UPM-Kymmene Corporation
Annual General Meeting
Report of the President and CEO
Jussi Pesonen
March 27, 2007
Contents

- Business drivers 2006
- Financials 2006
- Changed business environment
- UPM's strategy in the changed business environment
  - Profitability programme
  - Business portfolio development
- Summary
BUSINESS DRIVERS 2006

Demand, capacity and prices in Europe

Paper capacity and demand in Europe

Paper prices in Europe

Source: Cepiprint, Cepifine, PPI

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BUSINESS DRIVERS 2006

Demand, capacity and prices in North America

Paper capacity and demand in North America

-4%

Paper prices in USA

Source: Cepiprint, Cepifine, PPPC, RISI
BUSINESS DRIVERS 2006

Demand, capacity and prices in Asia

Paper capacity and demand in Asia

Example of paper prices in China

Source: PPI
BUSINESS DRIVERS 2006

Advertising in printed media *
Asia – North America – Europe

Increase -% from the previous year

*Asia excluding direct mail
Source: ZenithOptimedia December 2006
BUSINESS DRIVERS 2006

Demand development of labelstock

Labelstock demand in Europe and North America

Change from 2005:

- Demand increased
  - Europe about 8%
  - North America about 3%
- Prices increased slightly

Source: Finat, TLMI
BUSINESS DRIVERS 2006

Raw material market prices vs. UPM's cost development

Index 2004=100

* Cost/delivered paper ton (rolling 12months)
### Key figures

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales, M€</strong></td>
<td>10,022</td>
<td>9,348</td>
<td>9,820</td>
</tr>
<tr>
<td><strong>EBITDA, M€</strong></td>
<td>1,678</td>
<td>1,428</td>
<td>1,435</td>
</tr>
<tr>
<td><strong>% of sales</strong></td>
<td>16.7</td>
<td>15.3</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Operating profit, M€</strong></td>
<td>536</td>
<td>318</td>
<td>685</td>
</tr>
<tr>
<td><strong>Non-recurring items included in operating profit, net</strong></td>
<td>-189</td>
<td>-240</td>
<td>215</td>
</tr>
<tr>
<td><em><em>Operating profit excl. non-recurring items</em>, M€</em>*</td>
<td>725</td>
<td>558</td>
<td>470</td>
</tr>
<tr>
<td><strong>EPS excluding non-recurring items, €</strong></td>
<td>0.80</td>
<td>0.54</td>
<td>0.49</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities, M€</strong></td>
<td>1,215</td>
<td>853</td>
<td>997</td>
</tr>
<tr>
<td><strong>Paper deliveries, 1,000 tons</strong></td>
<td>10,988</td>
<td>10,172</td>
<td>10,792</td>
</tr>
<tr>
<td><strong>Personnel at end of period</strong></td>
<td>28,704</td>
<td>31,522</td>
<td>33,433</td>
</tr>
</tbody>
</table>

*Includes fair value change of biological assets 2006 € -126 million, 2005 € 34 million, in 2004 € 15 million
## FINANCIALS 2006
### Non-recurring items 2006

<table>
<thead>
<tr>
<th>Non-recurring items</th>
<th>€ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset impairments relating to the profitability programme</td>
<td>-135</td>
</tr>
<tr>
<td>Personnel provision relating to the profitability programme</td>
<td>-61</td>
</tr>
<tr>
<td>Asset impairment of Miramichi production facilities</td>
<td>-115</td>
</tr>
<tr>
<td>Gain on sale of property and businesses</td>
<td>144</td>
</tr>
<tr>
<td>Other non-recurring charges</td>
<td>-22</td>
</tr>
<tr>
<td><strong>Included in operating profit, net</strong></td>
<td><strong>-189</strong></td>
</tr>
<tr>
<td>Gain on sale of shares, included in financial items</td>
<td>6</td>
</tr>
<tr>
<td>Non-recurring items included in income taxes</td>
<td>26</td>
</tr>
<tr>
<td><strong>Non-recurring items, total</strong></td>
<td><strong>-157</strong></td>
</tr>
</tbody>
</table>
## Balance sheet

### Assets, € million

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>11,355</td>
<td>12,321</td>
<td>-966</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,255</td>
<td>1,256</td>
<td>-1</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,859</td>
<td>1,964</td>
<td>-105</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>14,469</td>
<td>15,541</td>
<td>-1,072</td>
</tr>
</tbody>
</table>

### Equity and liabilities, € million

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity attributable to equity holders of the parent</td>
<td>7,271</td>
<td>7,327</td>
<td>-56</td>
</tr>
<tr>
<td>Minority interest</td>
<td>18</td>
<td>21</td>
<td>-3</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>790</td>
<td>887</td>
<td>-97</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>4,345</td>
<td>5,302</td>
<td>-957</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>2,045</td>
<td>2,004</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>14,469</td>
<td>15,541</td>
<td>-1,072</td>
</tr>
</tbody>
</table>
FINANCIALS 2006
Magazine papers

Operating profit* €, %

- Operating profit
- Operating profit %

Paper deliveries

- Deliveries

* Excluding goodwill amortization and non-recurring items
FINANCIALS 2006

Magazine papers

- Closures of production capacity improved the asset utilization of other production lines

- UPM's overall customer satisfaction index* has improved through the past three years

- Portfolio development
  - Voikkaa mill closed in Q2/06
  - Jämsänkoski PM4 closed in Q1/07, conversion into label papers Q2/07
  - Schongau, PM modernizations summer 06
  - Jämsänkoski, SC paper quality improvement Q2/08
  - Caledonian, new biofuel power plant Q3/09

FINANCIALS 2006
Newsprint

Operating profit* €, %

Paper deliveries

* Excluding goodwill amortization and non-recurring items
Profitability benefited from higher newsprint prices

Self-sufficiency in energy improved and use of biofuels increased

Portfolio development
- Kaipola, PM modernizations, increase use of biofuels summer 06
- Shotton, new sludge boiler Q4/06
- Chapelle Darblay, new biofuel power plant Q1/07
Operating profit* €, %

Paper deliveries

* Excluding goodwill amortization and non-recurring items
Closures of production capacity improved the asset utilization of other production lines.

Changshu mill succeeded to increase its sales in China.

Portfolio development
- Kymi PM7 closed Q2/06
- Tervasaari, PM6 and a pulp line closure H1/07
- Tervasaari PM8 modernization Q1/06
- Nordland Papier and Docelles mills paper quality improvement Q3/06
- Tervasaari, rebuild of a pulp line, autumn 07
- Kymipulp mill, new recovery plant, summer 08
Operating profit* €, %

* Excluding goodwill amortization and non-recurring items
FINANCIALS 2006
Transformation of converting businesses

Converting 1997
Sales:  app. 840 million €
Businesses:
- Lohja Oy (Loparex)
- Walki Wisa
- Walki Can
- Walki Sack
- Walki Pack
- Walki Soft
- Walki Films
- Rosenlew
- UPM Stationary
- Raflatac

Converting 2006
- UPM Raflatac
  Sales (2006) app. 1 billion €
FINANCIALS 2006
Label division (Q1/07 ->)

- Label business has grown into a € 1 billion business

- Portfolio development
  - Tampere new lamination line and Changshu new factory were finalised in 2006
  - a new factory will be completed in USA in 2008

* Excluding non-recurring items
FINANCIALS 2006
Wood products

Operating profit* €, %

Sales**

* Excluding goodwill amortization and non-recurring items

** Includes Other and internal sales
FINANCIALS 2006

Wood products

- A clear improvement in sawmilling profitability
- Plywood's profitability continued to be good
- Portfolio development
  - Efficiency improvements at Savonlinna and Jyväskylä plywood mills, H1/07
  - Chudovo, Heinola plywood production, Q4/06
  - Building materials merchant, Puukeskus Oy sold in Q3/06
First signs of improvement: ROCE Q4/06 8.7%
FINANCIALS 2006

Gearing ratio and net interest-bearing liabilities

**Gearing ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td></td>
<td></td>
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</tbody>
</table>

Target: maximum 100%

**Net interest-bearing liabilities**

<table>
<thead>
<tr>
<th>Year</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
</tr>
</thead>
<tbody>
<tr>
<td>€, million</td>
<td>4048</td>
<td>4836</td>
<td>4048</td>
<td>4836</td>
<td>4048</td>
</tr>
</tbody>
</table>

Ratings: Moody’s Baa2 (stable), latest change October 20, 2005
S&P BBB (stable), latest change May 16, 2003
FINANCIALS 2006

Capital expenditure

€, million

<table>
<thead>
<tr>
<th>Year</th>
<th>New production lines and units</th>
<th>Major rebuilds</th>
<th>Maintenance and replacement expenditure</th>
<th>Depreciation excl. amortization of goodwill</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>631</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>03</td>
<td>890</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>04</td>
<td>631</td>
<td></td>
<td></td>
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<tr>
<td>05</td>
<td>631</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>06</td>
<td>631</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FINANCIALS 2006

Cash flow and the utilization priorities

CASH FLOW PRIORITIES:

1. Maintenance investments
2. Dividend
3. Strategic investments
4. Share buy-backs
5. Reduction of debt

Net cash provided by operating activities
FINANCIALS 2006
Operating cash flow, earnings and dividend per share

Operating cash flow per share

Earnings and dividend per share

© UPM
FINANCIALS 2006

UPM's shareholders

**Major owners:**
- BNP Paribas
- Capital Group
- Delaware Investments
- DWS Investment GmbH
- Franklin Templeton Group
- G. Serlachius (5 shareholders)
- Holzhey/Bischoff Group
- Ilmarinen
- Mondrian
- Northern Cross Investments
- Sv. Litteratursällskapet i Finland
- UBS Group
- Varma Mutual Pension Insurance Company
Summary of financials 2006

- **Achievements in 2006**
  - Profitability of the Group and all divisions improved clearly
  - Prompt implementation of profitability programme improved prerequisites for sustainable profitability

- **Markets during the first two months of 2007**
  - In Europe, the good demand for paper has continued, and we expect that deliveries for the full year will improve from last year.
  - We have achieved price increases in newsprint, uncoated fine papers and some speciality grades. The prices of coated fine papers have remained stable.
  - In the current market situation, it has not been possible to raise magazine paper prices, and their price development has been clearly disappointing.
CHANGED BUSINESS ENVIRONMENT
<table>
<thead>
<tr>
<th>Business environment has fundamentally changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural overcapacity in Europe</td>
</tr>
<tr>
<td>Traditional markets have become mature</td>
</tr>
<tr>
<td>Downward trend in real paper prices</td>
</tr>
<tr>
<td>Rapidly increasing cost of production inputs</td>
</tr>
<tr>
<td>New competition especially in short fibre</td>
</tr>
</tbody>
</table>
Demand growth is fast in emerging market – also increases in capacity

Mature market demand growth p.a. 2000-07: -0.2%

Emerging market demand growth p.a. 2000-07: +4.6%

Source: Cepiprint/fine, PPPC, RISI, JP, UPM
**CHANGED BUSINESS ENVIRONMENT**

Overcapacity gets to be addressed—sustainability of exports is a challenge

- Announced capacity closures will improve the market balance
- Large share of exports together with excess capacity imposes a threat to the market balance in Europe
- Part of exports is unprofitable

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Sources: Cepi, PPPC, EMGE, RISI, Jaakko Pöyry * 2007 estimate
Possible export tax from Russia will cause changes in wood procurement

UPM's wood imports from Russia

- Wood imports from Russia 4.3 million m³ (20%) of the total
- In Finland total wood consumption 2006 was 21.7 million m³
- Based on 2006 consumption, the announced increase of export tax would increase UPM's costs in 2007 by about € 13 million
UPM'S STRATEGY IN THE CHANGED BUSINESS ENVIRONMENT

Profitability programme
PROFITABILITY PROGRAMME

# 1 target sustainable profitability

*Operating profit % required to cover cost of capital is about 11-12%
PROFITABILITY PROGRAMME
Roadmap to sustainable profitability

Change structure
Consolidate in mature markets
Development of portfolio
Close uncompetitive capacity

Operate differently
Grow in emerging markets
Efficient use of assets
Improve operating efficiency

Profitable growth
Strengthened competitive position
Improved cost base
PROFITABILITY PROGRAMME

Actions by now (1)

<table>
<thead>
<tr>
<th>Means</th>
<th>Actions</th>
</tr>
</thead>
</table>
| Savings in fixed costs                     | ▪ Voikkaa mill closed in June  
   - Target € 200 million                   | ▪ Kymi PM7 closed in June  
   ▪ Jämsänkoski PM4 closure in Q1/07, conversion in Q2/07  
   ▪ Tervasaari PM6 closure in H1/07       |
| Improvement in efficiency                  | ▪ Customer deliveries from the closed production lines transferred to other production lines -> improved asset utilization of the other production lines |
### PROFITABILITY PROGRAMME

#### Actions by now (2)

<table>
<thead>
<tr>
<th>Means</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments and production portfolio development</td>
<td>- Pulp mill recovery island rebuild, Kymi (325 M€)</td>
</tr>
<tr>
<td></td>
<td>- Tervasaari, pulp production line rebuild (25 M€)</td>
</tr>
<tr>
<td></td>
<td>- Jämsänkoski (in total 83 M€):</td>
</tr>
<tr>
<td></td>
<td>- PM4 conversion to label papers production</td>
</tr>
<tr>
<td></td>
<td>- SC paper quality upgrade</td>
</tr>
<tr>
<td>Savings in variable costs</td>
<td>- Streamlining of operations</td>
</tr>
<tr>
<td></td>
<td>- Centralised sourcing</td>
</tr>
<tr>
<td></td>
<td>- Global financial service centres</td>
</tr>
</tbody>
</table>
PROFITABILITY PROGRAMME

Personnel

Group
- Negotiations on streamlining and personnel reduction completed
- Personnel reduction in 2006 was 2,275

Finland
- Personnel reduction in 2006 was 1,600; 672 notices given
- UPM has spent and reserved EUR 61 million for costs relating to personnel reductions.

Outsourcing negotiations continue
UPM's "From-Job-to-Job" programme
minimizing the impact of redundancy

- The programme has proceeded successfully
- some 80% of the 678 Voikkaa employees relocated
  - new job (with UPM or other) 357
  - retraining 102
  - pension arrangements 79
  - without a relocation 140 => programme continues

UPM measures
- support for relocation and retraining
- support for new start-up companies
- co-operation with several companies
- extended re-employment period for Voikkaa employees 24 months;
during this period UPM's occupational health services available
After the closures average size of UPM's coated magazine paper machines is 330,000 t/a

- industry average is 240,000 t/a
PROFITABILITY PROGRAMME

Kymi mill – efficient integrate increases cost competitiveness

Kymi fine paper integrate 2008
- 900,000 t/a paper
- 550,000 t/a pulp

Kymi pulp mill investment
- One new recovery line replaces two old lines
- Improves energy efficiency and decreases CO2 emissions
- Cost €325 million
- Start up summer 2008
- Project employs up to 900 people
Cost savings target is realistic and achievable

Estimated annual savings in fixed costs €200 million at the end of the programme
PROFITABILITY PROGRAMME
Roadmap to sustainable profitability

Change structure

Consolidate in mature markets

Development of portfolio

Close uncompetitive capacity

Operate differently

Grow in emerging markets

Efficient use of assets

Improve operating efficiency

Profitable growth

Strengthened competitive position

Improved cost base
UPM'S STRATEGY IN THE CHANGED BUSINESS ENVIRONMENT

Business portfolio development
- Resources
PORTFOLIO DEVELOPMENT - RESOURCES

Develop diversified fibre base

- Chemical pulp self sufficiency about 90%
  - Own production capacity 2,320,000 t/a
  - Entitlement to Botnia's production 1,100,000 t/a

- UPM used in 2006 3.0 million tons of recovered paper in production of printing papers

- 10% of wood raw material from own forests
Access to low cost fibre

Botnia's pulp mill project in Uruguay

- Capacity 1,000,000 t/a
- UPM's share about one half of the capacity
- Based on the Best Available Technology
- The project proceeds according to the plan - start-up in Q3 2007
- Total investment: 1,100 mill. USD
PORTFOLIO DEVELOPMENT - RESOURCES

Increased energy self-sufficiency

- Self-sufficiency of electricity generation
  - Finland 100%
  - UPM in total 70%

- Indirect participation to PVO/TVO nuclear power plant investment
PORTFOLIO DEVELOPMENT - RESOURCES

Improved energy efficiency

- Current investments
  - Sludge boiler investments at the Shotton and Chapelle Darblay paper mills
  - Power plant investment at the Rauma mill
UPM'S STRATEGY IN THE CHANGED BUSINESS ENVIRONMENT

Business portfolio development - Labels
## PORTFOLIO DEVELOPMENT – LABELS

### UPM Label division

<table>
<thead>
<tr>
<th>Label business area</th>
<th>RFID business area</th>
</tr>
</thead>
<tbody>
<tr>
<td>self-adhesive labelstock for product and information labeling for use in retail and industry</td>
<td>radio-frequency identification (RFID) tags and inlays for wholesalers and retailers</td>
</tr>
</tbody>
</table>
PORTFOLIO DEVELOPMENT – LABELS

UPM label business

- 2,500 employees
- Sales of € 987 million in 2006
- Production in 11 factories and 9 countries
- Terminals and sales offices worldwide
PORTFOLIO DEVELOPMENT – LABELS

Self-adhesive labelstock

- Face material
- Self-adhesive label
- Matrix
- Adhesive
- Release coating (Silicone)
- Backing (release liner)
PORTFOLIO DEVELOPMENT – LABELS

Demand growth for labelstock–GDP x 2

Global labelstock market 2006 – total demand 12.6 billion m²

- USA & Canada: 4-5%
- Europe (incl. Russia): 5-6%
- Middle East: 7%
- India: 20-25%
- China: 15-20%
- Japan: 3%
- Korea: 2%
- Latin America: 9%
- Africa: 2%
- Oceania: 4%
- SEA: 9%

Source: UPM Raflatac estimates; excluding 2nd quality markets
PORTFOLIO DEVELOPMENT – LABELS

Sales of UPM's label business has doubled in 1996 - 2006
PORTFOLIO DEVELOPMENT – LABELS

UPM's new labelstock factory in Changshu

- Excellent infrastructure and location at UPM's Changshu mill site
- State of the art coating and finishing operations
- Approximately USD 40 million investment
- Started up at the end of 2006
- Ability to carry out future expansions flexibly
PORTFOLIO DEVELOPMENT – LABELS

UPM's label business expands in North America

UPM's investment:

- Self-adhesive labelstock factory in Dixon, Illinois
- New state-of-the-art factory
- Investment USD 109 million
- Start up: Q1 2008
- New growth platform for the Midwest market
- Location completes service network for labelstock and RFID tag and inlays in North America
PORTFOLIO DEVELOPMENT – LABELS
RFID products – tags and inlays
PORTFOLIO DEVELOPMENT - ASIA

Changshu – platform for growth in Asia

- Converting plant
- Finished goods storage
- PM 2 (1999) building
- PM 1 (2005) building
- Water treatment facility
- Power plant
- Coal yard
- Pier
- Pulp storage
- UPM Label division (2007)
Sustainable optimisation of gain from biomass base adds value

Bio-diesel is a natural extension for a company whose core business is adding value to wood raw material—primary fibres will remain in pulp and paper production.
PORTFOLIO DEVELOPMENT

UPM in the future

- Global
- Profitable
- Renewing
- Low cost
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 rates.