

# MORE WITH BIOFORE

UPM – THE BIOFORE COMPANY

UBS Global Paper and Forest Products Conference

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The Biofore Company **UPM**

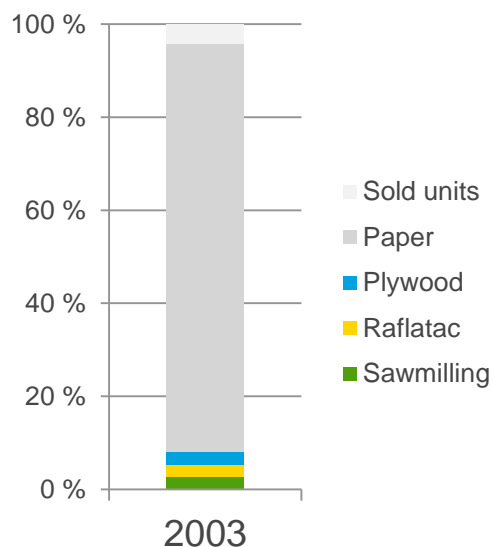
# UPM IN TRANSFORMATION



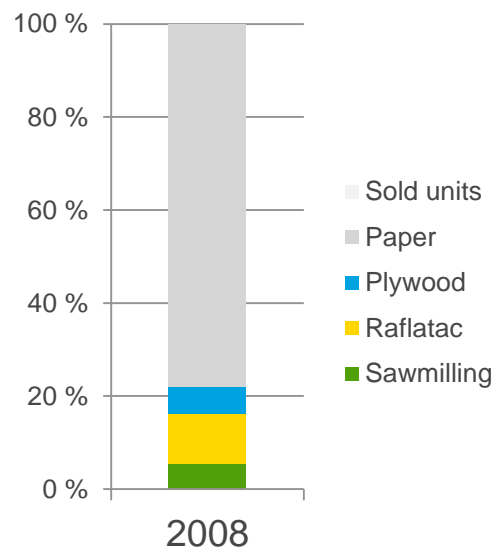
# UPM in transformation

Business portfolio, sales

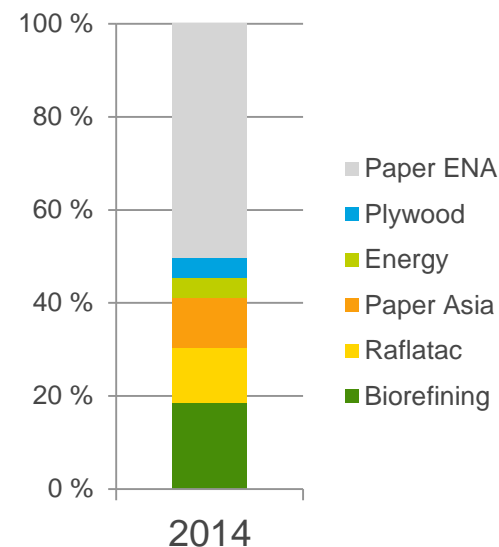
**2003:**  
integrated paper company



**2008:**  
towards market-driven businesses



**2014:**  
six separate businesses



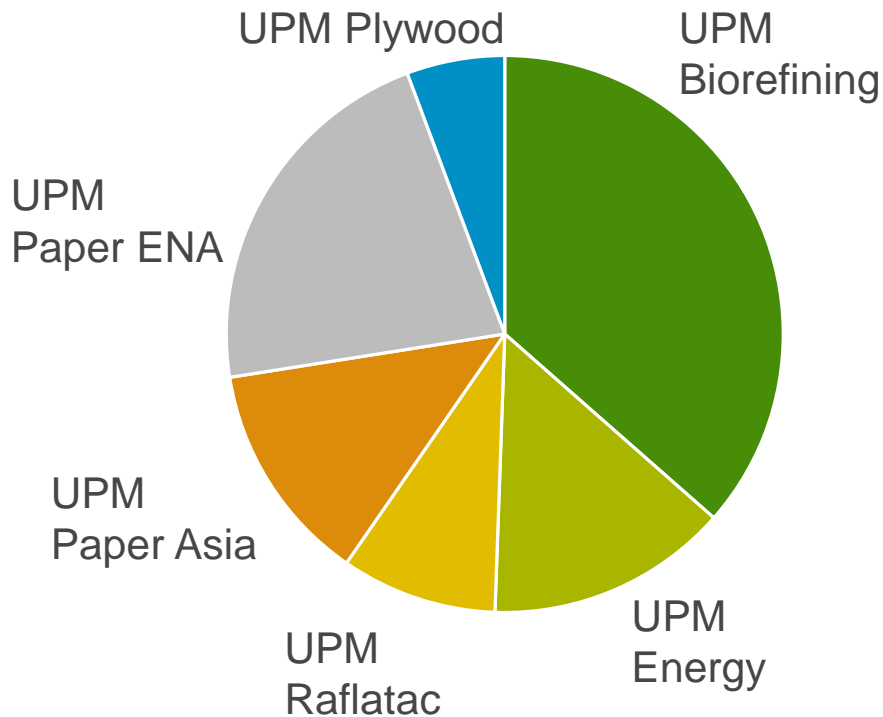
Sales	EUR 9.8bn
EBIT (*)	EUR 429m
Net debt	EUR 4.9bn
Market cap	EUR 7.9bn
Personnel	34,500

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

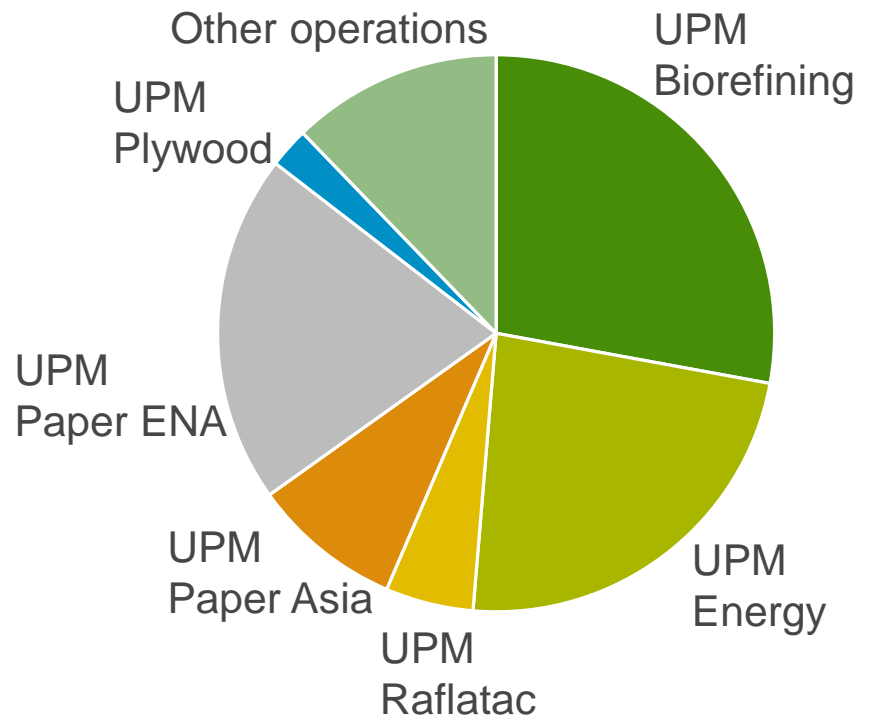
Sales	EUR 9.9bn
EBIT (*)	EUR 847m
Net debt	EUR 2.4bn
Market cap	EUR 7.3bn
Personnel	20,400

# UPM businesses by EBITDA generation and capital employed

**EBITDA Q314-Q215**  
**EUR 1,320m**

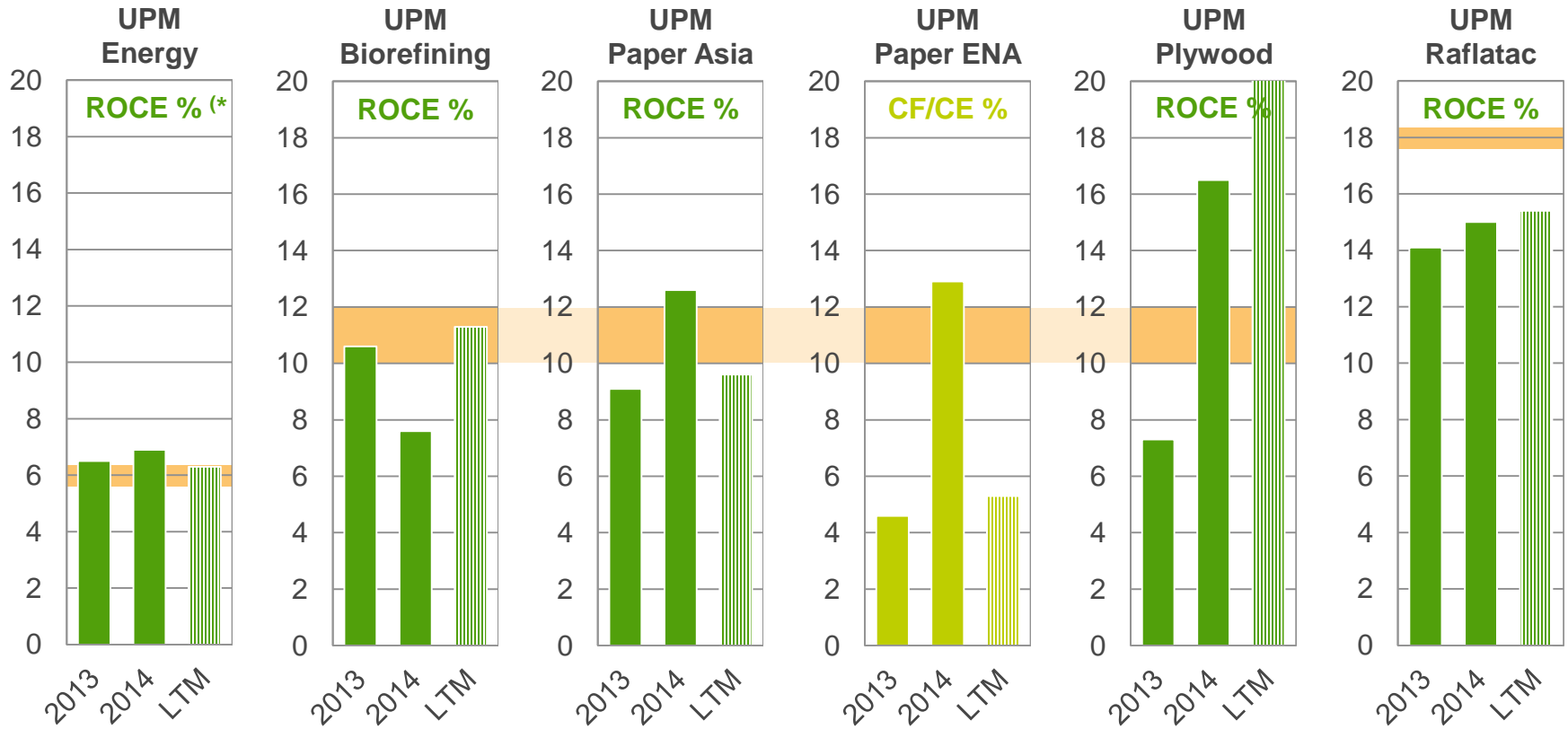


**Capital employed, June 2015**  
**EUR 11bn**





# Business area returns and long-term targets

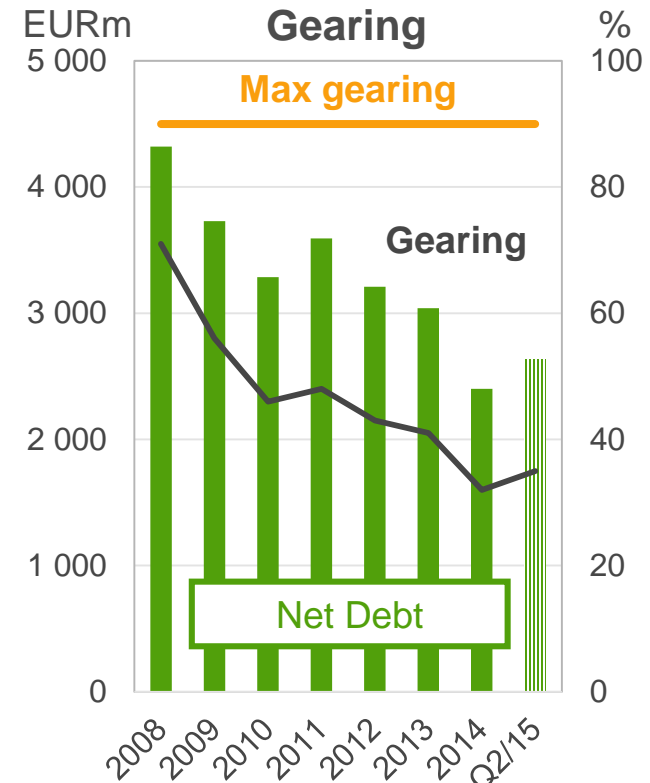
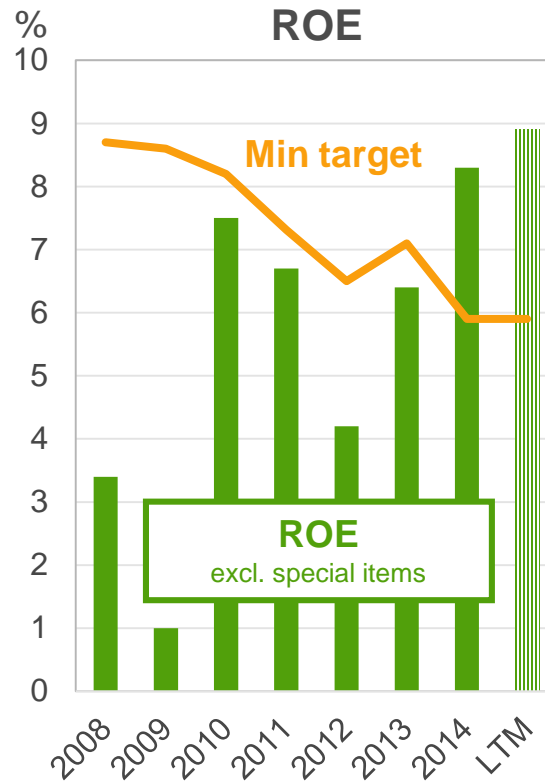
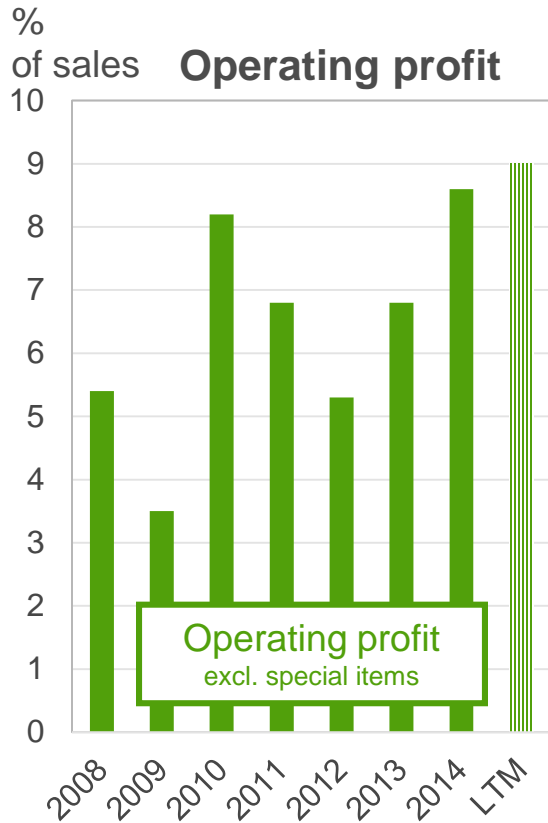


(\* shareholdings in UPM Energy valued at fair value)

Long-term return target

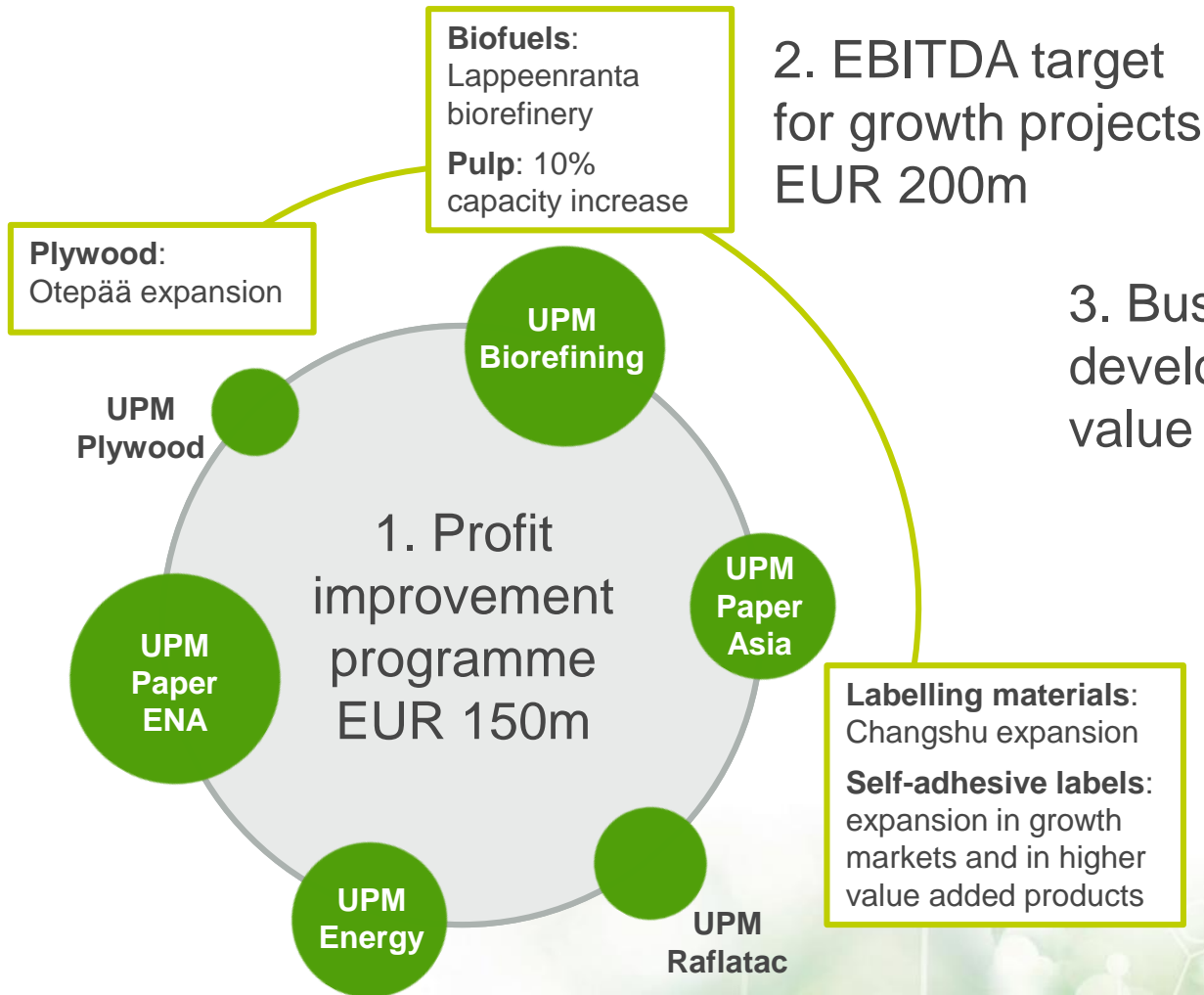


# Group profitability and targets





# UPM strategy in action



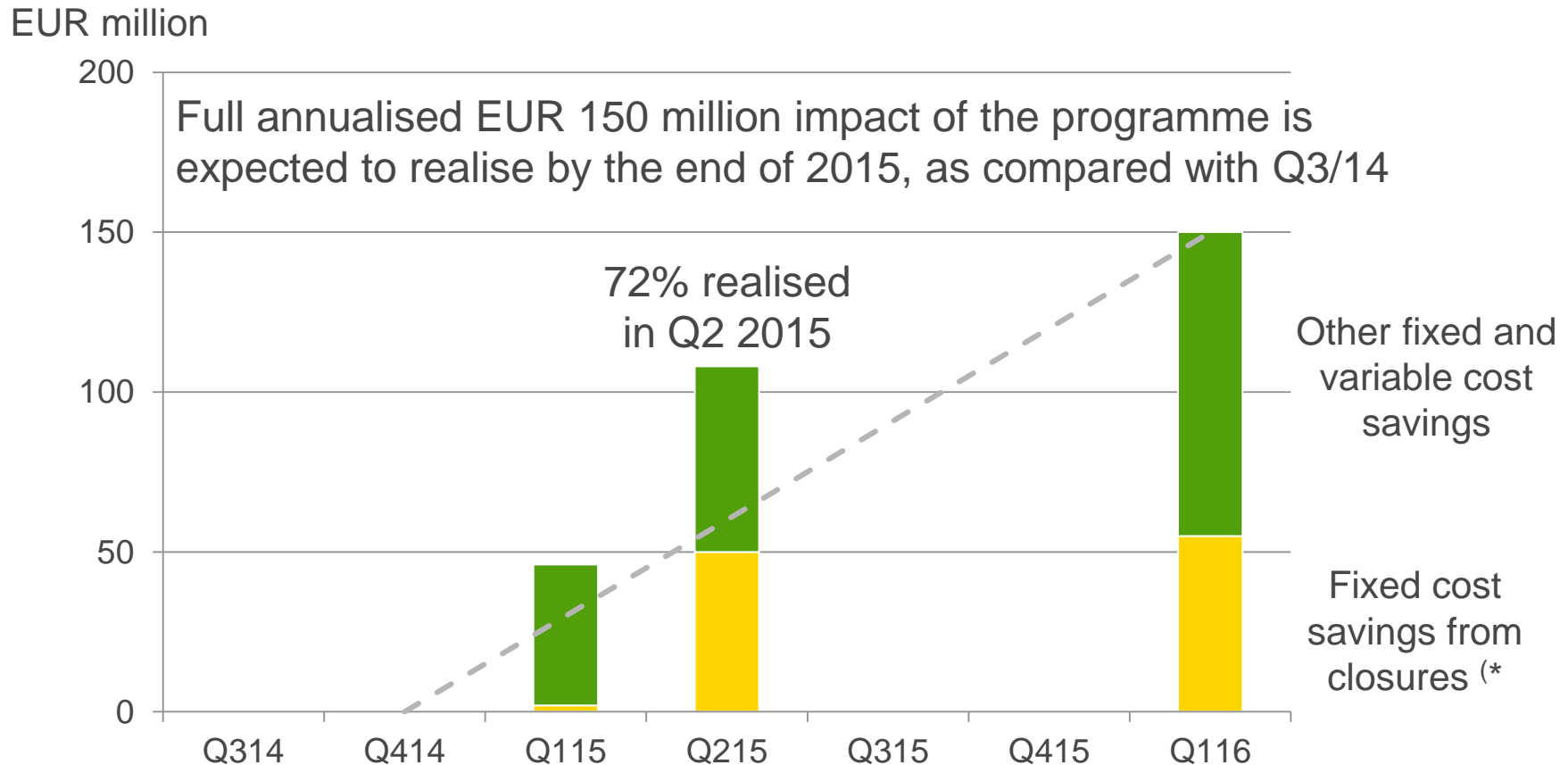
**3. Business portfolio development and value creation**

## 4. New businesses

-  BIOFUELS
-  BIOCHEMICALS
-  BIOCOMPOSITES



# 1. Profit improvement programme targeting EUR 150 million of fixed and variable cost savings



(\* 800,000 tonnes of publication paper capacity in Europe: three paper machines were closed in Q1/15, one machine was closed in Q2/15)

## 2. Growth projects in ramp-up phase or nearing start-up

– EBITDA target EUR 200m

**Pietarsaari**  
pulp mill  
expansion  
70,000t

**Fray Bentos**  
pulp mill  
expansion  
100,000t

**Lappeenranta**  
**biorefinery**  
120m litres of  
renewable diesel

**Kymi**  
pulp mill  
expansion  
170,000t

**Kaukas**  
pulp mill efficiency  
improvement, paper and  
pulp decoupling completed



Capex so far EUR 430m

Remaining Capex EUR 340m

Q2  
2014

Q3  
2014

Q4  
2014

Q1  
2015

**Q2  
2015**

Q3  
2015

Q4  
2015

Q1  
2016

Q2  
2016

Q3  
2016

Q4  
2016



**UPM Raflatac**  
50% expansion in  
APAC, growth in filmic  
labelstock in Poland

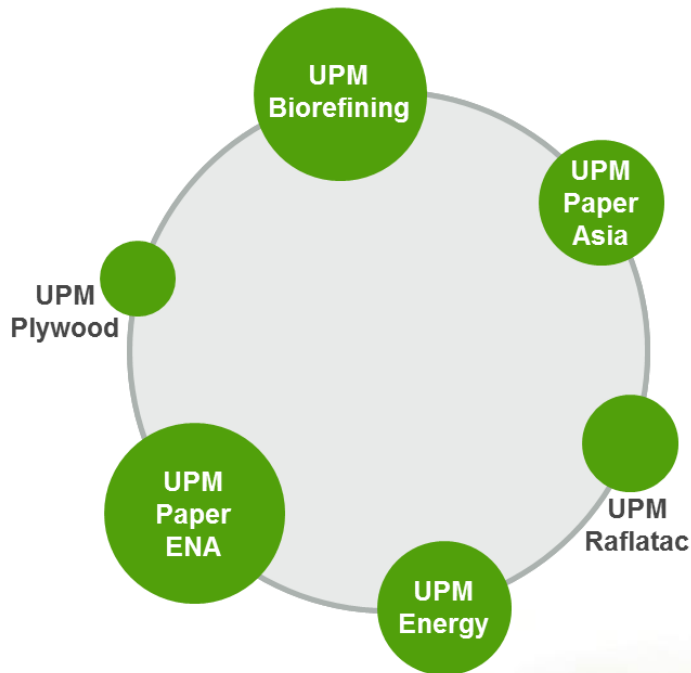


**UPM Paper Asia**  
Changshu  
new speciality  
paper machine  
360,000t



**UPM Plywood**  
Otepää mill  
expansion  
to 90,000m<sup>3</sup>

### 3. 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

## 4. New businesses based on UPM's development work



**Biofuels:** renewable diesel suitable for all diesel engines

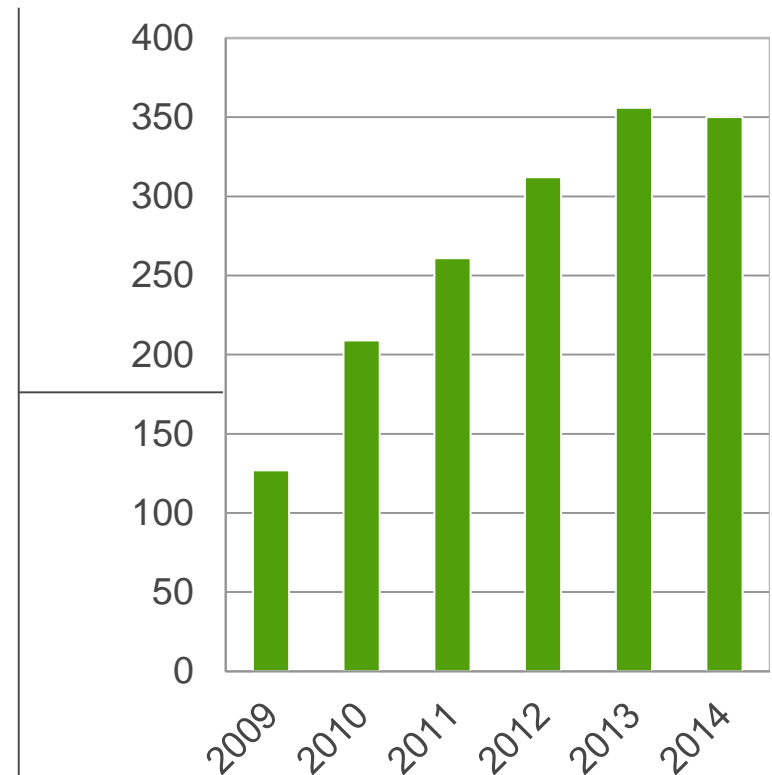


**Biochemicals:** renewable drop-in alternatives for oil-based chemicals



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

Annual patent filings 2009–2014



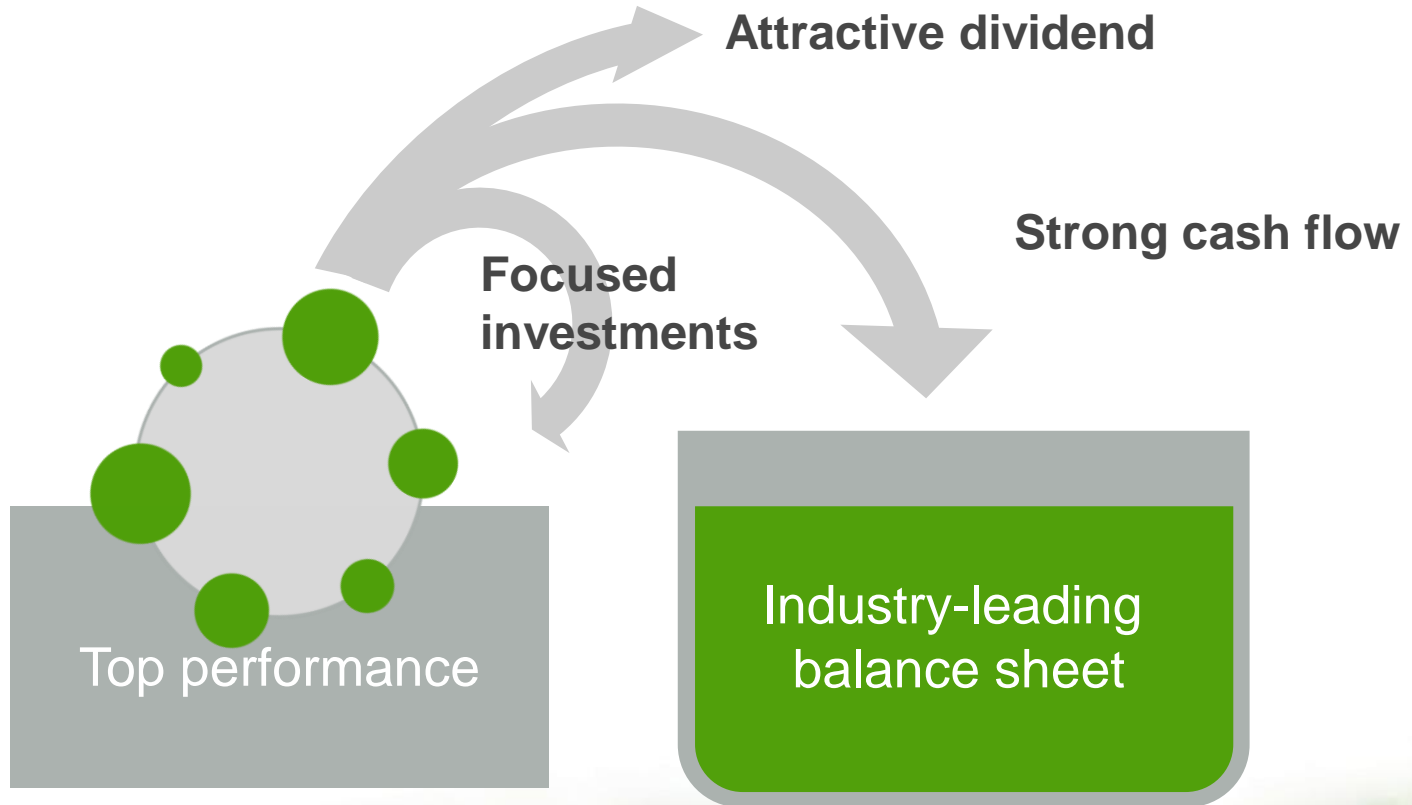
**MORE WITH BIOFORE**



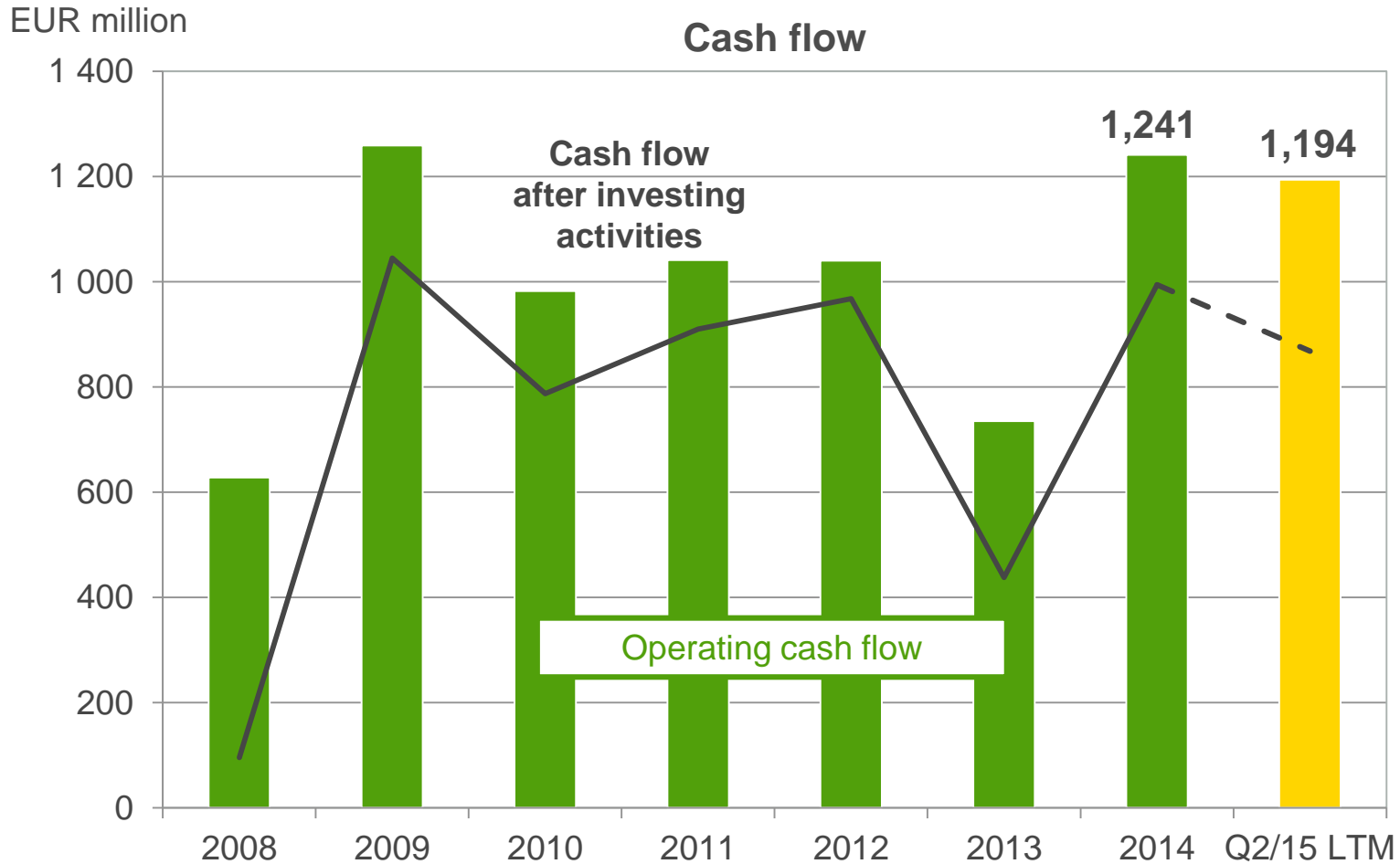
The Biofore Company **UPM**

# CAPITAL ALLOCATION

# Strengths of UPM's model

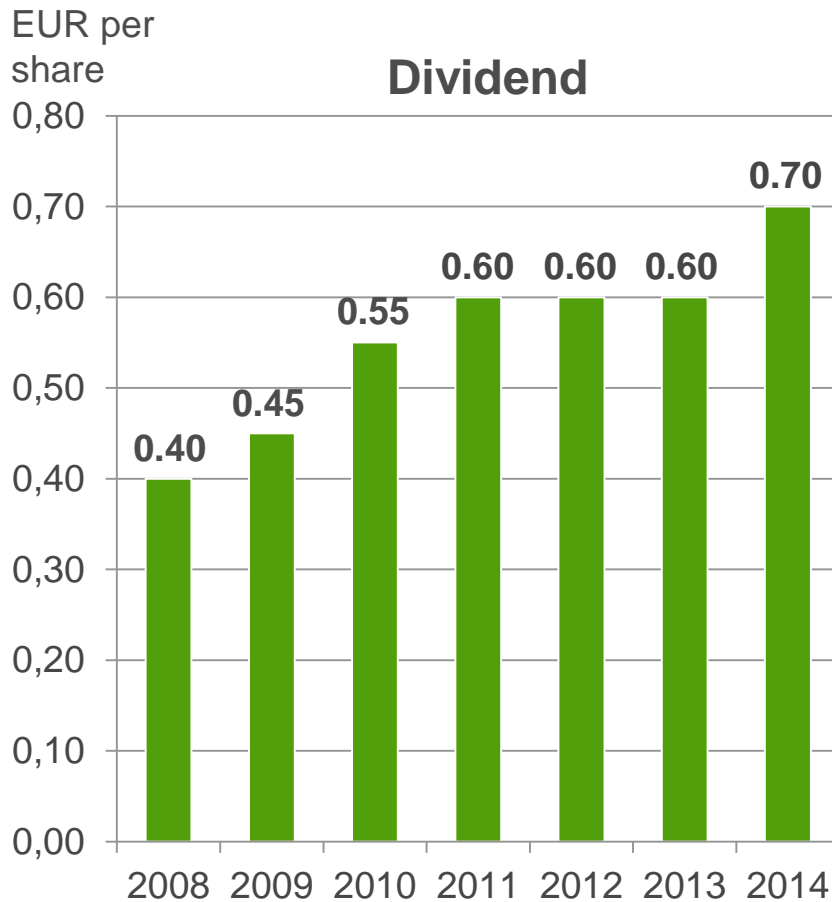


# Strong cash flow





## Dividend policy based on cash flow



### Dividend policy

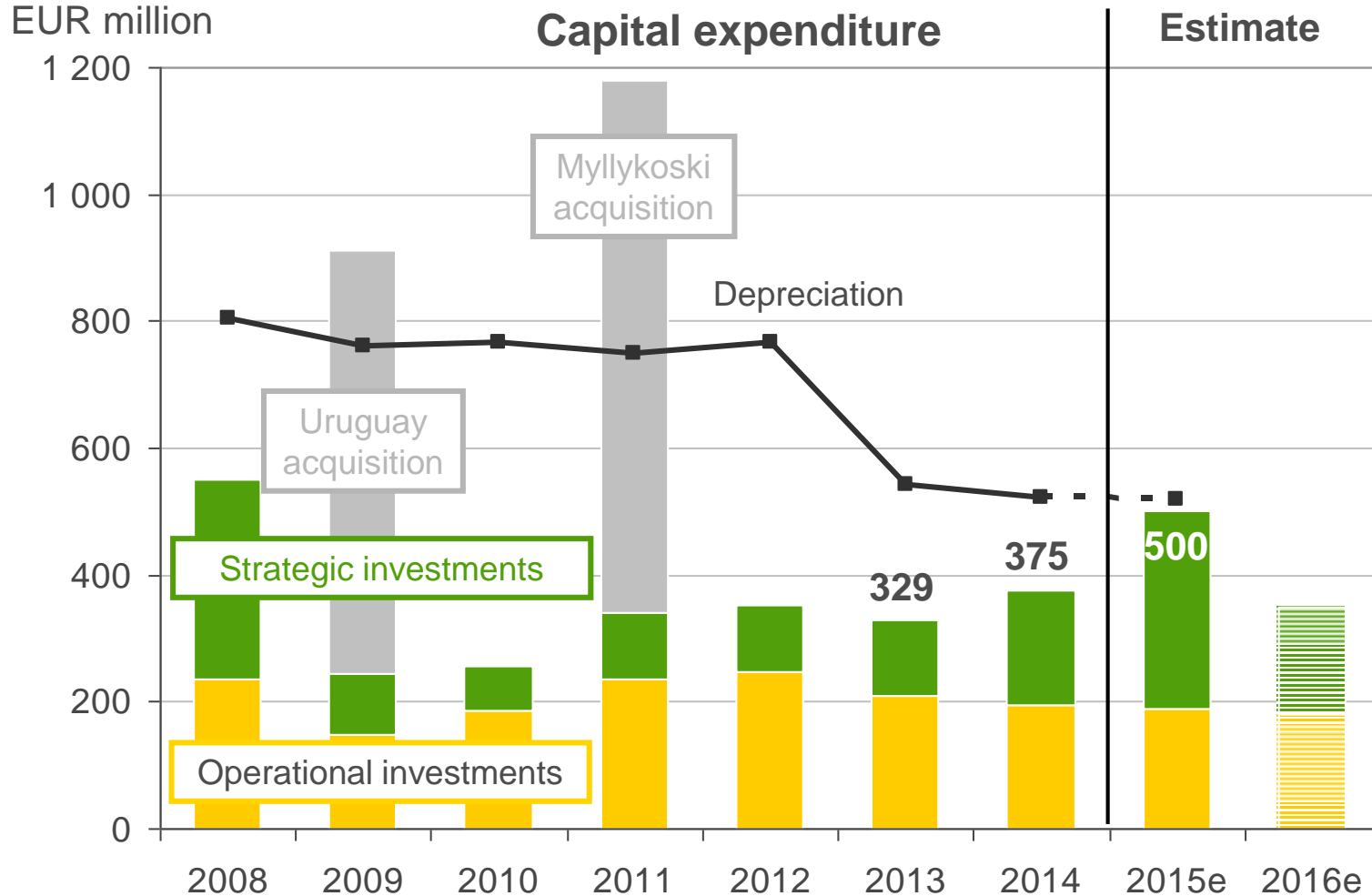
- UPM aims to pay an attractive dividend, 30-40% of operating cash flow per share

### Dividend for 2014

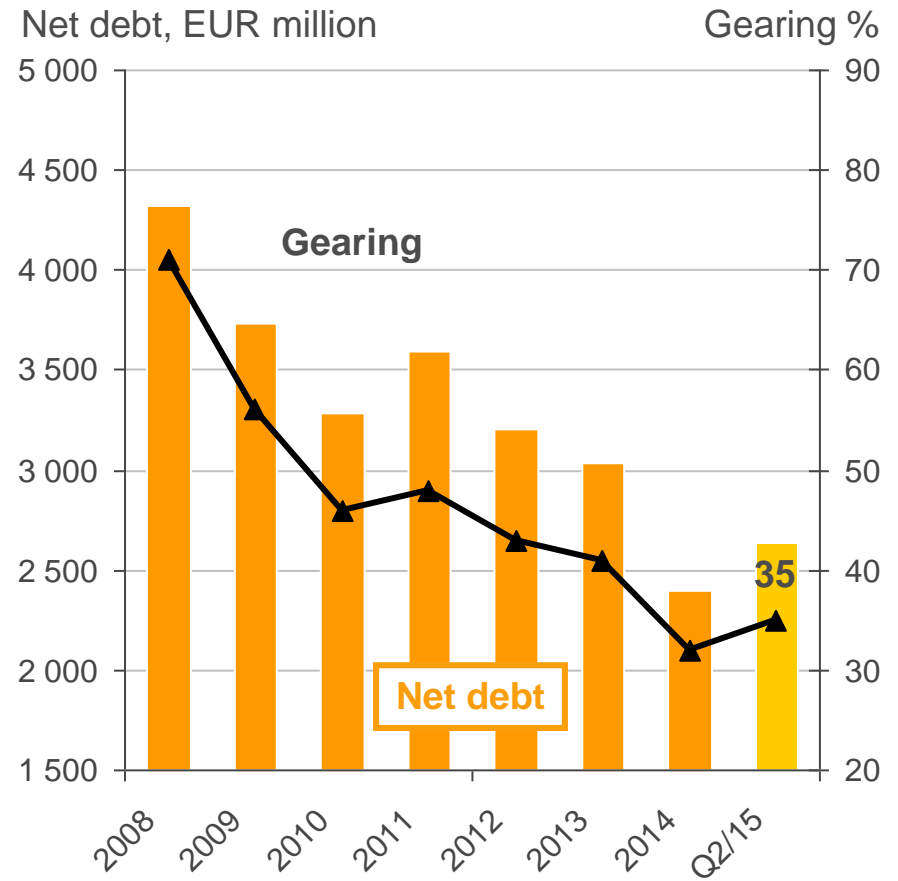
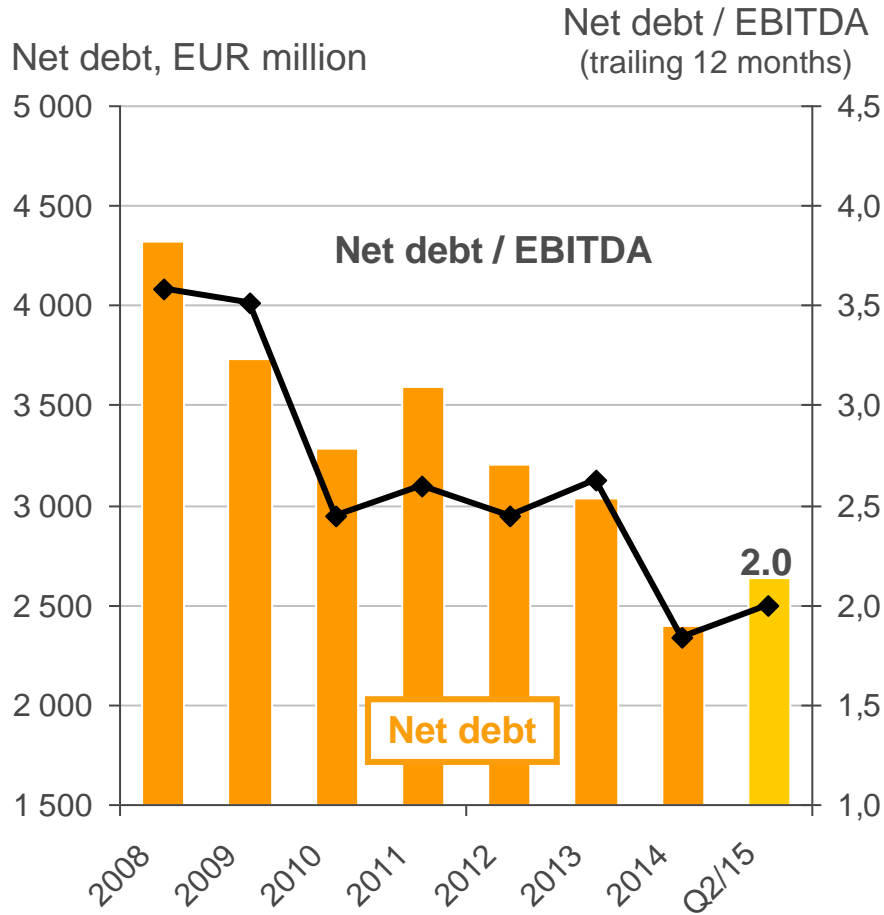
- EUR 0.70 (0.60) per share
- 30% of 2014 operating cash flow per share



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



# Strong balance sheet



# Q2 2015 RESULTS



## Q2 2015 – improvement year-on-year

### Q2 2015 vs. Q2 2014:

Sales EUR 2,548m	▲	+4%	ROE (*) 9.1%	▲	+1.8pp
EBITDA EUR 317m	▲	+12m	Operating cash flow EUR 324m	▲	+109m
Operating profit (*) EUR 227m	▲	+41m	Net debt EUR 2,635m	▼	-290m
Profit before tax (*) EUR 203m	▲	+34m	Net debt / EBITDA 2.0x	▼	-0.4x
EPS (*) EUR 0.33	▲	+0.07	Operating cash flow / share, 12 month EUR 2.24	▲	+0.31



## Summary

### Operating profit increased in H1 2015

- Profit improvement actions and currencies outweighed the market headwinds in UPM Paper ENA and UPM Energy

### UPM is well positioned for earnings growth

- Profit improvement programme continues
- More than half of the growth capex has been invested, nearly all of the EUR 200m EBITDA impact is yet to come
- Current exchange rates promise further tailwind

### Strong cash flow and balance sheet

- ➔ UPM is in a unique position to simultaneously distribute attractive dividend, implement growth projects and act on strategic opportunities



**UPM**

The Biofore  
Company