UPM and China

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UPM-Kymmene Corporation

Capital Market Day
November 9, 2004
- Paper markets in China and other Asia
- Business drivers in Chinese printing and writing paper market
- Key questions in the Chinese paper markets
- UPM in China
PAPER MARKETS IN CHINA AND OTHER ASIA
Uncoated fine papers dominate printing & writing paper demand in Asia

World total printing & writing paper demand 134 mill. tons

- Asia-Pacific 40.2 mill. tons
  - Unc. fine paper 19%
  - Ctd. fine paper 14%
  - Newsprint 28%
  - Magazine 25%

- North-America 41.2 mill. tons
  - Unc. fine paper 25%
  - Ctd. fine paper 14%
  - Newsprint 28%
  - Magazine 25%

- Western Europe 36.5 mill. tons
  - Unc. fine paper 29%
  - Ctd. fine paper 19%
  - Newsprint 29%
  - Magazine 10%
Fine paper markets
China, Japan and other Asia-Pacific

- The fine paper market is 27 million tons in the region (year 2003)
  - uncoated fine paper 17.1 million tons
  - coated fine paper 9.4 million tons

- Demand is estimated to grow by 6 million tons between 2004-2008
  - 50% in coated and
  - 50% in uncoated fine paper

Source: RISI May 2004, URS/Ausnews 2003
Fine paper markets in Asia-Pacific

<table>
<thead>
<tr>
<th>Country</th>
<th>Million tons in 2004</th>
<th>Growth % 2003-2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>9.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Japan</td>
<td>2.8</td>
<td>1.0</td>
</tr>
<tr>
<td>S-Korea</td>
<td></td>
<td>5.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td>5.5</td>
</tr>
<tr>
<td>S'pore/Malesia</td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td>5.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
<td>4.1</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td>6.0</td>
</tr>
<tr>
<td>HK</td>
<td></td>
<td>4.3</td>
</tr>
</tbody>
</table>

Source: RISI May 2004, URS/Ausnews Australia 2003
Demand growth estimate +10% p.a. 2001 – 2010E

- 100% wood pulp based uncoated fine paper demand grows with the increasing use of:
  - office printers
  - copier and fax machines
  - preprinted forms and envelopes
  - other business communication

- domestic supply 750,000 tons
- imports 330,000 tons (2003)

Non-wood / mixed pulp based uncoated fine paper market size is 8.5 million tons in China

Total WFU market size is 9.6 million tons

Source: Jaakko Pöyry Consulting
Coated paper market size is 2.8 million tons in China 2003

- Demand growth estimate + 8-11% p.a.
- Coated papers are used in:
  - commercial printing
  - publishing
  - direct mail
- All coated fine paper is 100% wood pulp based
- Coated paper capacity mainly WFC, local LWC production marginal

Source: UPM, Jaakko Pöyry Consulting
BUSINESS DRIVERS IN CHINA AND OTHER ASIA
Main growth drivers in the Chinese paper market

- GDP growth
- Further development towards market economy
- Multiple needs of expanding business communication
  - economic reform
  - WTO
  - opening of service sector
- Dynamic evolution of printing and publishing industry
- Rapid growth in advertising expenditure

Source: UPM and Jaakko Pöyry Consulting, RISI
GDP growth in Asian-Pacific countries

Sources: Economic research institutes, investment banks, Consensus Economics Inc
Forecast: Promotional and advertising print jobs grow strongest in China

Print products by end use area in China:
- Packaging
- Newspaper contract printing
- Security/banknotes/stamps
- Other print products/services
- Office stationary
- Books/reports/brochures
- Commercial/promotional print
- Directories
- Printed advertising
- Sales/mail order catalogues
- Magazines/periodicals

Source: Pira International of 2004
Printed media advertising expenditure growth in China 1992-2006e

Printed media advertising expenditure is forecasted to rise to 4,700 million USD in 2006.

Source: Zenith Optimedia Oct 2004
Modern Imported Machinery Forms the Power of the Printing Industry Production in China

Printing Industry Machinery*

- Domestic Machines: 98%
- Imported Machines: 2%

Printing Industry Production

- 60% of the production
- 40% of the production

2% of the printing machinery produces 60% of the production

*Comprising of 180,000 large and small printing operations
Source: Interview of Guenter Zorn, Heidelberg, published by FT May 5, 2004
Copy machine sales in China

Source: China Statistics

Growth 12%/a

Year 2003: 287 500 units
WFU market price in China

Prices are quarterly estimations for domestic WFU sheets 80-120 g. Actual transaction prices may vary.

Source: PPI
KEY QUESTIONS IN THE CHINESE PAPER MARKETS
Raw material supply in China

China's fibre consumption in 2003 - Total 39.1 million tons

- Growth of printing and writing papers will base on imported eucalyptus/acacia fibers during this decade

- Pulp produced in the local world size pulp mills is still years ahead due to a slow development of pulp wood plantations

Source: Jaakko Pöyry Consulting
Global Demand Growth for Market Wood Pulp 2000-2015

Source: Jaakko Pöyry Consulting
China's Pulp Imports

Source: China Import Statistics
Uncoated fine paper supply/demand in China

Estimated capacity for wood pulp based WFU + decided projects

Demand growth estimation 2001-2010 + 10 % p.a.

Estimated potential in substituting nonwood based WFU

Source: Jaakko Poyry Consulting & UPM
Coated paper supply/demand in China

Estimated supply for WFC/LWC + forecast including decided projects with full capacity for coated papers (situation 10/2004)

Million tons

- UPM project
- Capacity
- Demand

Demand growth estimation 2001-2010 + 8-11 % p.a.

Source: Jaakko Poyry Consulting & UPM
Printing & writing paper capacity increase in China

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>PM ordered</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>WFU</td>
<td>140</td>
<td>225</td>
<td>425</td>
<td>900</td>
</tr>
<tr>
<td>Single coated WF</td>
<td>370</td>
<td></td>
<td>700</td>
<td>300</td>
</tr>
<tr>
<td>Double coated WF</td>
<td>210</td>
<td>160</td>
<td>635</td>
<td>1450</td>
</tr>
</tbody>
</table>
Business environment

- Entry barrier still high to the Chinese market
- Economic growth continues, but some interruptions are inevitable
- Maintaining a social stability is extremely important for China
- Sudden changes in legislation and rules can bring along unpleasant surprises
- Market with a great potential, but analyze it carefully, before you decide to enter
UPM in Asia

- UPM's own sales office and logistics network
- 8% of UPM's turnover came from Asia in 2003
- Annual total paper sales of over 700,000 tons in Asia, 300,000 tons of this sold in China
- Production at five locations
  - Changshu: fine paper mill
  - Raflatac: Shanghai & Malaysia factories
  - Loparex: Guangzhou plant
  - Walki Wisa: Shanghai plant

* Changshu new PM start-up in 2005
  - Sales office
  - Production plant
UPM's position in printing & writing papers in China

China's major producers in fine papers and LWC incl. ordered paper machines

- APP
- UPM
- Shandong Chenming
- Shandong Quanlin
- Yueyang
- Shandong Sun
- Jilin Paper
- Stora Enso
- Shandong Taishan
- Daewoo
- Minfeng Special Paper
- Ningxia Meili
- Nippon
- Zhongzhu Paper

- Uncoated fine paper
- Coated fine paper
- Light weight coated (LWC)

Estimated capacity '000 tons (wood pulp)

Source: UPM, Jaakko Poyry Consulting, situation Oct 2004
UPM Changshu Mill  
- Facts in 2004

- The Changshu site
  - Excellent location (near Shanghai, on Yangtze River)
  - Infrastructure includes own power plant and harbour
  - Located on a 184.5 hectare site with ample room for expansion

- Production capacity 350,000 t/a in 2004 and new 450,000 t/a uncoated fine paper machine under construction:
  - total cost of new investments EUR 450 Million
  - start-up takes place in summer 2005
  - also additions to existing PM; aim is to add flexibility by increasing coated paper capacity

- Good operational experiences from existing paper machine

- UPM's ownership 100%
800,000 tons of fine paper capacity in 2005

Addition in coated paper production
- adds flexibility
- widens customer and market base

Extended product portfolio
- WFU cut-size & reel & folio
- WFC reel & folio

One third of production exported to nearby Asian markets
Sales Network in China
- 100% owned by UPM
Changshu Paper Mill
Human Resources

- Currently personnel 850
- Average age 30
- Mainly local employees
- The mill is integrated in the local community
- Human resources strategy in nutshell:
  - localize
  - recruit young well educated people
  - intensive "on-the- job" training
Industry structure
Standard uncoated woodfree – Asia, Oceania and Africa

- Weighted average technical age 19 years

- Weighted average capacity 99,000 t/a

WEAK

STRONG

UPM

Soon Hua Seng

APP

Australian Paper

Nippon Unipac

Kishu

Oji

Mondi

Shandong Chenming
Industry structure
Standard uncoated woodfree – Asia, Oceania and Africa

- Weighted average PM capacity, 1 000 t/a -

- Technical age, years -

UPM after Changshu PM1 investment

Strong

Weighted average technical age 19 years

WEAK

UPM today

Soon Hua Seng

UPM after Changshu PM1 investment

Australian Paper

APP

Kishu

Nippon Unipac

Shandong Chenming

Mondi

Oji

Weighted average capacity 99 000 t/a

© UPM
UPM Changshu
Investment profitability

- Investment meets Group's long term return targets
- Clear improvement of return compared to one machine mill
  - Profitability potential is provided by the existing mill site infrastructure
  - Low investment cost EUR 1000 per capacity ton
  - Low fixed costs
  - Established sales network and customer base
  - Low operational risks
  - Skilled and trained personnel
Summary

- High growth in Asian fine paper markets offers unique organic growth potential
- Changshu forms an excellent expansion platform for UPM
  - Changshu infrastructure is ready
  - Well established 100% UPM's own sales and logistics network
- Investment of EUR 450 Million
  - A new 450,000 tons fine paper machine
  - Increase of coated paper production
  - Low investment cost of EUR 1,000 per capacity ton
- Modern, state-of-the-art paper machine constructed by UPM's own professional, dedicated project team
- Timetable: Start-up in summer 2005
Forward-looking statement

It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group’s principal geographic markets or fluctuations in exchange and interest rate.