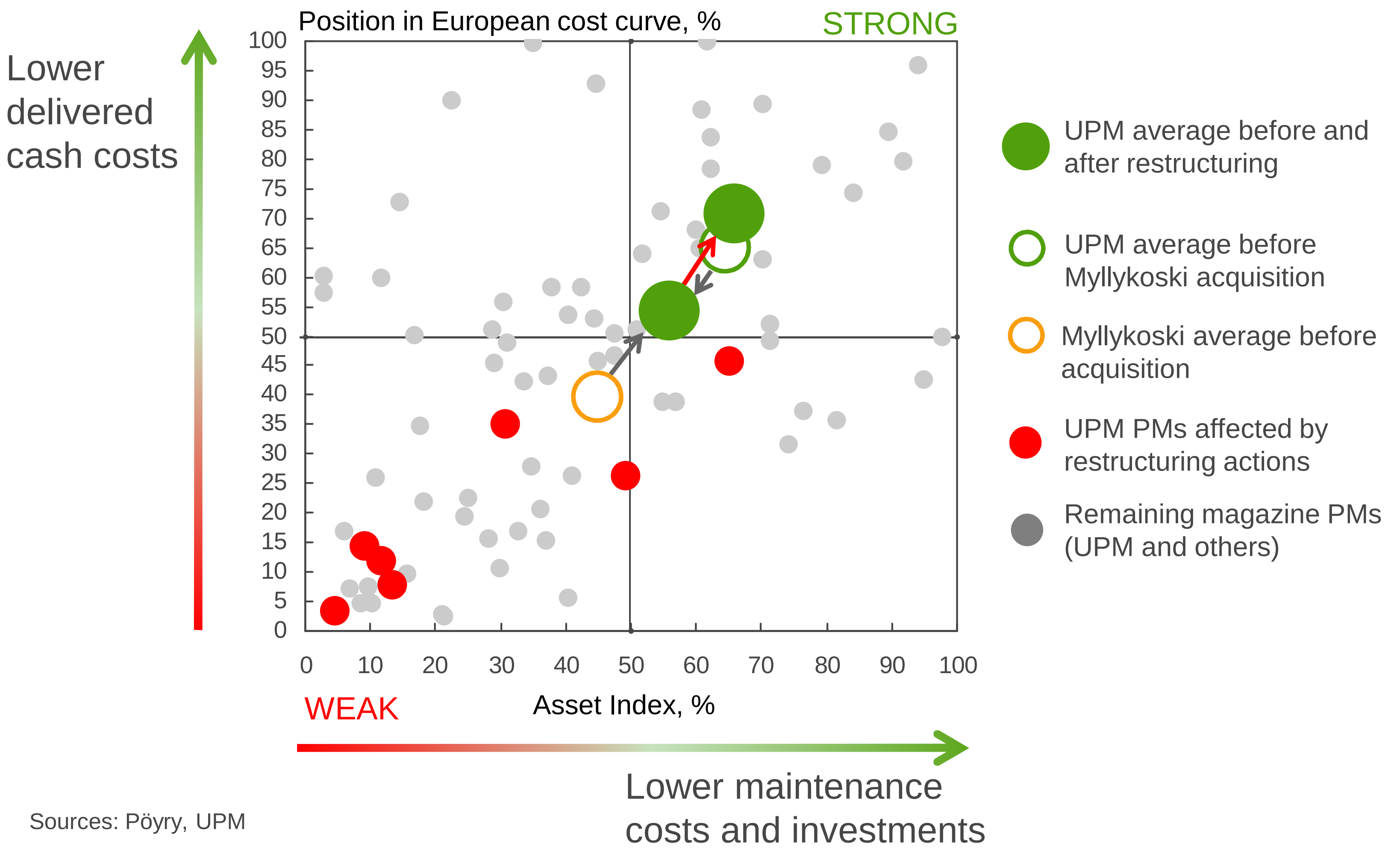

Sources: Pöyry, UPM

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UPM's competitive assets enable low operative investment needs

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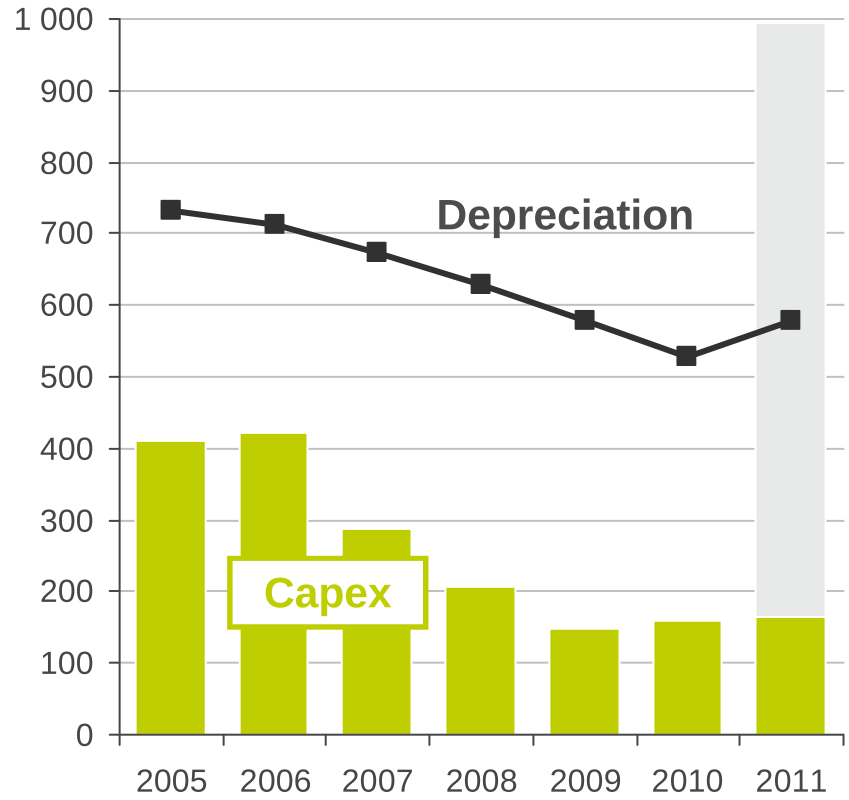
Capital employed in Paper business area

Capital expenditure and depreciation



Energy investments	~ EUR 600m
PM in China	~ EUR 400m
Myllykoski in 2011	EUR 835m

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Renewing asset portfolio through M&A

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Myllykoski acquisition in 2011
- EV EUR 835m
- PVO shares EUR 70m
- Plattling PM1, 380,000 tonnes, start-up 2007
- Hürth PM1, 310,000 tonnes, start-up 2002
- Ettringen PM5, 300,000 tonnes, start-up 2000

Haindl acquisition in 2001
- Augsburg PM3, 400,000 tonnes, start-up 2000
- Schongau PM9, 260,000 tonnes, start-up 2000

► Strengthen UPM's cost competitiveness through M&As
  – Close high maintenance assets, keep well invested assets

Shotton MRF – example of fast payback, materials efficiency investment

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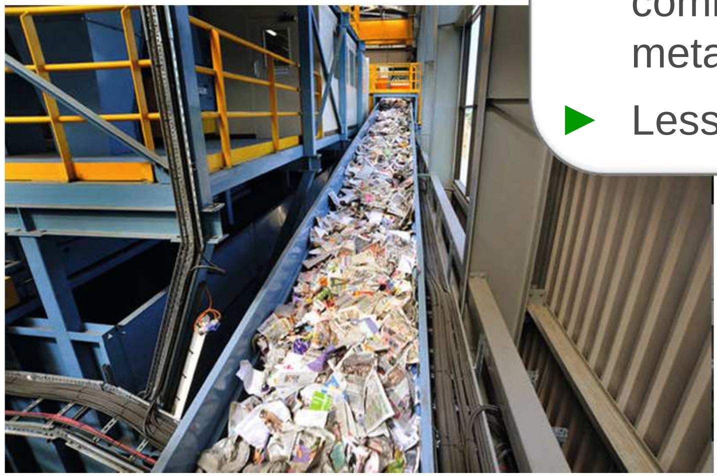
- Capex EUR 20m
- New cost efficient raw material base
- Capacity to sort 270,000 of comingled material (plastic, metals, paper and glass)
- Less than 1% to landfills



Focus on continuous cost efficiency improvements

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Energy concept

- New combined heat and power plants (e.g.Caledonian, Schongau) reduce energy costs and secure the energy supply

Energy efficiency

- improvements in the manufacturing process, up to 30% energy savings in mechanical pulping

Supply chain efficiency

- working capital turnover improved significantly in 2011

Material efficiency

- improvements in the fibre optimization, water management and material recycling

Focusing on margin and increasing competitive advantage

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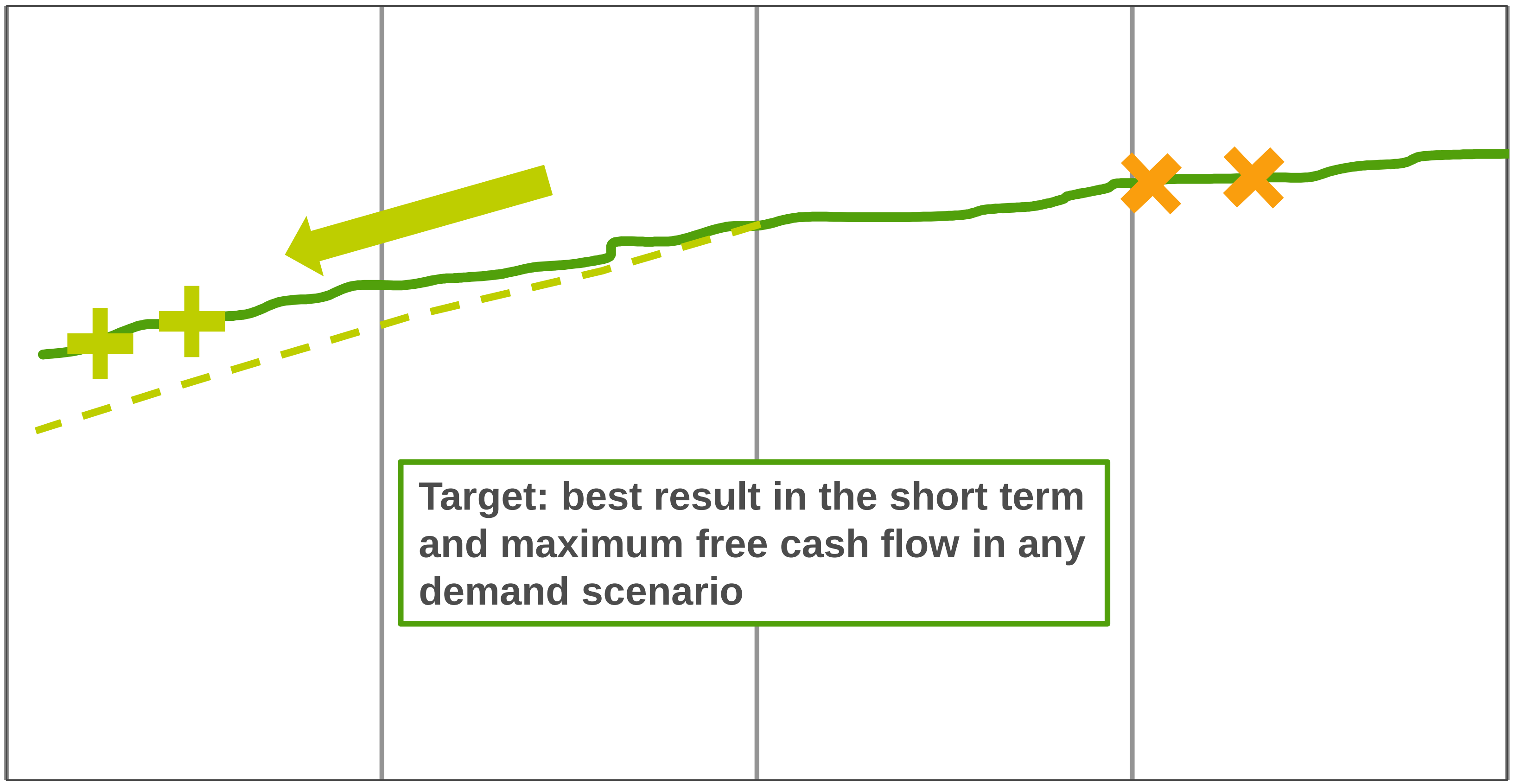

MORE WITH LESS!

WATER USED

–35%

PRODUCTION WASTE

–90%

CARBON EMISSIONS

–90%

CERTIFIED WOOD FIBRE

+100%

ELECTRICITY CONSUMPTION

–40%

The Economist 1992 – 2012

UPM Paper / Environmental footprint

Makings of UPM's cash generative paper business in Europe

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- UPM focuses on improving margins to maximise free cash flow in mature markets
- UPM has a wide range of ways to improve its position on the market cost curve relative to its peers
- Modern asset base enables sustainably low investment needs
- UPM's low cost, low investment position enables healthy free cash flow generation regardless of demand scenario

UPM's strong position in China provides potential for growth

- Demand in China and other Asia is estimated to grow >6 %/a
- Permits have been granted for the next expansion phase in Changshu
- Growth potential in current and new businesses
- Competitive advantages in fibre, energy efficiency, environmental performance, logistics, sales network and mill site location

Achievements in key targets

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1 Low cost, low investment position

- Improved mill portfolio - major restructuring in 2006-09 and 2011-12
- Lower fixed costs per tonne, including lower maintenance cost level
- Supply chain reorganization to improve efficiency and WOC turnover
- Strict investment policy, focus on cost efficiency improvements

2 Cash flow

- Three year average cash flow after investments nearly EUR 500 million, representing cash return of 8% on capital employed
- Major source for UPM's strong cash flow

3 Consolidation in Europe

- Myllykoski acquisition completed and synergies well on track
- Packaging papers divestment completed

4 Grow in developing markets

- UPM has a permit to build a new paper machine in the Changshu mill

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