

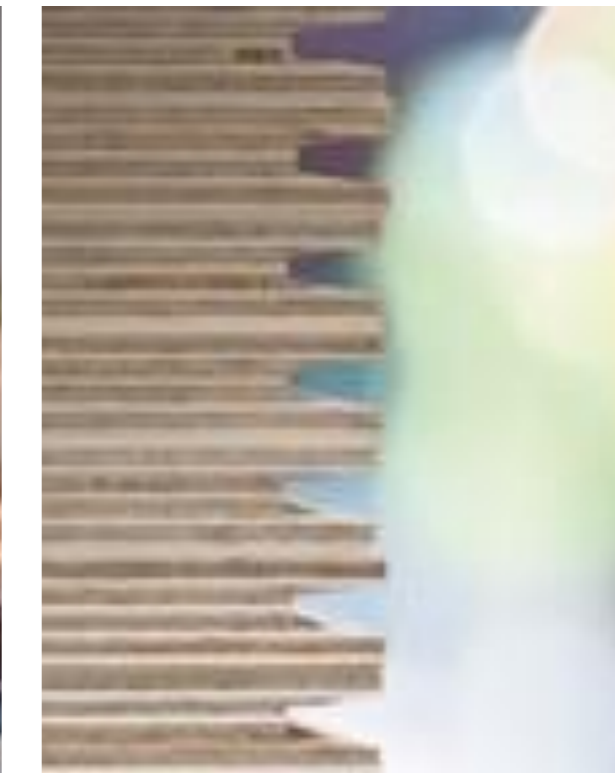
# AIMING HIGHER

**WITH BIOFORE**

## ANNUAL GENERAL MEETING 2017

Jussi Pesonen  
President and CEO

# UPM today



## UPM BIOREFINING

Pulp  
Biofuels  
Timber

## UPM ENERGY

Electricity  
generation and  
trading

## UPM RAFLATAC

Label  
materials for  
product and  
information  
labelling

## UPM SPECIALTY PAPERS

Label papers,  
release liners,  
office papers  
and flexible  
packaging

## UPM PAPER ENA

Magazine  
papers,  
newsprint and  
fine papers

## UPM PLYWOOD

Plywood and  
veneer  
products

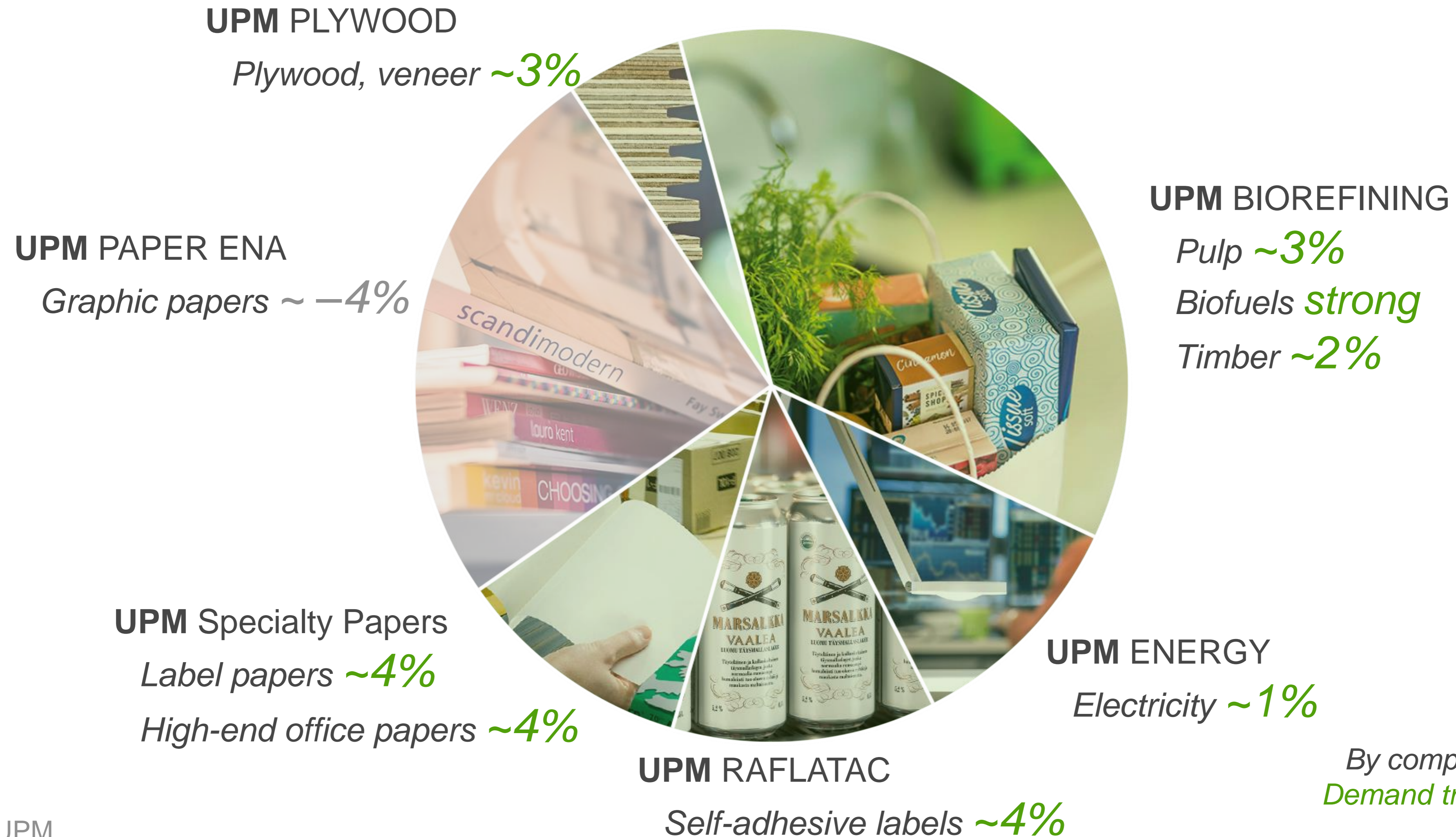
## UPM BIOCOMPOSITES

UPM  
BIOCHEMICALS

WOOD SOURCING  
AND FORESTRY

# Competitive businesses with strong market positions

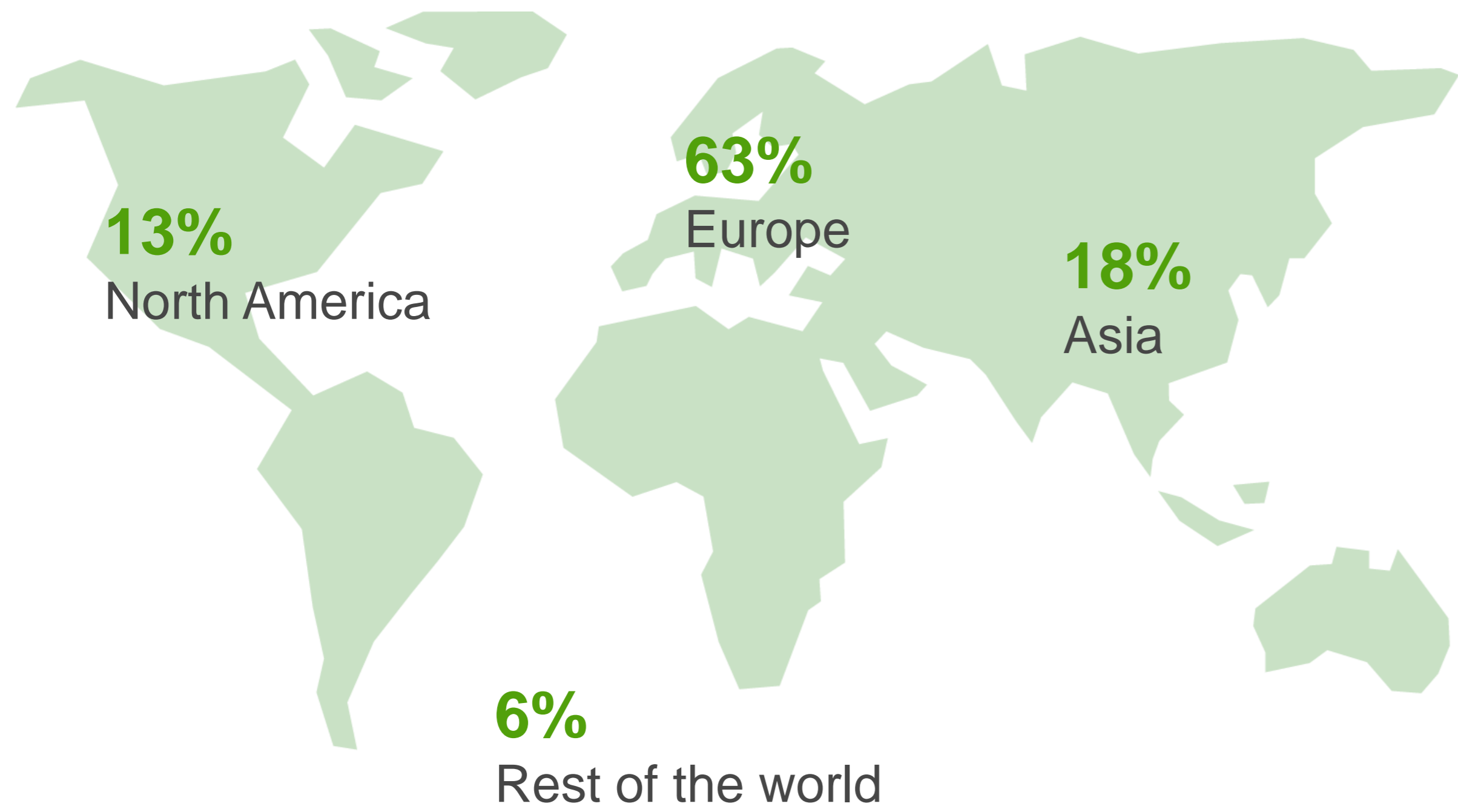
## Operating on healthily growing markets



*By comparable EBIT 2016  
Demand trend growth, % pa*

# Global businesses – local presence

UPM's sales by market 2016  
**EUR 9,812 million**



**54**  
production plants in  
**12** countries



**19,300**  
employees  
in **45** countries

**12,000**  
customers  
in **120** countries

**85,000**  
shareholders  
in **40** countries

**55,000**  
suppliers  
in **70** countries

# Contents

- Results 2016
- Responsibility is good business
- UPM in transformation
- Aiming higher



# RESULTS 2016



# UPM's operating model is showing results – record-strong year 2016

## Top performance

Comparable EBIT  
**+25%**

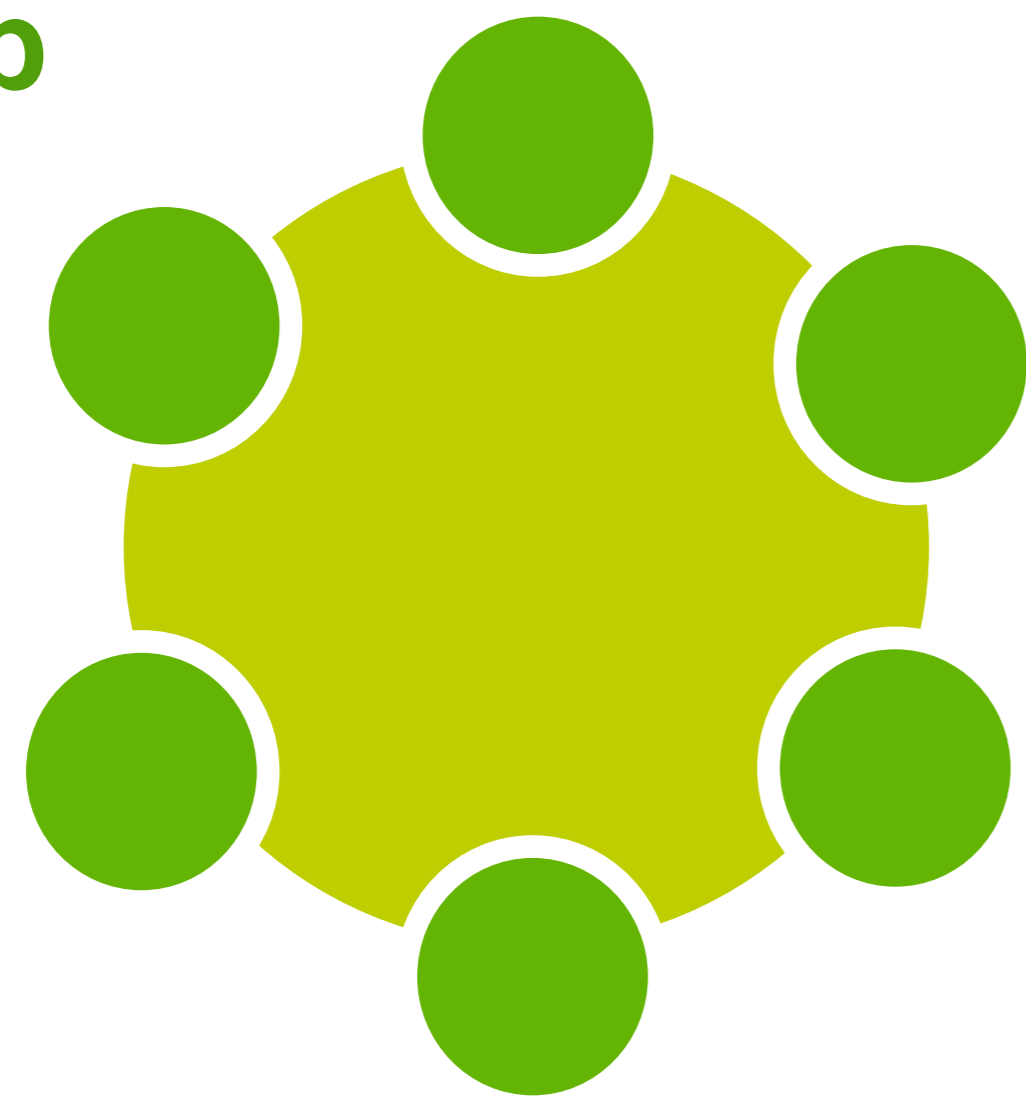
Comparable ROE  
**+1,4pp**

## Strong cash flow

Operating cash flow  
**+42%**

## Attractive dividend

Dividend proposal  
**+27%**



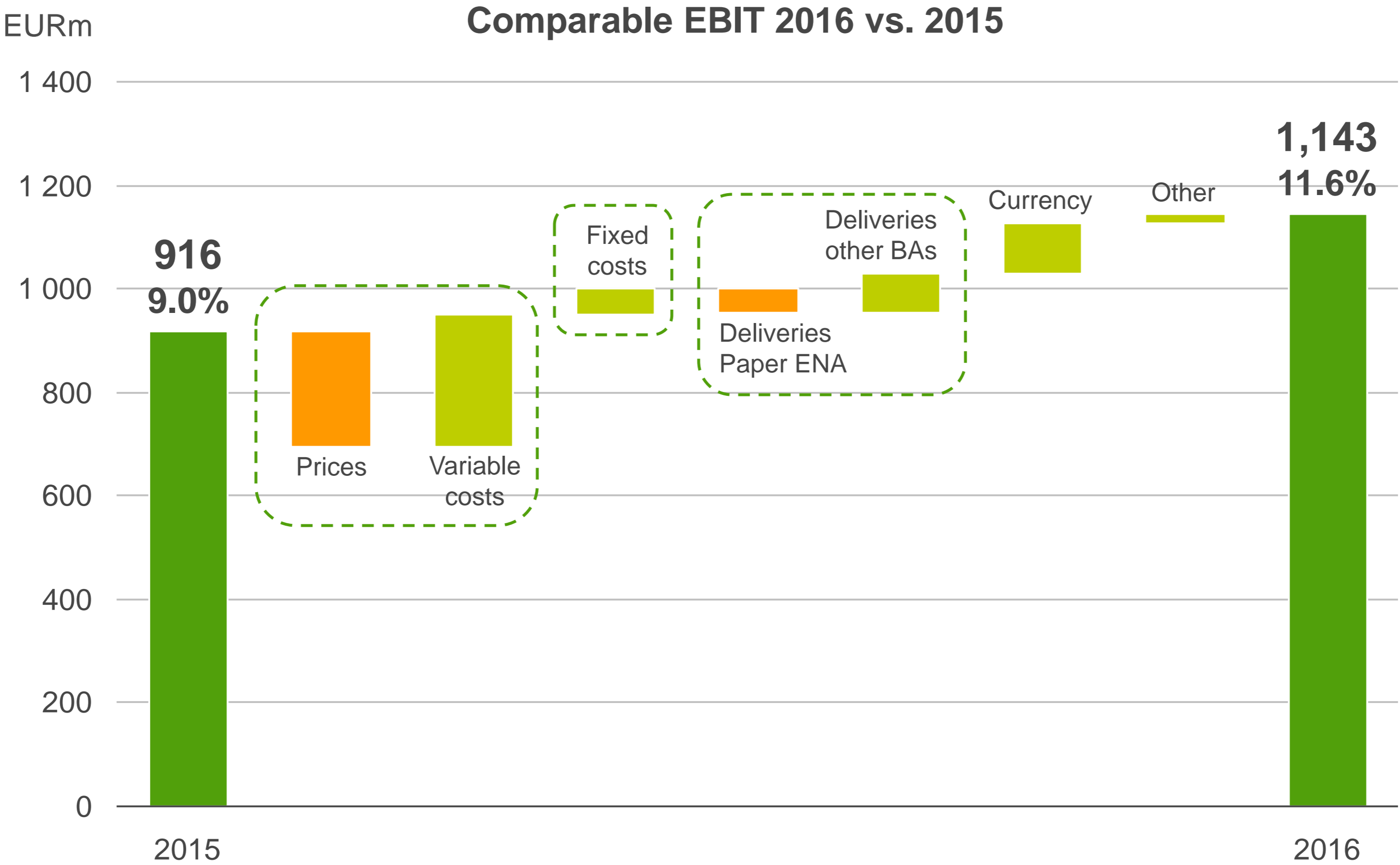
Focused investments  
**Attractive returns**

Net debt reduction  
**-46%**

Industry-leading  
balance sheet

Net debt /EBITDA  
**0.73x**

# Growth projects contributed significantly and cost efficiency measures continued on a strong track





# Focused growth investments contributed significantly to 2016 results



## Fully contributing in 2016

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

80% run-rate of the  
EUR 200m EBITDA  
target achieved in 2016



## Further optimisation potential

- Lappeenranta biorefinery
- Changshu speciality papers

## Ramp-up in progress

- Otepää plywood mill expansion
- Kaukas pulp mill efficiency

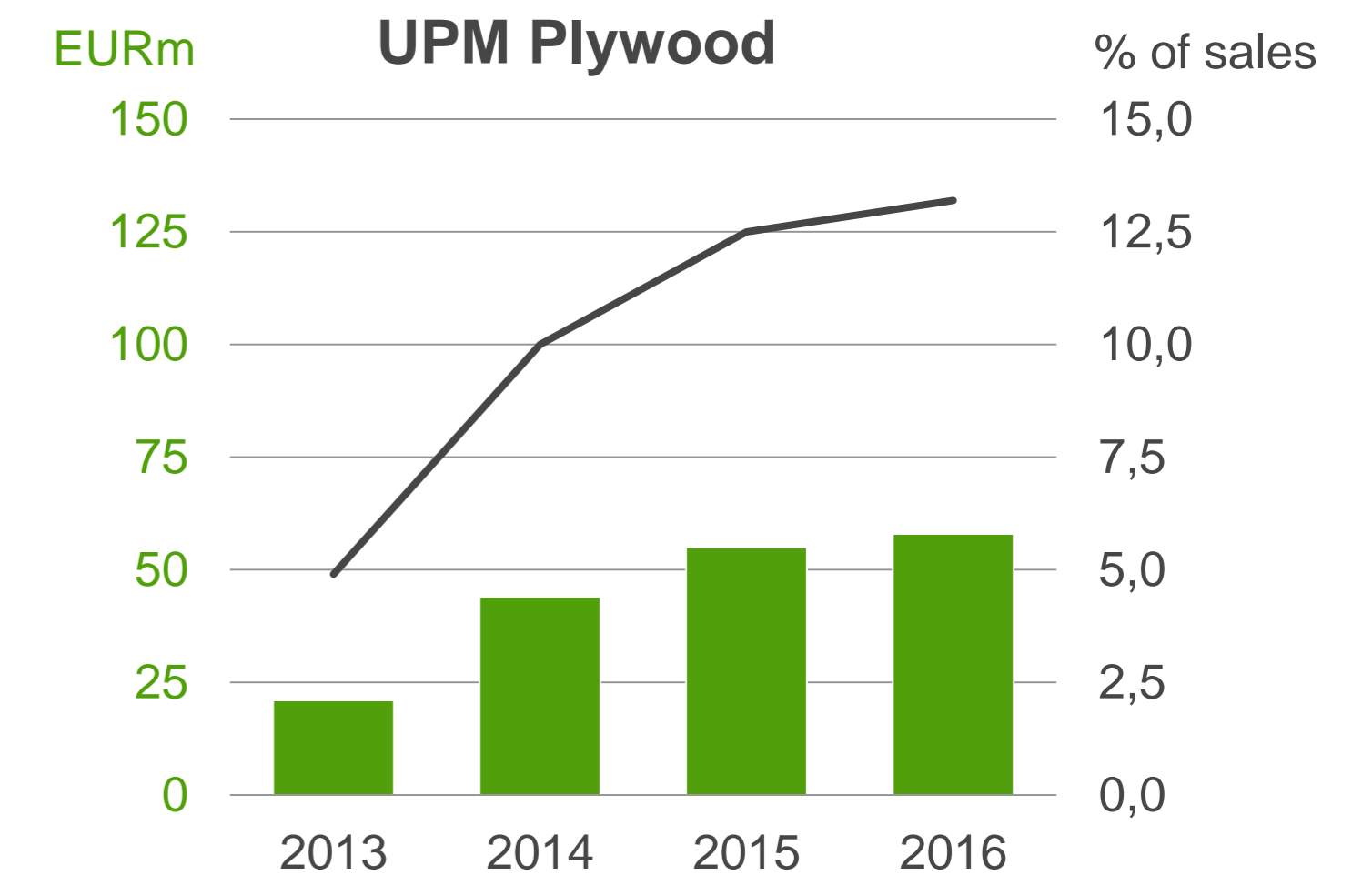
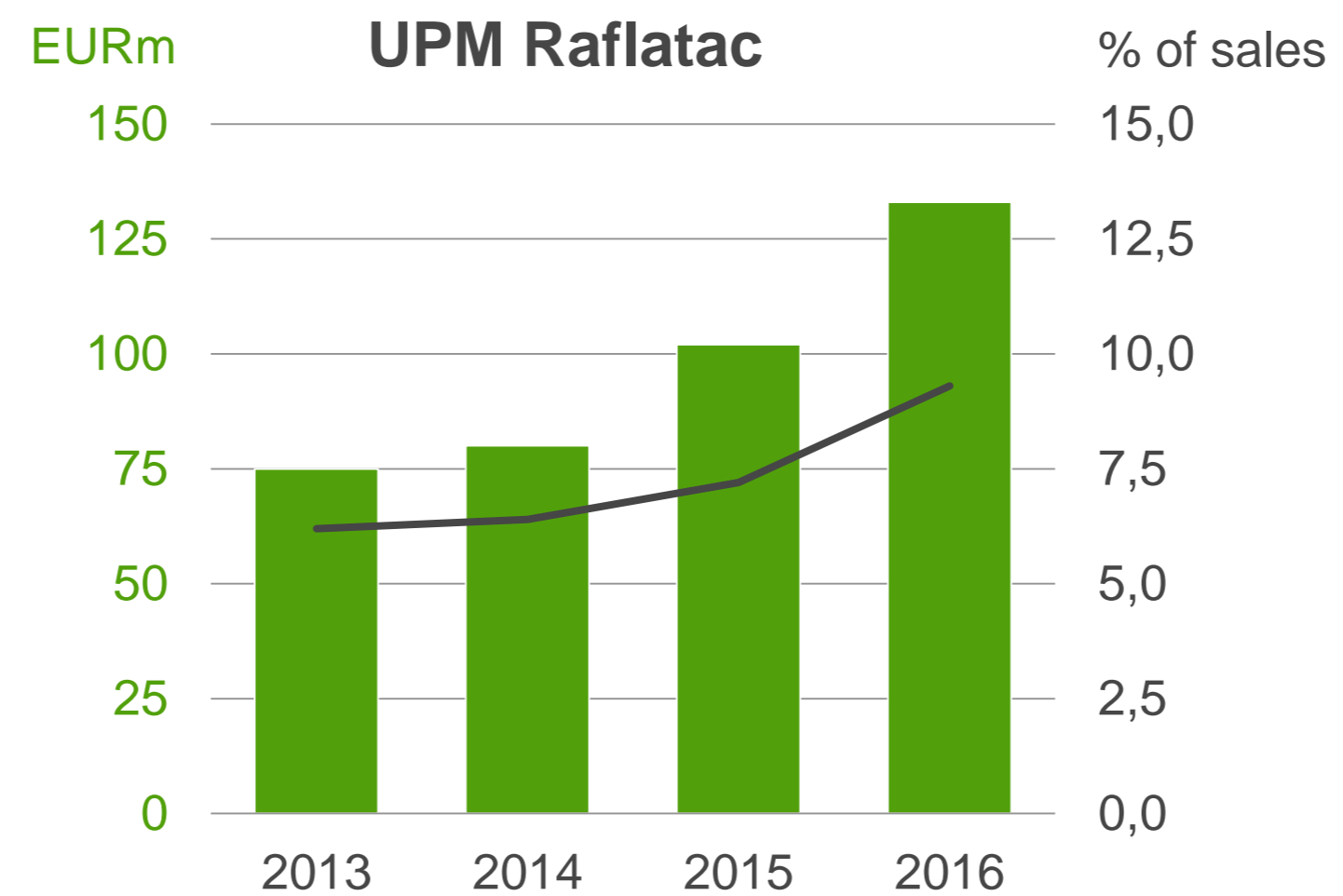
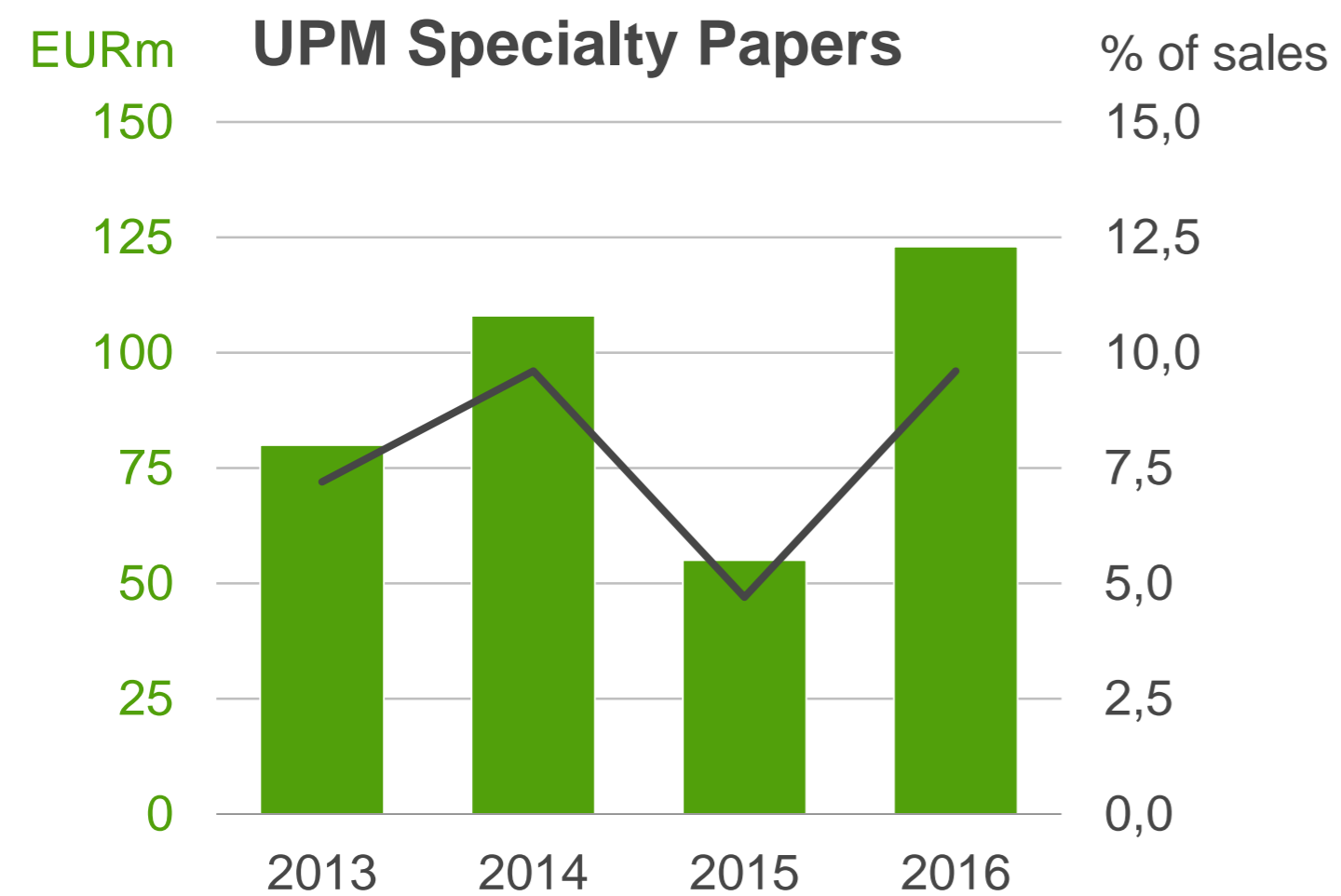
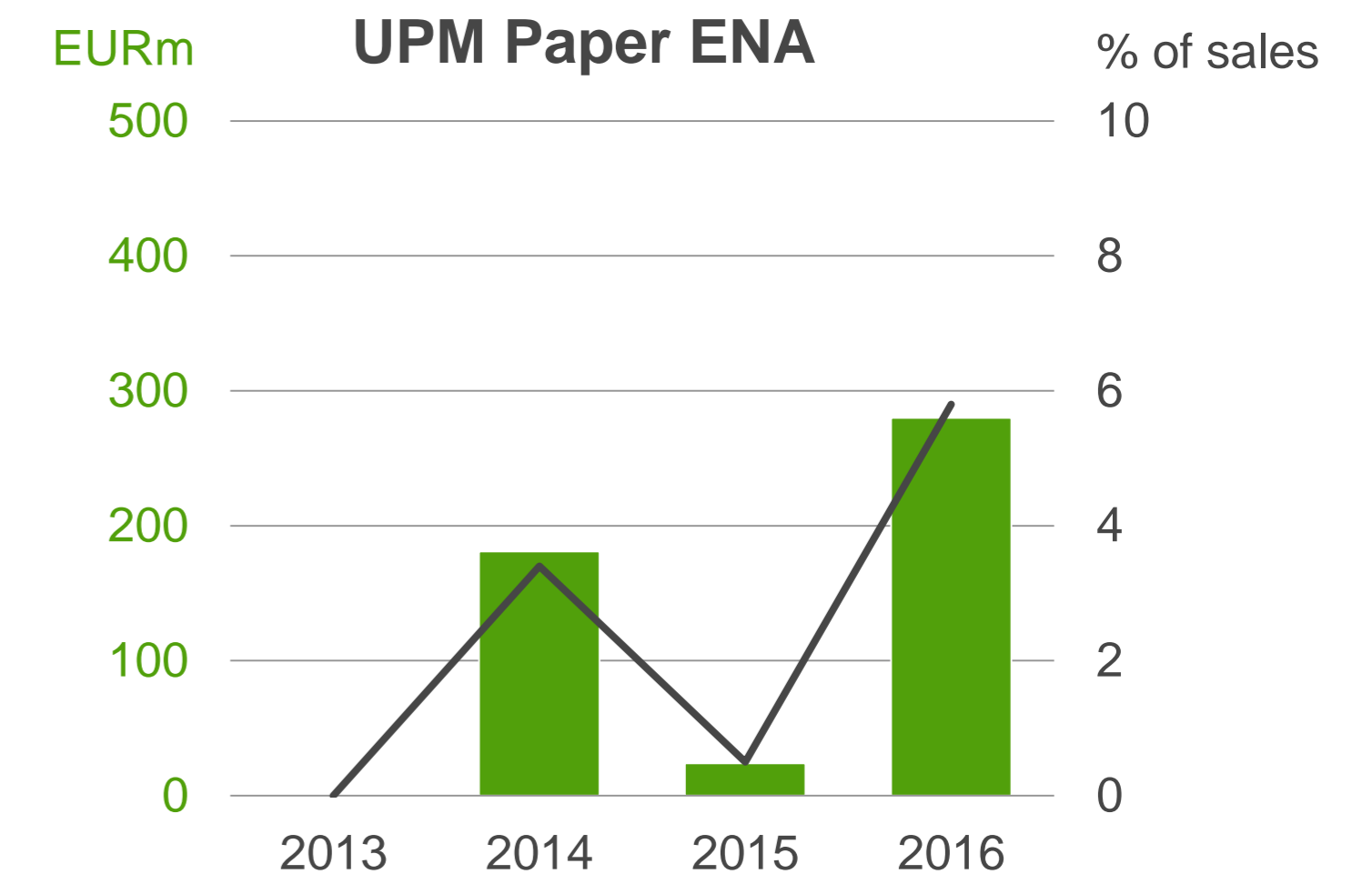
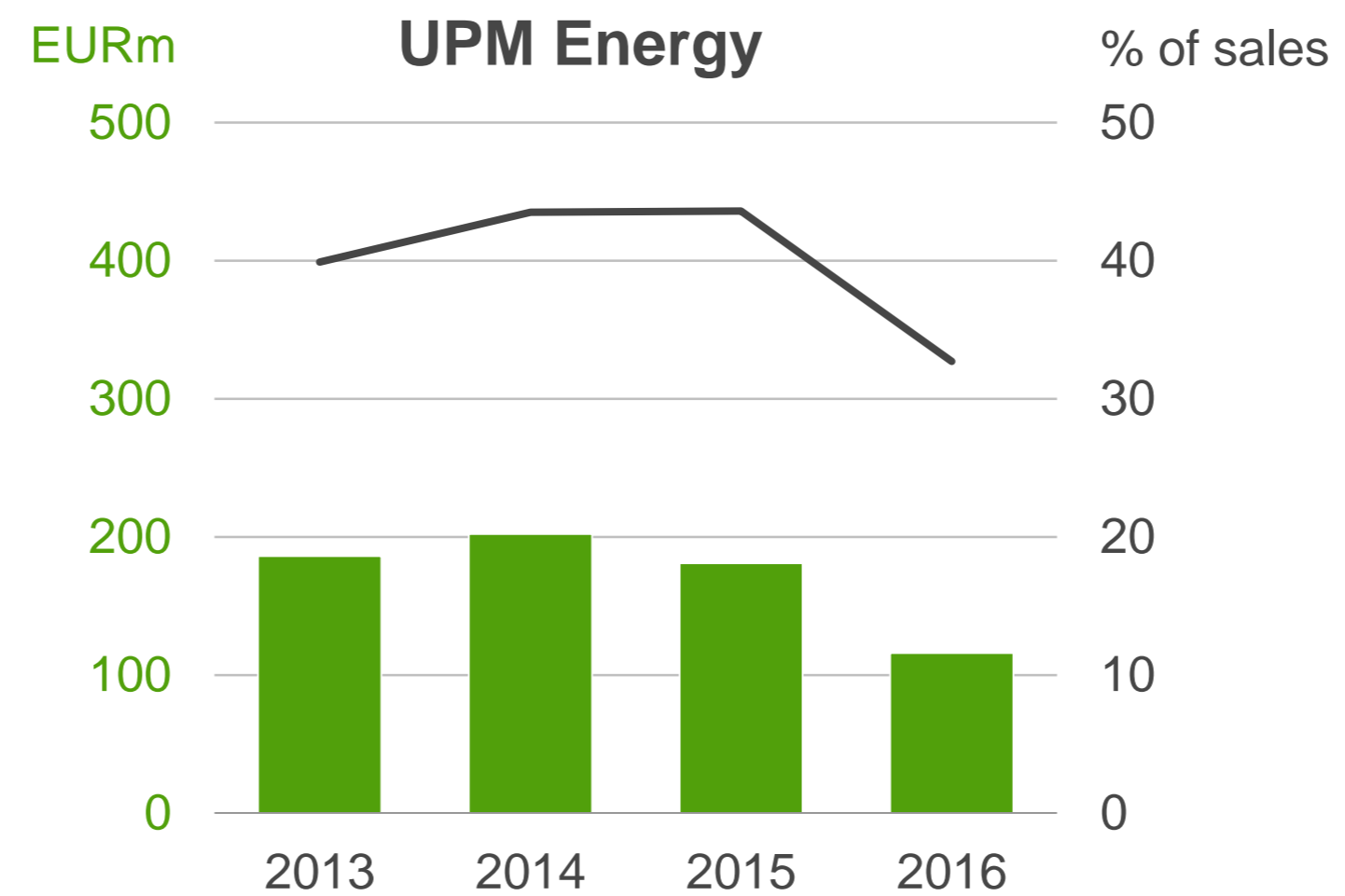
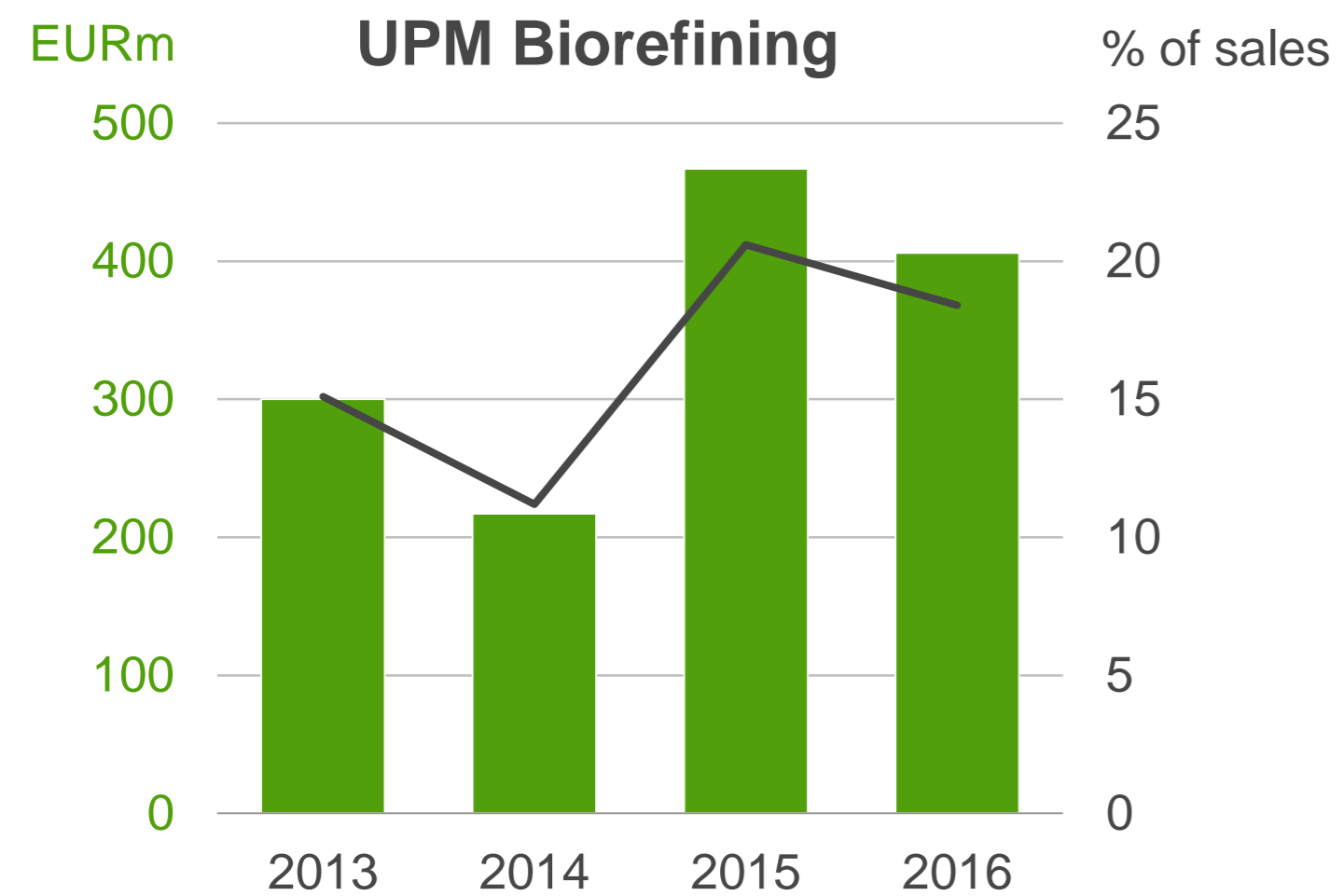


## Under construction

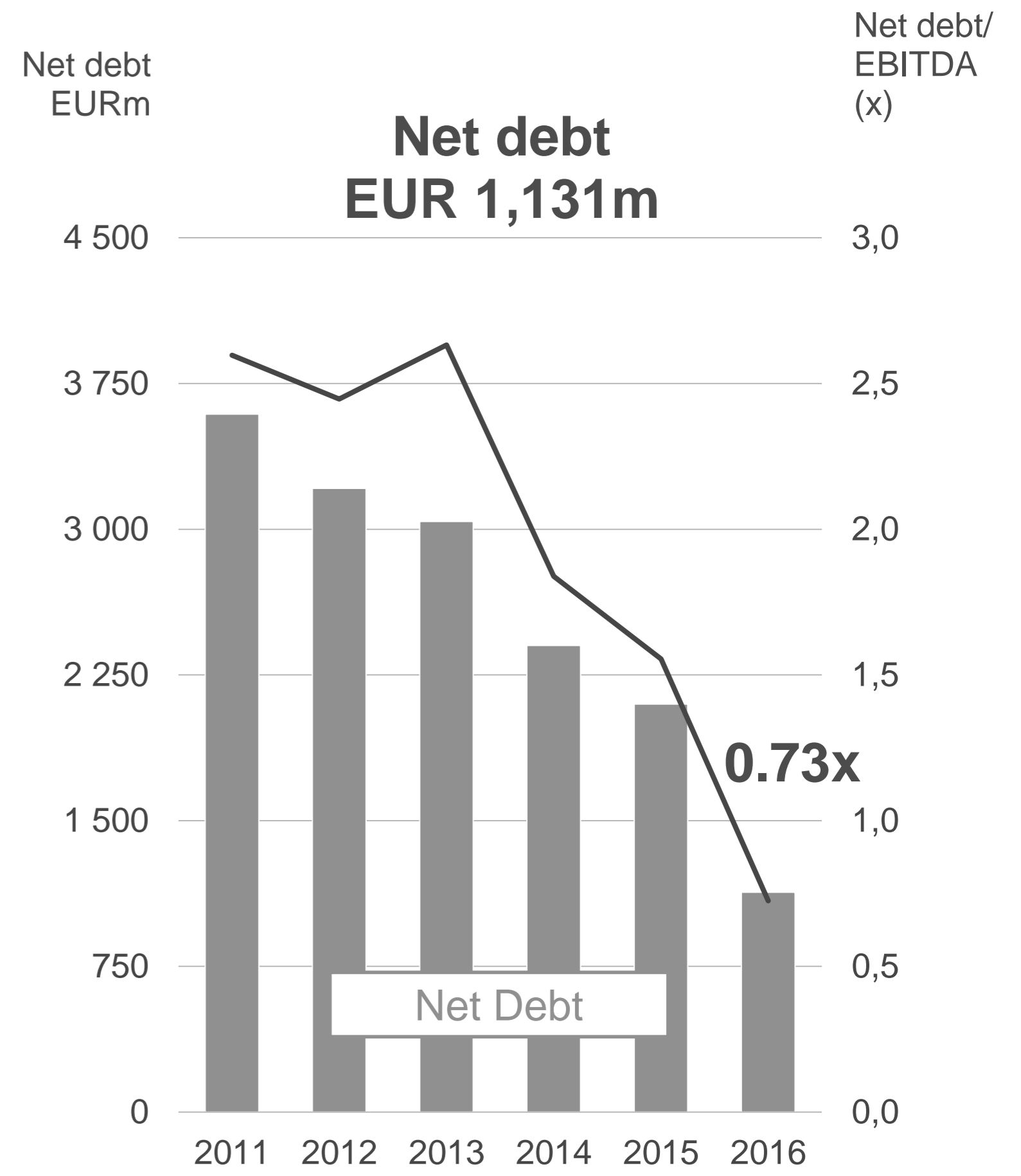
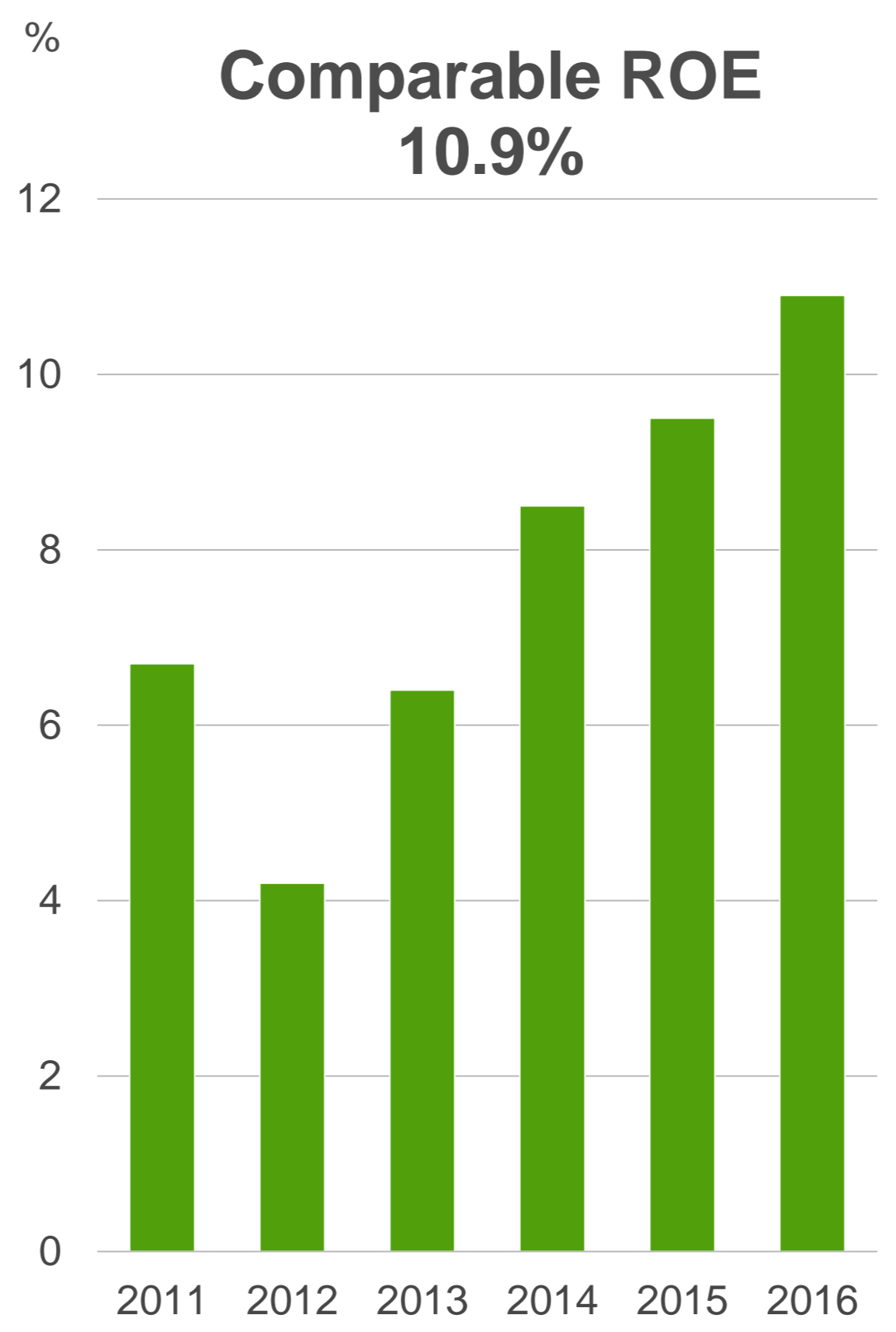
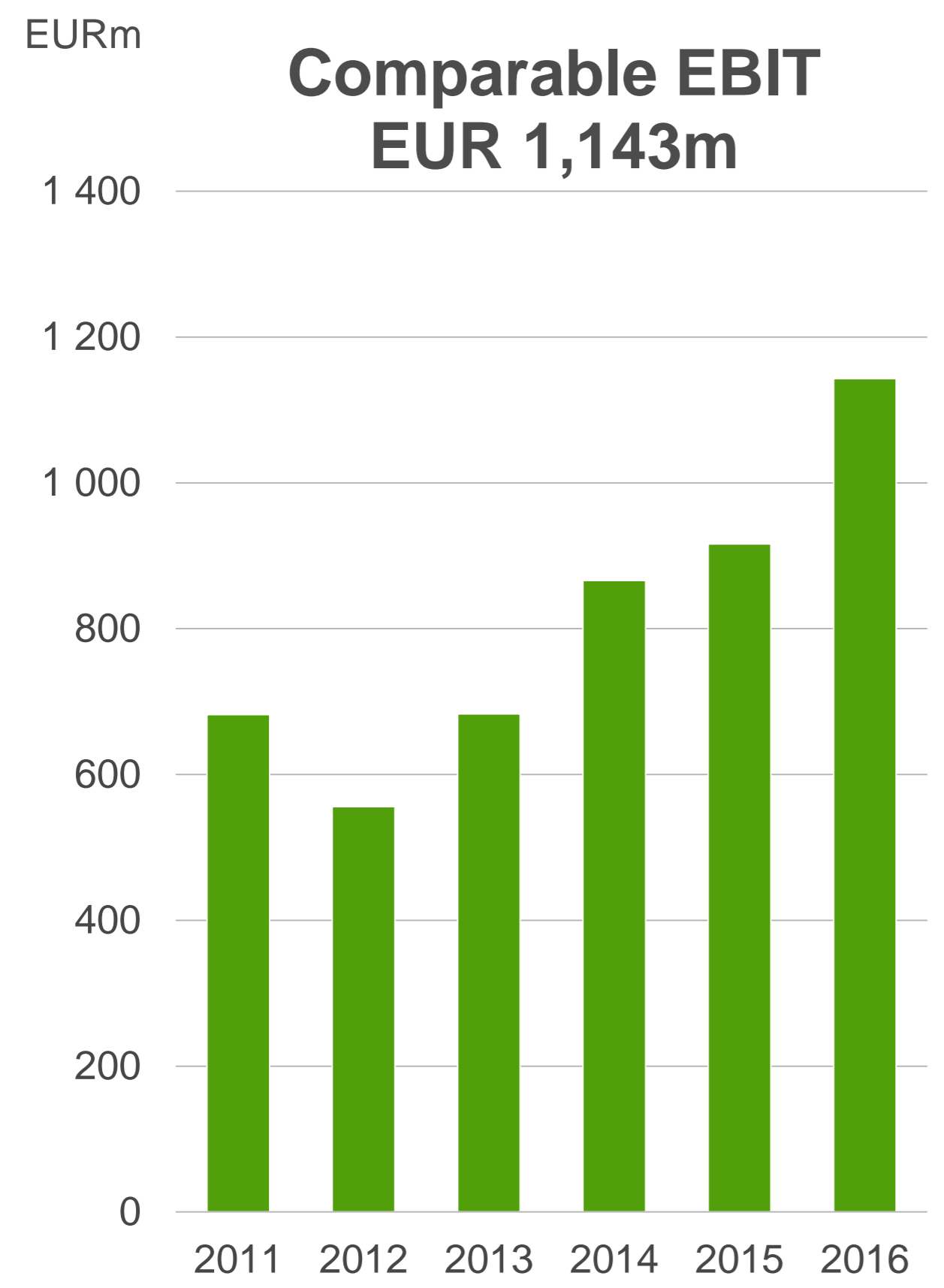
- Kymi pulp mill expansion
- Raflatac expansion in Poland



# Comparable EBIT by business area



# Group financial performance



Comparable figures for 2014-16, excluding special items for earlier years

# Outlook for 2017

- UPM's profitability improved significantly in 2016 and is expected to remain on a good level in 2017.
- Demand growth is expected to continue for most of UPM's businesses, while demand decline is expected to continue for UPM Paper ENA. The focused growth projects continue to contribute gradually to UPM's performance.
- Following a deflationary environment in recent years, 2017 is expected to show modest input cost inflation. UPM will continue measures to reduce fixed and variable costs to mitigate this.
- 2017 starts with lower pulp prices and lower availability of hydropower than in the beginning of 2016.





The Biofore Company **UPM**

# RESPONSIBILITY IS GOOD BUSINESS

# Responsibility is good business

## MORE WITH BIOFORE



Creating value through products and innovation



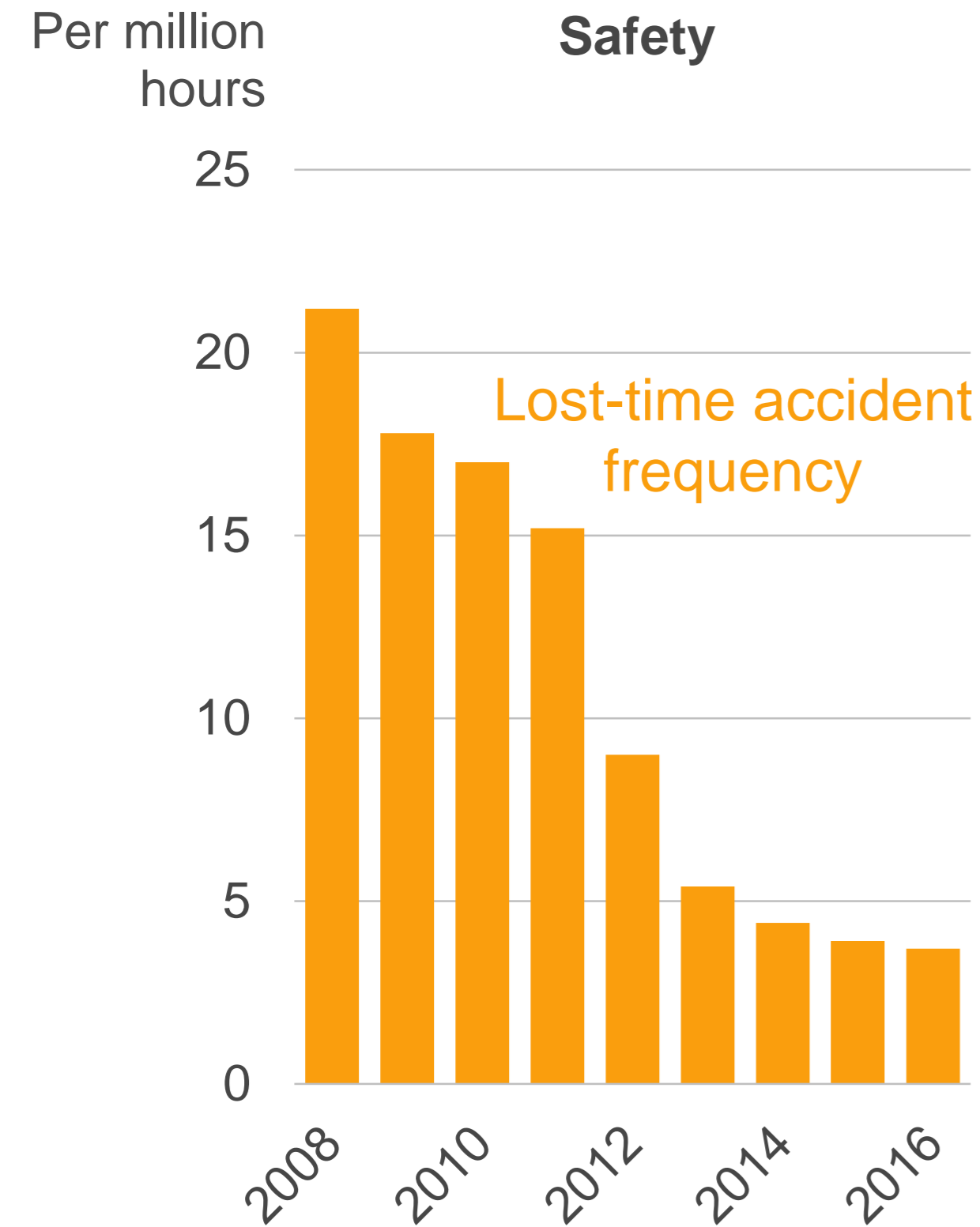
Creating competitive advantage and long-term value



Risk mitigation by responsible value chain and production

**"We believe that customers, investors and other stakeholders value responsible operations that keep risks under control and add to our business opportunities, thereby increasing the company value."**

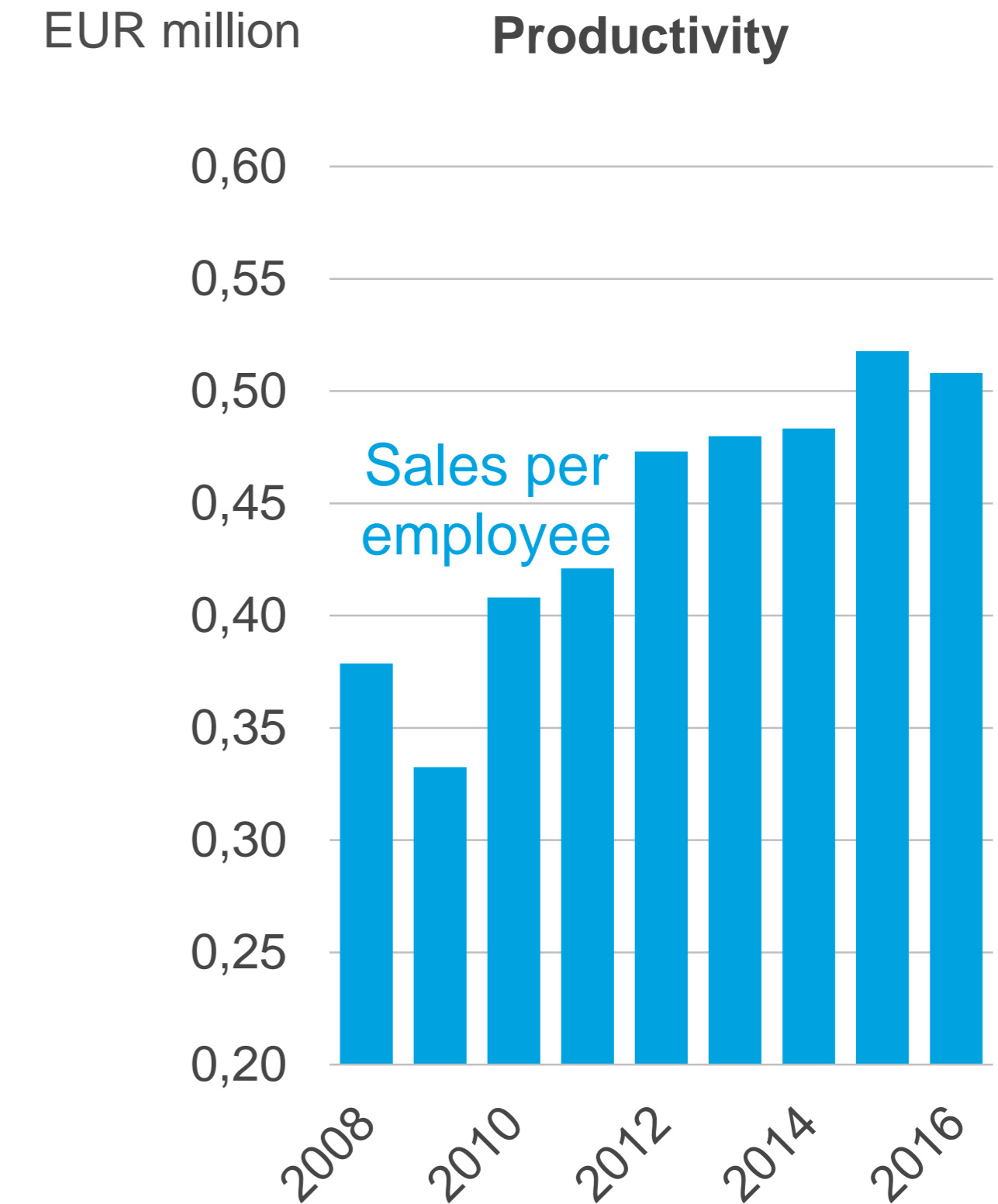
# Creating competitive advantage and long-term value by engagement



5-year change:  
**-76%**



5-year change:  
**+9**



5-year CAGR:  
**+4% pa**

# Creating competitive advantage and long-term value by efficiency

Case: UPM Changshu mill in China



Water

**-60%**

Per tonne of paper



COD in effluent

**-75%**

Per tonne of paper

water intake



water discharge



Energy

**-30%**

Per tonne of paper



SO<sub>2</sub> emission

**-90%**

Per tonne of paper



Waste to landfill

**-60%**

Per tonne of paper



Certified fibre

**85%**

In 2015



2015 compared to 2005

Source: UPM



# Creating value through products and innovation



UPM BioVerno – turning residue into high-quality renewable diesel

**-80%**

fossil CO<sub>2</sub> emissions

**100%**

wood-based material



# Consistent long-term work receives external recognition

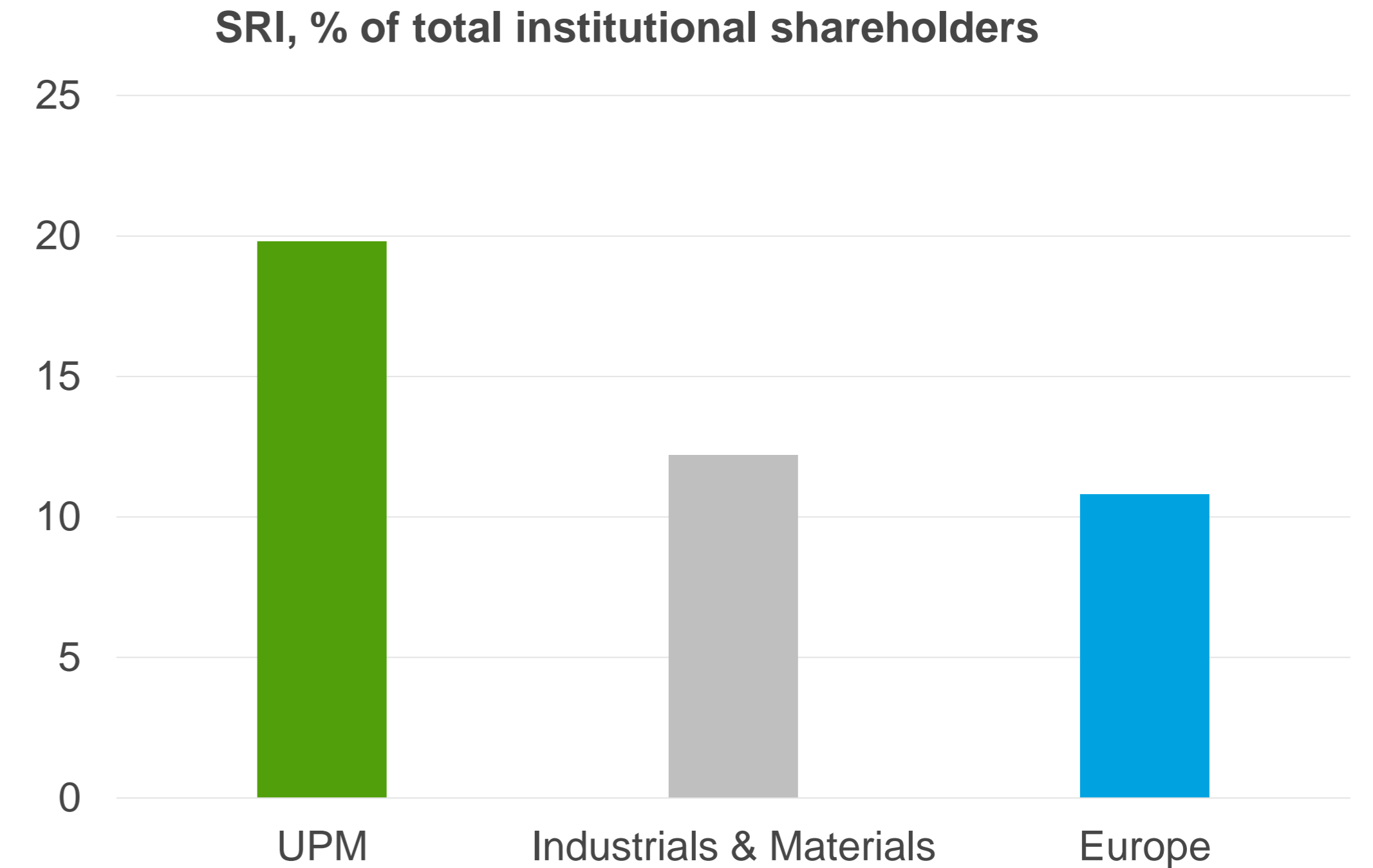
UPM in sustainability indices



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



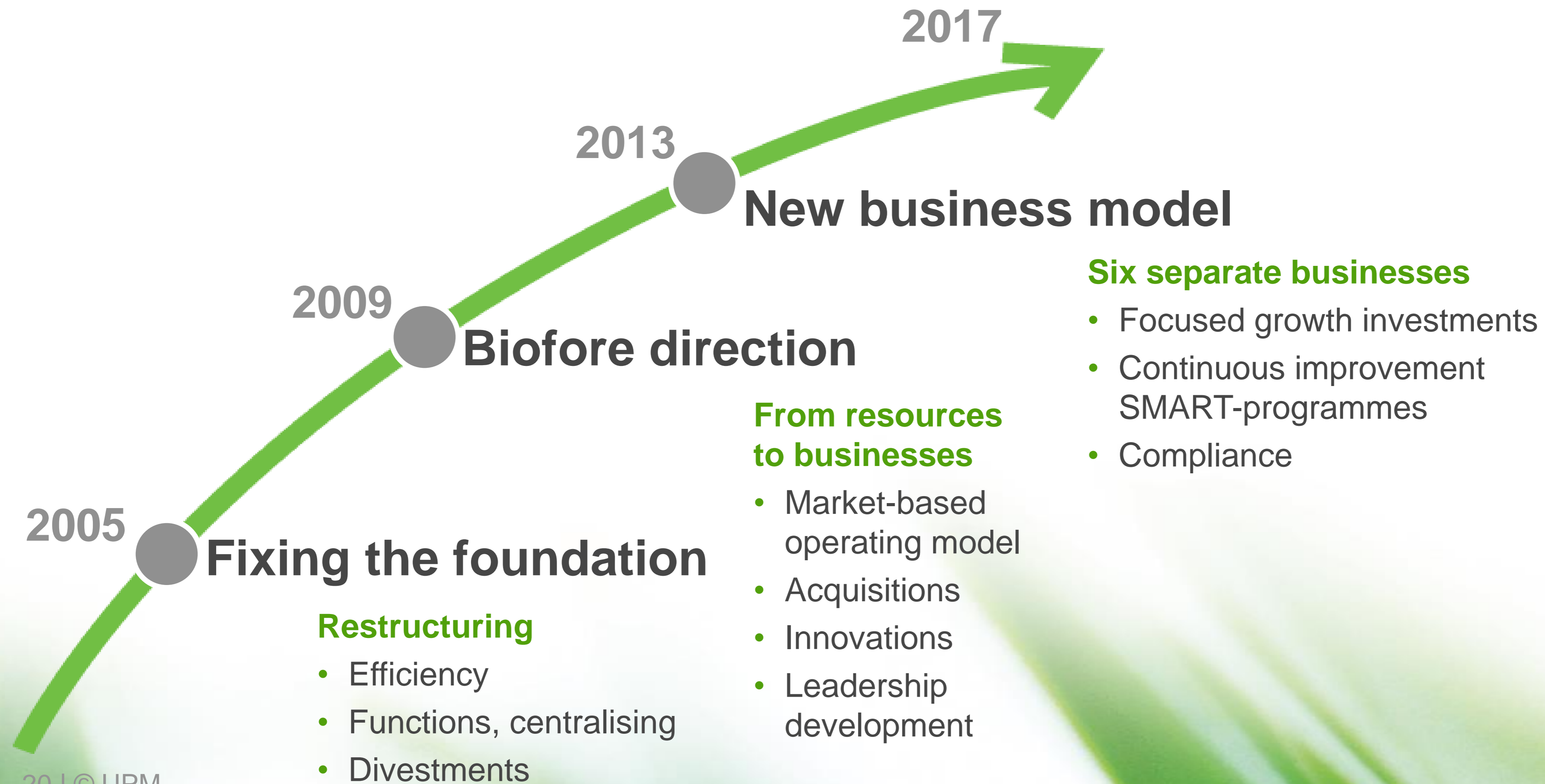
Sustainable and Responsible (SRI) investors form a significant part of UPM's shareholders



Source: Nasdaq, September 2016

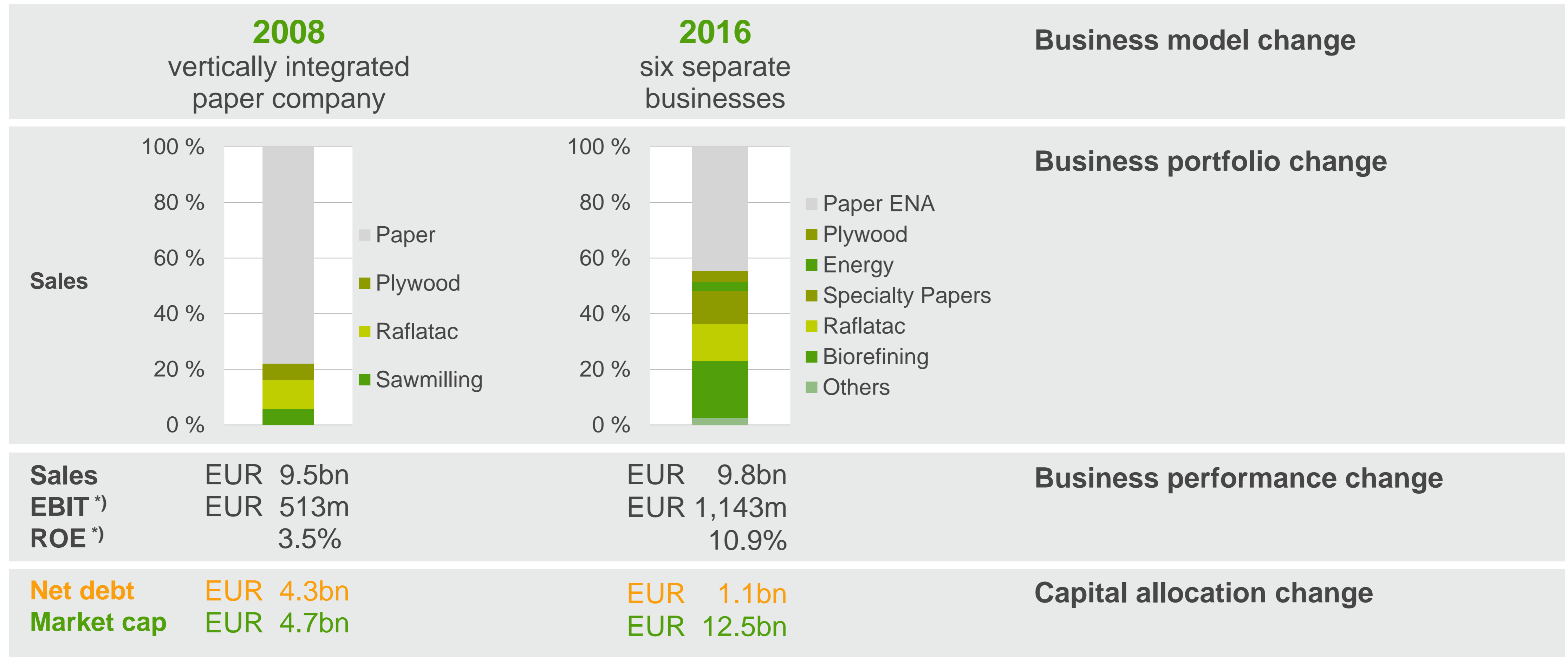
# UPM IN TRANSFORMATION

# 2016 performance is the result of 10 years of transformation



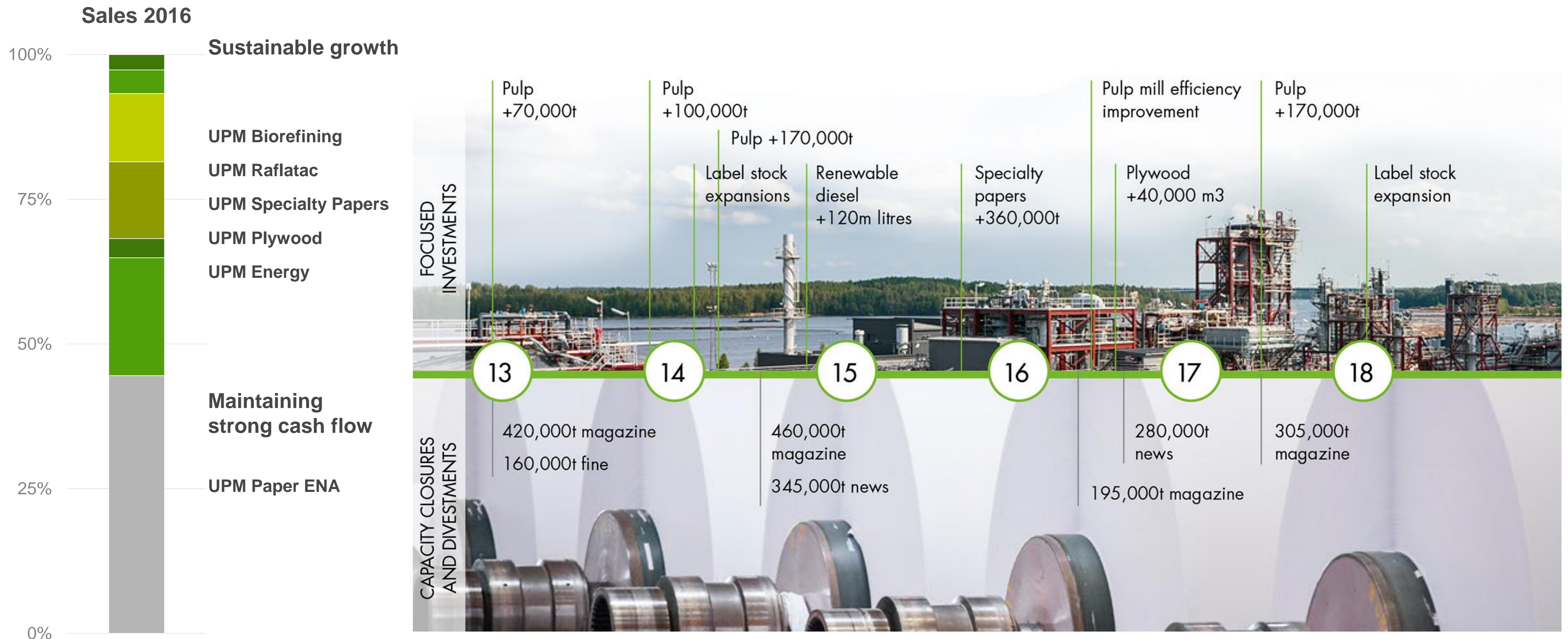


# Transformation progress so far



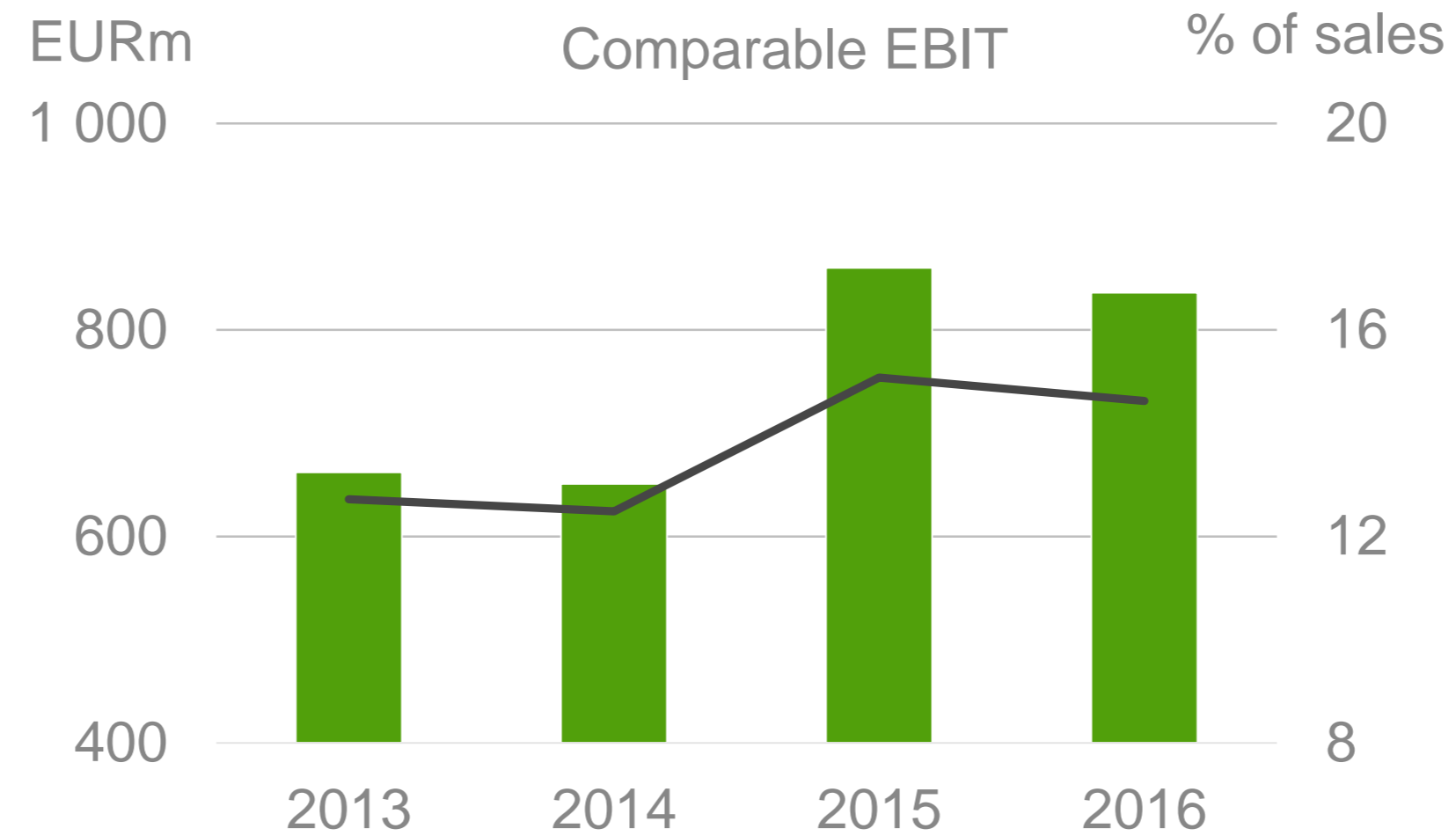
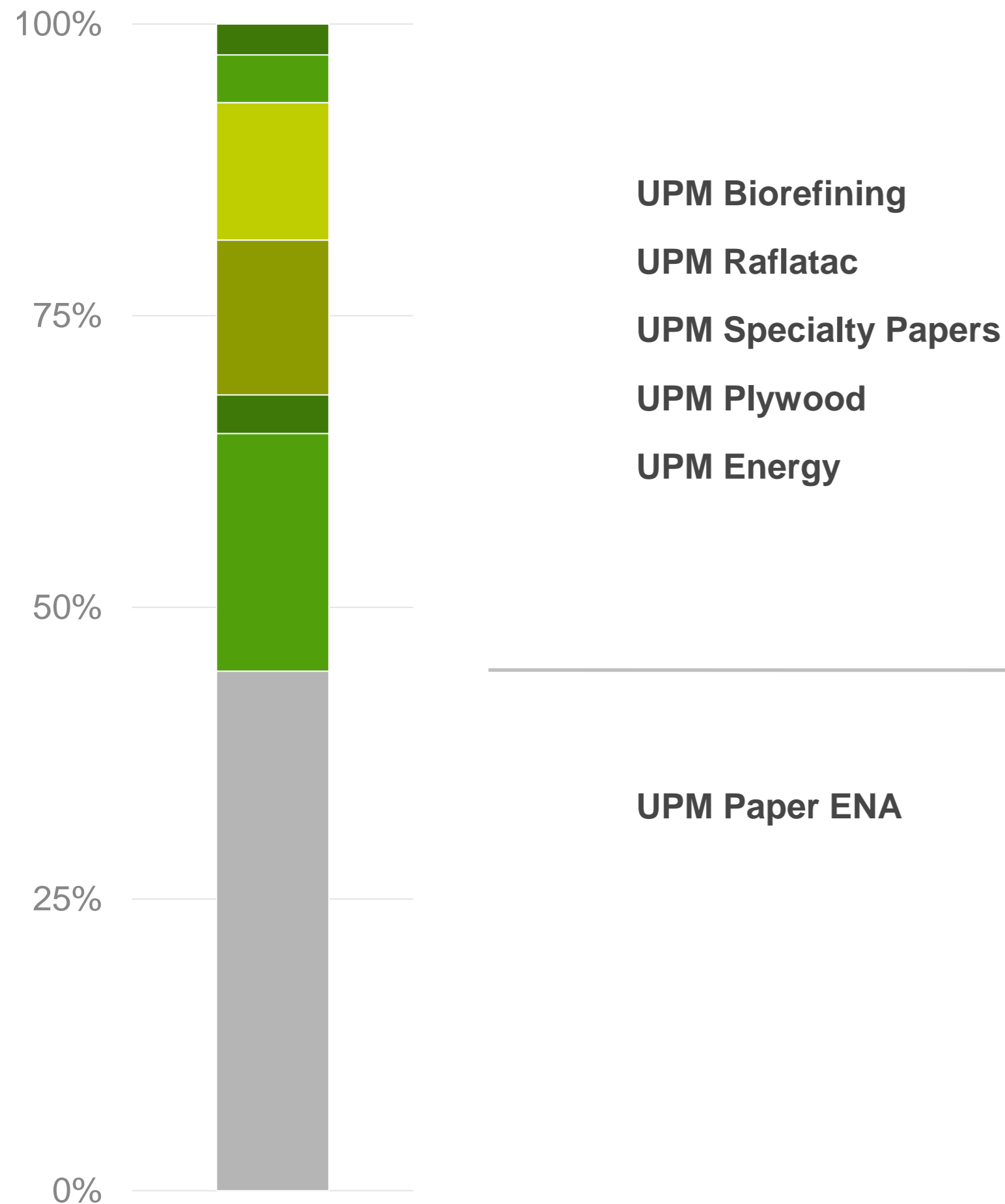
\*) excluding special items for 2008, comparable figures for 2016

# Increasing share of businesses with strong long-term fundamentals for profitability and growth



# Value creation through sustainable growth and cash generation

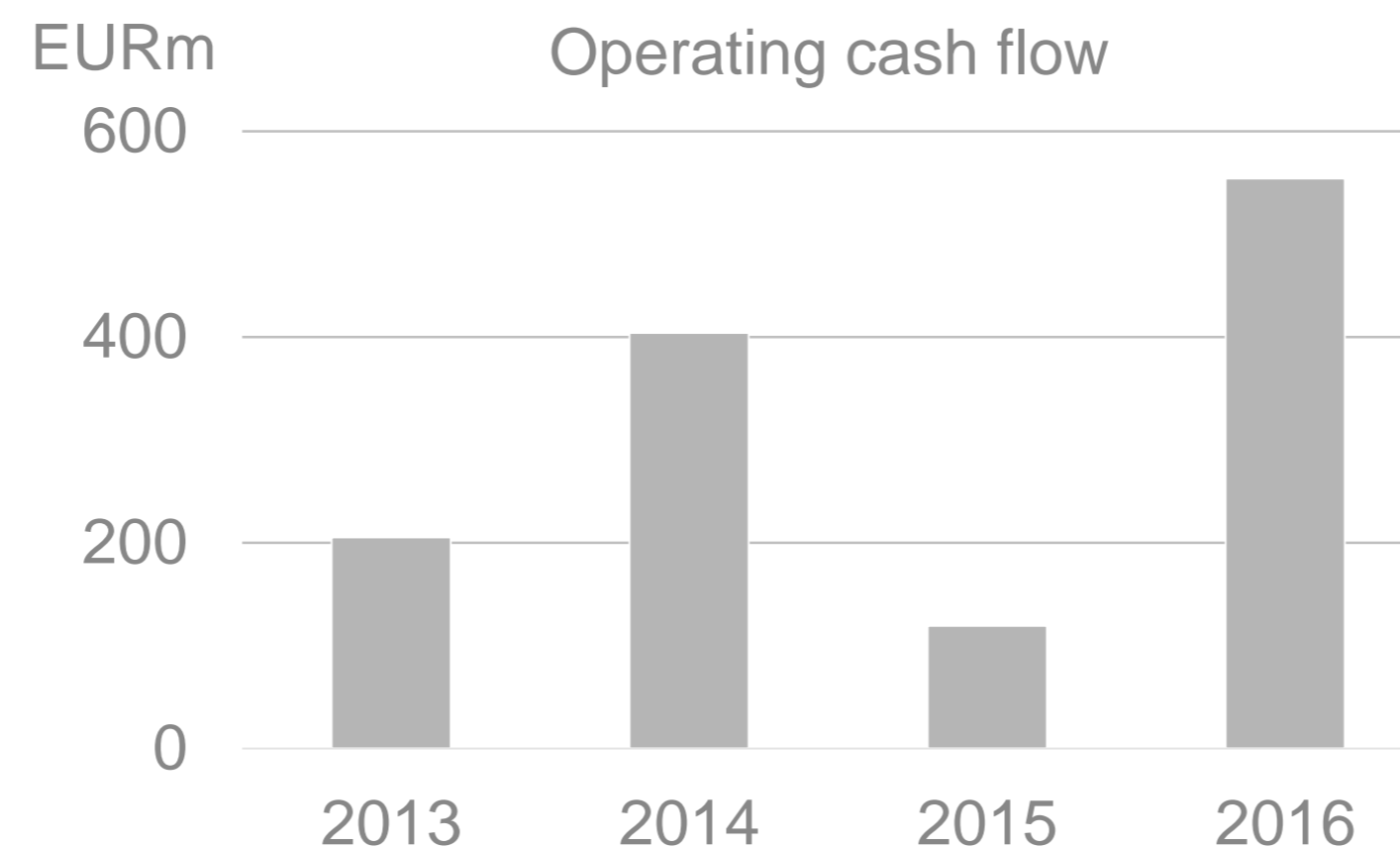
Sales 2016



## Sustainable growth

- Commercial success
- Cost efficiency
- Focused growth investments
- Product mix development

UPM Paper ENA



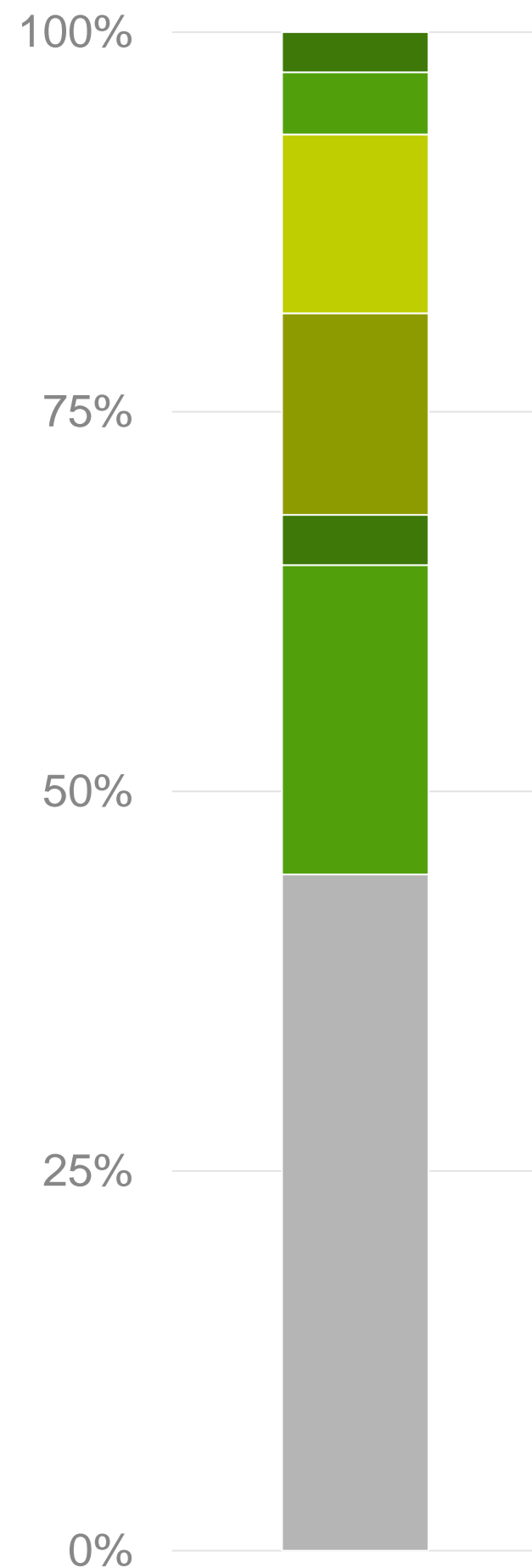
## Maintain strong cash flow

- Commercial success
- Cost efficiency
- Efficient use of assets, including restructuring



# Focused investments are delivering growth

Sales 2016



Average delivery growth 2011–2016

## UPM Biorefining

Pulp  
Biofuels

CAGR **+3%**  
**New business**

## UPM Raflatac

Standard products  
Films and specials

CAGR **+4%**  
CAGR **+8%**

## UPM Specialty Papers

Label materials  
Cut-size

CAGR **+4%**  
CAGR **+6%**

## UPM Plywood

Plywood

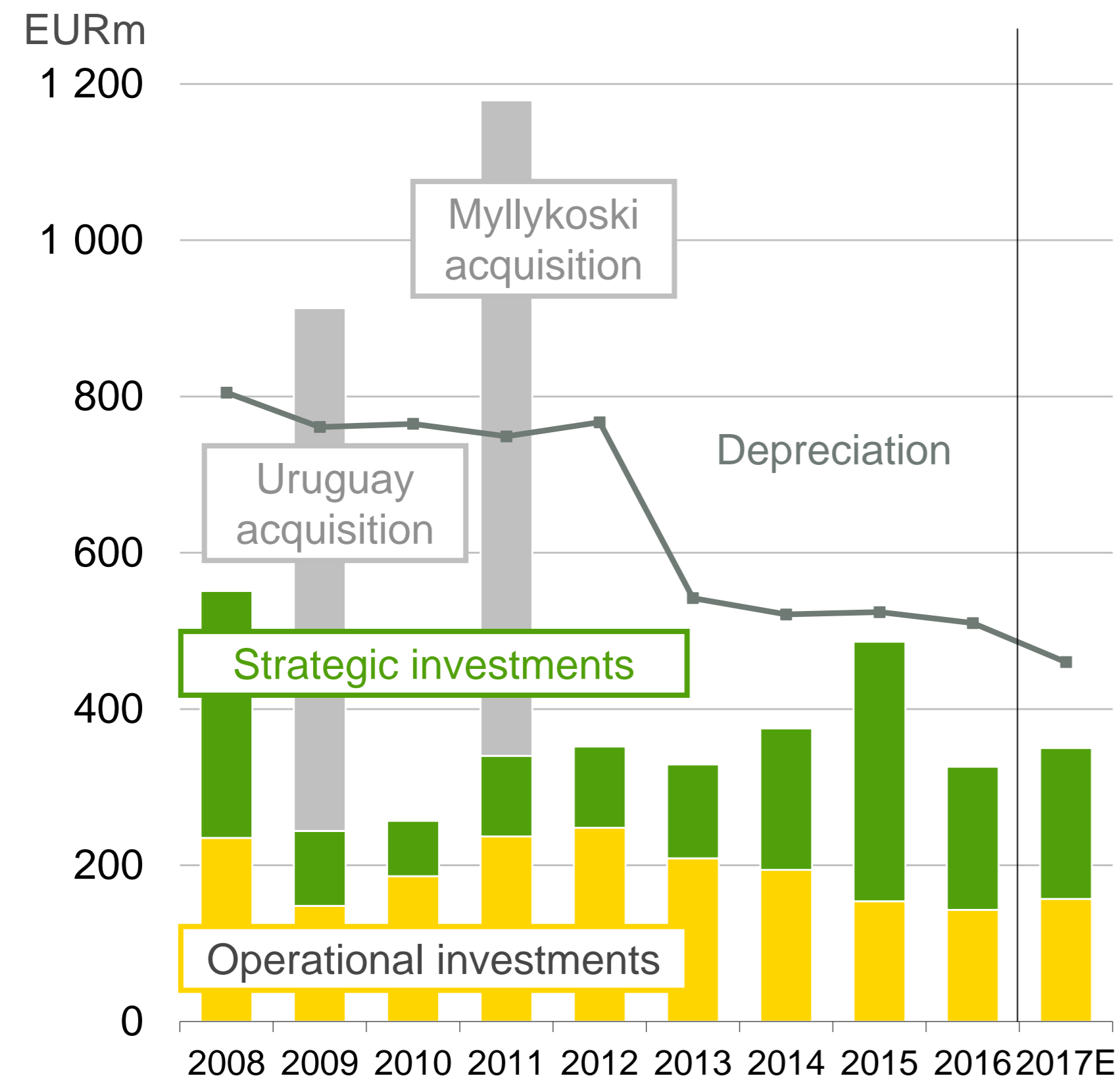
CAGR **+3%**





# UPM will continue to invest on growth through focused investments

## Capital expenditure



## Focused growth investments

- Sustainable returns, fast payback
- Low implementation risk
- Financed from operating cash flow

## Potential larger investments

- Organic growth or M&A
- When the opportunity and timing are right

 Attractive returns and continuously strong balance sheet

# Uruguay could be a competitive alternative – time schedule is several years

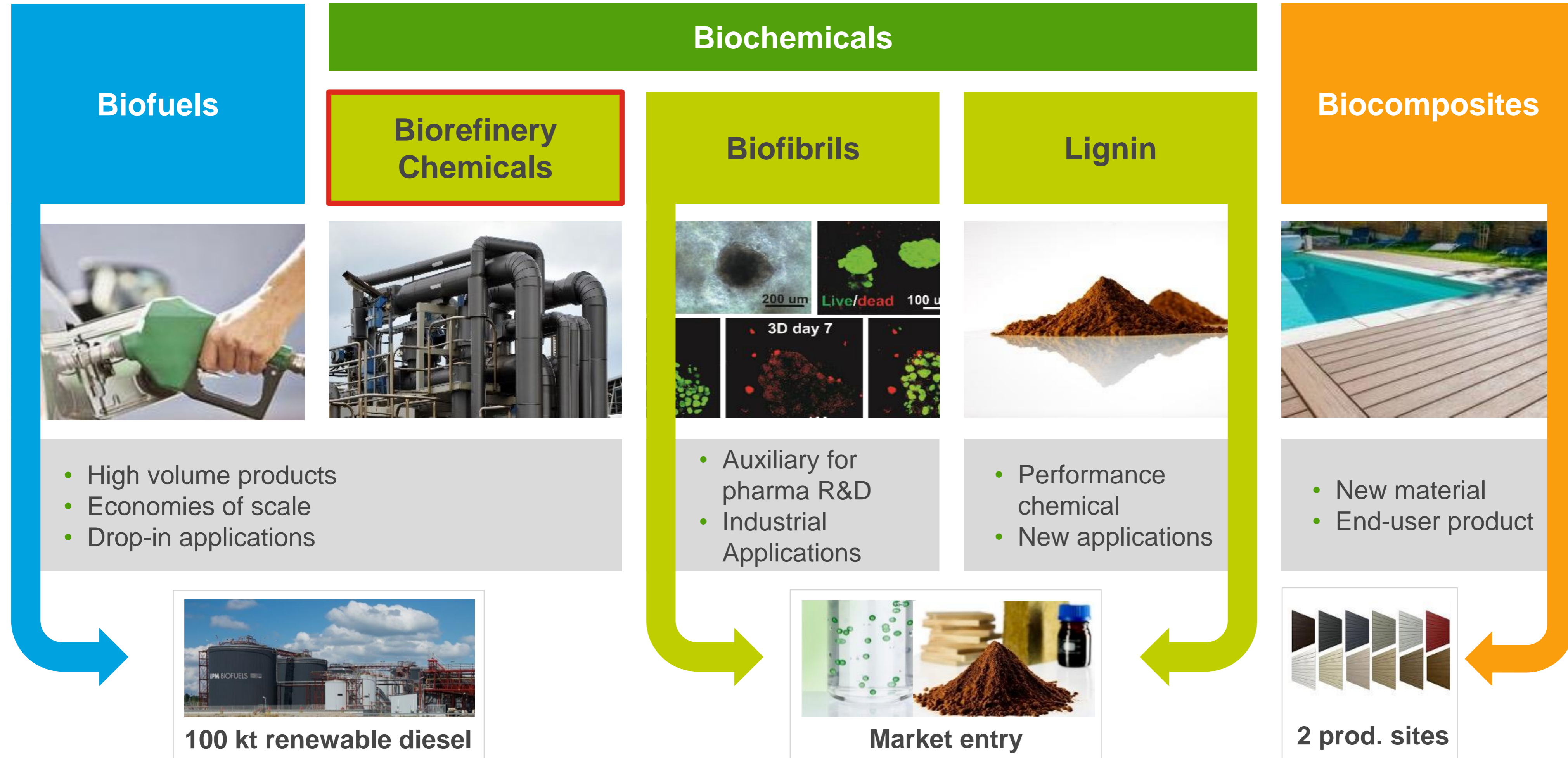


# Biofuels and biochemicals are natural evolutionary steps in wood based value creation

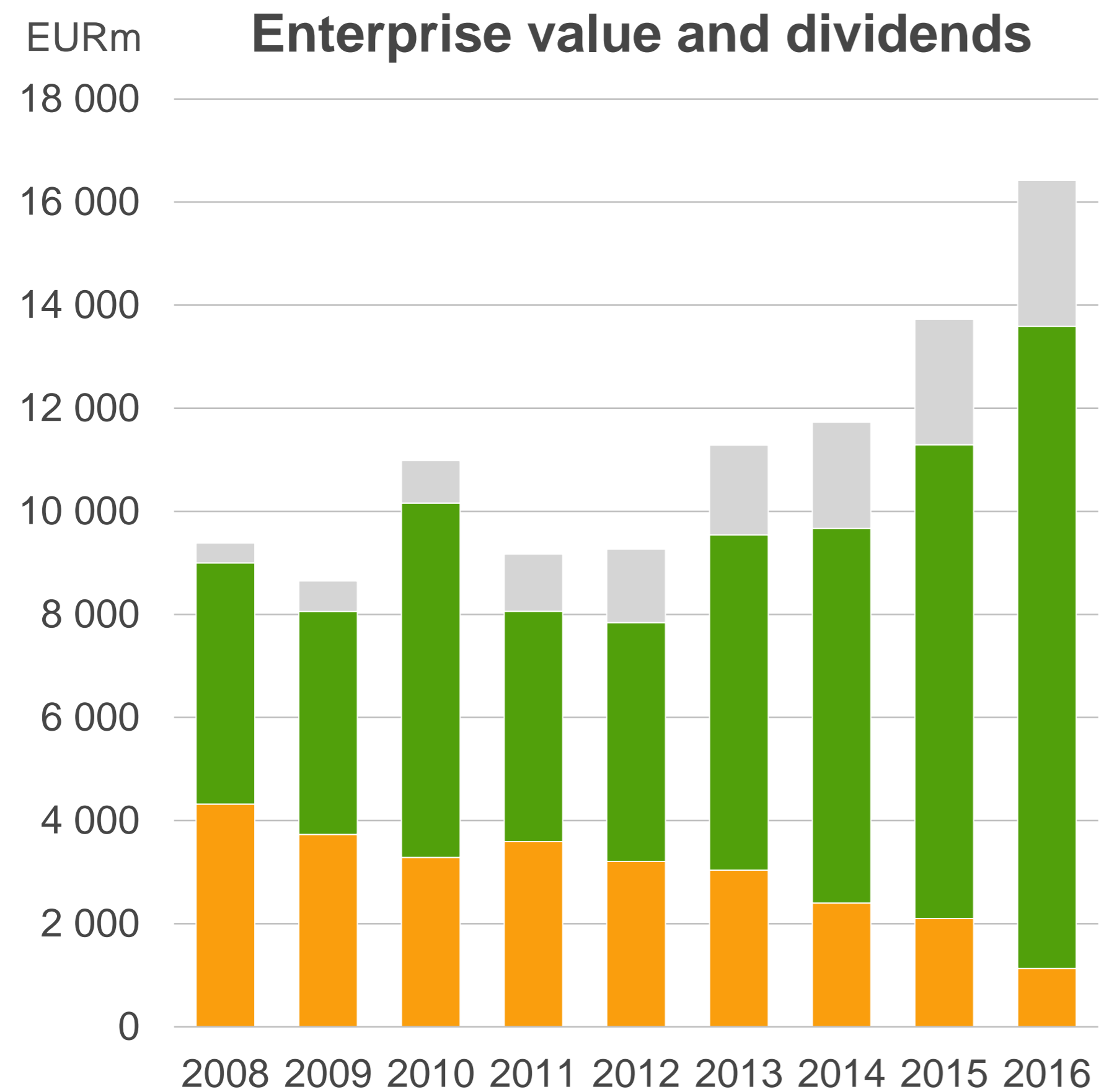




# New business opportunities for UPM



# UPM transformation and disciplined capital allocation are reflected in shareholder value



Cumulative dividends

Market capitalisation

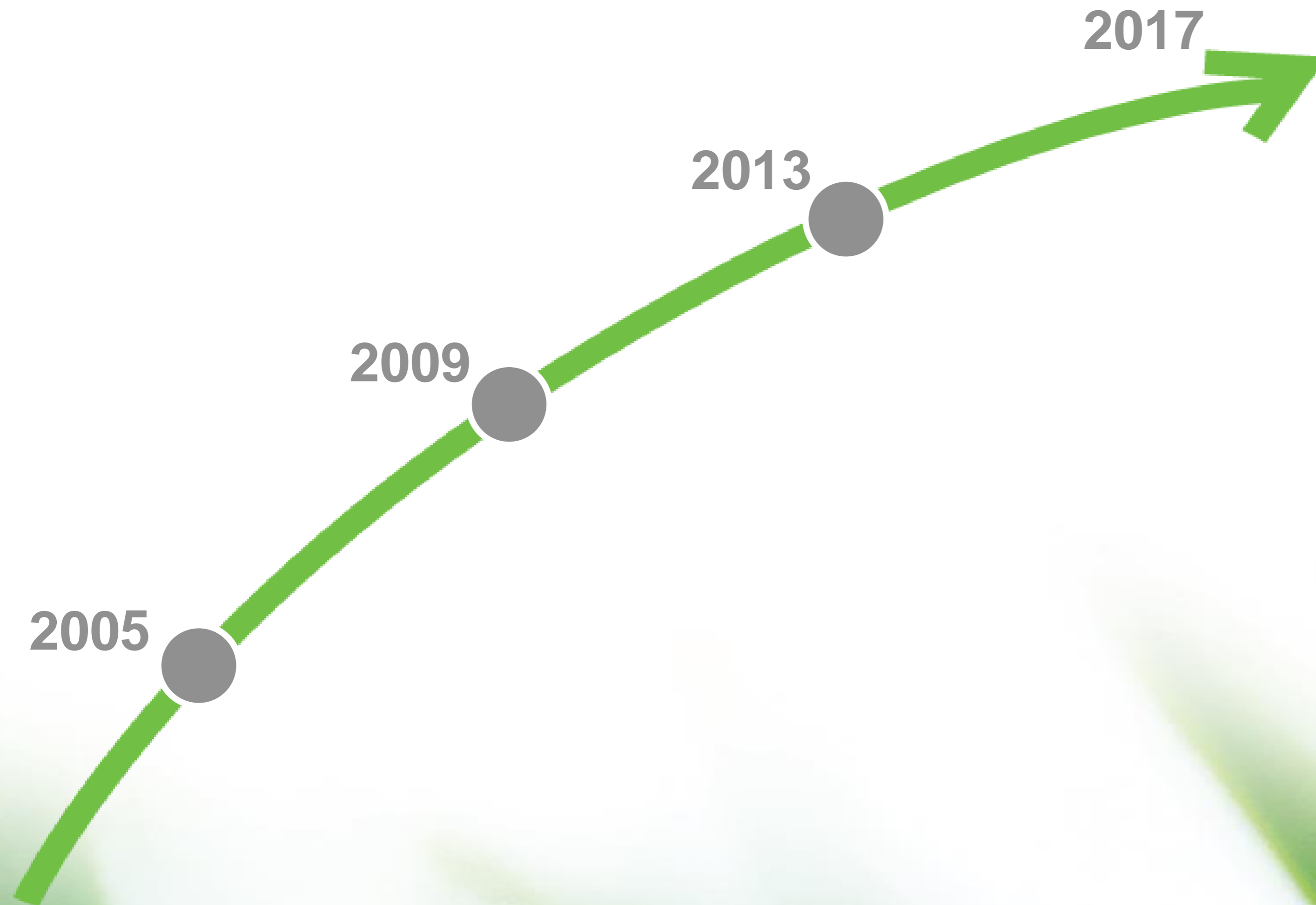
Net debt

# AIMING HIGHER WITH BIOFORE

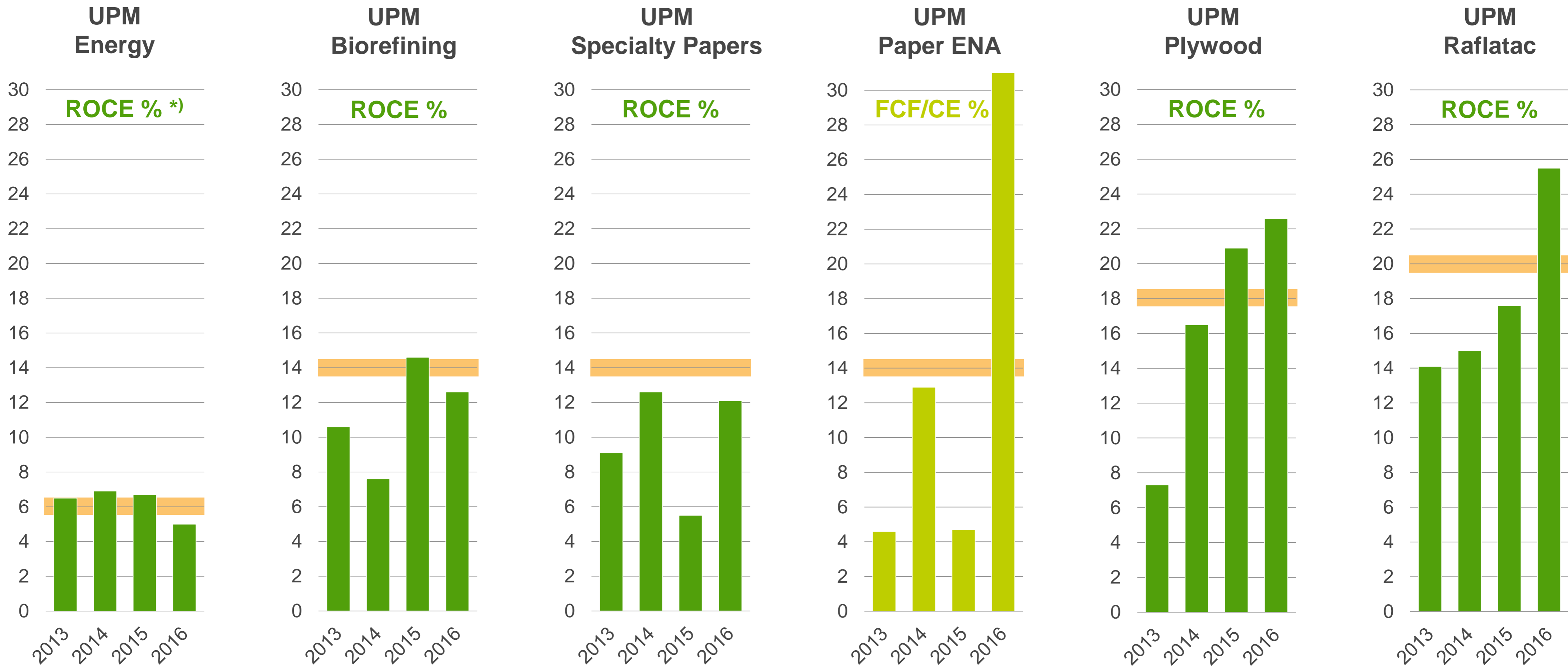
# New phase beginning in UPM transformation

**AIMING  
HIGHER**  
WITH BIOFORE

- Shareholder value
- Performance
- Leadership
- Growth
- Innovation
- Sustainability



# Renewed financial targets: business area long-term return targets increased

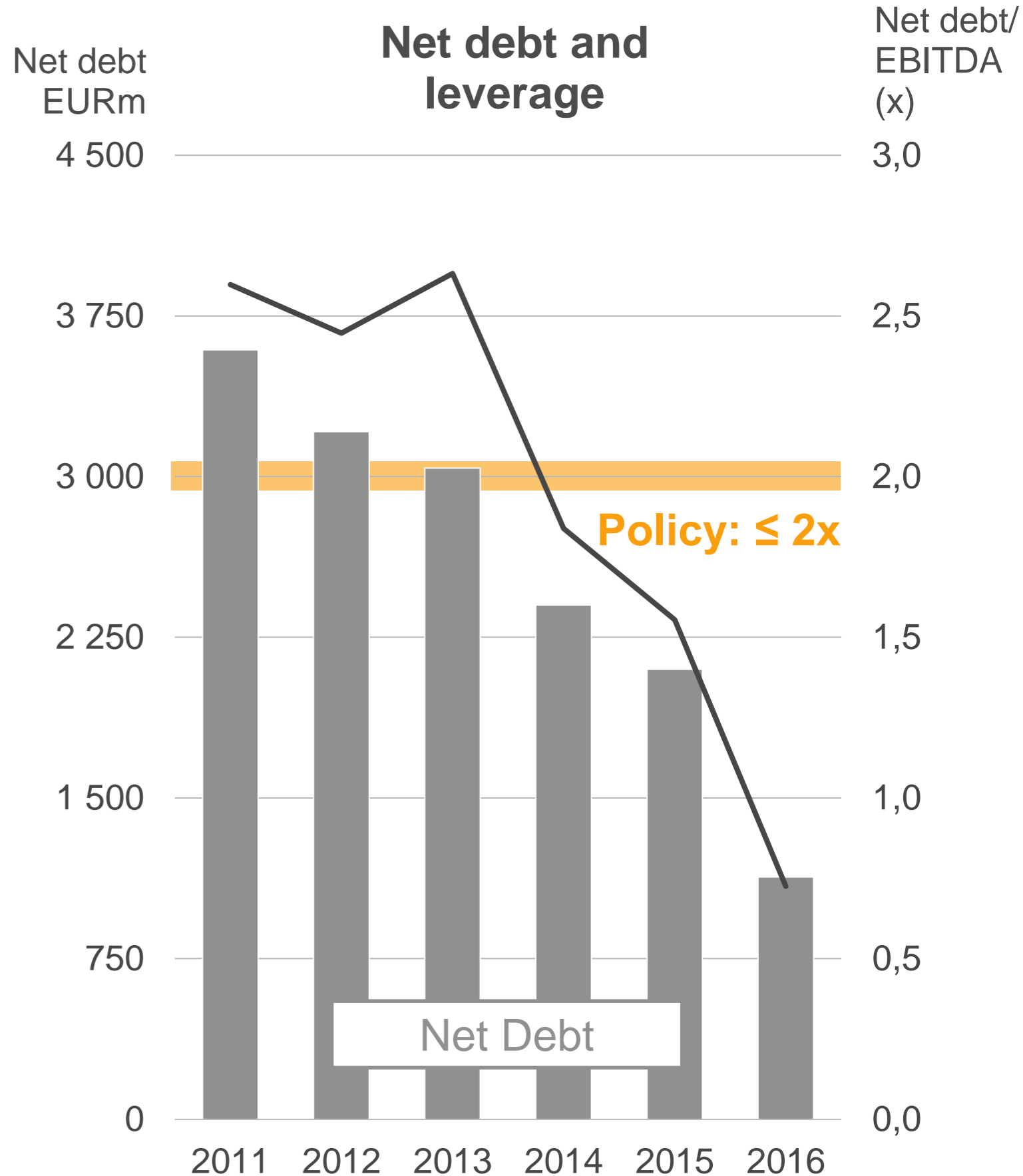
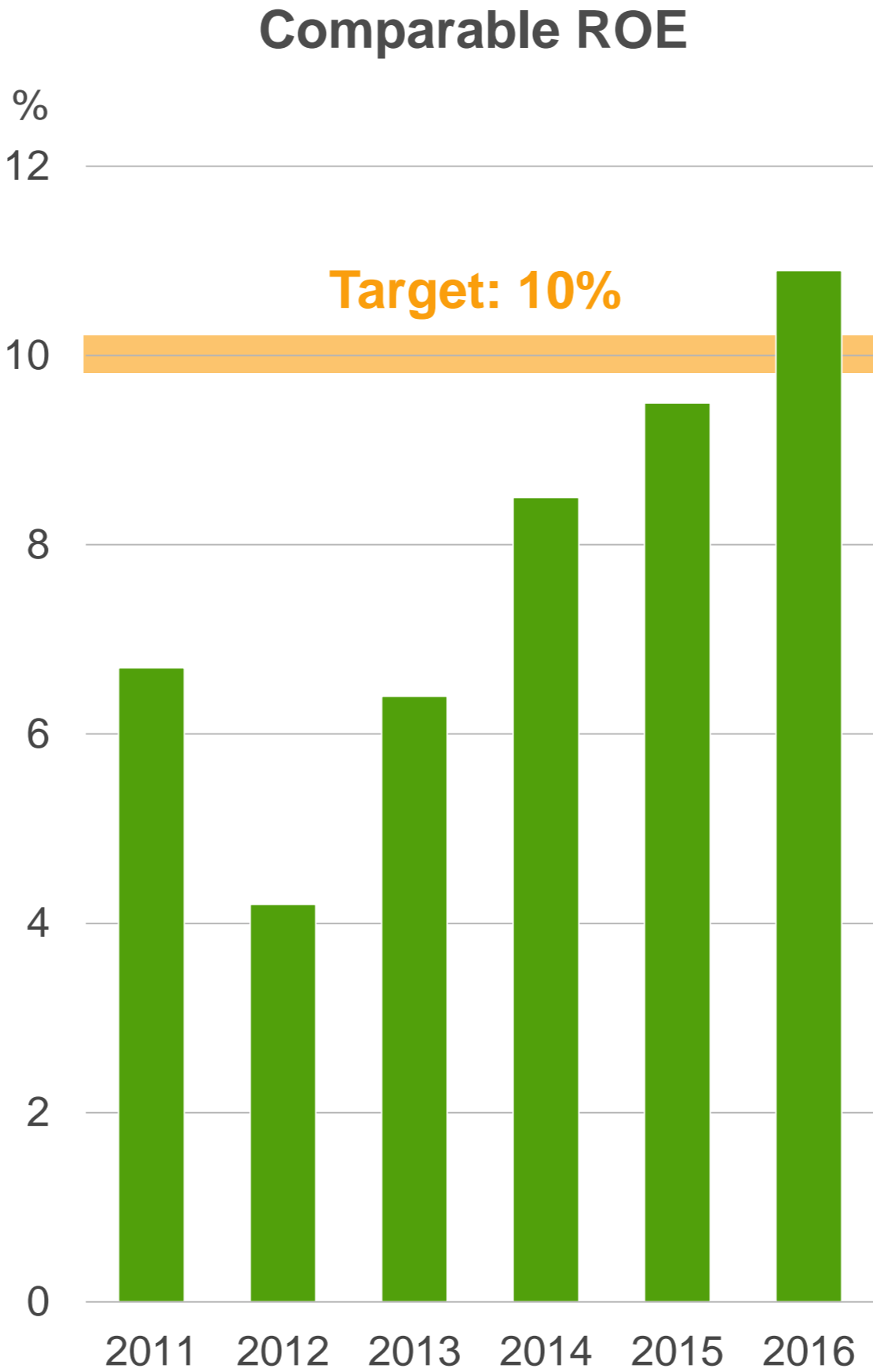
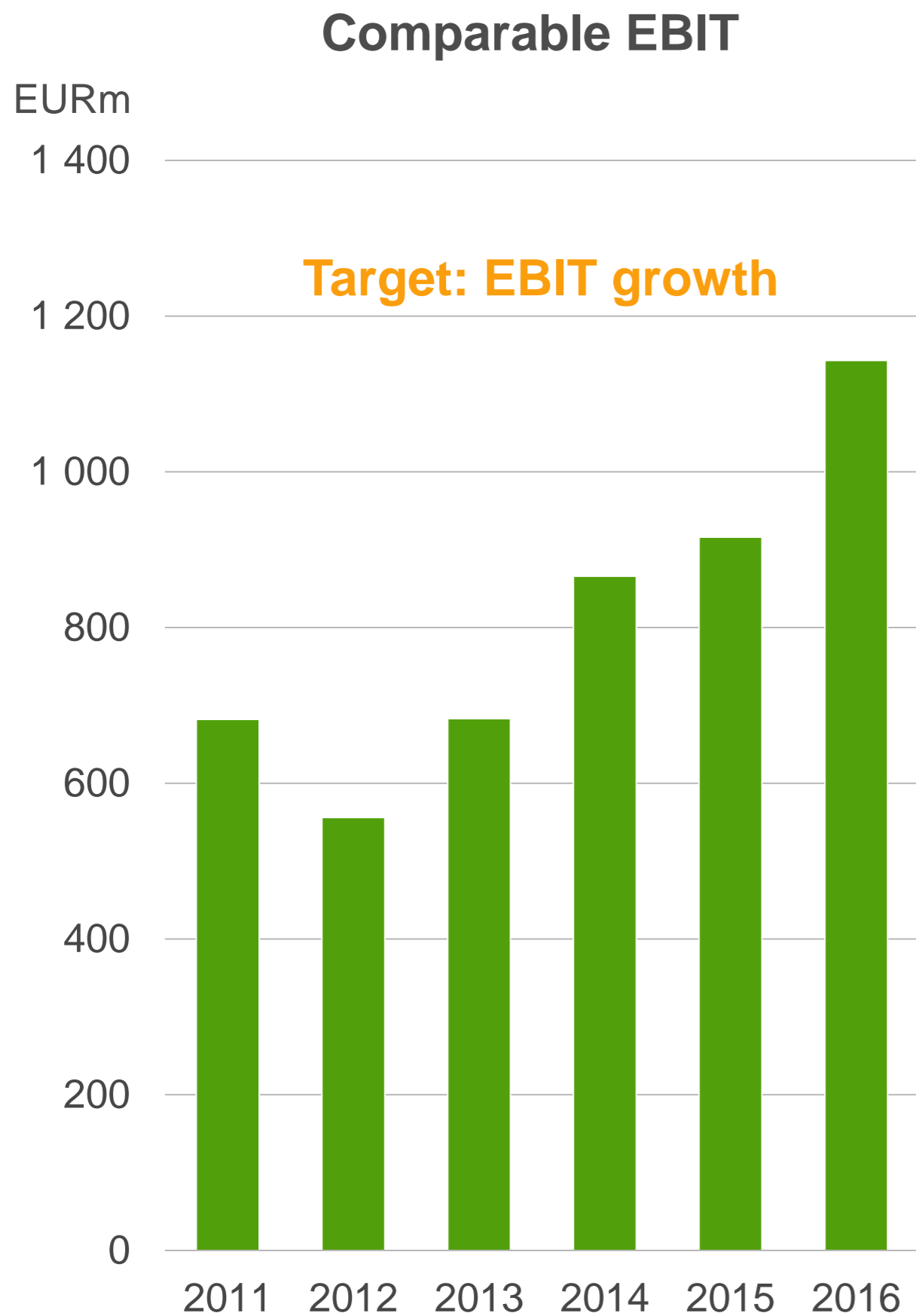


\*) shareholdings in UPM Energy valued at fair value

 Long-term return target



# Renewed financial targets: aiming for earnings growth and attractive shareholder returns



Comparable figures for 2015 and 2014, excluding special items for earlier years

# AIMING HIGHER

WITH BIOFORE

## Direction: grow businesses with strong long-term fundamentals and sustainable competitive advantage

### Operating model

→ *Better than sum of parts*

- Separate businesses
- Top performance
- Corporate benefits

### Performance

→ *Continuous improvement*

- Profit focus
- High performing people
- Value-based leadership and responsibility
- Innovation

### Capability

→ *Foundation for opportunities*

- Strong cash flow
- Strong balance sheet
- Corporate structure

### Capital allocation

→ *Attractive returns*

- Attractive dividend
- Focused growth investments
- Selected larger investments
- Synergistic M&A

### Growth

→ *Earnings growth and valuation*

- Current growing businesses
- New bio-based businesses



**UPM**

The Biofore  
Company