PULP MARKET REVIEW

Heikki Vappula
President
Energy and Pulp Business Group
10 May, 2011
Contents

• Strategy and priorities
• UPM in Uruguay
• Pulp market outlook
• Financials Q1 2011
• Summary
STRATEGY AND PRIORITIES
### STRATEGY AND PRIORITIES

**Market-driven business model increases insight and promotes action**

<table>
<thead>
<tr>
<th>Energy and Pulp</th>
<th>Paper</th>
<th>Engineered materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Expand in cost competitive low-emission energy</td>
<td>• Focus on European profitability</td>
<td>• Profitable growth in self-adhesive label materials</td>
</tr>
<tr>
<td>• Develop second-generation biofuels</td>
<td>• Consolidation in Europe</td>
<td>• Plywood renewal</td>
</tr>
<tr>
<td><strong>Grow in cost competitive pulp</strong></td>
<td>• Growth in China and other growth markets</td>
<td>• Drive product renewal and develop new businesses</td>
</tr>
</tbody>
</table>

Group level synergies from resource integration and global functions
Diversified sources of operating profit – Pulp is a significant source of cash flow and major source of operating profit

Cumulative EBITDA 2007-2010
- Paper 56%
- Energy 14%
- Forest and Timber 3%
- Label 6%
- Plywood 2%

Cumulative Operating profit 2007-2010 excluding special items
- Paper 23%
- Energy 25%
- Forest and Timber 15%
- Label 7%
- Plywood 0%

Pulp 19%

Pulp 30%
STRATEGY AND PRIORITIES

Weight in strategic capex is on value enhancing acquisitions

Capital expenditure

- Operational investments
- Strategic investments
- Depreciation
- Uruguay acquisition
- Myllykoski acquisition

<table>
<thead>
<tr>
<th>Year</th>
<th>Operational investments</th>
<th>Strategic investments</th>
<th>Uruguay acquisition</th>
<th>Depreciation</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>05</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>06</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>07</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>08</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>09</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11e</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

€ million

1 000
800
600
400
200
0

05 06 07 08 09 10 11e
STRATEGY AND PRIORITIES
Pulp capacity 3.2 million tons – produced at four modern mills

<table>
<thead>
<tr>
<th>Chemical pulp capacity</th>
<th>1,000 tons</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fray Bentos</td>
<td>1,100</td>
<td>Start-up 2007</td>
</tr>
<tr>
<td>Kymi</td>
<td>570</td>
<td>Rebuild 2008</td>
</tr>
<tr>
<td>Pietarsaari</td>
<td>790</td>
<td>Rebuild 2004</td>
</tr>
<tr>
<td>Kaukas</td>
<td>740</td>
<td>Rebuild 1996</td>
</tr>
<tr>
<td><strong>Total own capacity</strong></td>
<td><strong>3,200</strong></td>
<td></td>
</tr>
<tr>
<td>17% of Botnia’s capacity</td>
<td>403</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,603</strong></td>
<td></td>
</tr>
</tbody>
</table>
UPM IN URUGUAY

• Forestal Oriental
• Fray Bentos Pulp Mill
Uruguay as a location for investment

- **Availability of good quality raw material**
  - Ideal growing conditions for eucalyptus

- **Logistics**
  - Access to river and sea transport

- **Political, economic and legal conditions**
  - Politically stable country
  - Transparency Index: second in Latin-America

- **Professionals and qualified labour force**
  - Good standard of basic education
  - High standard of university education, education free for students
FORESTAL ORIENTAL
UPM IN URUGUAY
Forestal Oriental - History

1987
- UPM Kymmene founded

1990
- Plantations started

1995
- 1st harvesting operations

2000
- Botnia acquires stock from Shell, one of the largest forest owners in UY
- Joint venture FOSA-Tile SA to set up a company responsible for all logistic and wood export activities for both-largest exporter in UY

2005
- Tile Forestal merges into Forestal Oriental

2009
- UPM acquires Botnia mill and Forestal Oriental

1st pulplog export from UY
Forestal Oriental secures pulpwood supply to UPM Fray Bentos pulp mill

- Forestal Oriental in Uruguay
  - 225,000 ha of land owned and controlled
  - 135,000 ha used for plantations

- About 70% of the Fray Bentos pulp mill's wood raw material comes from own plantations, largely self-sufficient in the future

- About 30% from private farmers through the partnership programme FOMENTO
UPM IN URUGUAY

Sustainable land use

- 60% Plantable area
- 28% Native forests
- 7% Protected areas
- 3% Grazing
- 2% Infrastructure
UPM IN URUGUAY

Technologically advanced nursery

Nursery annual capacity for 20 million clonal seedlings
UPM IN URUGUAY
UPM Fray Bentos pulp mill

- Capacity 1.1 million tons of bleached eucalyptus pulp a year
- Start-up in November 2007
- Total investment 1.2 billion USD, machinery 700 MUSD
- Technology: BAT; Best Available Techniques (IPPC-BAT) securing minimum environmental impact
- Bleaching: ECF light
- High efficiency production
- High pulp quality
- Biomass Power generation for own consumption and external sales
- Low chemical, water and energy consumption
Significant cost benefits with plantation based pulp

Market pulp producers' delivered cash costs to Frankfurt, EUR/t

Source: Pöyry estimate Q4/2010
PULP MARKET OUTLOOK
PULP MARKET OUTLOOK
World fiber balance

Source Pöyry 2009
PULP MARKET OUTLOOK

Chemical pulp demand is growing driven by various end-uses

Market pulp demand development
2003-2014

Chemical pulp demand by end-use

Source: PPPC, Pöyry, UPM
PULP MARKET OUTLOOK

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

Chemical market pulp capacity growth by region 2009 - 2014

Source: PPPC

Wood availability
- Increasing
- Stable / decreasing

Source: Pöyry
## New BEKP pulp lines – estimated start-ups by 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>Country</th>
<th>Company</th>
<th>Mill</th>
<th>Capacity Mt/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Q3</td>
<td>China</td>
<td>Shandong Chenming</td>
<td>Zhanjiang</td>
<td>0.7</td>
</tr>
<tr>
<td>2012</td>
<td>Q4</td>
<td>Brazil</td>
<td>Eldorado</td>
<td>Tres Lagoas</td>
<td>1.5</td>
</tr>
<tr>
<td>2013</td>
<td>Q1</td>
<td>Uruguay</td>
<td>Montes del Plata</td>
<td>Punta Pereira</td>
<td>1.3</td>
</tr>
<tr>
<td>2013</td>
<td>Q1</td>
<td>China</td>
<td>Oji Paper</td>
<td>Nantong</td>
<td>0.7</td>
</tr>
<tr>
<td>2013</td>
<td>Q2</td>
<td>Brazil</td>
<td>Suzano</td>
<td>Maranhao</td>
<td>1.5</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>Brazil</td>
<td>Fibria</td>
<td>Tres Lagoas II</td>
<td>1.5</td>
</tr>
<tr>
<td>20XX</td>
<td></td>
<td>Australia</td>
<td>Southern Star</td>
<td>Bell Bay</td>
<td>1.1</td>
</tr>
<tr>
<td>20XX</td>
<td></td>
<td>Brazil</td>
<td>CMPC</td>
<td>Guaiba II</td>
<td>1.5</td>
</tr>
<tr>
<td>20XX</td>
<td></td>
<td></td>
<td>Others</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The investment decision has been made concerning the lines in green colour.
Market BHKP trade flows 2009 – Latin America has become a major source of BHKP

Total 20 million tons

Source: Pöyry
Shipments rose sharply for Q1 compared to last year, and particularly to China. Notable is the strong development in Western Europe which comes on top of good growth numbers in 2010 too.
Shipments of all grades increased compared to Q1 of 2010, softwood most noticeable with Northern Softwood at a shipment-to-capacity ratio of 98% for Q1 this year.

Source: PPPC
Shipments jumped to record level in March mainly due to very strong Chinese buying.

Source: PPPC
PULP MARKET OUTLOOK

Global chemical market pulp producer inventories – tight in softwood and balanced in hardwood

Source: PPPC
Chemical pulp market prices

Source: FOEX Indexes Ltd.
### FINANCIALS

Q1 2011 – margins improved despite challenging cost environment

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>EUR 2,356 m</td>
<td>↑</td>
<td>+16%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>EUR 379 m</td>
<td>↑</td>
<td>+32%</td>
</tr>
<tr>
<td>Operating profit (*)</td>
<td>EUR 198 m</td>
<td>↑</td>
<td>+71%</td>
</tr>
<tr>
<td>EPS (*)</td>
<td>EUR 0.32</td>
<td>↑</td>
<td>+113%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>16.1%</td>
<td>↑</td>
<td>+2 pp</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>EUR 166 m</td>
<td>↓</td>
<td>-43 m</td>
</tr>
<tr>
<td>Net debt</td>
<td>EUR 3,197 m</td>
<td>↑</td>
<td>-89 m</td>
</tr>
<tr>
<td>Gearing</td>
<td>44%</td>
<td>↑</td>
<td>-2 pp</td>
</tr>
</tbody>
</table>

*excluding special items

**) from the beginning of the year
FINANCIALS

EBITDA improved by 32%, main improvement in Pulp and Paper

EUR million

EBITDA Q1/10

EBITDA Q1/11

288
14.1%

379
16.1%

Energy

Forest and Timber

Pulp

Paper

Plywood

Label

Other operations

Pulp and Paper
**FINANCIALS**

Pulp Q1/11 vs. Q1/10 – profitability improved clearly due to higher sales price and deliveries

### Operating Profit Excluding Special Items

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (€ million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1 2011</td>
<td>457</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1 2010</td>
<td>341</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change</td>
<td>116</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change</td>
<td>34%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Operating Profit EUR million*)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2010 Q1</th>
<th>2010 Q2</th>
<th>2010 Q3</th>
<th>2010 Q4</th>
<th>2011 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2011</td>
<td>160</td>
<td>84</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*) excluding special items
Summary

- UPM seeks to grow in cost competitive pulp
- UPM's pulp production portfolio results in excellent operational performance
- Versatile international footprint provides a solid platform to grow
- Pulp market outlook is strong – demand and share of market pulp continues to grow