

# UPM – THE BIOFORE COMPANY

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CFO





# UPM has implemented a major transformation

|                   | <b>2008</b><br>vertically integrated<br>paper company | <b>2015</b><br>six separate businesses | <b>Business model</b><br>Promotes value creation  |
|-------------------|---|--|---|
| <b>Sales</b>      |   |  | <b>Business portfolio</b><br>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 *)</b>    | EUR 513m  | EUR 916m                               | Continuous improvement in financial, social and environmental performance   |
| <b>ROE *)</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  |

\*) excluding special items for 2008, comparable figures for 2015

# 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**

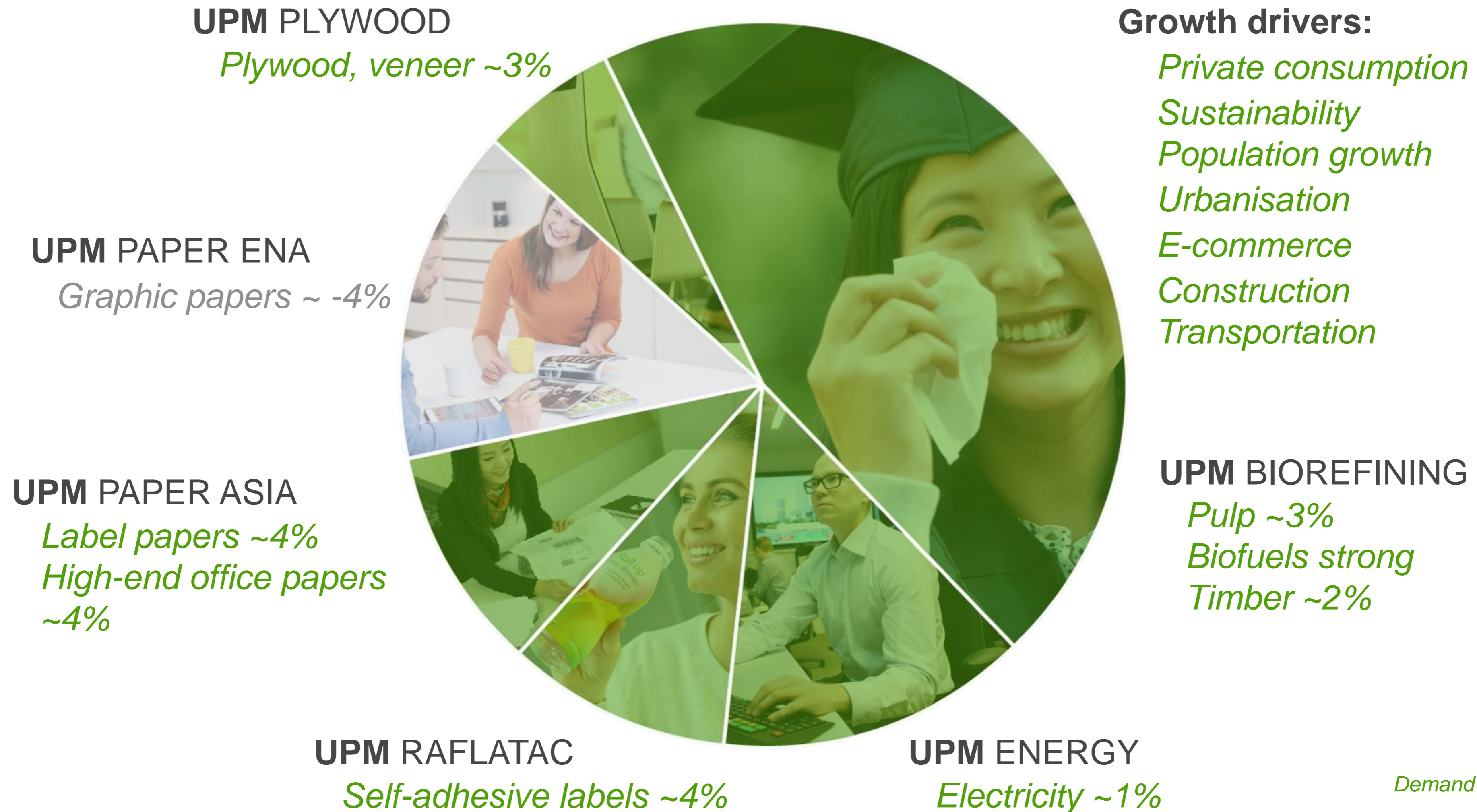
**UPM BIOREFINING**  
*Pulp*  
*Biofuels*  
*Timber*  
**#6 globally**

**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



# 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

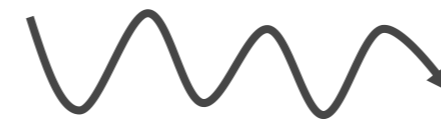
## Integration synergies

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

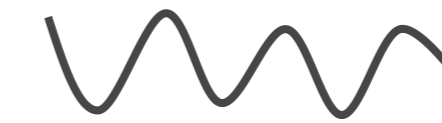
Forest  
suppliers



**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.

A B C  
↑ ↑ ↑



P&L

Maintain synergies

Pulp mill  
530 + 340 = 870kt  
UPM Biorefining

Focused growth investments

A B C  
↑ ↑ ↑

Forest, Other

Customers

Advertisers  
Printers  
Mechants, etc.

A B C  
↑ ↑ ↑



P&L

Different paper end-use trends  
Commercial strategies, product mix and service development

Paper mill  
800kt  
UPM Paper ENA

Transparency, benchmarking, targets, incentives

Agility, improved efficiency

Optimised sourcing, raw material mix

A B C  
↑ ↑ ↑

Fibre, Other

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

# FINANCIAL PERFORMANCE

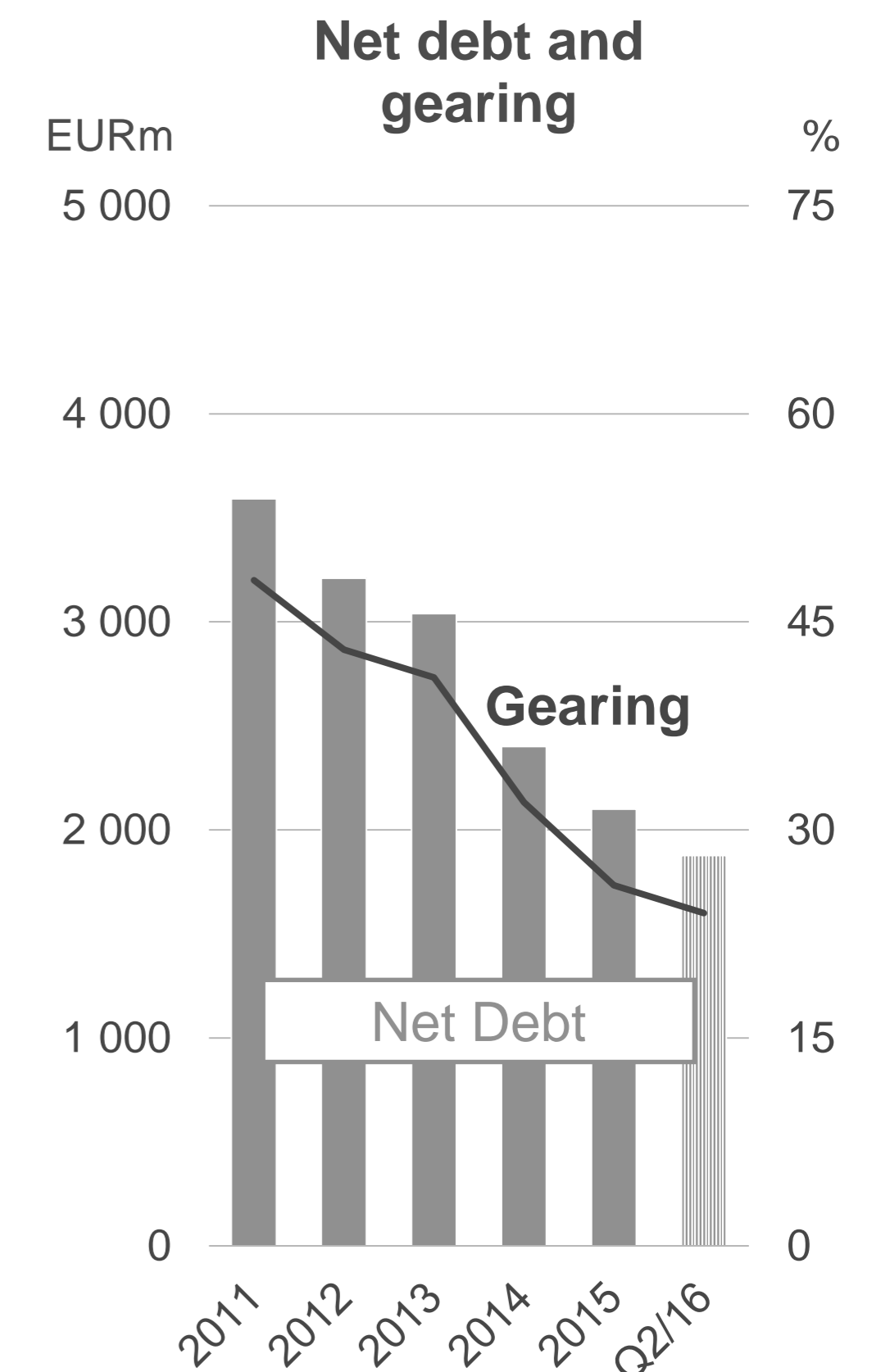
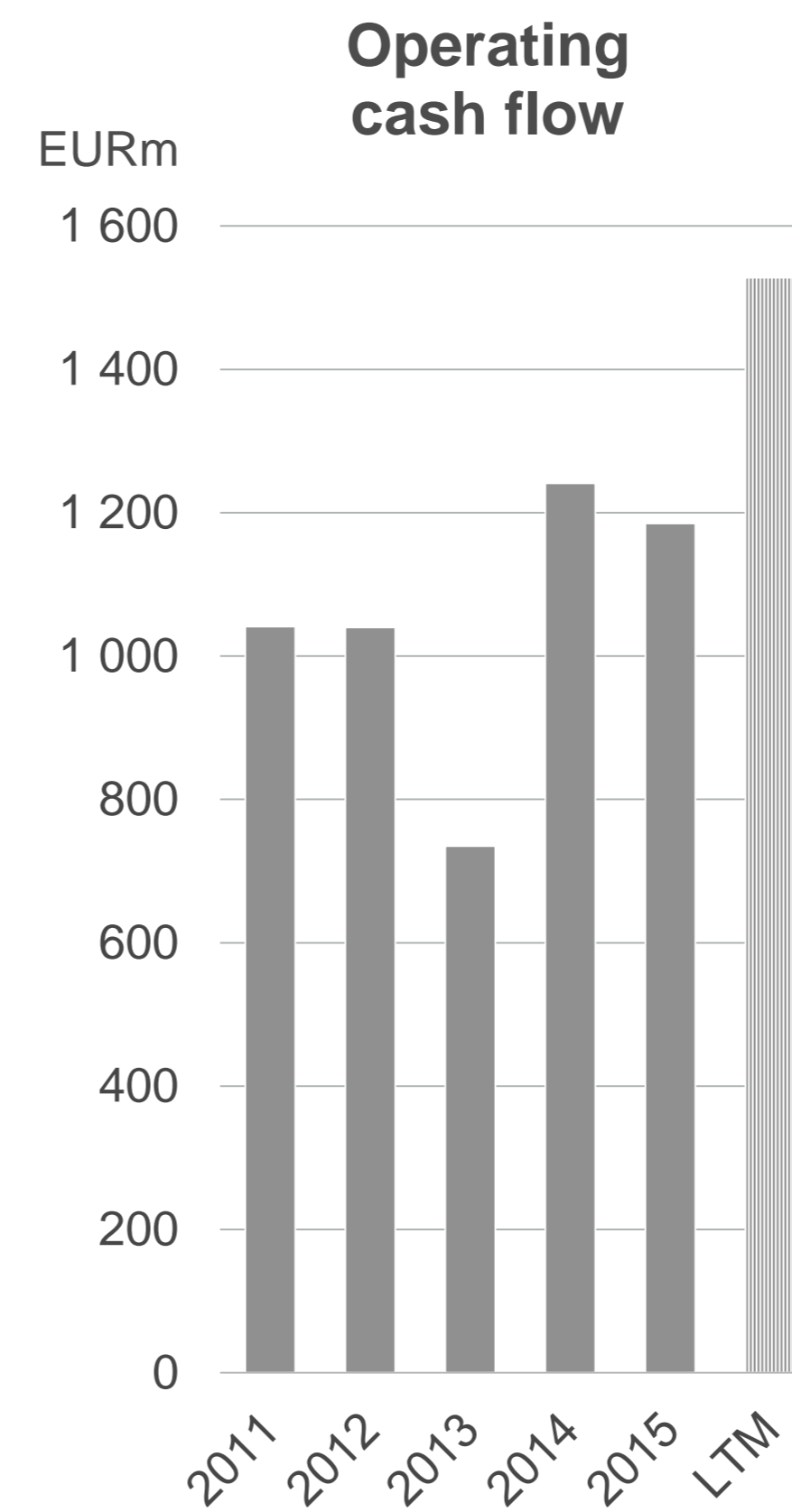
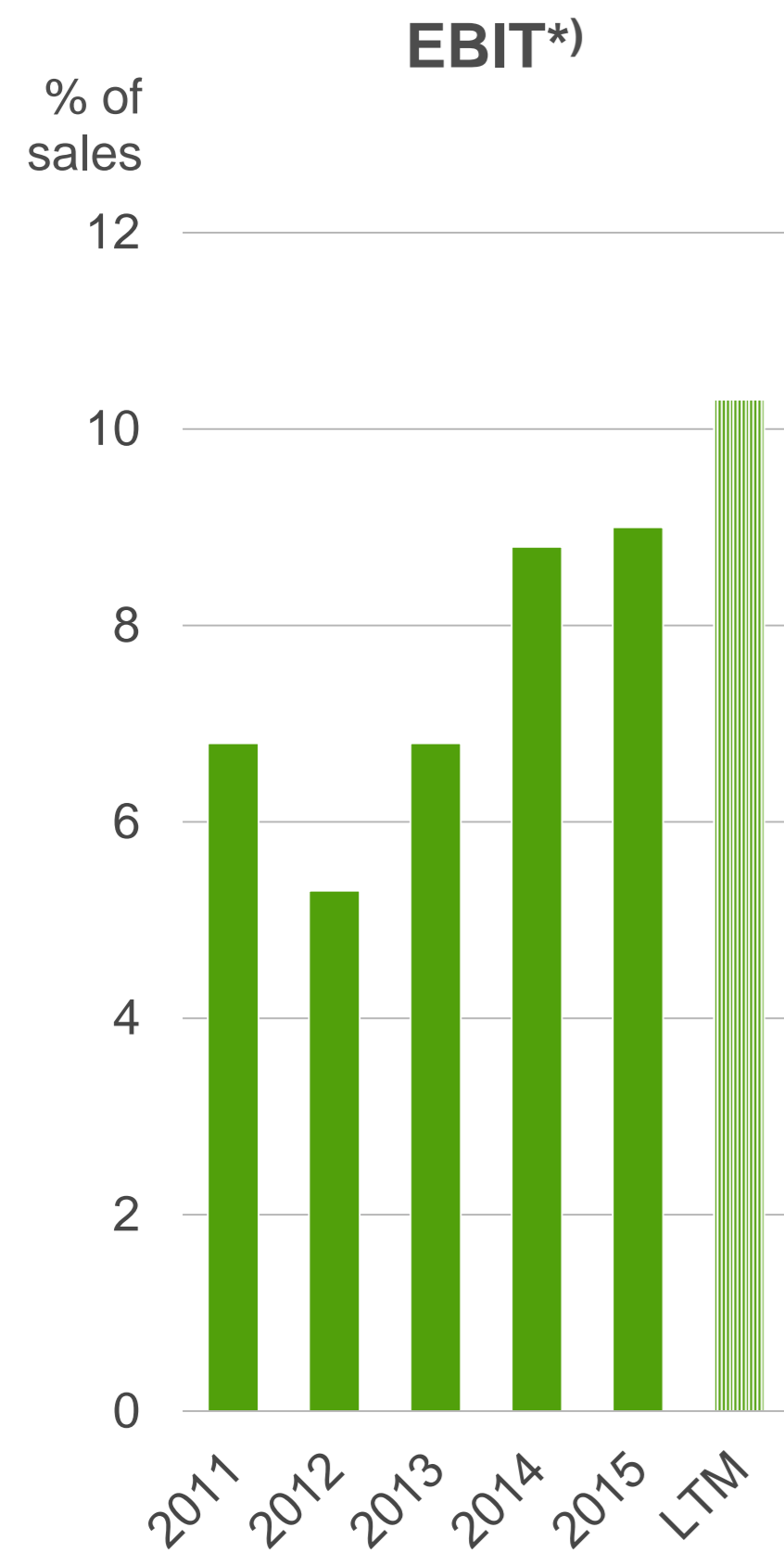
Targeting top performance







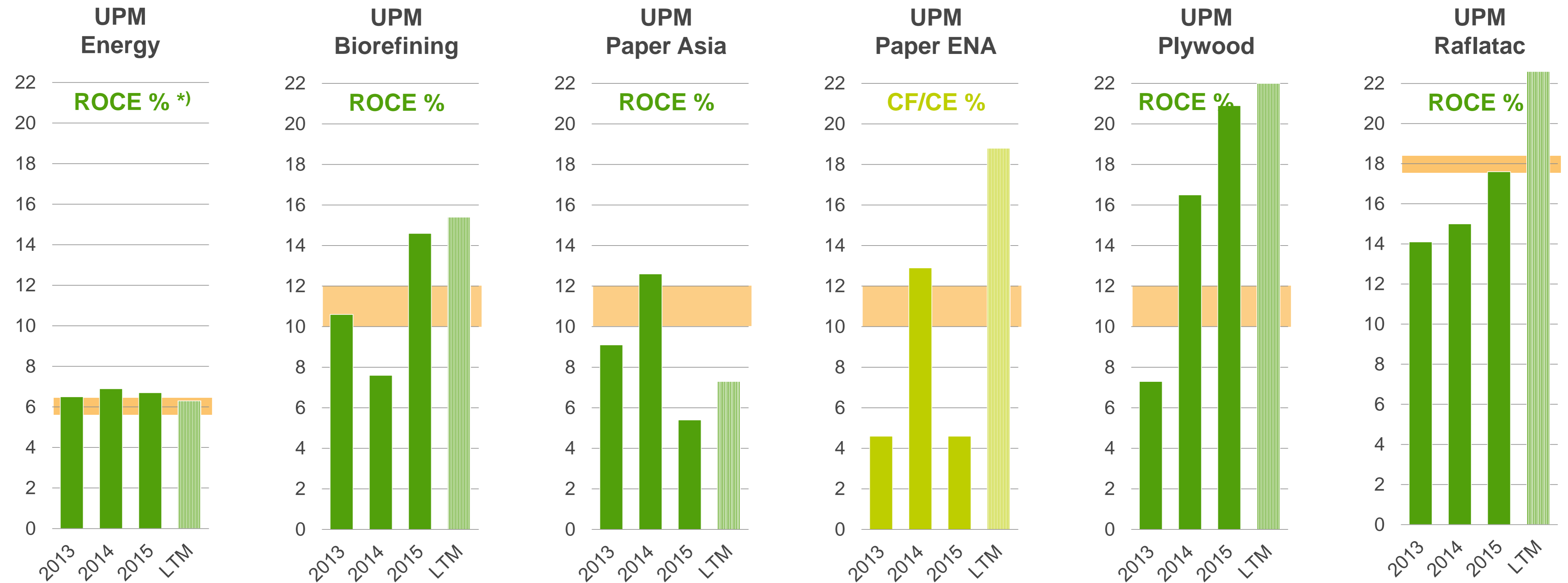
# Group financial performance



\*) comparable figures for 2015 and 2014, excluding special items for earlier years



# Business area returns and targets



Each business targets top relative performance in their respective markets

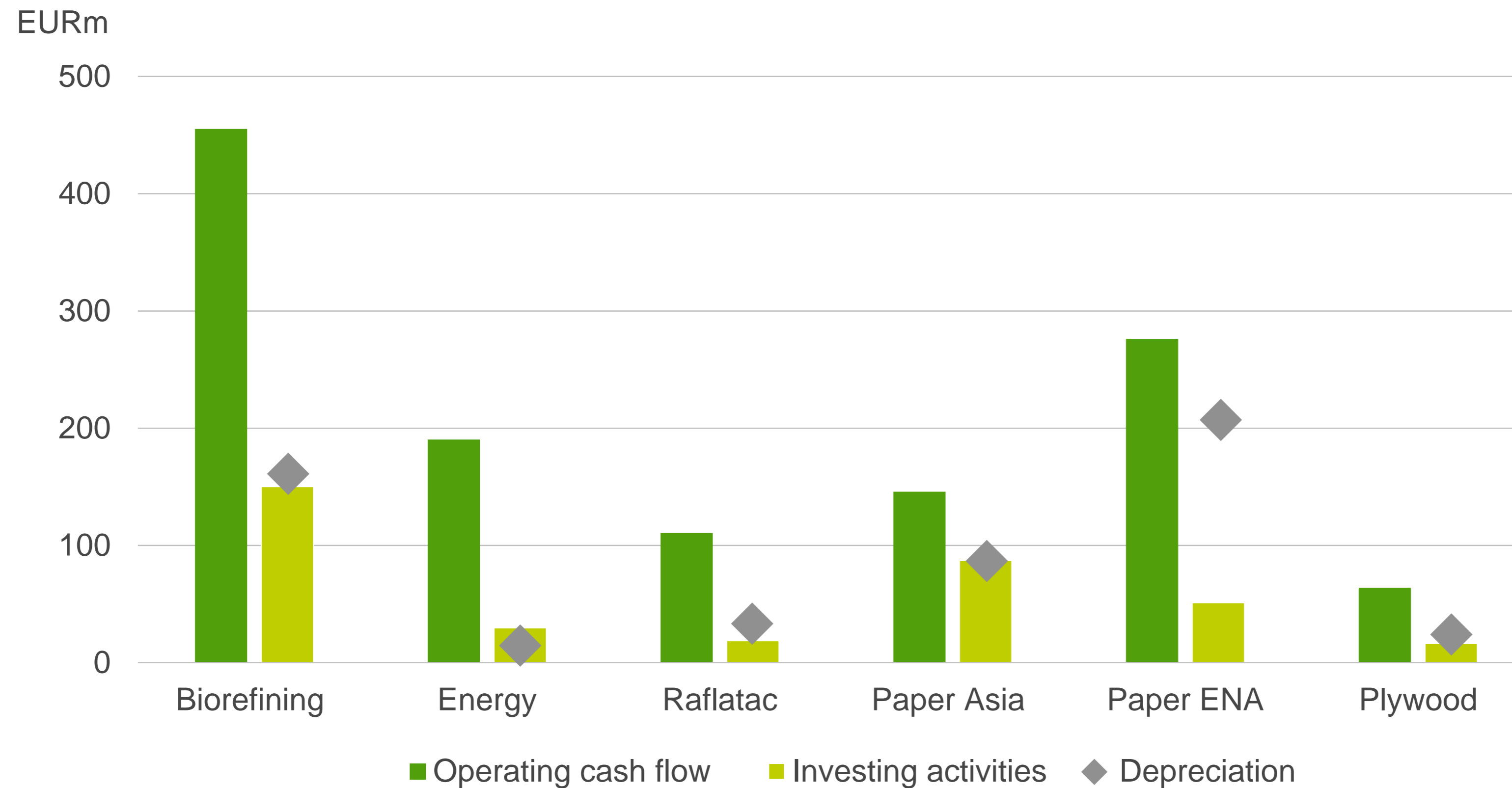
\*) shareholdings in UPM Energy valued at fair value



Long-term return target

# Robust cash flow, with all businesses generating free cash flow

## Average annual operating cash flow and capex in 2013–H1 2016



# DISCIPLINED CAPITAL ALLOCATION

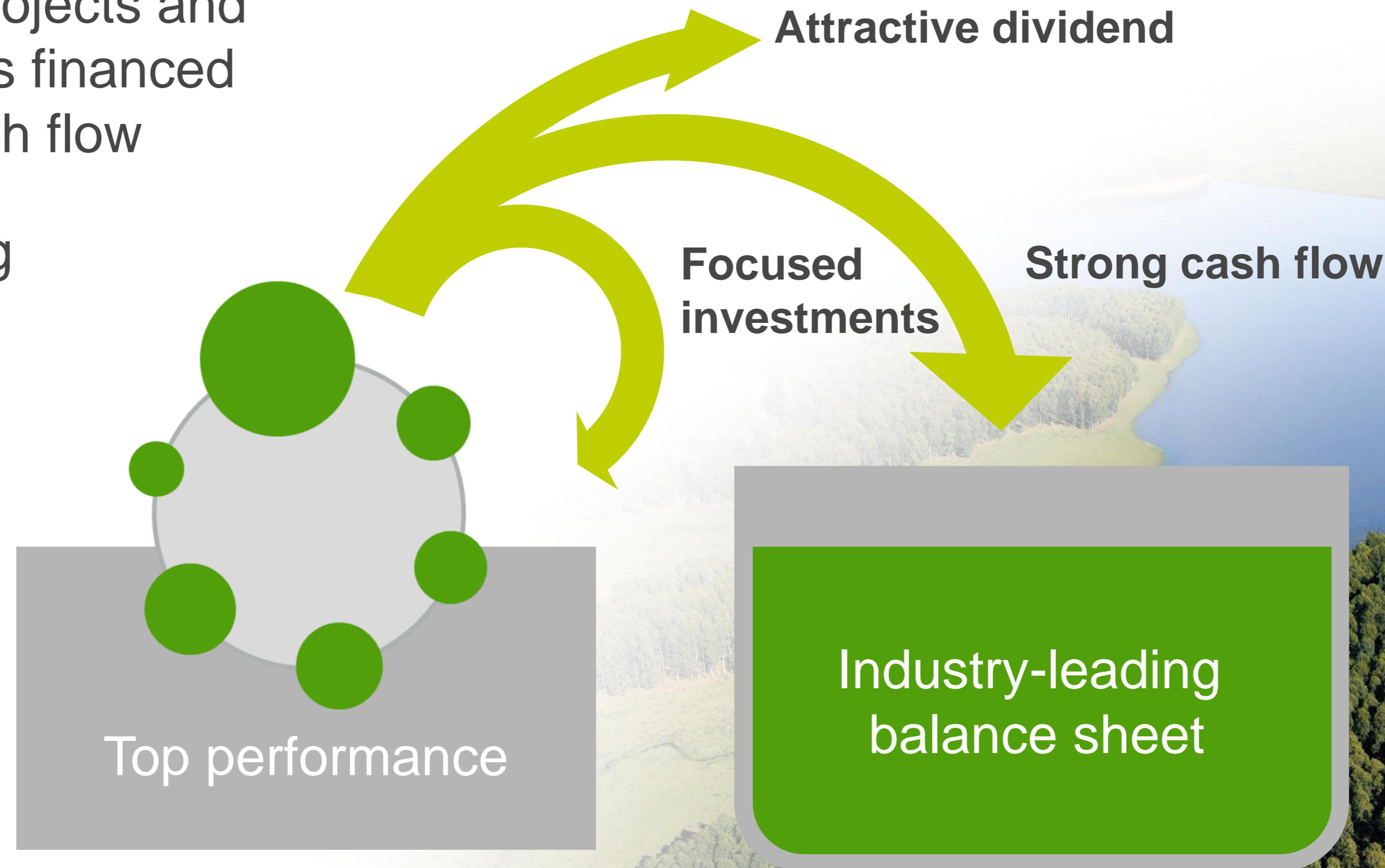
Focused growth investments  
Attractive dividend  
Consistently strong balance sheet



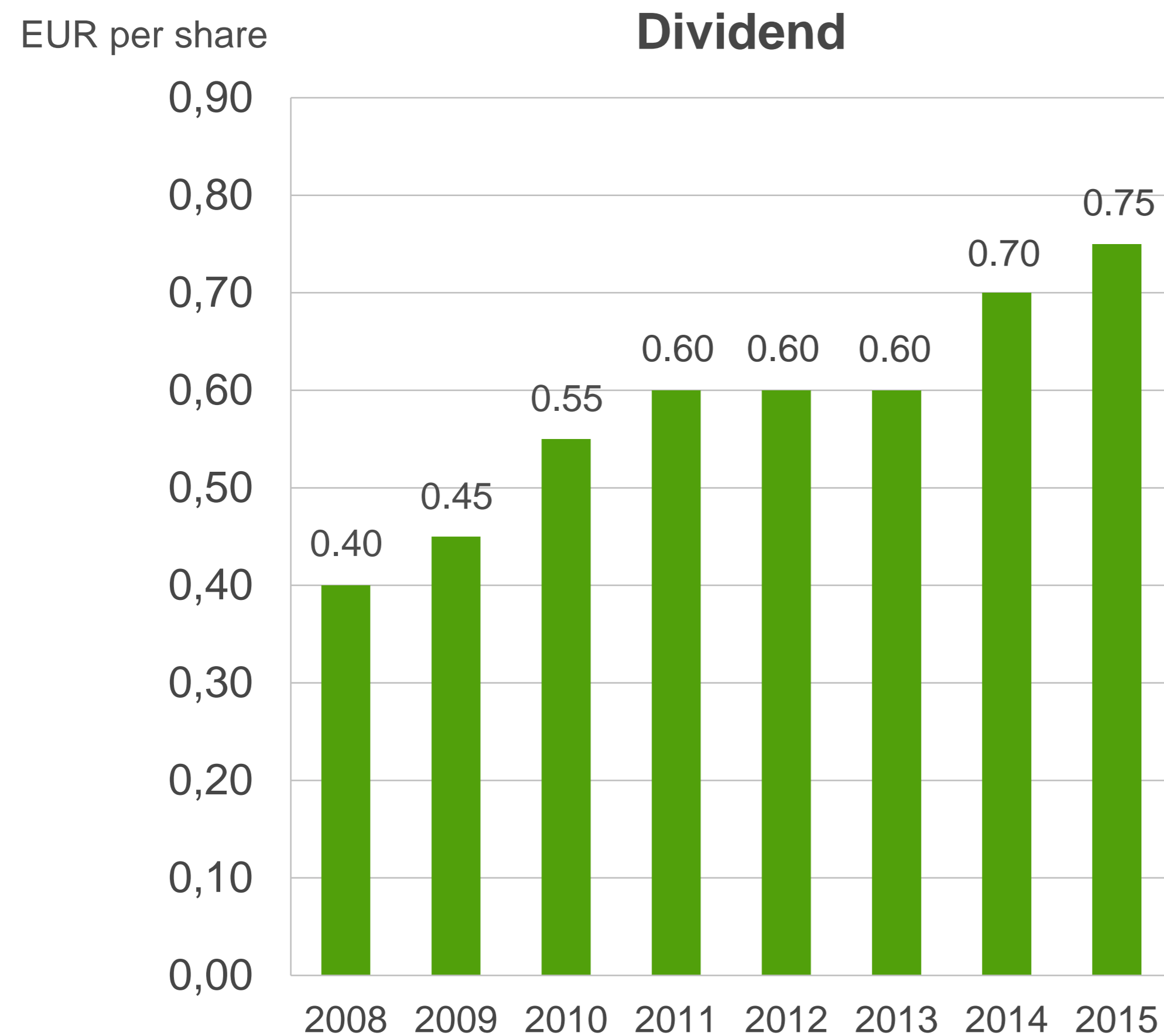
# Disciplined capital allocation

Focused growth projects and attractive dividends financed from operating cash flow

Consistently strong balance sheet



# Attractive dividend supported by increasing operating cash flow



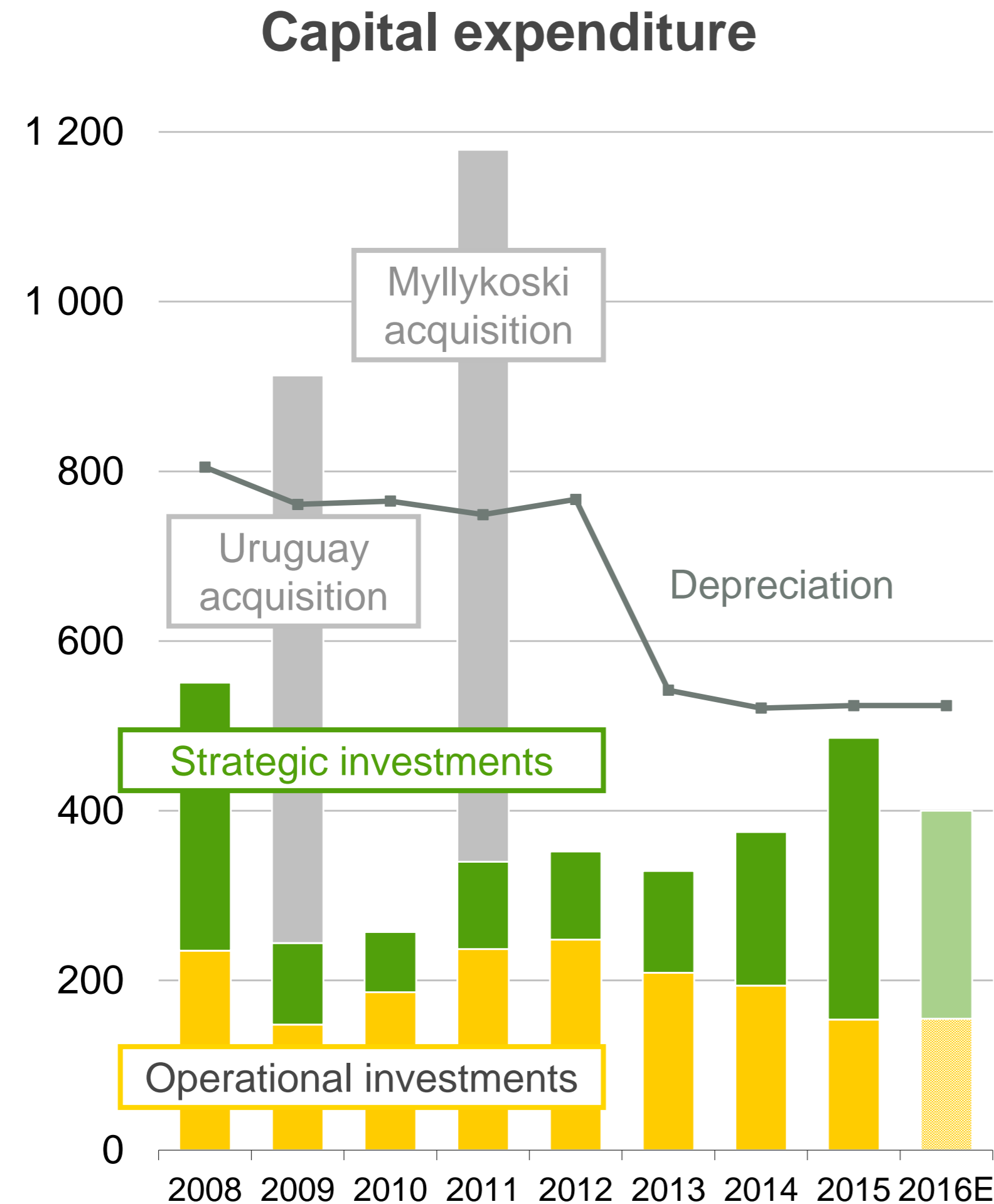
## Dividend policy

- 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

# Current focused growth investments targeting to exceed EUR 200m in additional EBITDA



Fully contributing in H1 2016

- Pietarsaari pulp mill expansion
- Fray Bentos pulp mill expansion
- Kymi pulp mill expansion
- Raflatac expansion in APAC, Poland

Capex EUR 220m  
Capacity ~340kt



Ramp-up progressing well

- Lappeenranta biorefinery
- Changshu speciality papers

Capex EUR 460m  
Capacity ~460kt



Under construction, in schedule and budget

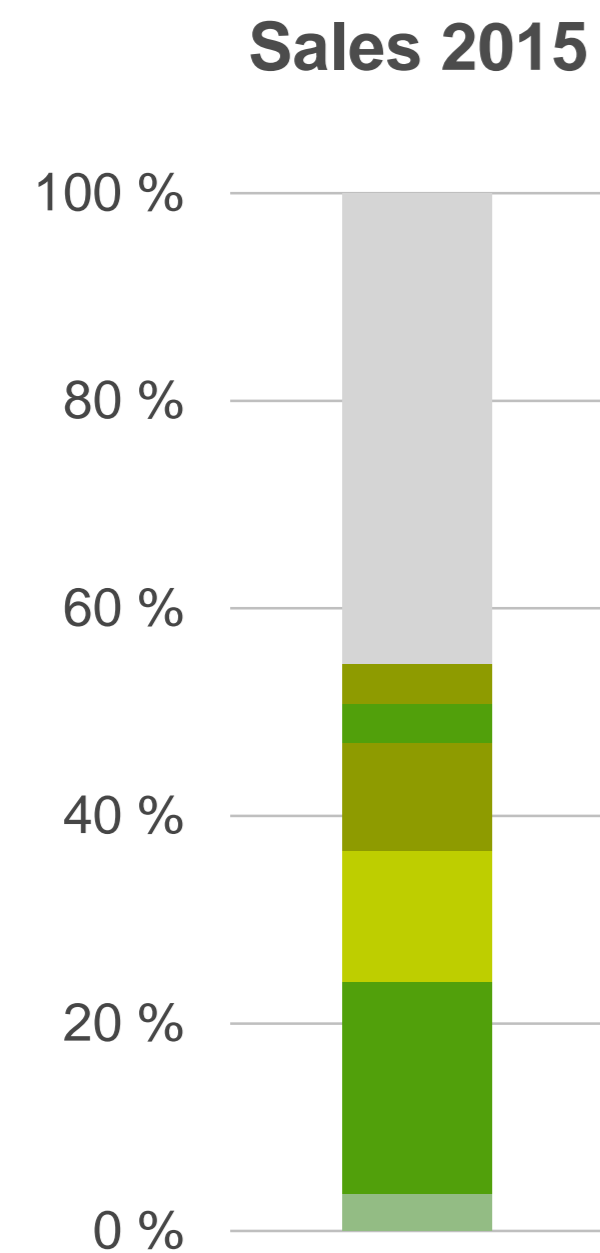
- Otepää plywood mill expansion
- Kaukas pulp mill efficiency
- Kymi pulp mill expansion

Capex 190m  
Capacity ~200kt





# Focused investments are delivering growth



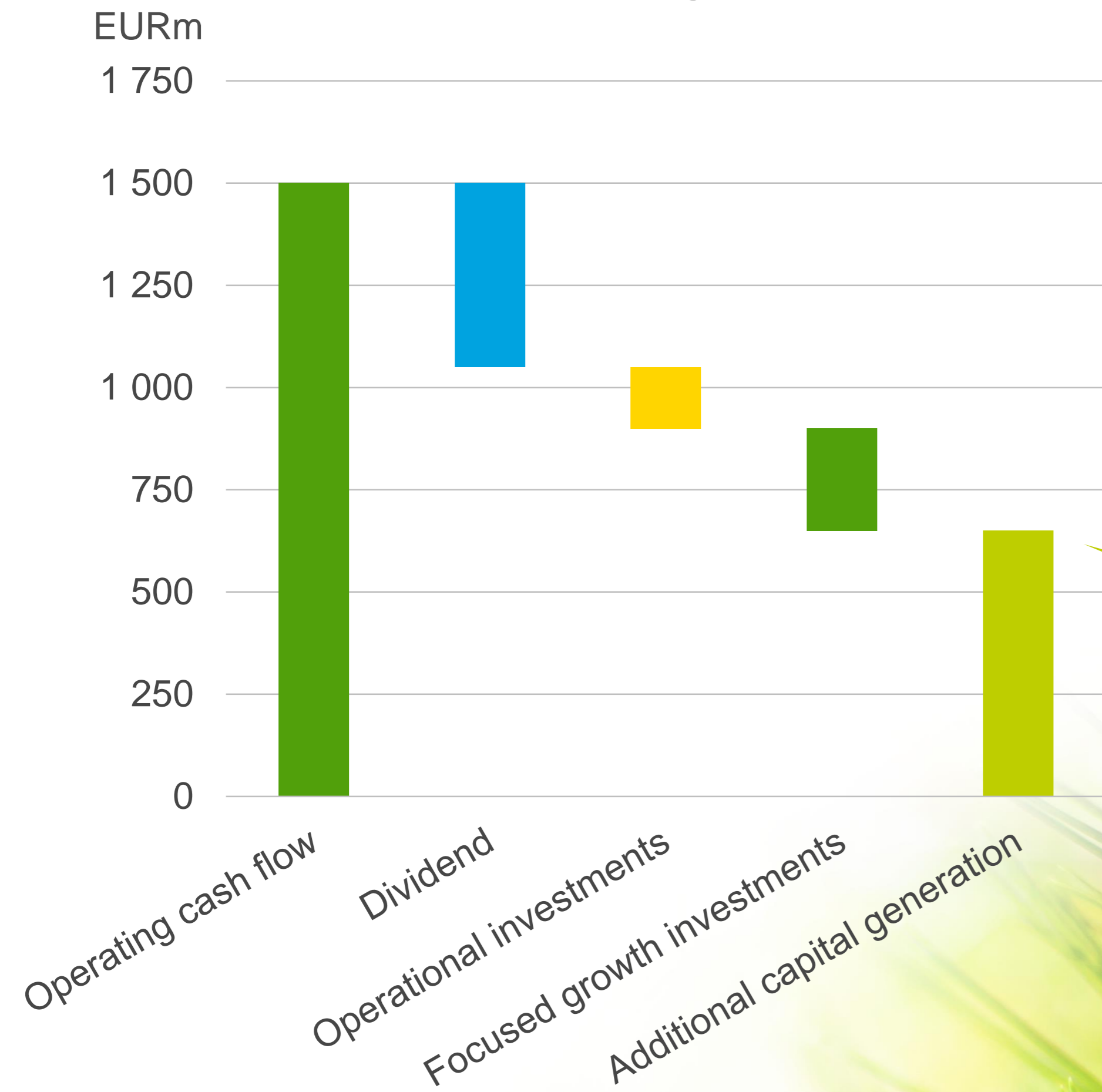
## Average delivery growth 2011 – LTM Q2 2016

|                        |   |  |
|------------------------|---|--|
| <b>UPM Biorefining</b> | Pulp<br>Biofuels                        | CAGR <b>+2%</b><br><b>New business</b> |
| <b>UPM Raflatac</b>    | Standard products<br>Films and specials | CAGR <b>+4%</b><br>CAGR <b>+7%</b>     |
| <b>UPM Paper Asia</b>  | Label materials<br>Cut-size             | CAGR <b>+4%</b><br>CAGR <b>+6%</b>     |
| <b>UPM Plywood</b>     | Plywood                                 | CAGR <b>+3%</b>                        |



# Continuous free cash flow generation opens value creation options

Illustrative: LTM operating cash flow EUR 1,528m



## Robust cash flow

- Operating cash flow in 2014–LTM EUR 1.2bn–1.5bn

## Capital allocation

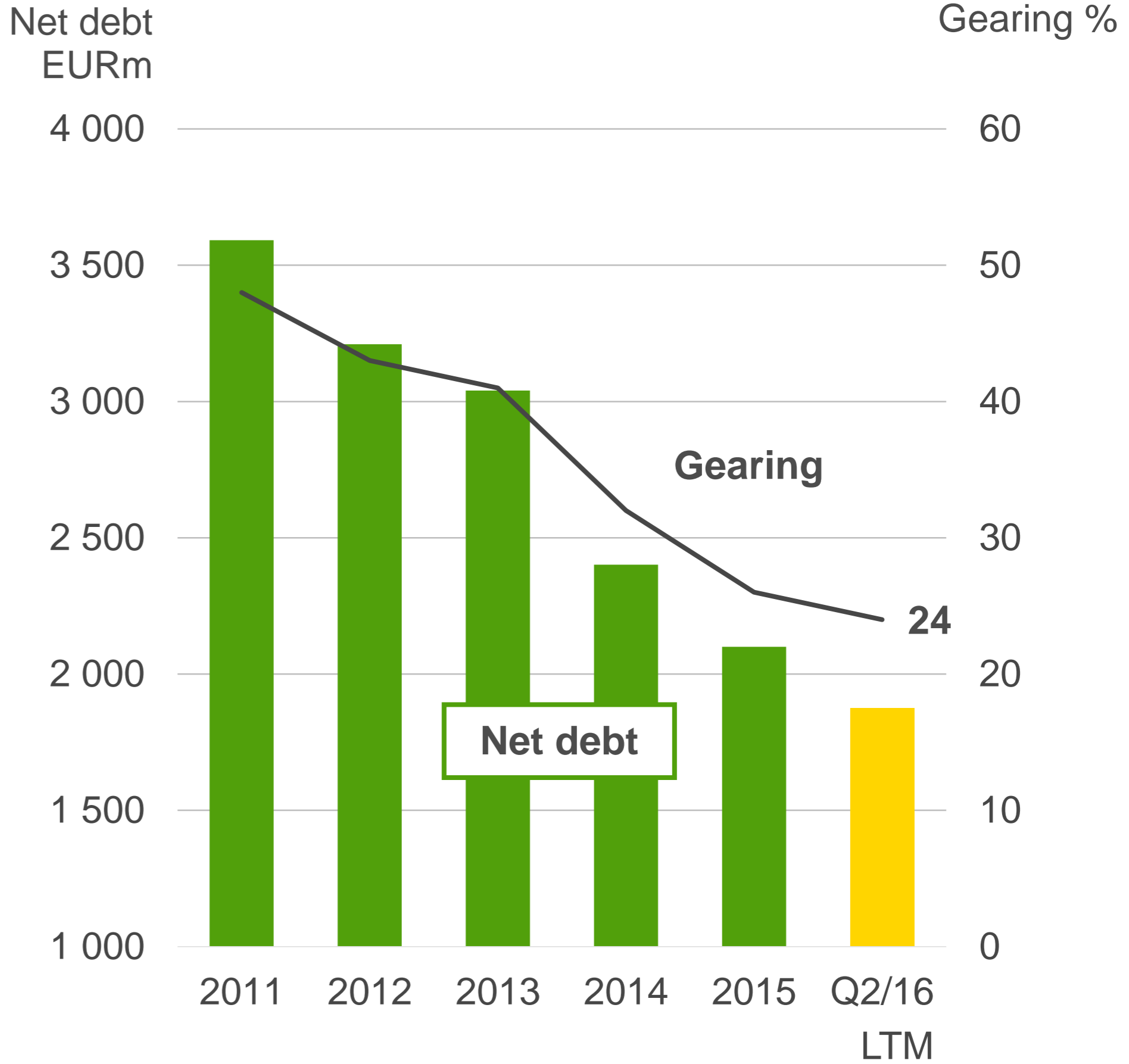
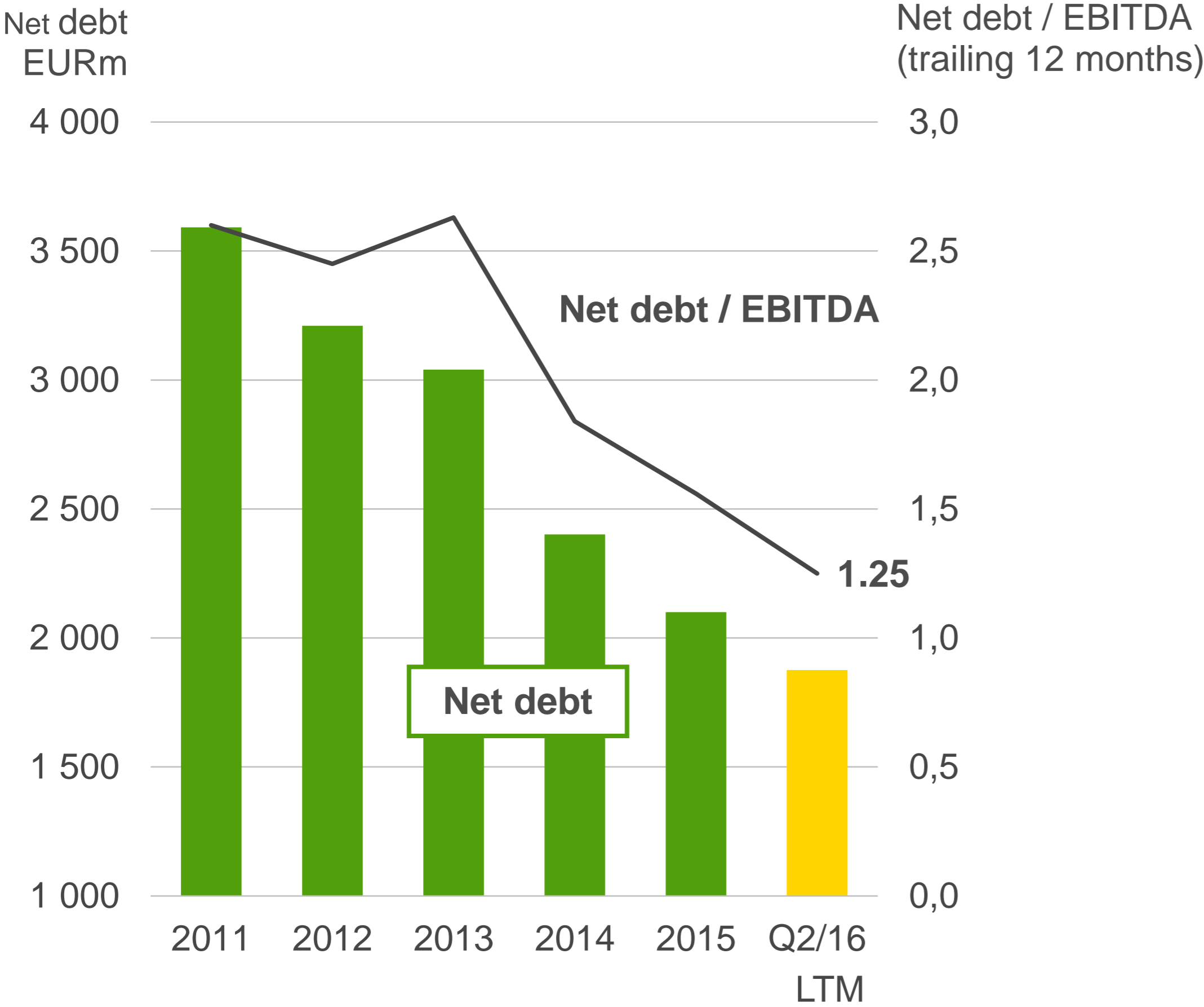
- Ordinary dividend 30–40% of operating cash flow
- Low operational capex needs
- Focused growth investments

## Additional capital generation

- EUR 400–650m per annum

# Cash flow, balance sheet open value creation options

## UPM aims to maintain an investment grade profile





# 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 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*

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## Paper ENA

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



**UPM**

The Biofore  
Company