



The Biofore Company **UPM**

UPM THE BIOFORE COMPANY

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Contents

- Strategy – UPM in transformation
- Financials
- Building new opportunities on a solid platform

UPM in transformation – focus on profitability and reshaping the portfolio

Energy and pulp

- Expand in cost competitive low-emission energy
- Develop second-generation biofuels
- Grow in cost competitive pulp

Paper

- Focus on European profitability
- Consolidation within Europe
- Growth in China and other developing markets

Engineered materials

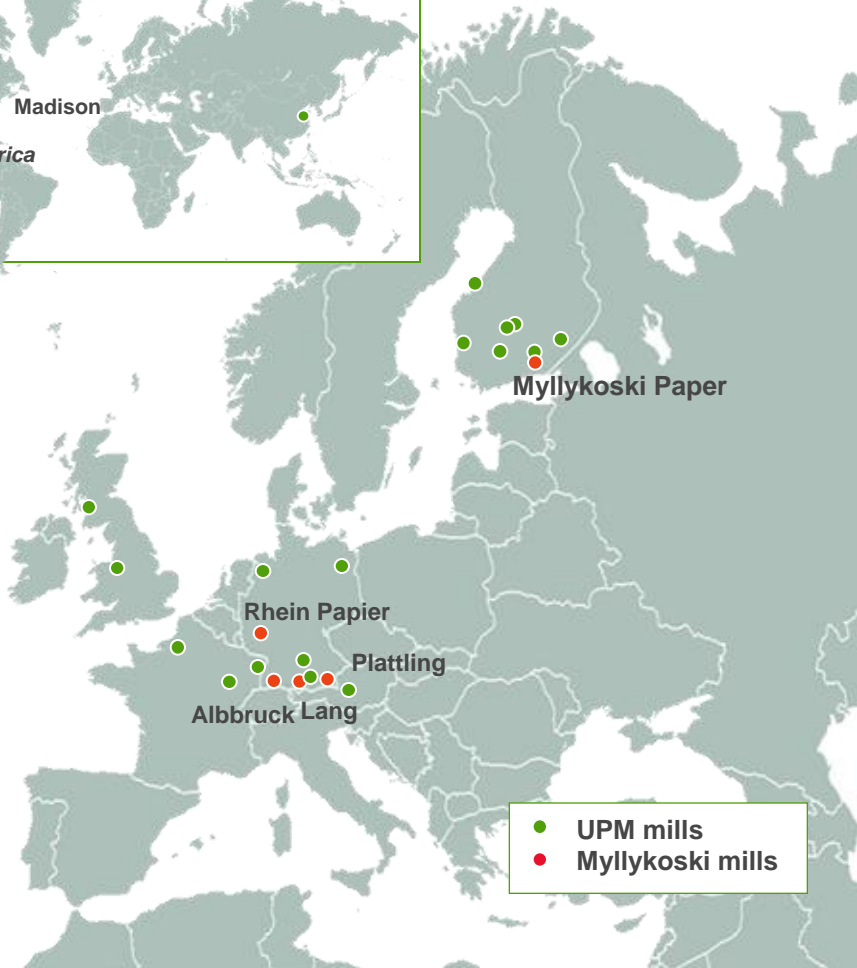
- Profitable growth in self-adhesive label materials
- Plywood renewal
- Drive product renewal

Value from renewable and recyclable raw materials



Myllykoski acquisition

- Enterprise value EUR 835m
- Publication paper capacity of 2.8 million tonnes
- 0.8% stake in PVO
- UPM closed down a total of 1 million tonnes of paper capacity
 - Myllykoski mill and Ettringen PM3 in December 2011
 - Albruck mill in January 2012, sheeting line transfer to Plattling mill in process
 - Stracel mill sales process continues
- Expected annual cost synergies of EUR 200m, full run-rate in 2013



UPM divests its packaging paper assets to Billerud AB

- Enterprise value EUR 130m
- Two paper machines, total capacity approx. 300,000 tonnes
 - pro forma 2011 sales EUR 220m and EBITDA EUR 18m
 - Mill real estates and infrastructure stay in UPM's possession
 - Agreements on long-term supply of market-based raw materials and services
 - Closing of the deal expected during Q2/2012, subject to regulatory approval
- Release value by creating new leader in packaging papers



UPM invests in wood-based biodiesel

- UPM invests in the world's first advanced wood based biodiesel production in Lappeenranta, Finland
- Main product is advanced, 2nd generation biodiesel
- 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
- Commercial scale industrial investment
 - Total investment of approximately EUR 150m
 - Production 100,000 tonnes/a of advanced biodiesel
 - Production starts in 2014



Attractive growth investment based on UPM's competitive advantages

Competitive raw material

- Crude tall oil, a residue from pulp production
- Steady supply partially from own sources
- Know-how and volumes in sourcing and logistics
- Outside food value chain
- No indirect land-use change

Efficient production process

- Technology based on UPM innovations
- Efficient use of raw material
- Integrate synergies
- Industrial infrastructure

High quality product

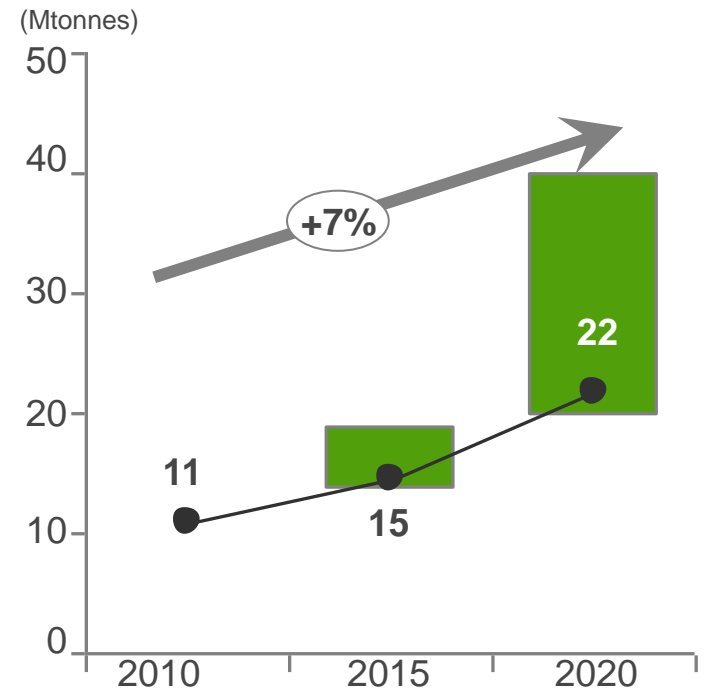
- 2nd generation biodiesel fully compatible with current diesel motors
- Double counted to fulfil regulation
- 80% reduction in greenhouse gas emissions
- High energy content
- No blend wall issues



Demand for biofuels is growing fast

- Biofuels is a global megatrend
- Biodiesel demand in the 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%)
 - to reach 60% reduction in GHG emissions in the renewable fuels
- UPM's markets are in the EU

DEMAND OF BIODIESEL IN THE EU



- Consensus area
- National action plans (NREAPs)

Source: Hart Global Biofuels Outlook 2010 – 2020

UPM's vision for Biofuels business





Reshaping the portfolio

- ▶ Myllykoski acquisition – improving **profitability** in Paper
- ▶ **Divestment** of Packaging Papers
- ▶ **Divestment** of RFID business
- ▶ Brazilian Gumtac acquisition in Label – **growth** in emerging markets
- ▶ Acquisition of 0.8% in PVO, participation in OL4 bidding phase and investment in Shongau CHP plant – **growth** in competitive energy
- ▶ Investment in 2nd generation biodiesel – **growth** in new businesses



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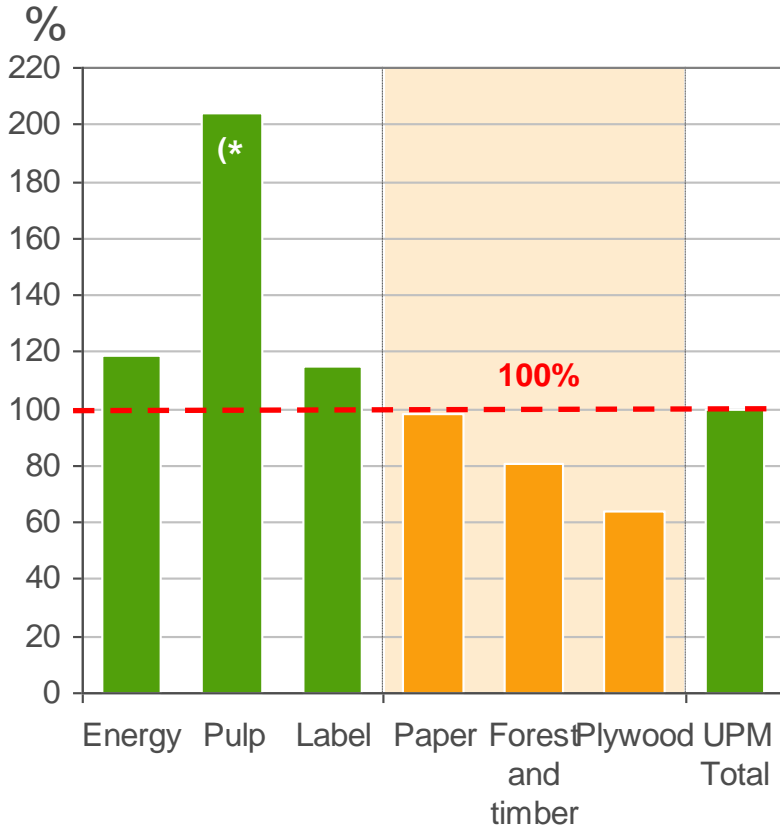
FINANCIALS

Operating profit

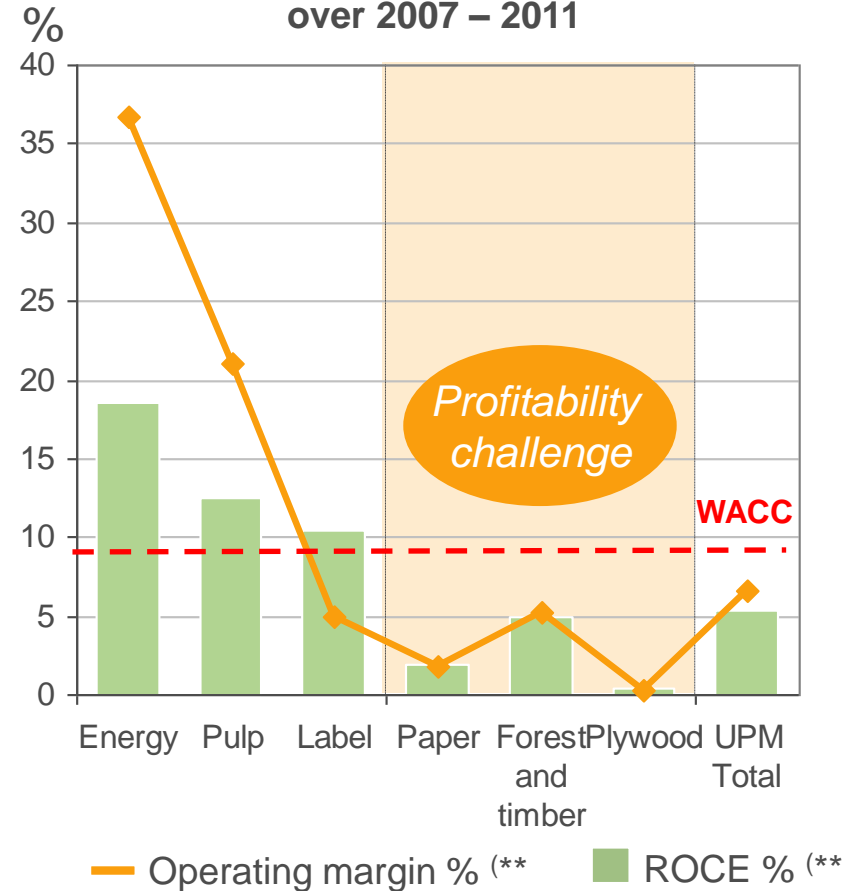


UPM's business portfolio and performance over the cycle

Sales in 2011, as % of 2007



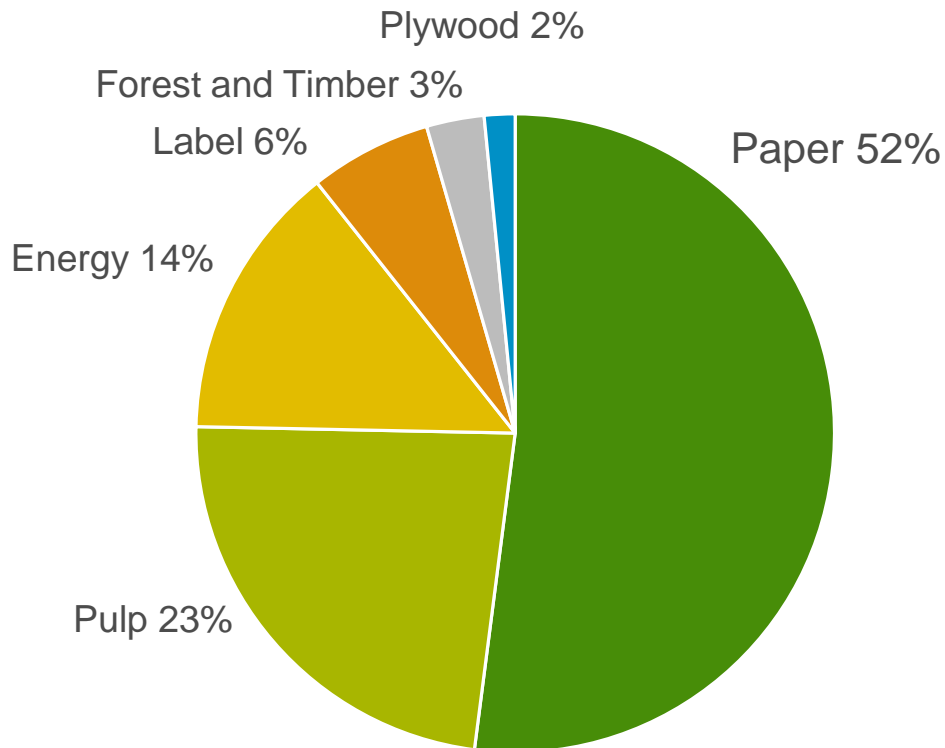
Average margins and returns over 2007 – 2011





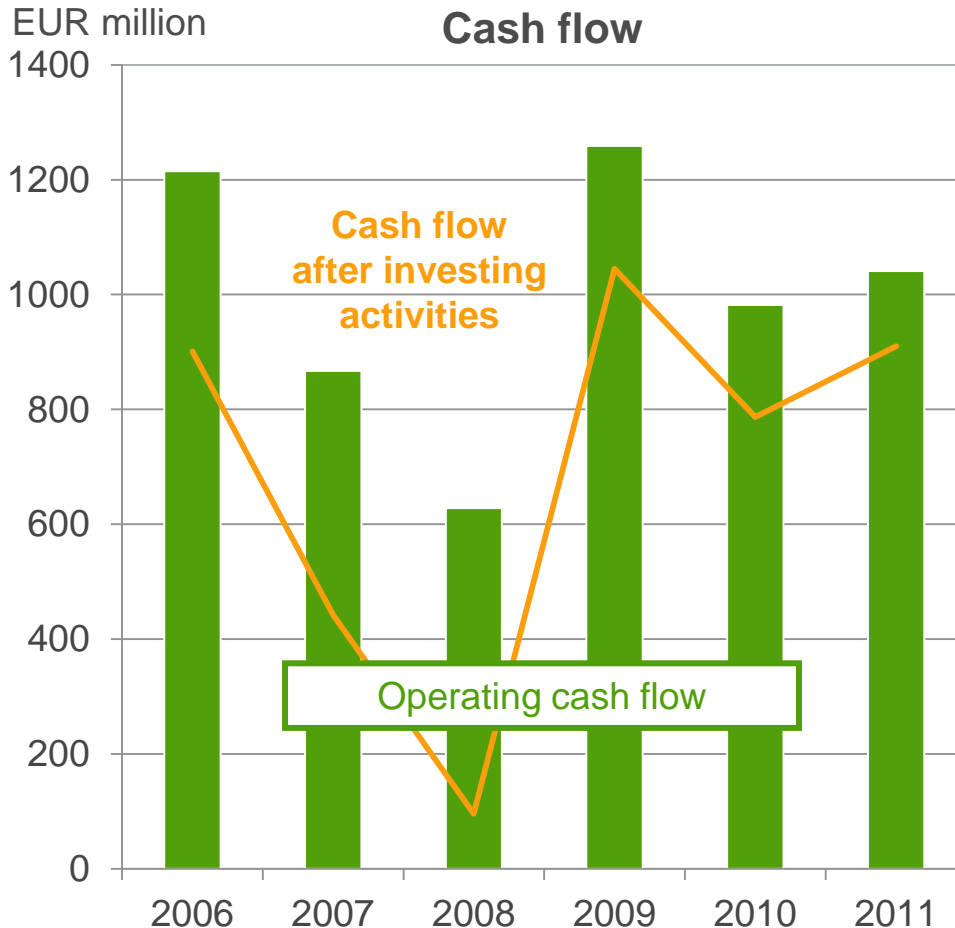
Paper is a major source of cash flow

Cumulative EBITDA 2007–2011



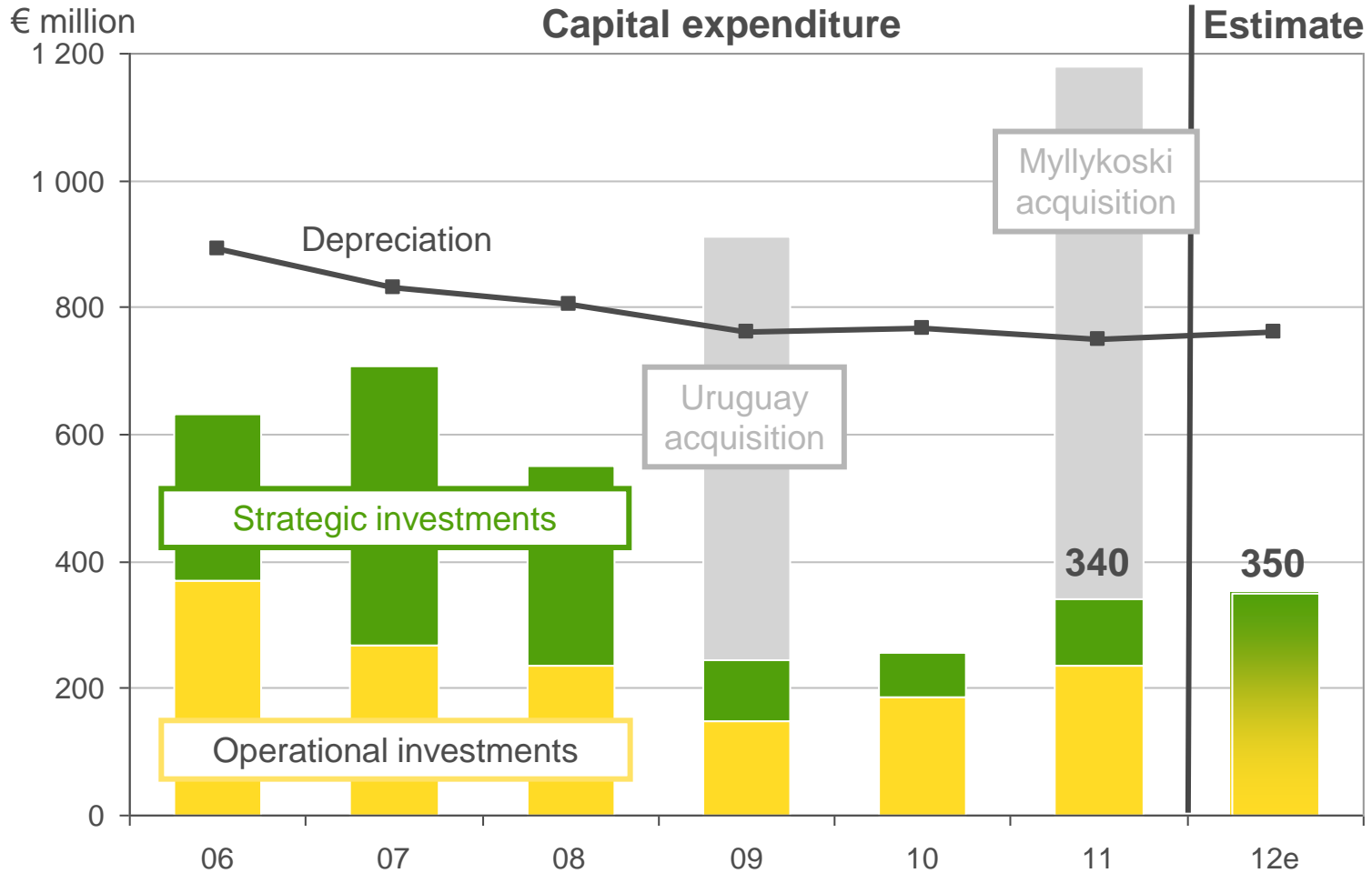
- Five year average cash flow after investments in Paper EUR 535 million, representing cash return of 9% on capital employed
- Cumulative five year cash flow after investments EUR 2.7 billion
- Supports UPM's room for strategic actions

Competitive assets enable consistently strong cash flow



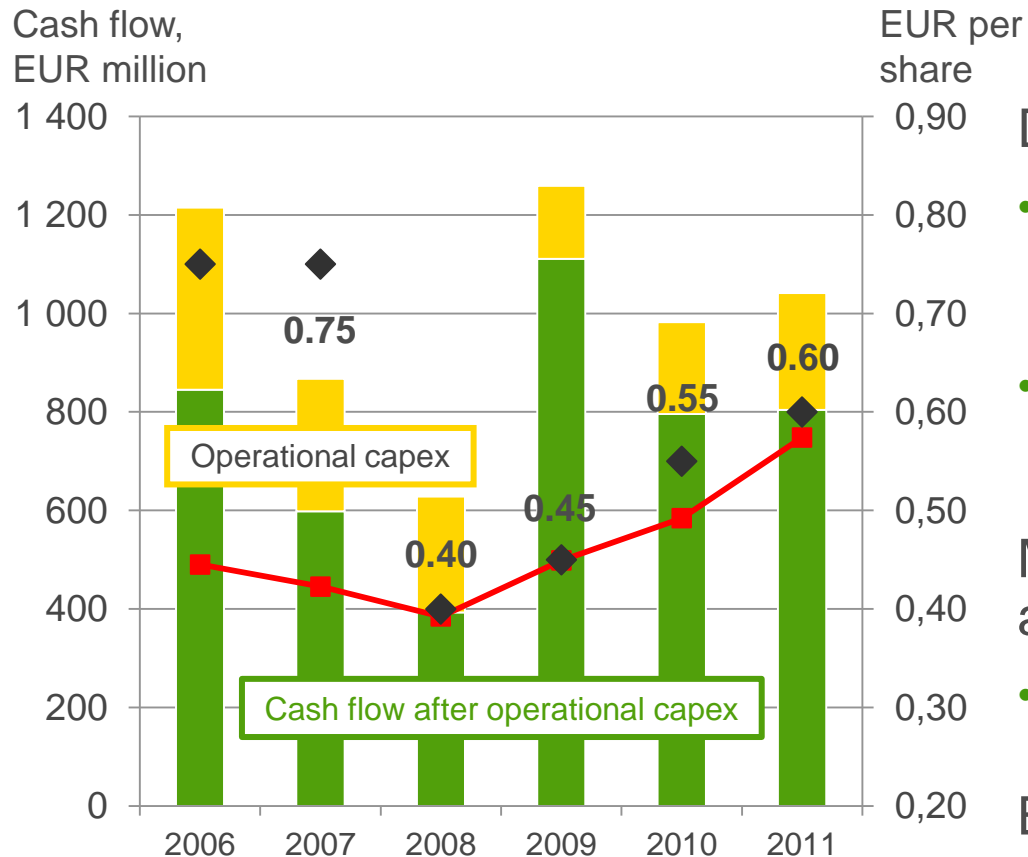
- Cash flow after investing activities was EUR 910m in 2011
- Fast digestion of the additional debt from the Myllykoski acquisition
- Room for strategic actions
- Cash flow-based dividend

Weight in strategic capex has been on value enhancing acquisitions





Dividend policy based on cash flow



- ◆ Actual / proposed dividend
- Minimum dividend by the dividend policy

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

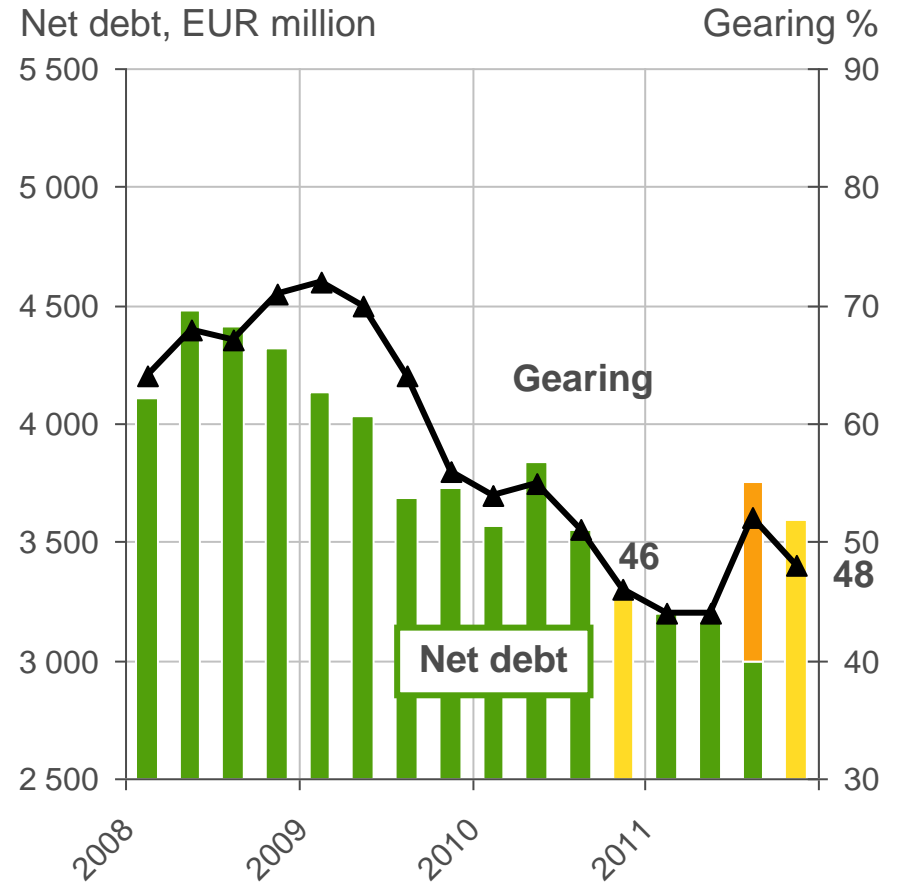
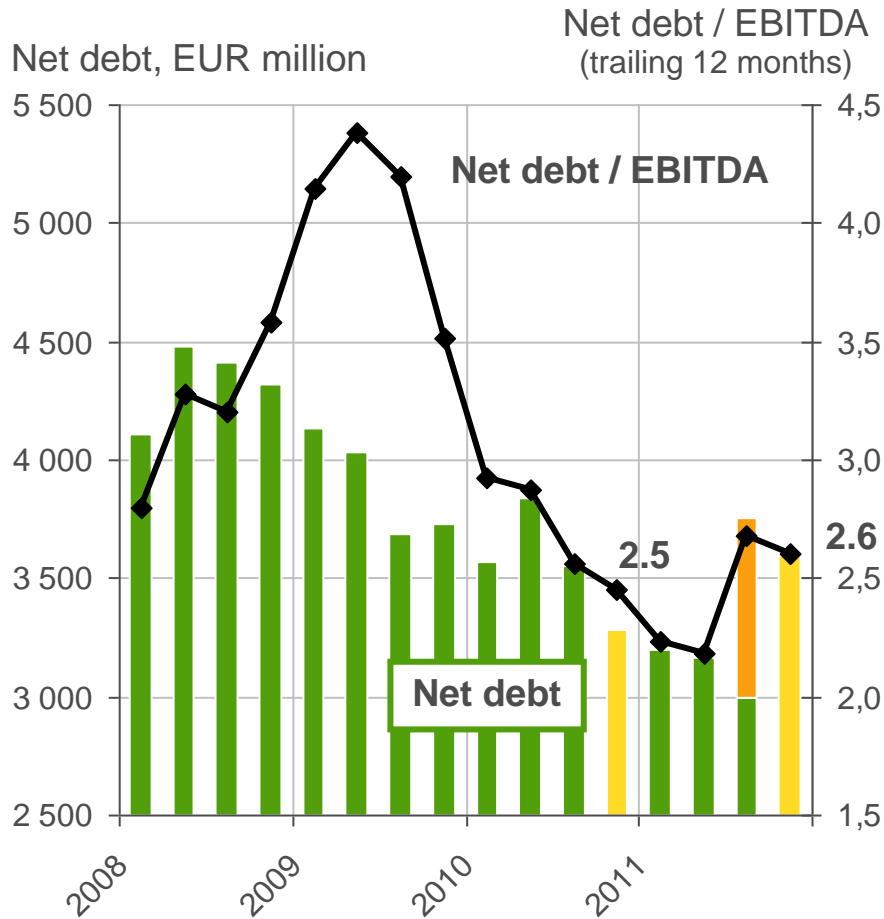
Minimum dividend for 2011 according to dividend policy

- EUR 0.58 per share

Board's dividend proposal

- EUR 0.60 (0.55) per share

Strong balance sheet





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BUILDING NEW OPPORTUNITIES ON A SOLID PLATFORM



UPM has a unique platform to grow



Energy – Olkiluoto,
Biofuels



Paper – Changshu,
China

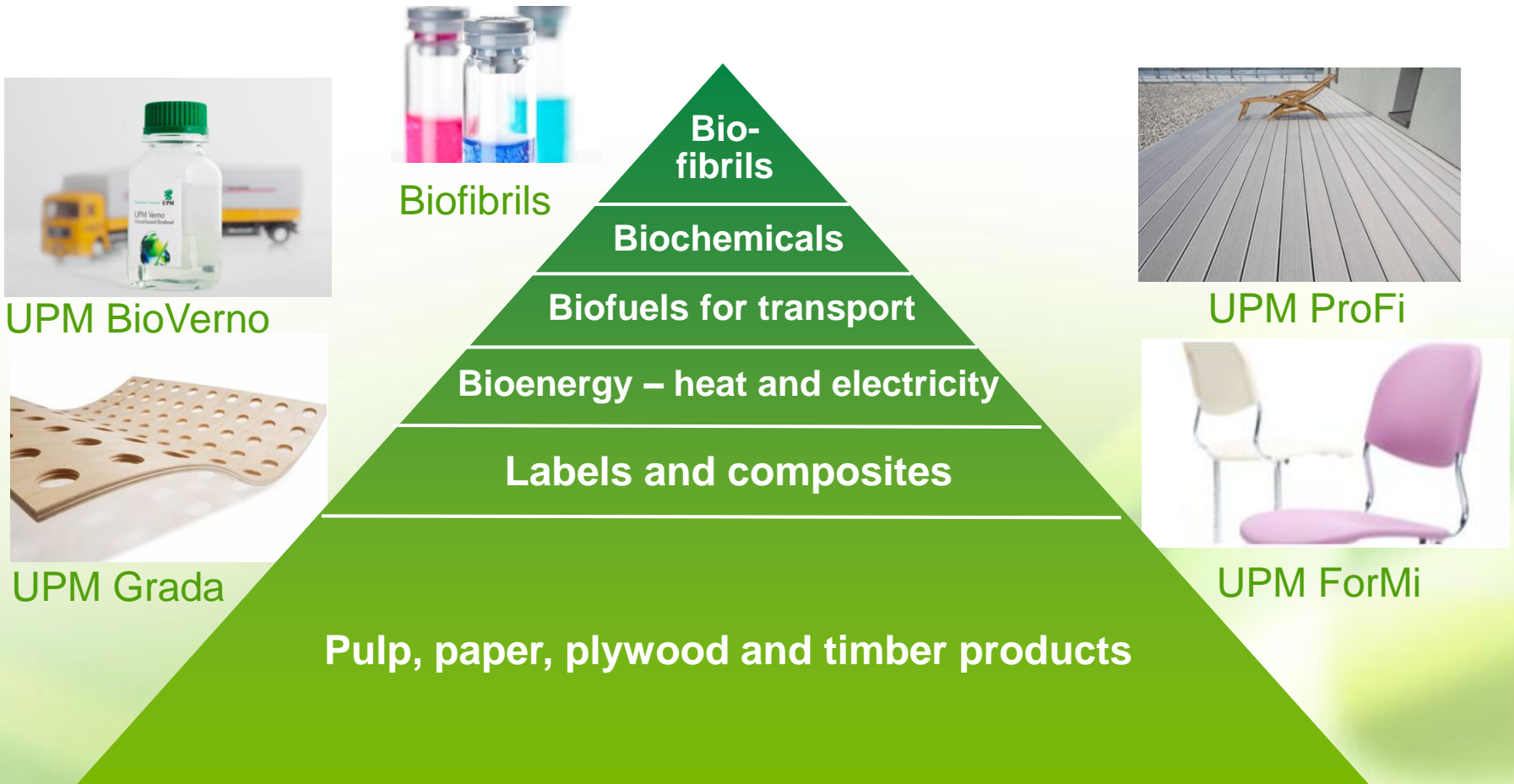


Pulp – Fray Bentos,
Uruguay



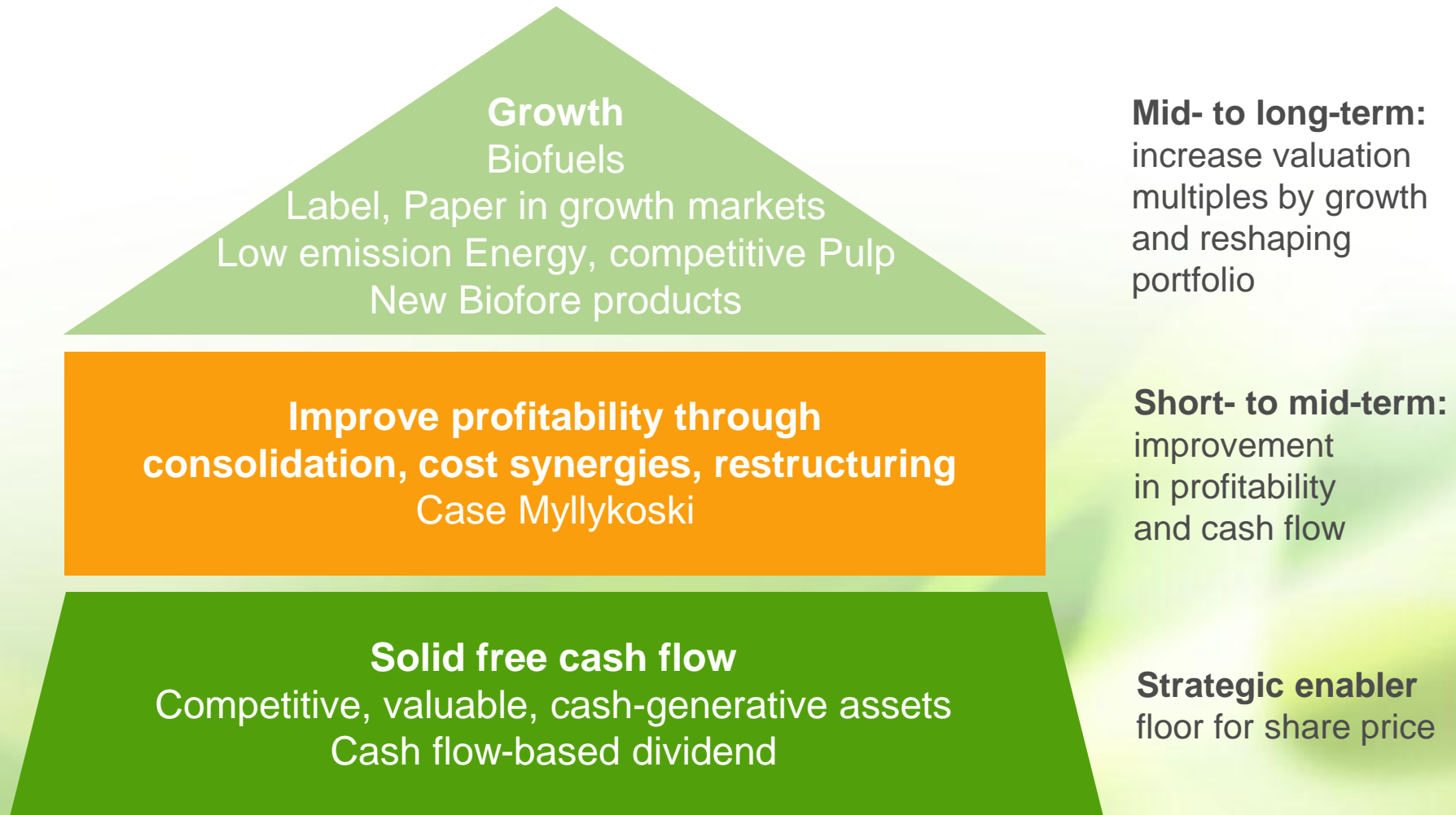
Label – Poland, India,
Brazil, Russia, Turkey,
Argentina, Mexico

Biofore in action – creating added value for forest biomass



Wood-based biomass procurement and logistics

UPM has potential for increasing shareholder value





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