

MORE WITH BIOFORE

UPM RESULTS Q4 2014

Jussi Pesonen
President and CEO
3 February 2015



2014 – a year of progress

- Operating profit excluding special items increased by 24% due to the successful EUR 200m profit improvement programme
- A new EUR 150m profit improvement programme for 2015 launched
- Excellent operating cash flow, EUR 2.33 per share
- Balance sheet at the end of 2014 stronger than ever in UPM's history
- Growth projects progressed – the world's first wood-based renewable diesel biorefinery started up in January 2015
- Board proposes increased dividend of EUR 0.70 per share (+17%)

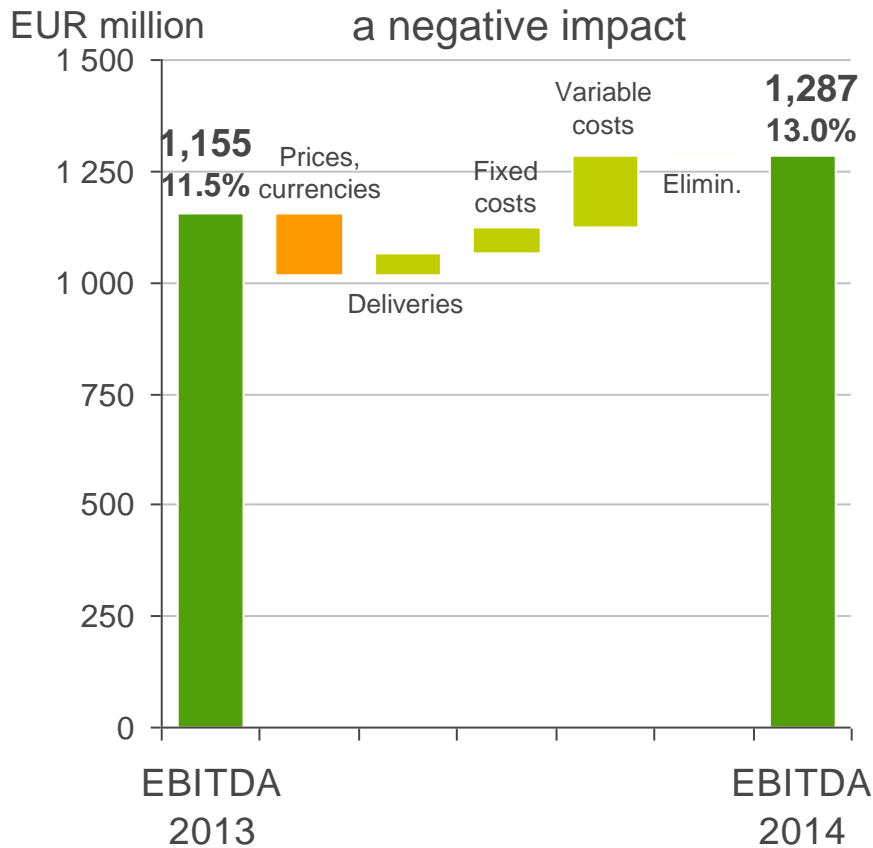
Q4 2014 – strong earnings momentum and record strong balance sheet

EUR million	Q4 2014	Q4 2013	Q3 2014	2014	2013	Change
Sales	2,531	2,588	2,415	9,868	10,054	-2%
EBITDA	330	302	346	1,287	1,155	+132
% of sales	13.0	11.7	14.3	13.0	11.5	+1.5pp
Operating profit (*)	230	207	235	847	683	+164
Profit before tax (*)	216	188	213	774	610	+164
Earnings per share, EUR (*)	0.32	0.27	0.32	1.17	0.91	+0.26
ROE, % (*)	9.2	7.5	9.1	8.3	6.4	+1.9pp
Operating cash flow	462	262	300	1,241	735	+506
Net debt	2,401	3,040	2,726	2,401	3,040	-639
Gearing, %	32	41	36	32	41	-9pp

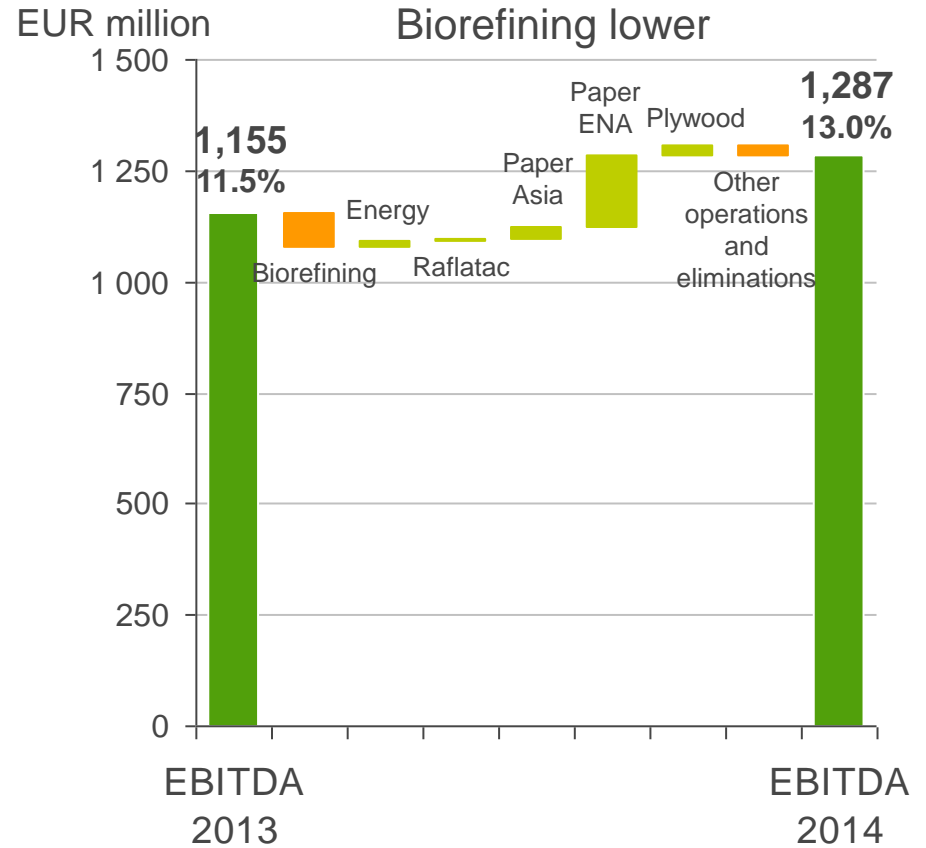
(* excluding special items)

EBITDA in 2014 vs. 2013

Significant cost savings achieved
Pulp and paper prices had
a negative impact

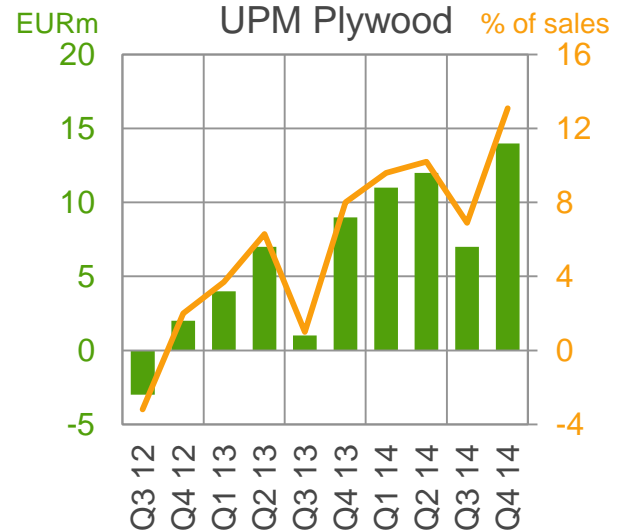
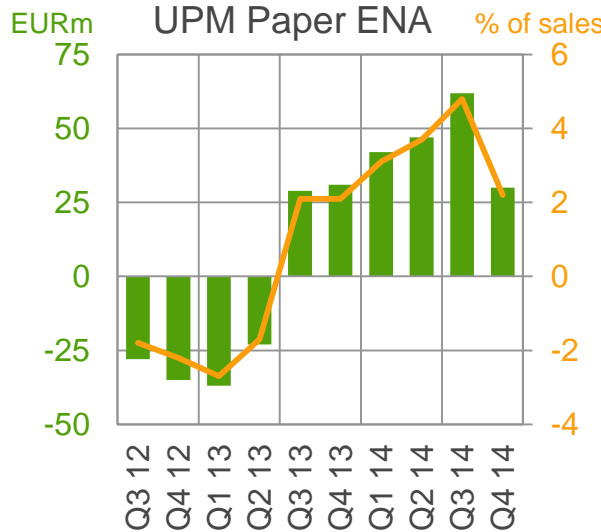
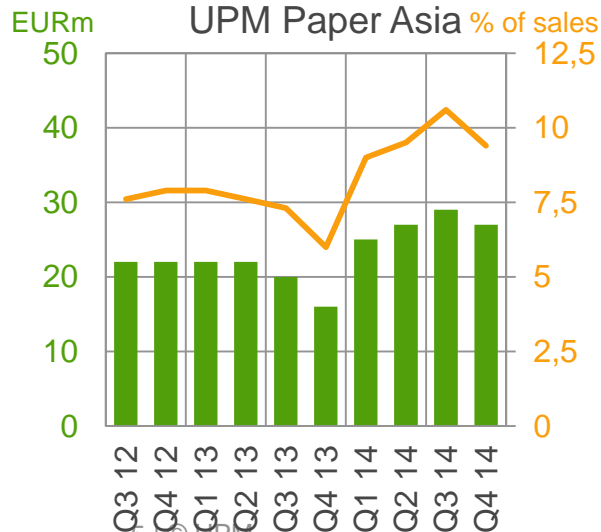
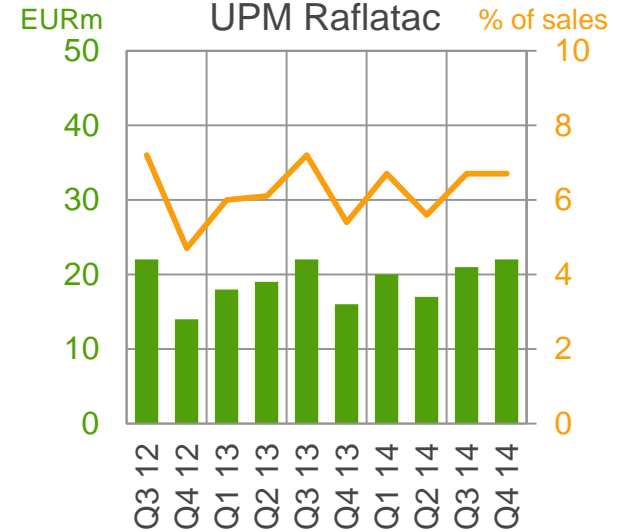
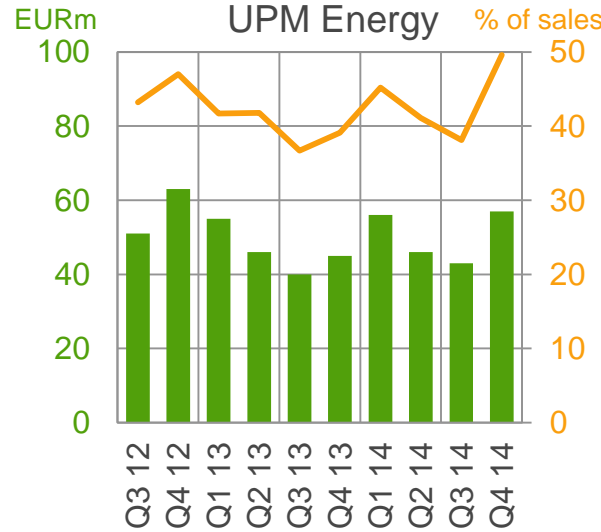
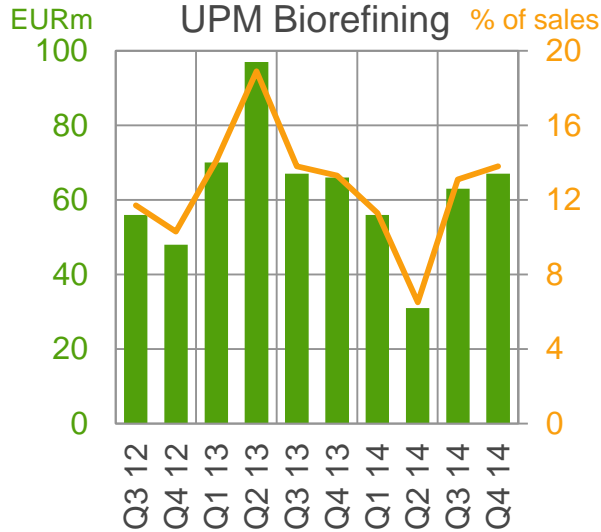


Significant improvement in UPM Paper ENA,
UPM Paper Asia and UPM Plywood, UPM
Biorefining lower



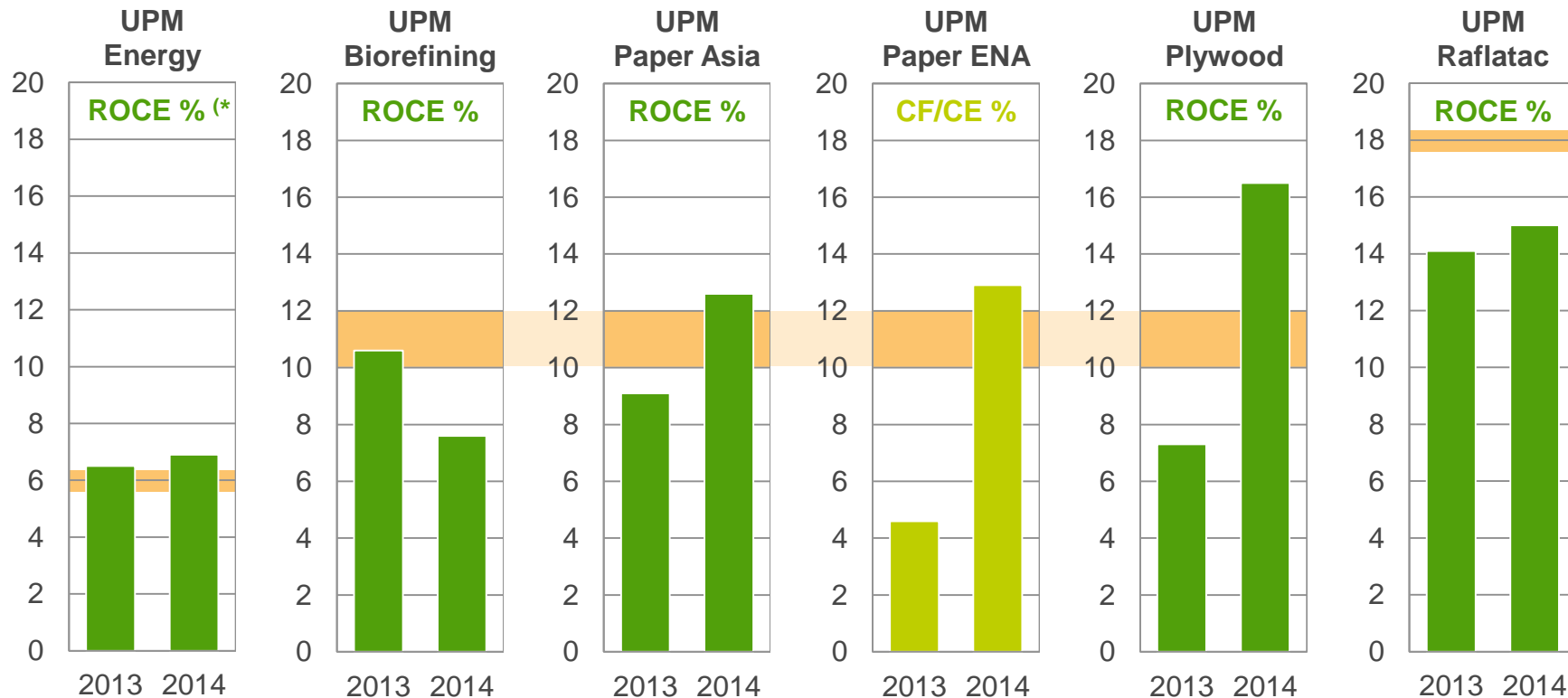


Operating profit ^{*)} by business area



*) excluding special items

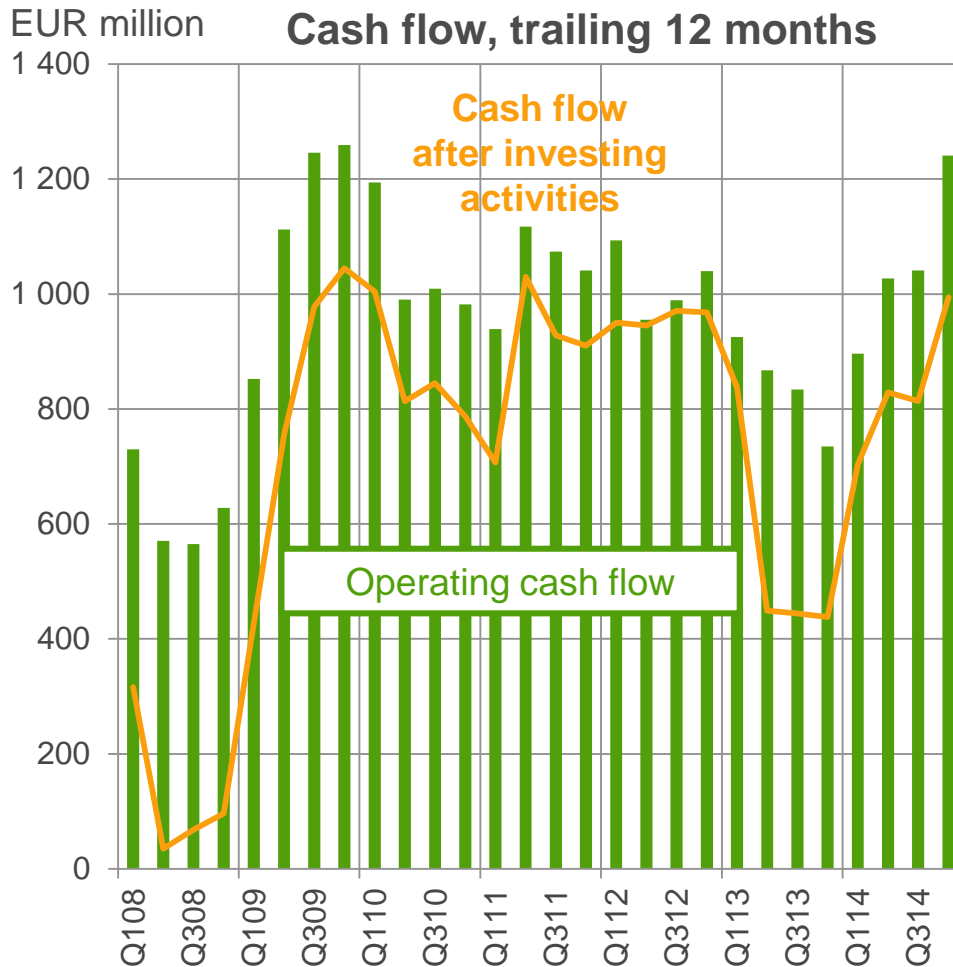
Four business areas achieved their long-term return targets in 2014



- With the current business portfolio, achieving BA targets simultaneously would result in Group EBIT margin of approx. 10% and Group ROCE of approx. 9%
- In 2014, UPM's EBIT margin was 8.6% and ROCE 7.5%, excl. special items



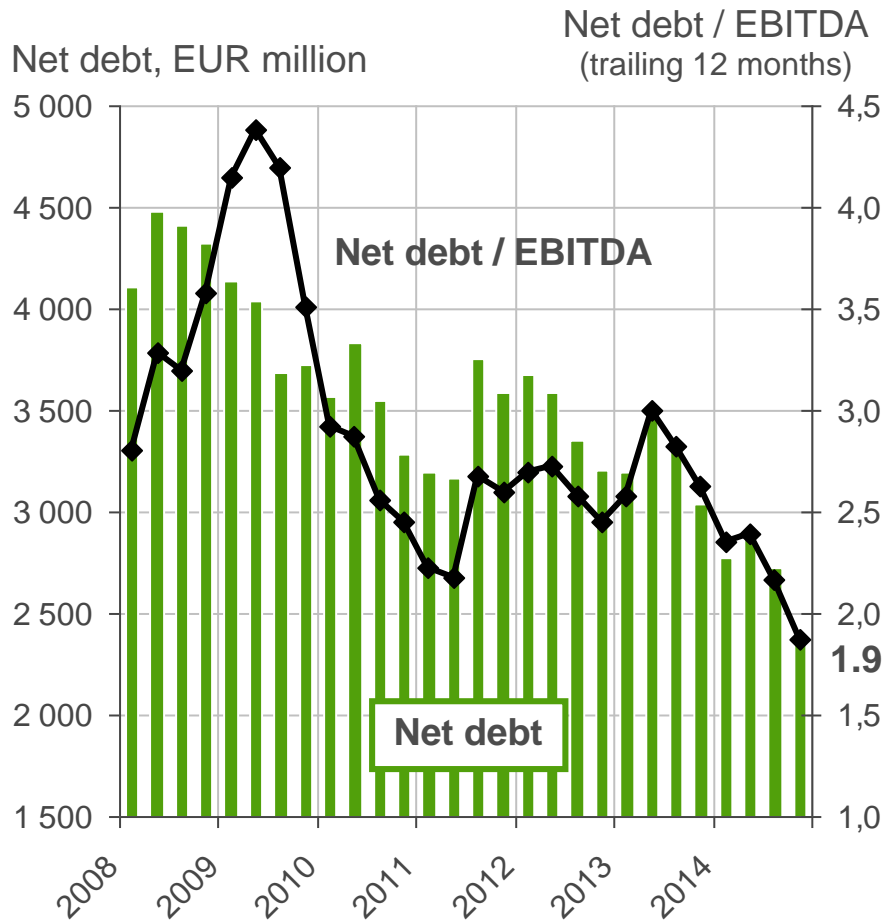
Excellent cash flow



- Q4 2014 operating cash flow was EUR 462m (262m)
- In 2014 operating cash flow was EUR 1,241m (735m)



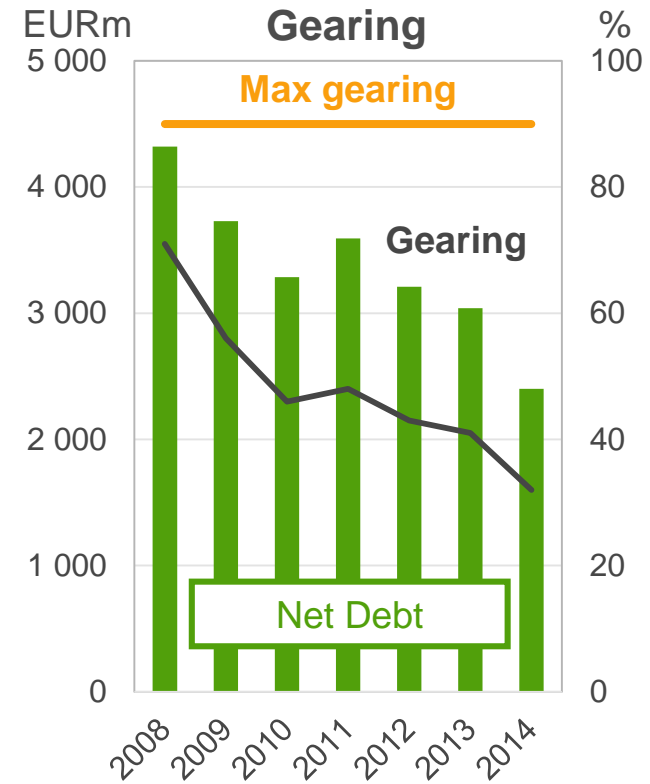
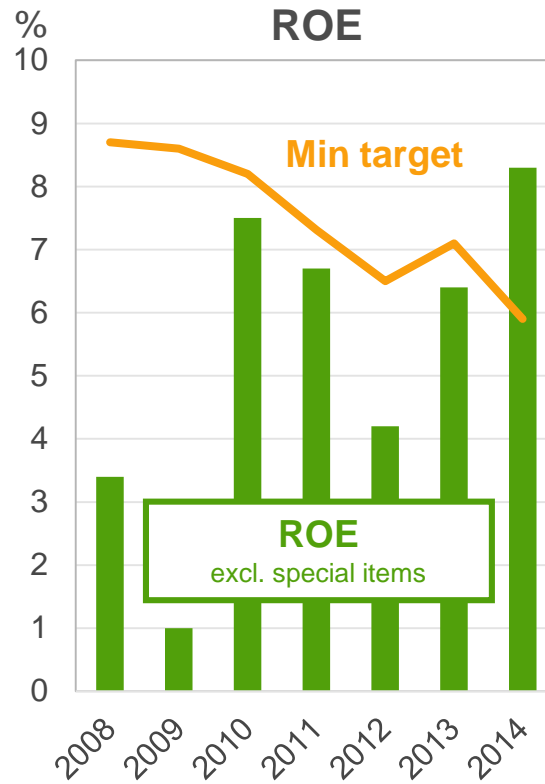
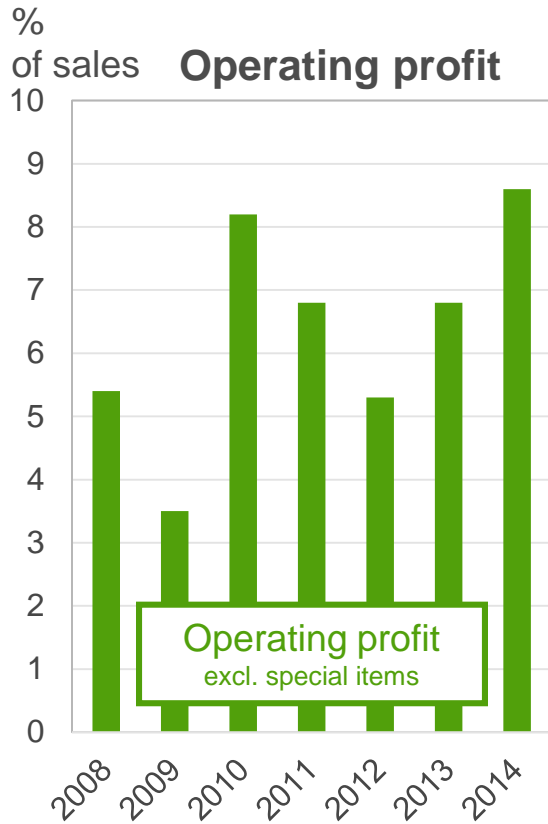
Net debt at record-low level



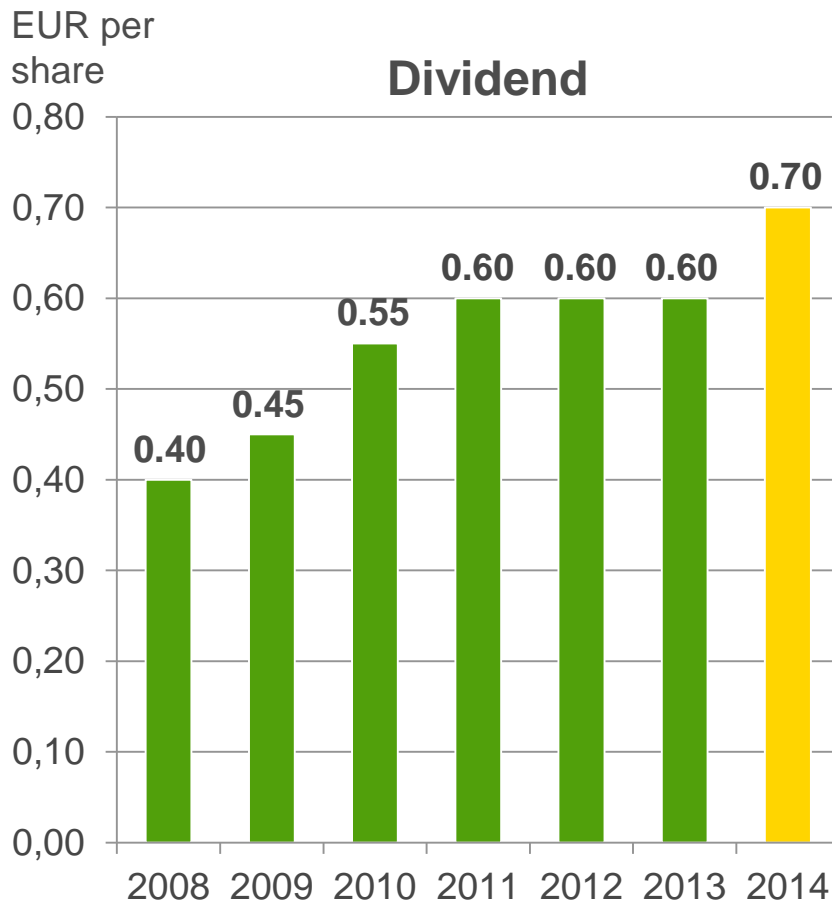
Liquidity was EUR 1.6bn at the end of 2014
Repayments total EUR 0.4bn in 2015



Group profitability and targets



New simplified dividend policy, the Board proposes increased dividend



Dividend policy

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

Board's dividend proposal for 2014

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

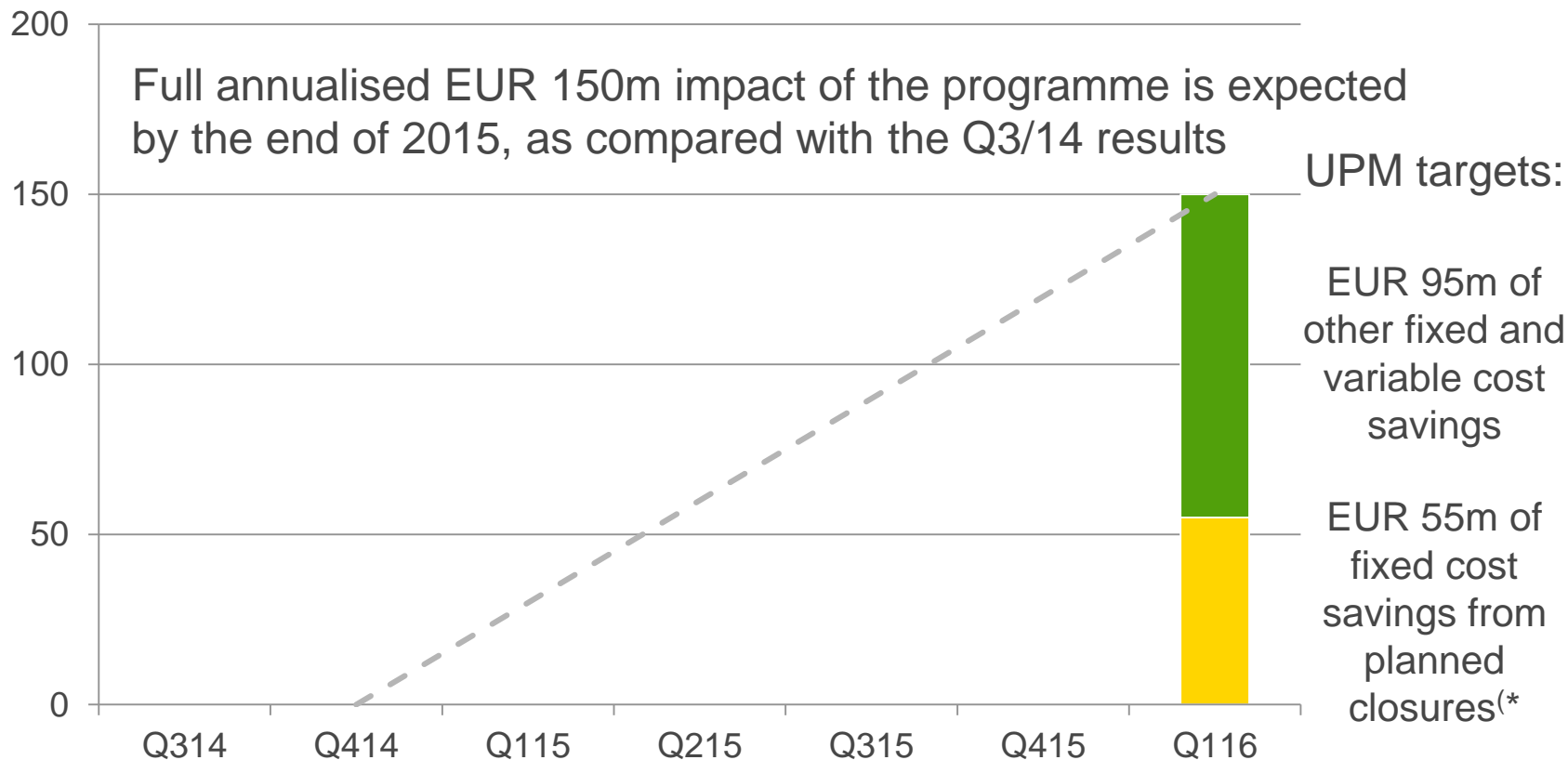


Outlook for 2015

- The improved profitability achieved in 2014 is expected to continue in 2015, and we have prospects to improve further.
- Our profitability is underpinned by the EUR 150 million profit improvement programme, as well as the first positive impacts from the company's growth projects.
- Profitability is affected by lower publication paper prices and lower electricity sales prices in the beginning of the year. The current weakened euro and lower oil price are supportive for the company's earnings.

Profit improvement programme targeting EUR 150m of fixed and variable cost savings

EUR million



(* 800,000 tonnes of publication paper capacity in Europe: three paper machines will be closed during Q1/15, employee consultation process is proceeding regarding a fourth machine)

Growth projects

Lappeenranta biorefinery started commercial production in January 2015

- Construction of the biorefinery was completed in July 2014
- Commercial production of advanced renewable diesel started in January 2015
- Production process works as planned and the high-quality product fulfils customer specifications
- Sales agreement with NEOT signed in June 2014



Growth projects

10% increase in pulp production capacity

- Pietarsaari pulp mill modernisation and 70,000t capacity expansion completed in June 2014
- Fray Bentos pulp mill production permit allows a further 100,000t of production. Minor investments were carried out in Q4 2014
- Kymi pulp mill 170,000t capacity expansion proceeding well, start-up by the end of 2015
- Further debottlenecking potential at the Kaukas pulp mill



Growth projects

Advancing in growth markets

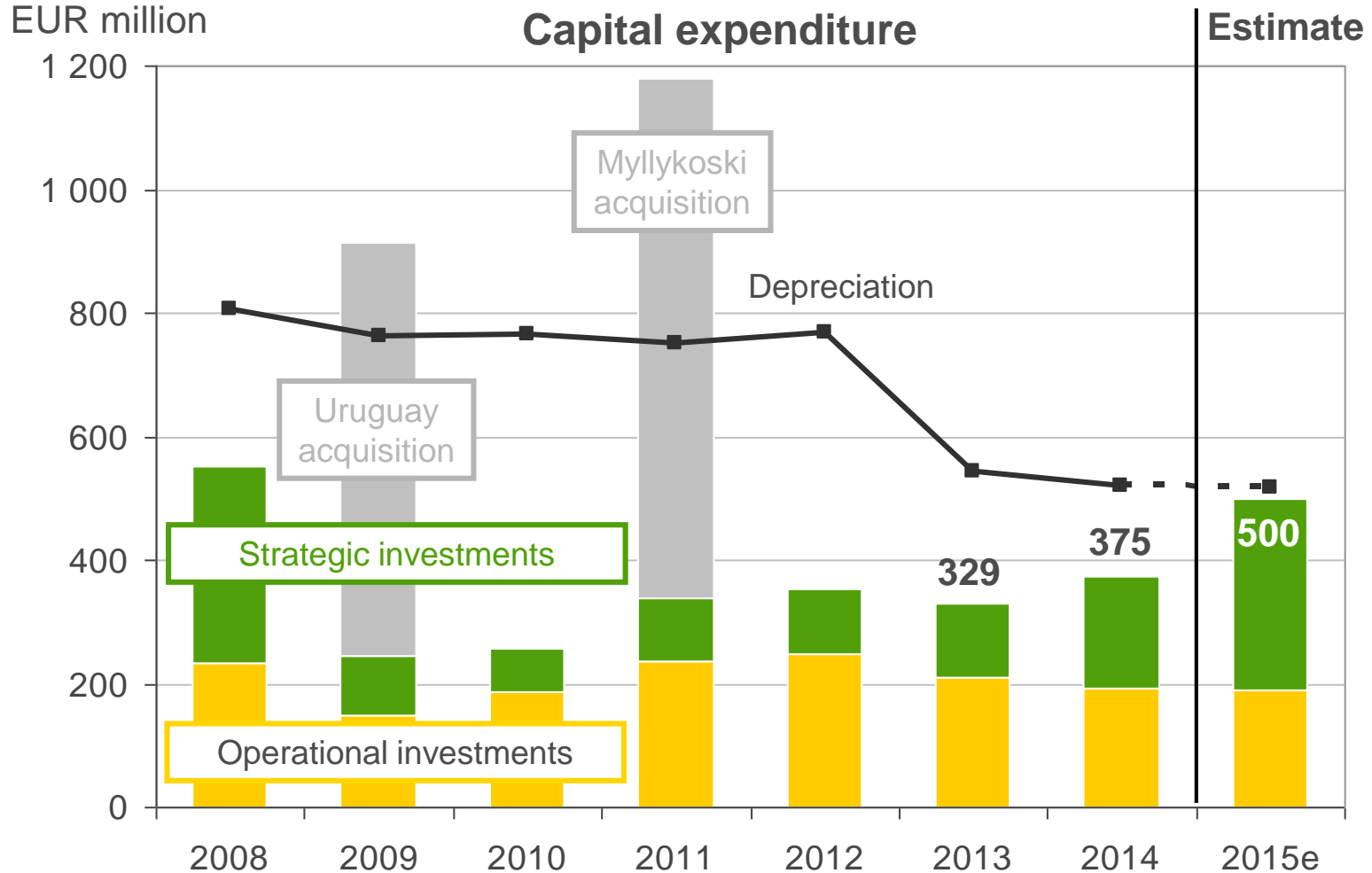
- Investment in labelling materials and woodfree speciality papers at the UPM Changshu mill in China proceeding well, capacity 360,000t, start-up by the end of 2015
- 50% increase in self-adhesive labelstock coating capacity in APAC, start-up in Q1 2015
- Expansion of filmic labelstock production in Nowa Wies, Poland, start-up in Q1 2015



The Biofore Company UPM



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





Summary

- Improved profitability
 - Excellent cash flow
 - Strong balance sheet
- ➔ UPM is in a unique position to simultaneously distribute attractive dividend, implement growth projects and act on strategic opportunities





UPM strategy in action

Business portfolio development and value creation

New businesses



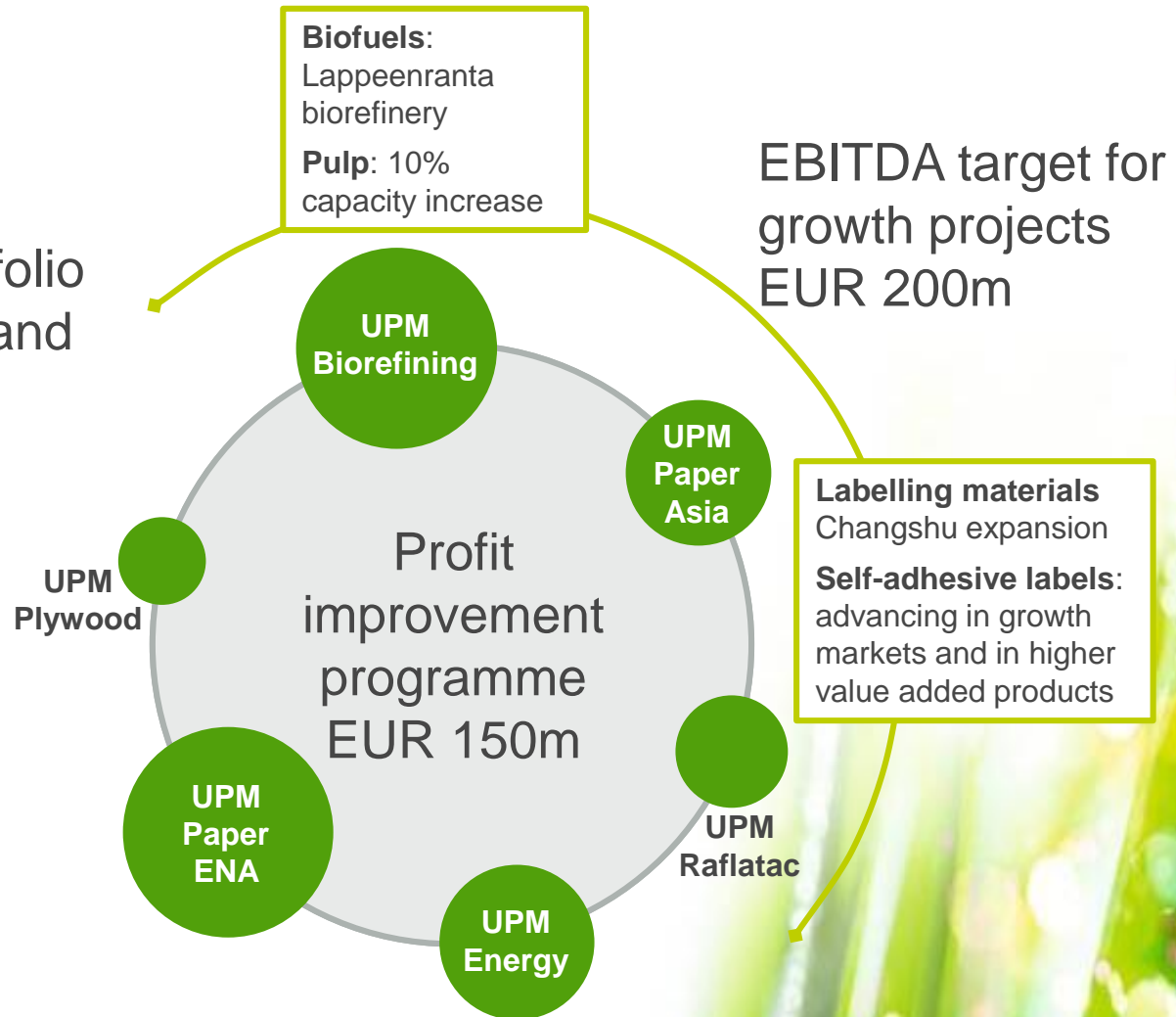
BIOFUELS



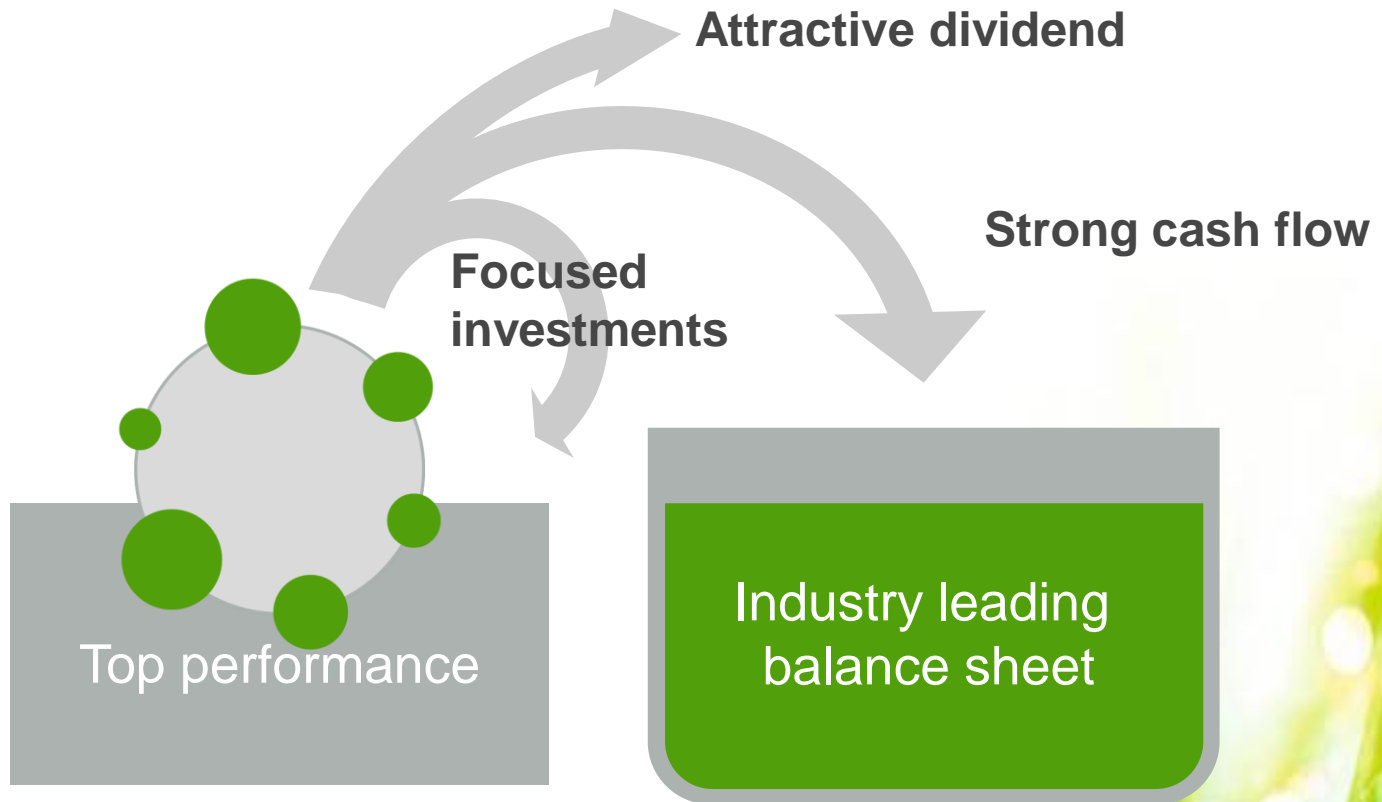
BIOCHEMICALS



BIOCOMPOSITES



Strengths of UPM's model





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Cash flow

EUR million	Q4/14	Q4/13	Q3/14	2014	2013
EBITDA	330	302	346	1,287	1,155
Cash flow before change in working capital	349	289	366	1,291	1,085
Change in working capital	144	57	-36	73	-128
Finance costs and income taxes	-31	-84	-30	-123	-222
Net cash from operating activities	462	262	300	1,241	735
Capital expenditure	-103	-91	-101	-378	-337
Asset sales and acquisitions	47	55	14	131	40
Cash flow after investing activities	406	226	213	994	438



Maturity profile and liquidity

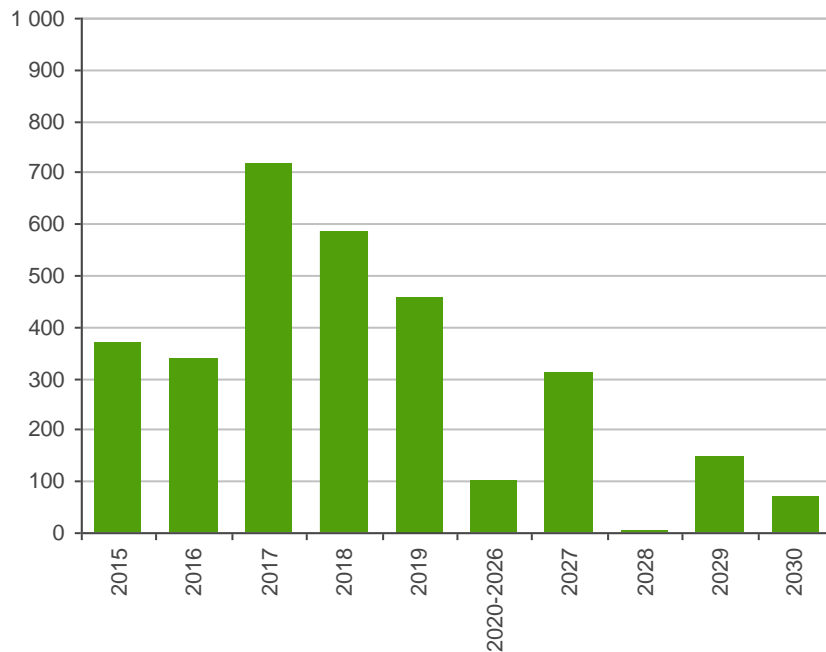
Liquidity

Liquidity on 31 December 2014 was EUR 1.6bn (cash and unused credit facilities)

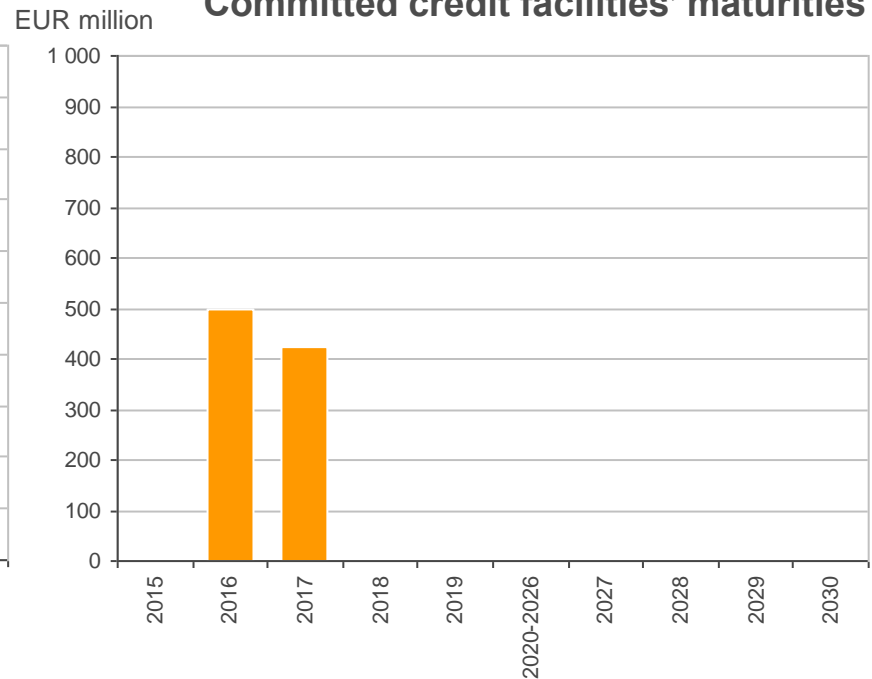
Committed credit facilities EUR 925m

- syndicated credit facility EUR 500m
- bilateral committed credit facilities EUR 425m

EUR million **Maturity profile of outstanding debt**



EUR million **Committed credit facilities' maturities**





Currency exposure

- Key currency exposures USD, GBP and JPY
- Policy to hedge an average of 50% of the estimated net currency cash flow for the next 12 months

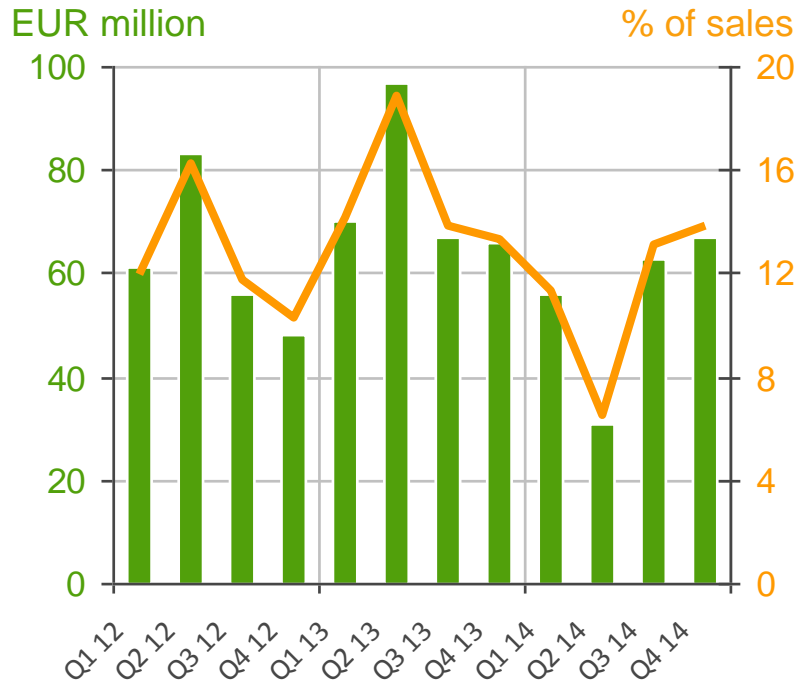
Estimated annual foreign currency net cash flow, before hedging

	USD	GBP	JPY	Others
EURm	810	500	160	170



UPM Biorefining Q4 2014 vs. Q4 2013

Operating profit excluding special items



Business performance

- Operating profit was close to the previous year's level as lower variable costs offset the negative impacts of lower average pulp sales prices and the scheduled maintenance shutdown at the Fray Bentos mill.
- Pulp deliveries decreased by 2% to 791,000 tonnes (810,000).

Sales **Q4 2014** **484** **-3%**
 EUR million **Q4 2013** **497**

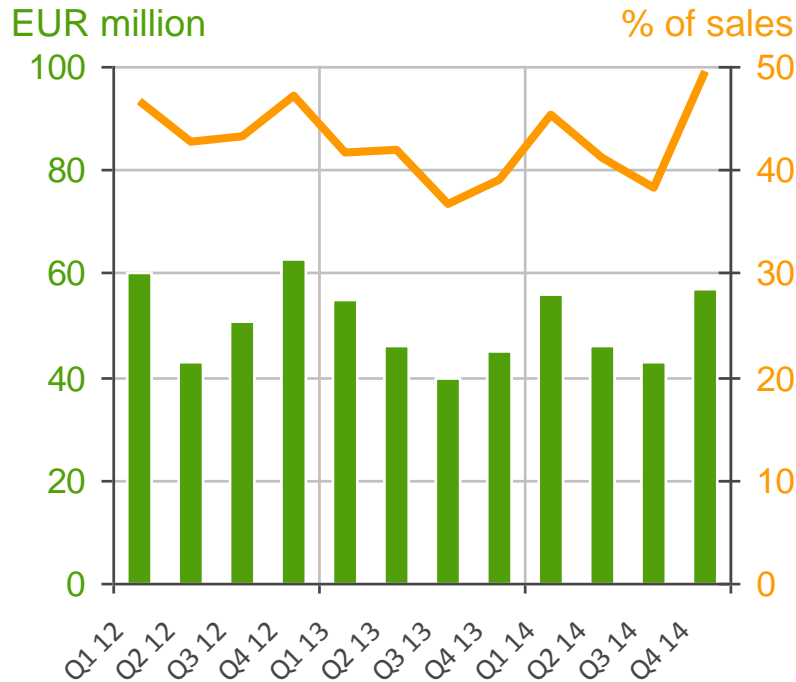
Operating profit **Q4 2014** **67** **1**
 EUR million*) **Q4 2013** **66** EUR million

*) excluding special items



UPM Energy Q4 2014 vs. Q4 2013

Operating profit excluding special items



Business performance

- Operating profit increased mainly due to lower costs and higher hydropower generation volumes, more than offsetting the negative sales price impact.
- The average electricity sales price decreased by 1% to EUR 45.5/MWh (46.0/MWh).

Sales **Q4 2014** **115** **0%**
 EUR million Q4 2013 115

Operating profit **Q4 2014** **57** **12**
 EUR million*) Q4 2013 45 EUR million

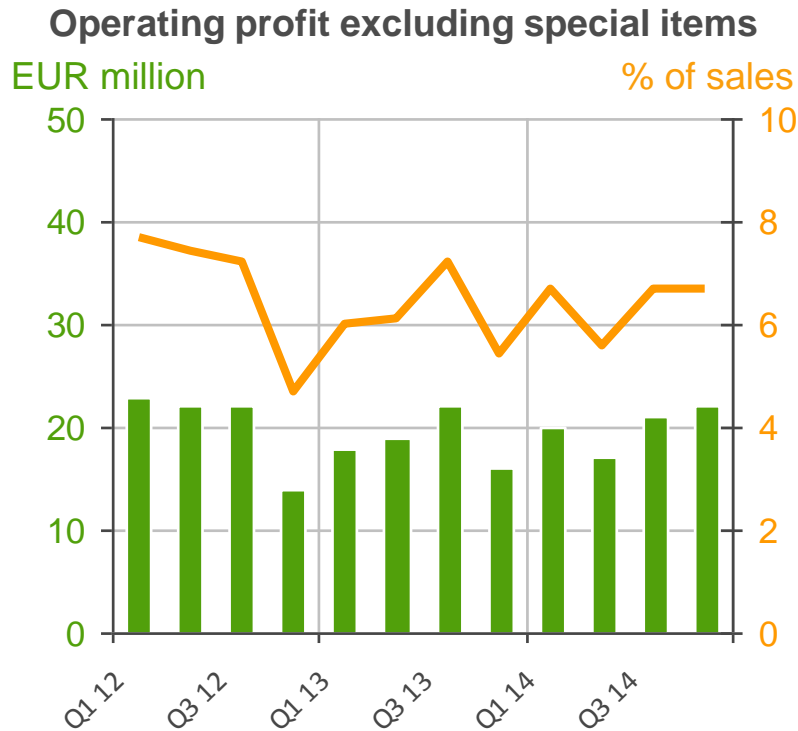
*) excluding special items



UPM Raflatac Q4 2014 vs. Q4 2013

Business performance

- Operating profit increased mainly due to higher delivery volumes and lower fixed costs, more than offsetting the negative sales margin impact.



Sales **Q4 2014 330** **11%**
 EUR million Q4 2013 298

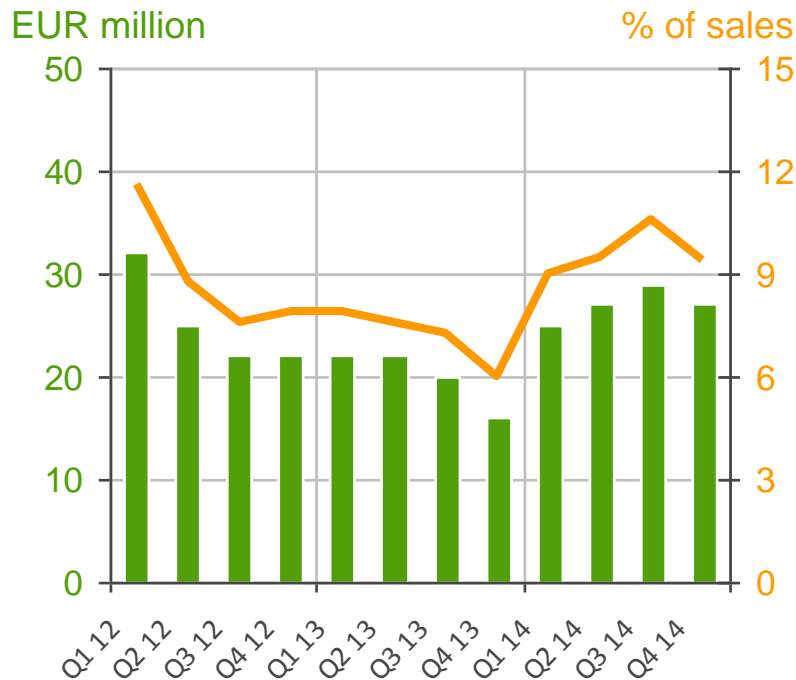
Operating profit **Q4 2014 22** **6**
 EUR million*) Q4 2013 16 EUR million

*) excluding special items



UPM Paper Asia Q4 2014 vs. Q4 2013

Operating profit excluding special items



Business performance

- The increase in operating profit was mainly due to lower variable costs and favourable currency impacts.
- Deliveries increased by 4% to 359,000 tonnes (344,000).

Sales **Q4 2014 288** **7%**
 EUR million Q4 2013 268

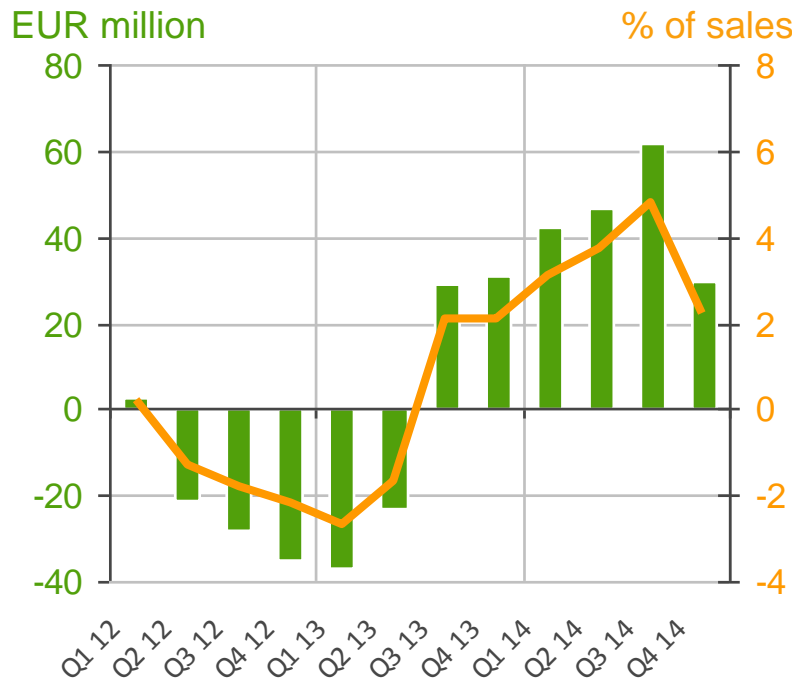
Operating profit **Q4 2014 27** **11**
 EUR million*) Q4 2013 16 EUR million

*) excluding special items



UPM Paper ENA Q4 2014 vs. Q4 2013

Operating profit excluding special items



Business performance

- Operating profit remained close to the previous year's level. Lower variable costs, partly driven by the ongoing profit improvement programmes, offset the negative sales price impact.
- The average price for all paper deliveries in euro was 1% lower than previous year.
- Paper deliveries decreased by 5% to 2,225,000 tonnes (2,332,000).

Sales **Q4 2014** **1,361** ▼ **-6%**
 EUR million **Q4 2013** **1,445**

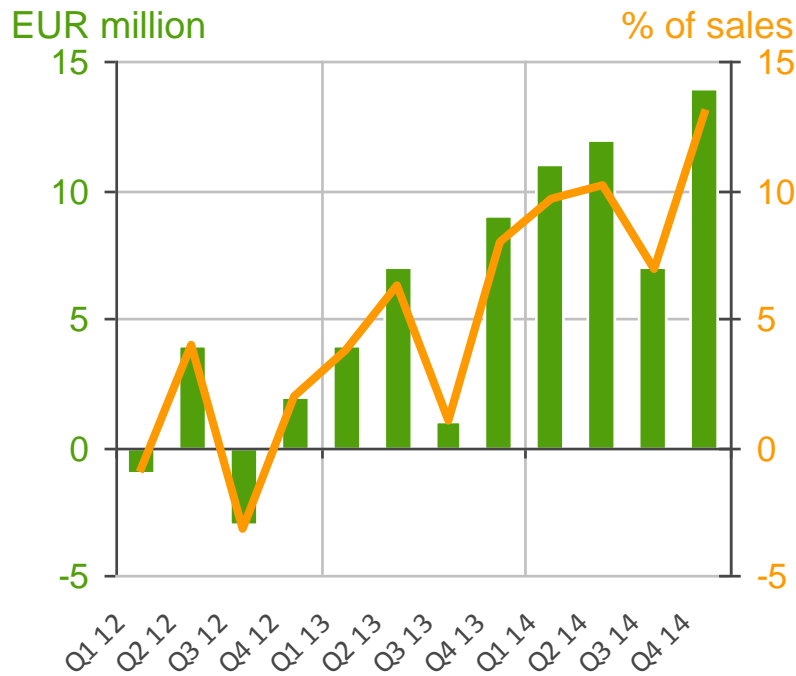
Operating profit **Q4 2014** **30** ▼ **-1**
 EUR million*) **Q4 2013** **31** EUR million

*) excluding special items



UPM Plywood Q4 2014 vs. Q4 2013

Operating profit excluding special items



Business performance

- Operating profit increased mainly due to improved sales margins resulting from higher sales prices and lower variable costs.
- Deliveries decreased by 8% to 176,000 cubic metres (191,000).

Sales **Q4 2014** **107** **-4%**
 EUR million Q4 2013 112

Operating profit **Q4 2014** **14**
 EUR million*) Q4 2013 9 EUR million

*) excluding special items



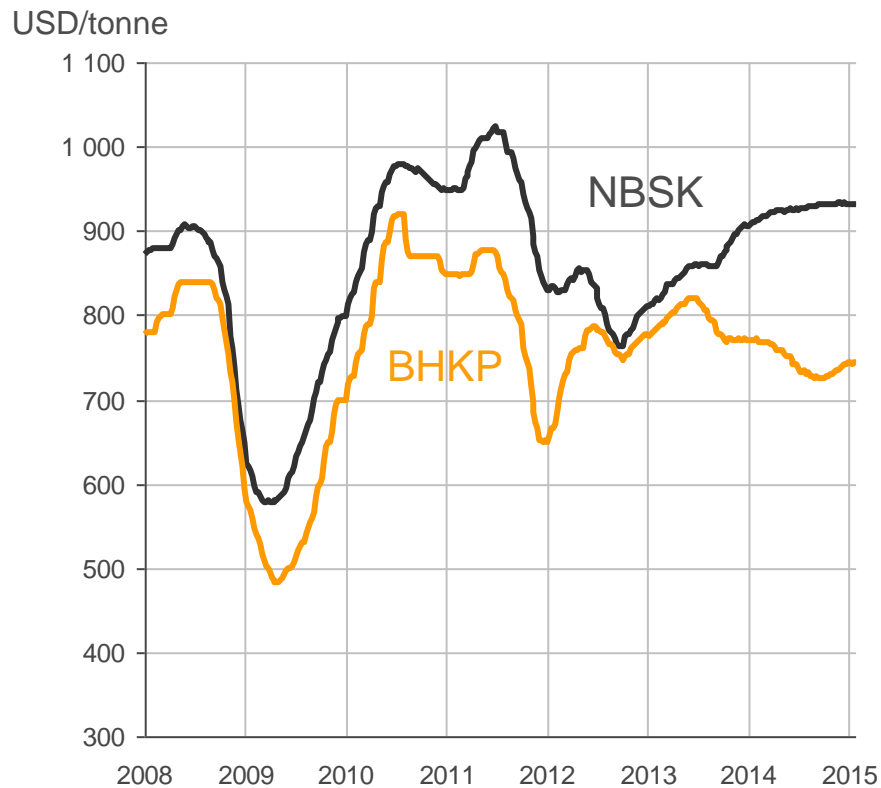
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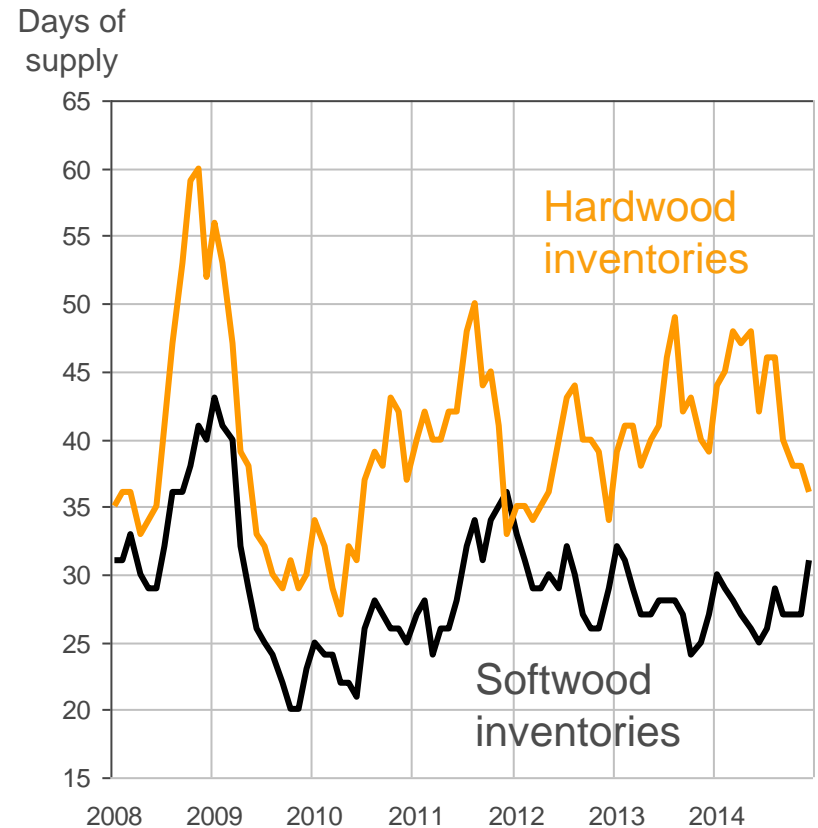
Chemical pulp market

Q4 NBSK pulp price remained on Q3 level
Q4 BHKP pulp price increased 1% from Q3



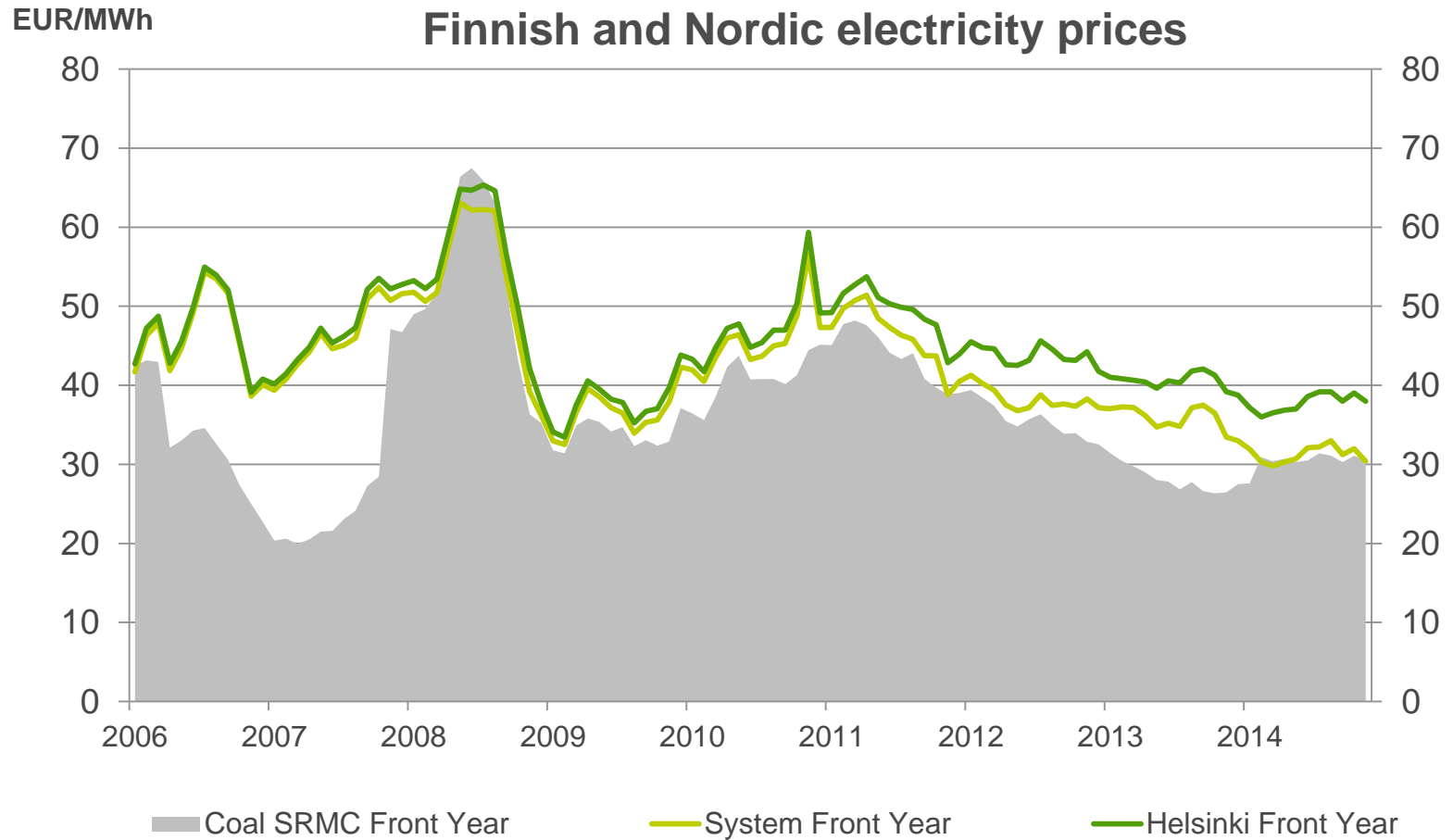
Source: FOEX Indexes Ltd.

Pulp inventories



Source: PPPC World-20 statistics

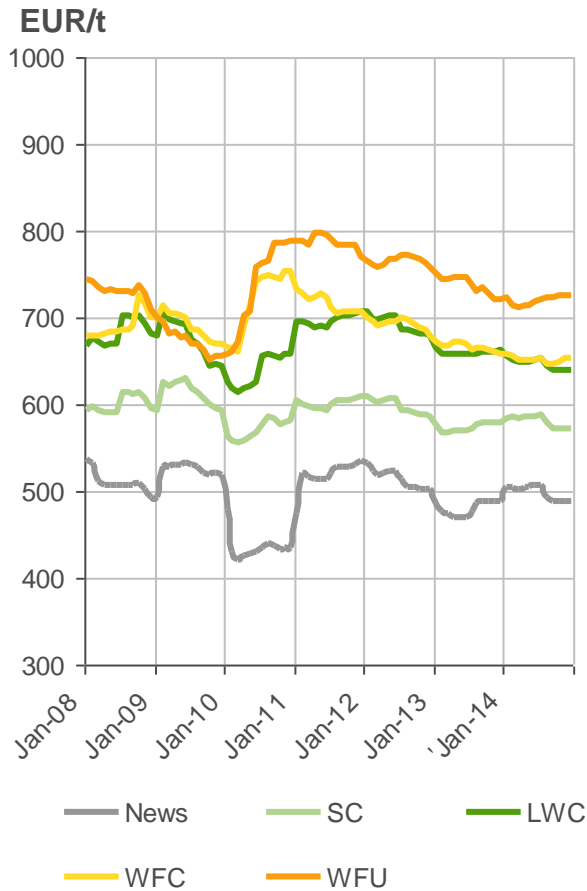
Price development in the Nordic and Helsinki power markets



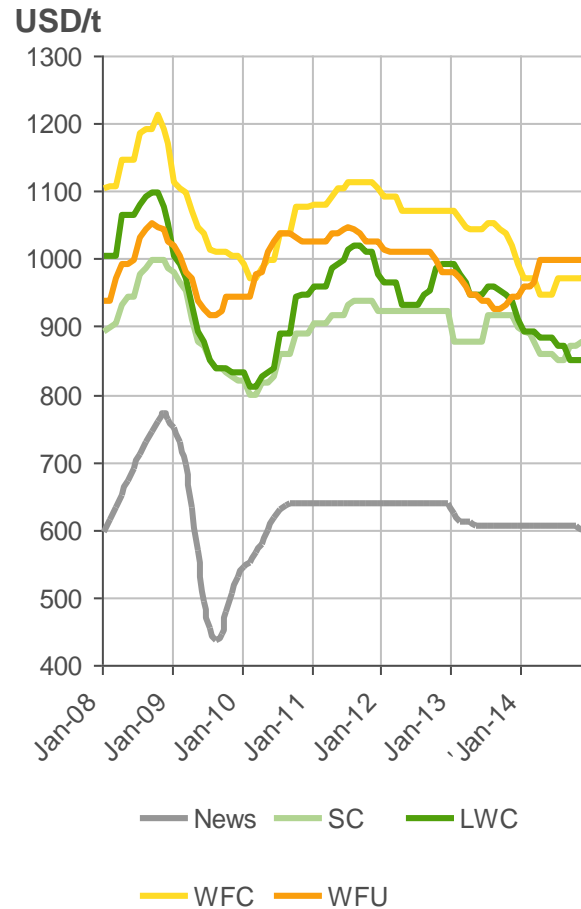
Source: Reuters

Graphic paper prices

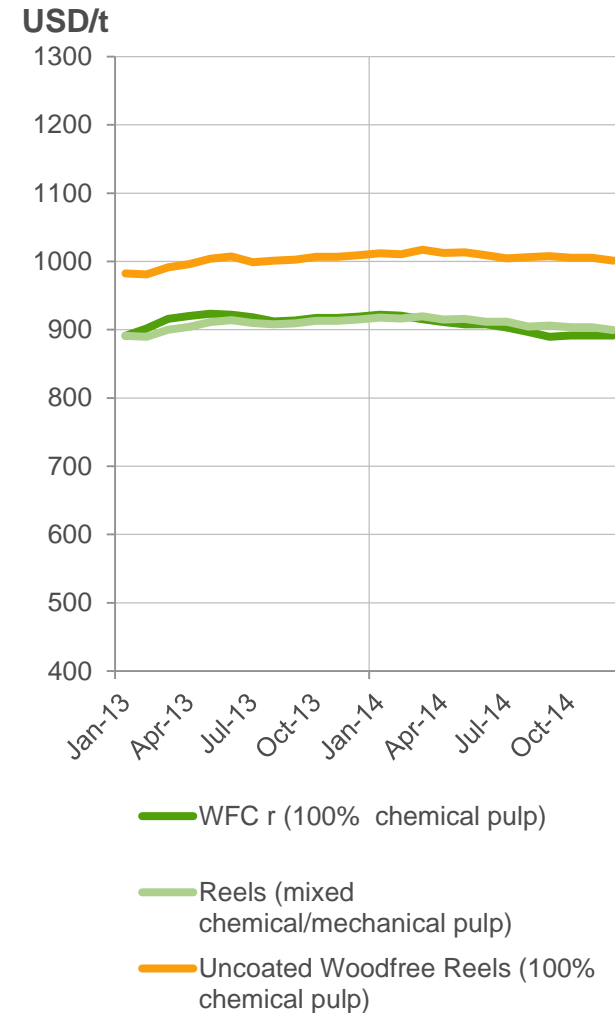
Europe



North America



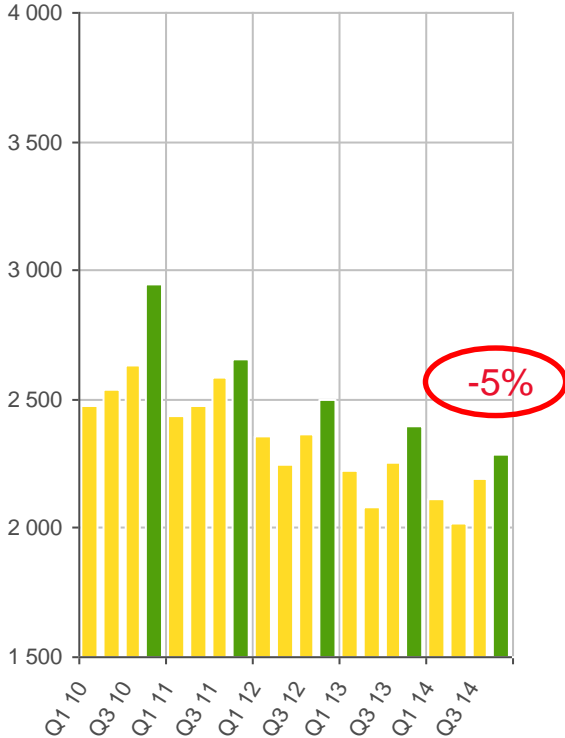
China



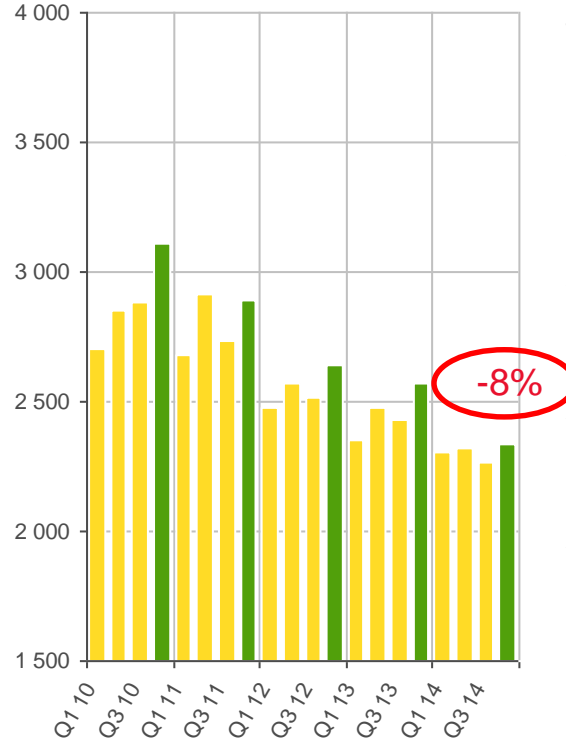
Sources: PPI, RISI

Graphic papers demand in Europe decreased by 5% in Q4 and by 3% in FY 2014

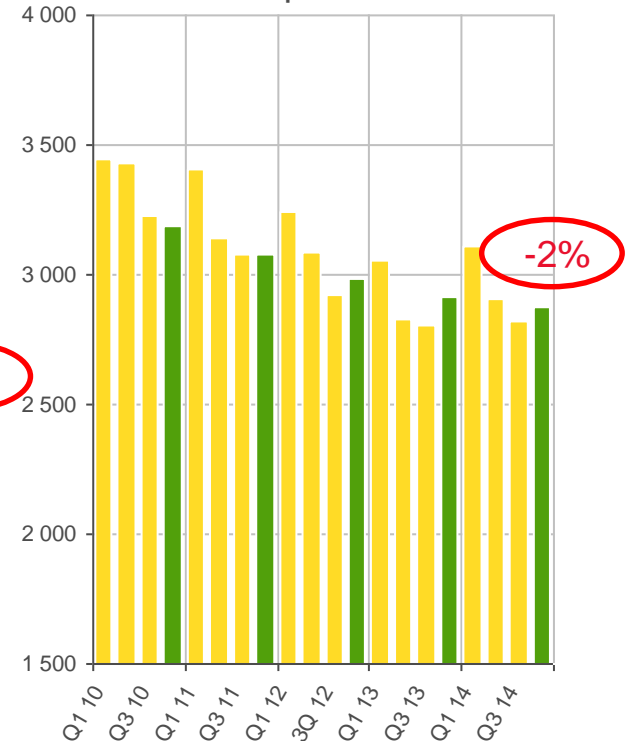
'000 tonnes Magazine papers demand in Europe -4% in 2014



Newsprint demand in Europe -6% in 2014



Fine papers demand in Europe 0% in 2014

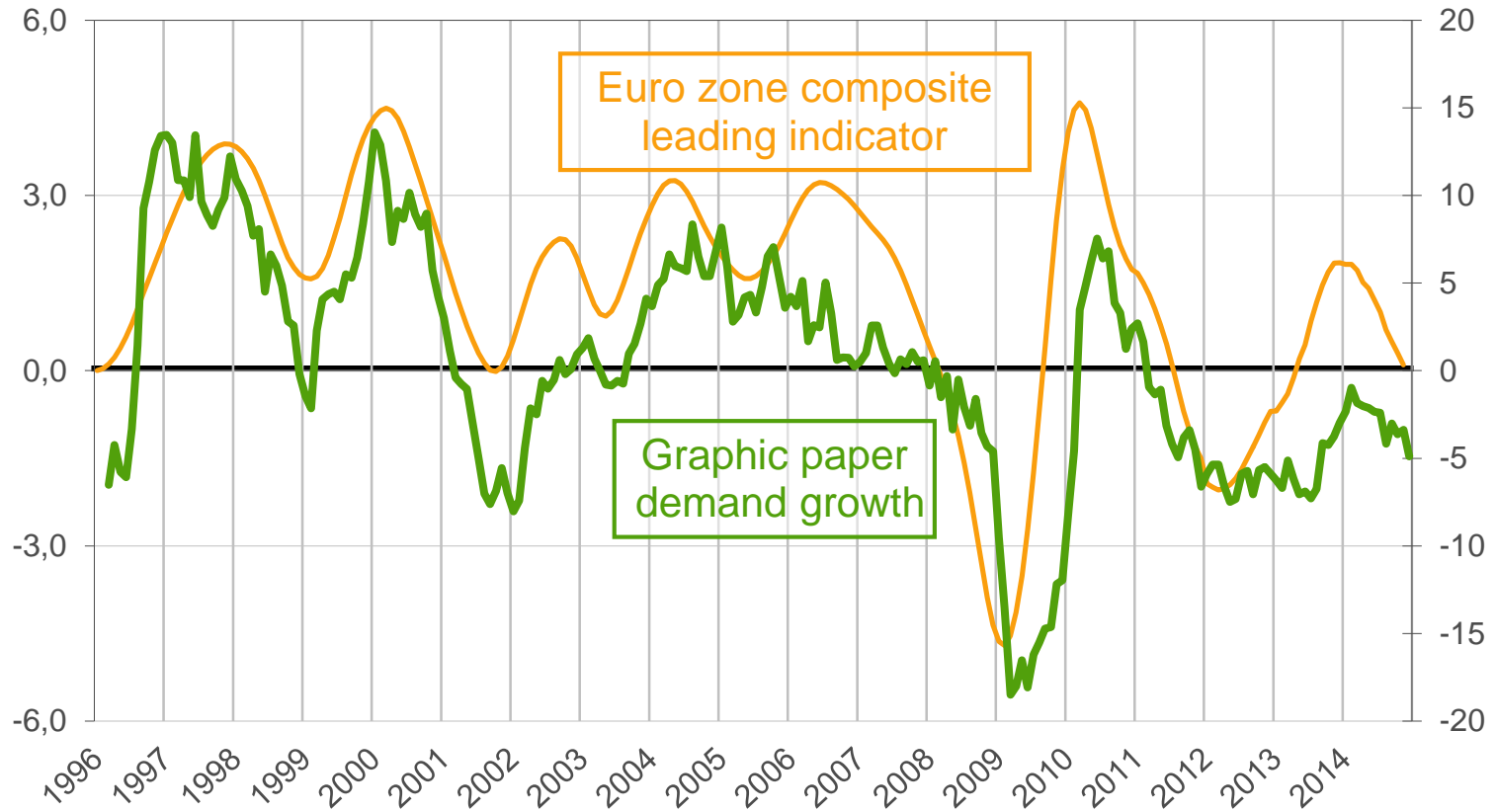


Sources: Cepiprint/fine, PPPC



Growth in the European economy remains low

Euro zone composite leading indicator* (Y/Y %) Paper demand growth (% trailing 3 month)



Sources: Cepiprint, Cepifine, OECD



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