

# MORE WITH BIOFORE

UPM – THE BIOFORE COMPANY

ABGSC Spotlight On Nordic Opportunities 2014

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VP, Investor Relations





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- UPM in transformation
- Financial performance
- Sustainable competitiveness
- Summary



The Biofore Company **UPM**

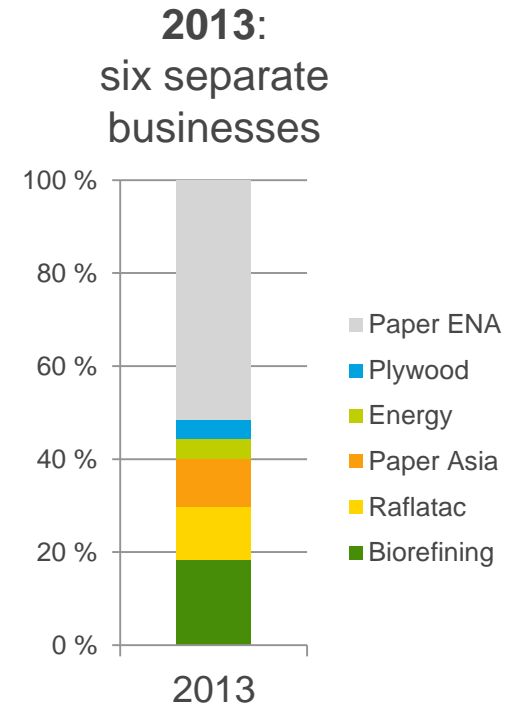
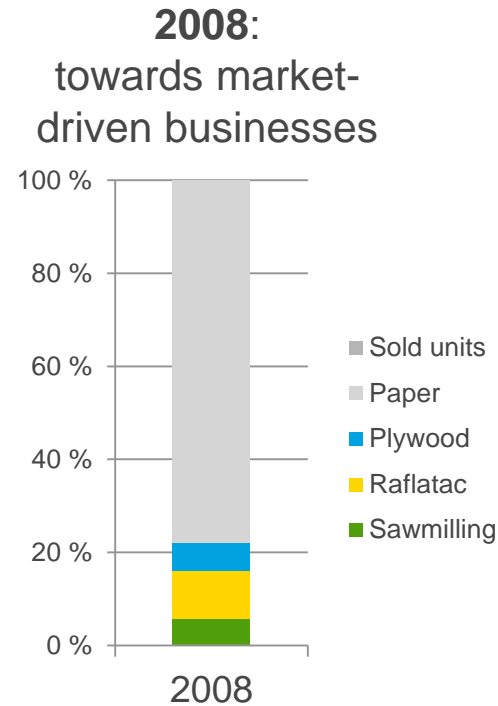
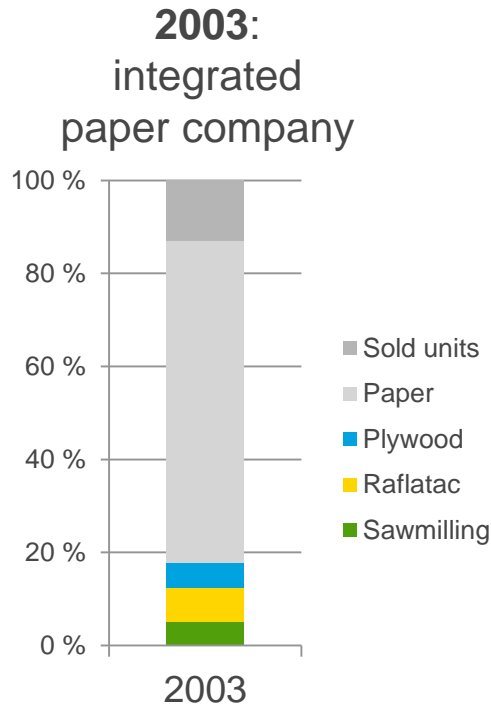
# UPM IN TRANSFORMATION





# UPM in transformation – revenues

Business portfolio, Sales



Sales EUR 9.9bn  
 EBIT(\*) EUR 429m  
 EBIT margin(\*) 4.4%  
 Personnel 34,500

Sales EUR 9.5bn  
 EBIT(\*) EUR 513m  
 EBIT margin(\*) 5.4%  
 Personnel 25,000

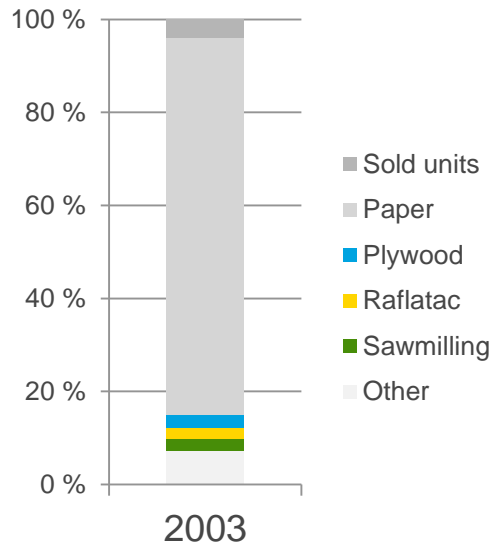
Sales EUR 10.1bn  
 EBIT(\*) EUR 683m  
 EBIT margin(\*) 6.8%  
 Personnel 21,000



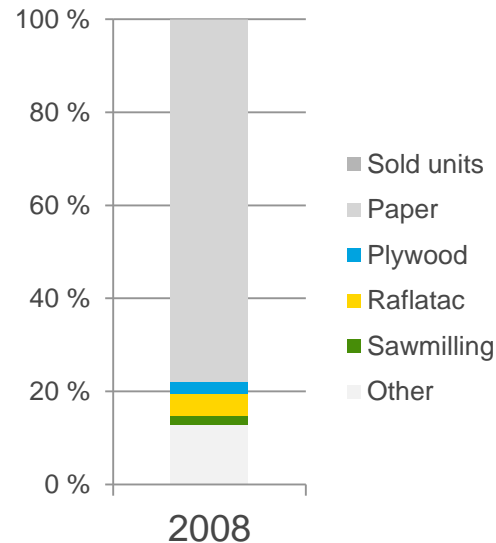
# UPM in transformation – capital

Business portfolio, Capital employed

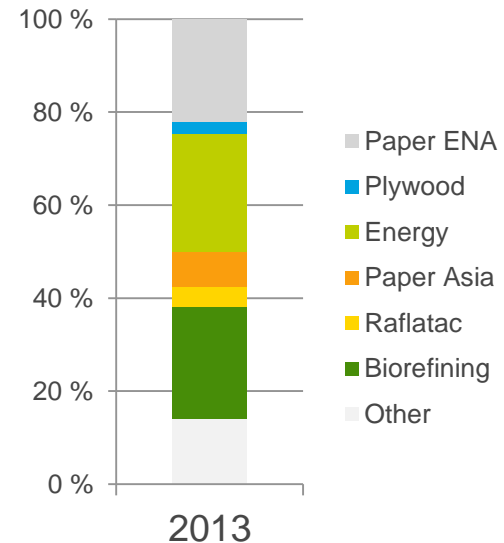
**2003:**  
integrated paper company



**2008:**  
towards market-driven businesses



**2013:**  
six separate businesses



Capital empl. EUR 12.8bn  
 ROCE (\*) 4.7%  
 Net debt EUR 4.9bn  
 Market cap EUR 7.9bn

EUR 11.2bn  
 4.6%  
 EUR 4.3bn  
 EUR 4.7bn

EUR 11.6bn  
 6.0%  
 EUR 3.0bn  
 EUR 6.5bn

# UPM's businesses

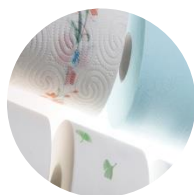
## UPM Plywood

- Plywood and veneer products



## UPM Paper ENA

- Magazine papers in Europe and in North America
- Newsprint and Fine papers in Europe



## UPM Biorefining

- Pulp
- Biofuels
- Sawmills



## UPM Paper Asia

- Fine papers in China
- Labelling materials globally



## UPM Raflatac

- Label materials for product and information labelling



## UPM Energy

- Hydro, nuclear and condensing power generation
- Electricity trading in physical and derivatives markets

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



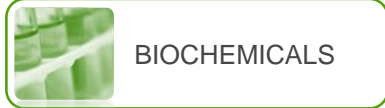
# Shifting gear in UPM transformation

Business portfolio development and value creation

## New businesses



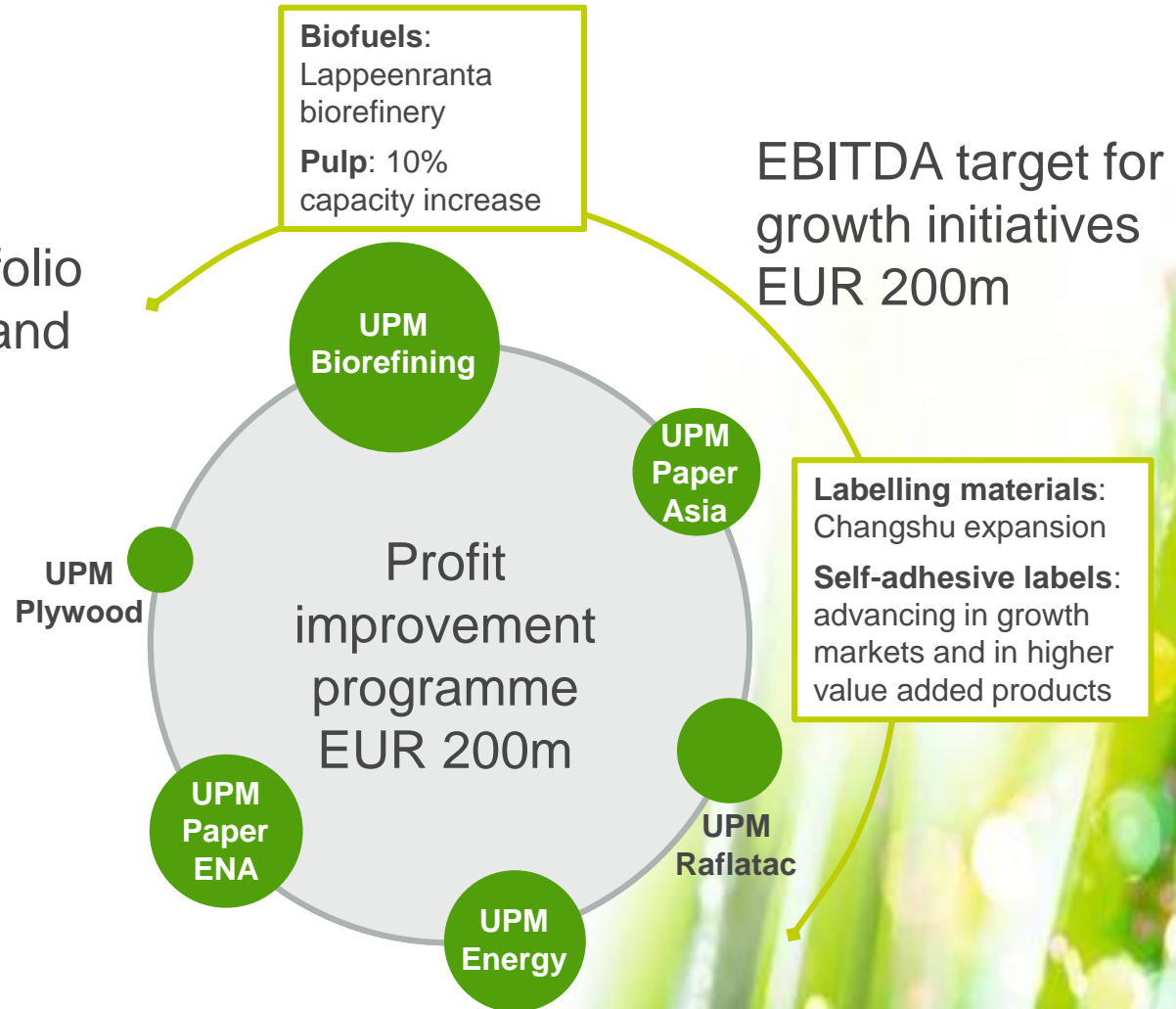
BIOFUELS



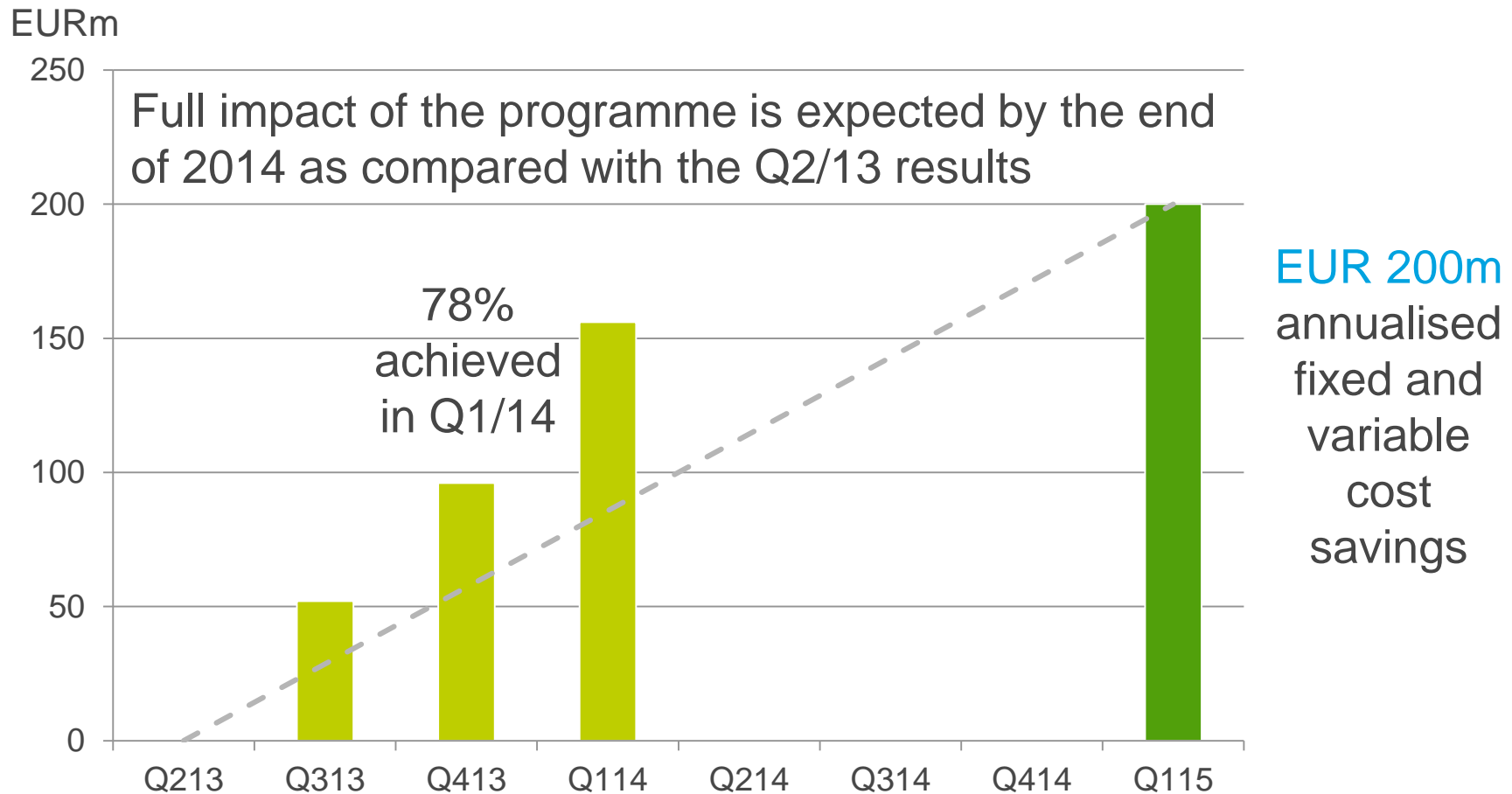
BIOCHEMICALS



BIOCOMPOSITES



# Profit improvement programme progressing fast





## Growth projects targeting EUR 200m of additional EBITDA

### Decisions in 2014

- Changshu labelling materials, 360,000t, start-up by the end of 2015
- Kymi pulp mill expansion, 170,000t, start-up by the end of 2015
- 50% increase in self-adhesive labelstock coating capacity in APAC, increase filmic labelstock capacity in Europe, start-ups by early 2015

### Continued implementation

- Lappeenranta renewable diesel, 100,000t start-up summer 2014
- Pietarsaari pulp mill expansion, 70,000t, start-up summer 2014

Further debottlenecking potential at Fray Bentos and Kaukas pulp mills

Targeted **additional EBITDA EUR 200m** when all projects in full operation, total capex estimate EUR 680m over three years

# Business 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

# New businesses based on UPM's development work



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

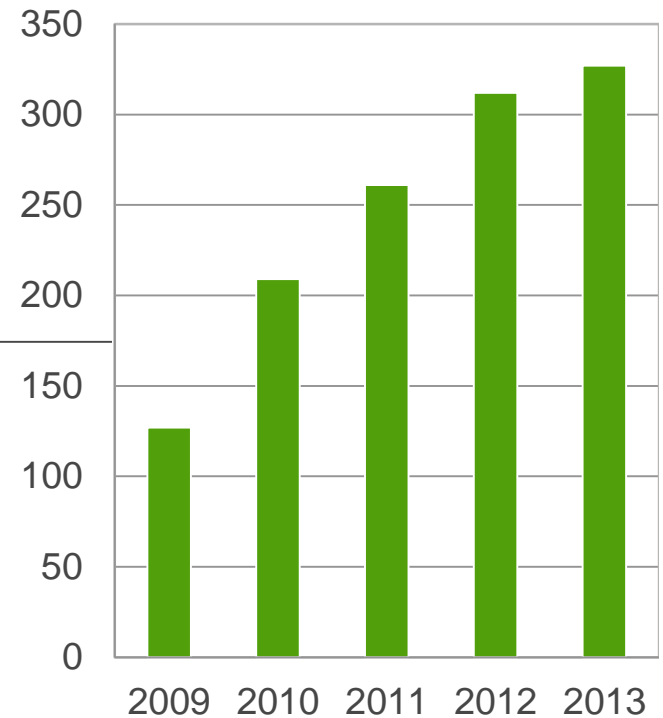


**Biochemicals** renewable drop-in alternatives for oil-based chemicals



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

Annual patent filings 2009–2013



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The Biofore Company **UPM**

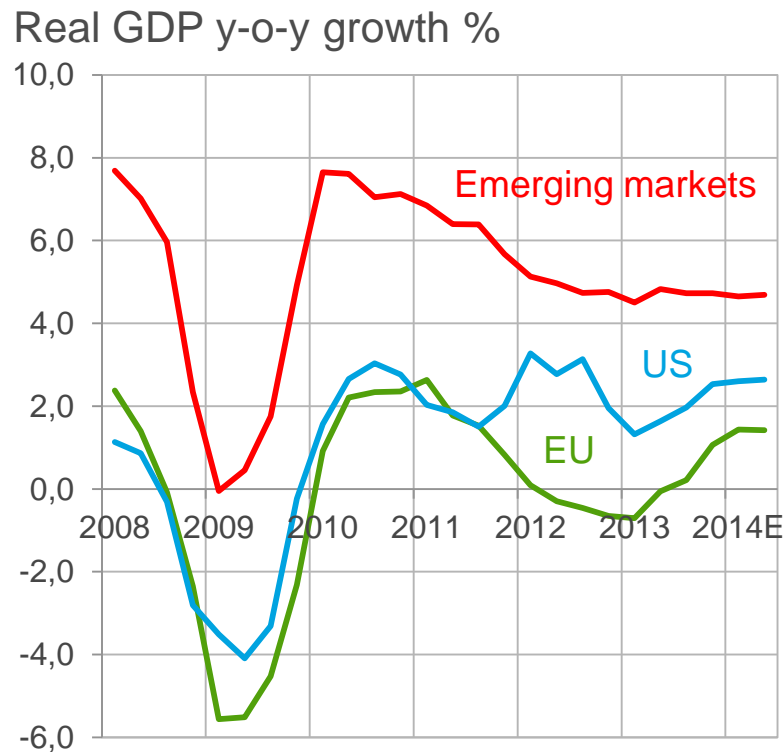
# FINANCIAL PERFORMANCE



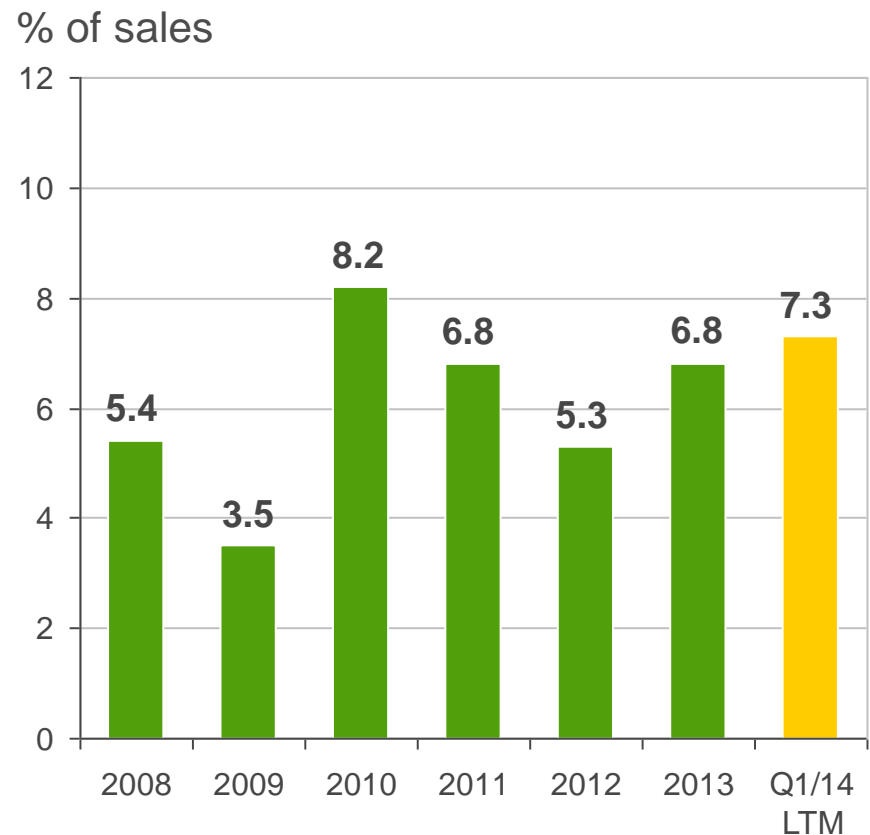
# Profitability over two economic slowdowns

## Europe has underperformed the other major economic zones

## Operating profit excl. special items

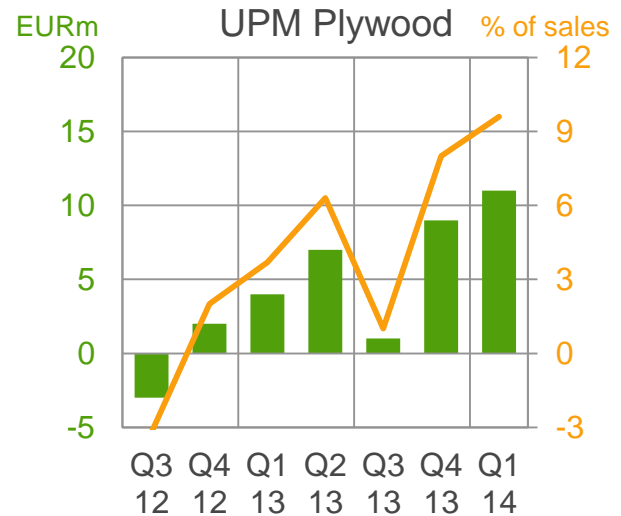
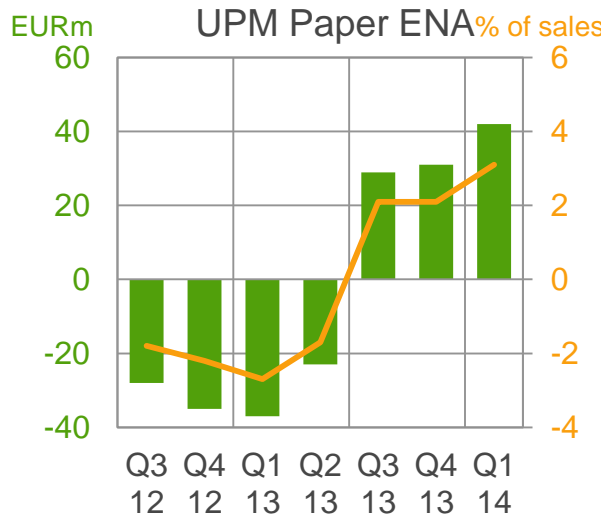
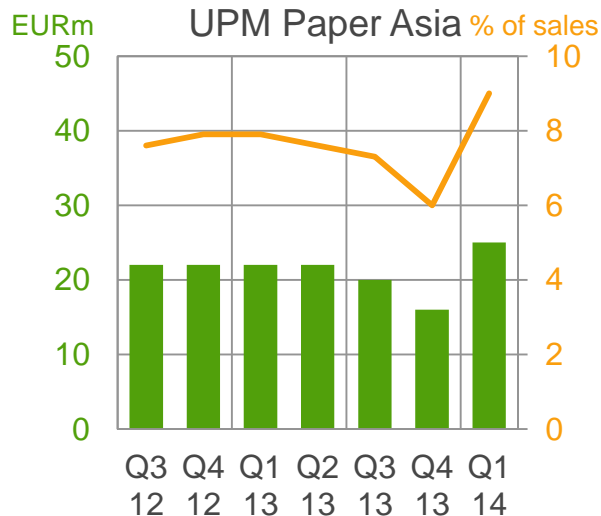
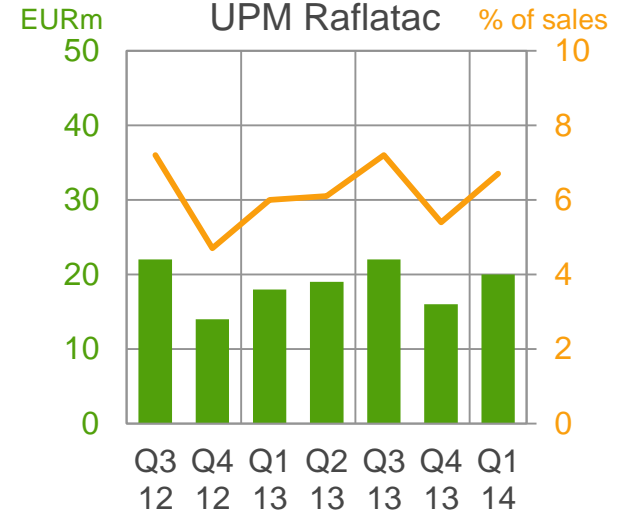
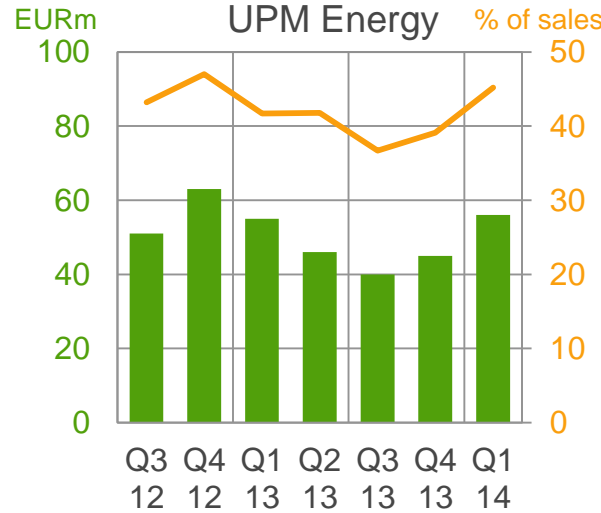
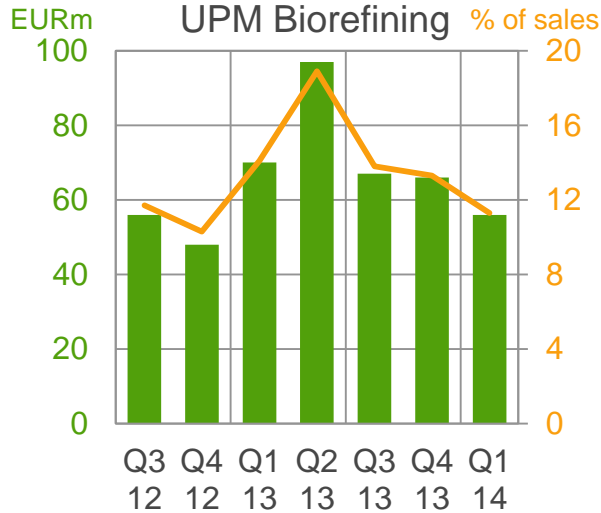


Source: IHS Global Insight

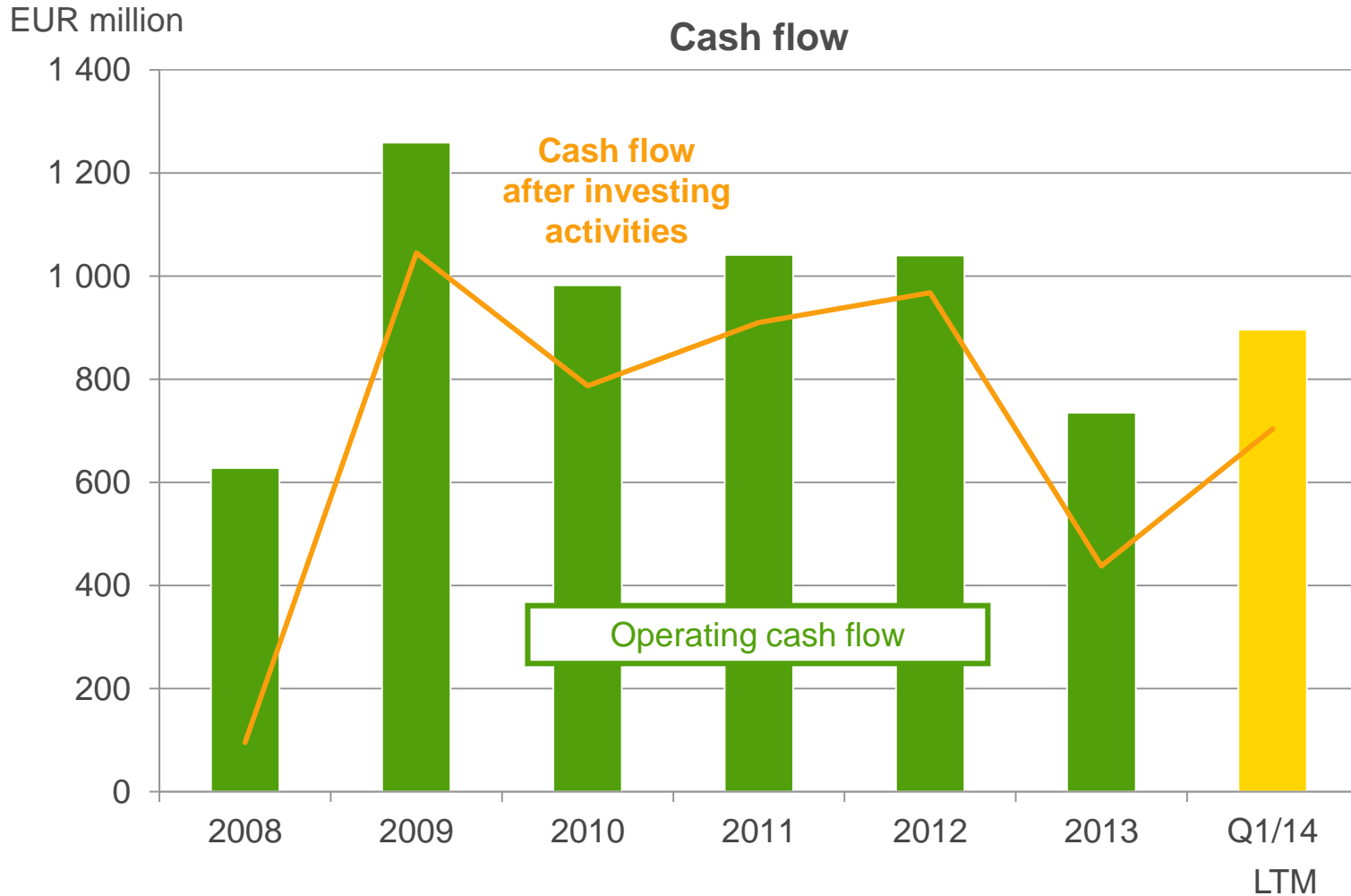




# Operating profit <sup>\*)</sup> by business area

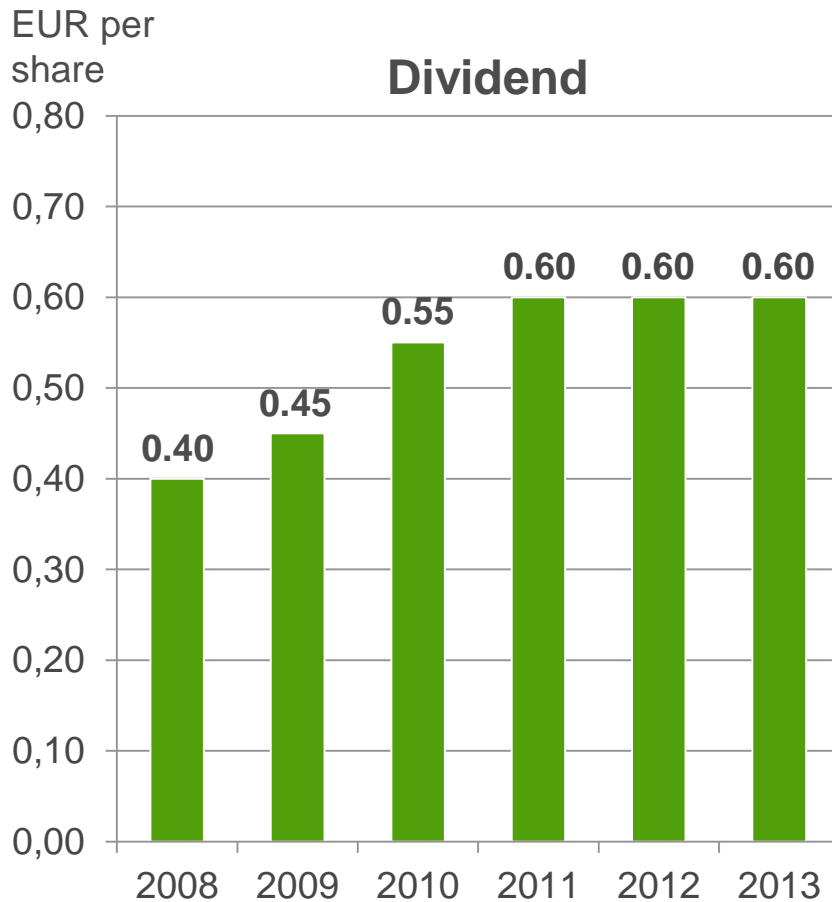


# Strong cash flow





## 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

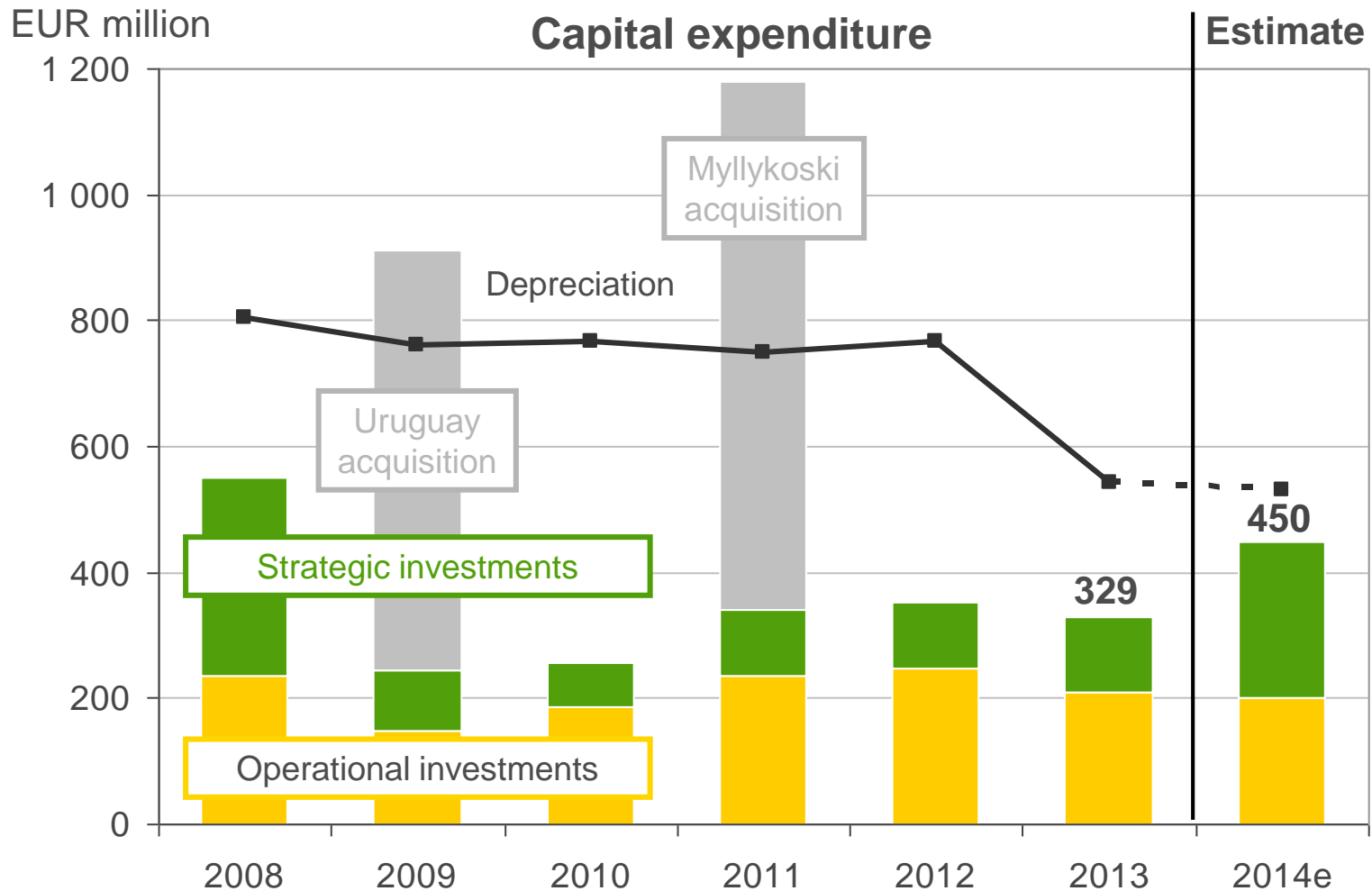
- EUR 0.45 per share

### Dividend for 2013

- EUR 0.60 per share

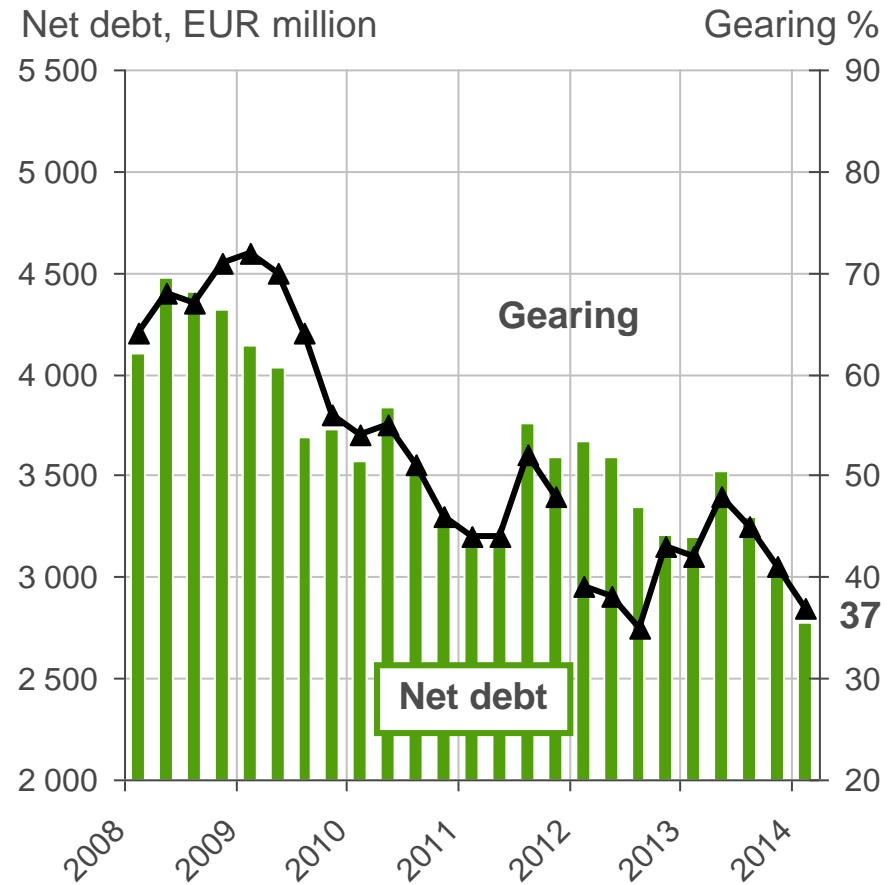
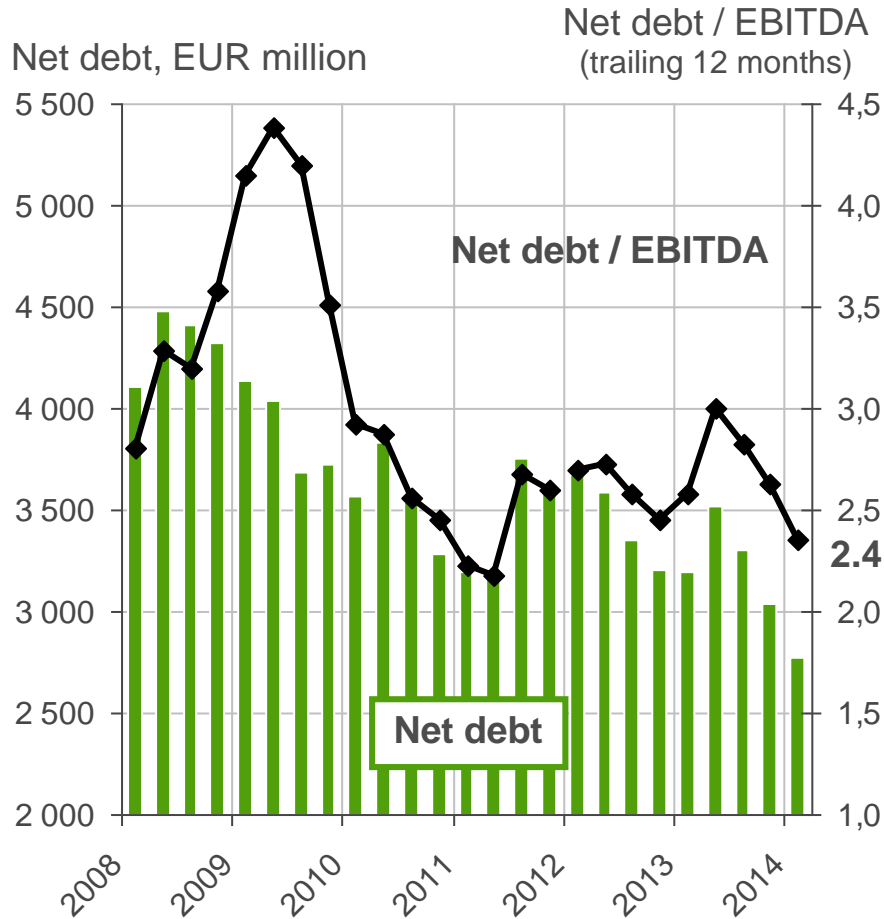


# Low investment needs in existing assets allow growth projects with modest total capex





# Strengthening balance sheet



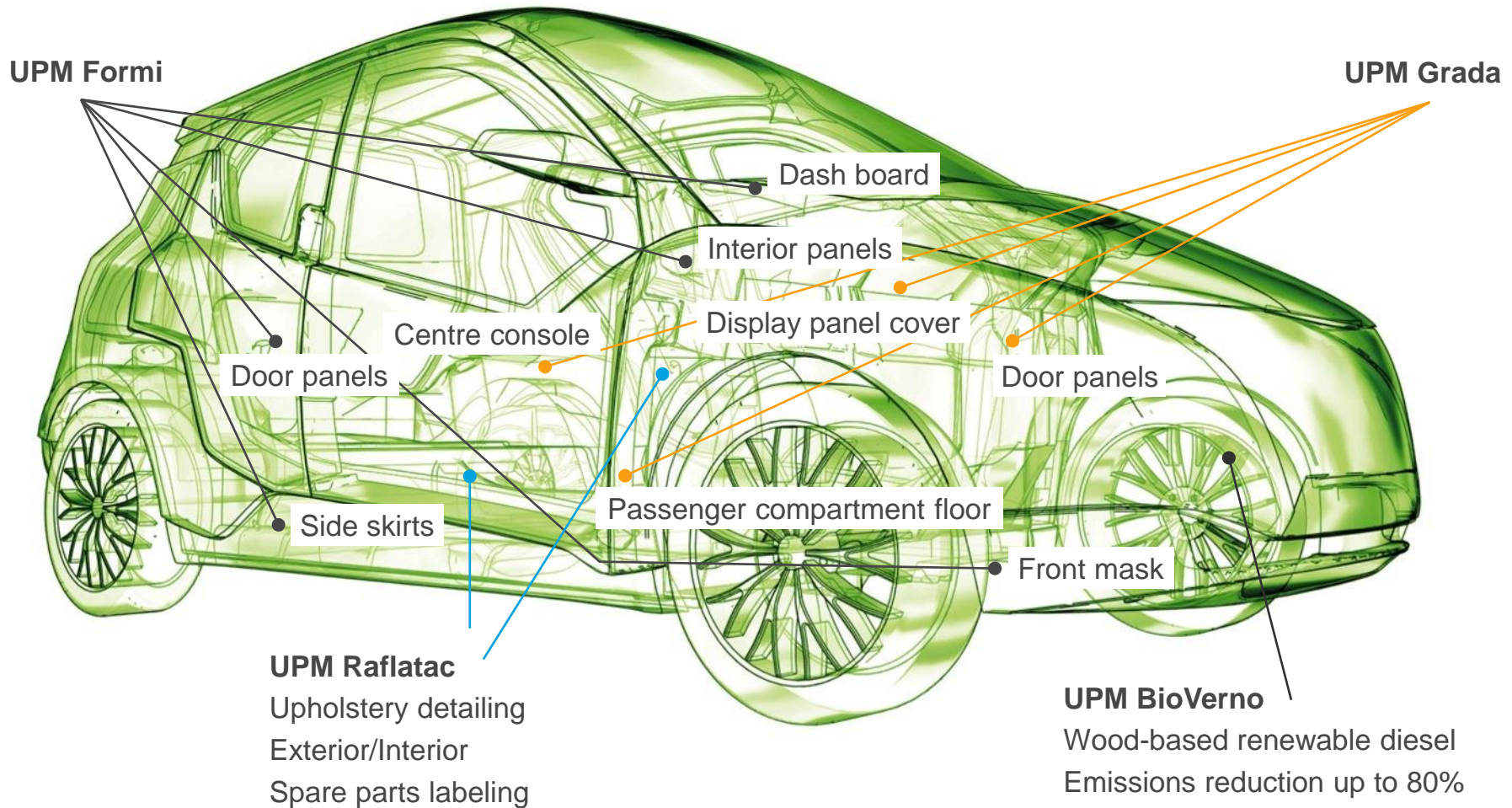
**Liquidity** was EUR 2.0bn at the end of Q1 2014  
Repayments total EUR 0.5bn in 2014



# SUSTAINABLE COMPETITIVENESS



# Biofore in the shape of a car



# The Biofore Concept Car presented in Geneva 2014

- Majority of oil-based plastic parts are replaced by parts from **biobased renewable composite materials** which can be **recycled** and **reused**.
- The Biofore Concept Car weighs 150 kg less than similar-sized cars leading to **lower fuel consumption**
- Wood-based renewable diesel enables **emissions reduction** up to 80%
- Street-legal in Finland



Driven by **Biofore**

# UPM creates new business in wood-based renewable diesel

- World's first biorefinery producing wood-based renewable diesel
- Lappeenranta 100,000t refinery start-up in summer 2014
- UPM technology
- Attractive EUR 150m investment, part of the EUR 200m EBITDA growth target
- Potential to become a large new business

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# Renewable diesel suitable for all diesel engines

- Engine tests done in independent research centres
  - Finnish VTT
  - German research centre FEV
- Fleet tests done with VW and VTT
- Renewable drop-in diesel suitable for all diesel engines
- Functions like any regular diesel



RENEWABLE  
RAW MATERIAL

100%



CO<sub>2</sub> EMISSIONS  
(VS. FOSSIL FUEL)

-80%



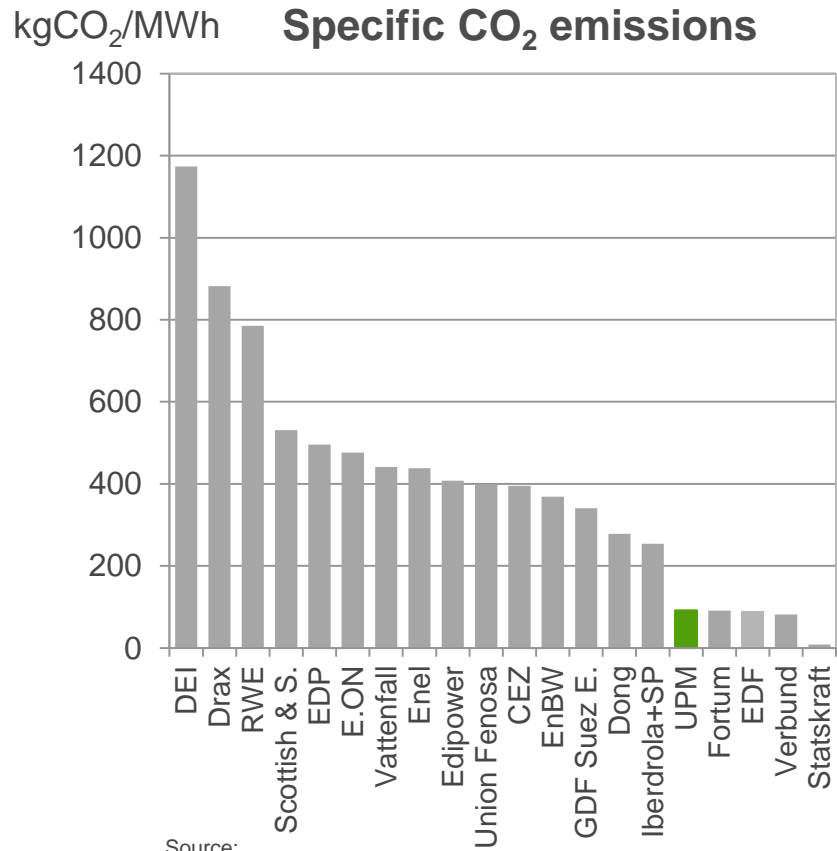
HYDROCARBON FUEL,  
COMPATIBLE WITH  
DIESEL STANDARD EN590

100%

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# 2nd largest energy business in Finland, with competitive low-emission energy sources

 BIOMASS-BASED ELECTRICITY  
**+83%**  
 HYDROPOWER  
**+16%**  
 NUCLEAR  
**+10%**  
 in 10 years



Source: PWC 2013, UPM

**78%**  
OF UPM'S POWER GENERATION CO<sub>2</sub> NEUTRAL

**67%**  
OF ALL FUEL USED BY UPM BASED ON RENEWABLE BIOMASS

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# Resource efficiency, case Changshu paper mill in China



WATER

**-65%**

Per tonne of paper



ELECTRICITY

**-20%**

Per tonne of paper



WASTE TO  
LANDFILL

**-60%**

Per tonne of paper



CERTIFIED FIBRE

**75%**

From 0% in 2002



Continuous improvement process  
over the past 10 years

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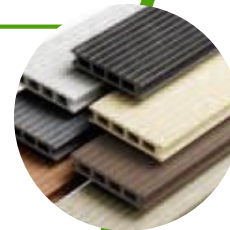


## Waste is today's new material

UPM is the world's largest user of **recycled paper** for the production of graphic papers



**UPM ProFi composite products** made from the paper and plastic left over from the production of self-adhesive label materials



**36%**

of all fibre used in UPM's paper production is recycled fibre

**Renewable diesel UPM BioVerno** produced from crude tall oil, a residue of pulp production



**90%**

of all production waste is reused

UPM's new **construction product Cinerit** made of fly ash from the thermal recovery of biogenic waste materials

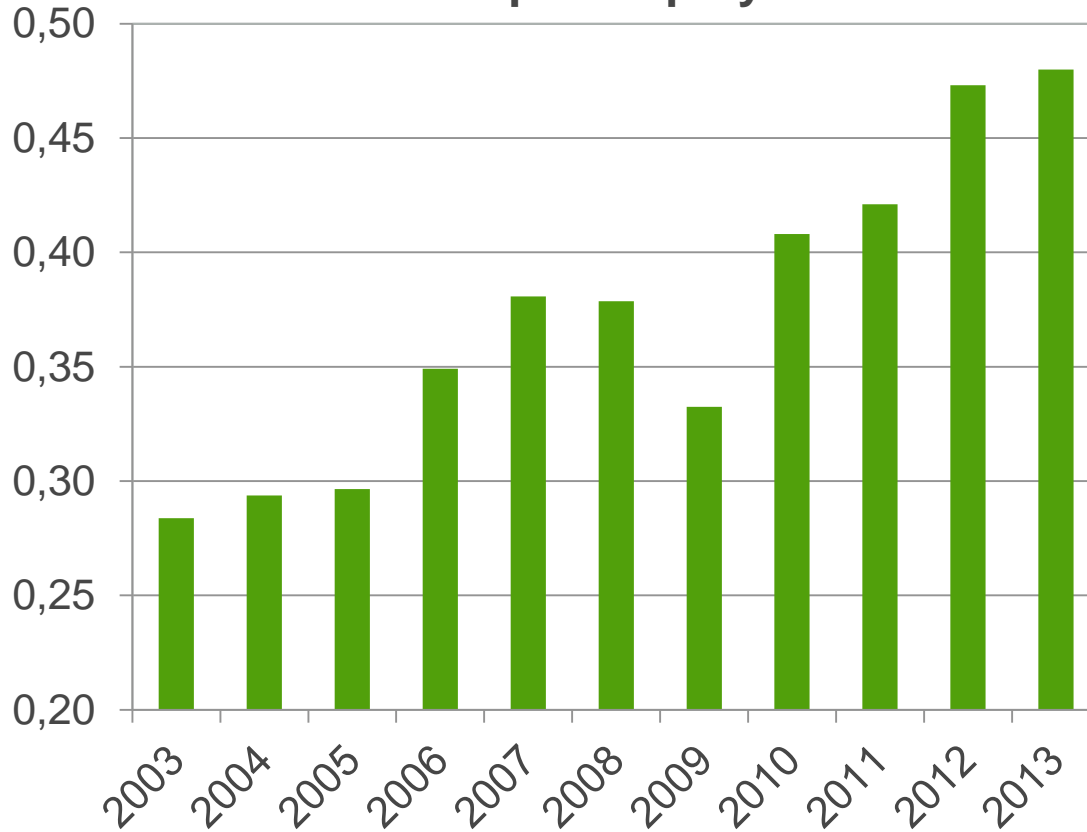


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# Productivity development in 10 years

EURm

### Sales per employee



IN TEN YEARS  
**+69%**

IN FIVE YEARS  
**+27%**

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# Targeting world-class safety results in three years

ACCIDENT FREQUENCY  
IN TWO YEARS

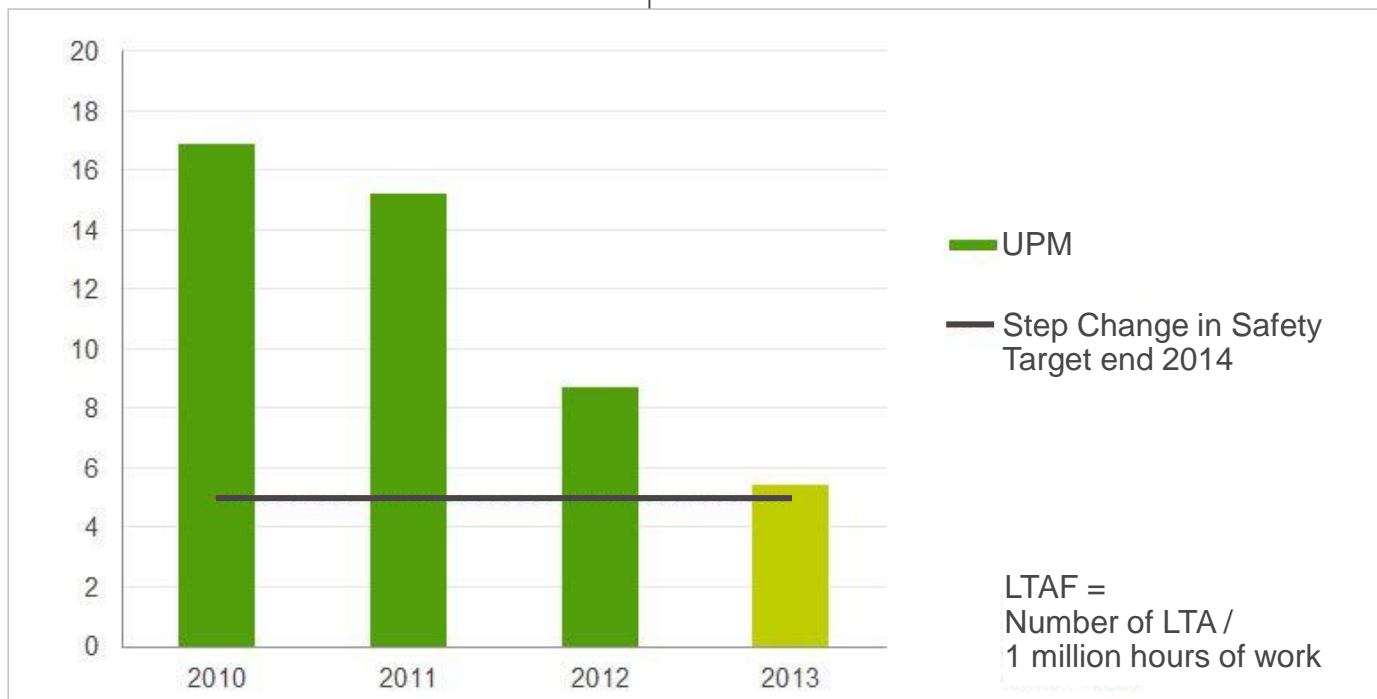
**-60%**

ABSENTEEISM DUE TO  
ACCIDENTS AT WORK

**-40%**

SUBCONTRACTOR  
ACCIDENTS IN ONE YEAR

**-15%**



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# Taking care of the entire lifecycle

## Responsible sourcing

**64%** of supplier spend qualified against UPM Supplier Code

Continuous supplier auditing

**80%** of wood from certified forests

**100%** of wood sourcing covered by chain of custody system

**6000+** chemicals on UPM Restricted Chemical Substance List

## Responsible operations

Certified production, forestry (environmental, quality, OHS)

Transparent and verified reporting



**85%** of UPM employees have completed Code of Conduct training

## Growing eco-labelled sales

**75%** of UPM's sales are eco-labelled



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# Creating value on sustainably sourced forest biomass



CDP FOREST SECTOR LEADER



The Biofore Company **UPM**

# SUMMARY

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Responsibility is a source of competitive advantage



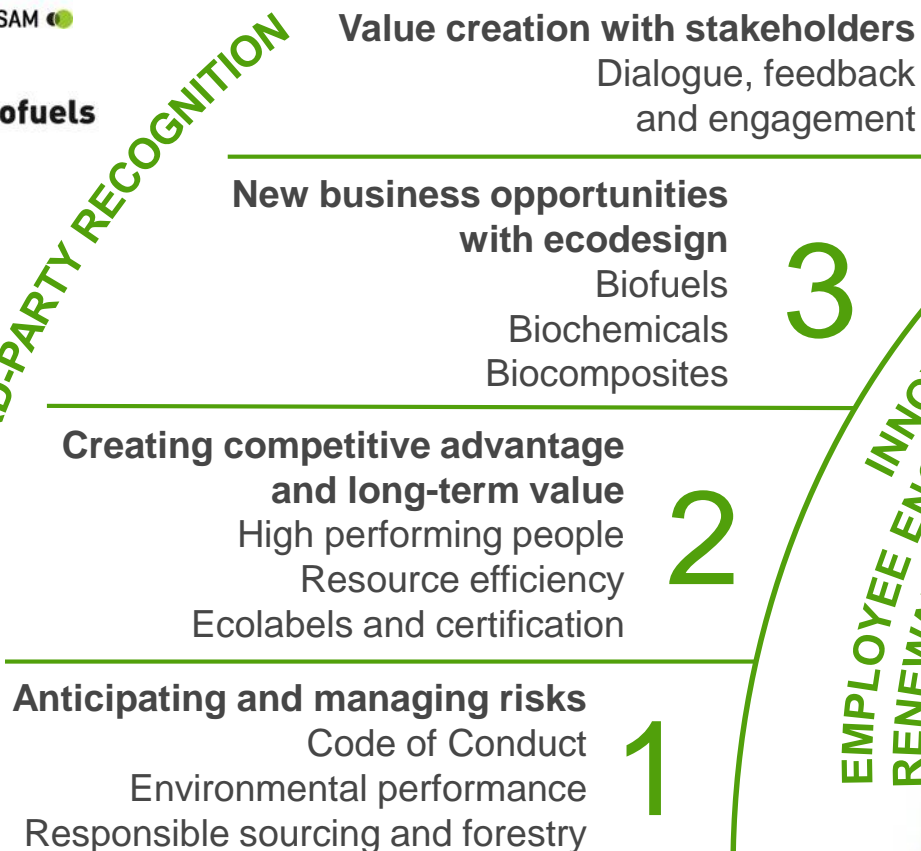
The Biofore Company UPM

MEMBER OF  
**Dow Jones Sustainability Indices**  
In Collaboration with RobecoSAM

 **Sustainable Biofuels Awards 2013**

 **CDP**  
DRIVING SUSTAINABLE ECONOMIES

**THIRD-PARTY RECOGNITION**



**EMPLOYEE ENGAGEMENT AND SAFETY  
RENEWABILITY AND RECYCLABILITY  
INNOVATION**






# Shifting gear in UPM transformation

Business portfolio development and value creation


## New businesses



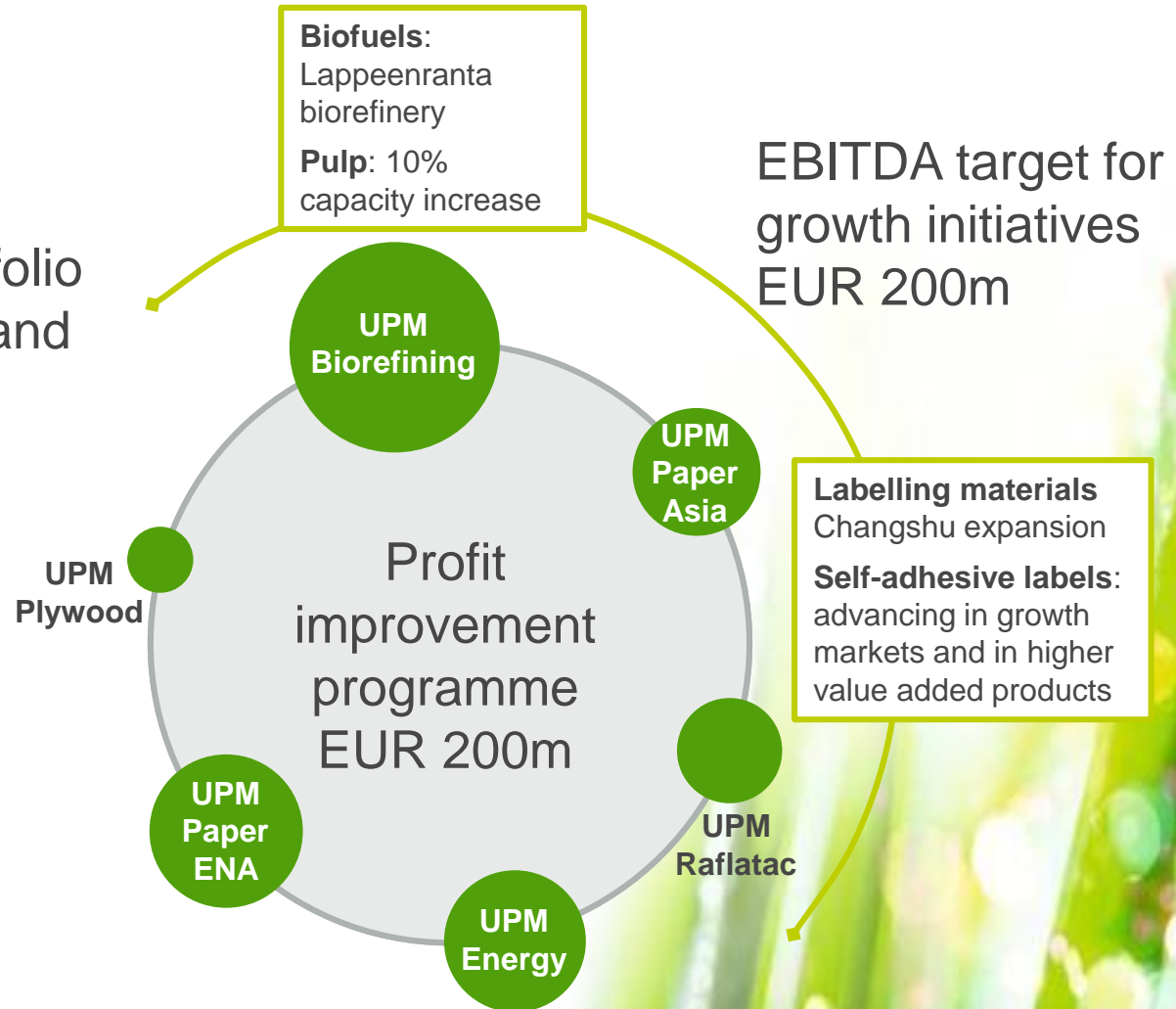
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