

MORE WITH BIOFORE

UPM – THE BIOFORE COMPANY

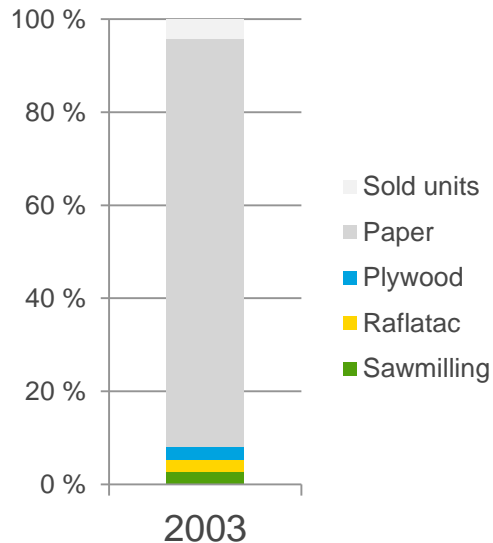
Investor presentation
March 2016



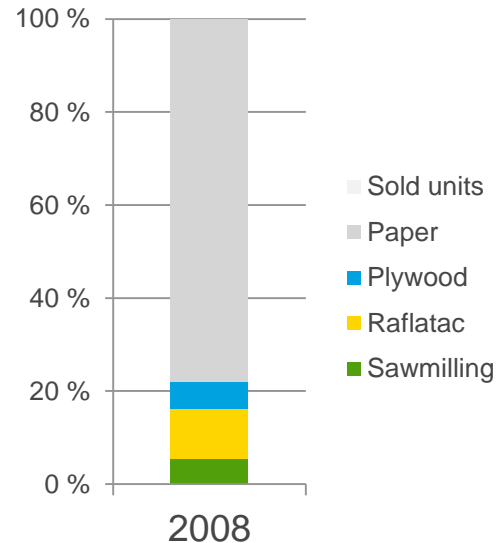
UPM in transformation

Business portfolio, sales

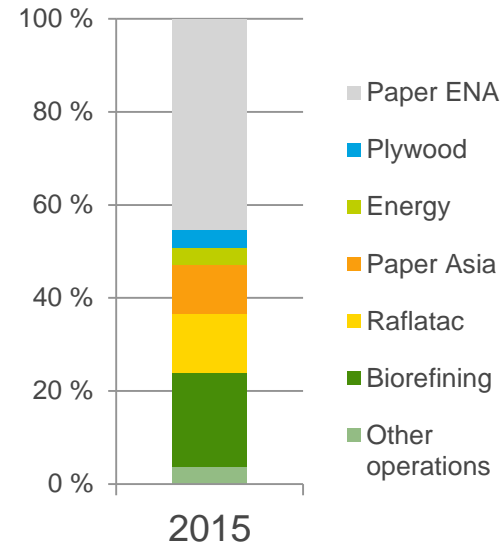
2003:
integrated paper company



2008:
towards market-driven businesses



2015:
six separate businesses



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

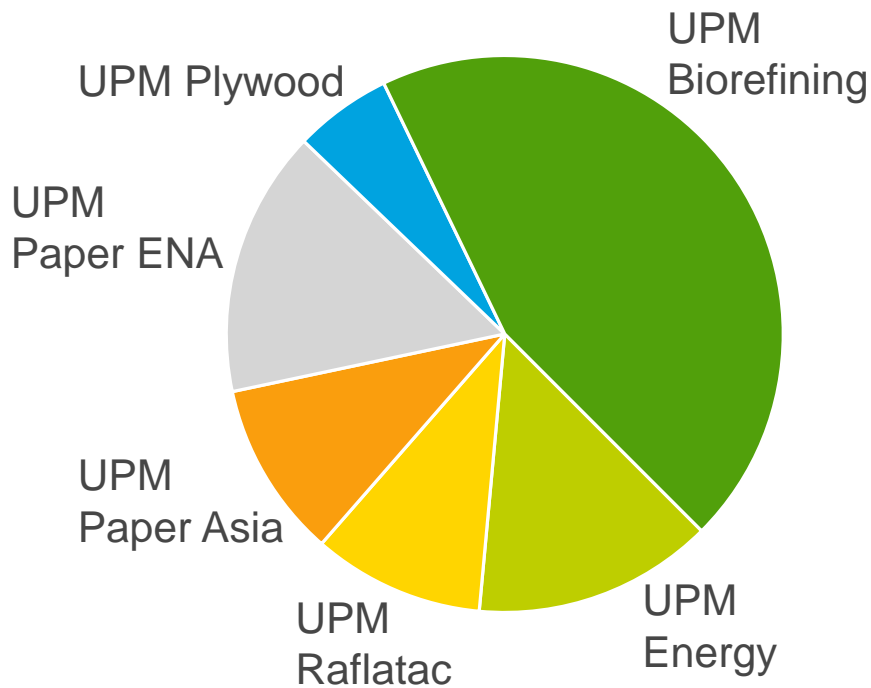
EUR 9.5bn
 EUR 513m
 EUR 4.3bn
 EUR 4.7bn
 25,000

EUR 10.1bn
 EUR 898m
 EUR 2.1bn
 EUR 9.2bn
 19,600

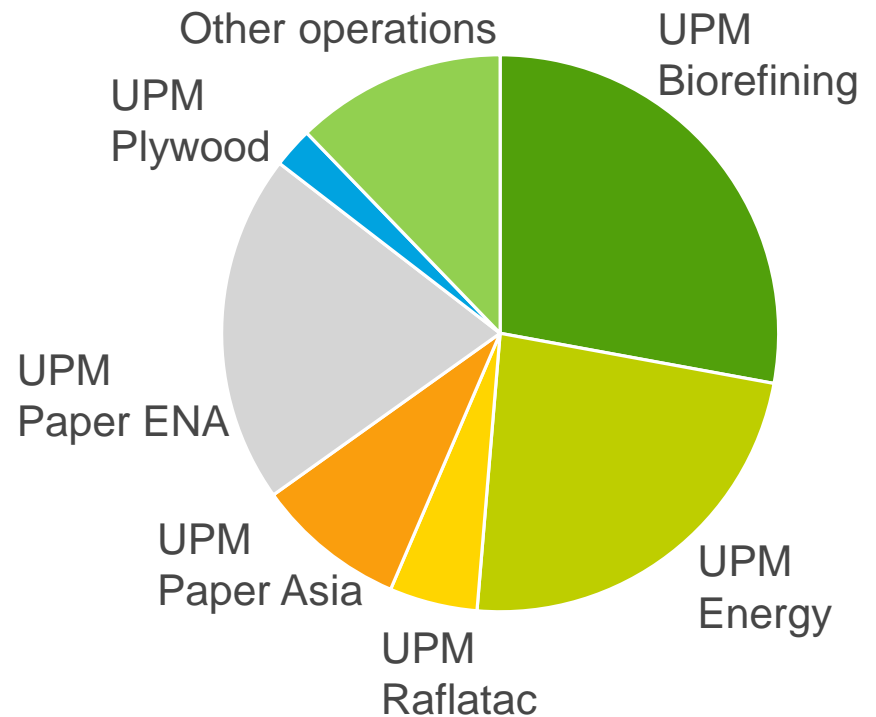
*) excluding special items. EUR 265 million forest fair value increase in 2015 excluded for comparability

UPM businesses by EBITDA generation and capital employed

EBITDA 2015
EUR 1,350m

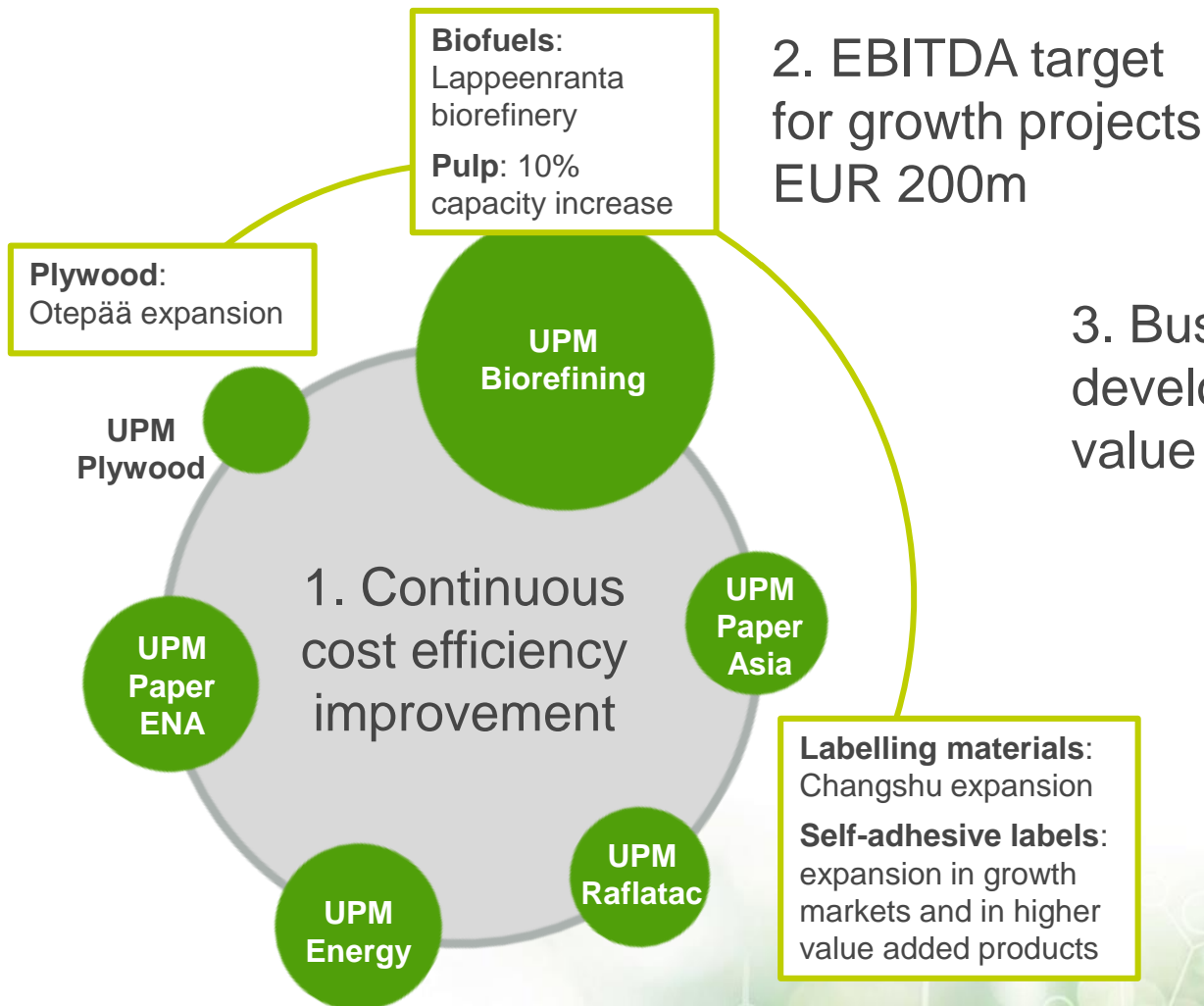


Capital employed, December 2015
EUR 11.0bn





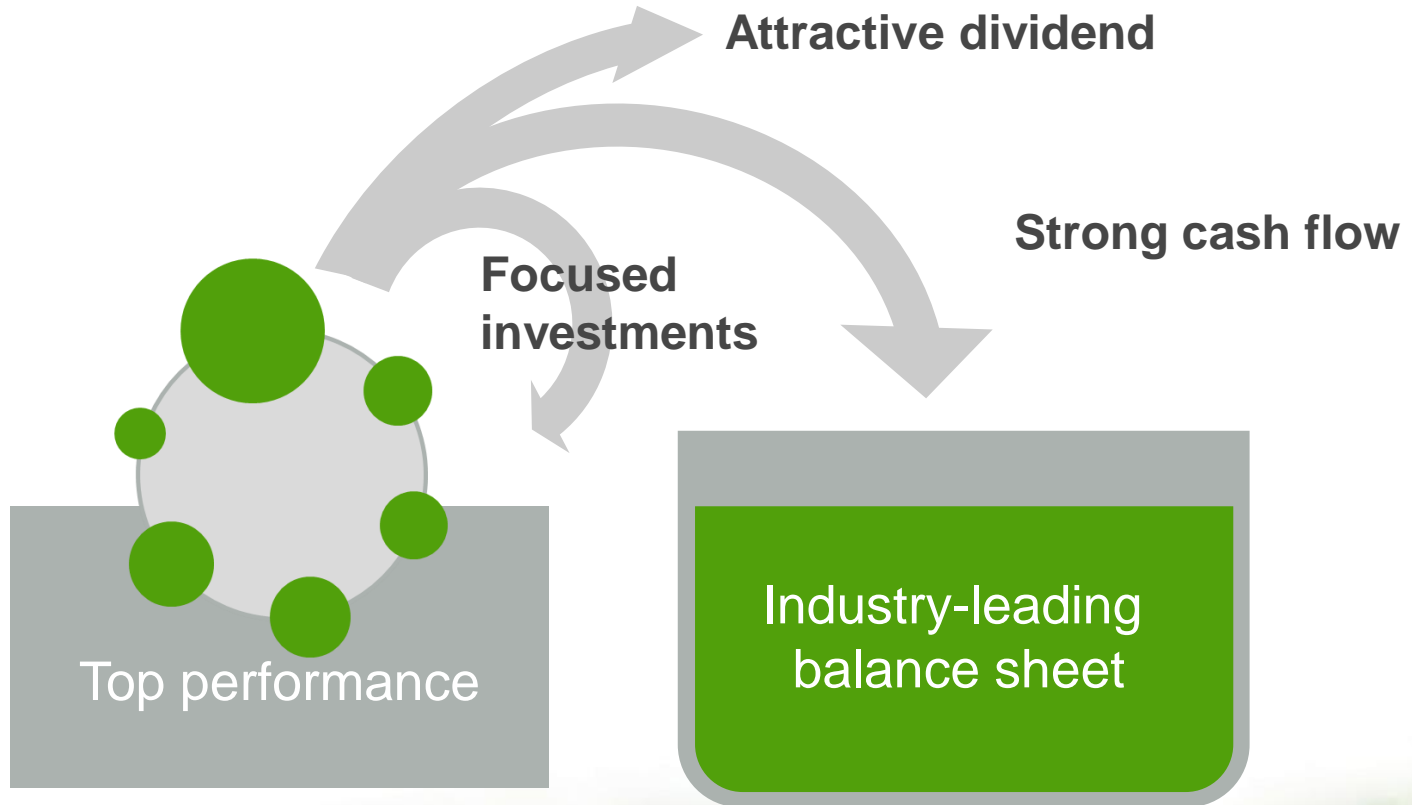
UPM strategy in action



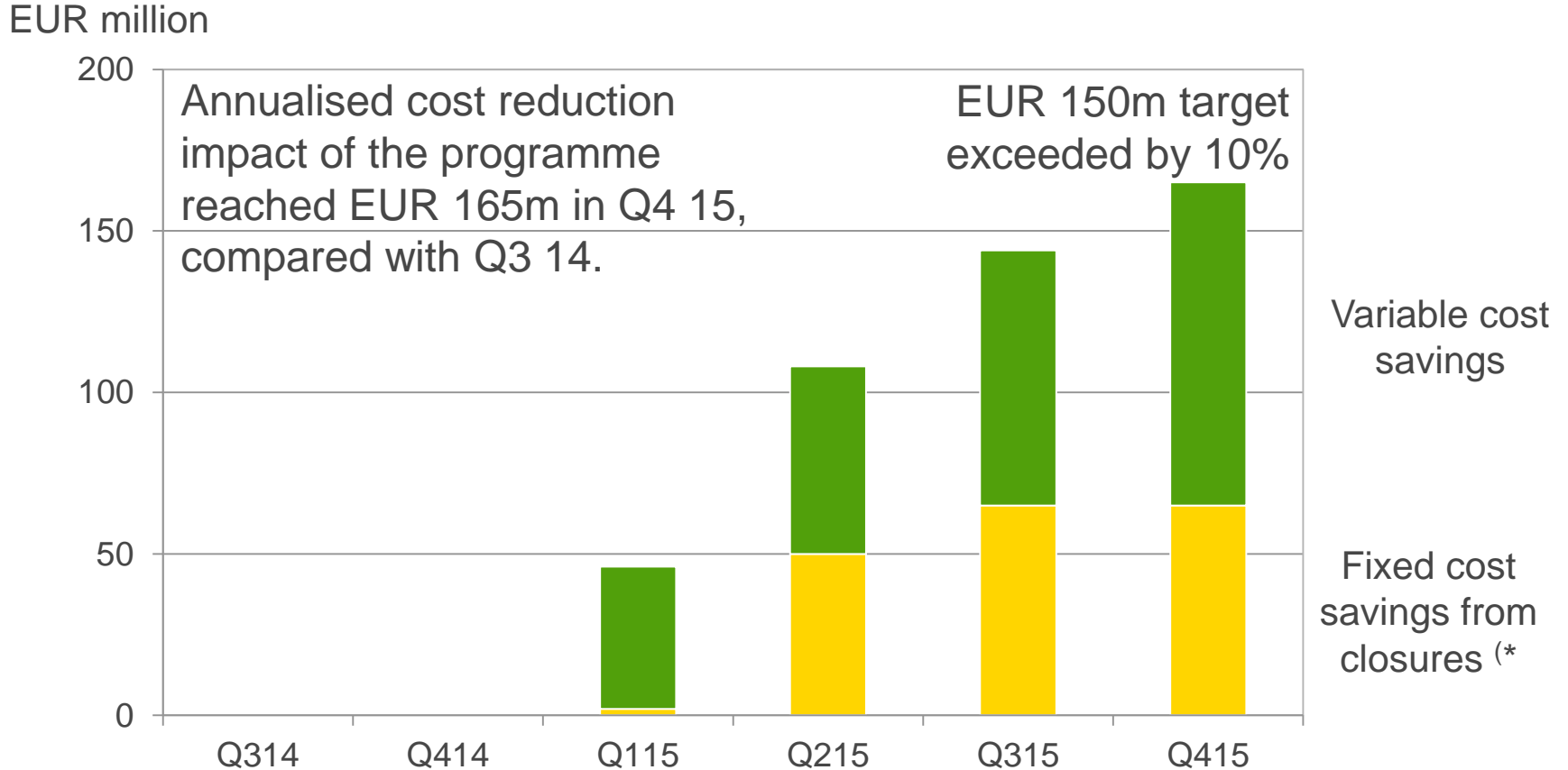
4. New businesses

-  BIOFUELS
-  BIOCHEMICALS
-  BIOCOMPOSITES

Strengths of UPM's model



Profit improvement programme exceeded its targets both in fixed and variable costs



(* 800,000 tonnes of publication paper capacity in Europe: four paper machines were closed in H1 15)

Several growth projects completed – focus turns to reaping the benefits in 2016 and beyond

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 660m

Remaining capex EUR 110m

Q2
2014

Q3
2014

Q4
2014

Q1
2015

Q2
2015

Q3
2015

**Q4
2015**

Q1
2016

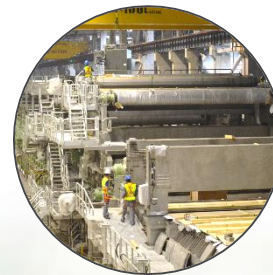
Q2
2016

Q3
2016

Q4
2016



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

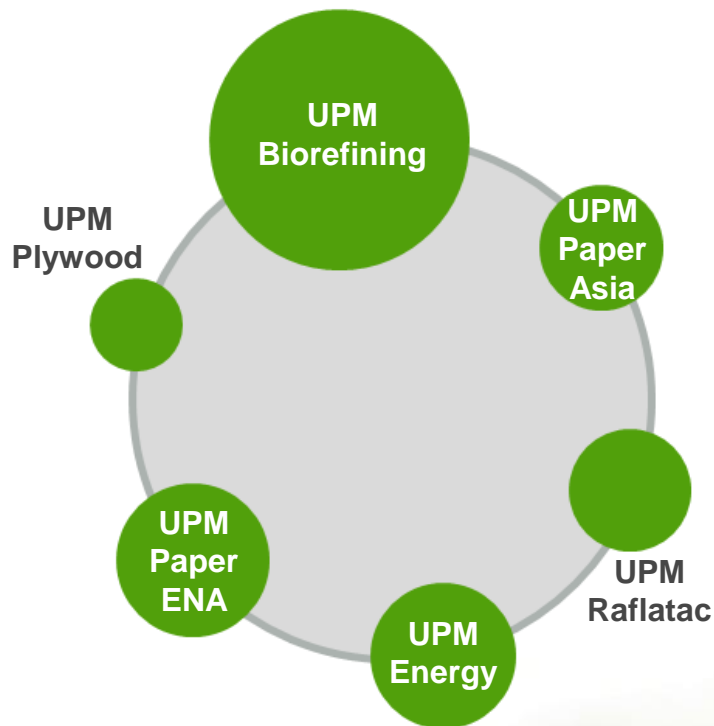


UPM Paper Asia
Changshu
new speciality
paper machine
360,000t



UPM Plywood
Otepää mill
expansion
to 90,000m³

Portfolio development and value creation



- **Performance:** targeting top performance in each business
- **Grow** businesses with strong long-term fundamentals: focused investments and synergistic M&A
- **Simplify:** best value realisation for UPM
- **Consolidation** in European paper market, without increasing capital

New businesses based on UPM's development work



Biofuels: renewable diesel suitable for all diesel engines

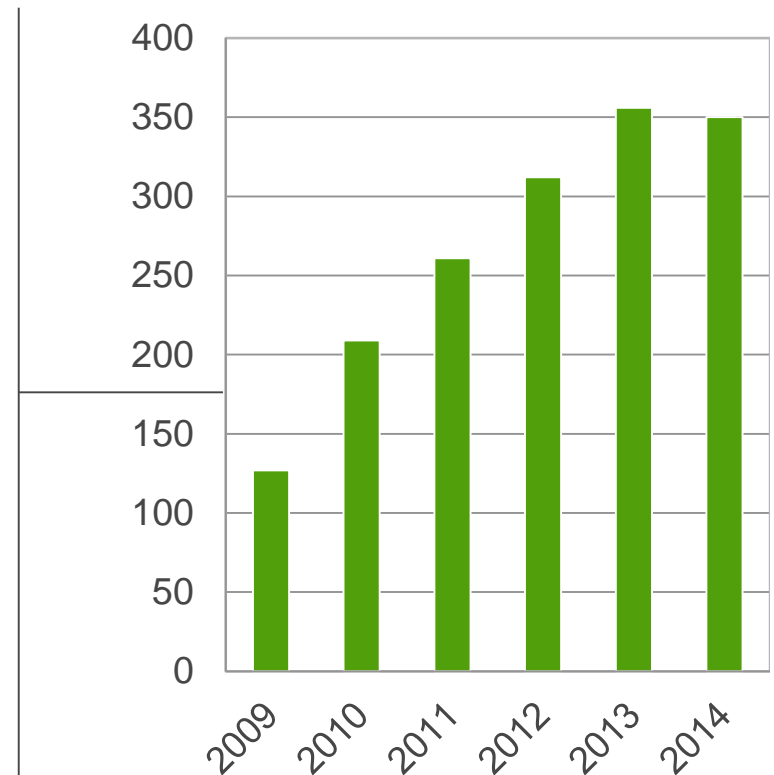


Biochemicals: renewable drop-in alternatives for oil-based chemicals



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

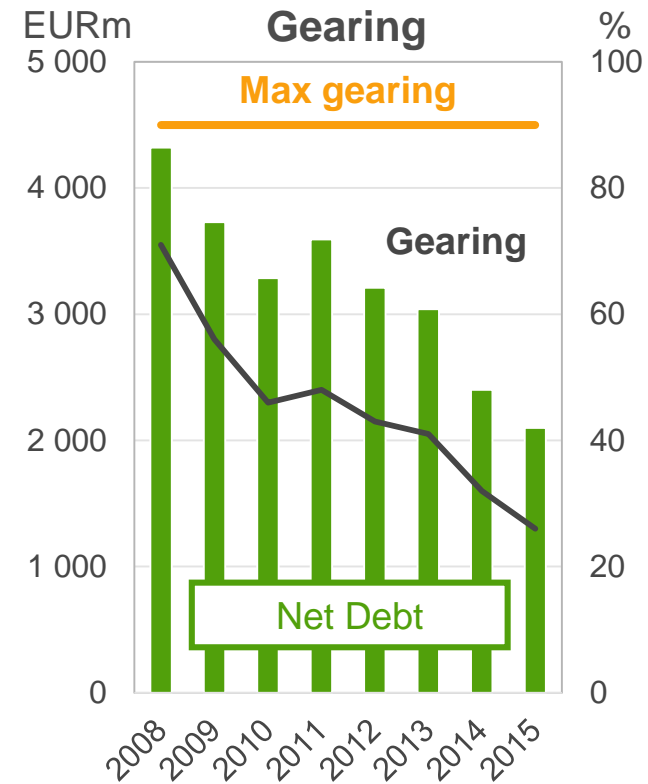
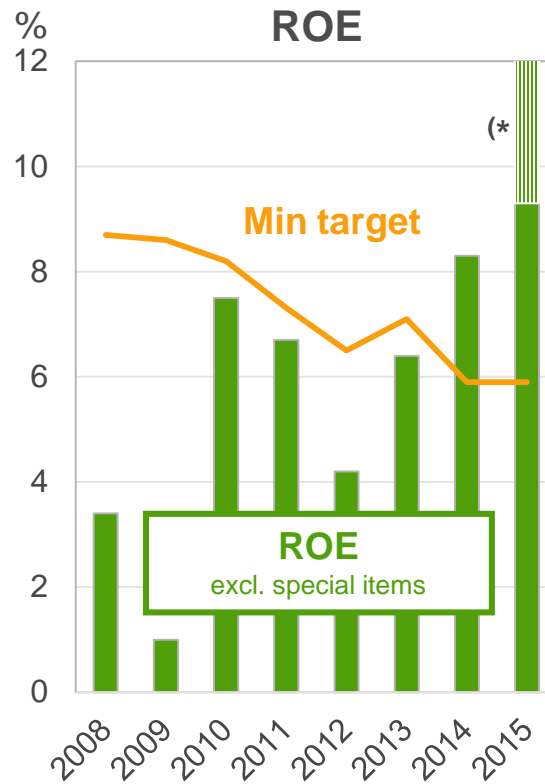
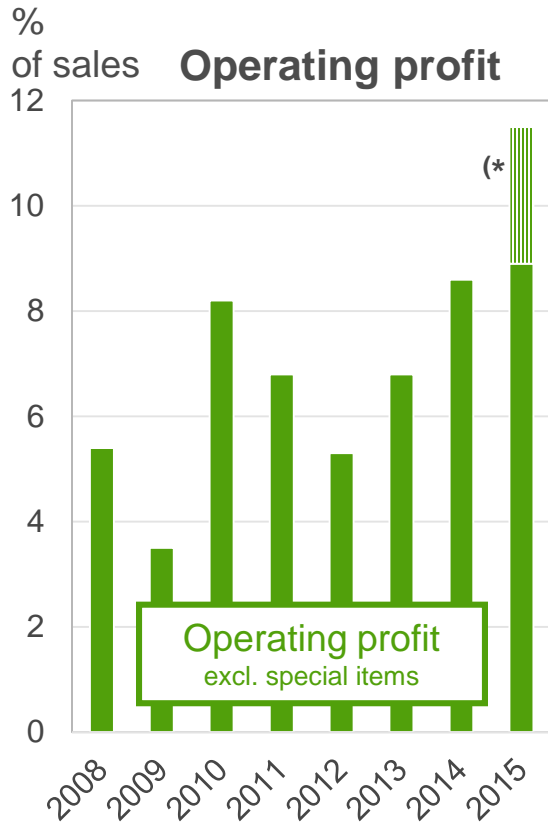
Annual patent filings 2009–2014



MORE WITH BIOFORE



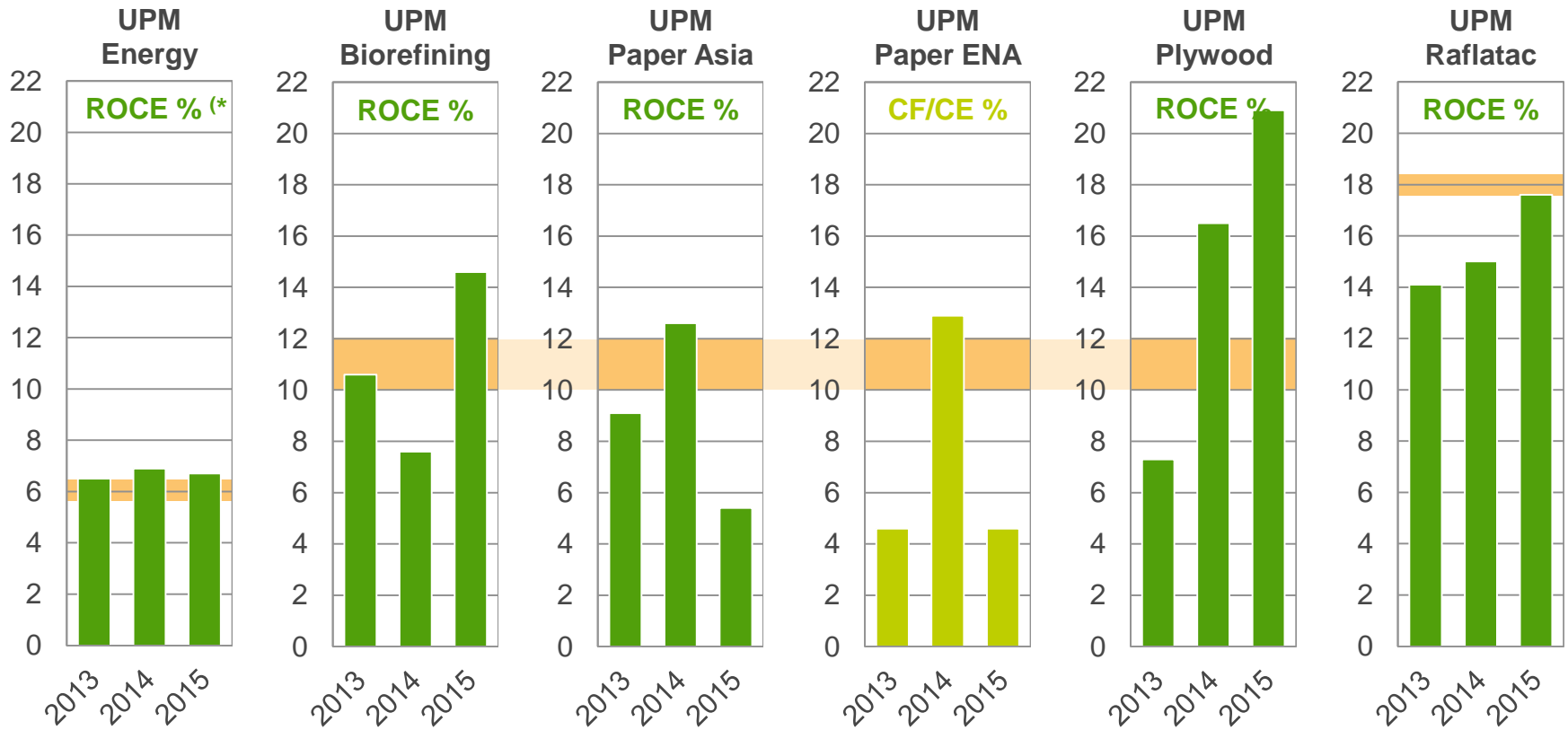
Group profitability and targets



(* the figures include the EUR 265 million increase in the fair value of the forests in Finland in Q3 2015.



Business area returns and long-term targets








(* shareholdings in UPM Energy valued at fair value)






Long-term return target

Q4 2015 – growth projects started to deliver, record-strong balance sheet

Q4 2015 vs. Q4 2014:

Sales EUR 2,574m		+2%
EBITDA EUR 363m		+29m
Operating profit (*) EUR 225m		-5m
Profit before tax (*) EUR 219m		+3m
EPS (*) EUR 0.37		+0.05

2015 vs. 2014:

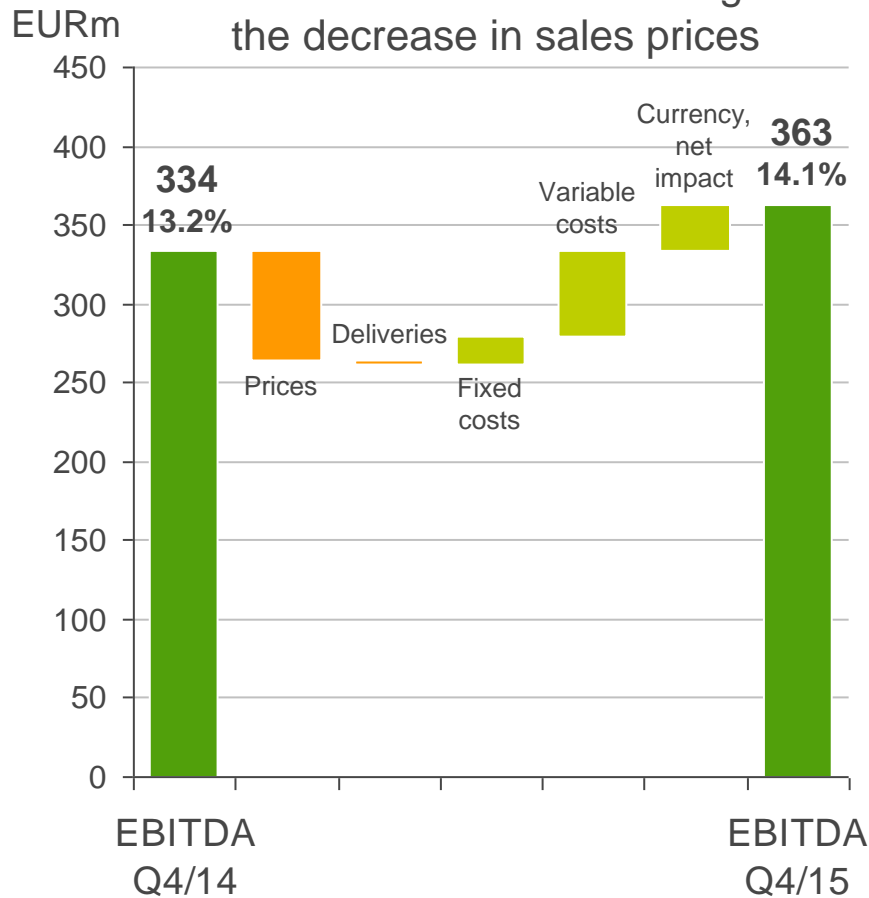
ROE (*) 12.1%		+3.8pp
Operating cash flow EUR 1,185m		-56m
Net debt EUR 2,100m		-301m
Net debt / EBITDA 1.55x		-0.28x
Dividend proposal EUR 0.75		0.05

(* excluding special items.)

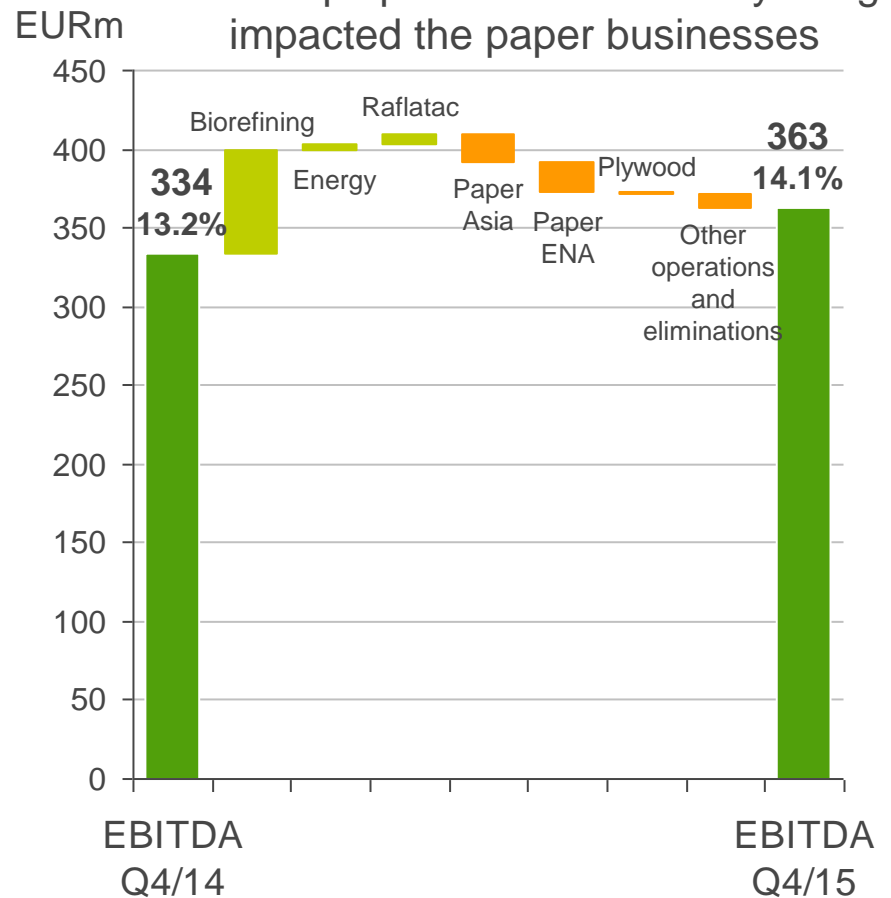


EBITDA in Q4 2015 vs. Q4 2014

Profit improvement actions and favourable currencies outweighed the decrease in sales prices



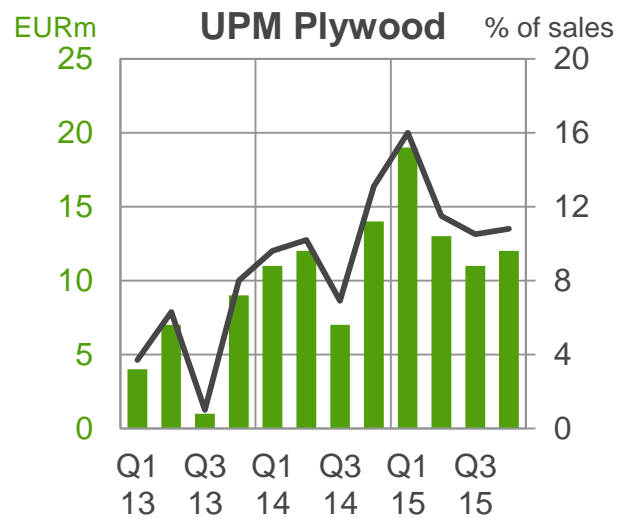
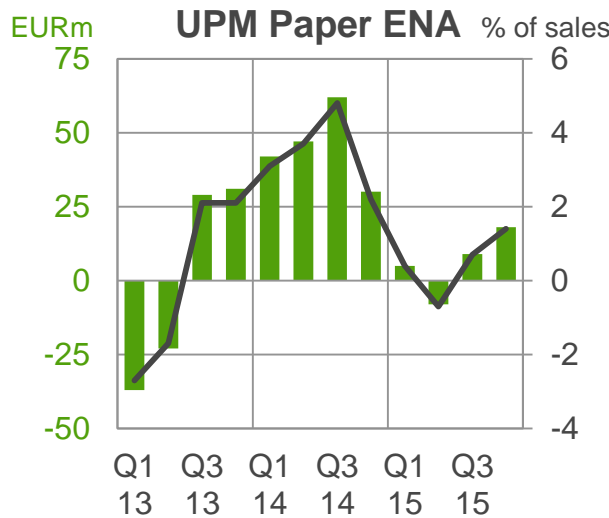
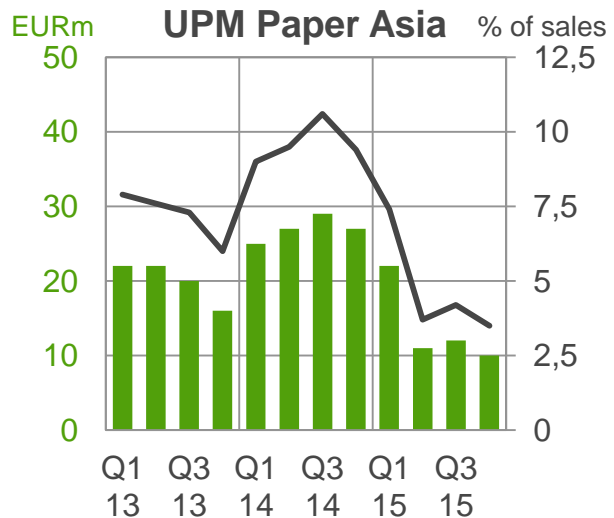
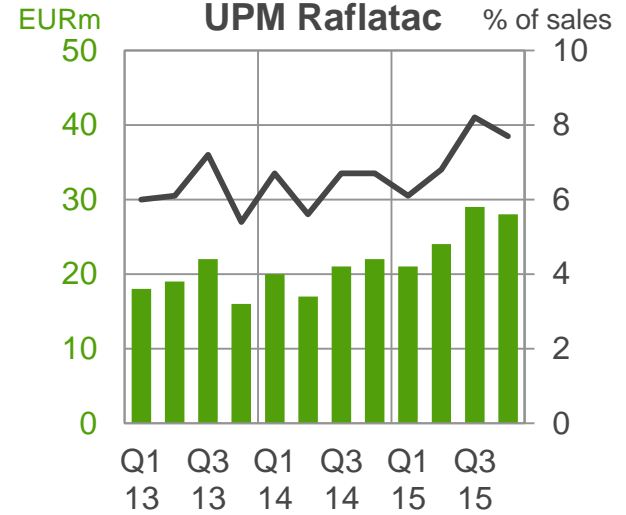
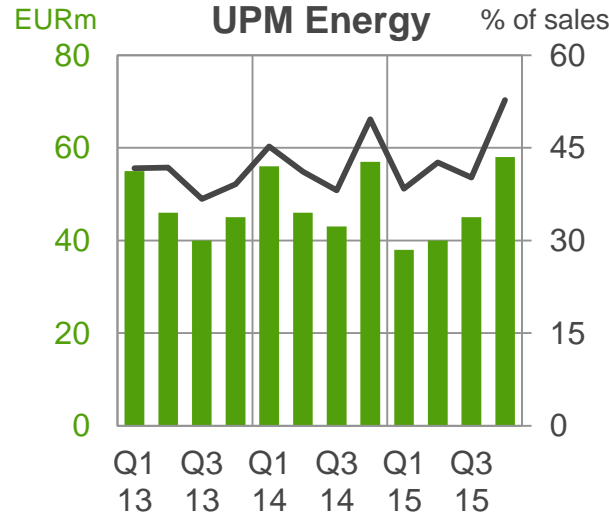
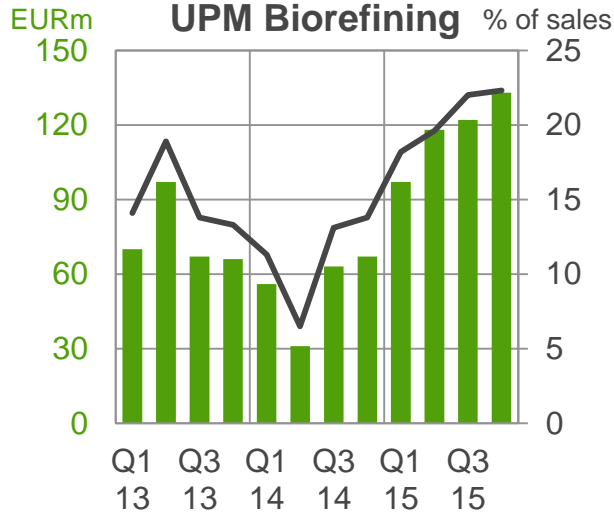
Favourable pulp market, currencies and costs benefited UPM Biorefining. Increased pulp costs and currency hedges impacted the paper businesses





The Biofore Company **UPM**

Operating profit ^{*)} by business area



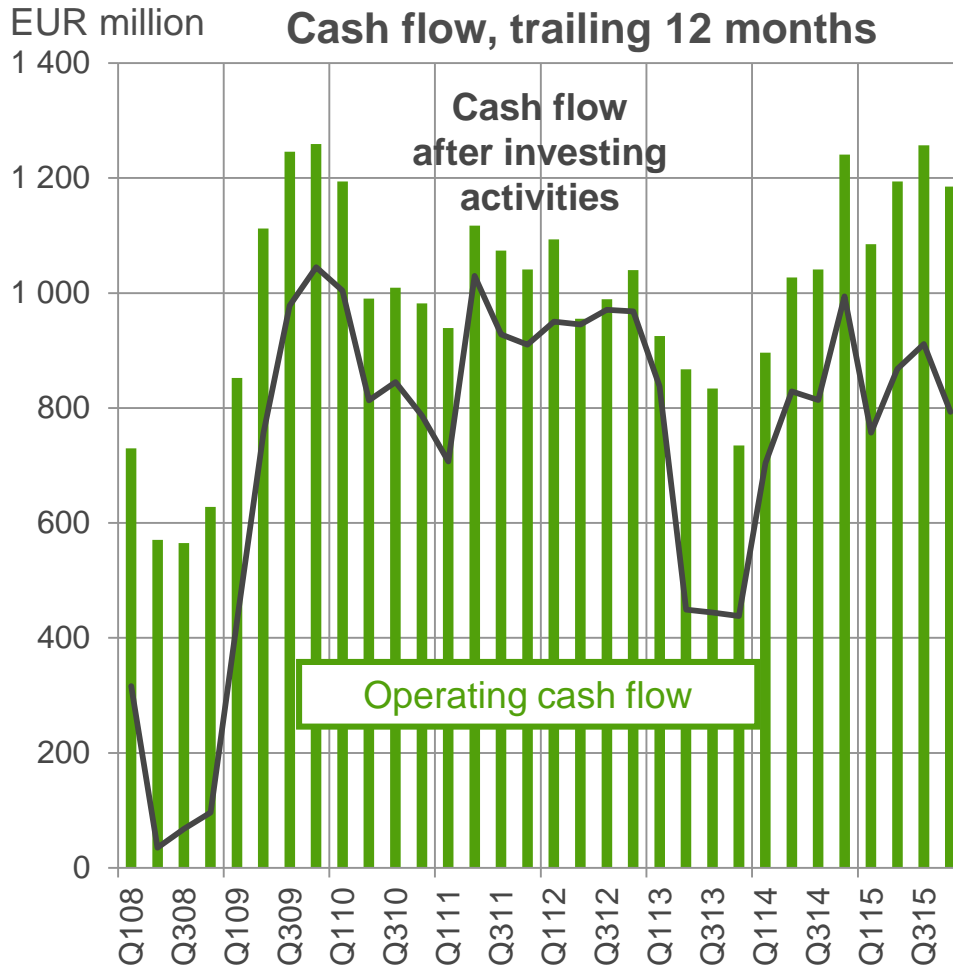


Outlook for 2016

- UPM's profitability improved in 2015 and the improvement is expected to continue in 2016. The business performance in 2016 is underpinned by the company's growth projects and continuous cost efficiency measures.
- UPM's growth projects are expected to contribute positively to the company's earnings in 2016, compared with 2015. UPM continues its measures to reduce variable and fixed costs also in 2016. Currencies are expected to contribute positively as hedges roll over, assuming relevant currencies stay at about the same level as at the end of 2015.



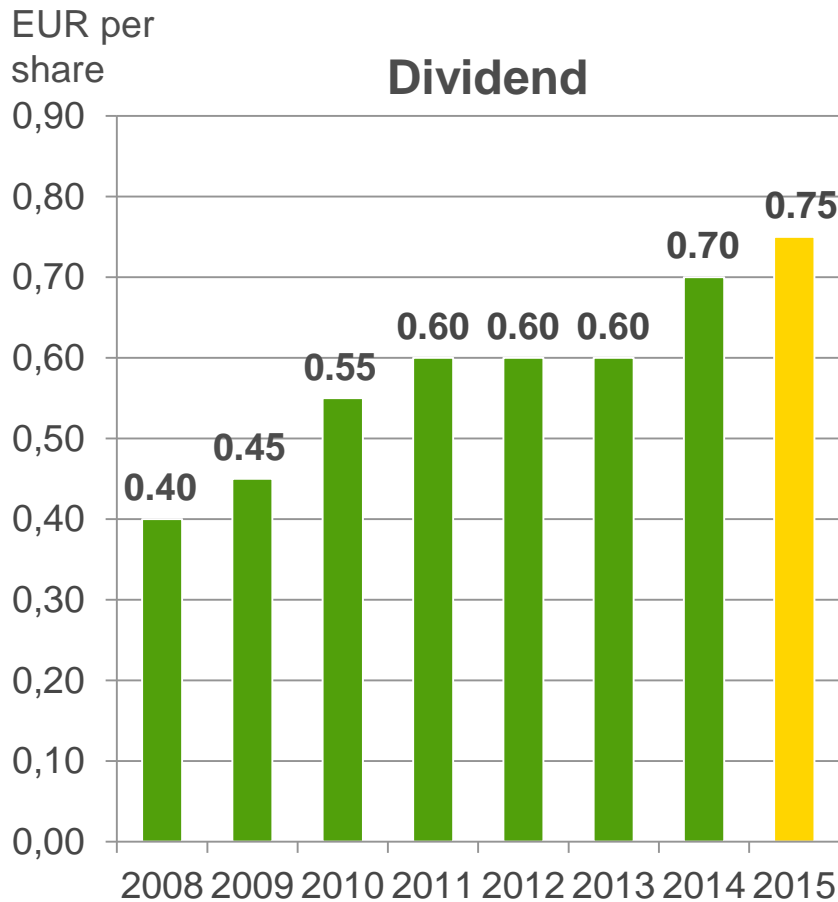
Strong cash flow



- Q4 2015 operating cash flow was EUR 390m (462m)
- In Q4 2015, working capital decreased by EUR 60m (EUR 144m)
- In 2015, operating cash flow was EUR 1,185m (1,241m), EUR 2.22 per share (2.33)



Dividend proposal



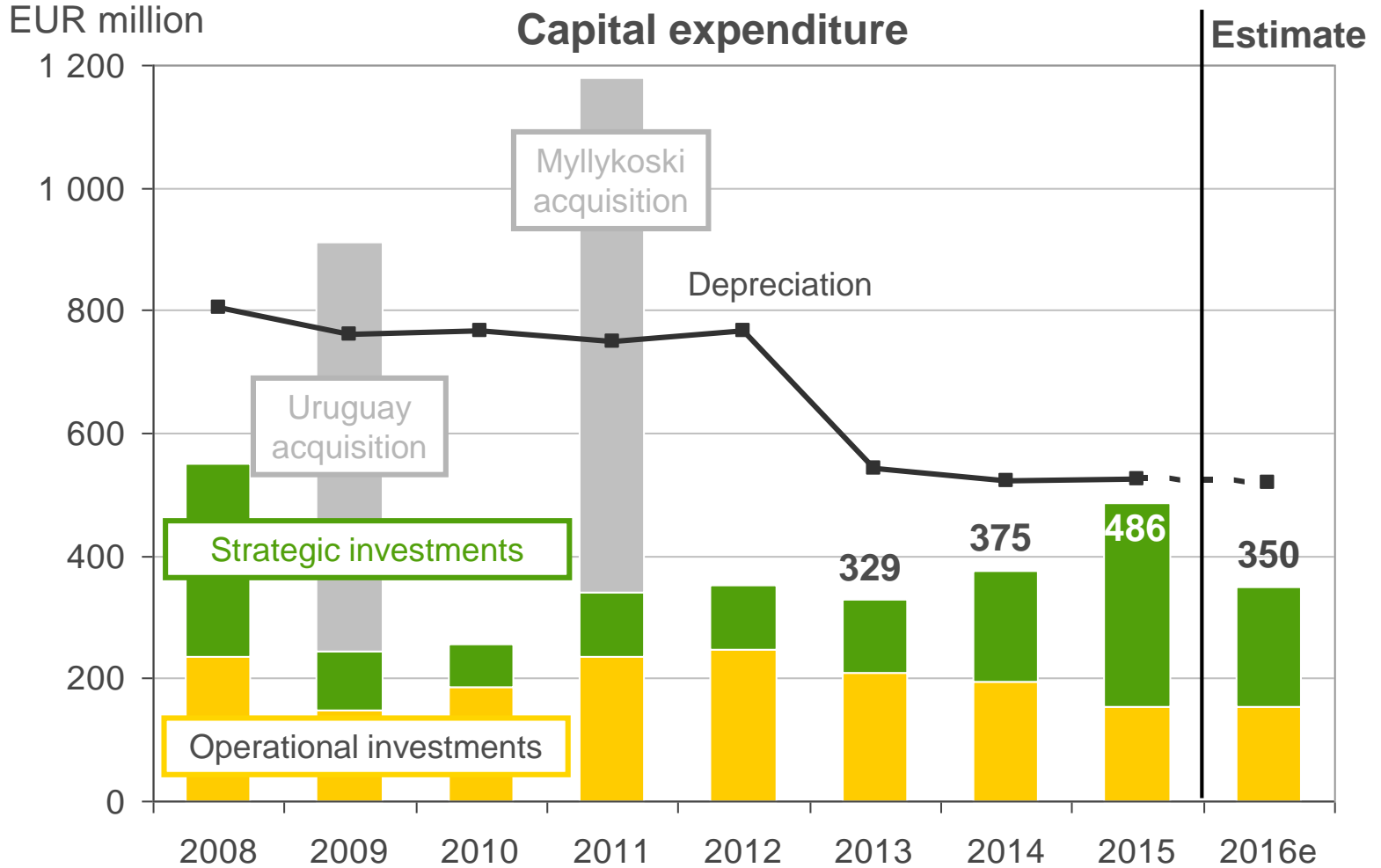
Dividend policy

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

Board's dividend proposal for 2015

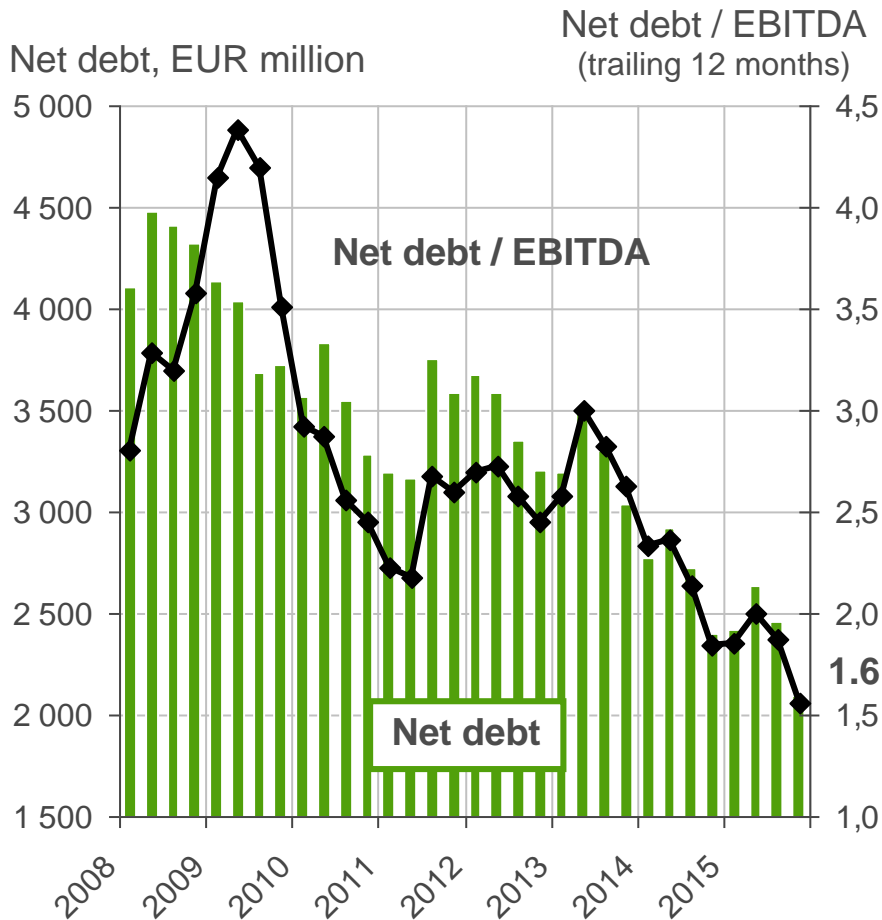
- EUR 0.75 (0.70) per share
- 34% of 2015 operating cash flow per share

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





Balance sheet continued to strengthen



Liquidity was EUR 1.7bn at the end of Q4 2015
Repayments total EUR 0.24bn in 2016

UPM Biorefining

UPM Biorefining

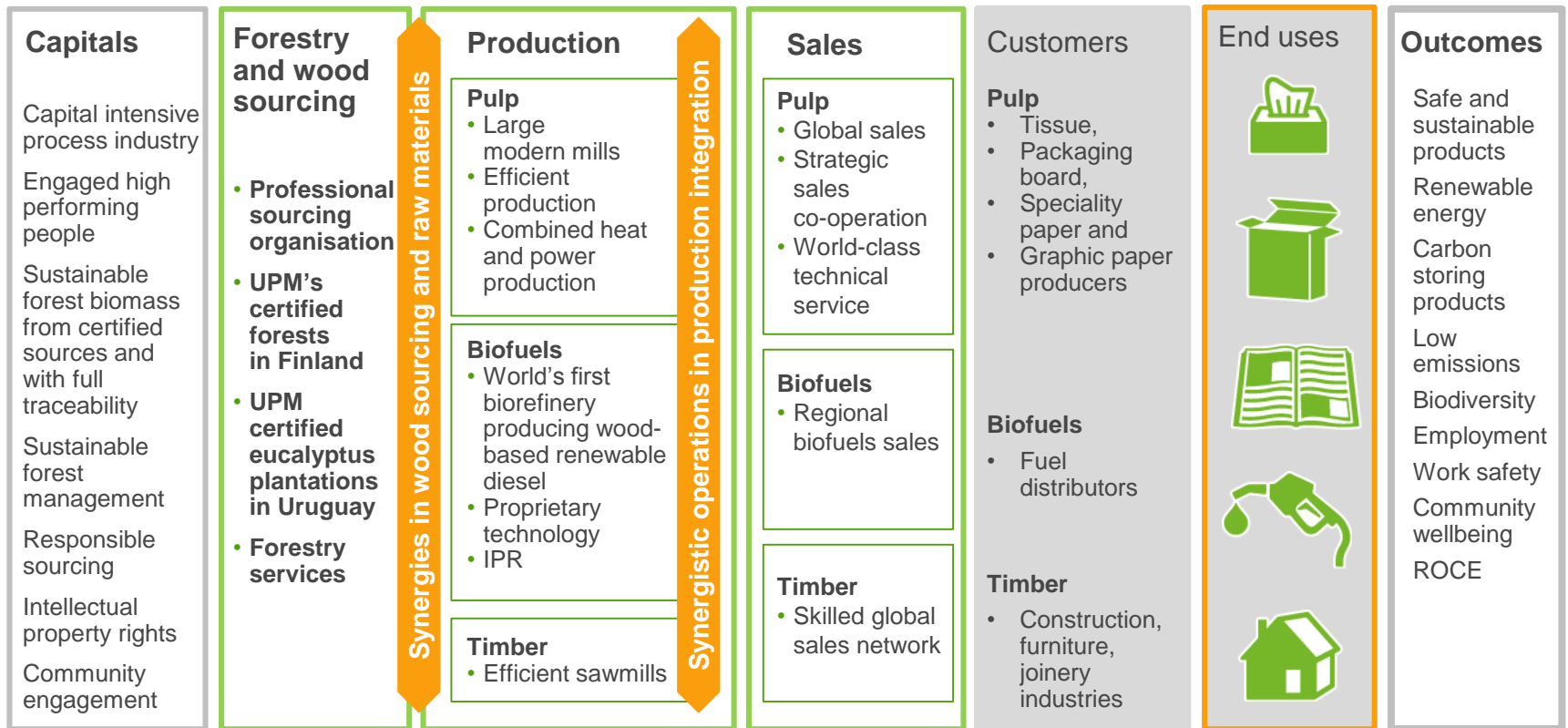
UPM Biorefining consists of pulp, biofuels, sawn timber and integrated energy production

UPM Biorefining	2015 (EURm)	2014 (EURm)
Sales	2,272	1,937
Operating profit *)	467	217
% of sales	20.6	11.2
ROCE *) , %	14.6	7.6

*) excluding special items



UPM Biorefining value created



UPM Biorefining

UPM plans to expand production in its competitive pulp mills by 10%



The Biofore Company **UPM**

Fray Bentos

capacity 1,300,000 t
of eucalyptus

Pietarsaari

capacity 800,000 t
soft- and hardwood pulp

Kymi

capacity 700,000 t
soft- and hardwood pulp

Kaukas

capacity 740,000 t
soft- and hardwood pulp



UPM Biorefining

85% of pulp demand is in growing end-use segments

Bleached market pulp demand by end-use and region

	WE	NA	China	ROW	Total
P&W	11%	3%	11%	8%	33%
Tissue	9%	7%	8%	11%	35%
Packaging	1%	0%	4%	1%	8%
Speciality	6%	1%	4%	4%	15%
Fluff	2%	2%	2%	4%	10%
	29%	14%	29%	28%	100%

 = growing market segment (86%)

 = declining market segment (14%)

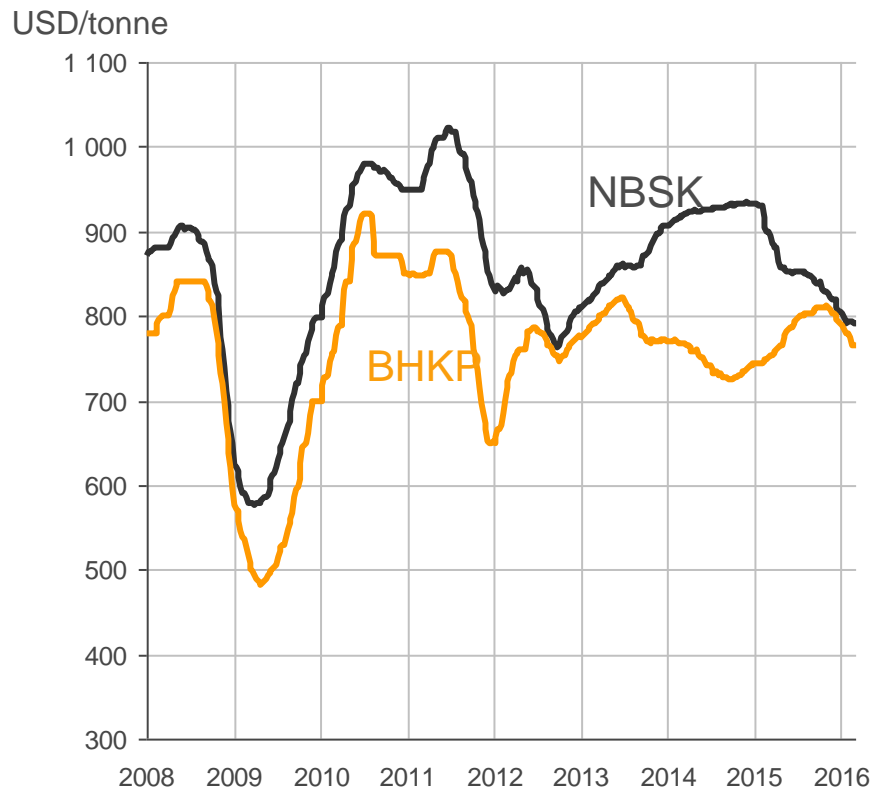
*Source: Hawkins Wright, August 2015

UPM Biorefining

Chemical pulp market

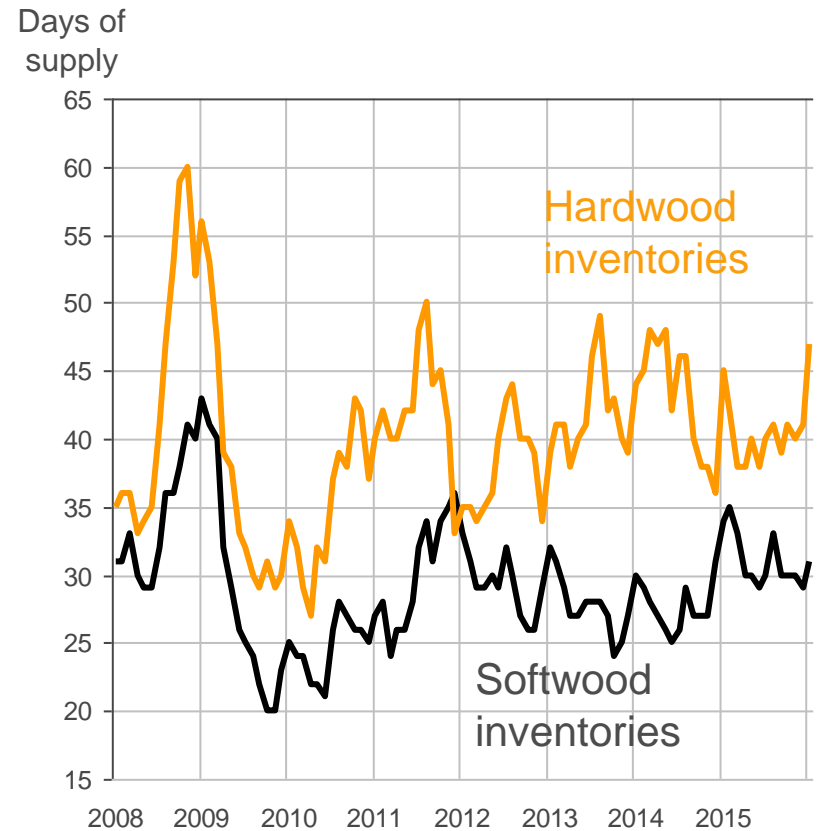


Q4 NBSK pulp price decreased 3% from Q3
 Q4 BHKP pulp price unchanged from Q3



Source: FOEX Indexes Ltd.

Pulp inventories



Source: PPC World-20 statistics

UPM Biorefining

Renewable drop-in diesel suitable for all diesel engines



- Engine tests done in independent research centres
 - Finnish VTT
 - German research centre FEV
- Fleet tests done with VW and VTT
- Renewable drop-in diesel suitable for all diesel engines
- Functions like any regular diesel



RENEWABLE
RAW MATERIAL

100 %



CO₂ EMISSIONS
(VS. FOSSIL FUEL)

-80 %



HYDROCARBON FUEL,
COMPATIBLE WITH DIESEL
STANDARD EN590

100 %

UPM Biorefining

Growing share of advanced biodiesel

- Demand for advanced biofuels is growing due to stricter environmental standards and sustainability requirements
- The EU is aiming to increase the use of renewable fuels in transport:
 - EU 2020: 10% target in place (Finland 20%)
- ILUC-directive by the EU to govern sustainable raw materials approved for double counted biofuels
- Cap of 6-7% for traditional biodiesels favours use of advanced biofuels, e.g. UPM BioVerno



UPM Biorefining

UPM Biofuels – drivers for profitable business

Price

UPM BioVerno – RME

compared with reference (RME)

- Higher energy content
- Lower GHG emissions, no indirect land use change
- No blending limit from quality
- Lower tailpipe emissions
- Fits to existing infrastructure and distribution network
- Double counting and future 2G quota

Low feedstock cost

CTO – rapeseed oil

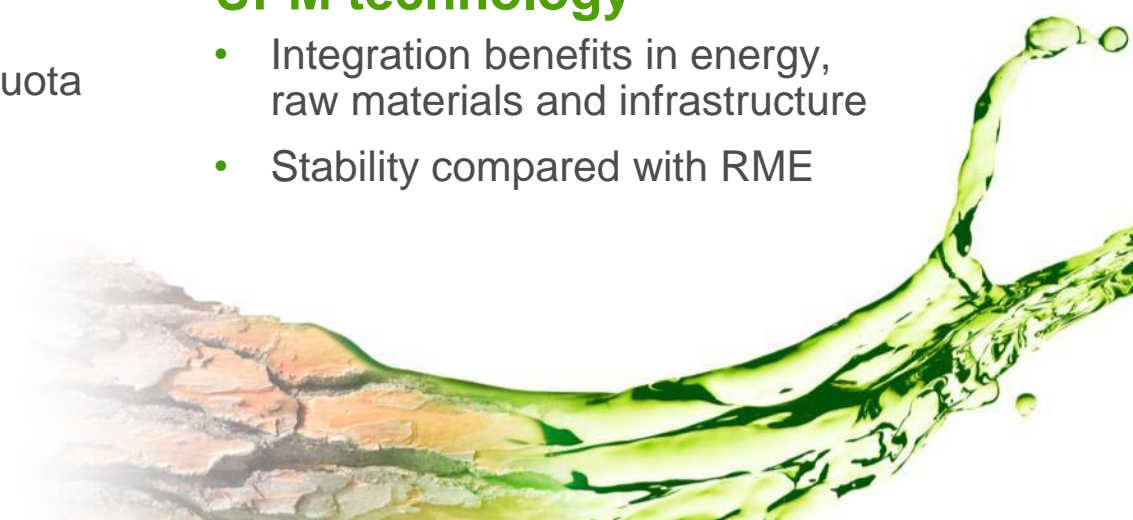
compared with reference (rapeseed oil)

- Price
- Yield
- Flexible regarding feedstock

Competitive other costs

UPM technology

- Integration benefits in energy, raw materials and infrastructure
- Stability compared with RME





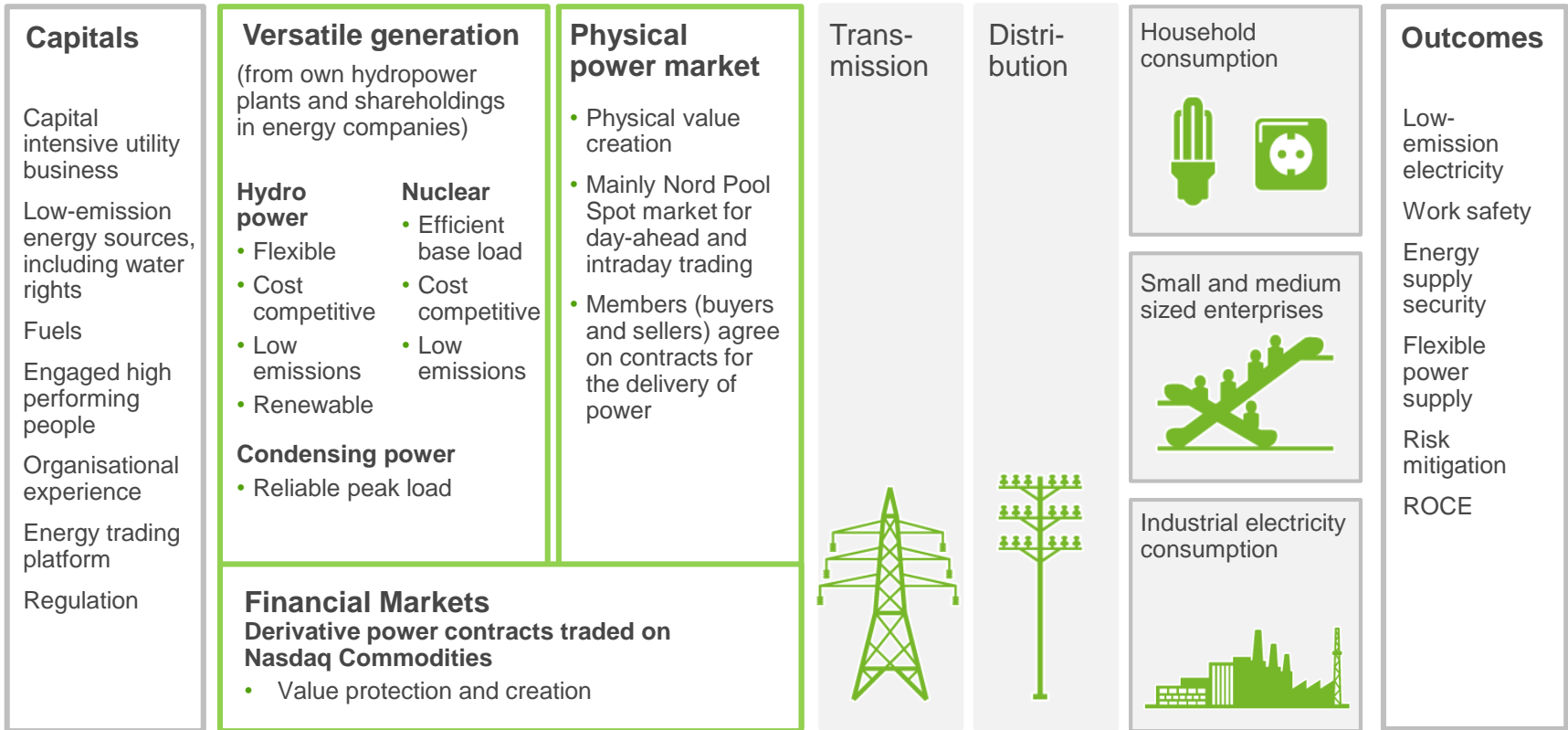
A versatile set-up of cost competitive low-emission power generation plants in Finland

Trading in physical and derivative markets

UPM Energy	2015 (EURm)	2014 (EURm)
Sales	415	464
Operating profit *)	181	202
% of sales	43.6%	43.5%
ROCE *) , %	6.7%	7.0%

*) excluding special items

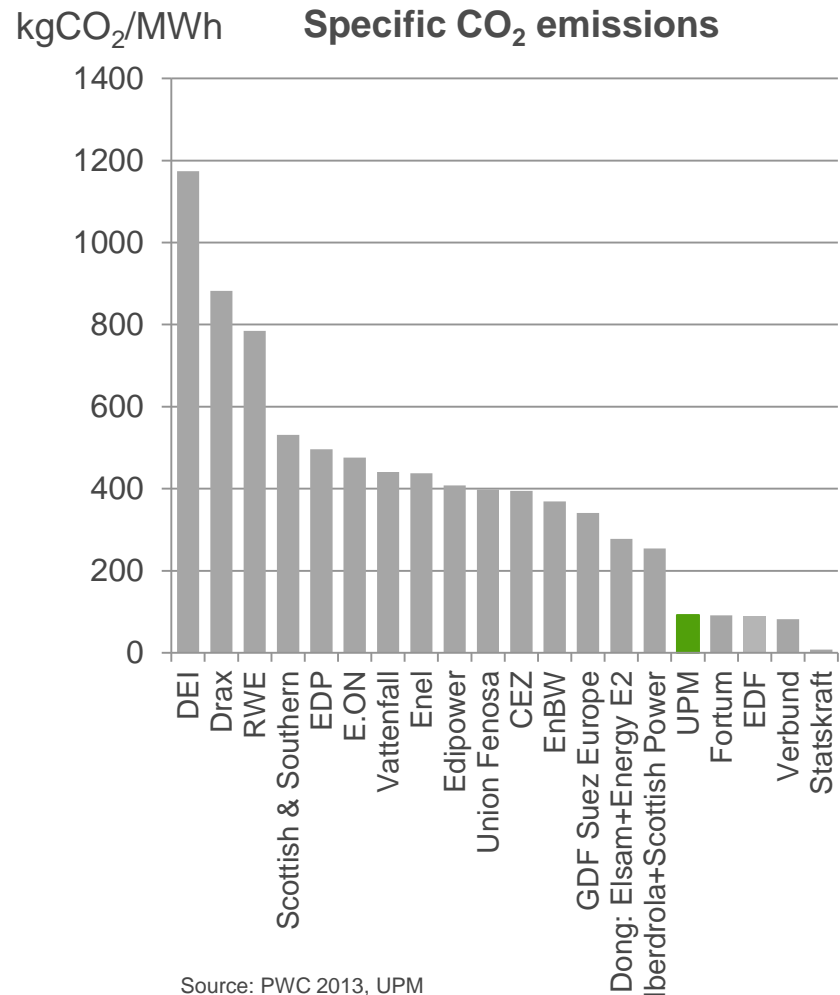
UPM Energy value created



Cost competitive low-emission electricity generation

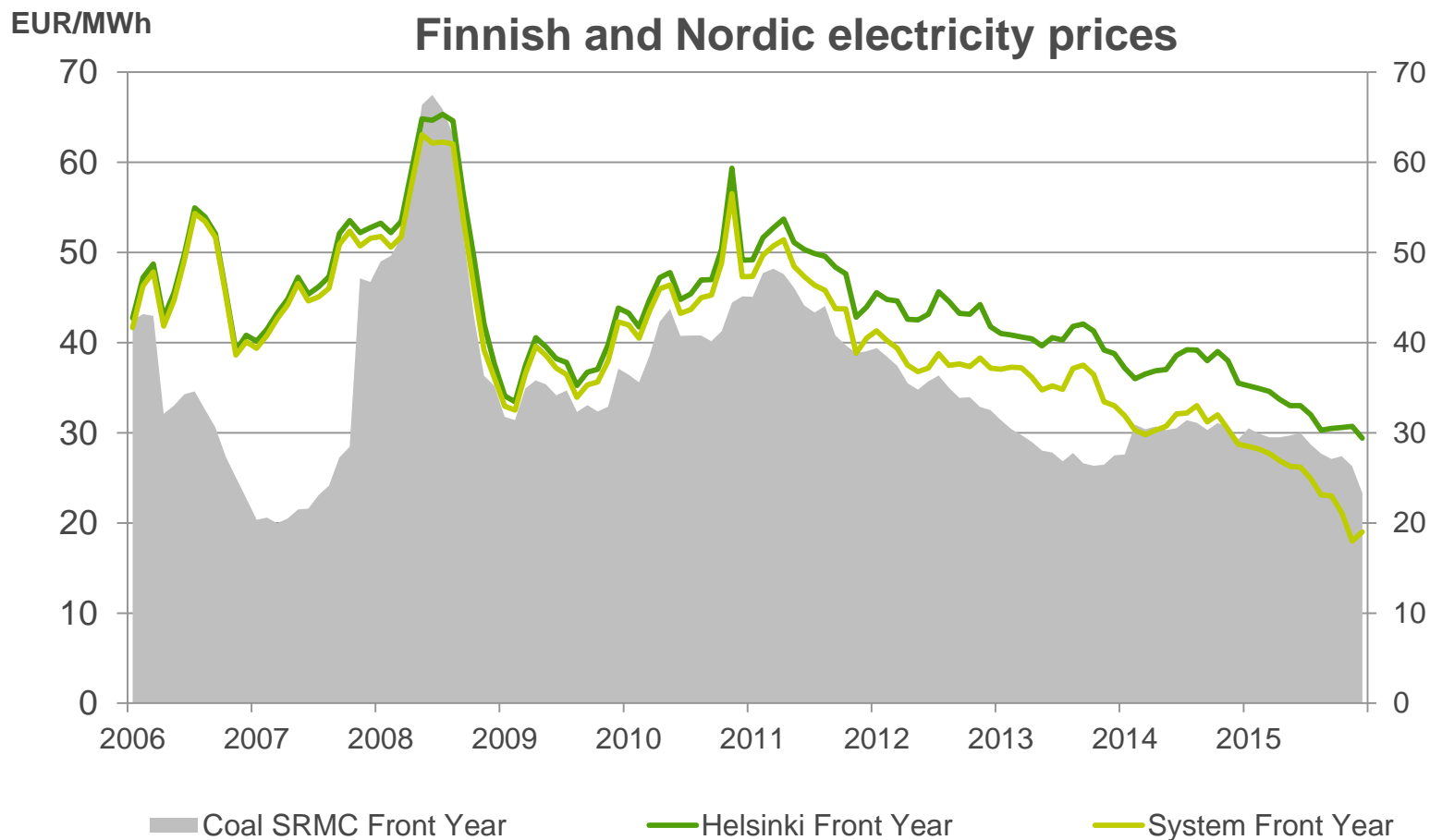
Electricity generation capacity in 2014

Type	Nominal capacity MW
Hydropower	708
Nuclear power	581
Condensing power	320
Wind power	1
Total in UPM Energy	1,610



Source: PWC 2013, UPM

Price development in the Nordic and Helsinki power markets



Source: Reuters

UPM Raflatac

UPM Raflatac



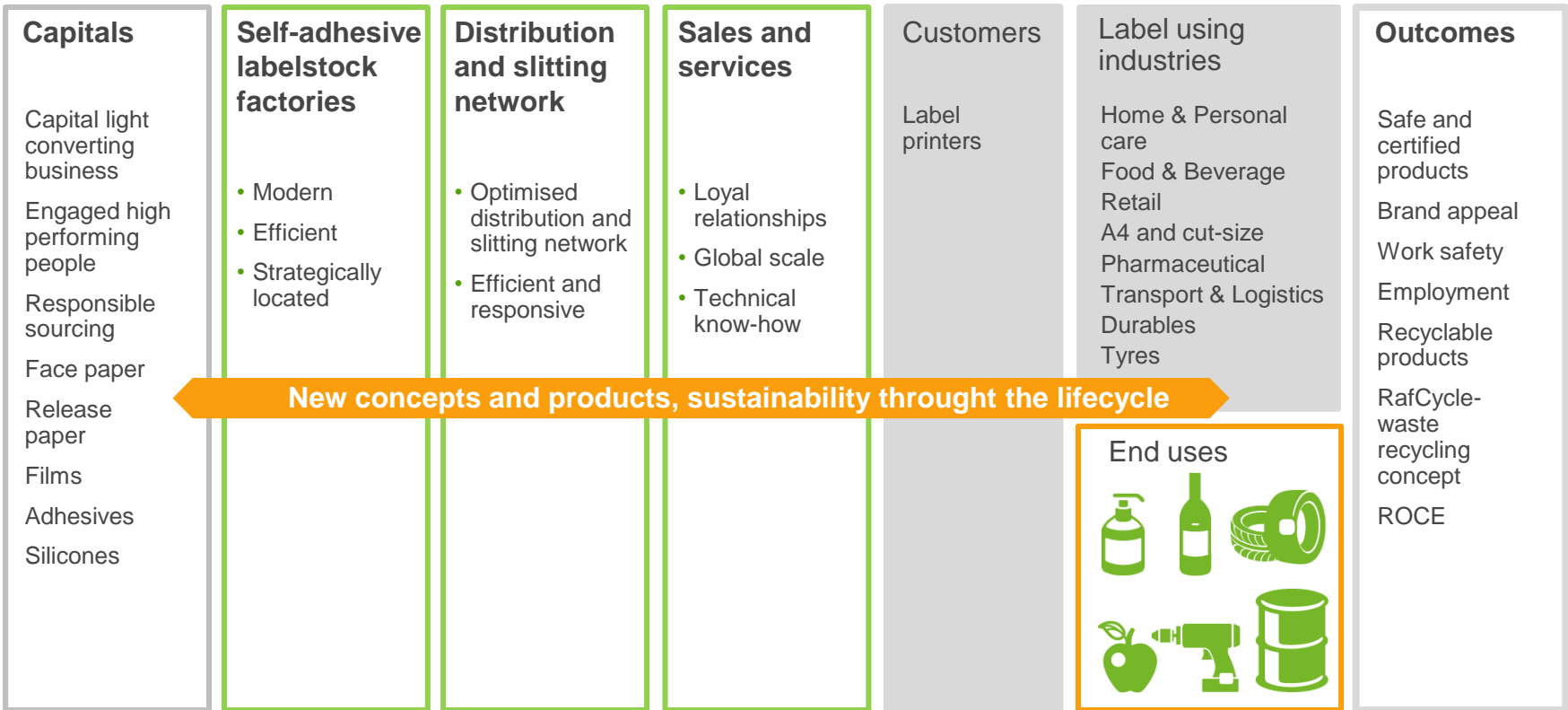
Self-adhesive label materials for product and information labelling in industries such as food, beverage, retail and logistics

UPM Raflatac	2015 (EURm)	2014 (EURm)
Sales	1,409	1,248
Operating profit *)	102	80
% of sales	7.2%	6.4%
ROCE %	17.6%	15.1%

*) excluding special items



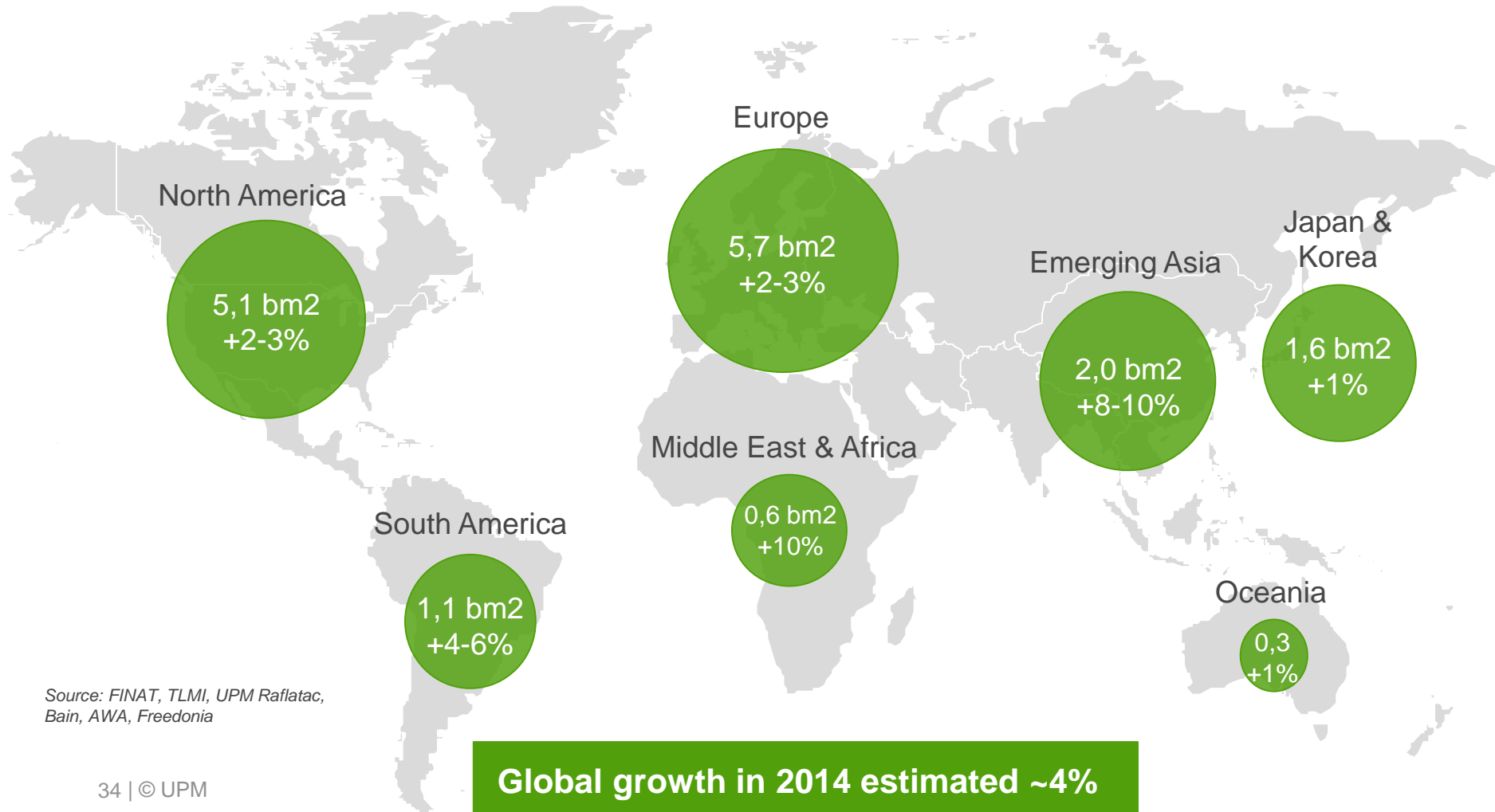
UPM Raflatac value created



New concepts and products, sustainability throught the lifecycle

Growth in self-adhesive labelling market continues ~ EUR 6bn market

Global self-adhesive label market size and long-term growth outlook



Source: FINAT, TLMi, UPM Raflatac, Bain, AWA, Freedonia

UPM Raflatac Next steps

- 1 Capture organic market growth
- 2 Leverage existing asset base to improve productivity
- 3 Continue low-capex expansion in emerging markets and film and special product lines
- 4 Speed-up the above by synergistic acquisitions



UPM Paper Asia

UPM Paper Asia

UPM Paper Asia serves growing fine and office papers market in Asia, and labelling materials markets globally

Recognized industry leader in sustainability

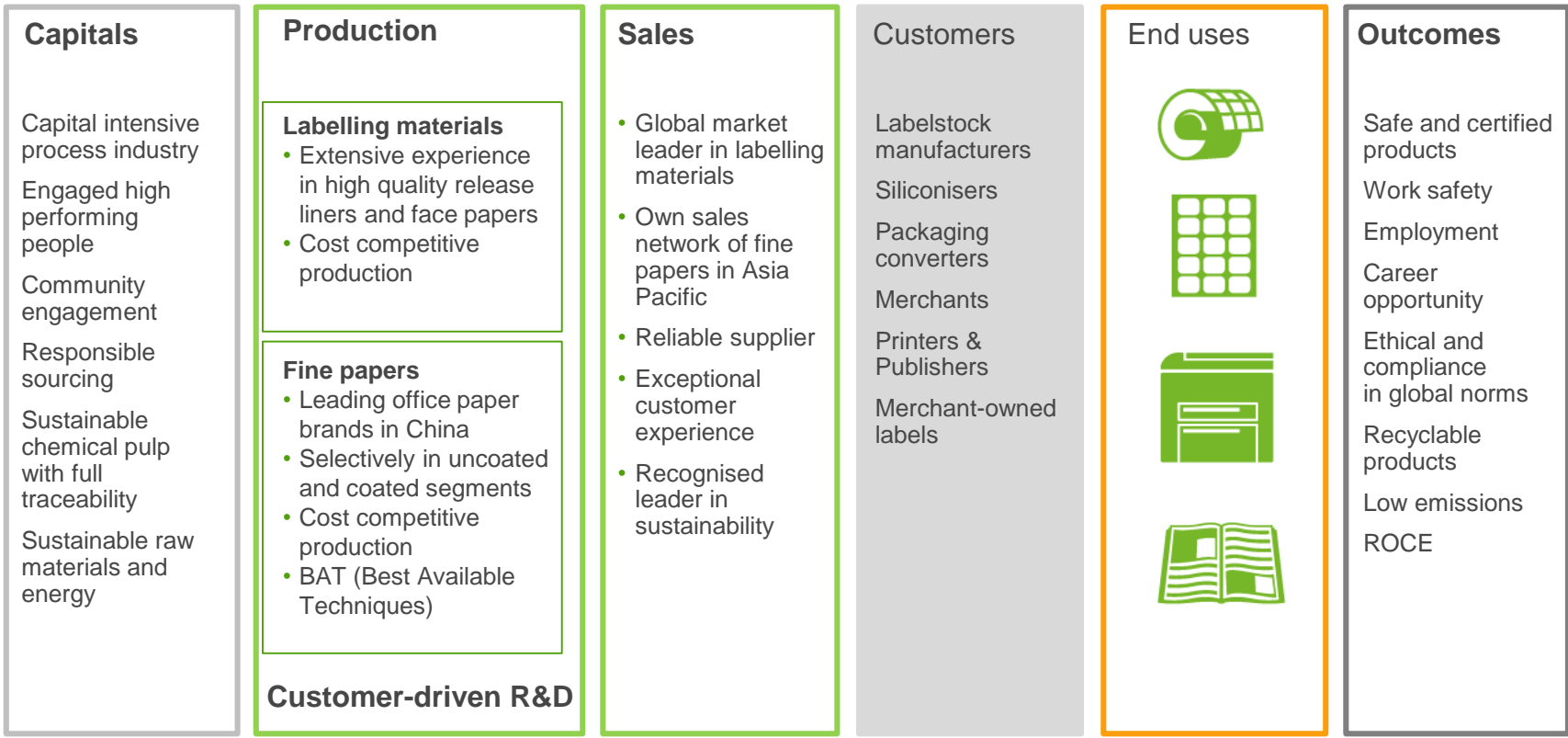
Extensive own sales network

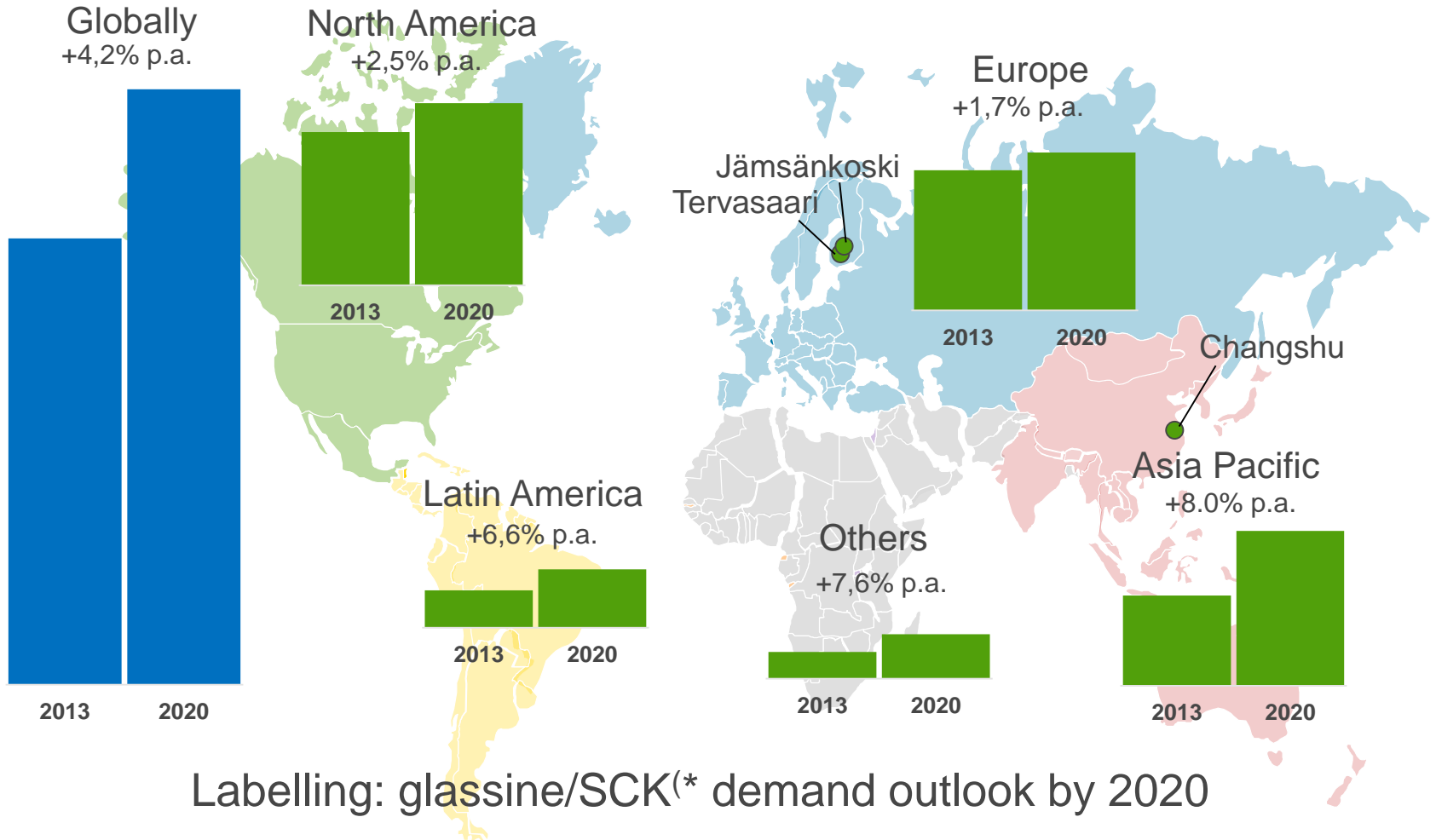
UPM Paper Asia	2015 (EURm)	2014 (EURm)
Sales	1,168	1,124
Operating profit *)	55	108
% of sales	4.7%	9.6%
ROCE, %	5.4%	12.5%

*) excluding special items



UPM Paper Asia value created

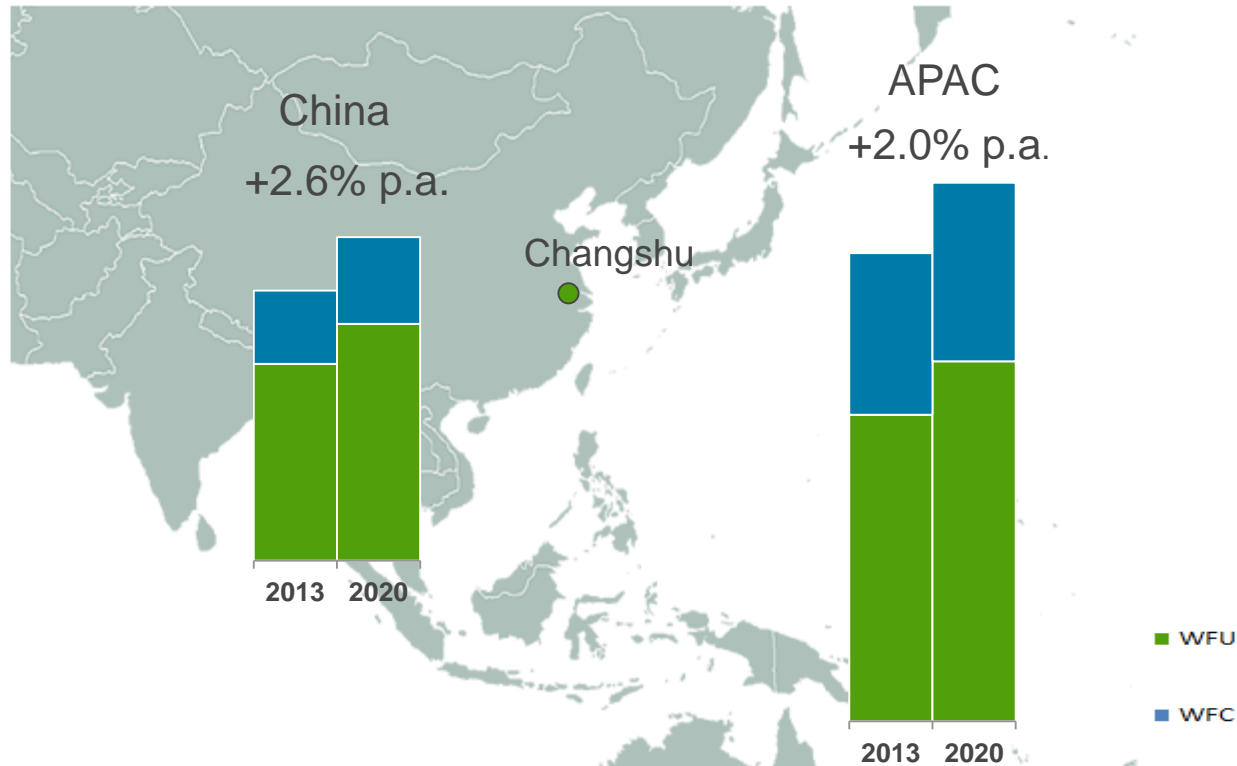




Labelling: glassine/SCK^(*) demand outlook by 2020

UPM Paper Asia

Market leader in high quality office papers in China with extensive, own sales network



Fine and office paper demand in Asia by 2020

UPM Paper ENA

UPM Paper Europe and North America

Paper products for magazine and newspaper publishers, advertising end uses as well as home and office

UPM Paper ENA	2015 (EURm)	2014 (EURm)
Sales	5,056	5,284
Operating profit *)	24	181
% of sales	0.5	3.4
ROCE, %	1.0	7.2
Cash flow/CE, %	4,6	12,9

*) excluding special items

UPM Paper ENA

UPM Paper ENA value created

Capitals

Capital intensive process industry
 Engaged high performing people
 Community involvement and local presence
 Responsible sourcing
 Virgin fibre from certified sources
 Recycled fibre
 Chemical pulp with full traceability
 Sustainable raw materials and energy

Customer-based business units

- Customer focus and offerings
- Wide product range
- Reliable supplier
- Common operational platform for production, supply chain and sales

Magazine Publishing & Advertising

Newspaper Publishing

Merchants, Home & Office

Production

- Efficient and cost competitive production
- Environmental and technical expertise
- Focused R&D

Sales

- Market-based, global sales
- World class technical service
- Excellent customer service

Customer

Publishers
 Printers
 Retailers
 Cataloguers
 Advertisers
 Brand owners
 Merchants
 Converters

End uses



Outcomes

Safe and certified products
 Work safety
 Employment
 Recyclable products
 Renewable energy
 Low emissions
 Vitality of local communities
 Responsible restructuring
 Cash flow / Capital employed

UPM Paper ENA

European graphic paper market is oversupplied,
industry structure is fragmented

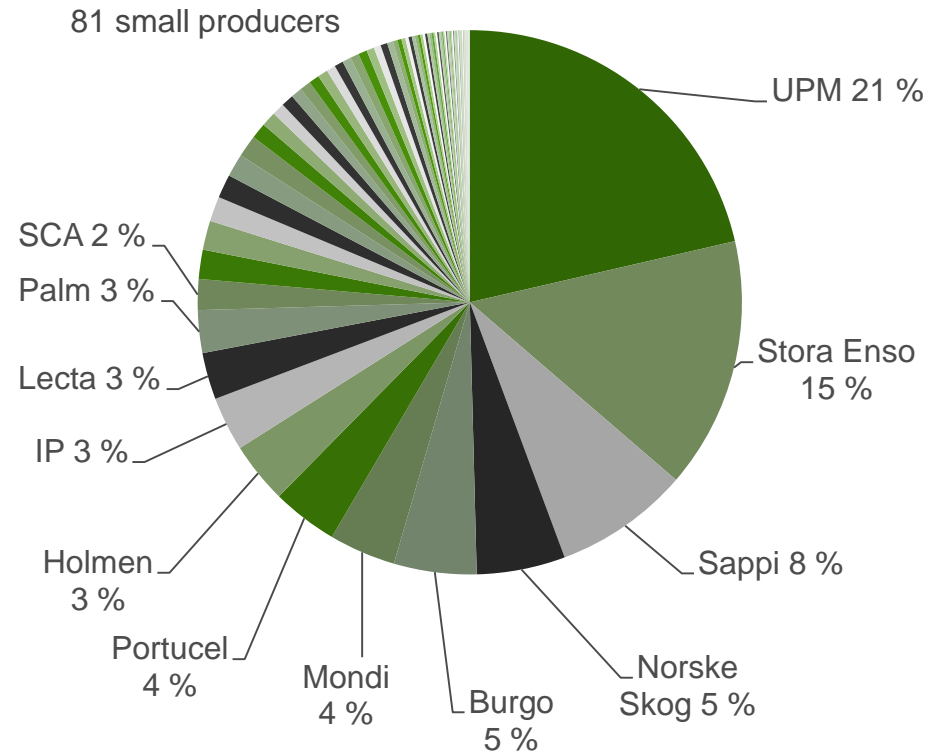


Demand and Capacity



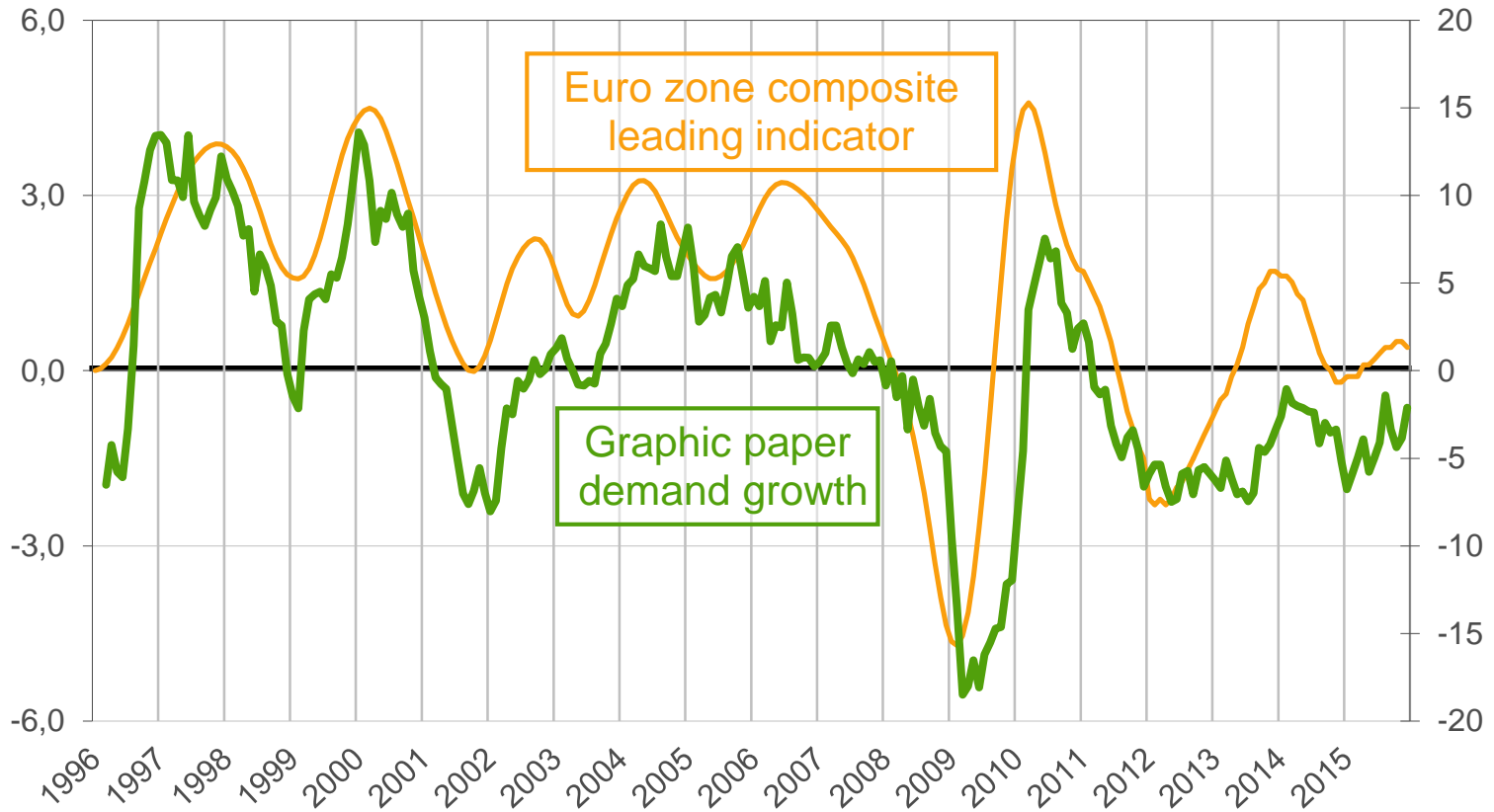
Sources: Euro-Graph, PPPC

Industry structure



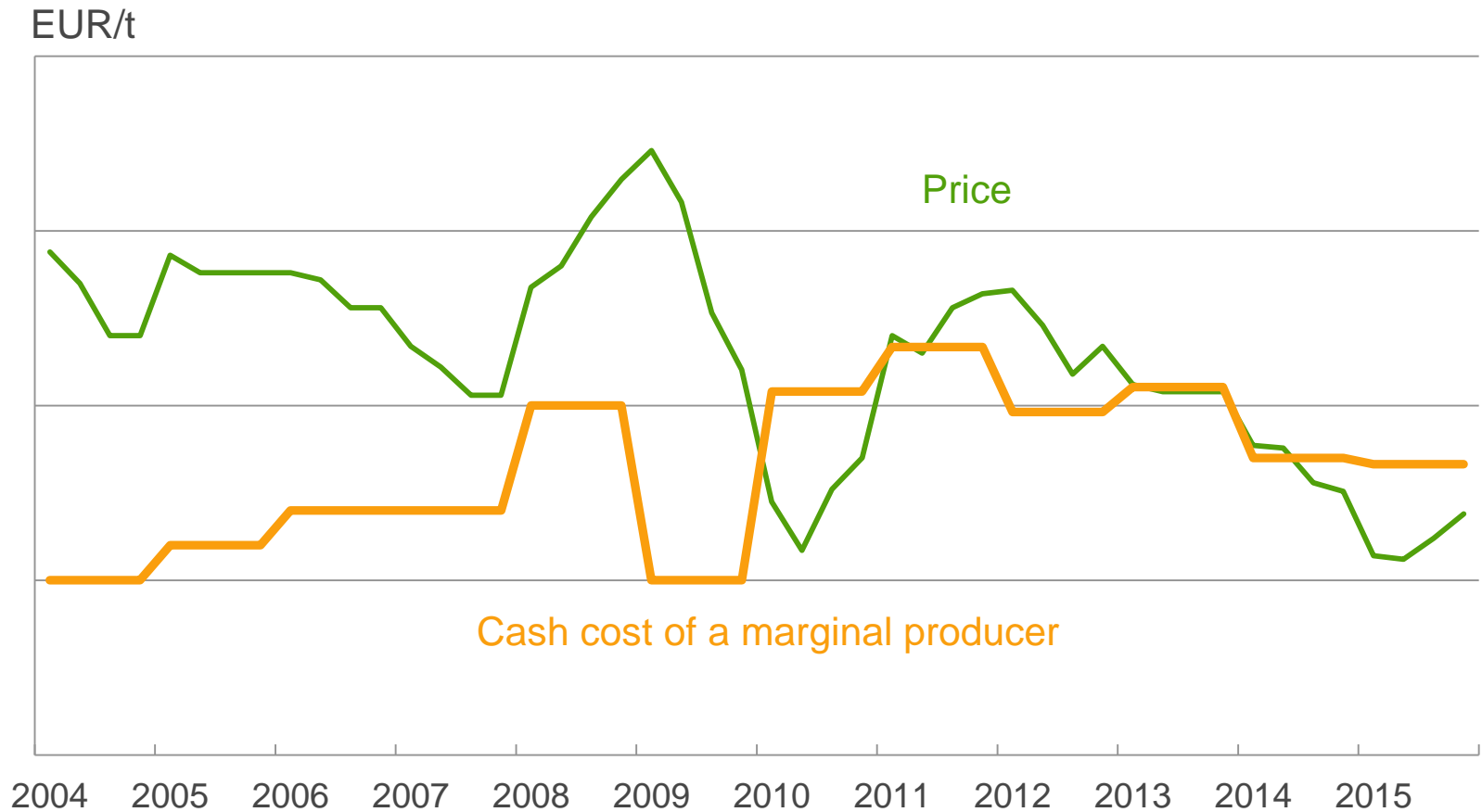
Sources: JP Webbmill

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



Sources: Cepiprint, Cepifine, OECD

Overcapacity in European graphic paper is visible in margins



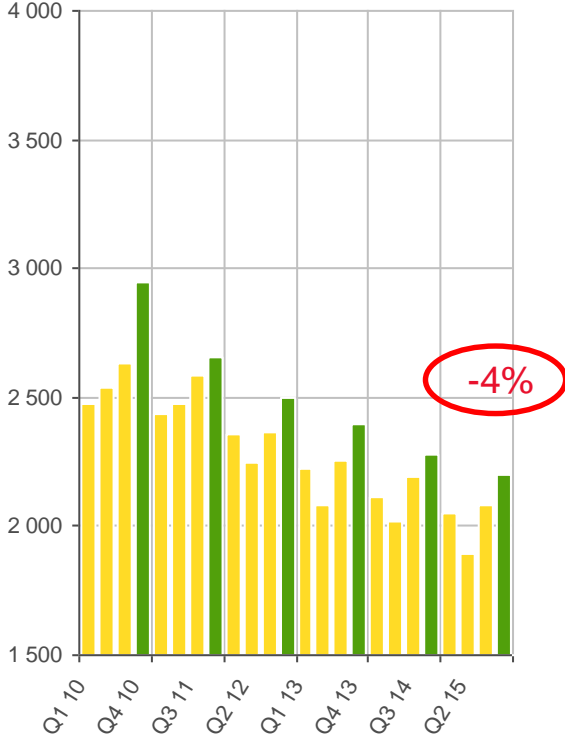
Sources: PPI, RISI, Pöyry

UPM Paper ENA

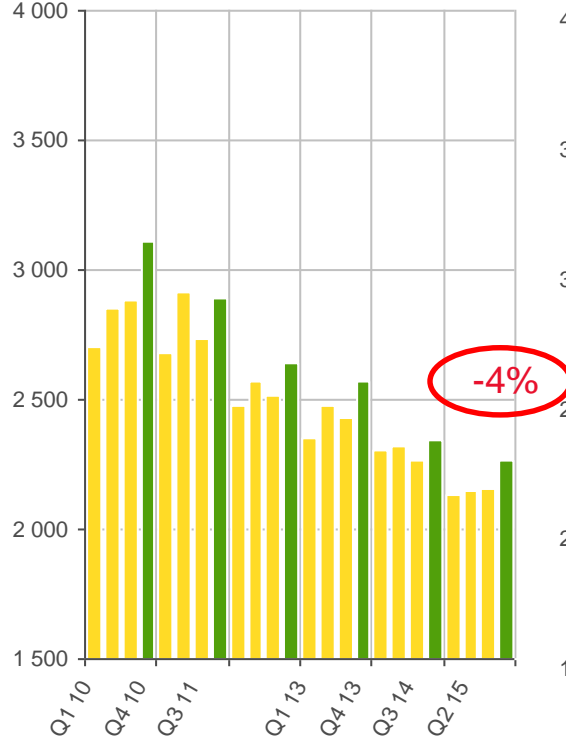
Graphic papers demand in Europe decreased by 2% in Q4 and 4% in 2015 from previous year



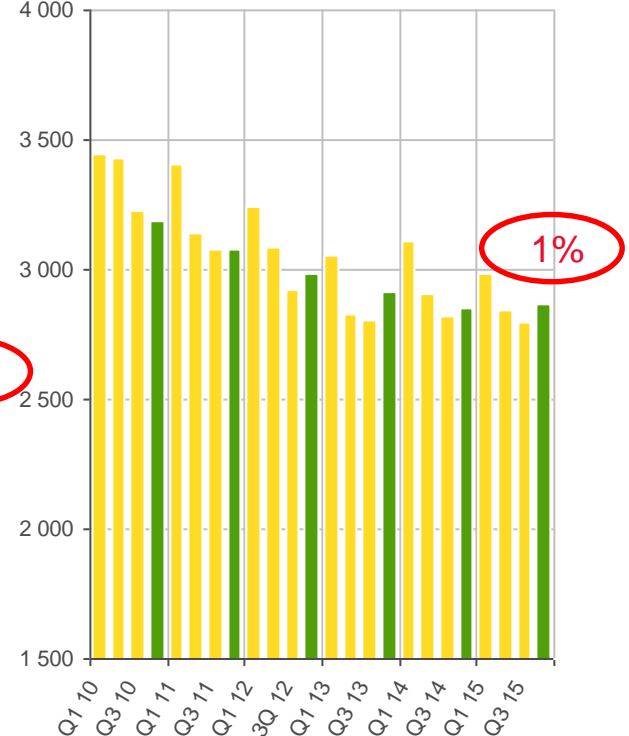
'000 tonnes Magazine papers demand in Europe -5% 2015



Newsprint demand in Europe -6% 2015



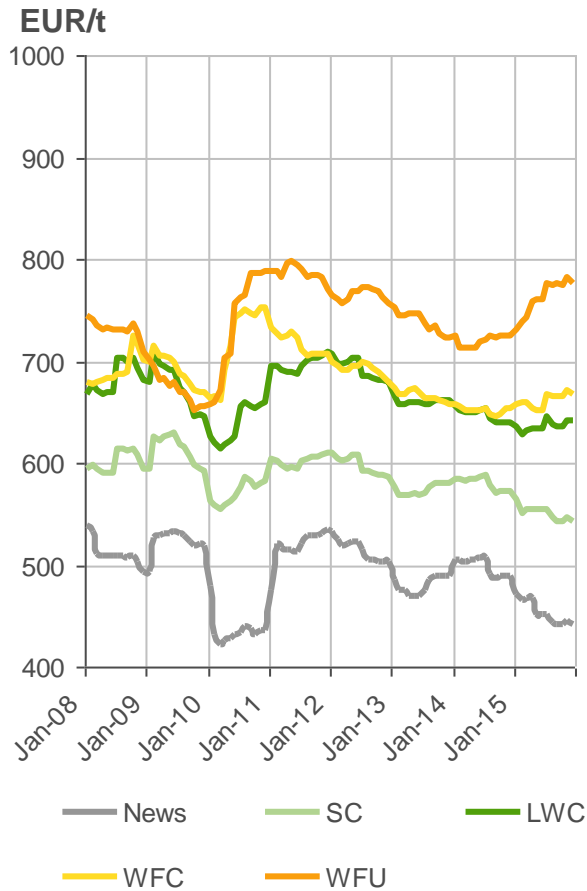
Fine papers demand in Europe -2% 2015



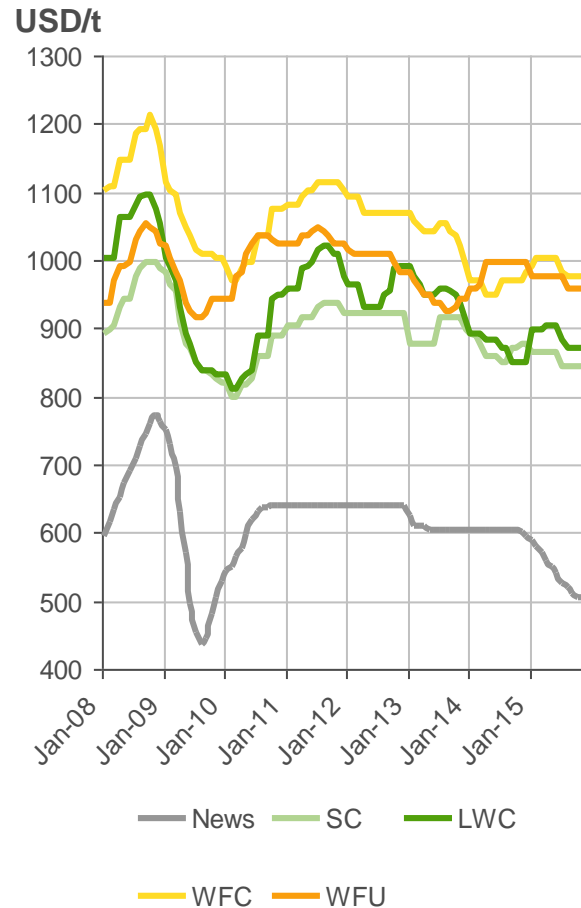
UPM Paper ENA

Graphic paper prices

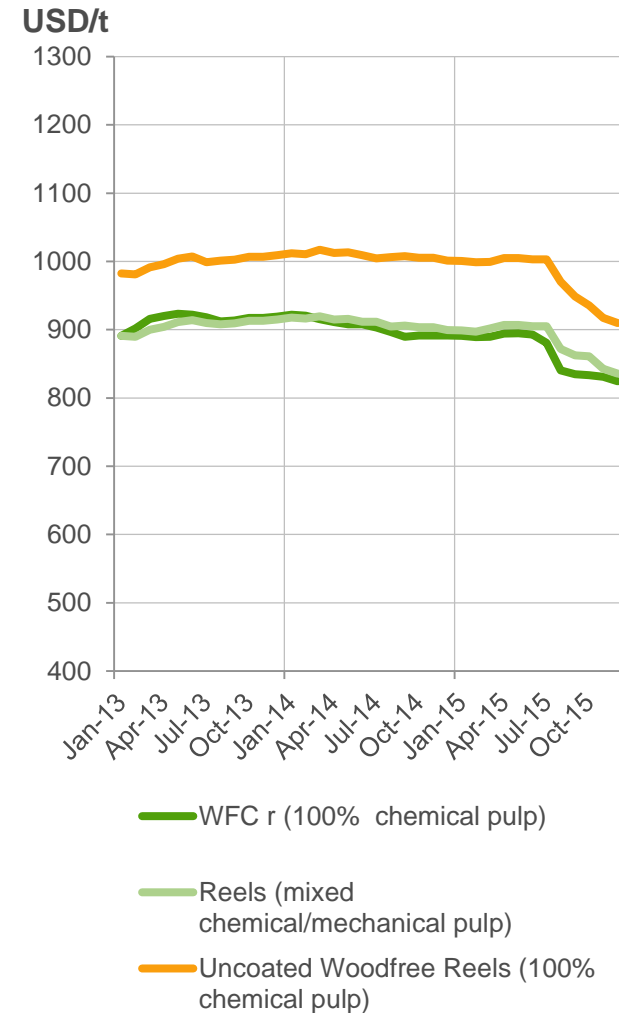
Europe



North America



China



Sources: PPI, RISI

UPM Plywood

UPM Plywood

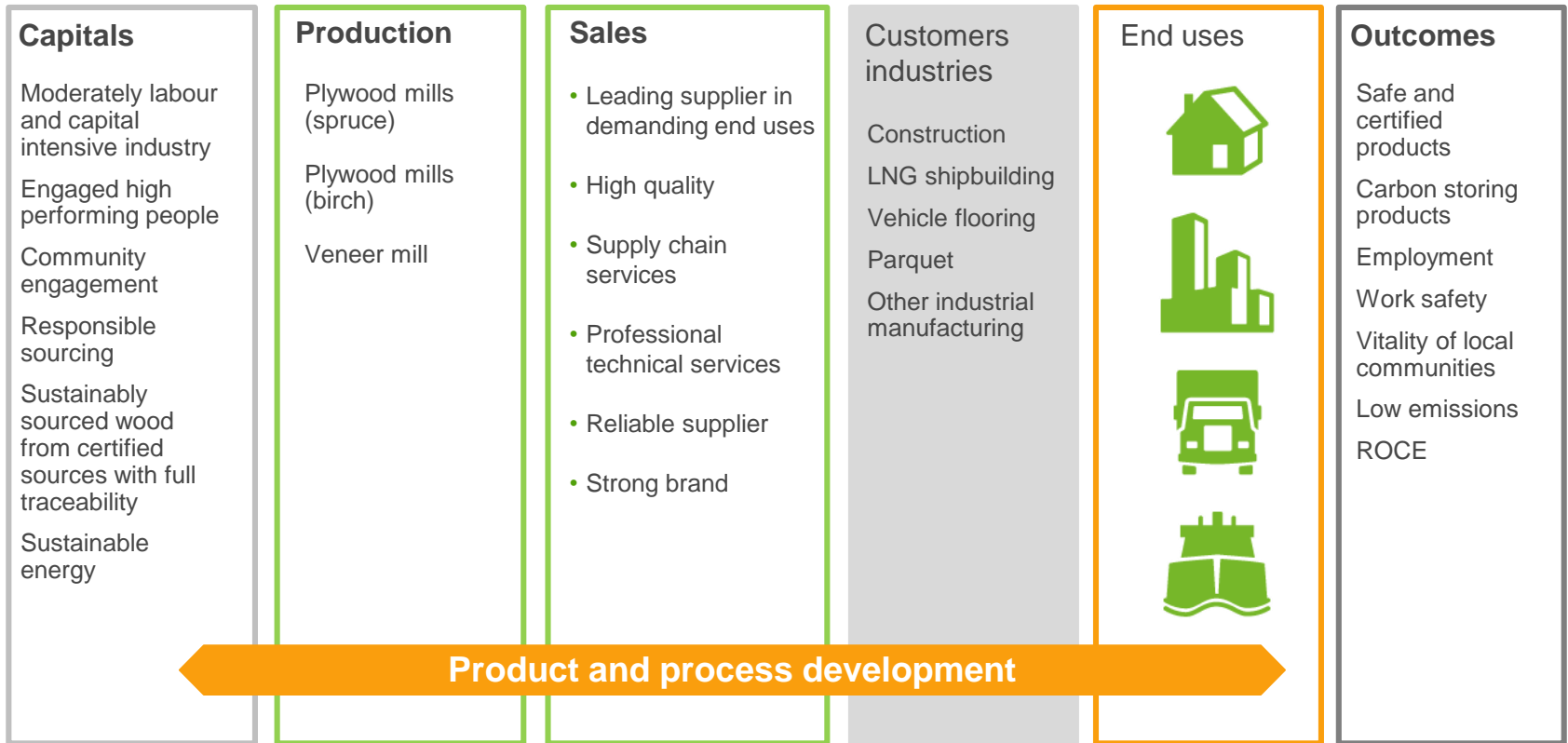
Plywood and veneer products for building and construction, and industrial applications such as transportation equipment

UPM Plywood	2015 (EURm)	2014 (EURm)
Sales	439	440
Operating profit *)	55	44
% of sales	12.5	10.0
ROCE, %	20.9%	16.4%

*) excluding special items



UPM Plywood value created



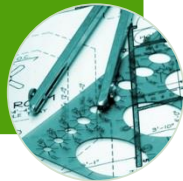
Product and process development

UPM Plywood

Focus on the most attractive businesses

- Repair & renovation expected to stay solid or increase
- Residential building and civil engineering showing signs of recovery

Construction / Panel Trading



- UPM #1-2 in Europe

- High share of road transportation to grow further in Europe
- Fleet replacement backlog

Vehicle Flooring



- UPM #1 in Europe

- Half of world's gas reserves can reach the market only as LNG
- Trade is growing, routes are getting longer

LNG Shipbuilding



- UPM #1 globally

Forward-looking statement

It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, including availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates.



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