



The Biofore Company **UPM**

# FINANCIAL PERFORMANCE AND TARGETS

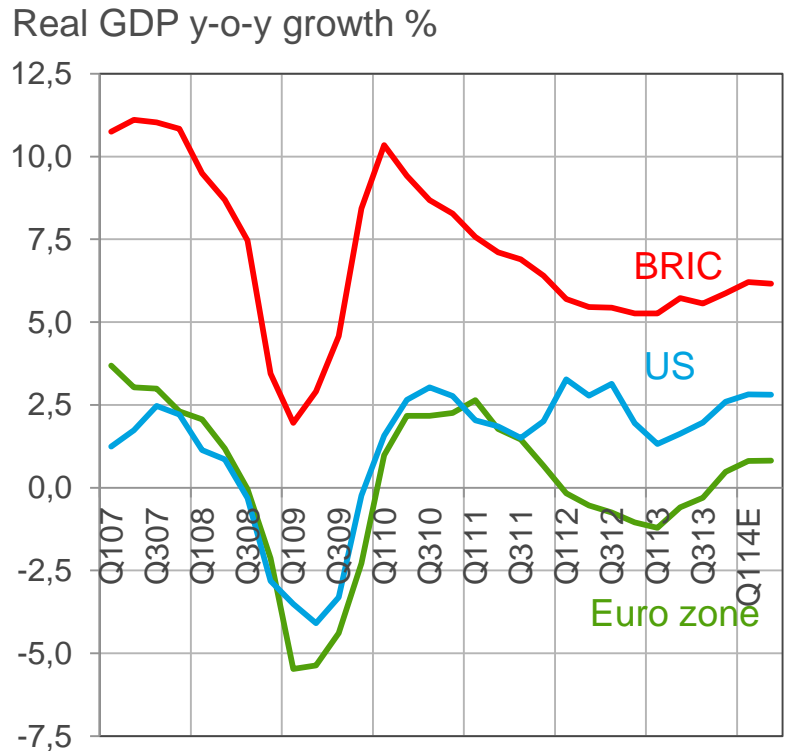
CFO

Tapio Korpeinen



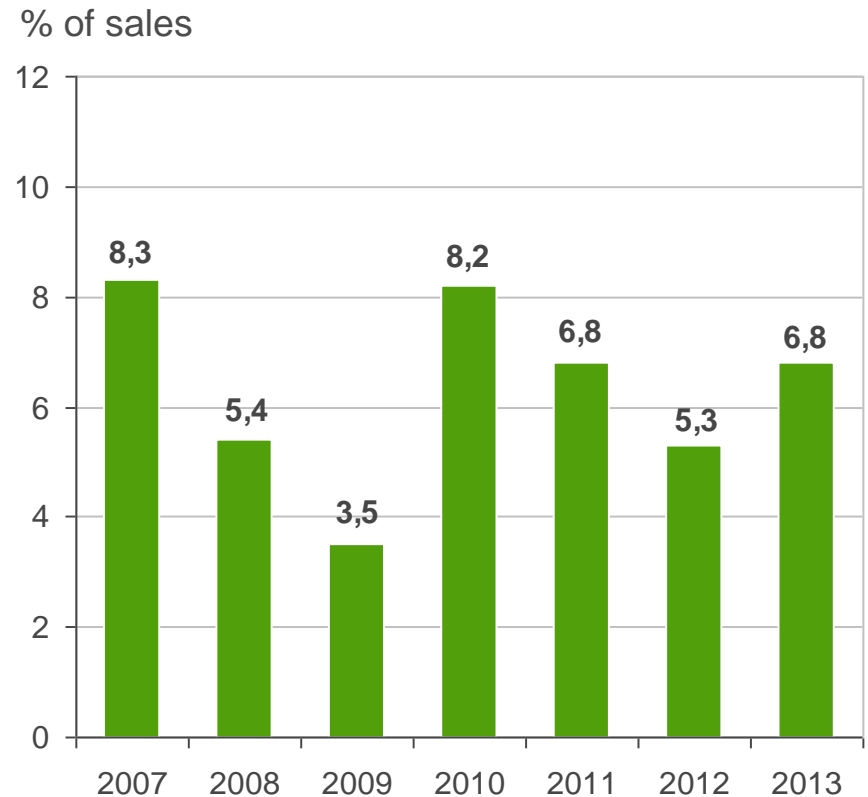
# Profitability over two economic slowdowns

## Europe continues to underperform the other major economic zones

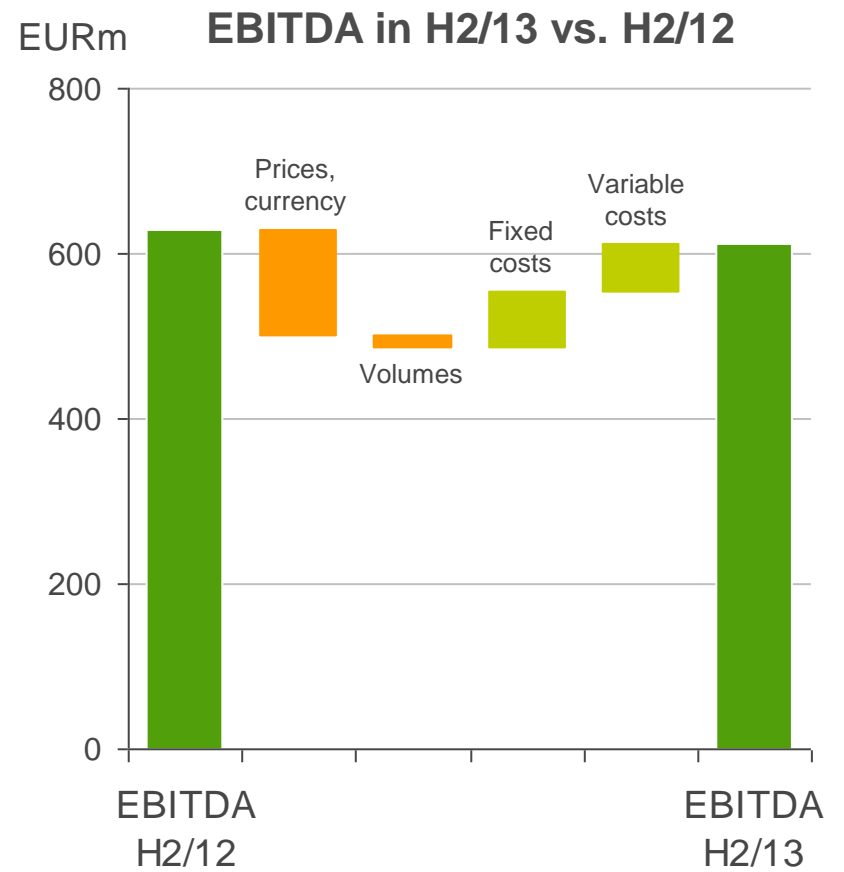
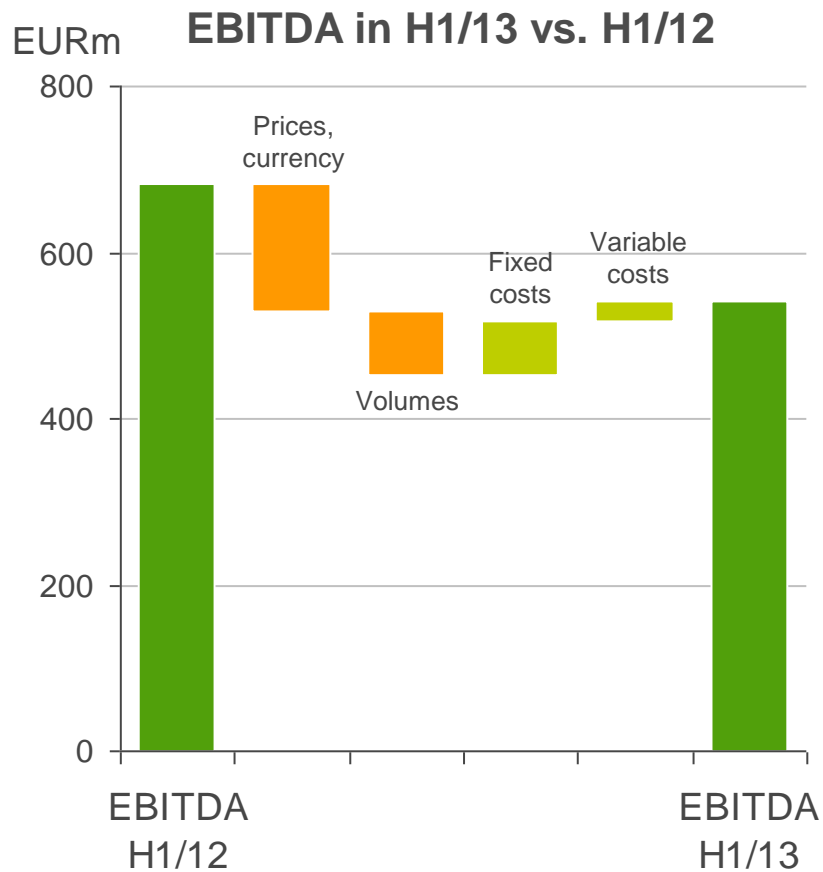


Sources: Global Insight

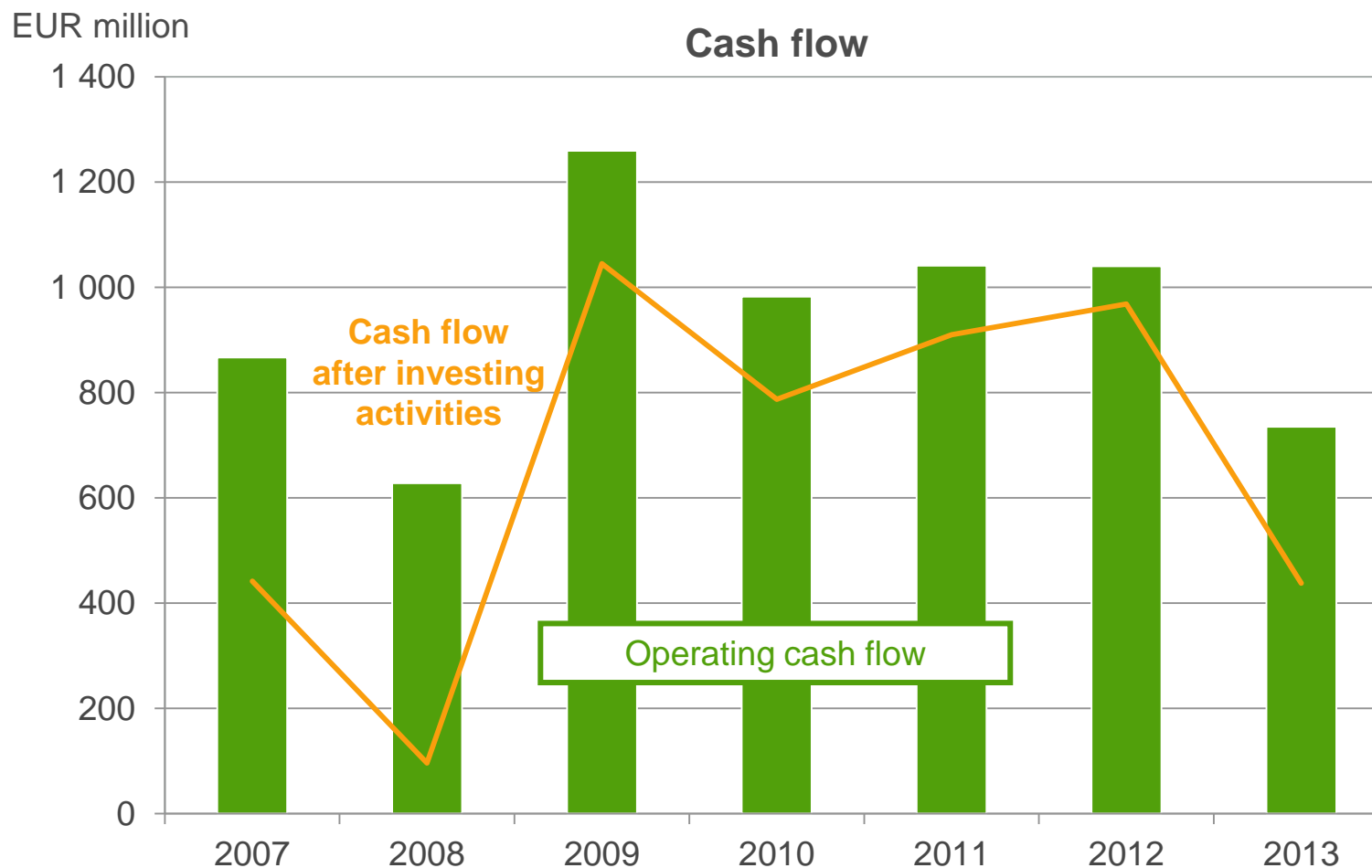
## Operating profit excluding special items



# Internal actions offset the market headwinds in H2/2013



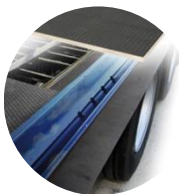
# Strong cash flow



# UPM's six businesses

## UPM Plywood

- Plywood and veneer products



## UPM Biorefining

- Pulp
- Plantations
- Biofuels
- Sawmills



## UPM Paper Asia

- Fine papers in China
- Label papers globally



## UPM Raflatac

- Label materials for product and information labelling

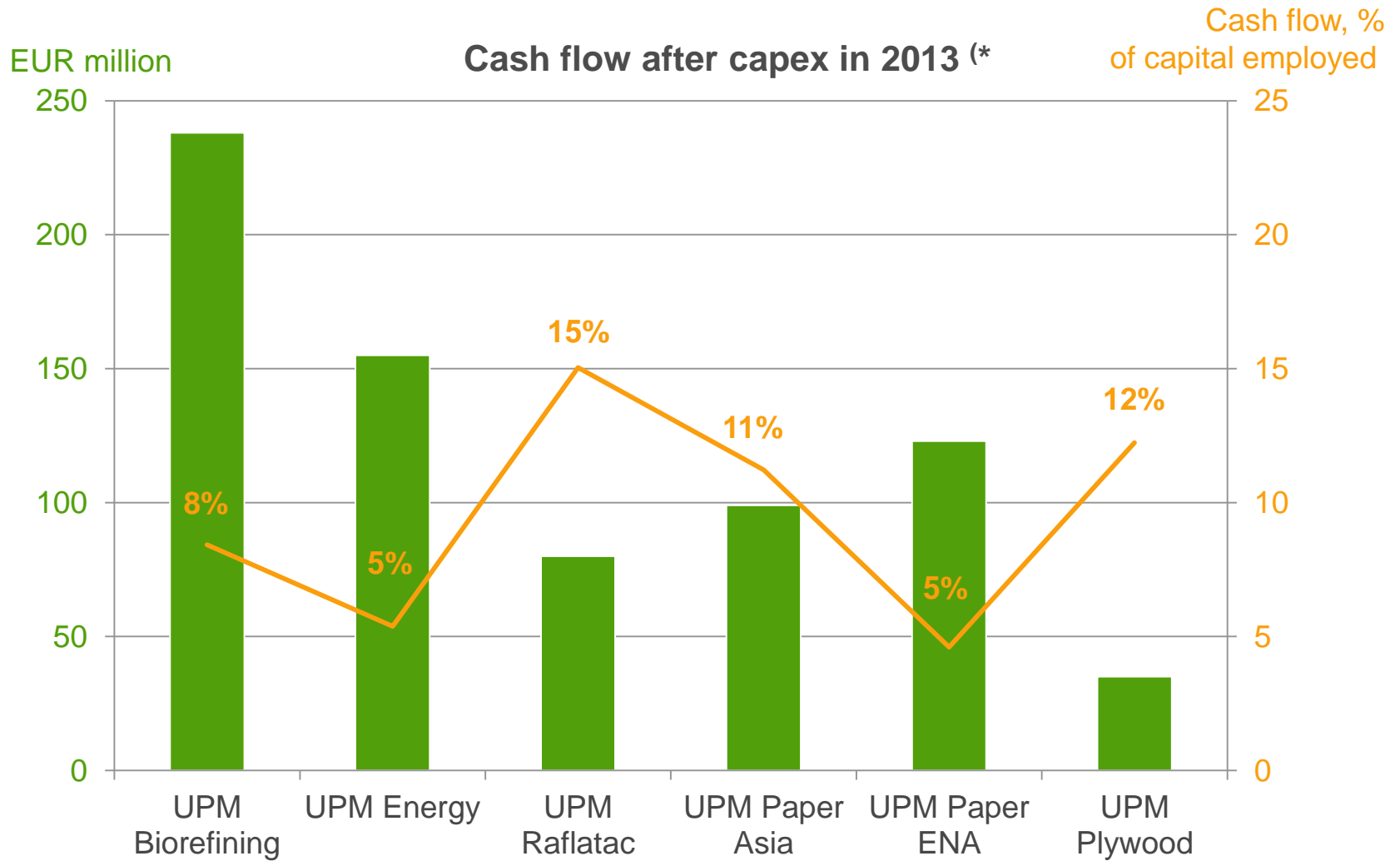


## UPM Energy

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

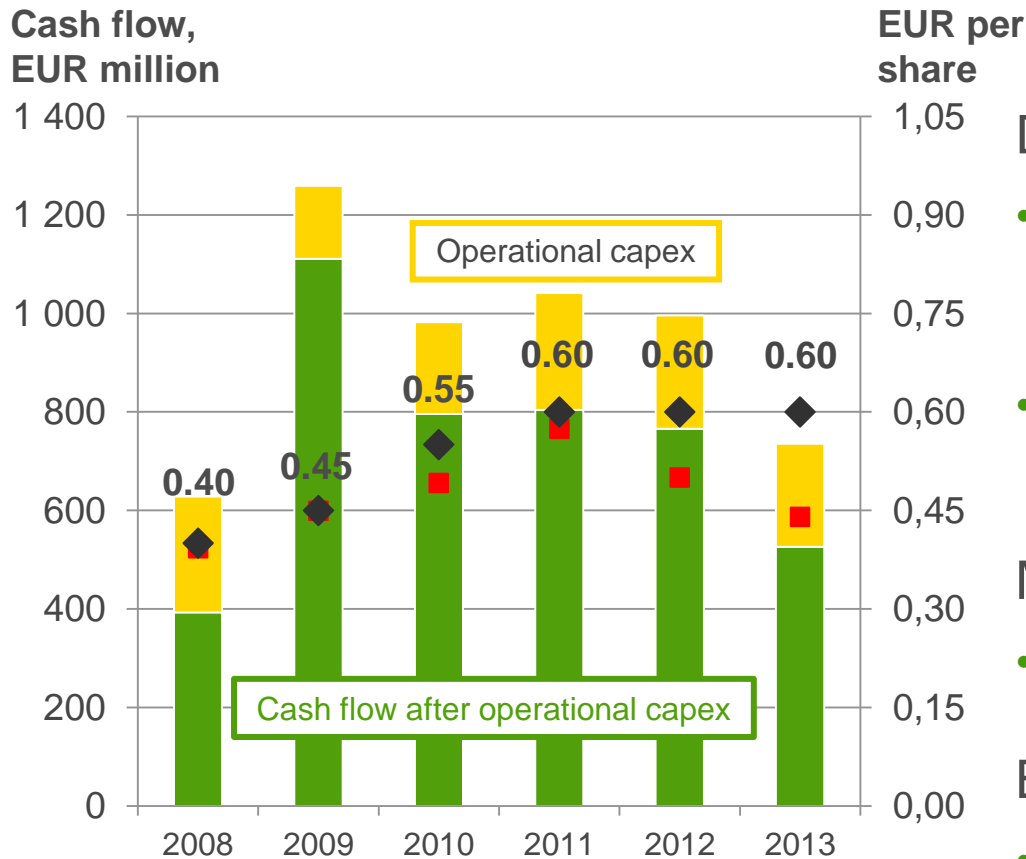
Financials 2013	Sales EUR	EBITDA %	ROCE %
UPM Biorefining	1,988m	22	11
UPM Energy	466m	43	7
UPM Raflatac	1,213m	9	14
UPM Paper Asia	1,108m	15	9
UPM Paper ENA	5,560m	4	0
UPM Plywood	429m	10	7

# Cash generating businesses





# Cash flow based dividend



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

## 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 dividend proposal 2013

- EUR 0.60 (0.60) per share

# Solid balance sheet



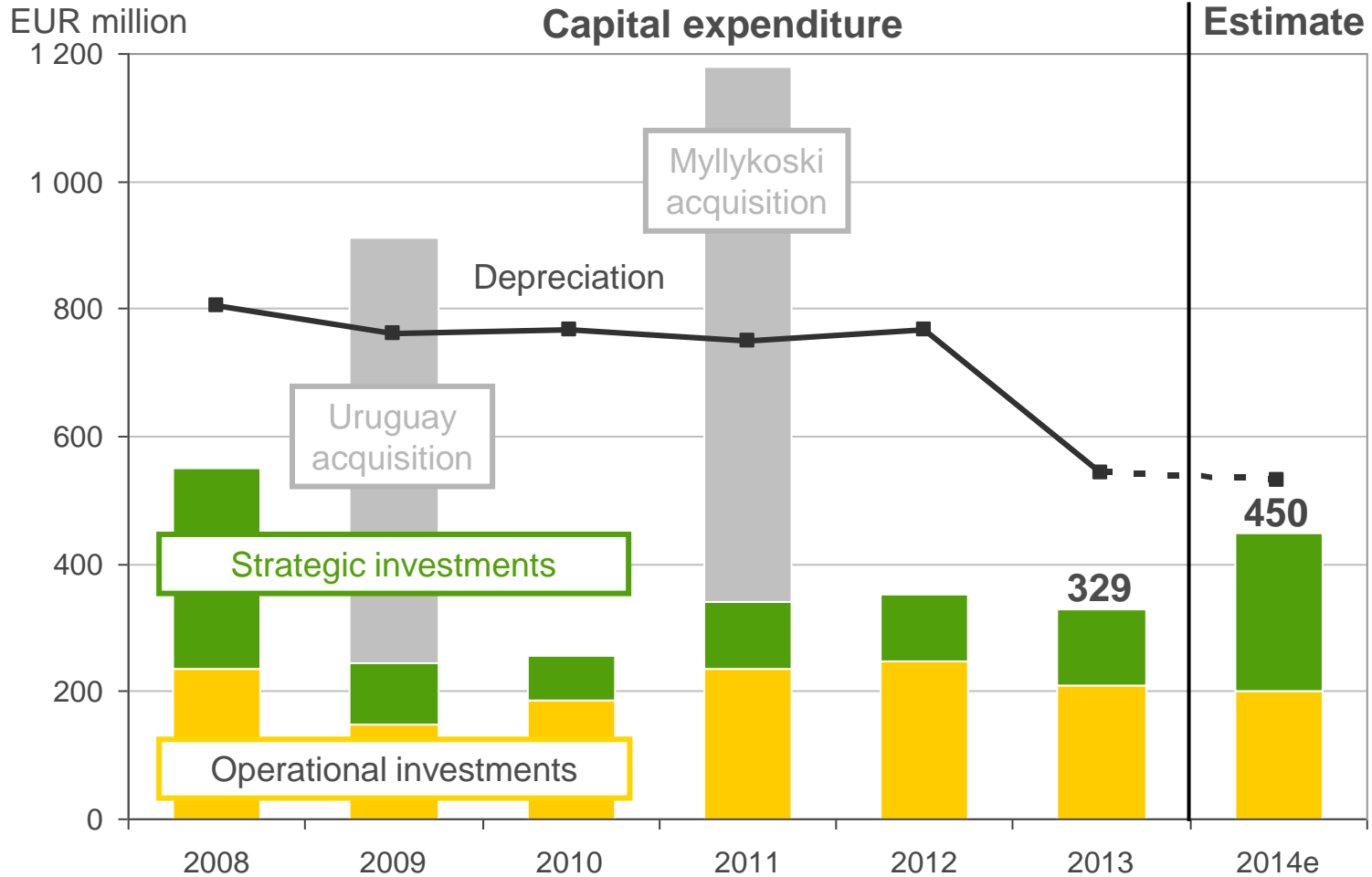


## Growth initiatives for the next three years

- EBITDA growth target EUR 200m

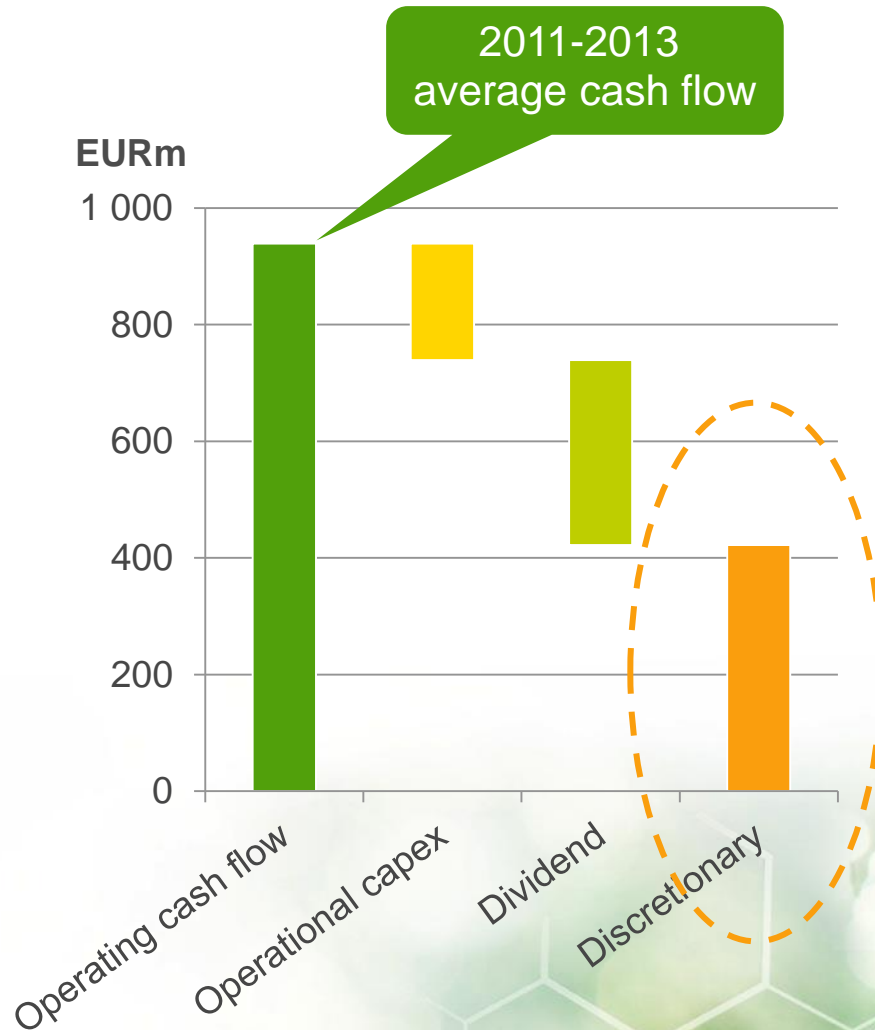
- Currently ongoing investments
  - Renewable diesel refinery EUR 150m, start-up in summer 2014
  - Kymi pulp expansion EUR 160m, start-up in Q4/2015
  - Pietarsaari pulp expansion EUR 13m, start-up in Q3/2014
  - Label materials production in Changshu EUR 277m , start-up in Q4/2015
- Other actions
  - Debottlenecking in Fray Bentos and Kaukas pulp mills
  - Growth in UPM Raflatac
- Total investment requirement in the projects is EUR 680m
  - Total remaining investment EUR 548m in the coming three years
- UPM's total capex estimate for 2014 is EUR 450m

# Capex focused on growth businesses – low investment needs to maintain existing assets





## Financial room for developing the company



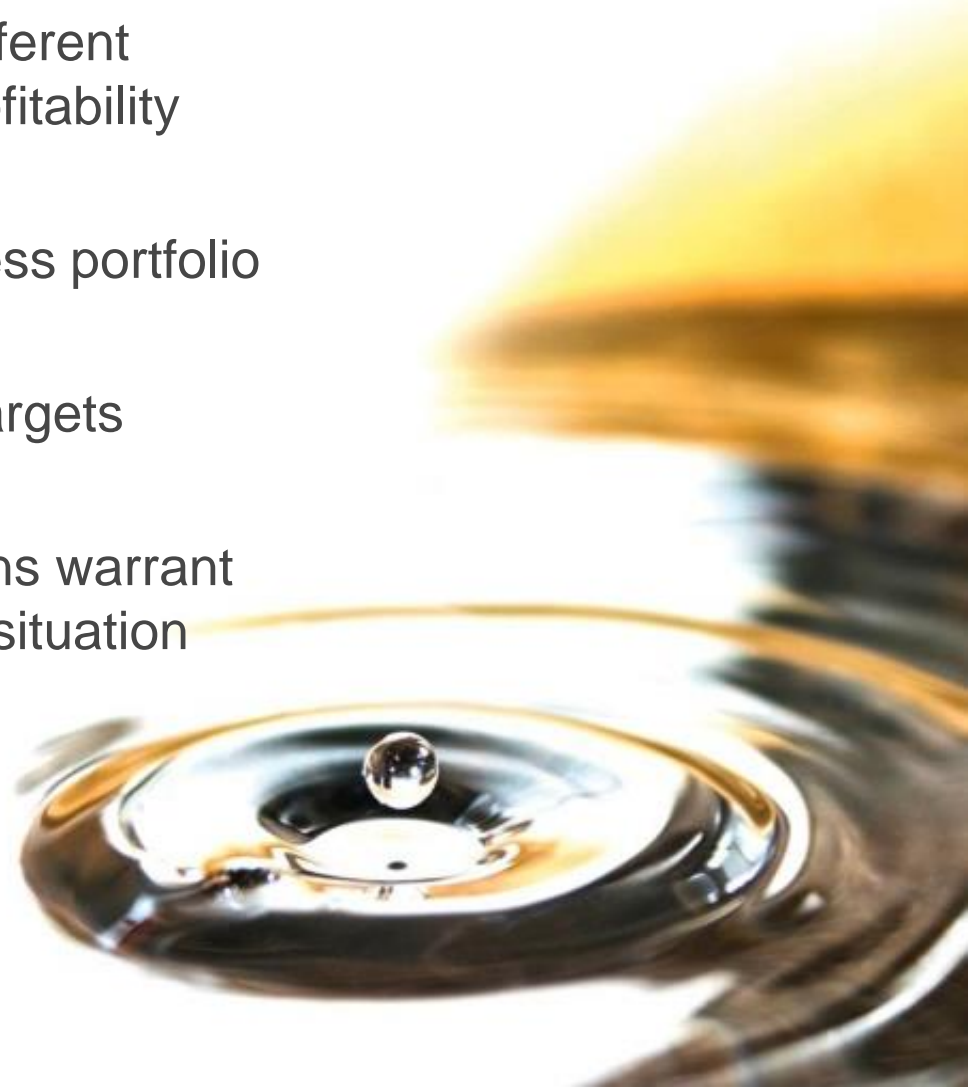
### UPM aims to maintain

- Solid balance sheet
- Strong cash flow
- Healthy dividend



## Introducing business area targets

- Six separate businesses with different fundamentals for growth and profitability
  - UPM aims to develop the business portfolio
  - Growth targets warrant ROCE targets
  - Good assets and market positions warrant ambitious targets in any market situation
- ➔ Business area level targets and incentives





# Financial targets

## Group targets

<b>Performance</b>	Top performance in each business area vs. relevant peers
<b>Portfolio</b>	Development of UPM business portfolio in order to increase its value and create growth
<b>Balance sheet</b>	Gearing < 90%
<b>Dividend policy</b>	Cash flow based dividend policy

## Business area targets

	Profitability	Returns	Peers
UPM Biorefining	EBITDA %	ROCE %	Relative performance
UPM Paper Asia			
UPM Raflatac			
UPM Energy			
UPM Plywood			
UPM Paper ENA			

With the current business portfolio, achieving BA targets simultaneously would result in Group EBIT margin of approx. 10% and Group ROCE of approx. 9%



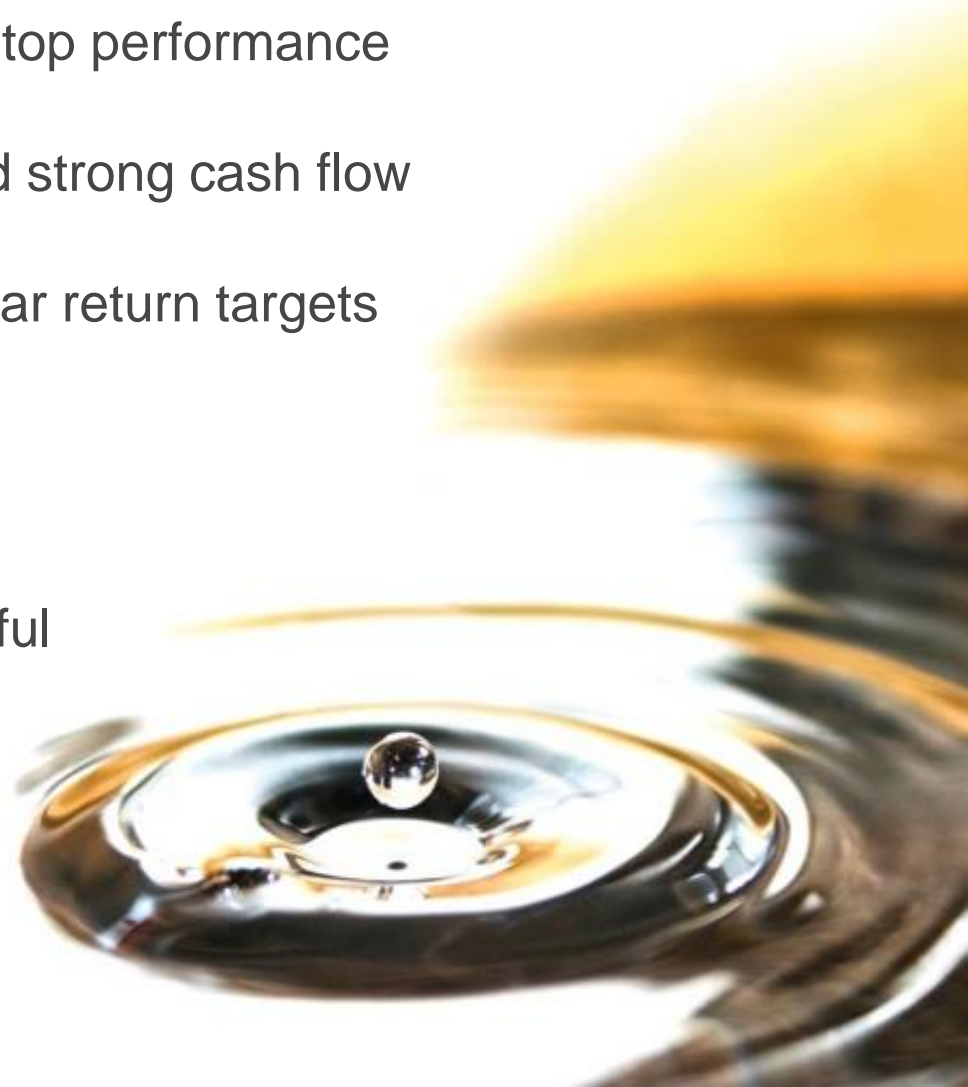
## Three types of businesses

- **Converting business**  
ROCE target 18%
  - UPM Raflatac
- **Process industry businesses**  
ROCE target 10-12%
  - UPM Biorefining
  - UPM Paper Asia
  - UPM Plywood
  - UPM Paper ENA: cash return
- **Energy utility**  
ROCE target 6%
  - UPM Energy



## Summary

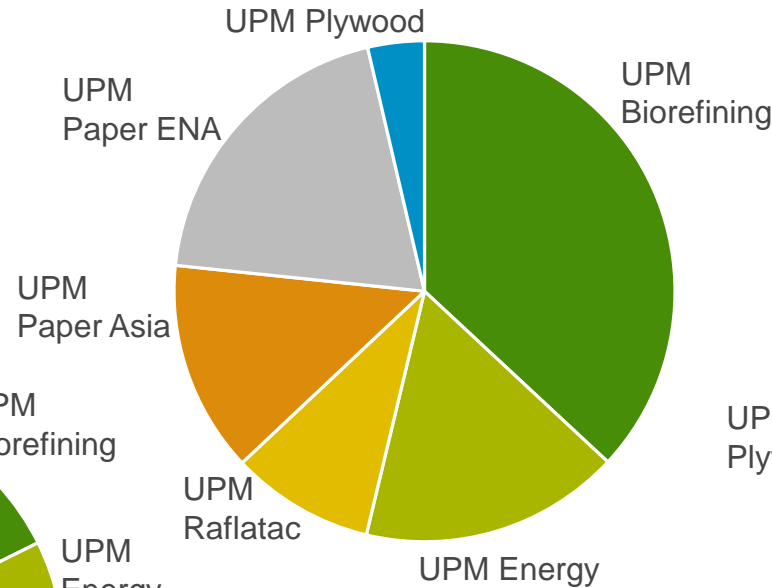
- Business area targets, targeting top performance
- Maintain solid balance sheet and strong cash flow
- Focused capital expenditure, clear return targets and priorities
- Cash flow based dividend
- UPM has experience in successful implementation of M&A, investments and restructuring



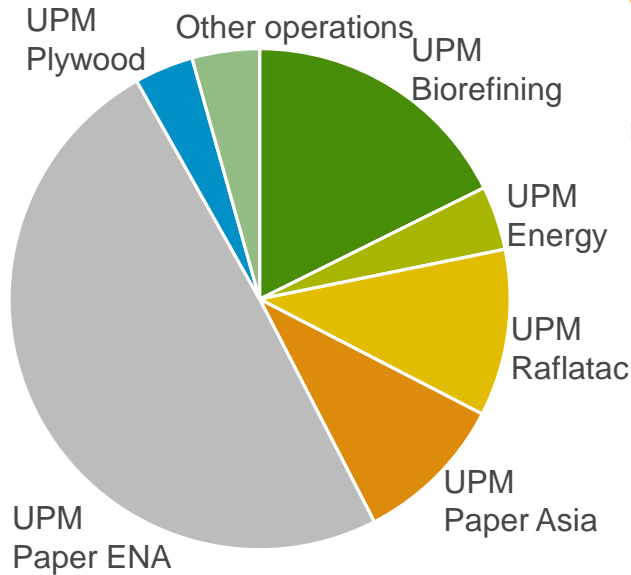


# UPM key figures in 2013

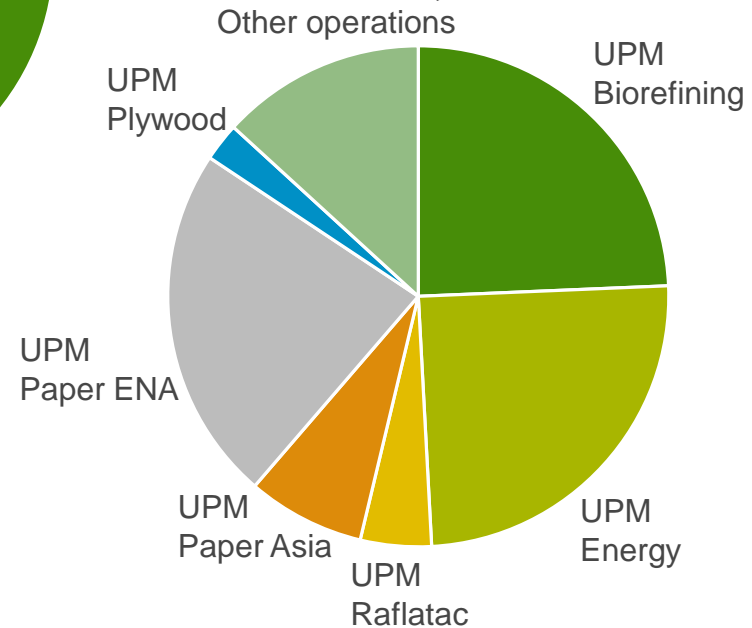
## EBITDA EUR 1,155m



## Sales (\* EUR 10,054m



## Capital employed EUR 11,583m







**UPM**

The Biofore  
Company