

# UPM STRATEGY

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President and CEO



# UPM IN TRANSFORMATION





# UPM has implemented a major transformation

	<b>2008</b> vertically integrated paper company	<b>2015</b> six separate businesses	<b>Business model</b> Promotes value creation
<b>Sales</b>			<b>Business portfolio</b> Increasing share of businesses with strong long-term fundamentals for profitability and growth
<b>Sales</b>	EUR 9.5bn	EUR 10.1bn	<b>Business performance</b>
<b>EBIT<sup>*)</sup></b>	EUR 513m	EUR 916m	Continuous improvement in financial, social and environmental performance
<b>ROE<sup>*)</sup></b>	3.5%	9.5%	
<b>Net debt</b>	EUR 4.3bn	EUR 2.1bn	<b>Disciplined capital allocation</b>
<b>Market cap</b>	EUR 4.7bn	EUR 9.2bn	Driving value creation

<sup>\*)</sup> excluding special items for 2008, comparable figures for 2015

# BUSINESS PORTFOLIO

Increase long-term shareholder value

# UPM business portfolio today <sup>\*)</sup>

## Competitive businesses, strong market positions

**UPM PLYWOOD**  
*Plywood, veneer*  
**#1 in Europe**

**UPM PAPER ENA**  
*Graphic papers*  
**#1 in Europe**

**UPM PAPER ASIA**  
*Labeling materials,  
office and fine papers*  
**Label papers: #1 globally**  
**High-end office papers:  
#1 in China**

**UPM RAFLATAC**  
*Self-adhesive labels*  
**#2 globally**

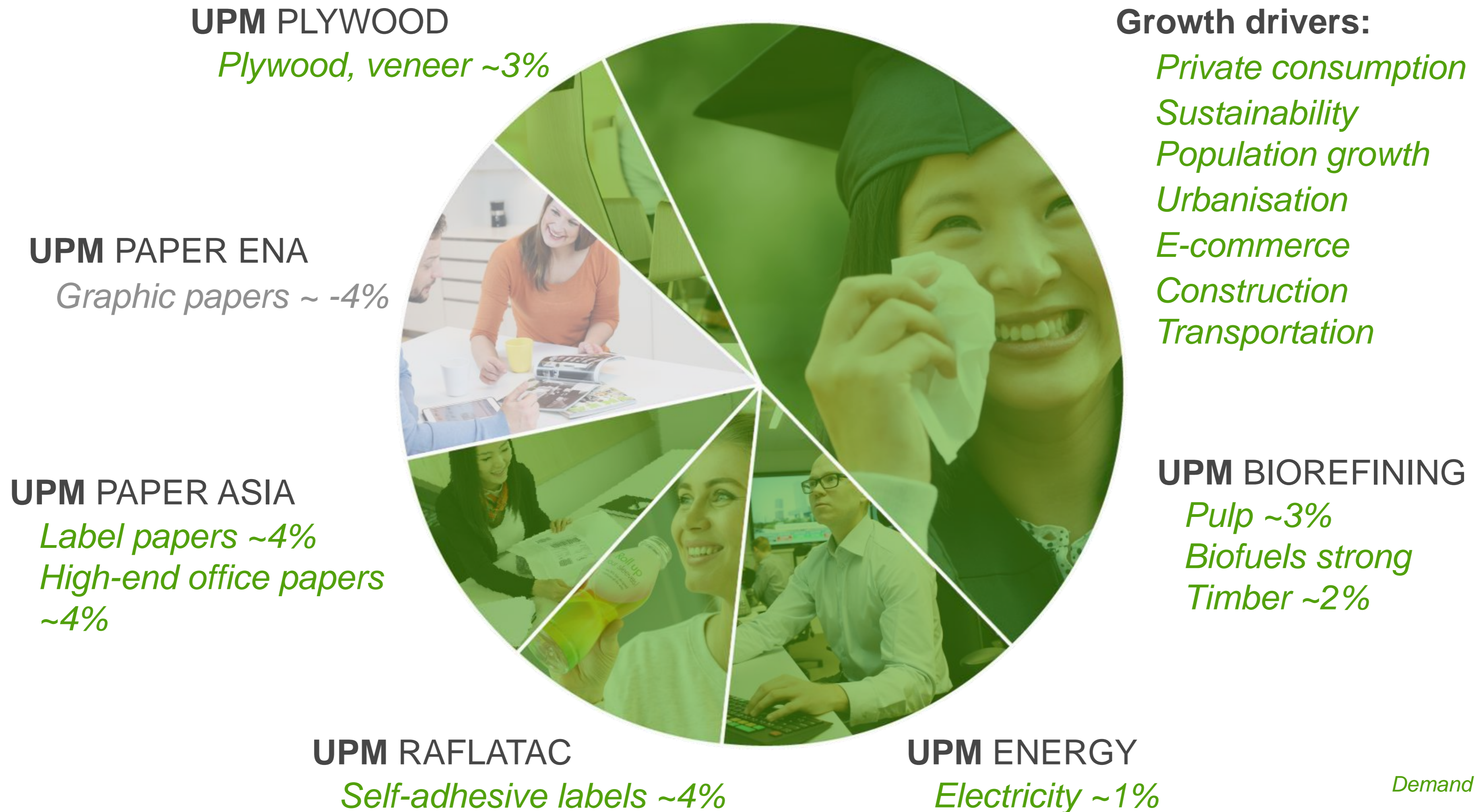
**UPM BIOREFINING**  
*Pulp*  
*Biofuels*  
*Timber*  
**#6 globally**

**UPM ENERGY**  
*Electricity*  
**#2 in Finland**



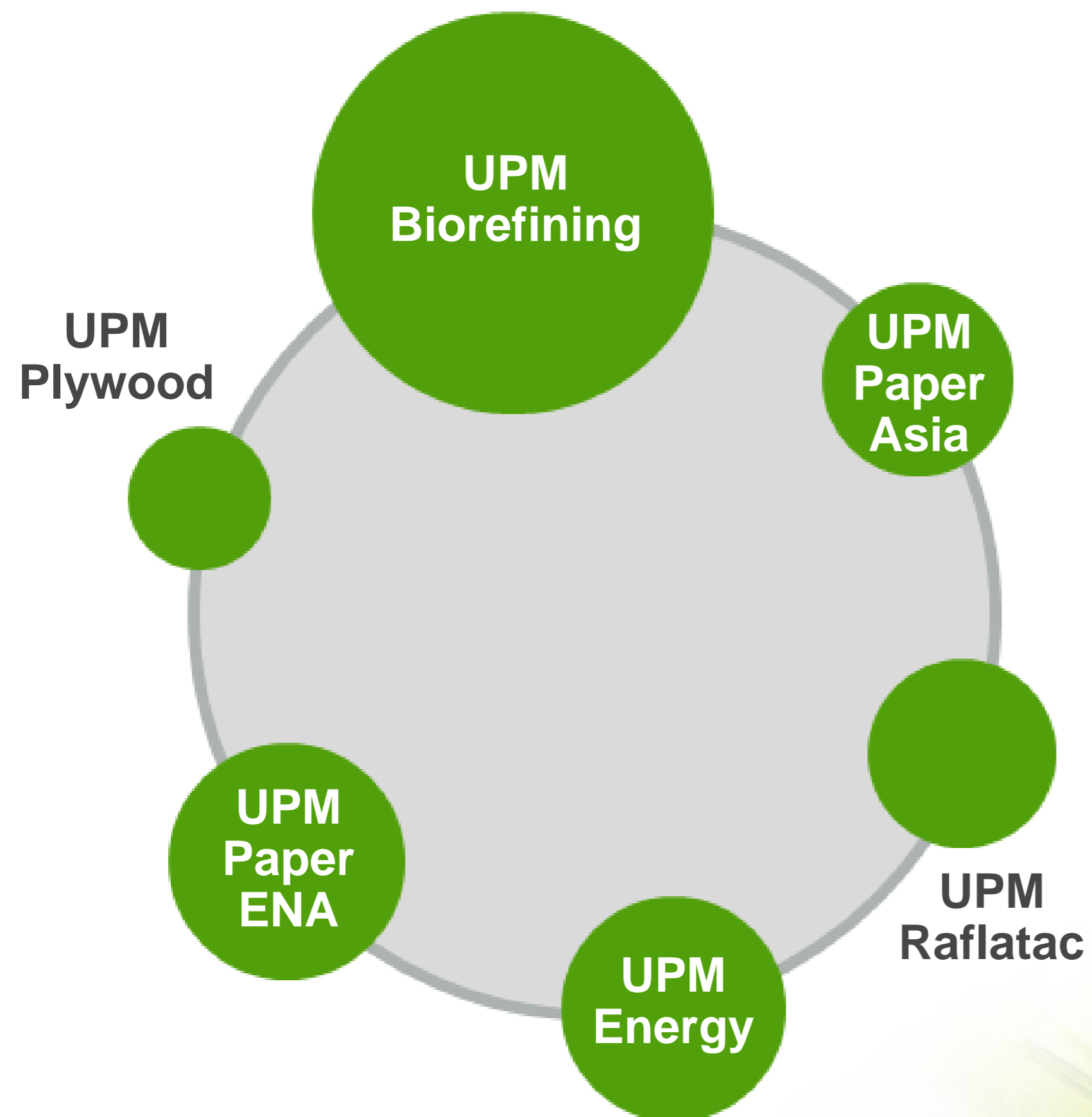
# UPM business portfolio today <sup>\*)</sup>

## Operating on healthily growing markets



<sup>\*)</sup> by EBITDA 2015.  
Demand trend growth, % pa

# Portfolio development: increase long-term shareholder value



- **Developing each business**  
Increase their value by driving profitability, growth and cash flow  
*Commercial strategies, focused growth investments, cost efficiency measures*
- **Developing the business portfolio**  
Increasing share of businesses with strong long-term fundamentals for profitability and growth  
*Growth investments, synergistic M&A*
- **Portfolio changes**  
If it would be the best way to increase long-term shareholder value



# BUSINESS MODEL PROMOTES VALUE CREATION

Improving performance,  
opening growth opportunities  
and enabling portfolio changes



# Case: UPM Kymi pulp and paper mill

**Earlier:** Traditional integrated model

## Integration synergies

- + Pulp drying and transportation costs
- + Energy integration
- + Infrastructure

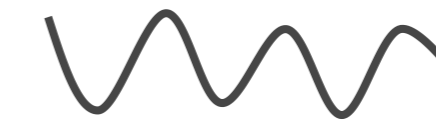
Forest  
suppliers



**Pulp mill**  
530kt



**Paper mill**  
800kt



Paper  
customers

- Inflexible in terms of operations and inputs
- Low transparency
- Allocation of investments
- Paper demand driven

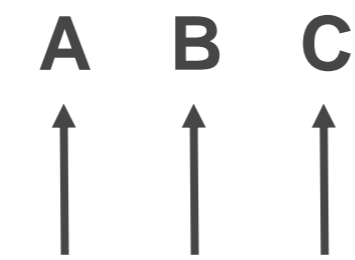
# Case: UPM Kymi pulp and paper mill

**Now:** Separate pulp and paper businesses

Growing pulp markets and end-uses

Customers

Tissue  
Spec. papers  
Board, etc.

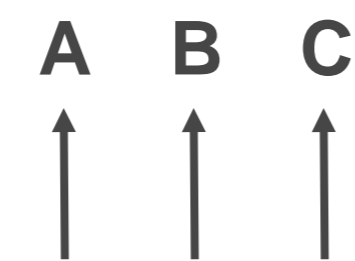


P&L

Maintain synergies

Pulp mill  
530 + 340 = 870kt  
UPM Biorefining

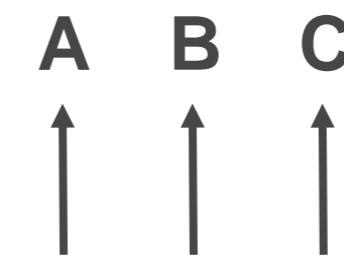
Focused growth investments



Forest, Other

Customers

Advertisers  
Printers  
Mechants, etc.



P&L

Paper mill  
800kt  
UPM Paper ENA

Different paper end-use trends

Commercial strategies, product mix and service development

Transparency, benchmarking, targets, incentives

Agility, improved efficiency

Optimised sourcing, raw material mix



Fibre, Other

- + Growing sales
- + Increased EBIT, CF
- + Higher ROCE

# Case: market-driven value creation in the labelling value chain



**Growing markets and end-uses, diverse customer needs**

**Focused growth investments**

**Commercial strategies, product and mix development, R&D**

**Transparency, benchmarking, targets, incentives**

**Agility, improved efficiency**

**Optimised sourcing, R&D**

- + Growing sales
- + Increased EBIT, CF
- + Higher ROCE



# Clear roles and decision making on right level

## Group

Portfolio strategy  
Capital allocation  
Business targets  
Code of conduct  
Responsibility targets

## Businesses

Business area strategies  
Commercial excellence  
Operational excellence  
Cost efficiency measures  
Focused growth projects  
Innovation

## Outcomes

Top performance  
Competitive advantage  
Value creation  
Stakeholder value  
License to operate



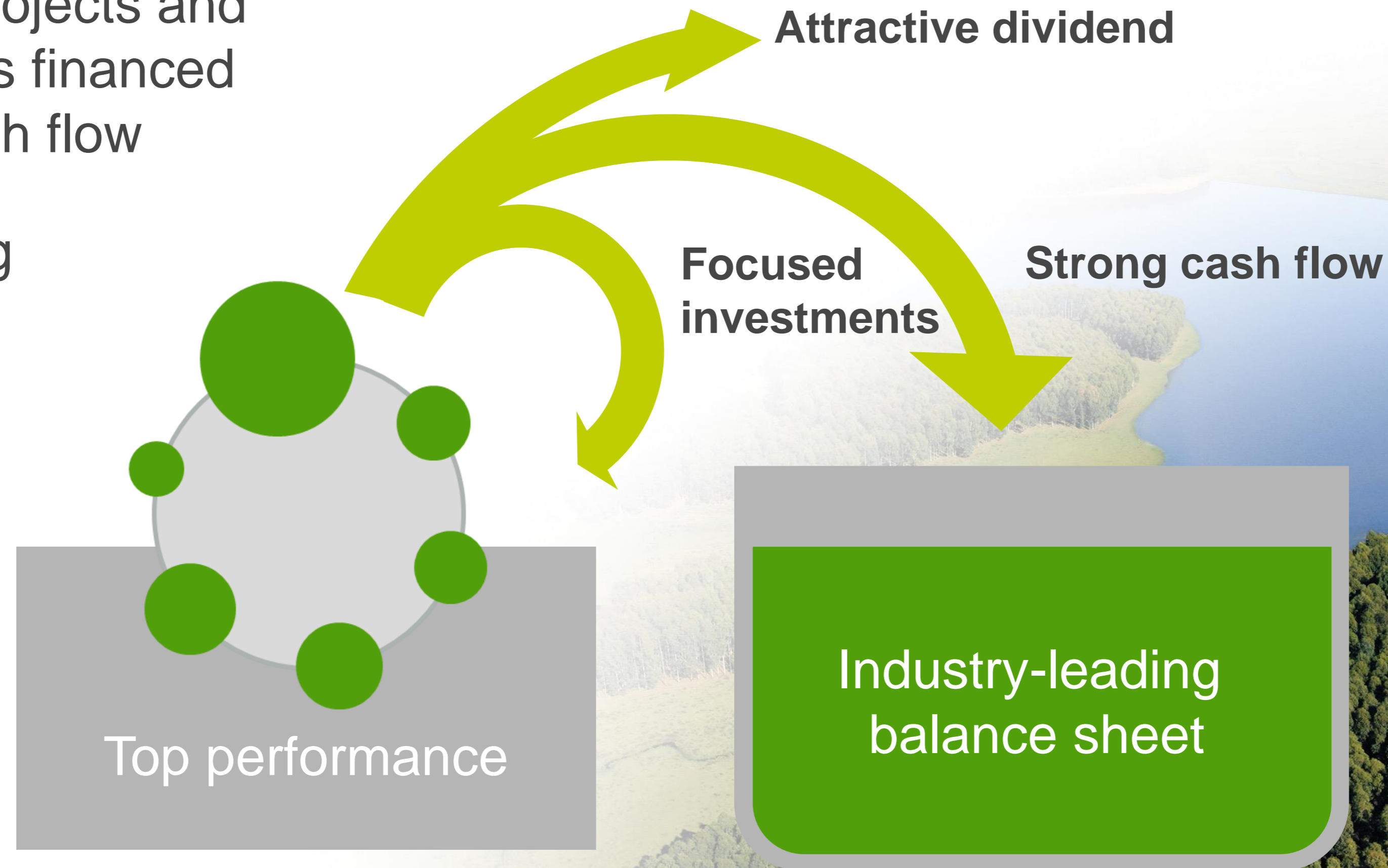
# DISCIPLINED CAPITAL ALLOCATION

Focused growth investments  
Attractive dividend  
Consistently strong balance sheet

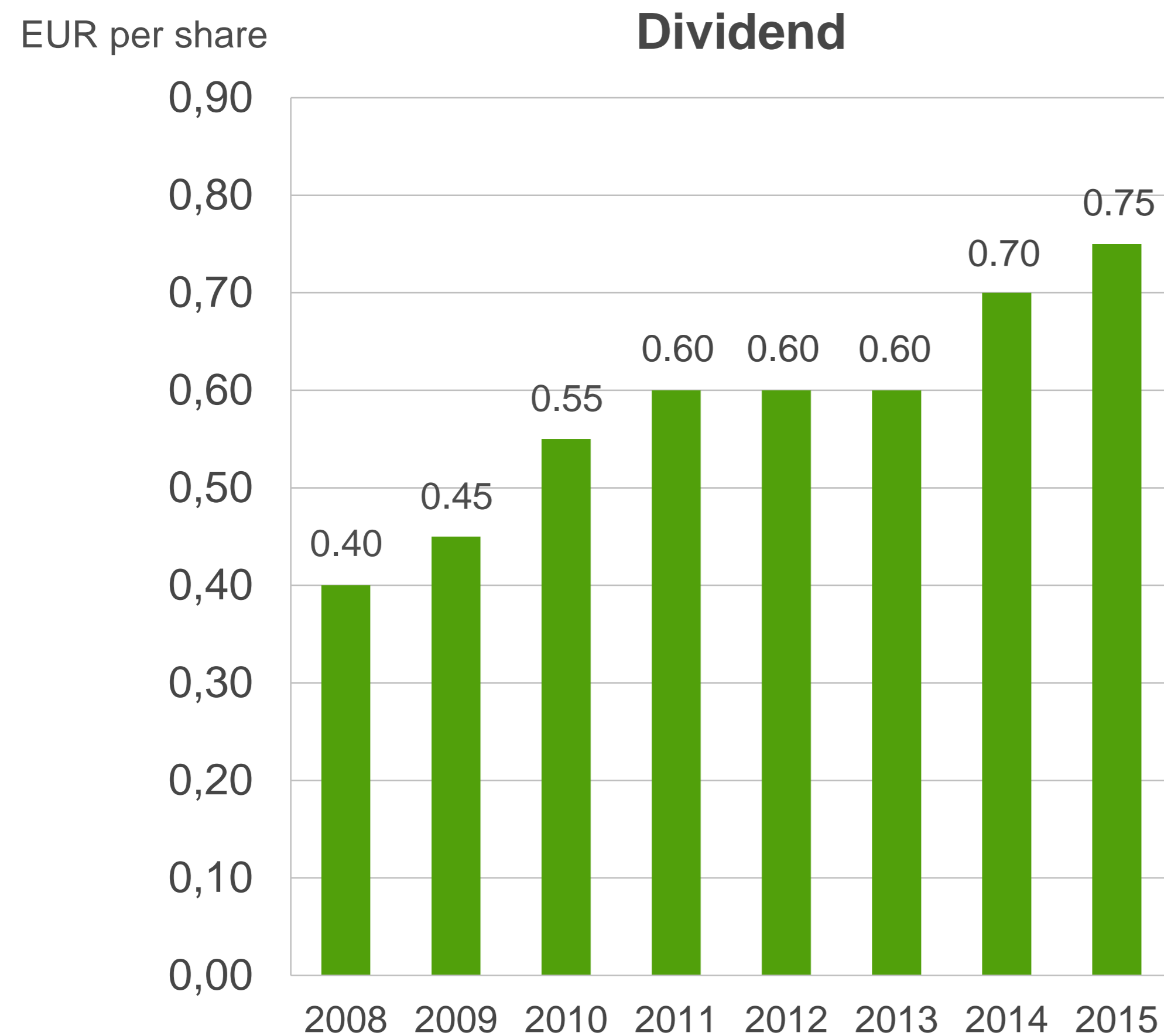
# Disciplined capital allocation

Focused growth projects and attractive dividends financed from operating cash flow

Consistently strong balance sheet



# Attractive dividend supported by increasing operating cash flow



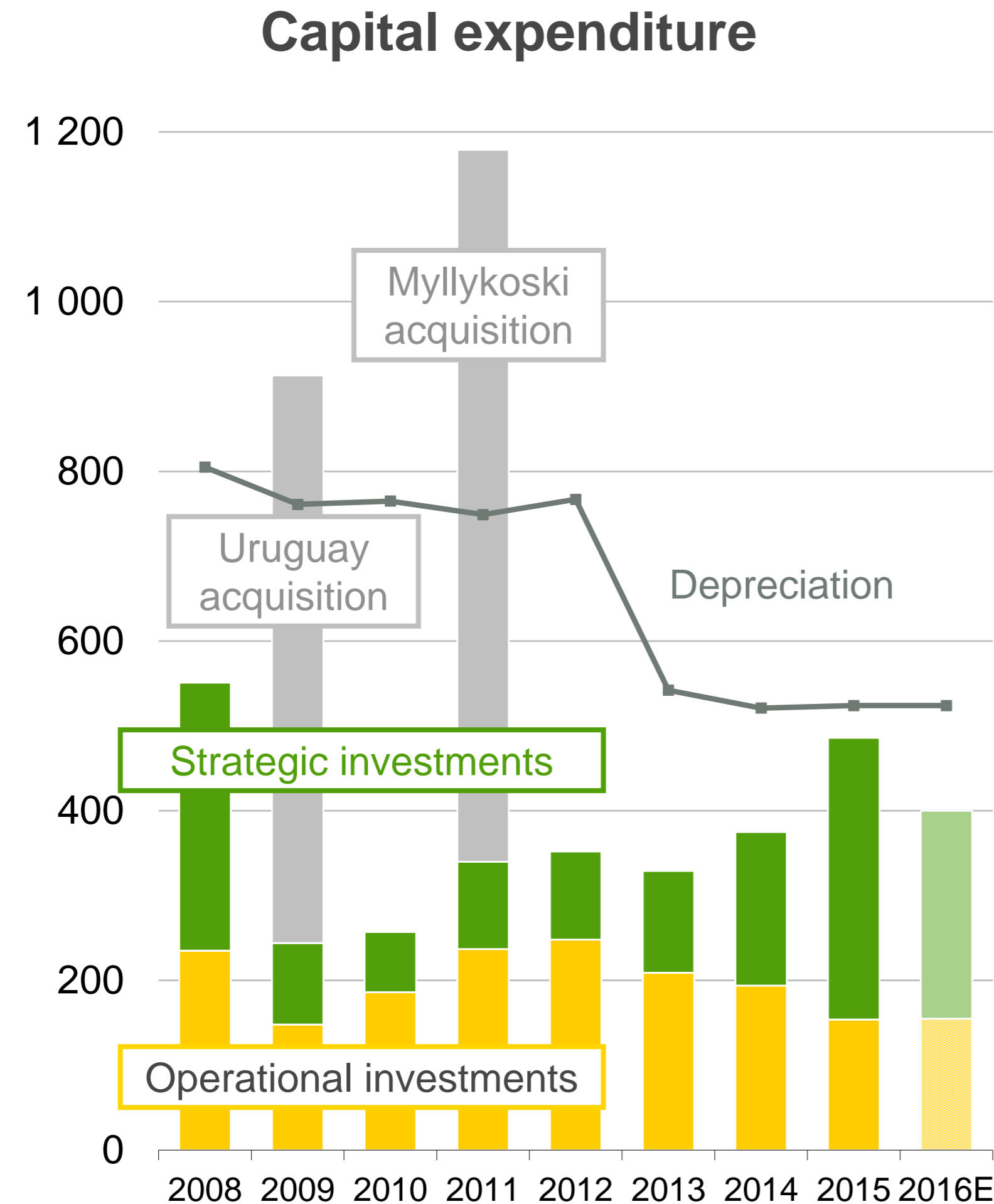
## Dividend policy

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

## Dividend for 2015

- EUR 0.75 (0.70) per share, totalling EUR 400m
- 34% of 2015 operating cash flow (EUR 1,185m)

# UPM will continue to invest on growth through focused growth projects with modest total capex



## Focused growth investments

- ✓ Good returns and fast payback
- ✓ Low implementation risk
- ✓ Financed from operating cash flow

## Low replacement investments

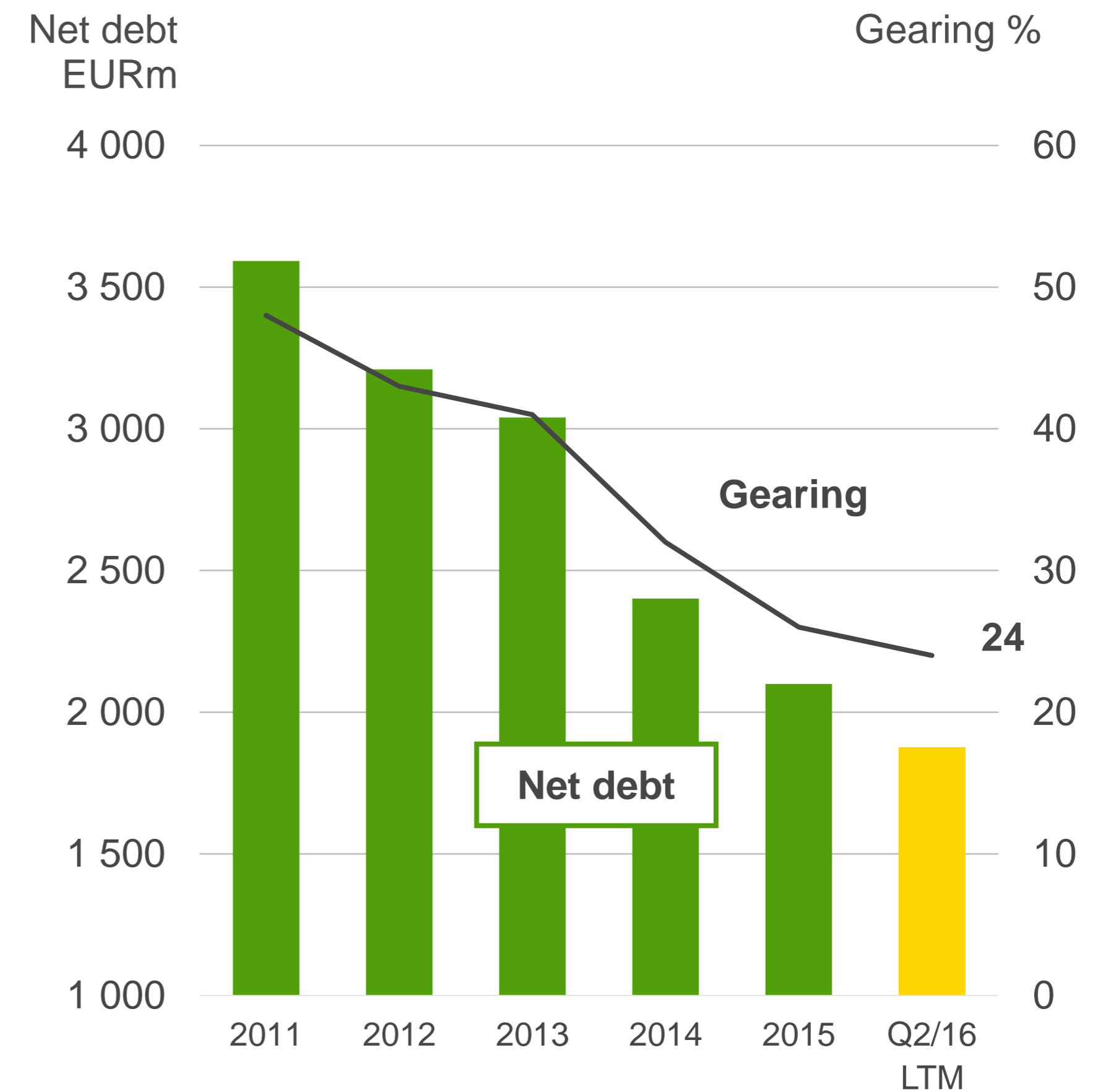
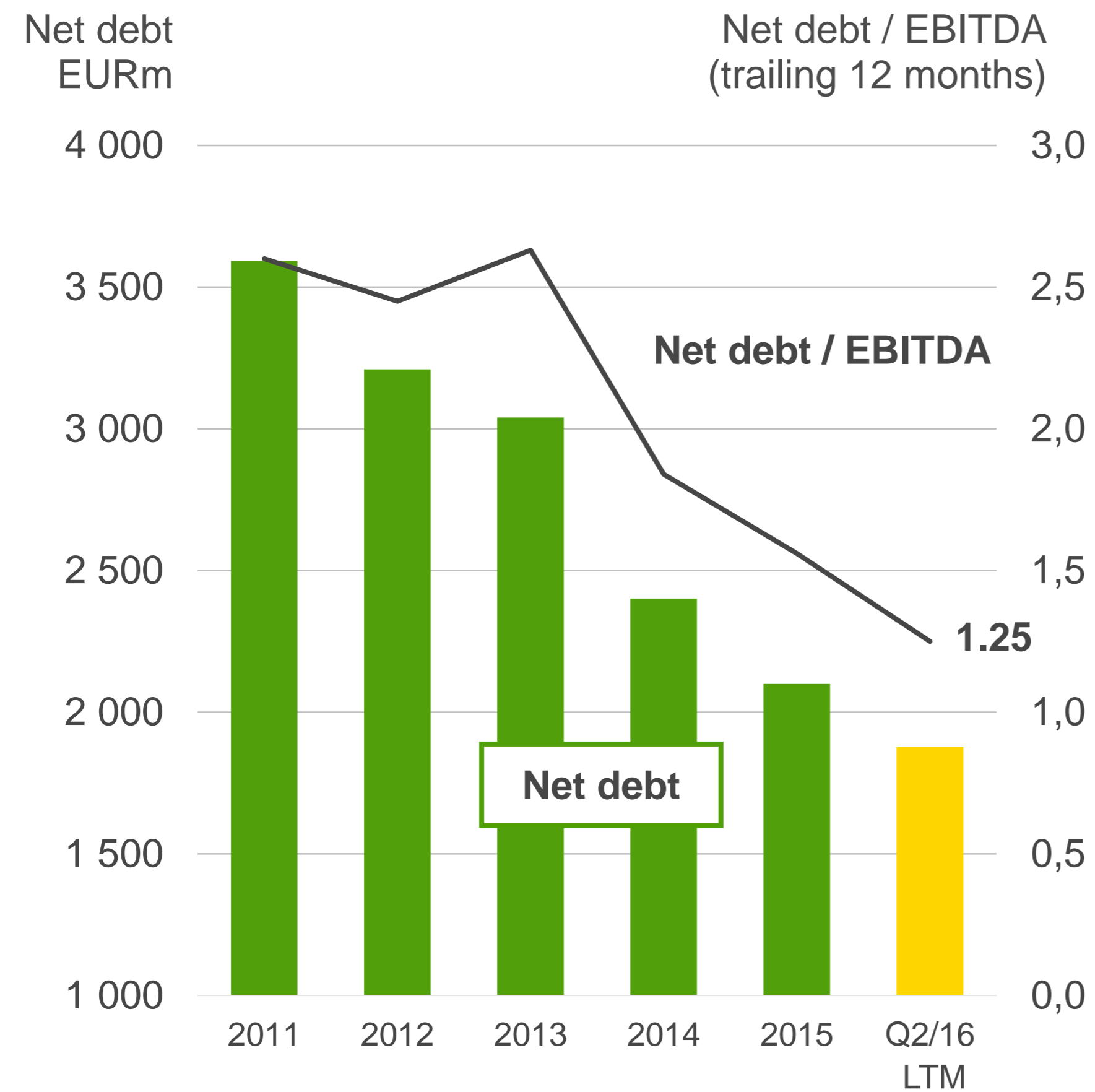
- ✓ Asset quality in all businesses, e.g. large competitive pulp mills
- ✓ UPM Paper ENA

▶ Modest total capex, attractive returns and continuously strengthening balance sheet





# UPM aims to maintain strong balance sheet





# Value creating capital allocation options

## Annual cash flow

- Focused growth investments, focused M&A
- Distribution to shareholders
- Debt reduction

## Balance sheet

- M&A, when the opportunity and timing are right
  - Continues the business portfolio transformation
  - Synergistic with attractive returns
  - In the businesses where UPM is investing on growth
- Next step in pulp, if the prerequisites are in place and the opportunity and timing are right
- In all cases, UPM aims to maintain strong balance sheet

# PORTFOLIO OF OPPORTUNITIES

# Portfolio of opportunities within UPM's disciplined capital allocation

## Pulp

- **Focused growth investments, major investments, M&A**  
*Decisions and timing based on the merits of each case*
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## Raflatac Speciality papers Plywood Energy

- **Focused growth investments, M&A**  
*Decisions and timing based on the merits of each case*
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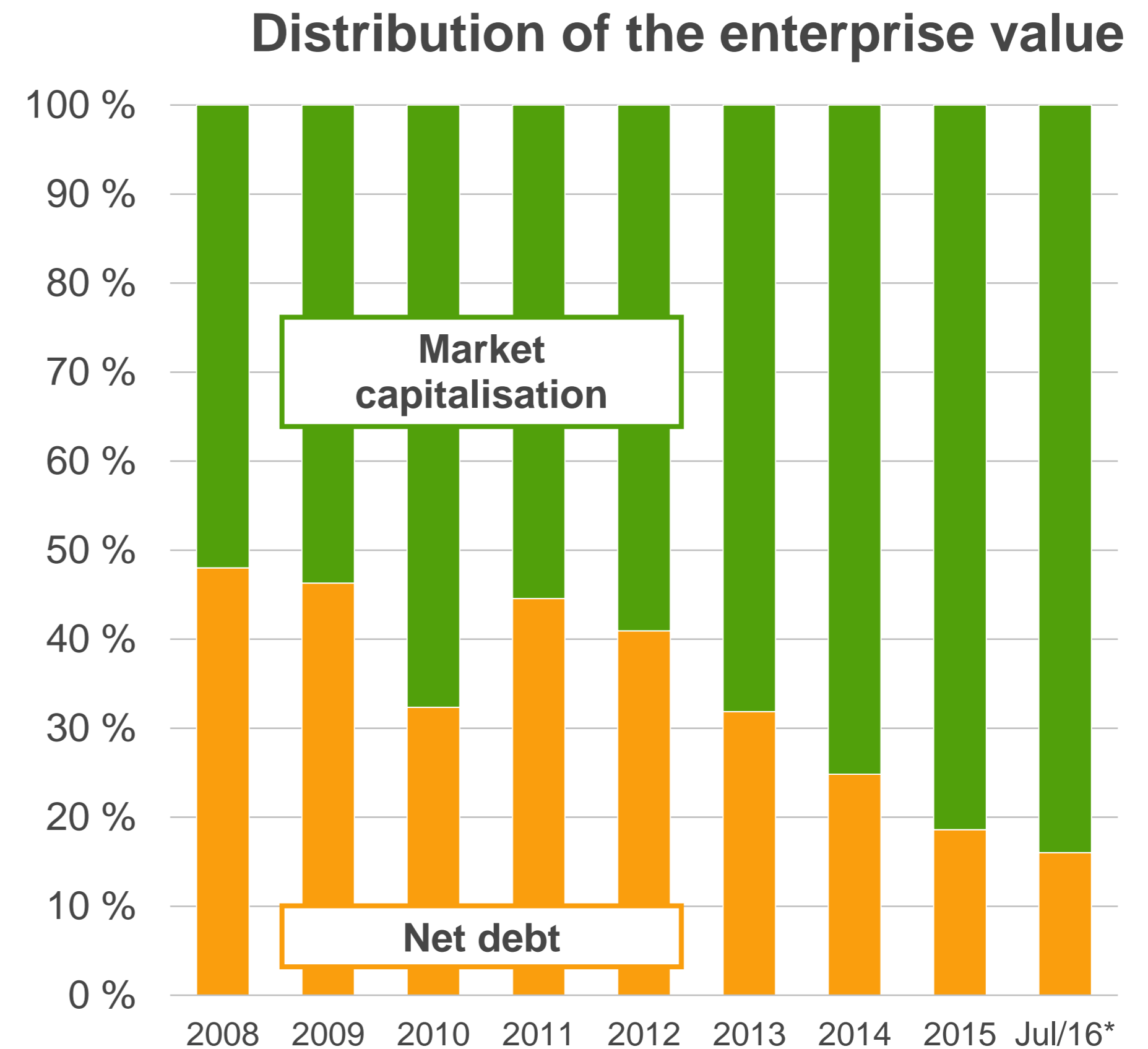
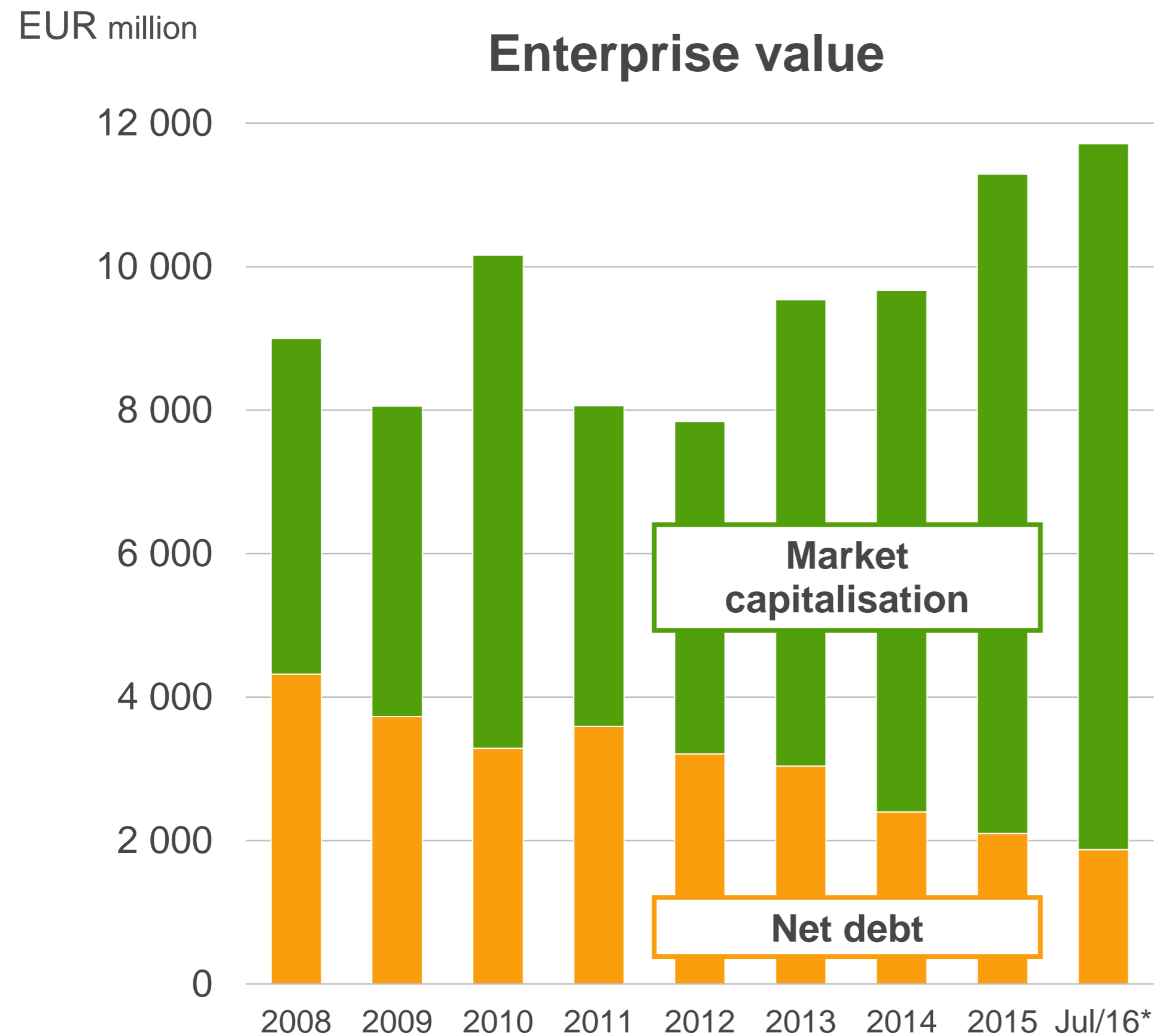
## Biofuels Biochemicals

- **Focused growth investments, M&A, new business creation**  
*Decisions and timing based on the merits of each case*
- 

## Paper ENA

- **Cash flow and release of capital**  
*Efficient and competitive business system*

# UPM's transformation and disciplined capital allocation have increased shareholder value



\*) Net debt as of 30 June 2016



**UPM**

The Biofore  
Company