



The Biofore Company **UPM**

# MORE WITH BIOFORE

UPM-Kymmene Corporation  
Annual General Meeting 2013

Jussi Pesonen  
President and CEO  
4 April 2013

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- Year 2012
- Securing cash flow in mature markets
- Advancing in growth markets
- Growth in low-emission energy
- Recognised frontrunner in bioeconomy
- Summary





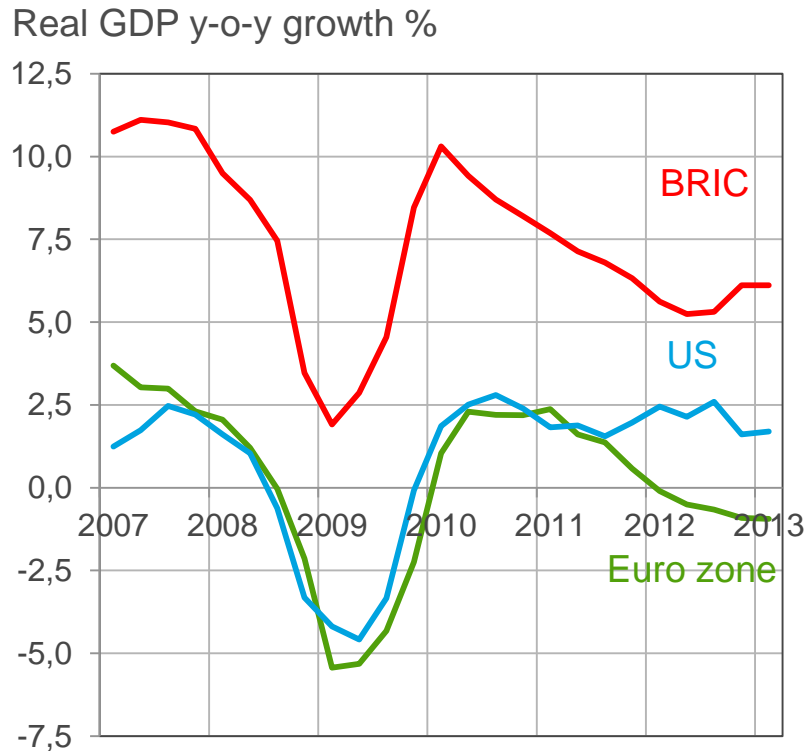
## Global trends affecting our business

- Resource scarcity
- Climate change
- Digitalisation
- Shift of balance in global economy
- Increasing business clock speed



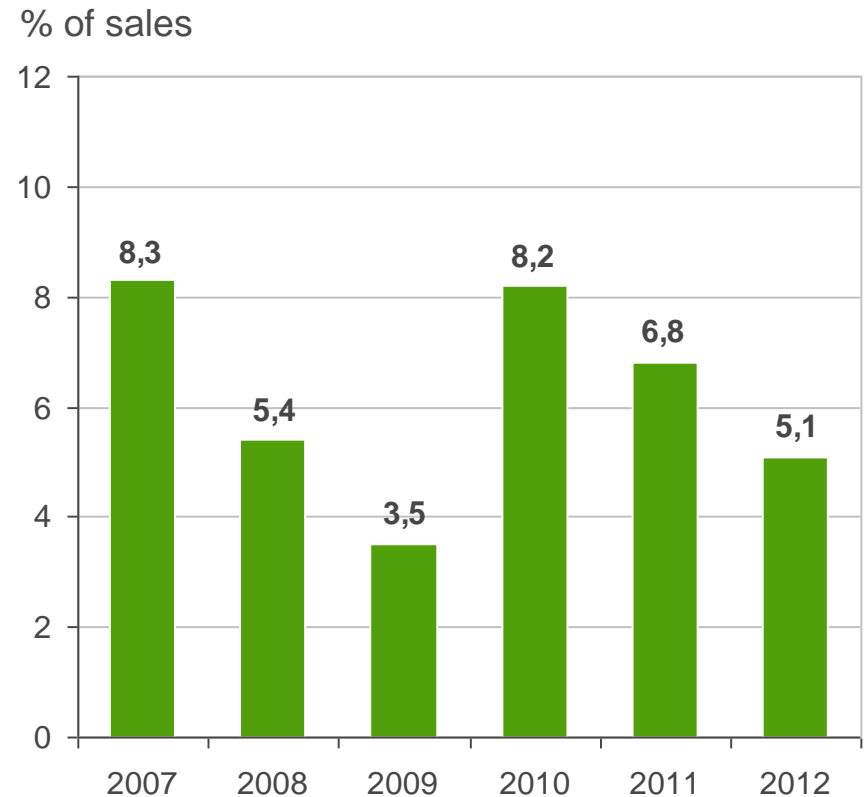
# Profitability over two economic slowdowns

## Europe continues to underperform the other major economic zones



Sources: Global Insight

## Operating profit excluding special items





## Actions in 2012

### Securing cash flow and competitiveness

- Realised Myllykoski cost synergies
- Closed the Albruck mill
- Timber restructuring
- Divestment of packaging paper operations
- Divestment of Metsä Fibre
- Divestment of RFID
- Sale of 31,000 hectares of forests
- Schongau CHP plant


### Growth actions

- First biorefinery investment
- New nursery in Uruguay
- New paper machine in Changshu, China
- New label terminals in Argentina, Mexico, Ukraine and Vietnam
- Acquisition of Gascogne's labelstock operations


## Financials 2012: strong cash flow, stable financial position

Sales  
EUR 10,438 m  +4%


EBITDA  
EUR 1,269 m  -8%


Operating profit (\*)  
EUR 530 m  -22%

EPS (\*  
EUR 0.70  -0.23

Operating cash flow (\*\*)  
EUR 1,014 m  -27 m

Net debt  
EUR 3,010 m  -582 m

Market capitalisation  
EUR 4,633 m  +4%

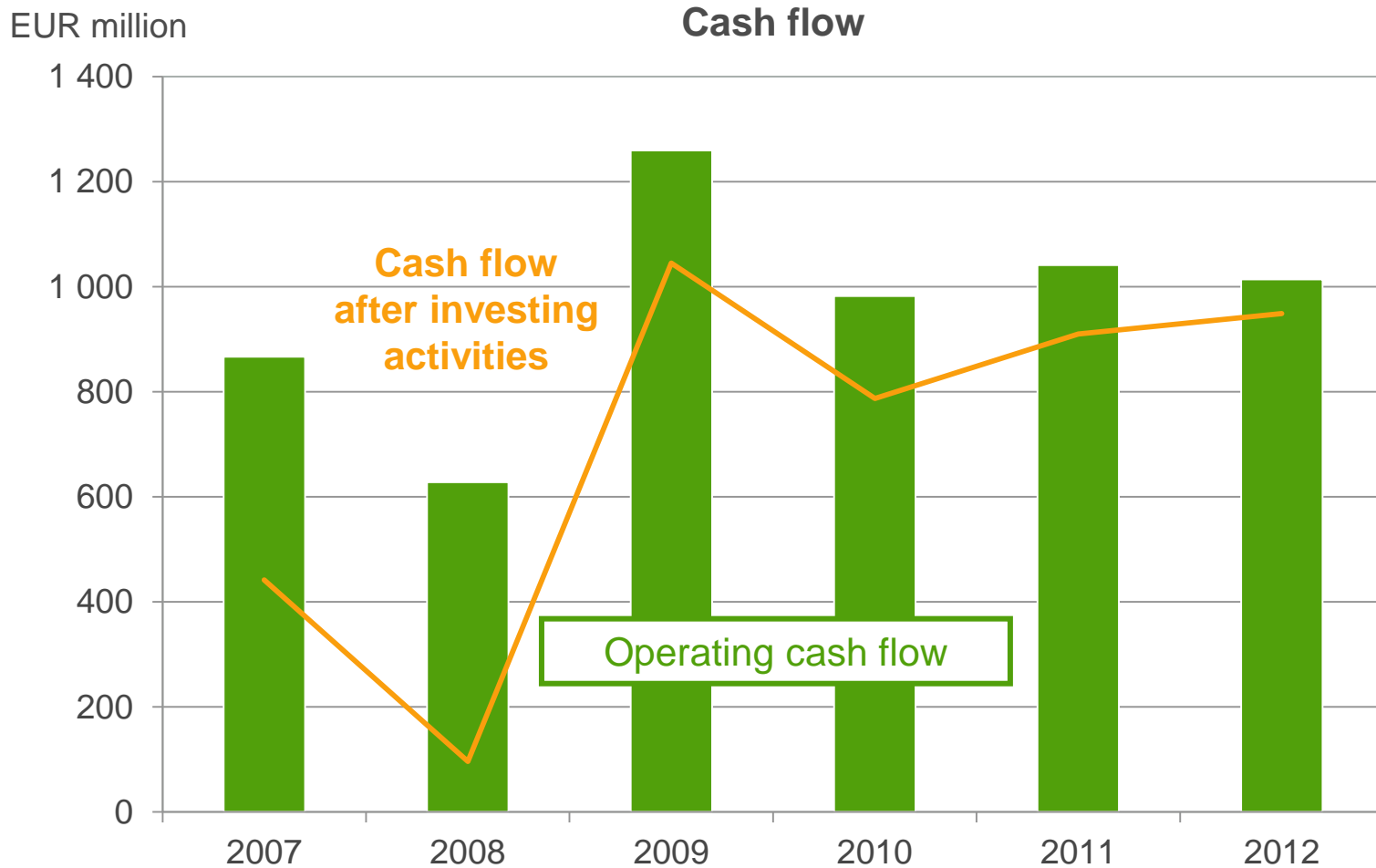
Board's dividend proposal per share  
EUR 0.60 

\*) excluding special items

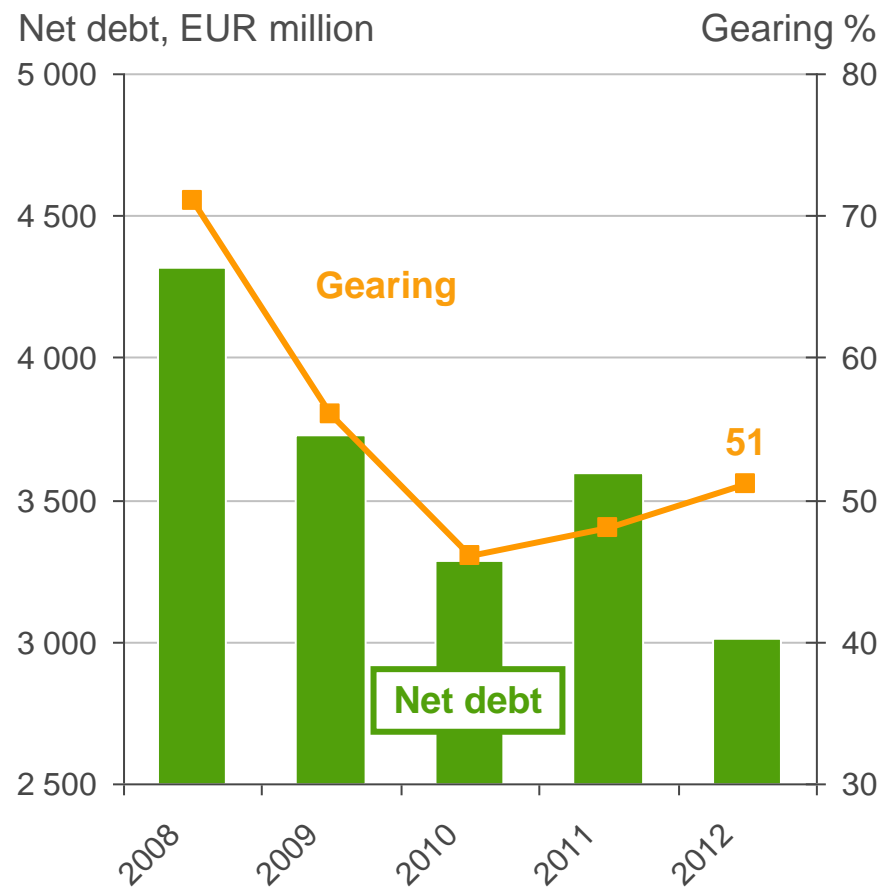
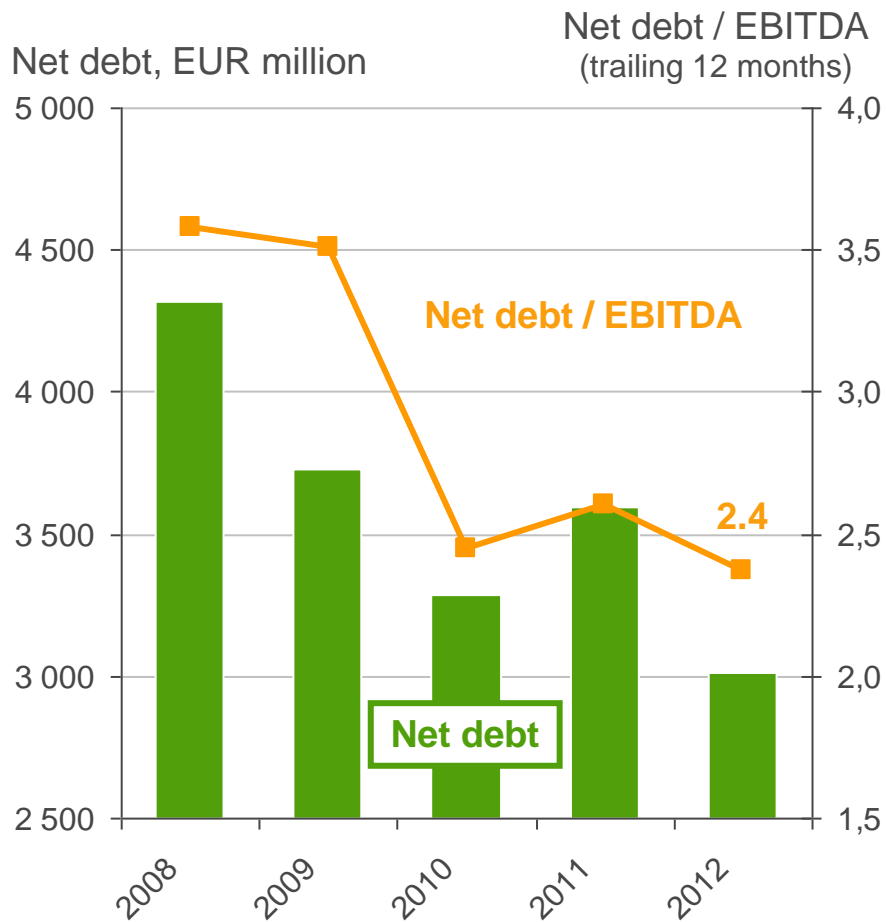
\*\*) after restructuring payments of EUR 182 m in 2012



# Consistently strong cash flow



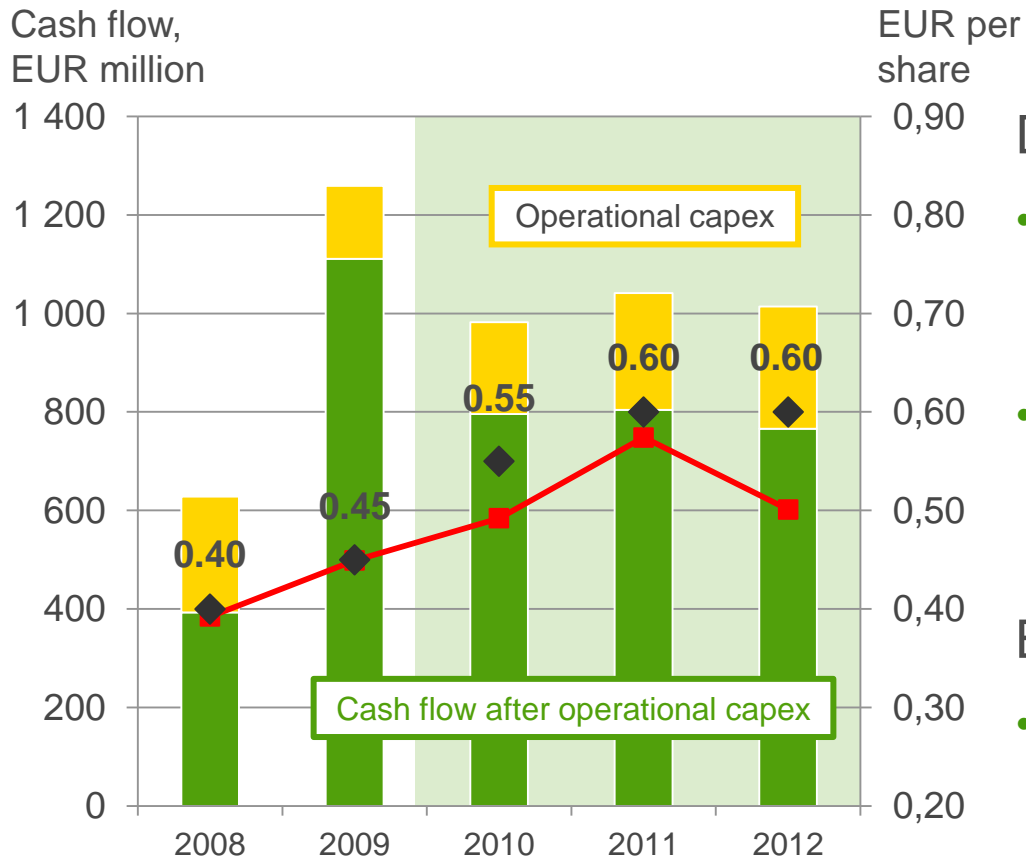
# Solid balance sheet







# Dividend proposal



## 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

## Board's dividend proposal 2012

- EUR 0.60 (0.60) per share

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

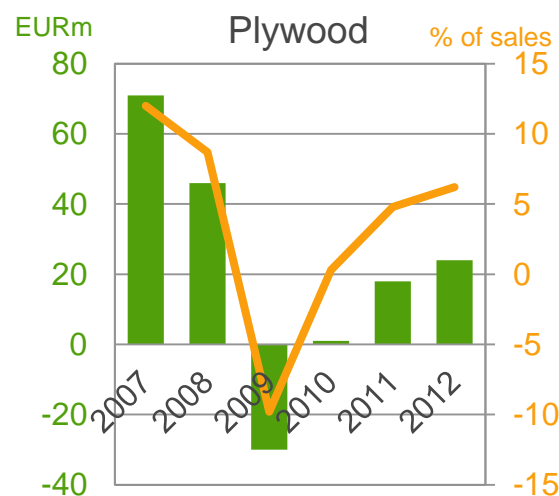
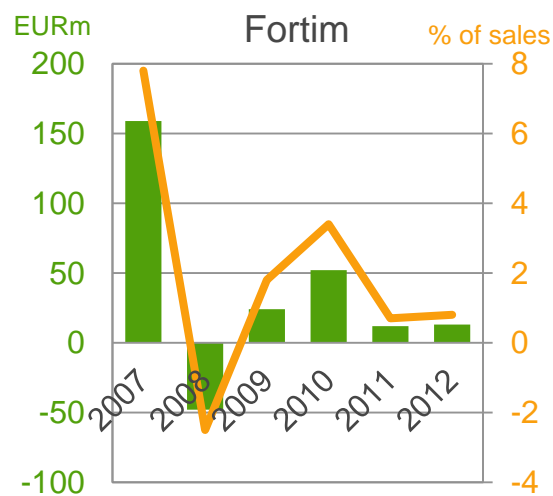
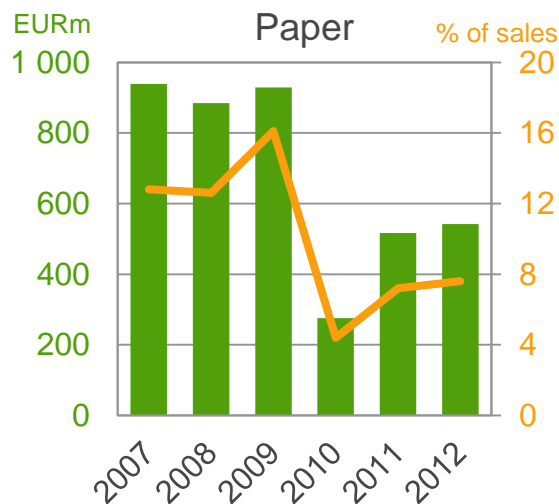
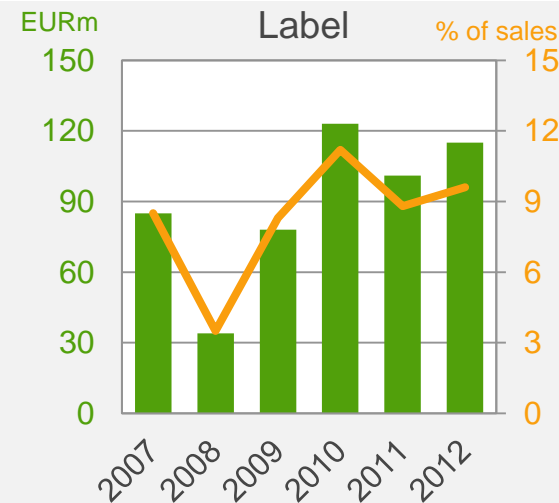
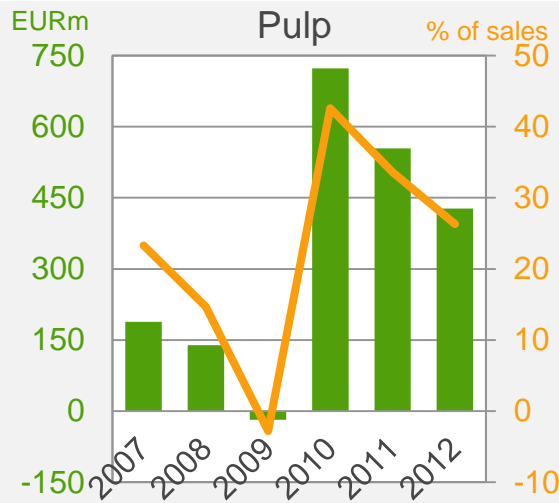
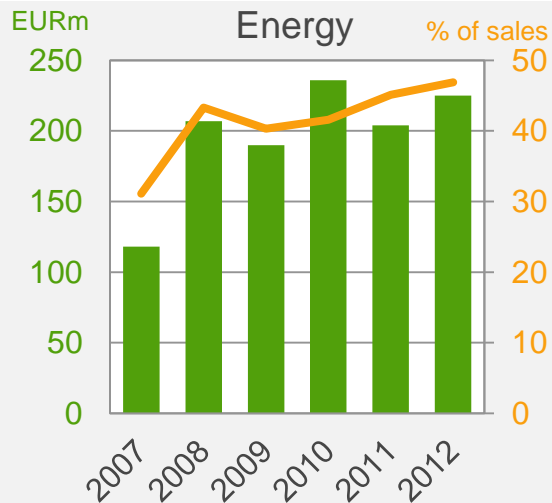
# EBITDA

## Strong performance in growth businesses

## Small improvement in mature businesses



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## Outlook for 2013 (\*)

### Business environment

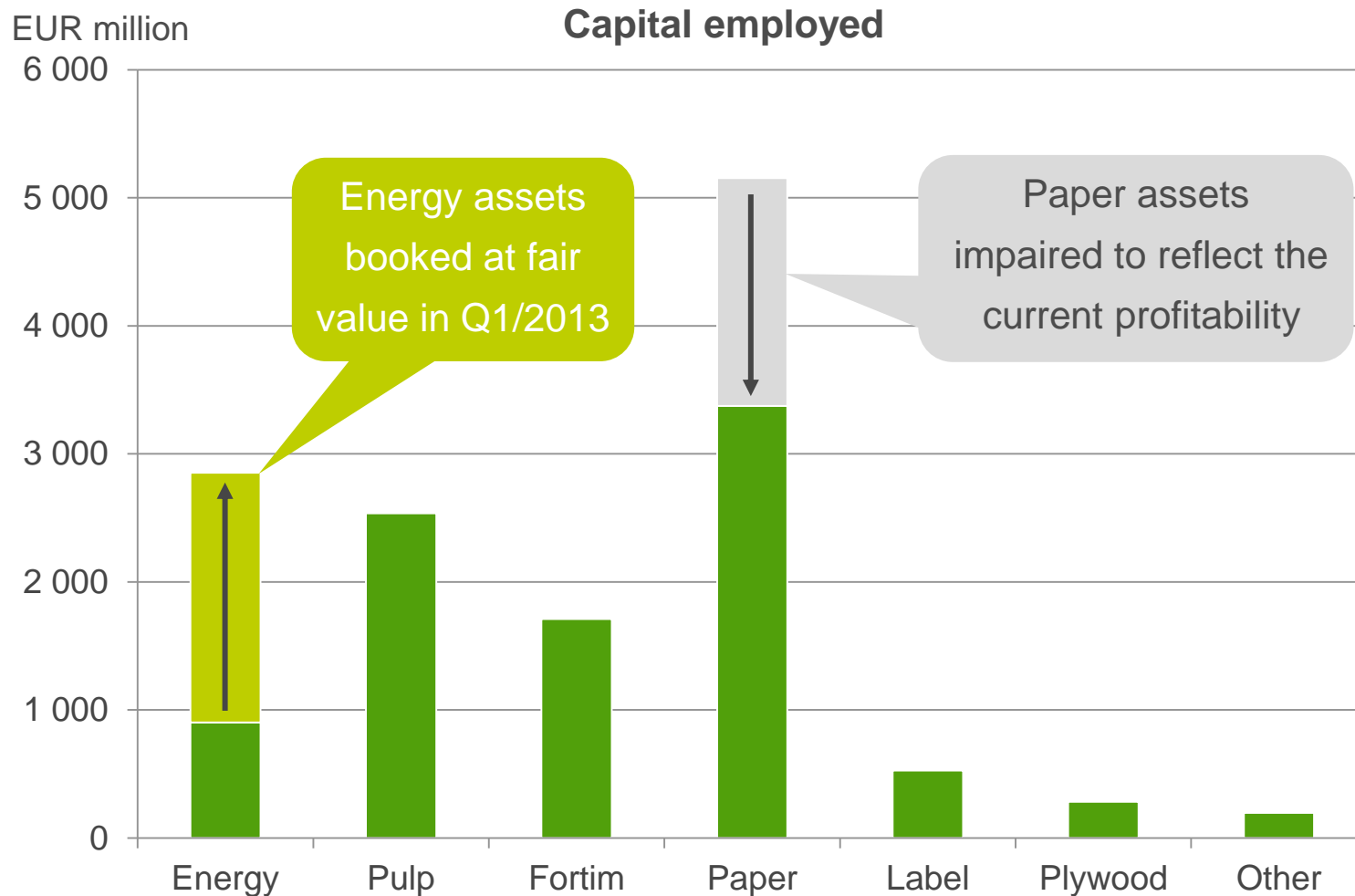
- Economic growth in Europe in early 2013 is expected to remain very low, having a negative impact on the European graphic paper markets.
- Growth market economies are expected to fare better, which is supportive for the global pulp and label materials markets, paper markets in Asia and wood products markets outside Europe.

### UPM performance in H1 2013 compared with H2 2012

- UPM's performance will be underpinned by continued stable overall outlook for growth businesses such as Energy, Pulp and Label.
- Slightly lower publication paper prices, adverse currency development and lower delivery volumes are expected to have a clear negative impact on the European paper business profitability.

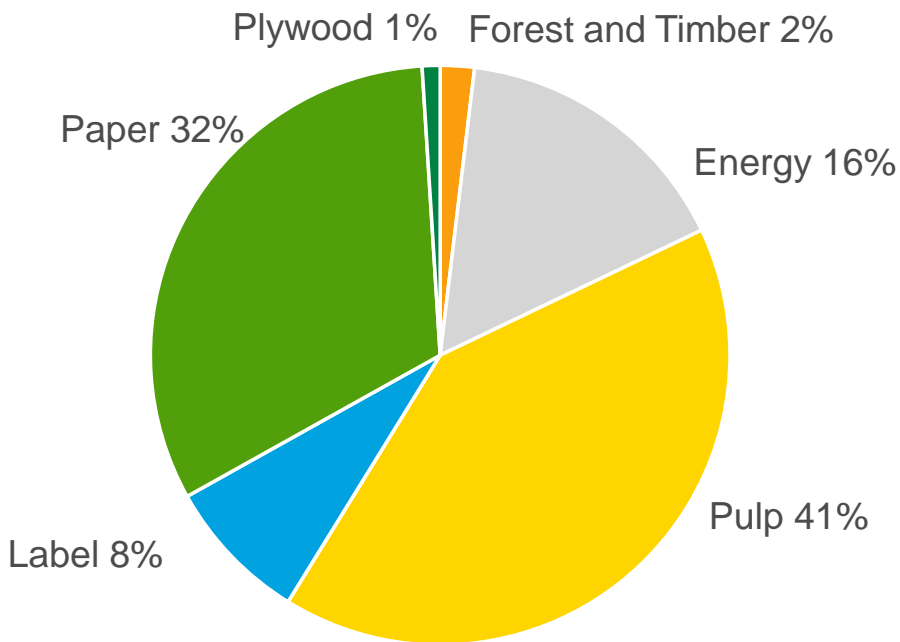
(\* See complete wording of the "Outlook" in the Financial statements release 2012

# Asset values changed to reflect fair values

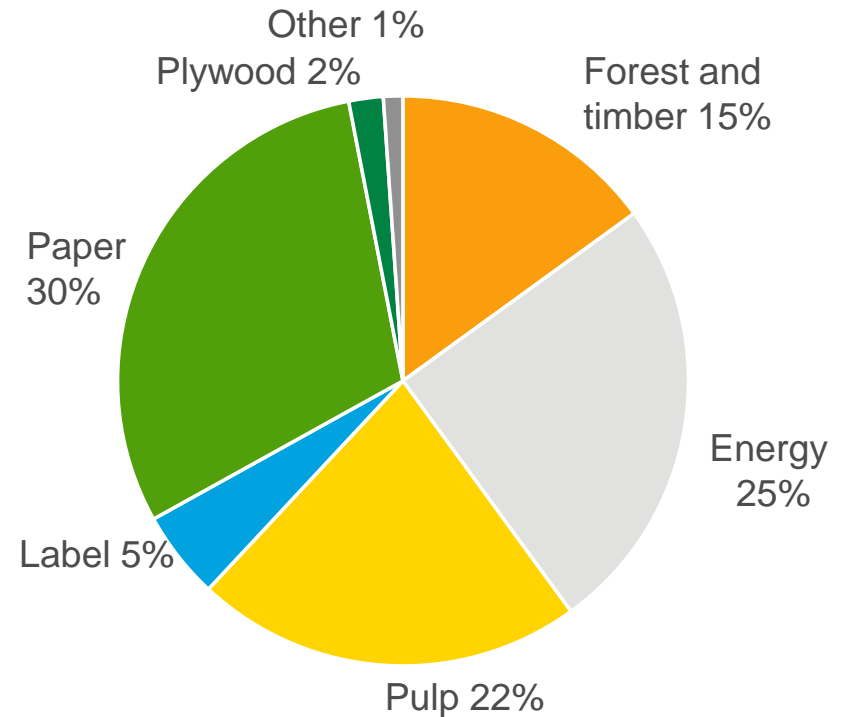


# New asset values represent UPM's EBITDA generation during recent years

### Cumulative EBITDA 2010 – 2012



### Capital employed 31 Dec 2012, incl. changes in Q1 2013





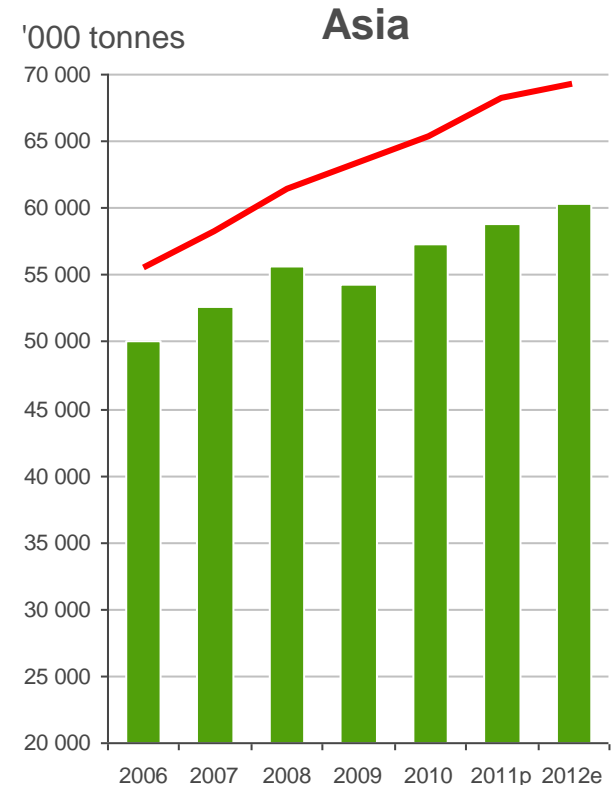
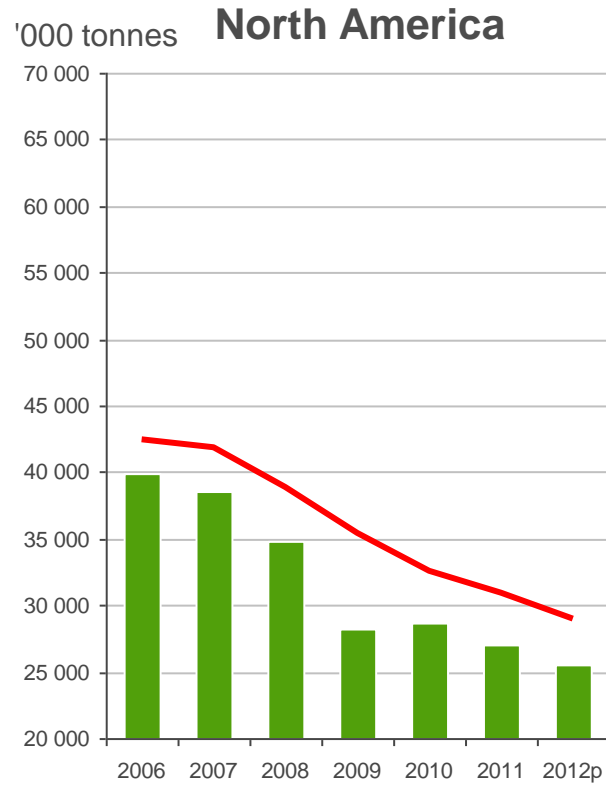
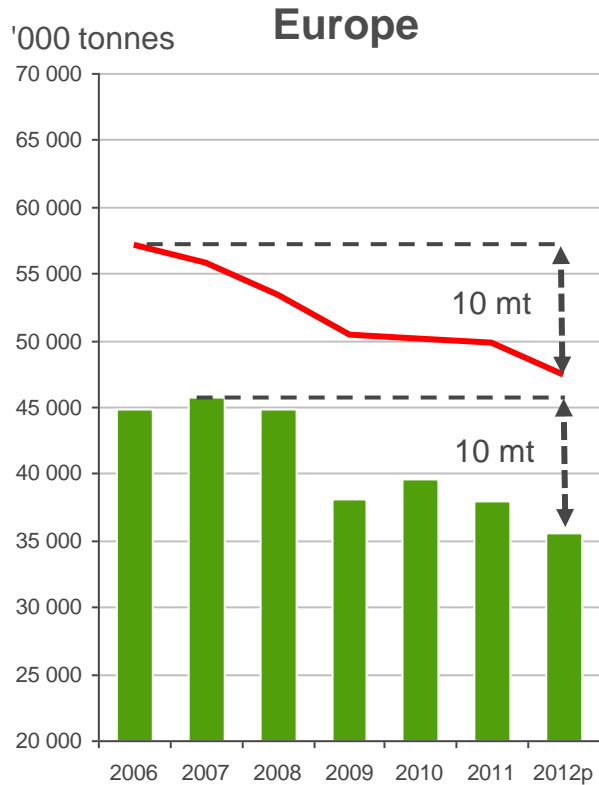
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# SECURING CASH FLOW IN MATURE MARKETS

# Asia is as big graphic paper market as declining Europe and North America combined



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■ Eur demand — Capacity

■ NA demand — Capacity

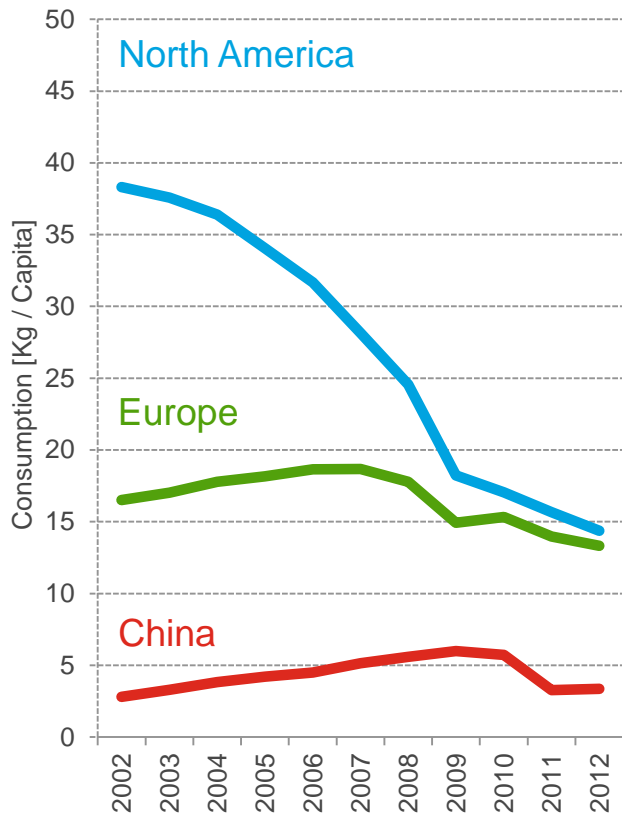
■ Asia demand — Capacity

P = preliminary

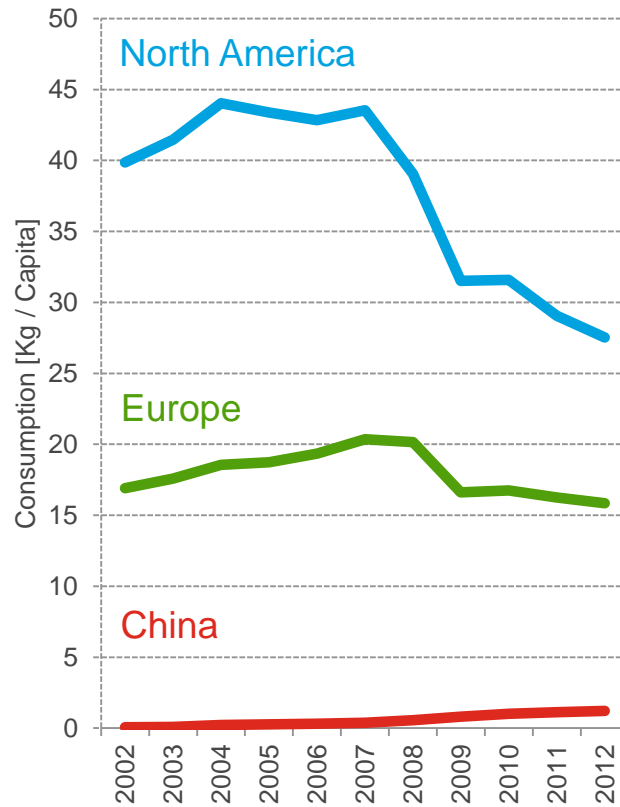
Source: Euro-Graph, PPPC, PPI

# Significant regional differences in paper use

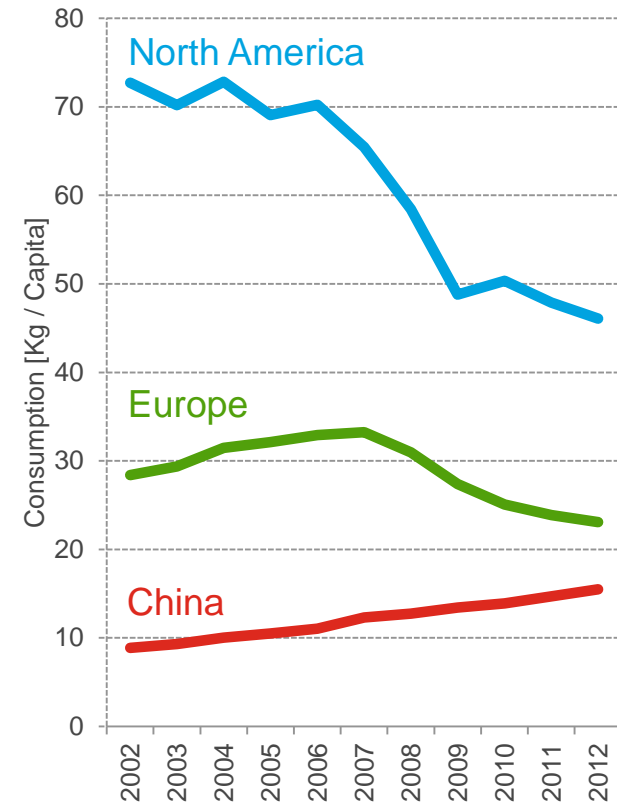
## Newsprint



## Magazine



## Fine

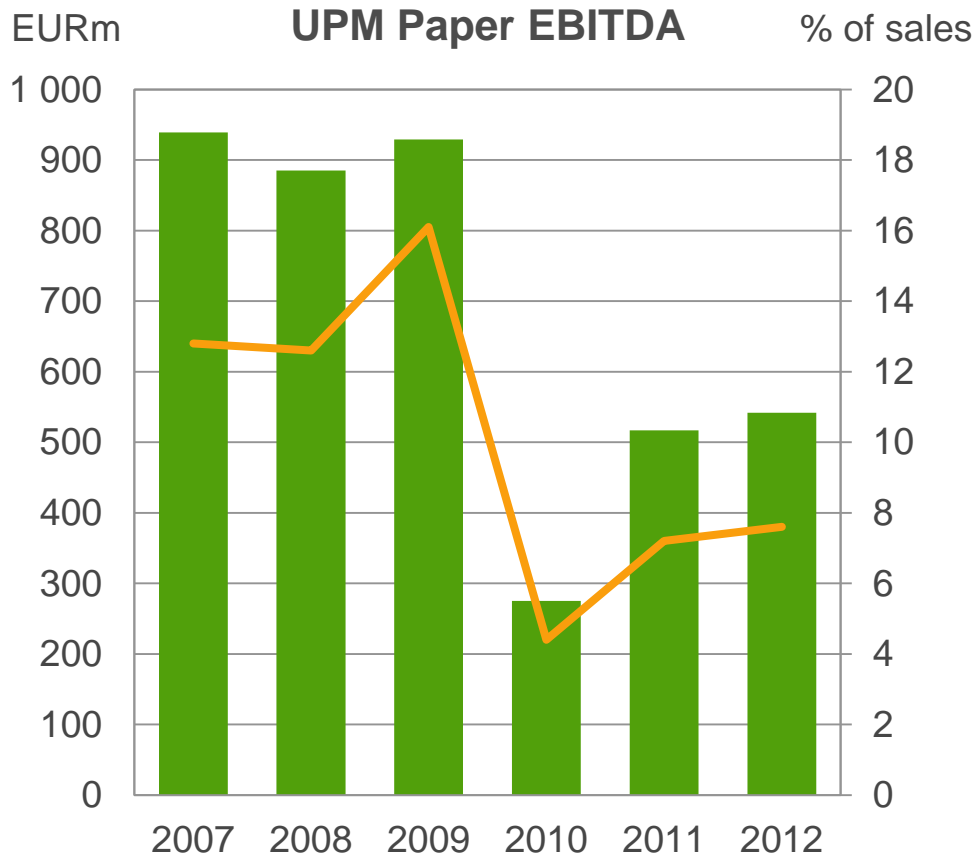


Source: UPM, RISI



## Biofore in action

### Mylykoski cost synergies achieved as planned



- Paper EBITDA increased by EUR 25m in 2012 from 2011
- UPM's paper deliveries in 2012 decreased by 10%, prices by 1%
- In 2012, synergy benefits reduced Paper business' costs by about EUR 170m
- Full cost synergies of EUR 200m are expected to be achieved in 2013

# Adjusting operations to the profitable demand

## Planned actions subject to employee negotiations

Planned capacity closures and other actions	Capacity t/a and paper grade	Reduction in personnel	Timeline
Permanent closure of the UPM Ettringen PM4 in Germany	175,000 SC	155	By the end of H1/13
Permanent closure of the UPM Rauma PM3 in Finland	245,000 SC	90	By the end of H1/13
Sale of the UPM Docelles mill in France or other exit from UPM Paper business	160,000 Fine	165	Sales process 6 months
Streamlining of Paper BG and global functions		450	End 2013
<b>Total planned actions</b>	<b>580,000</b>	<b>860</b>	
UPM Stracel production ceased	270,000 Coated magazine	250	January 2013
<b>Total</b>	<b>850,000</b>	<b>1,110</b>	



**Estimated annual fixed cost savings of EUR 90m**



## Securing cash flow in mature paper markets

### Low cost, low investment position

- Improved mill portfolio through restructuring
- Lower fixed costs per tonne
- Strict investment policy, focus on cost efficiency improvements

### Cash flow

- Annual cash flow after capex has averaged over EUR 400 million since the financial crisis

### Consolidation in Europe

- Myllykoski acquisition completed and synergies achieved
- Packaging papers divestment completed

### Adjusting operations to the profitable demand

- Improve efficiency in supply chain and reduce variable costs



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# ADVANCING IN GROWTH MARKETS



# Over 80% of pulp demand is in growing end-use segments

Bleached market pulp demand by end-use and region

	WE	NA	China	ROW	Total
P&W	14%	5%	10%	9%	39%
Tissue	9%	6%	4%	8%	28%
Packaging	2%	1%	3%	2%	8%
Speciality	7%	2%	3%	4%	16%
Fluff	2%	3%	1%	4%	10%
	35%	16%	21%	27%	100%

 = growing market segment (81%)

 = declining market segment (19%)

\*Source: Hawkins Wright. End use markets for bleached kraft pulp, September 2011

# Biofore in action

## UPM's pulp platform for growth

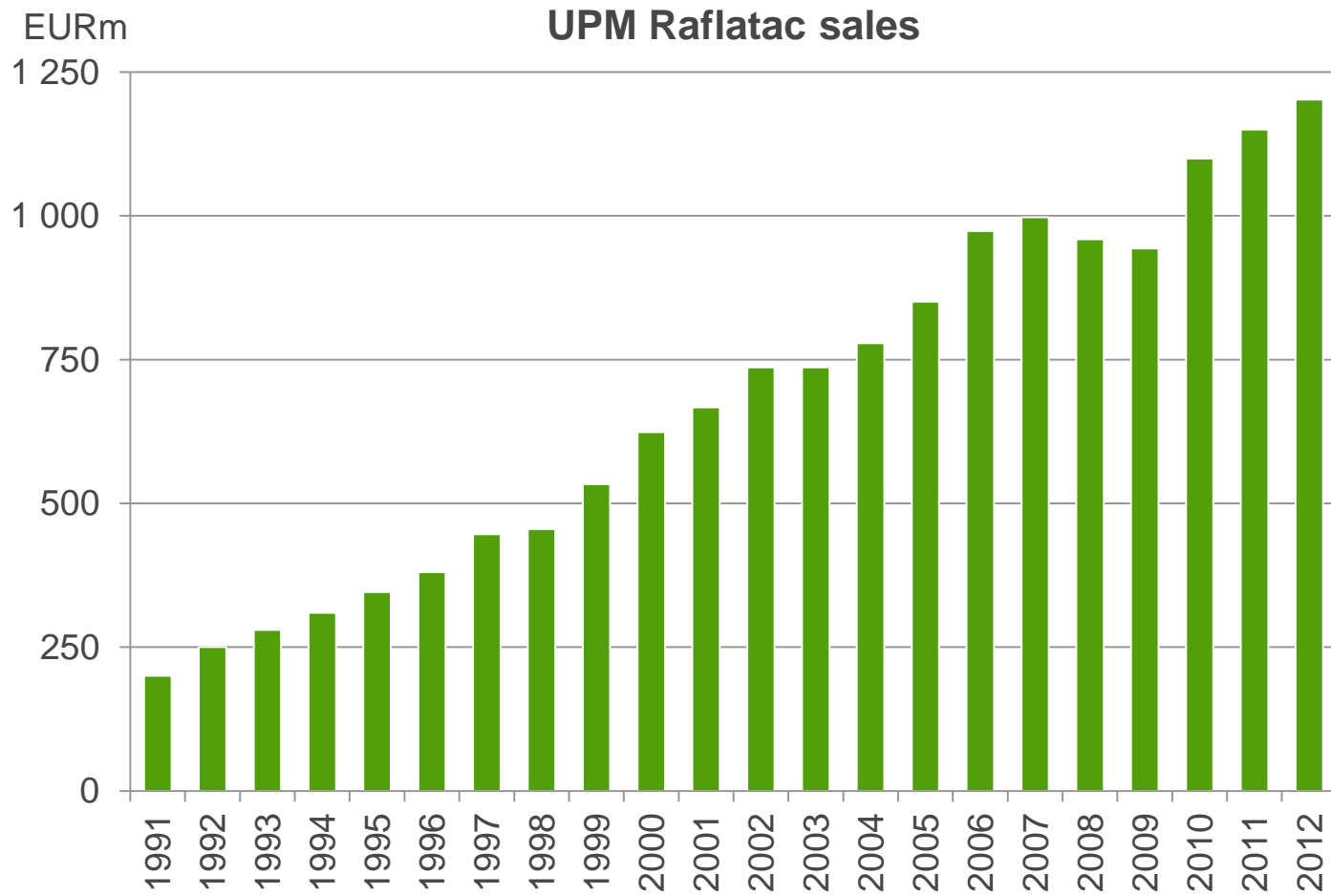
<h3>Fray Bentos</h3> <ul style="list-style-type: none"> <li>started 2007</li> </ul>	<h3>Pietarsaari</h3> <ul style="list-style-type: none"> <li>major investment in 2004</li> </ul>	<h3>Kymi</h3> <ul style="list-style-type: none"> <li>major investment in 2008</li> </ul>	<h3>Kaukas</h3> <ul style="list-style-type: none"> <li>modernisation in 1996</li> </ul>
			



	BHKP tonnes	BSKP tonnes	Total capacity
Fray Bentos	1,100,000		1,100,000
Kaukas	310,000	430,000	740,000
Kymi	370,000	190,000	560,000
Pietarsaari	320,000	480,000	800,000
<b>Total</b>	<b>2,100,000</b>	<b>1,100,000</b>	<b>3,200,000</b>

# Biofore in action

## Consistent growth in label materials

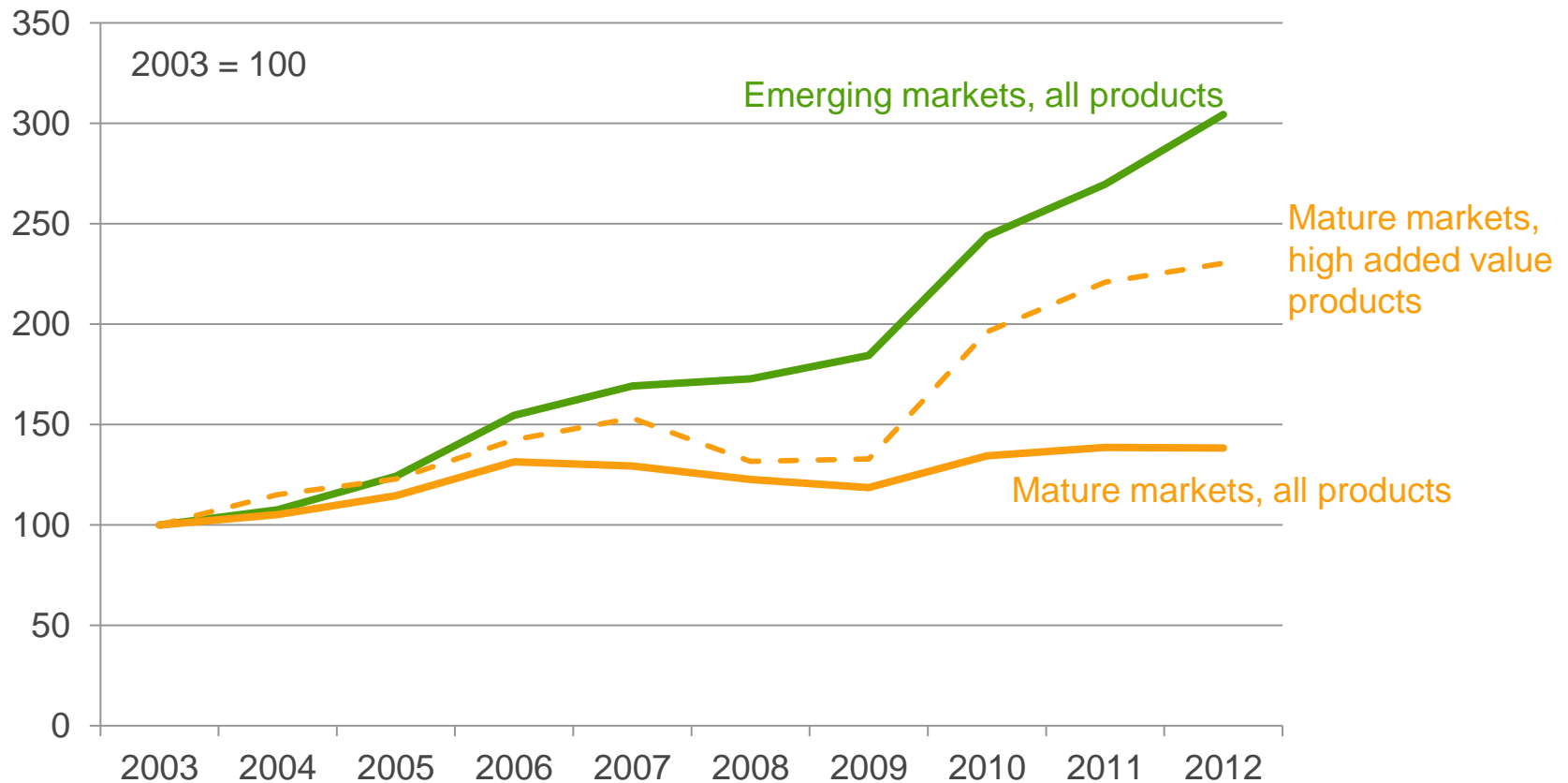


# Biofore in action

## Growth in higher value added labelstock products and growth markets



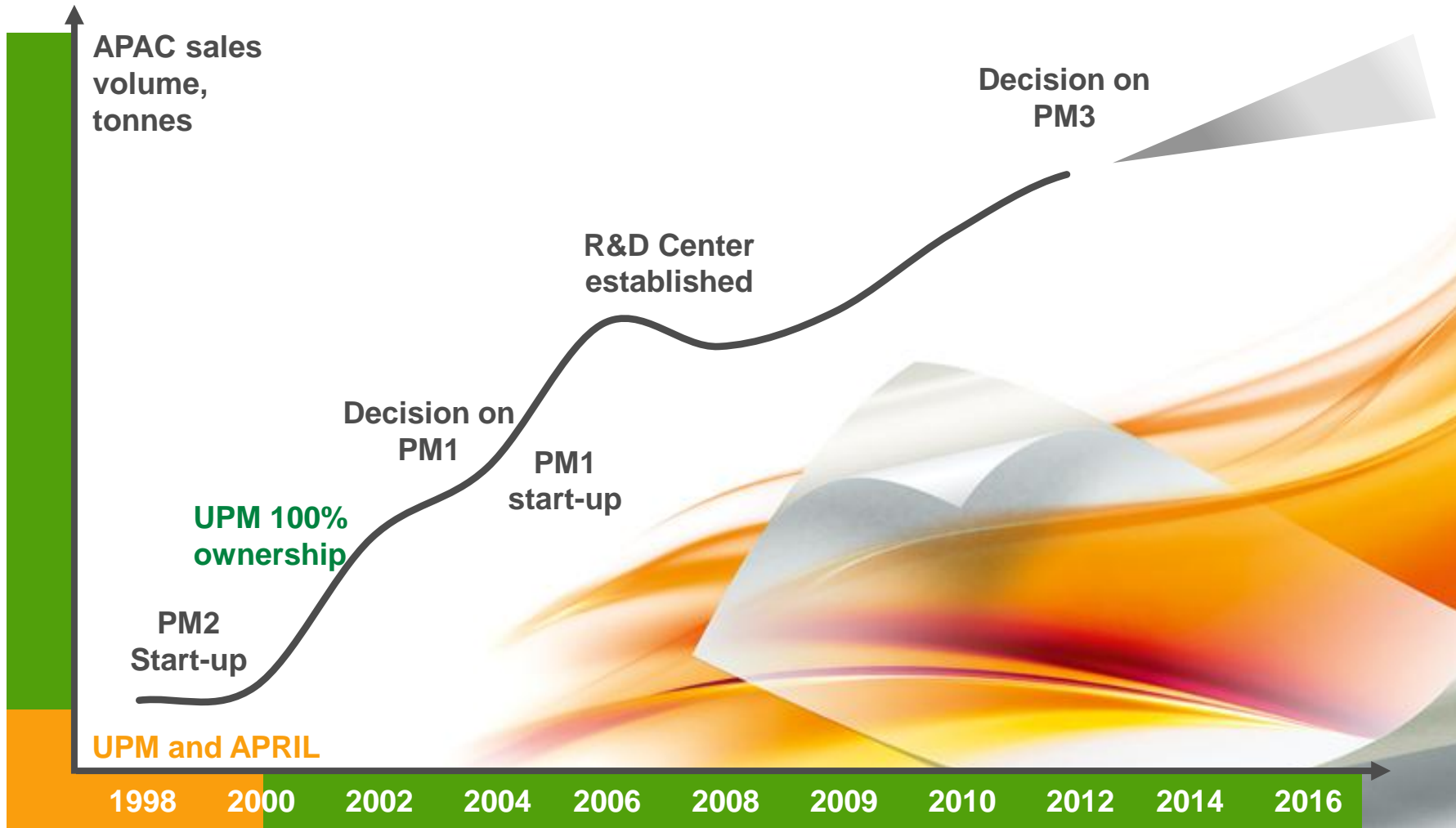
### UPM Raflatac sales (indexed)





# Biofore in action

## UPM Paper in APAC and China 1998-2012



## Biofore in action

### UPM grows in China and in the fast developing label materials segment



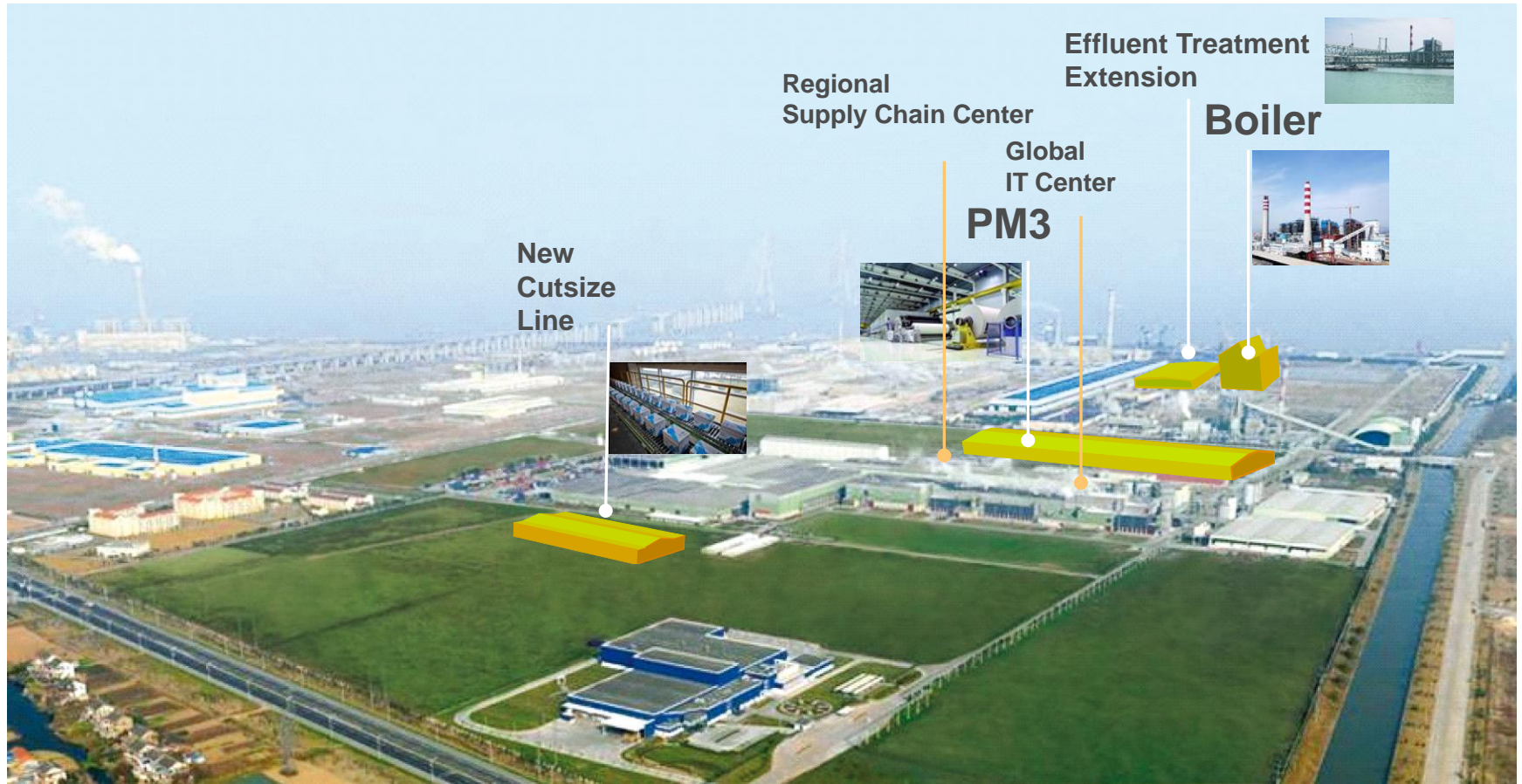
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- Increase presence in the fast growing Asian paper segments and strengthen position in the label materials value chain
- UPM will build a new paper machine at the Changshu mill in China
- Total investment CNY 3,000m (approx. EUR 390m), start-up by the end of 2014
- Investment supports the good profitability of UPM's growth businesses



# Biofore in action

## Planned new investments at UPM Changshu mill site





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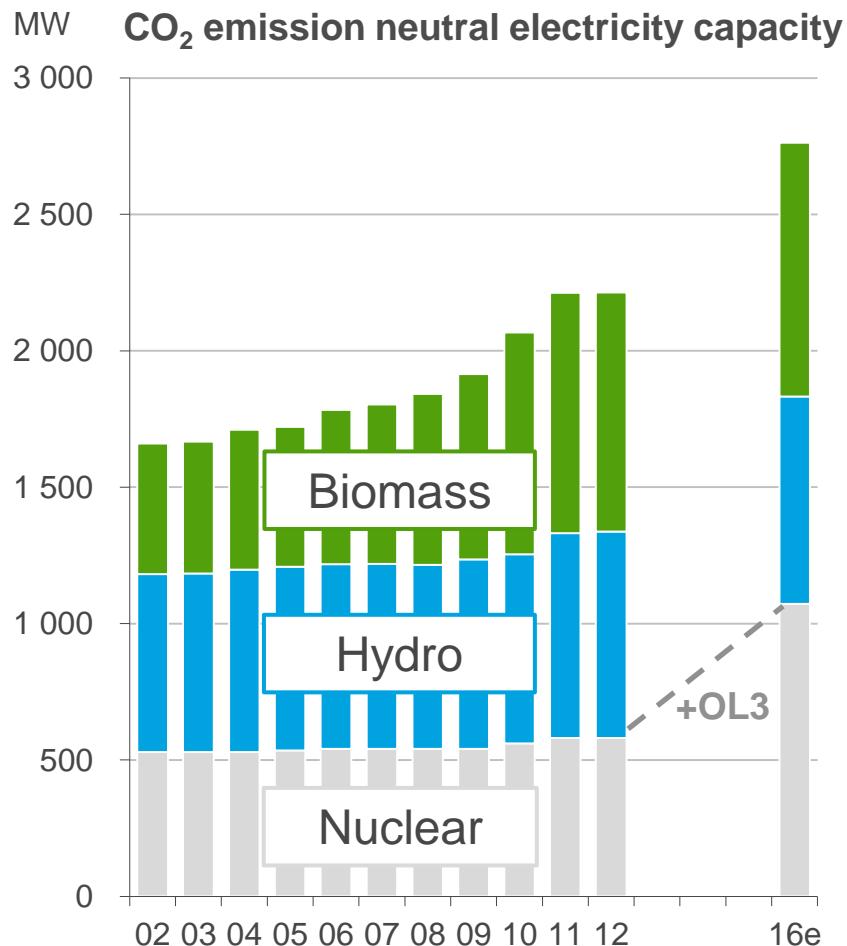
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# GROWTH IN LOW-EMISSION ENERGY

# Biofore in action

## Consistent growth in low-emission electricity generation

- During the past decade:
  - 83% growth in biomass-based electricity generation
  - 16% growth in hydropower
- 81% of UPM's power generation is CO<sub>2</sub> neutral
- Biggest on-going projects are the Schongau CHP plant in Germany and the OL3 nuclear power plant in Finland



## Biofore in action

### UPM creates new business in wood-based renewable diesel

- UPM invests in the world's first wood-based renewable diesel production in Lappeenranta, Finland
  - Total investment of approximately EUR 150m
  - Production capacity 100,000 tonnes/a
  - Production starts in 2014
- Raw material is sustainably produced crude tall oil, a residue from pulp production
- Technology is based on UPM's innovation and long-term development work
- Potential to grow into a significant new business with good profitability

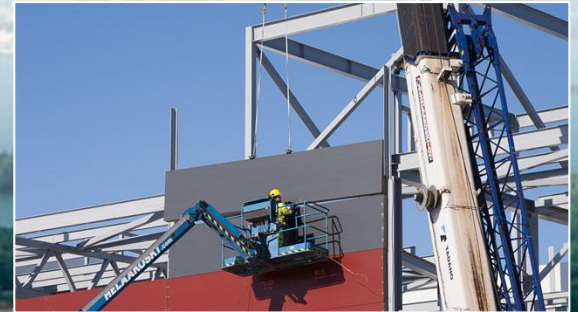


# Growing UPM Kaukas mill site in Lappeenranta, Finland

- 1 RESEARCH CENTRE
- 2 **BIOREFINERY**
- 3 BIOMASS POWER PLANT
- 4 PULP MILL
- 5 SAW MILL
- 6 PAPER MILL



# Growing UPM Kaukas mill site in Lappeenranta – Biorefinery







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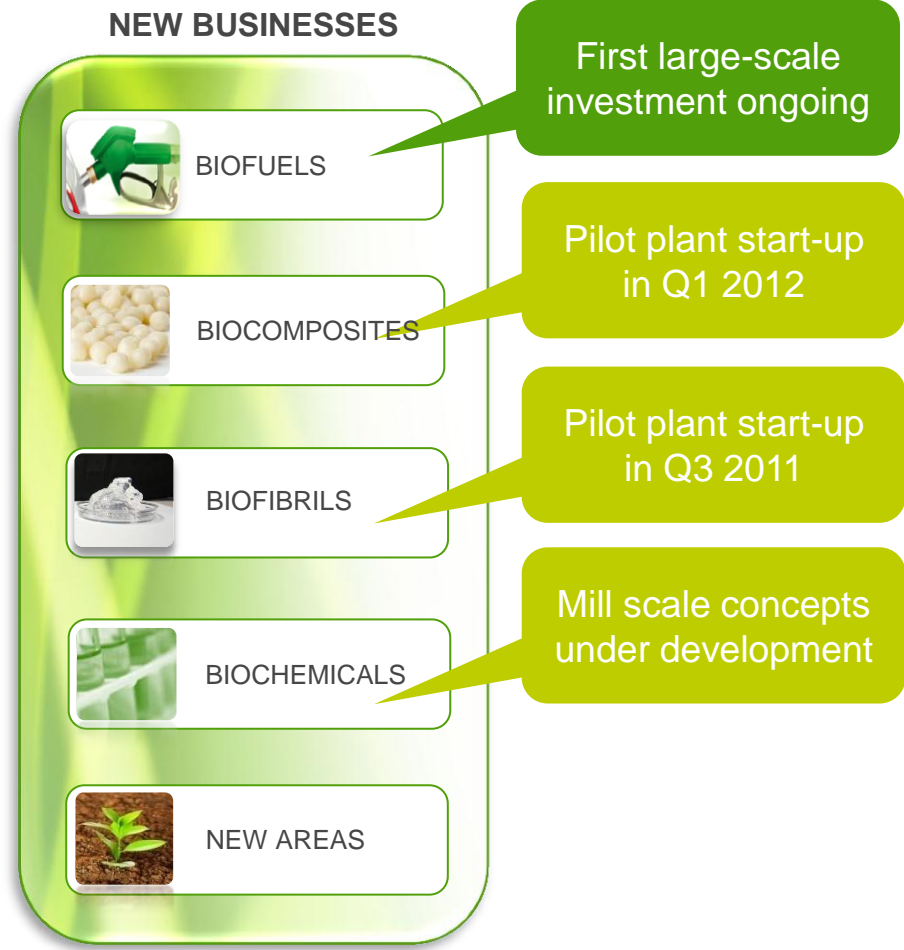


# **UPM** BioVerno



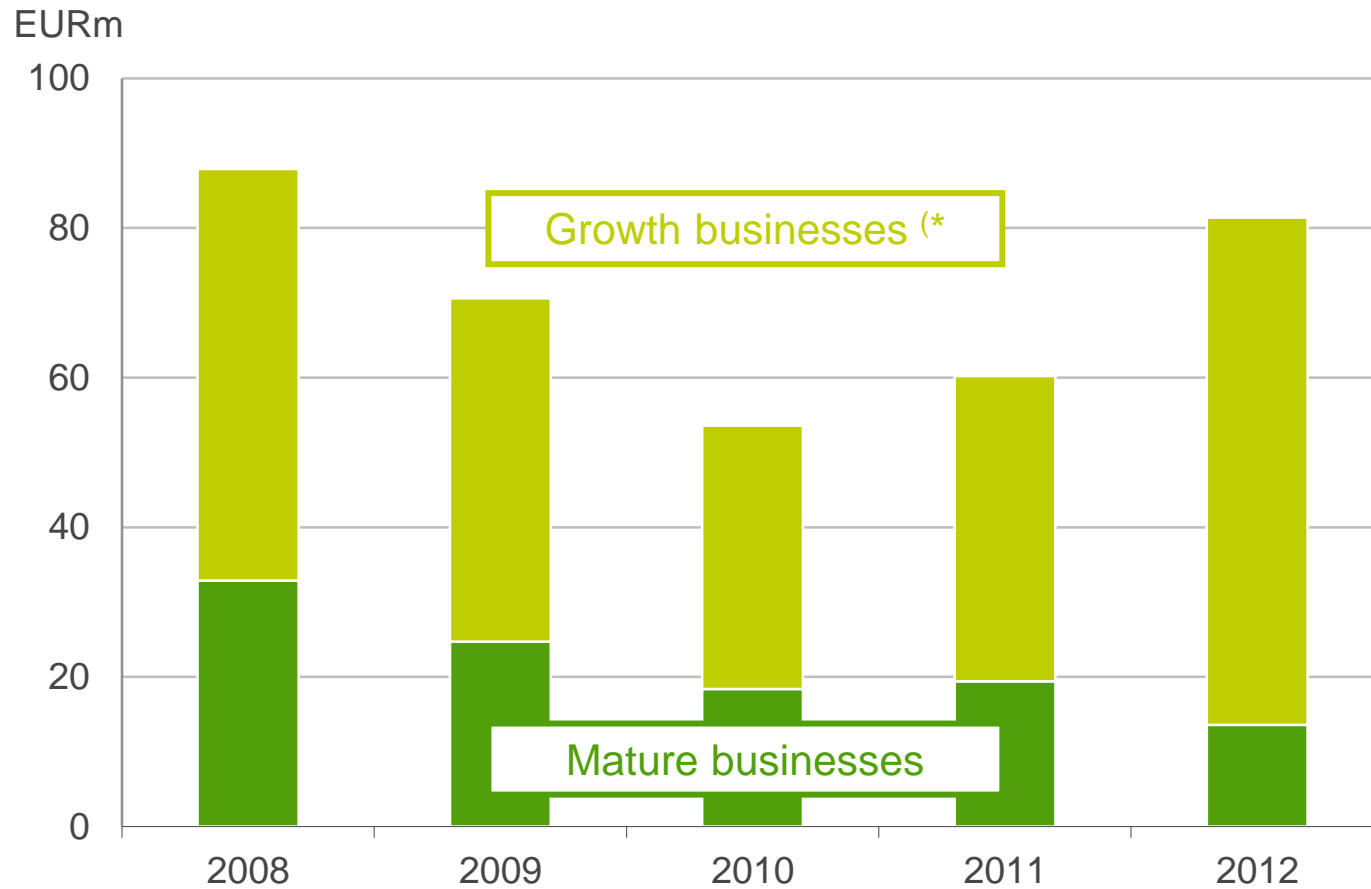
# Biofore in action

## New opportunities for the future



# Biofore in action

## UPM's development expenditure



\*) Includes R&D, capital expenditure and net operating expenses for new businesses



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# RECOGNISED FRONTRUNNER IN BIOECONOMY



# UPM has been recognized



**CARBON DISCLOSURE PROJECT**




- Supersector leader in basic materials sector, the only forestry and paper company worldwide listed on Dow Jones Sustainability Indexes (DJSI)
- ‘Most Innovative Company’ award from Ethical Corporation Awards thanks to UPM’s ecodesign concept and overall sustainability thinking
- Highest score for climate change disclosure in the Nordic Carbon Disclosure Leadership Index
- Winner of the ‘Breakthrough Innovation in Technology’ for improving efficiency and sustainability of biofuels production

# Step Change in Safety 2012-2014

## Major change effort



Measurable sub-targets



Resources



Visibility and recognition



Reporting and follow-up



Incentives to all UPMers

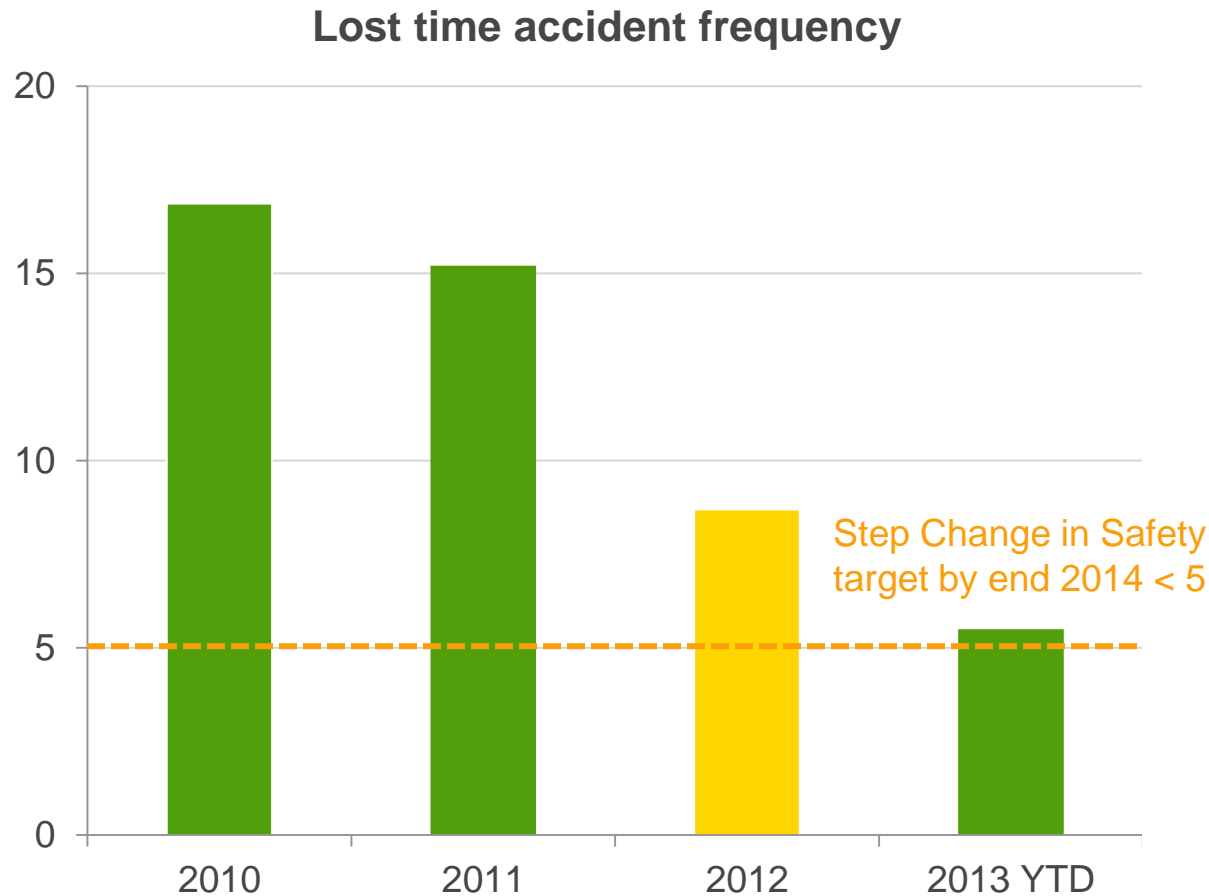
**World class safety results in three years!**

**Target: lost time accident frequency < 5**





# In 2012, lost time accident frequency fell by 40%



**World class safety results in three years!**

Lost time accident frequency = Number of LTA / 1 million hours of work



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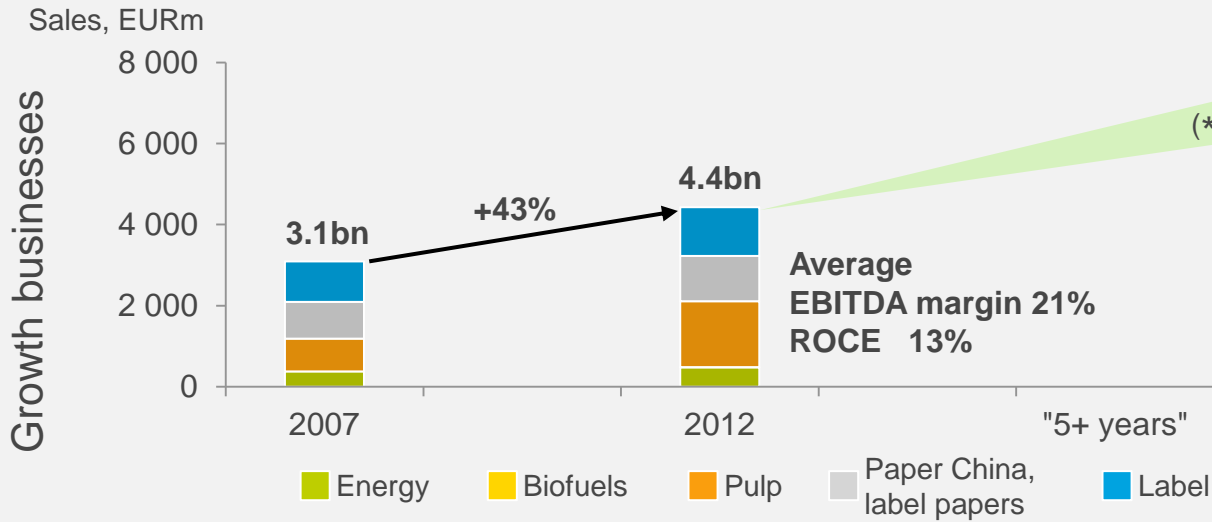
# SUMMARY



# Expanding well performing growth businesses maintaining cash flow from mature businesses



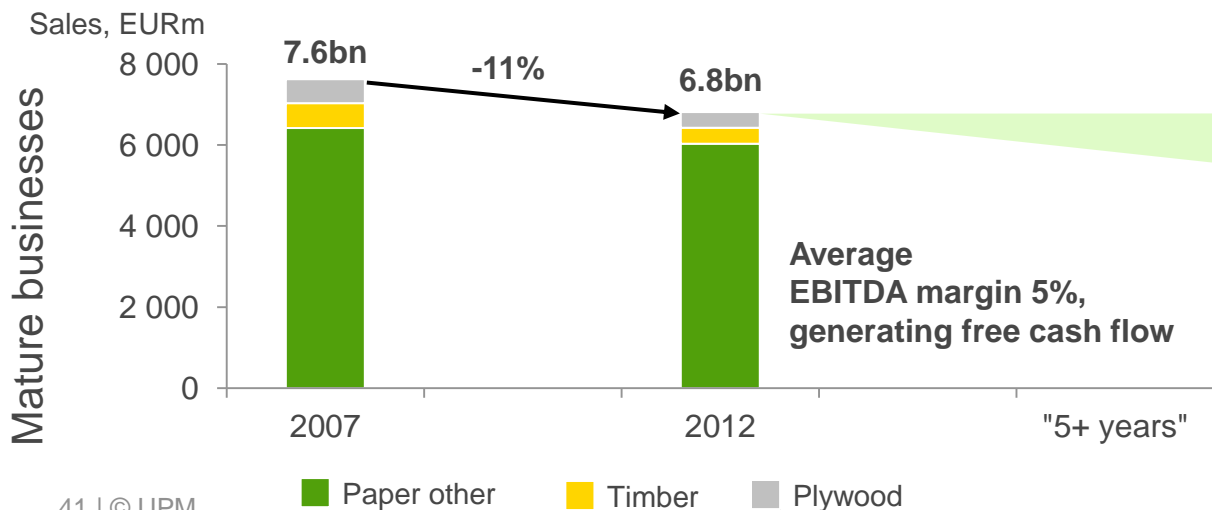
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## Steps in well performing growth businesses

- Labelstock expansion
- Paper machine in China
- Biofuel refinery
- Fair valuation of Energy assets

(\*) This is not a forecast, but one scenario from some of UPM's existing growth opportunities



## Challenge in European graphic papers

- Exit Stracel, 270kt of magazine paper capacity
- Plan to reduce 580kt of graphic paper capacity
- Planned annual fixed cost savings EUR 90m
- Plywood and Timber restructuring



## What are we targeting?

- More than 50% of sales from well performing growth businesses in 5+ years
- Drive strong cash flow through improved margin, release capital from mature businesses
- Maintain solid balance sheet and strong cash flow

**➔ Increase UPM's earnings and valuation**



**UPM**

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