



The Biofore Company **UPM**

# MORE WITH BIOFORE

ANNUAL GENERAL MEETING 2014

President and CEO  
Jussi Pesonen



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- Year 2013
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- UPM strategy
- Sustainable competitiveness
- Summary



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# YEAR 2013

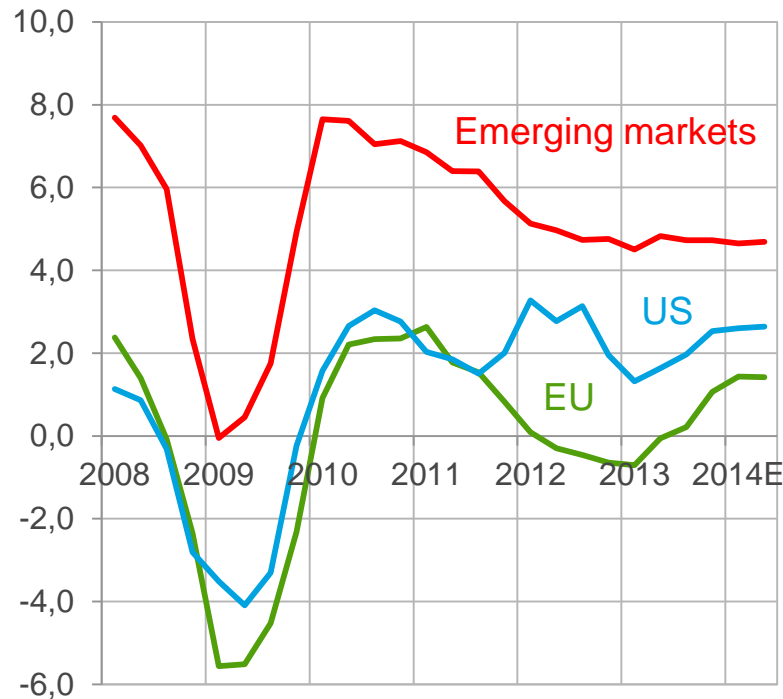


# Profitability over two economic slowdowns

## Europe has underperformed the other major economic zones

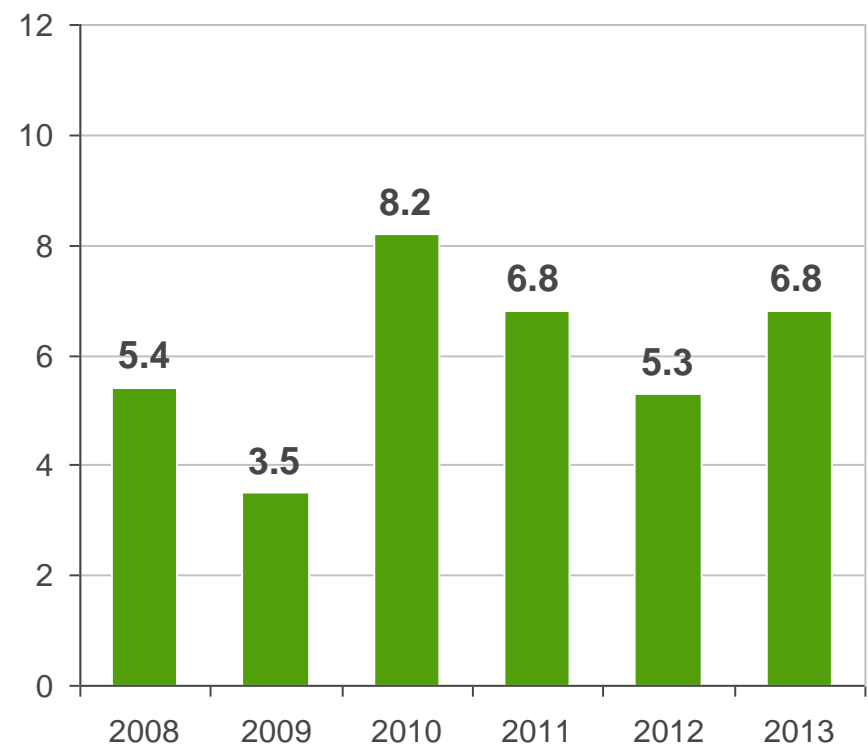
## Operating profit excl. special items

Real GDP y-o-y growth %

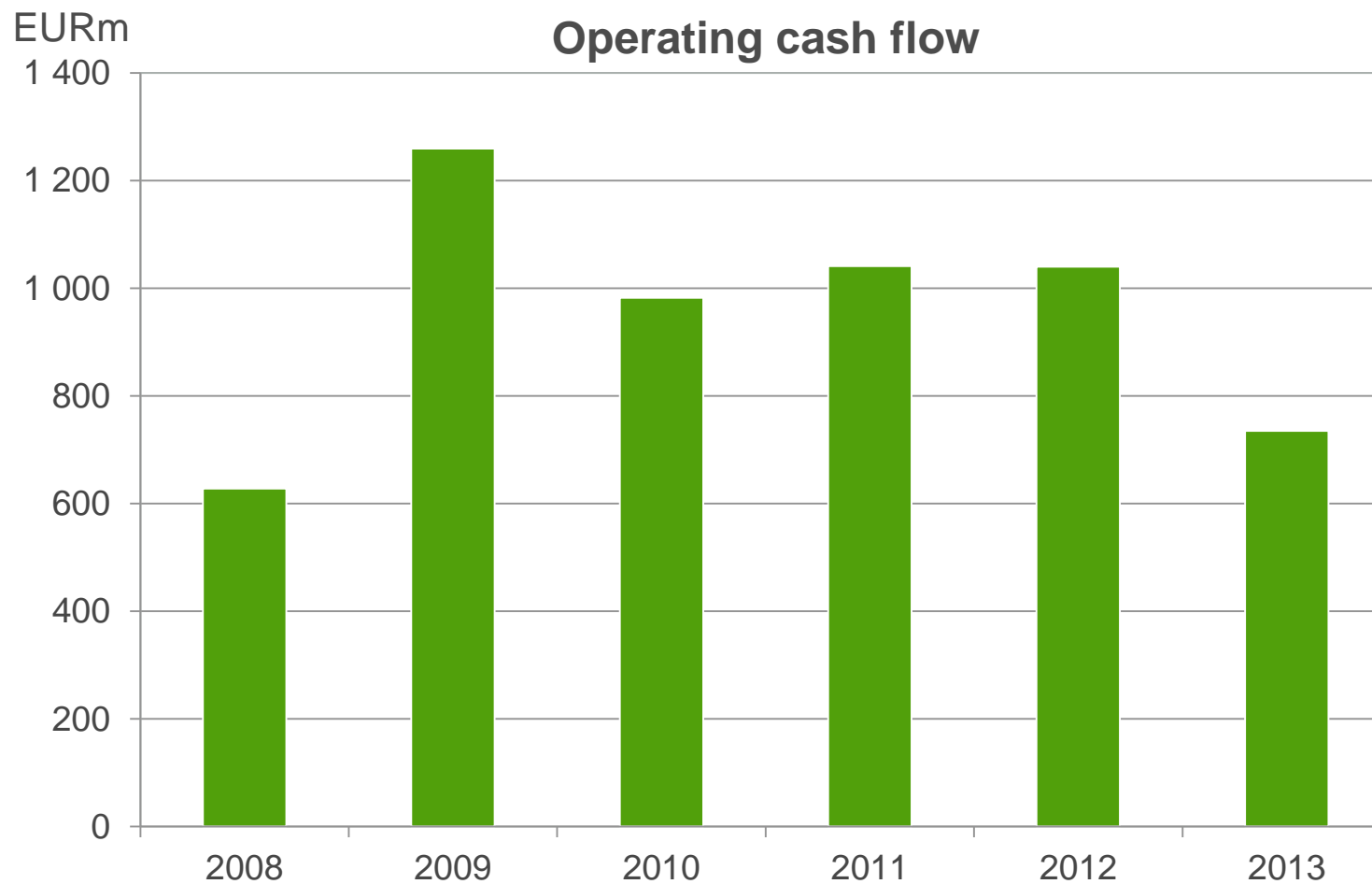


Source: IHS Global Insight

% of sales

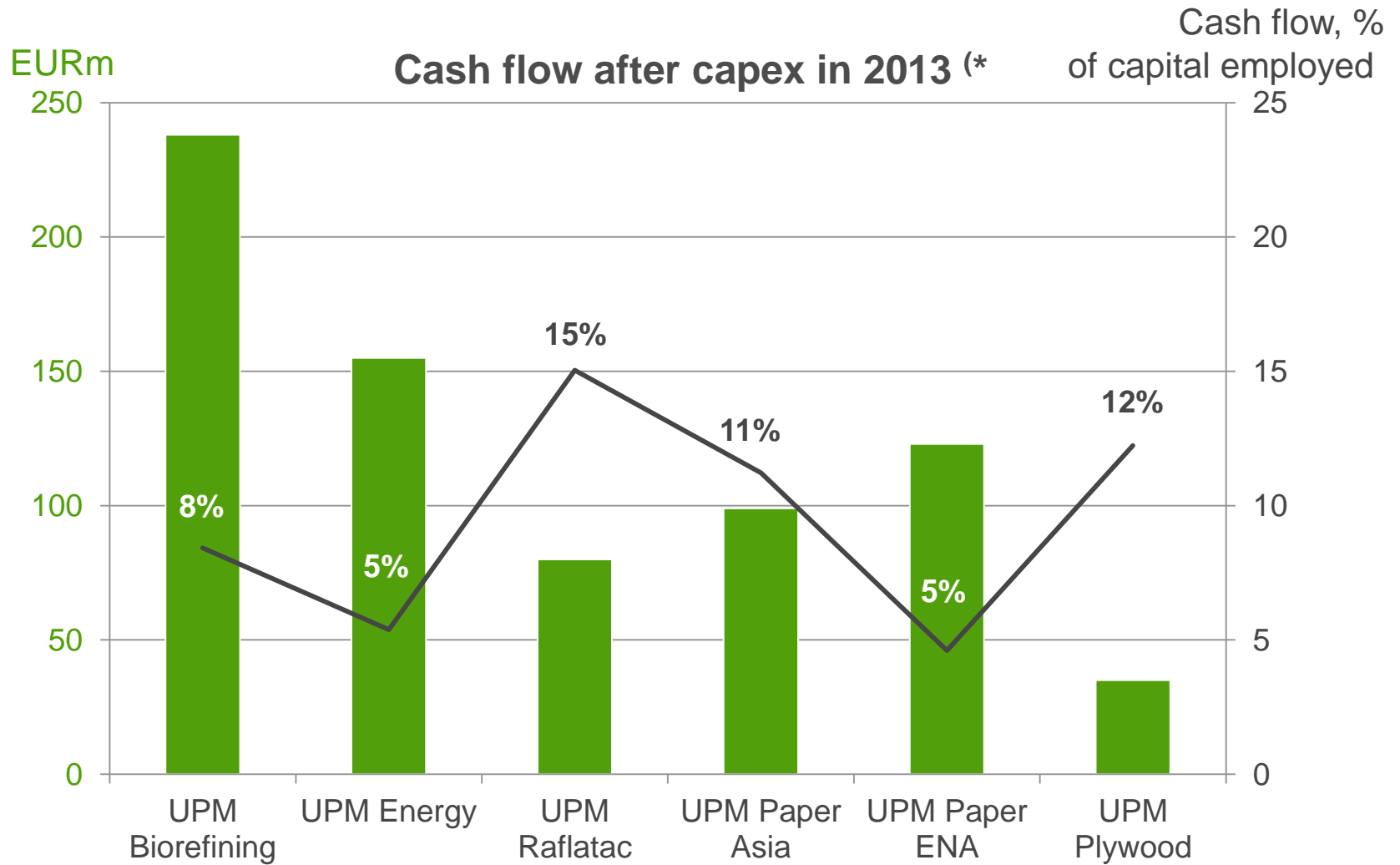


## Strong cash flow





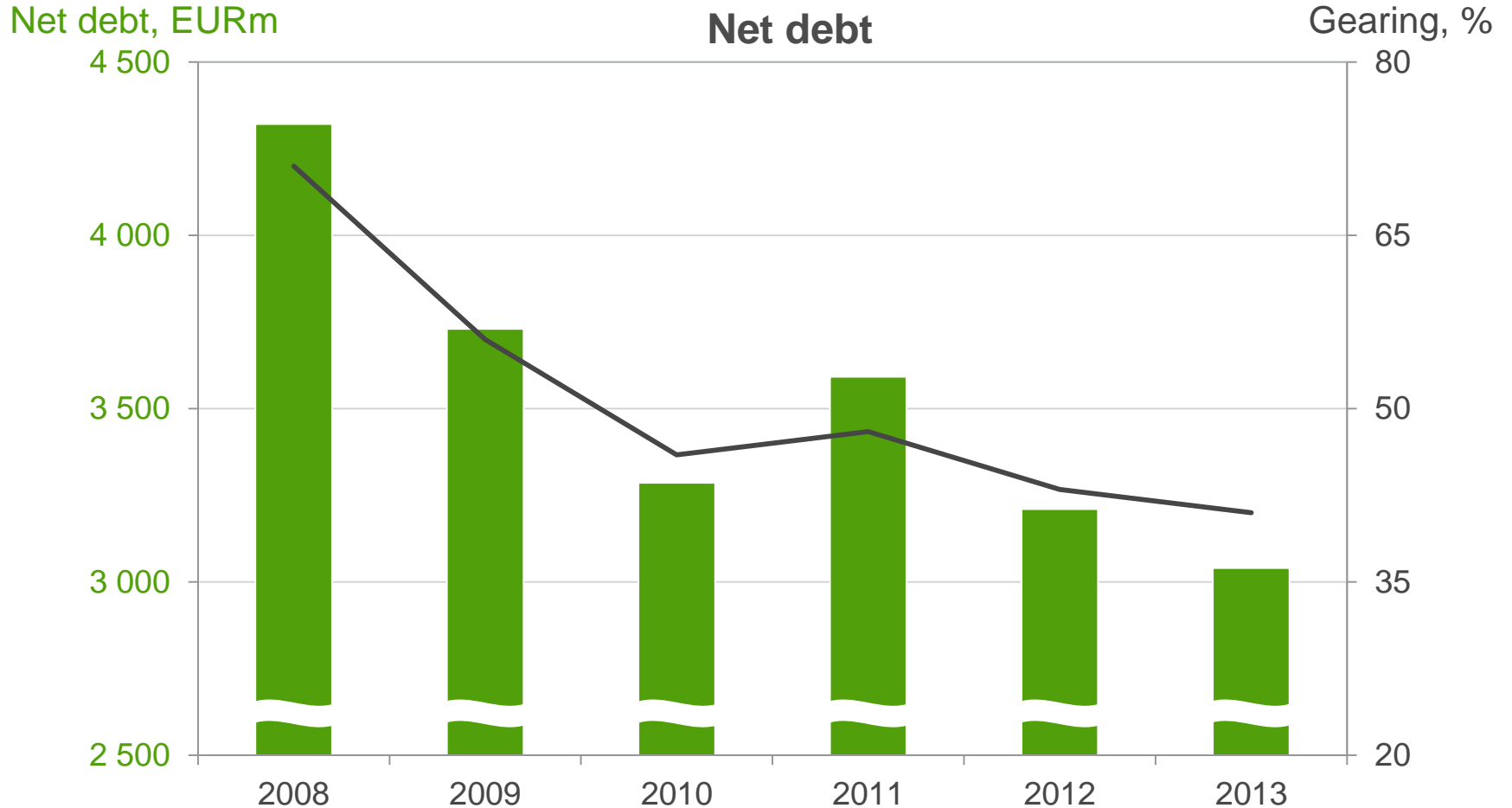
# Cash generating businesses



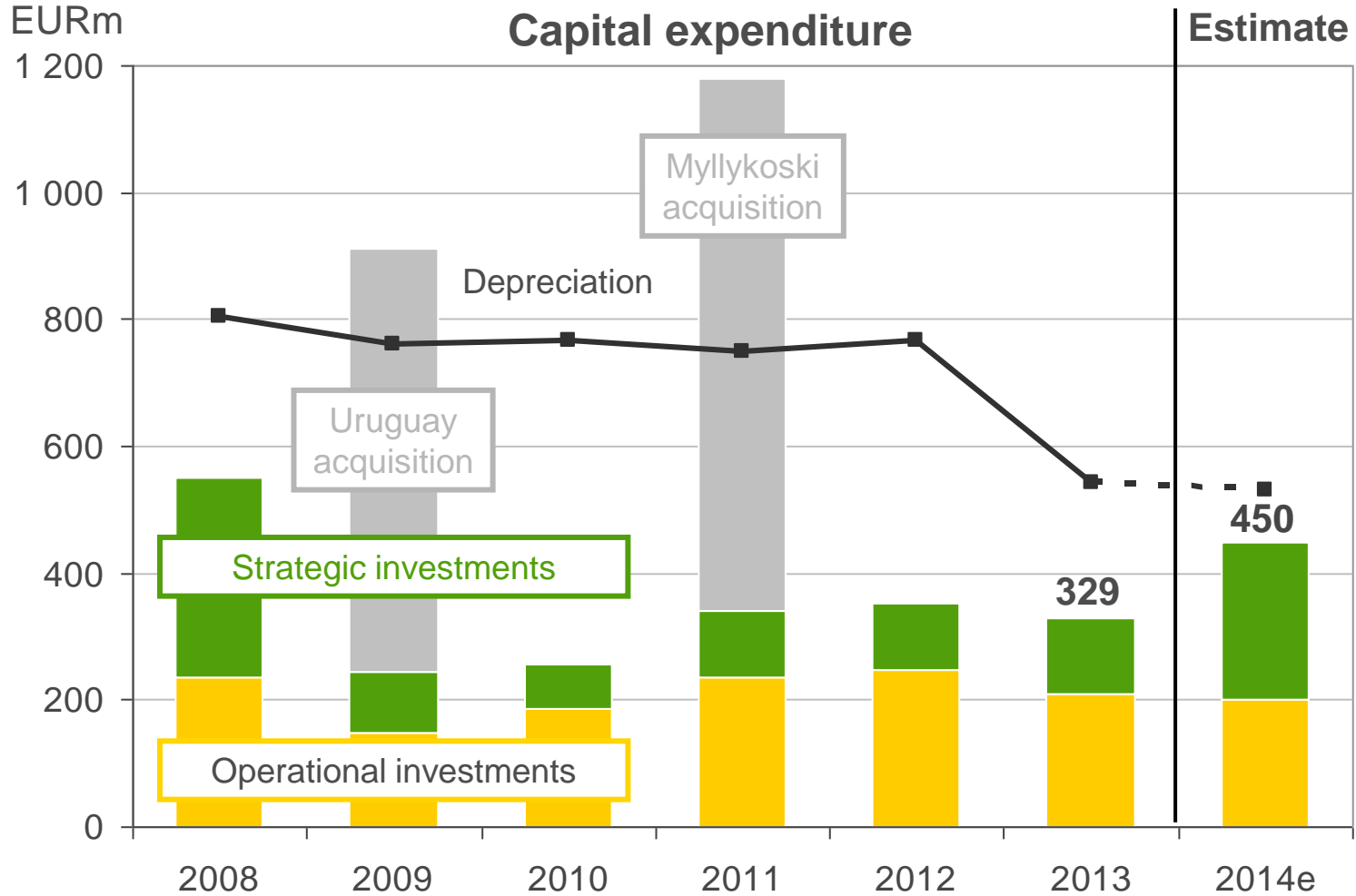
\*) before interest and taxes, after restructuring payments



# Solid balance sheet



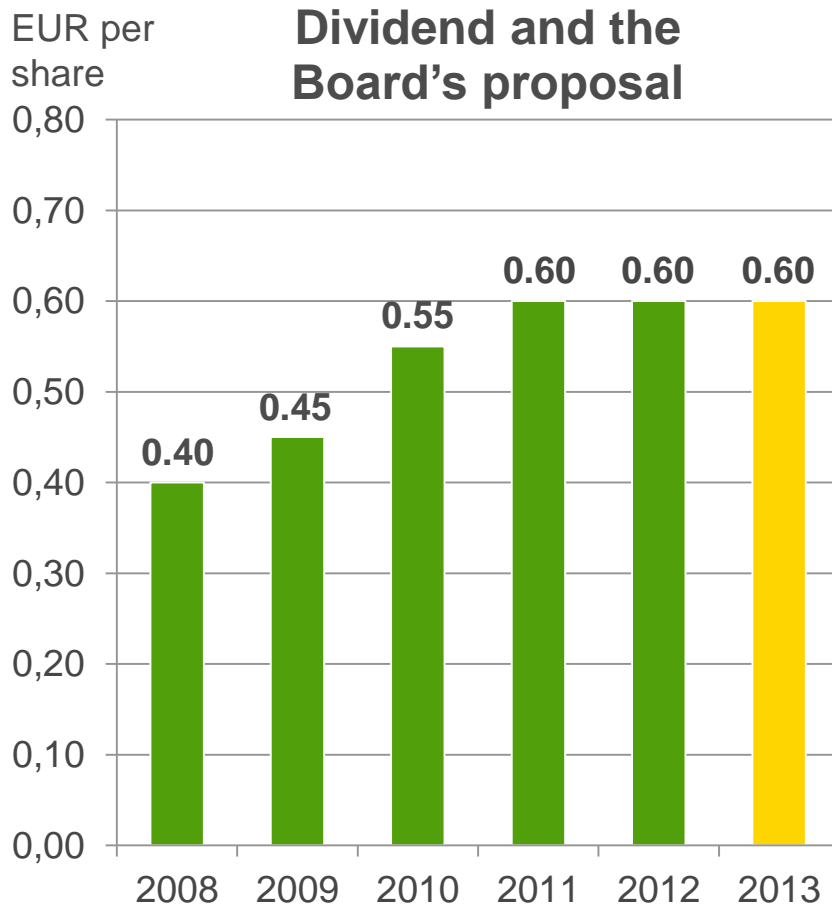
# Low investment needs in existing assets allow growth initiatives with modest total capex







## Cash flow based dividend



## 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 by the policy

- EUR 0.45 per share

## Board's proposal 2013

- EUR 0.60 (0.60) per share



## Financials 2013 – summary

Sales EUR 10,054 m	▼ -4%	Operating cash flow EUR 735 m	▼ -305m
EBITDA EUR 1,155 m	▼ -12%	Net debt EUR 3,040 m	▼ -170m
Operating profit (*) EUR 683 m	▲ +23%	Gearing 41%	▼ -2 pp
EPS (*) EUR 0.91	▲ +0.17	Market capitalisation EUR 6,497 m	▲ +40%
ROCE (*) 6.0%	▲ +1.8pp	Board's dividend proposal EUR 0.60 / share	same



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# UPM IN TRANSFORMATION





# FOREST OF NEW OPPORTUNITIES

## **World is changing**

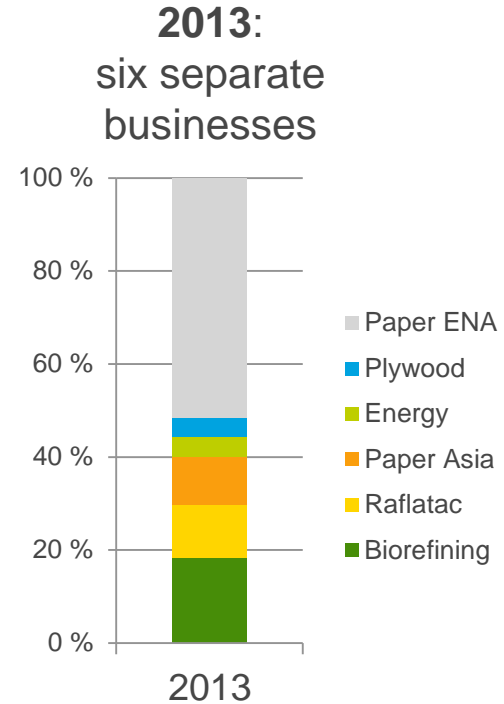
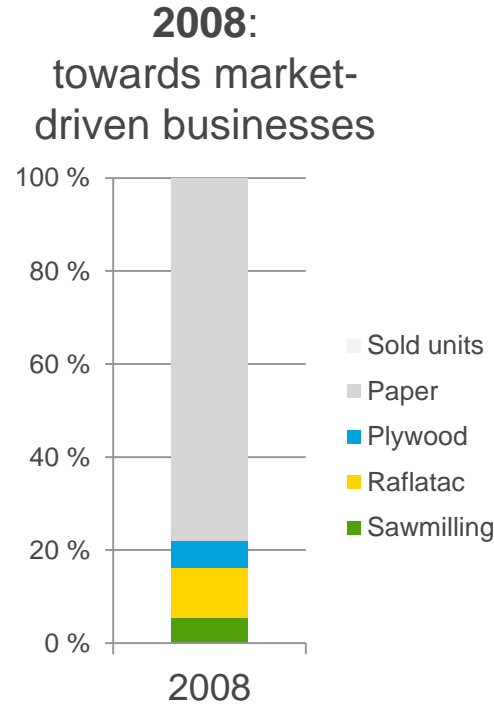
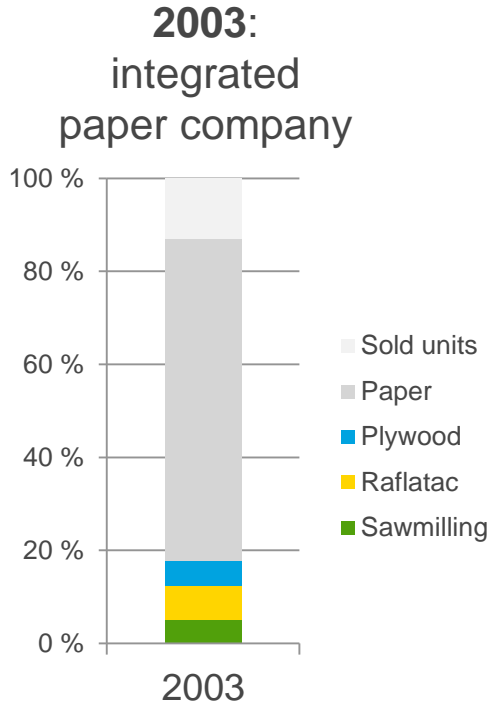
Resource scarcity  
Power shift in global economy  
Climate change  
Digitalisation

## **Biofore – growth and competitiveness**

Materials and energy efficiency  
Renewable and recyclable products  
Innovation and new businesses

# UPM in transformation

Business portfolio, sales



Sales	EUR 9.9bn
EBIT (*)	EUR 429m
Net debt	EUR 4.9bn
Market cap	EUR 7.9bn
Personnel	34,500

Sales	EUR 9.5bn
EBIT (*)	EUR 513m
Net debt	EUR 4.3bn
Market cap	EUR 4.7bn
Personnel	25,000

Sales	EUR 10.1bn
EBIT (*)	EUR 683m
Net debt	EUR 3.0bn
Market cap	EUR 6.5bn
Personnel	21,000

\*) excluding special items

# UPM's new business structure

**UPM Biorefining**



**UPM Paper Asia**



**UPM Plywood**



**UPM Raflatac**



**UPM Paper ENA**



**UPM Energy**





## Profitability in UPM's businesses

Financials 2013	Sales EURm	EBITDA %	ROCE %
UPM Biorefining	1,988	22	11
UPM Energy	466	43	7
UPM Raflatac	1,213	9	14
UPM Paper Asia	1,108	15	9
UPM Paper ENA	5,560	4	0
UPM Plywood	429	10	7
<b>UPM total</b>	<b>10,054</b>	<b>11</b>	<b>6</b>

## UPM Energy

### High performing energy business

Competitive low-emission electricity generation:  
hydro, nuclear and condensing power

Electricity trading in physical and derivatives  
markets

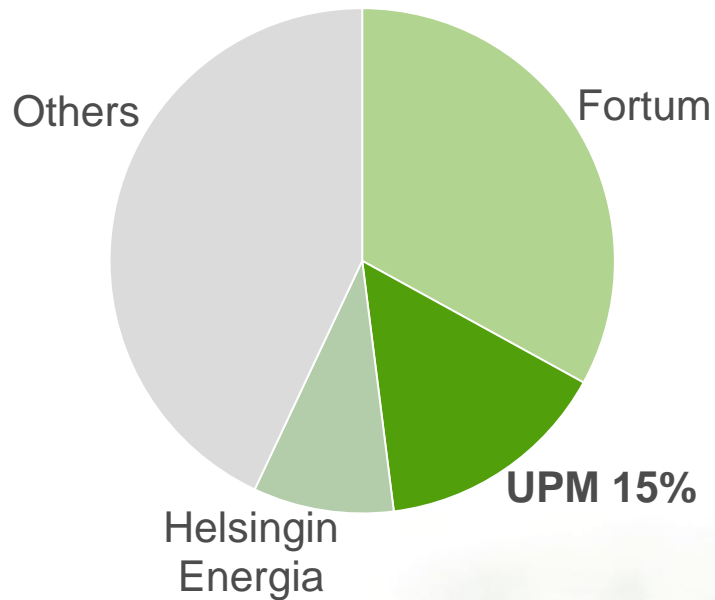
UPM Energy	2013 (EURm)
Sales	466
EBITDA	198
EBITDA, %	43%
ROCE, %	7%



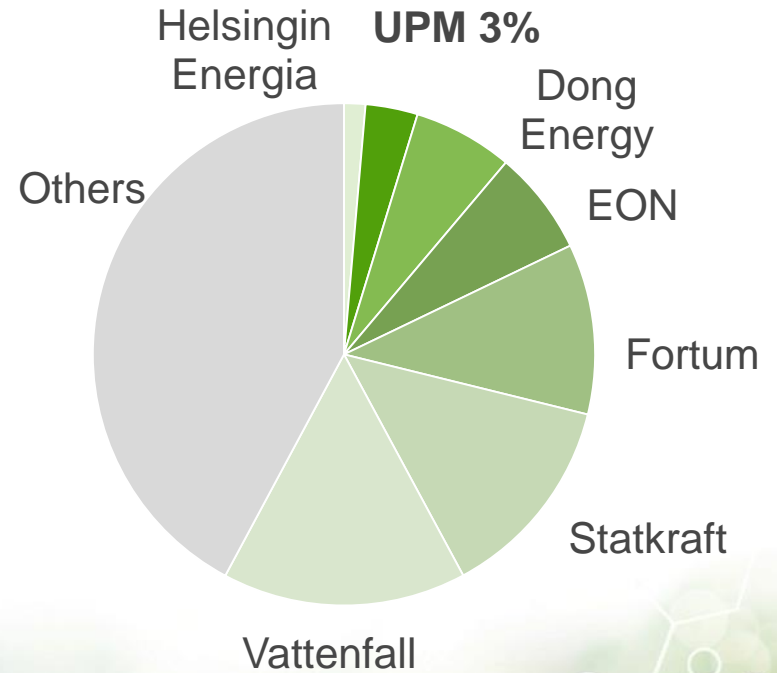
## UPM Energy

# UPM has built the second largest energy business in Finland

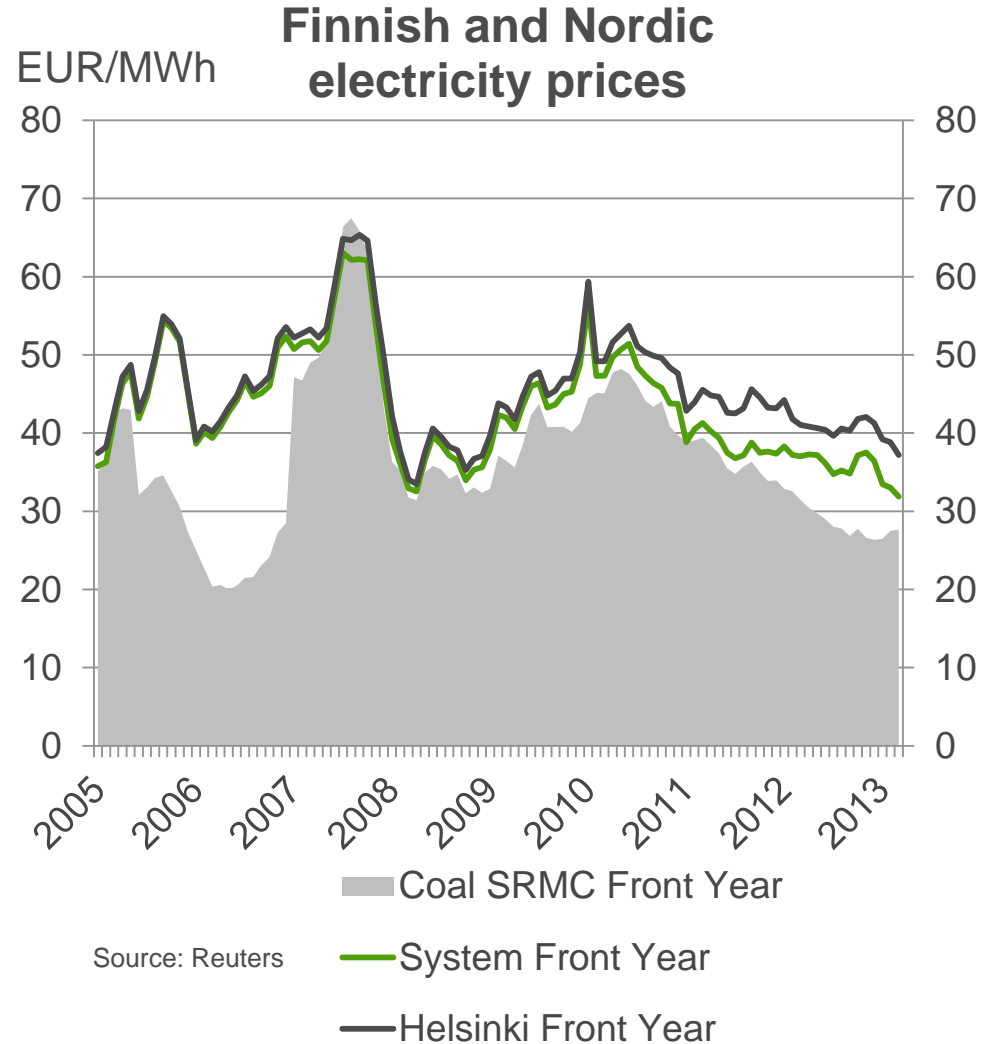
### Finland



### Nordic



- Commodity prices, e.g. coal and CO<sub>2</sub>
- Hydrological balance
- Growing renewables capacity
- Interconnectors to Central Europe and Russia



## UPM Paper ENA Driving for cash

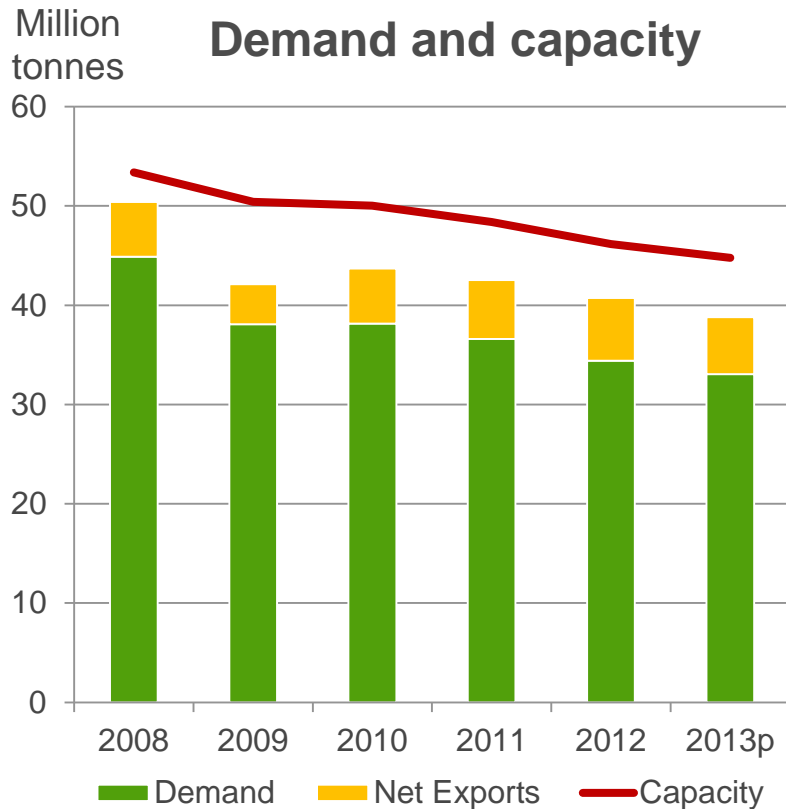
Paper for magazine and newspaper publishers, advertising and home and office

Large low-cost asset base and global sales network

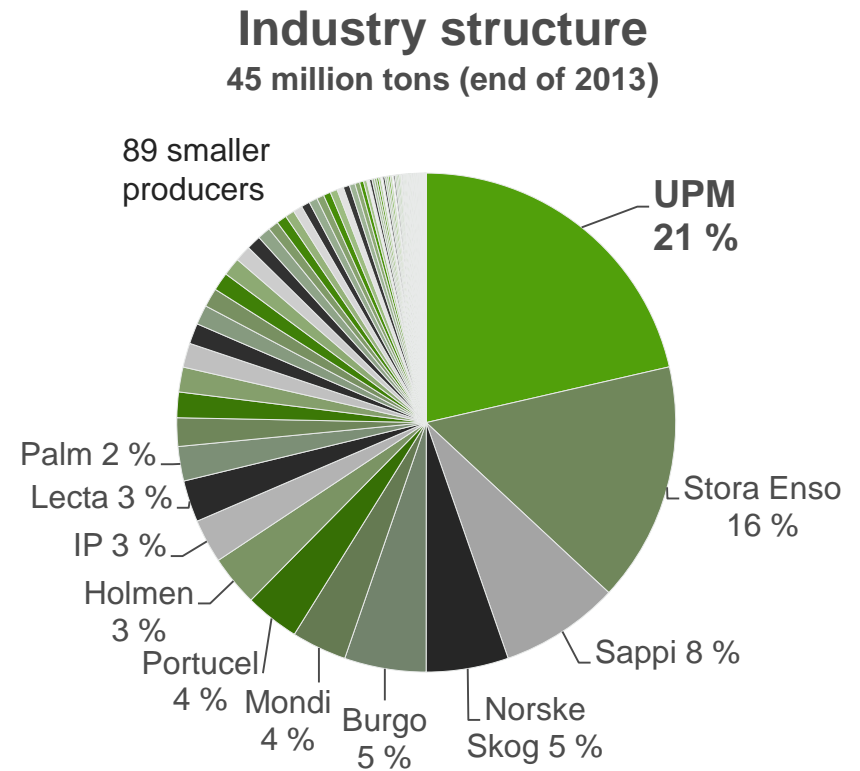
UPM Paper ENA	2013 (EURm)
Sales	5,560
EBITDA	232
EBITDA, %	4%
ROCE, %	0%
Cash flow/CE	5%

## UPM Paper ENA

European graphic paper market is oversupplied,  
industry structure is fragmented



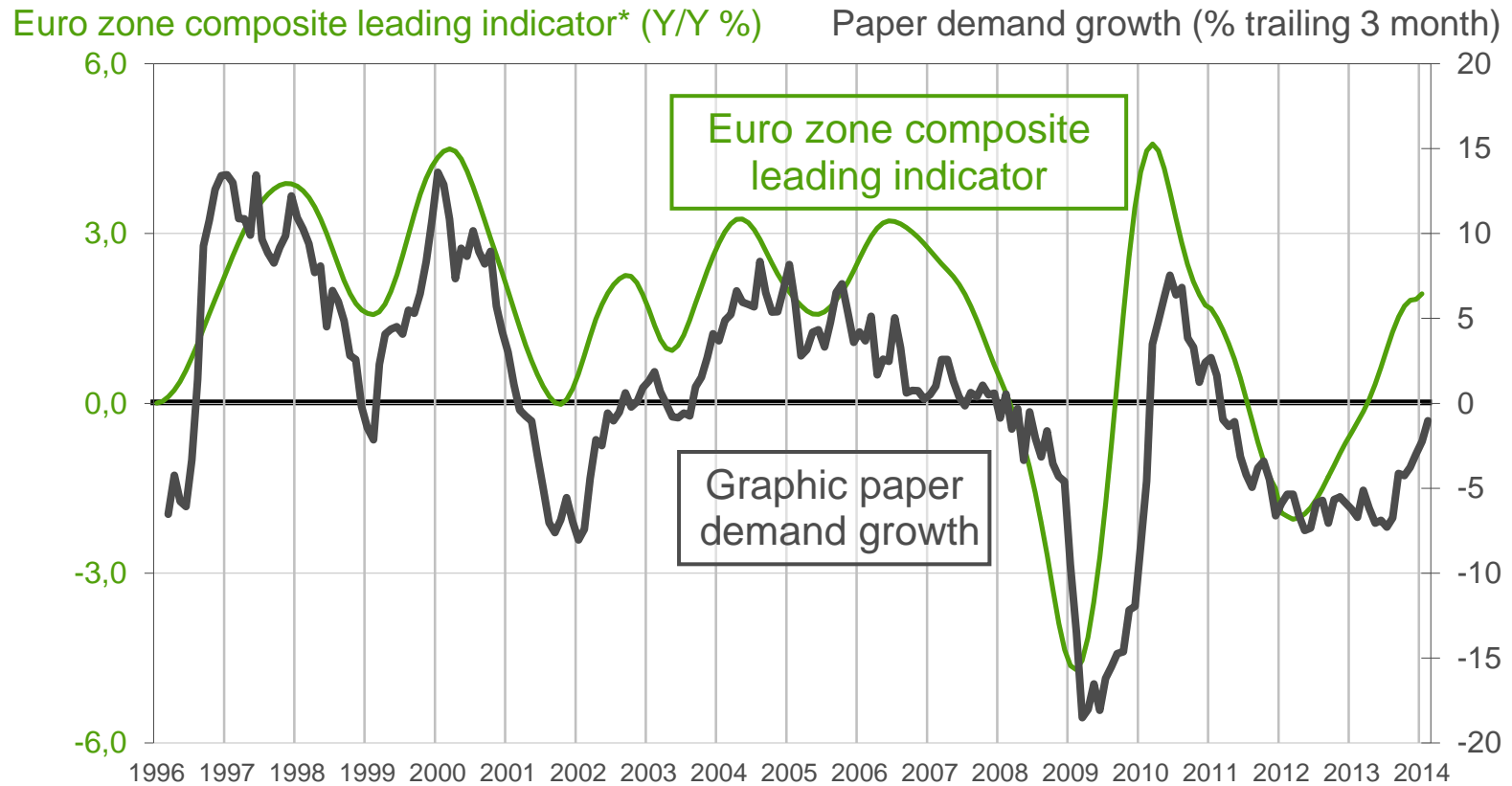
Sources: Euro-Graph, PPPC



Sources: JP Webbmill

## UPM Paper ENA

# Signs of improvement in European economy – impact on paper demand too early to conclude



Sources: Euro-Graph, OECD

## UPM Plywood

# Improving operational and customer focus



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Plywood and veneer products for construction and industrial applications, such as transportation equipment

Growth in demanding end-use segments

UPM Plywood	2013 (EURm)
Sales	429
EBITDA	43
EBITDA, %	10%
ROCE, %	7%

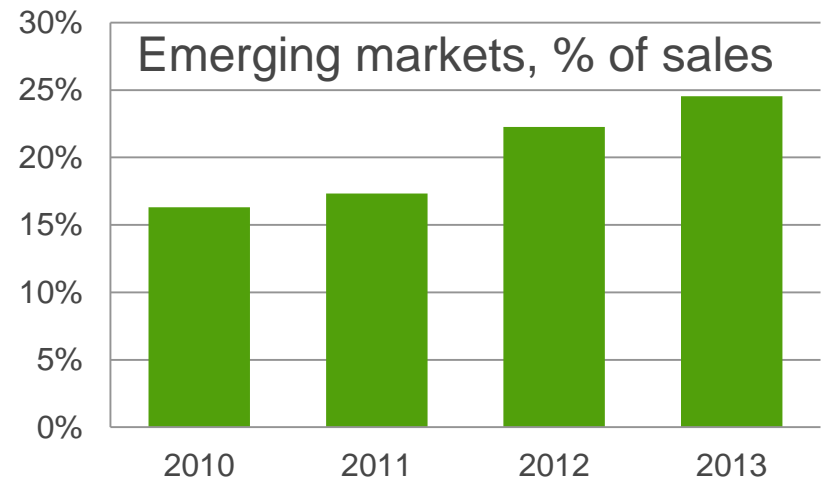
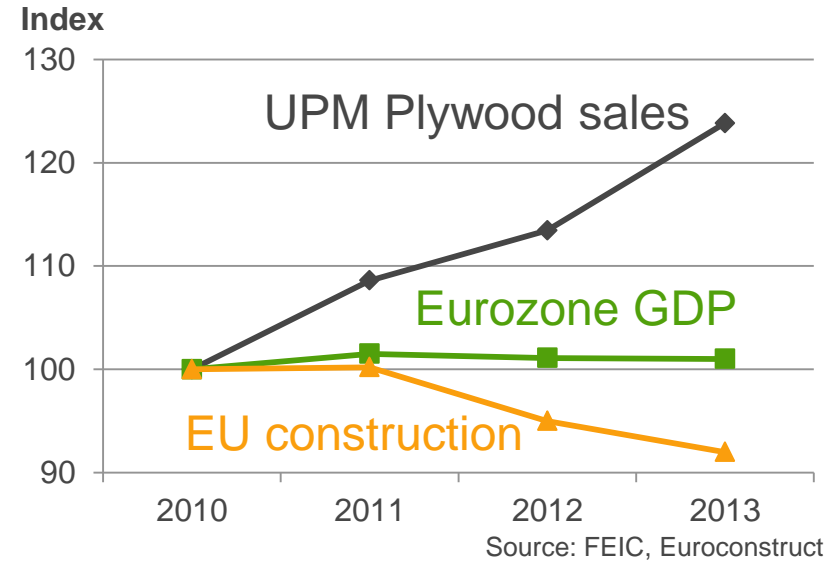
## UPM Plywood

# Profitability turnaround achieved with internal measures



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- Improvement in UPM Plywood's sales
  - Renewed commercial strategy
  - Growth in demanding end-use segments, e.g. the LNG industry
- Significant improvement in productivity, strict cost control



## UPM Raflatac

# Well positioned for profitable growth

Self-adhesive labels for product and information labelling

Expand in fast growing markets and high value added businesses

UPM Raflatac	2013 (EURm)
Sales	1,213
EBITDA	109
EBITDA, %	9%
ROCE, %	14%





UPM Raflatac

UPM is the second largest self-adhesive label supplier globally



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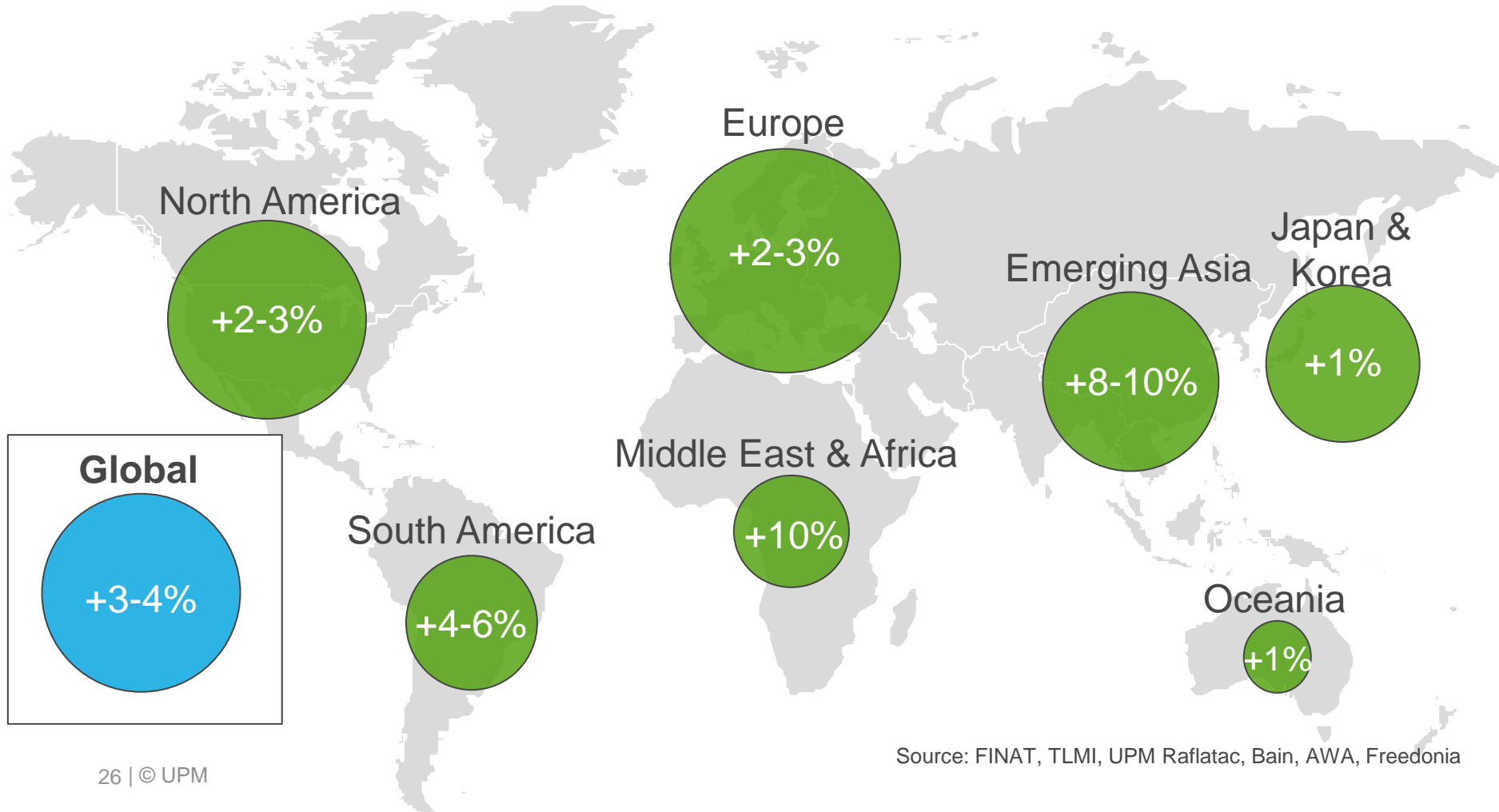


Our products touch peoples' lives in numerous ways each day



# Self-adhesive labelling market outlook remains attractive

## Global self-adhesive label market size and growth outlook



## UPM Paper Asia

### Growing in attractive segments

Fine and office papers in Asia, and labelling materials globally

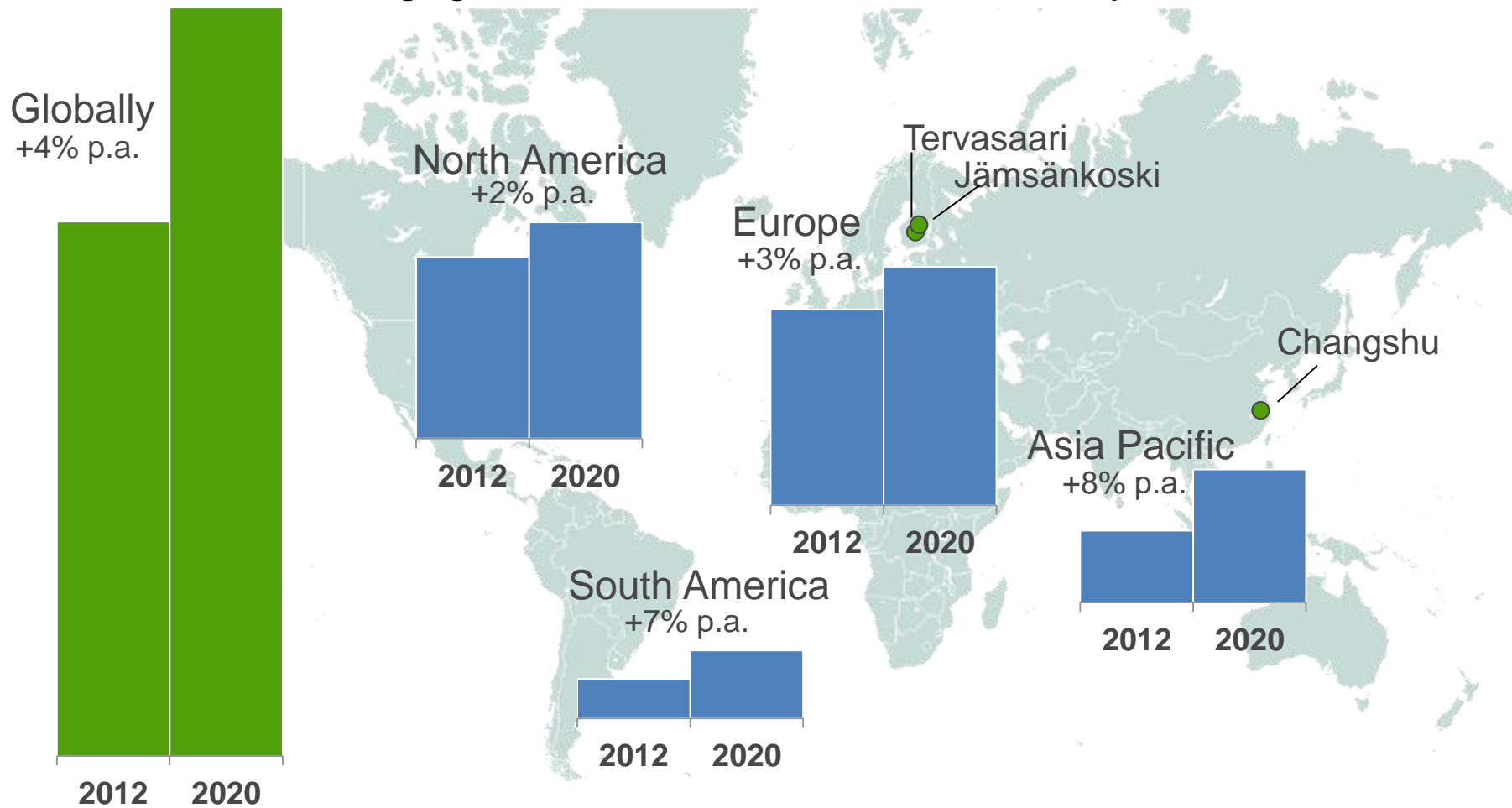
Recognized industry leader in sustainability

Extensive own sales network

UPM Paper Asia	2013 (EURm)
Sales	1,108
EBITDA	161
EBITDA, %	15%
ROCE, %	9%



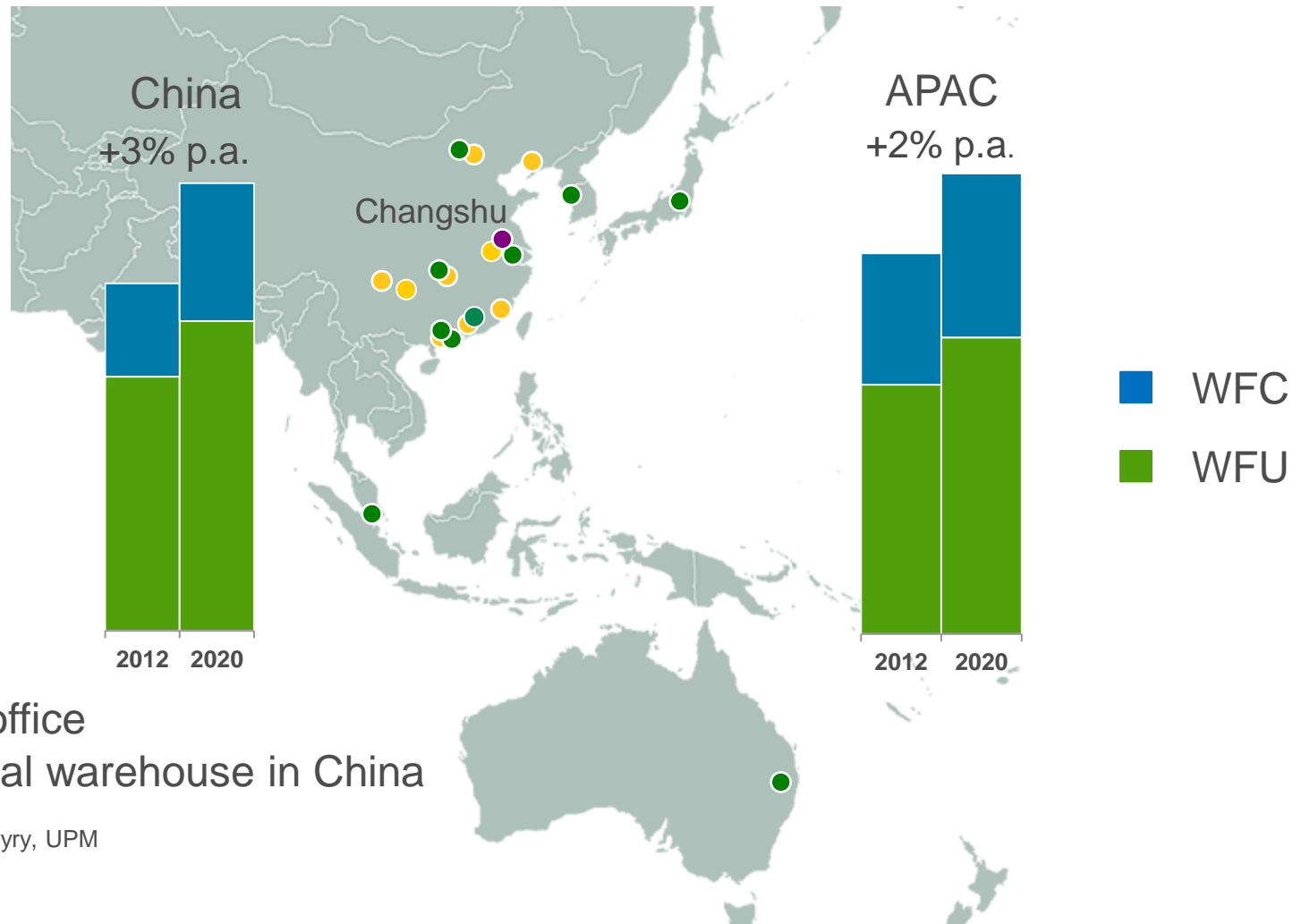
Labelling: glassine/SCK(\* demand outlook by 2020



## UPM Paper Asia

Market leader in high quality office papers in China with extensive, own sales network

### Fine and office paper demand in Asia by 2020



Source: RISI, Poyry, UPM

## UPM Biorefining

### Creating value on biomass

Pulp, biofuels, sawn timber and integrated energy production

Integration synergies in wood sourcing and mill operations

UPM Biorefining aims to grow both in terms of volumes and in product diversity

UPM Biorefining	2013 (EURm)
Sales	1,988
EBITDA	435
EBITDA, %	22%
ROCE, %	11%



## UPM Biorefining

85% of pulp demand is in growing end-use segments

Bleached market pulp demand by end-use and region

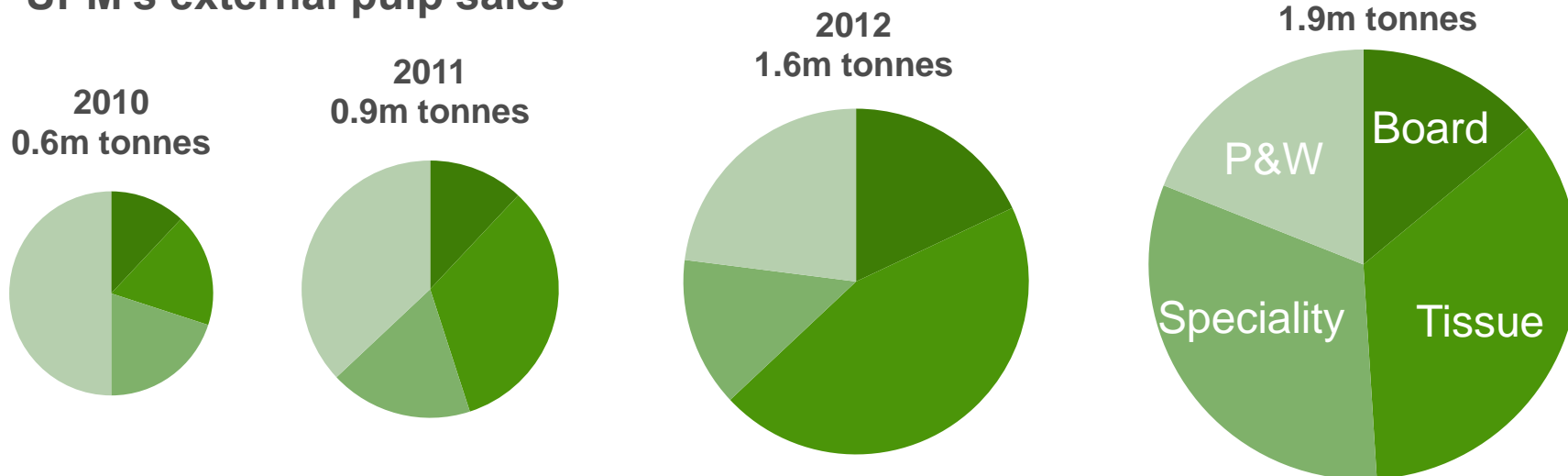
	WE	NA	China	ROW	Total
P&W	11%	4%	11%	8%	34%
Tissue	10%	6%	6%	10%	32%
Packaging	1%	0%	4%	2%	8%
Speciality	6%	1%	4%	4%	16%
Fluff	2%	2%	1%	4%	10%
	30%	14%	27%	28%	100%

 = growing market segment (85%)

 = declining market segment (15%)

\*Source: Hawkins Wright.  
End use markets for bleached kraft pulp,  
September 2013

### UPM's external pulp sales

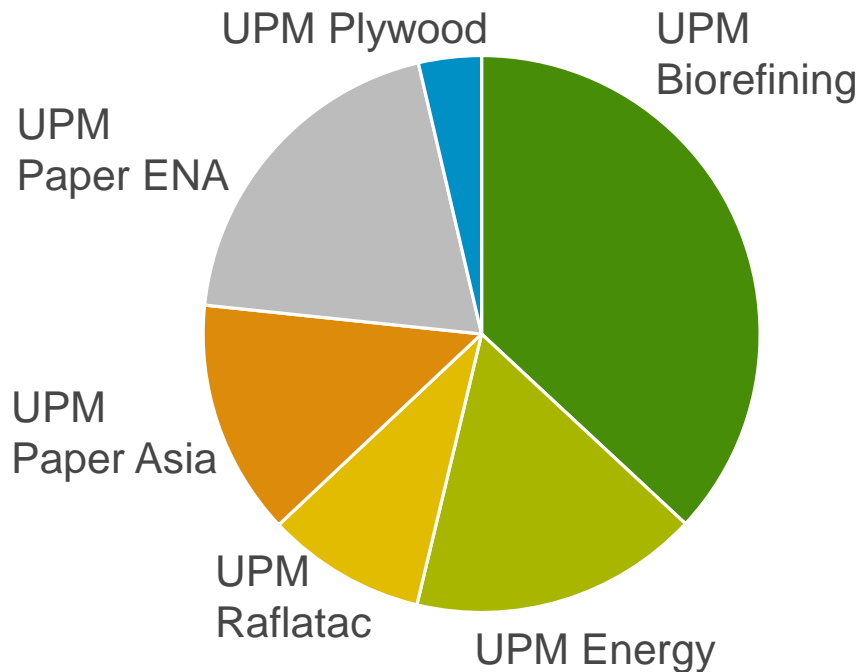


- Building own sales and marketing network
- Establish strategic sales and marketing co-operation
- Reliable business partner and outstanding environmental performance

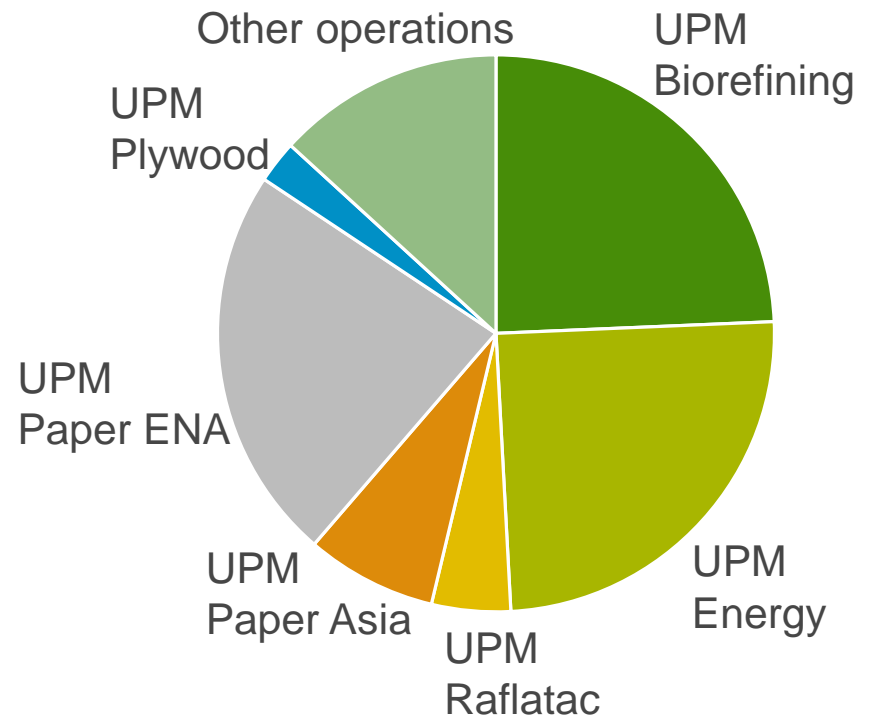


# UPM businesses by EBITDA generation and capital employed

## EBITDA EUR 1,155m



## Capital employed EUR 11,583m





## Group targets

### Performance

- Top performance in each business area

### Portfolio

- Develop UPM business portfolio in order to increase its value and create growth

### Financials

- Strong cash flow, operating profit margin > 10%

### Balance sheet

- Strong balance sheet

### Dividend policy

- Cash flow based, good dividend



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# UPM STRATEGY







# Shifting gear in UPM transformation

Business portfolio development and value creation


## New businesses



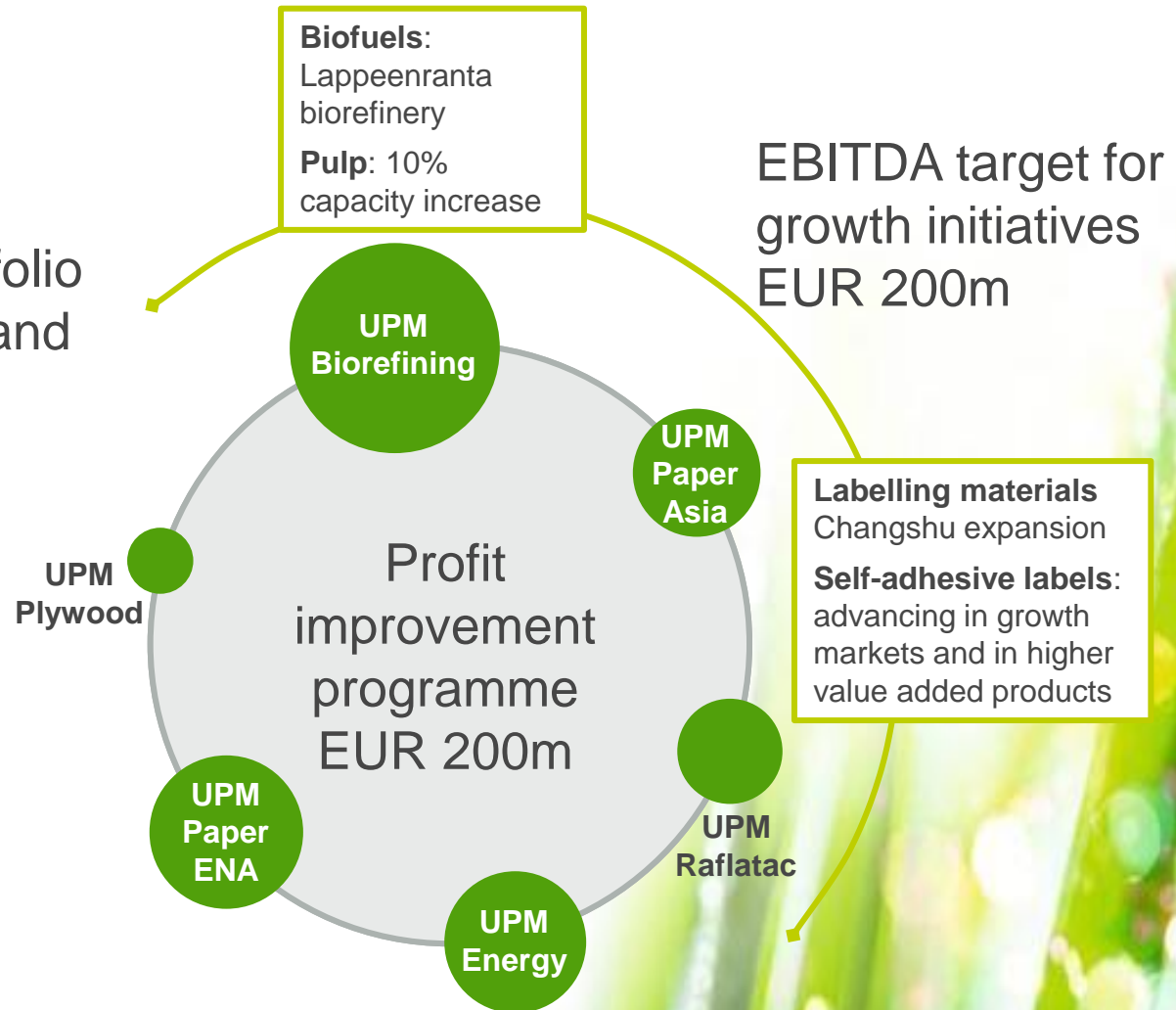
BIOFUELS



BIOCHEMICALS



BIOCOMPOSITES



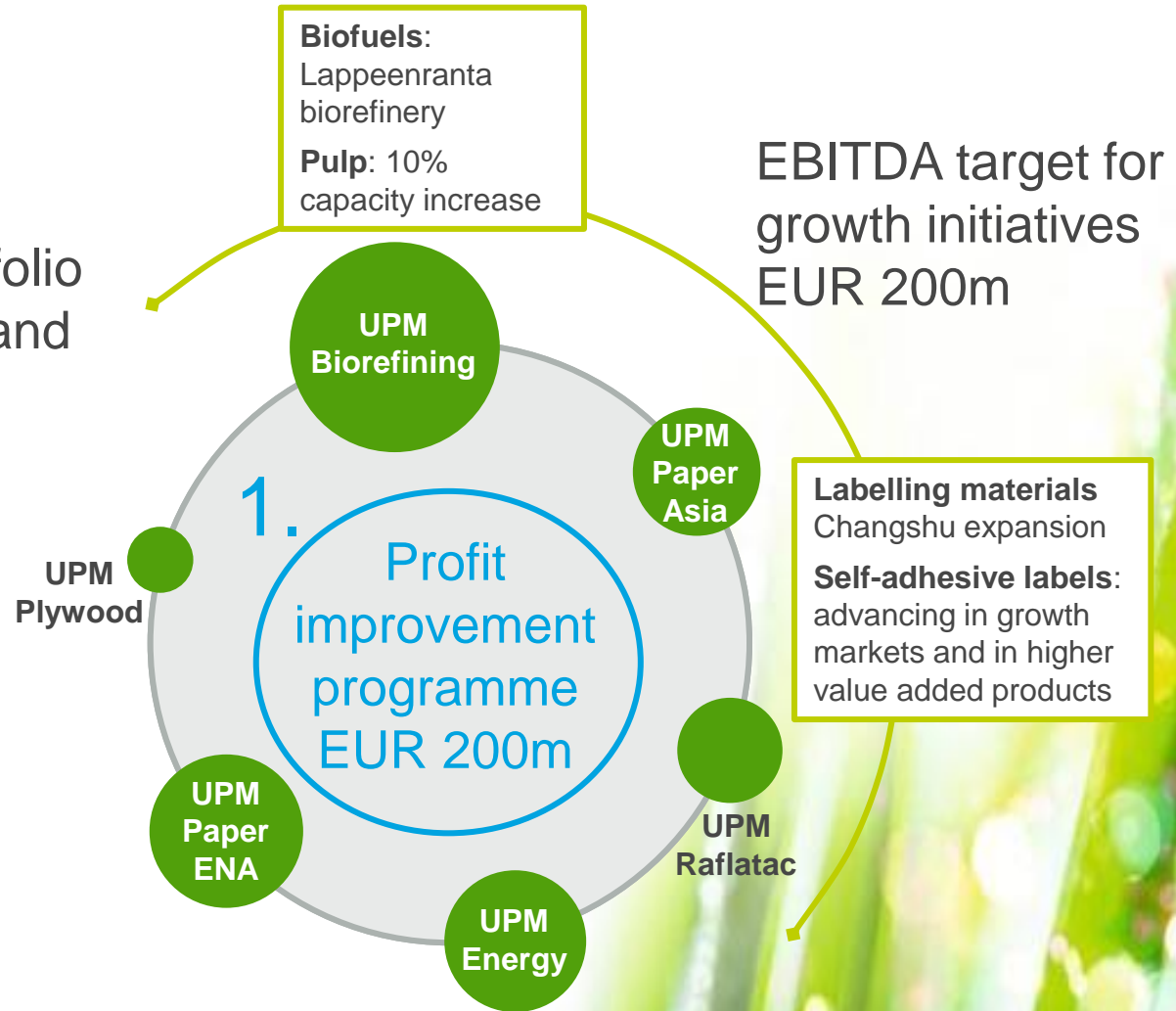


# Shifting gear in UPM transformation

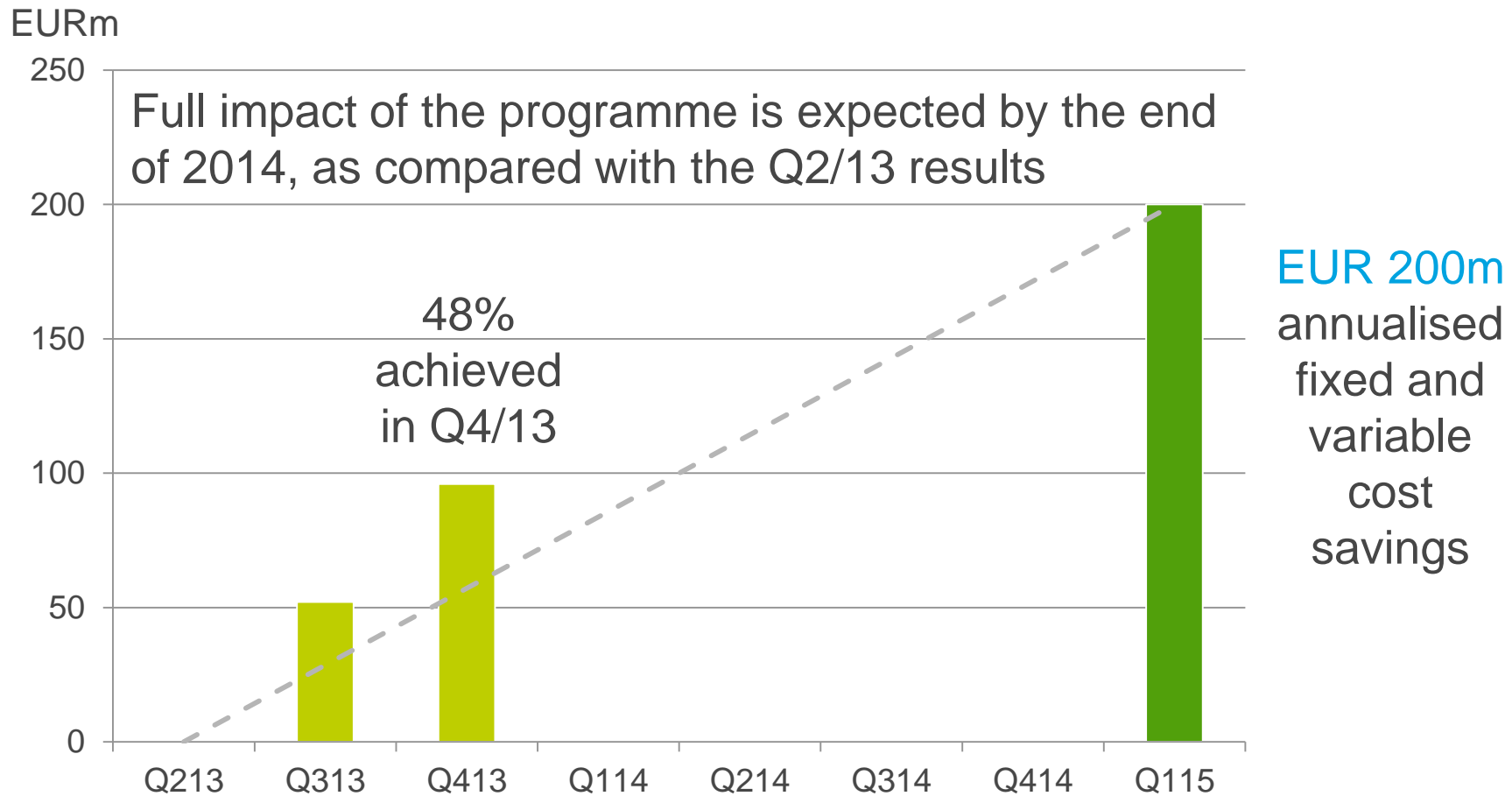
Business portfolio development and value creation

## New businesses

-  BIOFUELS
-  BIOCHEMICALS
-  BIOCOMPOSITES



# Profit improvement programme progressing fast



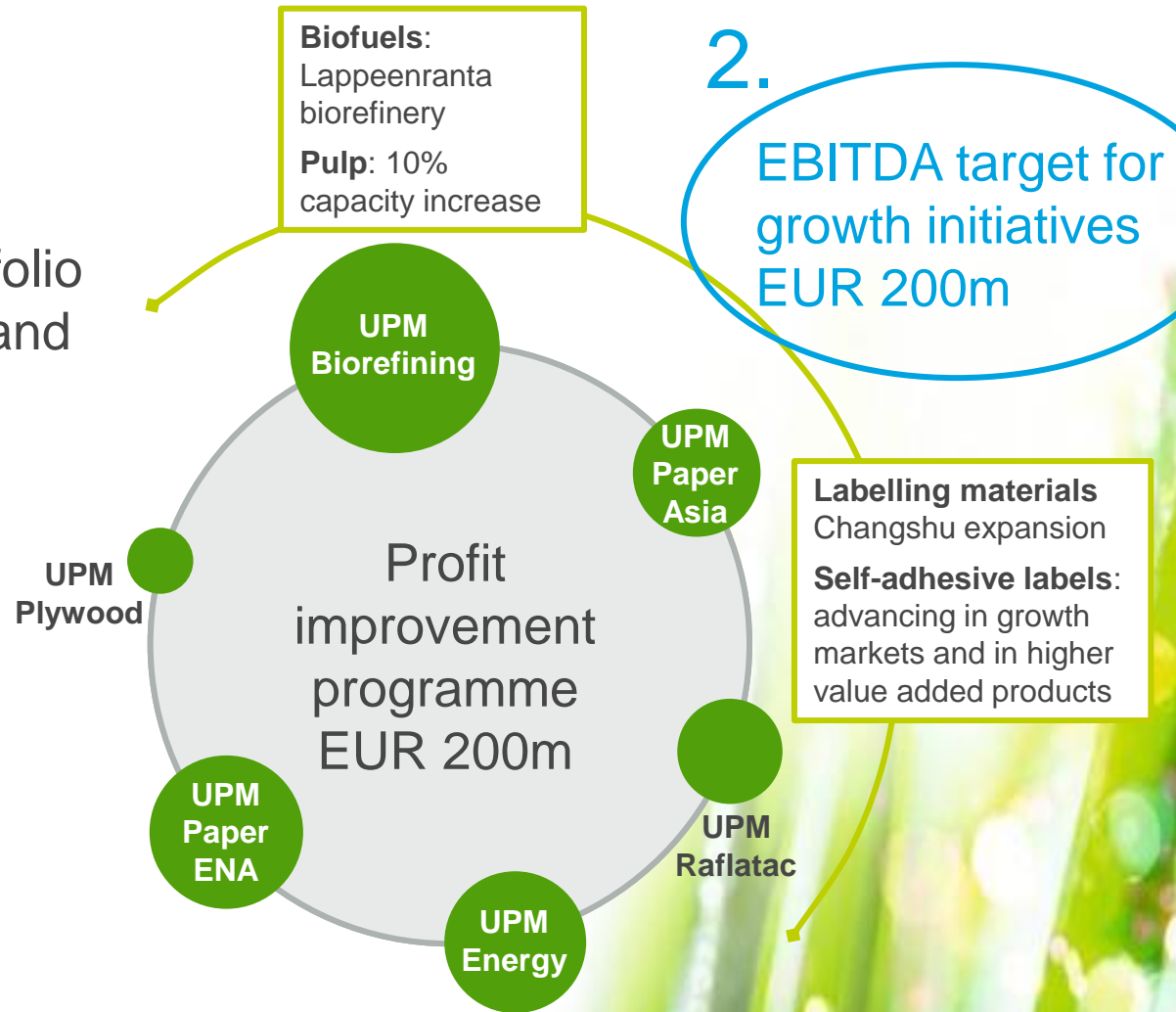


# Shifting gear in UPM transformation

Business portfolio development and value creation

## New businesses

-  BIOFUELS
-  BIOCHEMICALS
-  BIOCOMPOSITES



## UPM Biorefining

### Increasing pulp capacity by 10%

- UPM's pulp mills enable 330,000t increase in capacity with modest capex
- Decoupling of UPM's pulp and paper businesses also at Kymi mill
- Kymi: EUR 160m investment to increase capacity by 170,000t – start-up in Q4/2015
- Pietarsaari 70,000t expansion on-going, further plans in Fray Bentos and Kaukas
- Attractive investment, part of the **EUR 200m EBITDA growth** target



## UPM Biorefining

# UPM creates new business in wood-based renewable diesel



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- Potential to become a large new business
- Renewable diesel for all diesel engines
- UPM technology
- Lappeenranta 100,000t refinery start-up in summer 2014
- Attractive EUR 150m investment, part of the **EUR 200m EBITDA growth** target

## UPM Paper Asia

### Changshu expansion in labelling materials

- Strengthen UPM's leading global position in labelling materials
- New production line in Changshu, China – up to 360,000t of labelling materials and speciality papers
- Start-up by the end of 2015
- Attractive EUR 277m investment, part of the **EUR 200m EBITDA growth** target



## UPM Raflatac

### Profitable growth in self-adhesive labels

- Capture global market growth
- Strengthen position in fast growing markets: 50% expansion in China and Malaysia
- Develop high value added products
- Grow with low capex and attractive returns, part of the **EUR 200m EBITDA growth** target







# Shifting gear in UPM transformation

3. Business portfolio development and value creation


## New businesses



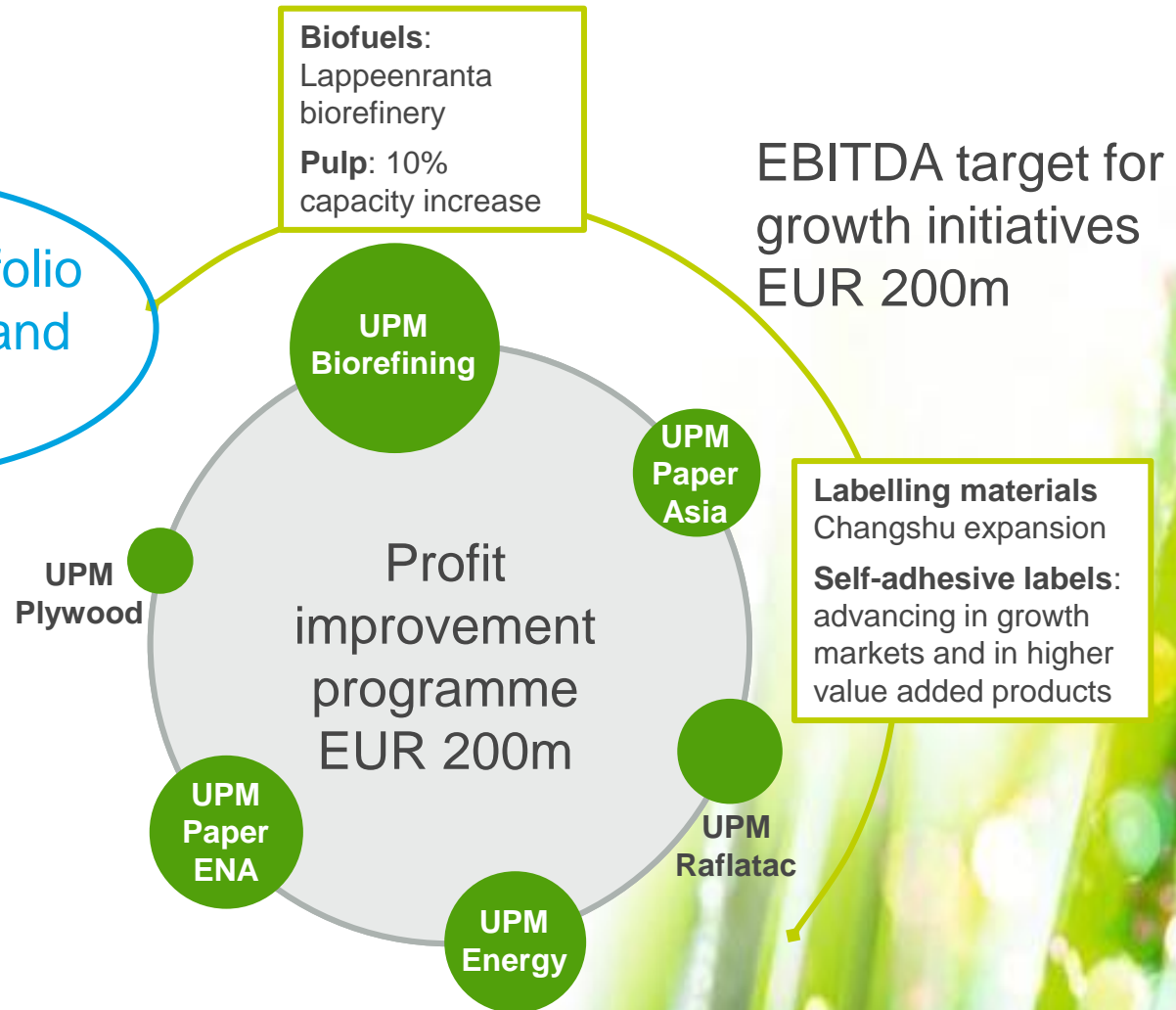
BIOFUELS



BIOCHEMICALS



BIOCOMPOSITES



# Portfolio development and value creation

- **Performance:** targeting top performance in each business
- **Grow:** focused high-return growth investments and synergistic M&A
- **Simplify:** best value realisation for UPM
- **Consolidation** in European paper market, without increasing capital



# Shifting gear in UPM transformation

Business portfolio development and value creation

4.

## New businesses



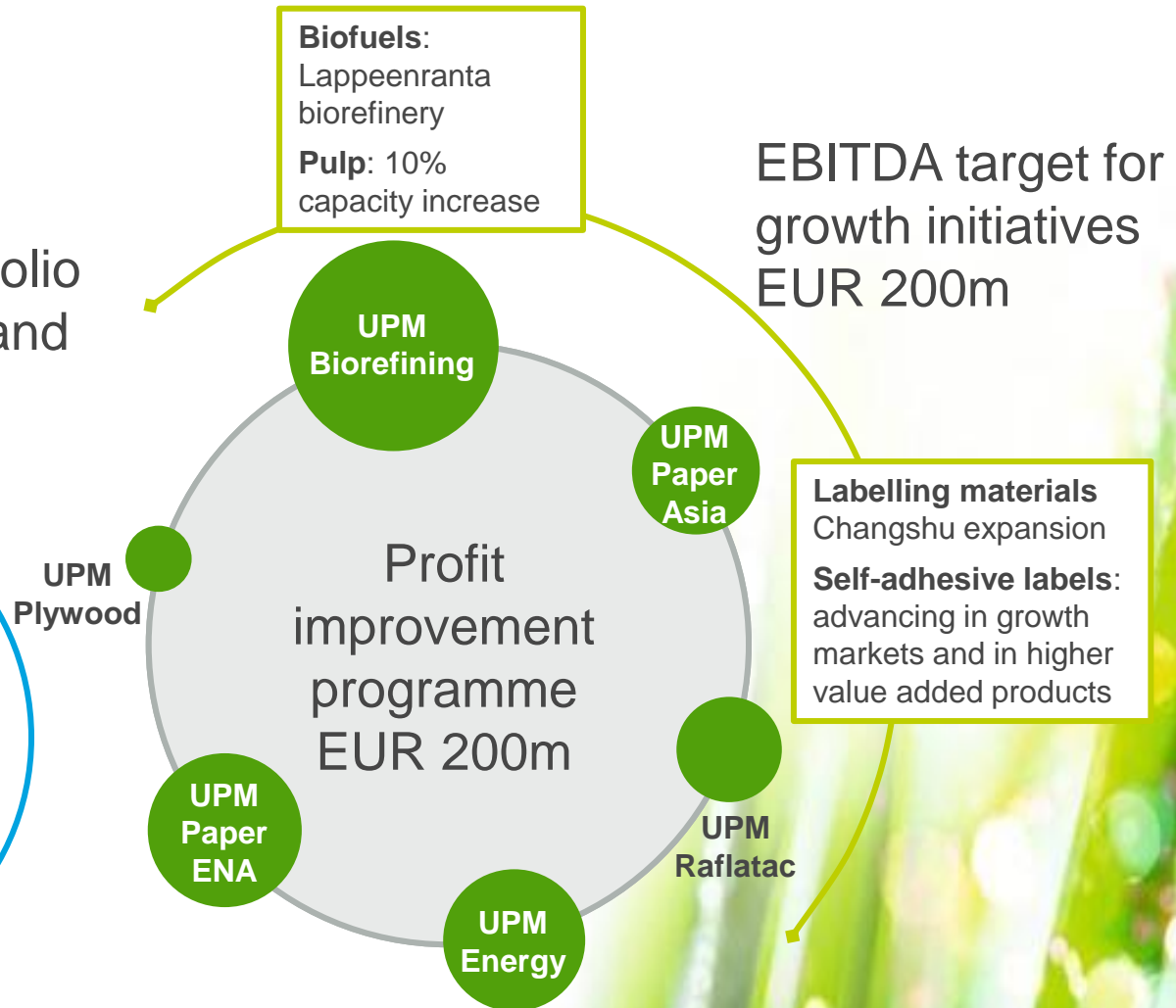
BIOFUELS



BIOCHEMICALS



BIOCOMPOSITES



# New businesses based on UPM's development work



**Biofuels** renewable drop-in diesel suitable for all diesel engines

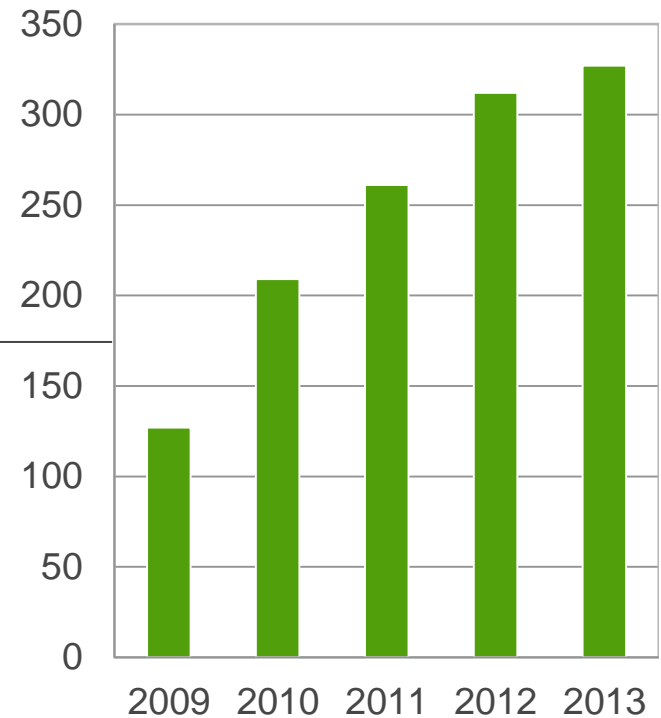


**Biochemicals** renewable drop-in alternatives for oil-based chemicals



**Biocomposites** for injection moulding to replace oil-based raw materials

Annual patent filings 2009–2013



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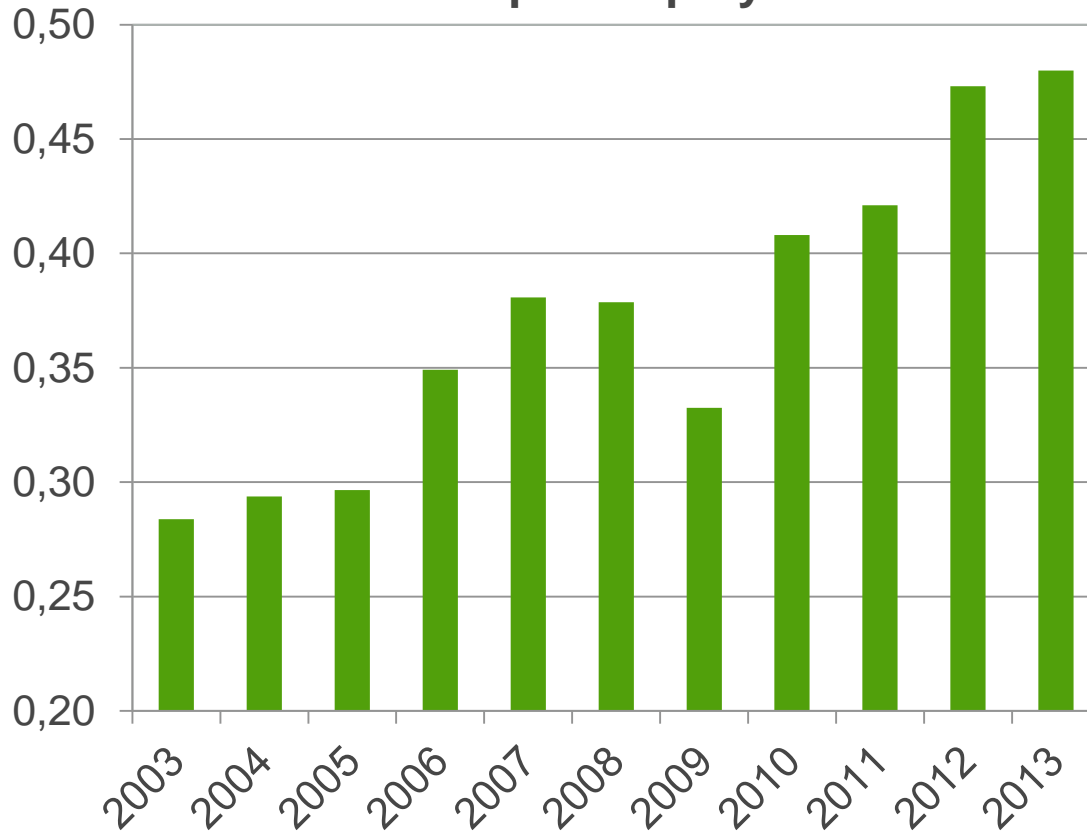
# SUSTAINABLE COMPETITIVENESS



# Productivity development in 10 years

EURm

### Sales per employee



IN TEN YEARS  
**+69%**

IN FIVE YEARS  
**+27%**

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# Materials efficiency development in 10 years in UPM's paper mills



WATER CONSUMPTION

**-25%**



LANDFILL WASTE

**-10%**



ELECTRICITY  
CONSUMPTION

**-20%**



CERTIFIED FIBRE

**80%**



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# Targeting world-class safety results in three years

ACCIDENT FREQUENCY  
IN TWO YEARS

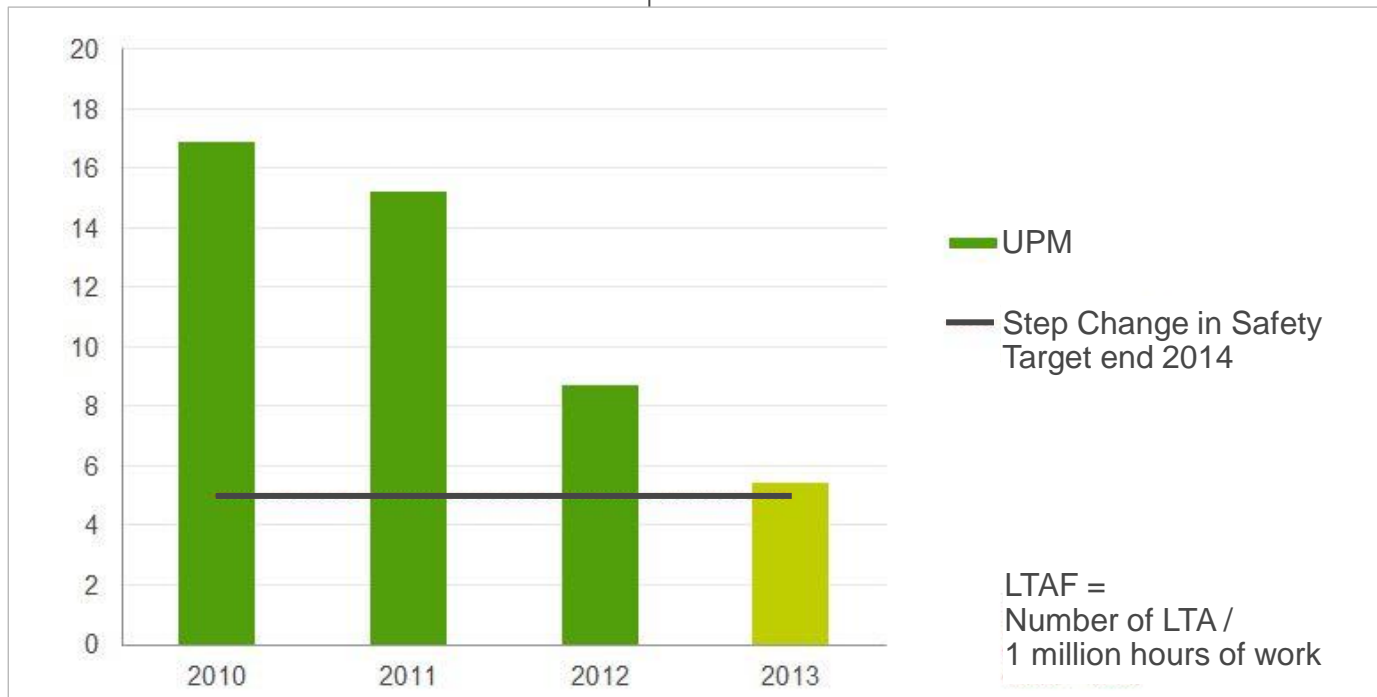
**-60%**

ABSENTEEISM DUE TO  
ACCIDENTS AT WORK

**-40%**

SUBCONTRACTOR  
ACCIDENTS IN ONE YEAR

**-15%**



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# SUMMARY

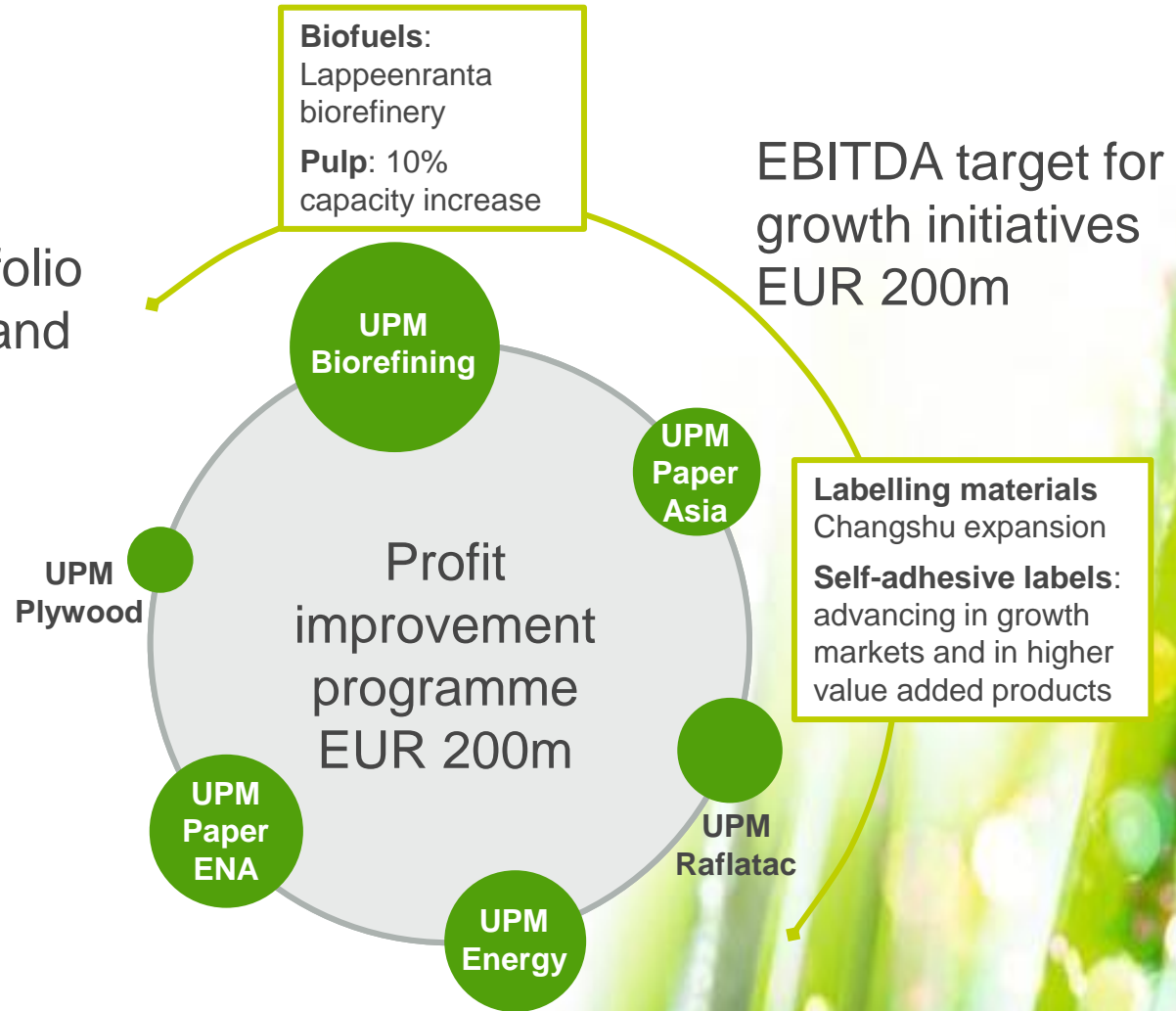


# Shifting gear in UPM transformation

Business portfolio development and value creation

## New businesses

-  BIOFUELS
-  BIOCHEMICALS
-  BIOCOMPOSITES





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