

MORE WITH BIOFFORE

UPM - THE BIOFORE COMPANY

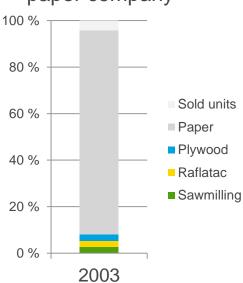
Investor presentation March 2016

The Biofore Company **UPM**

UPM in transformation

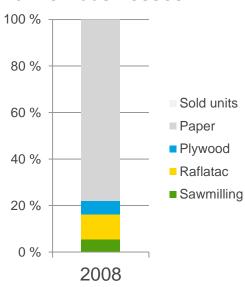
Business portfolio, sales





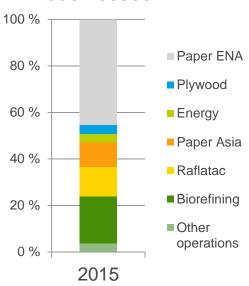
Sales EUR 9.8bn
EBIT (* EUR 429m
Net debt EUR 4.9bn
Market cap EUR 7.9bn
Personnel 34,500

2008: towards market-driven businesses



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

2015: six separate businesses



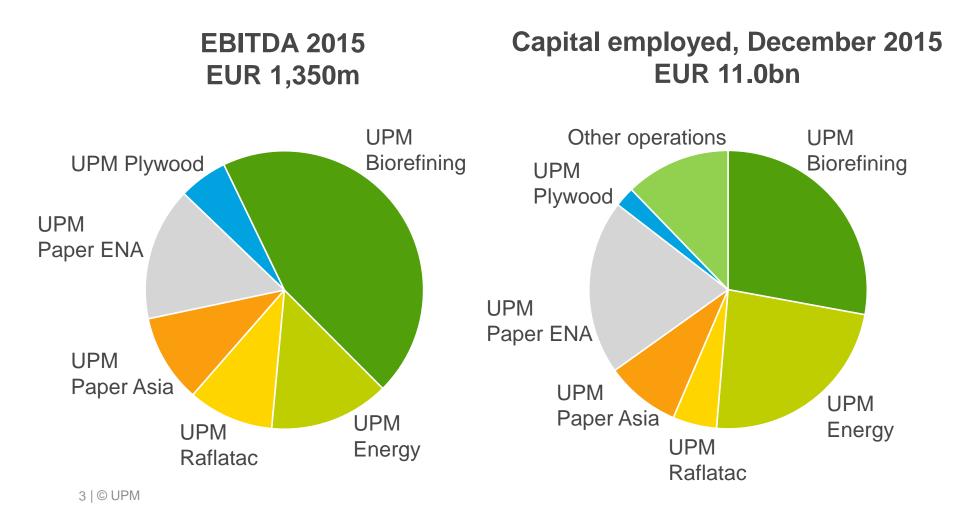
EUR 10.1bn EUR 898m EUR 2.1bn EUR 9.2bn 19,600

^{2 | ©} UPM

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

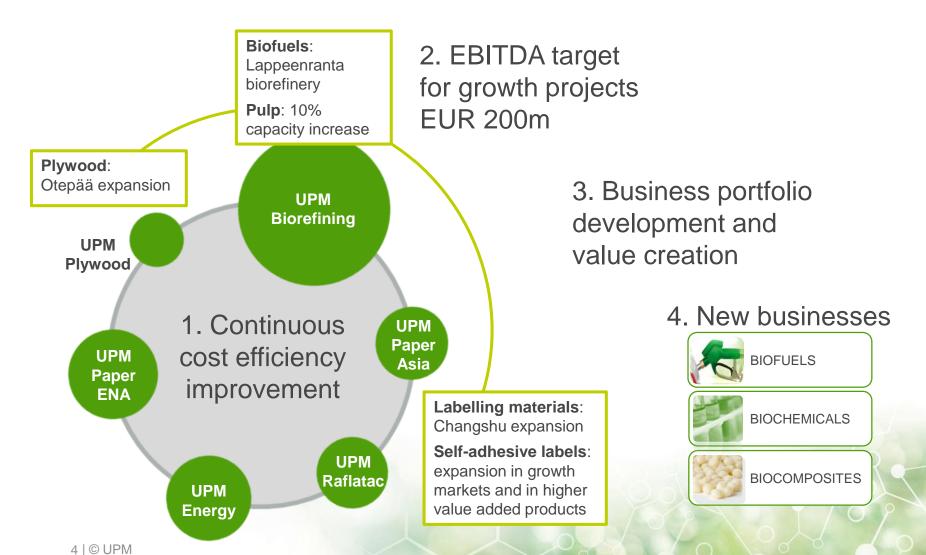
UPM businesses by **EBITDA** generation and capital employed





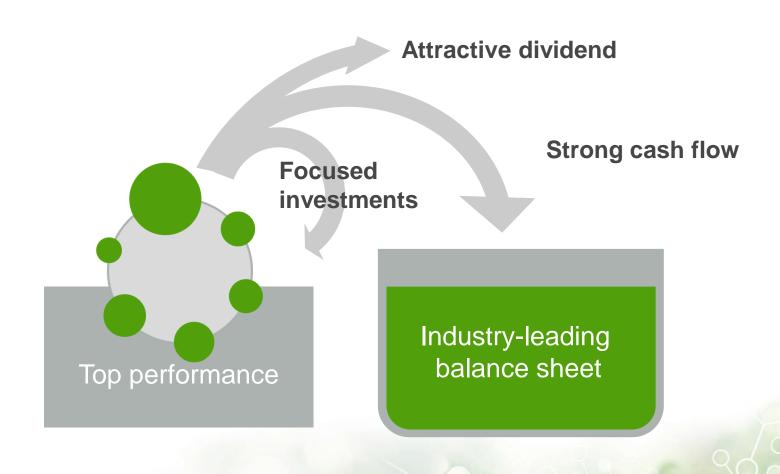


UPM strategy in action



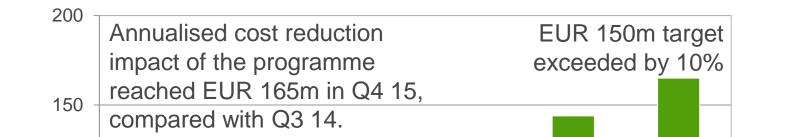


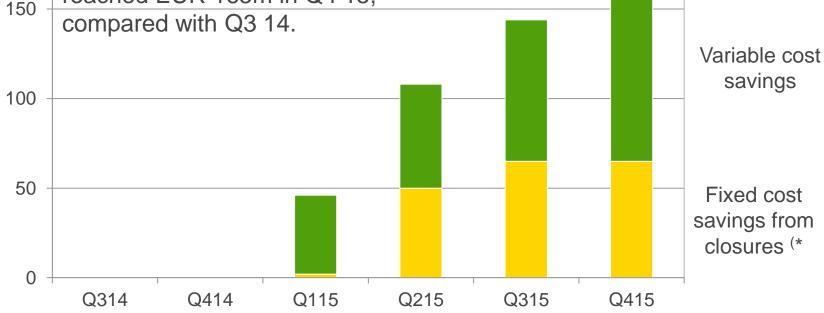




Profit improvement programme exceeded its targets both in fixed and variable costs







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

FUR million

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

Q2 Q3 2014 2014

1 2014

Q1 2015

Q2 5 2015 Q3 2015

Q4 2015 Q1 2016 Q2 2016 Q3 2016

Remaining capex EUR 110m

Q4 2016



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



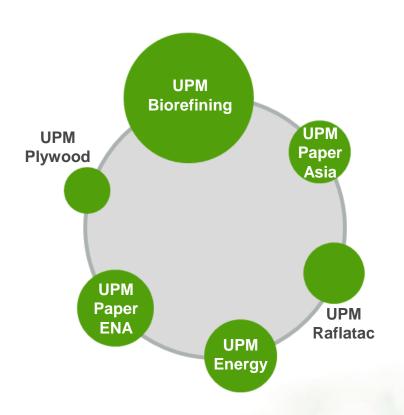
UPM Paper Asia Changshu new speciality paper machine 360,000t



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

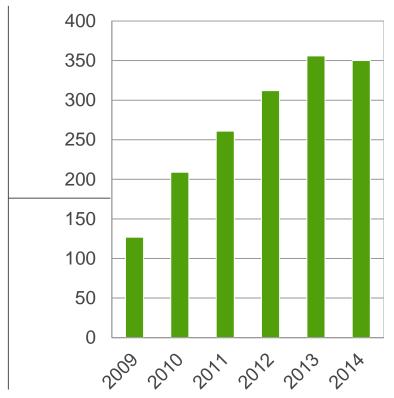


Biochemicals: renewable drop-in alternatives for oil-based chemicals



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

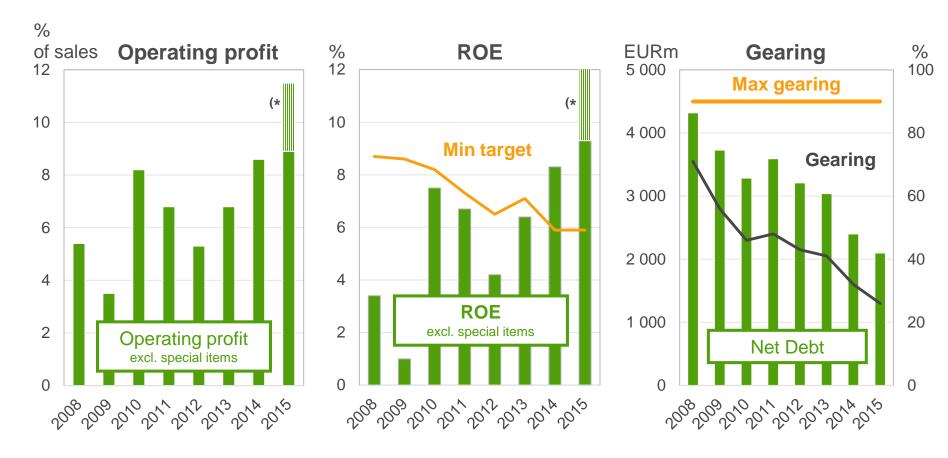
Annual patent filings 2009–2014



MORE WITH BIOFORE

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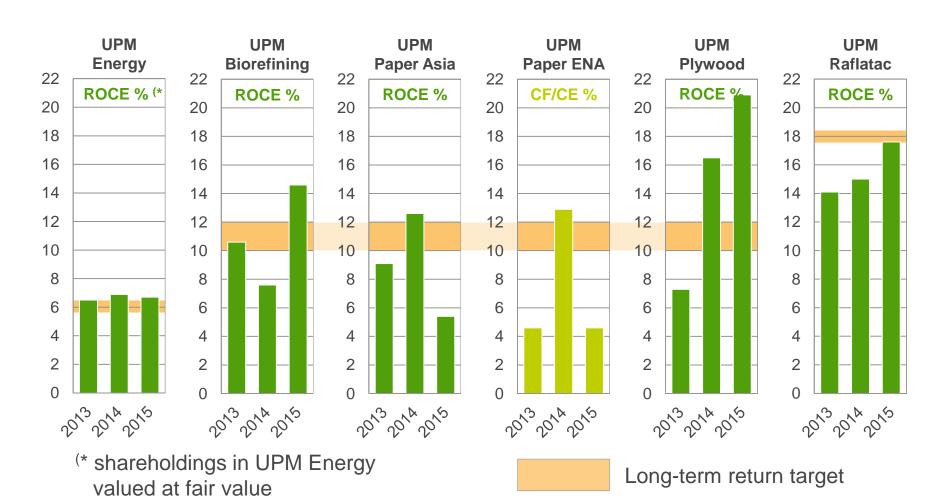
Group profitability and targets



^{(*} 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



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



Q4 20′	15 vs.	Q4	20 1	4:
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2015 vs. 2014:

Sales

EUR 2,574m



+2%

ROE (* 12.1%



+3.8pp

EBITDA

EUR 363m



+29m

Operating cash flow

EUR 1,185m



-56m

Operating profit (*

EUR 225m



-5m

Net debt

EUR 2,100m



-301m

Profit before tax (*

EUR 219m



+3m

Net debt / EBITDA

1.55x



-0.28x

EPS (*

EUR 0.37



+0.05

Dividend proposal

EUR 0.75

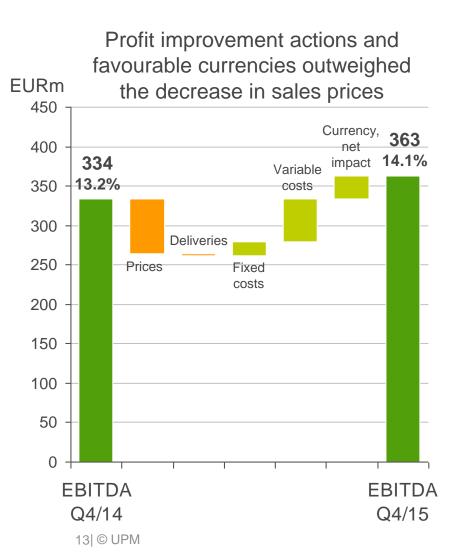


0.05

^{(*} excluding special items.

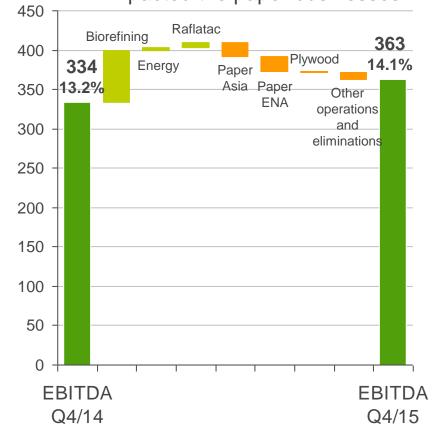
The Biofore Company IJPM

EBITDA in Q4 2015 vs. Q4 2014



Favourable pulp market, currencies and costs benefited UPM Biorefining.

Increased pulp costs and currency hedges impacted the paper businesses

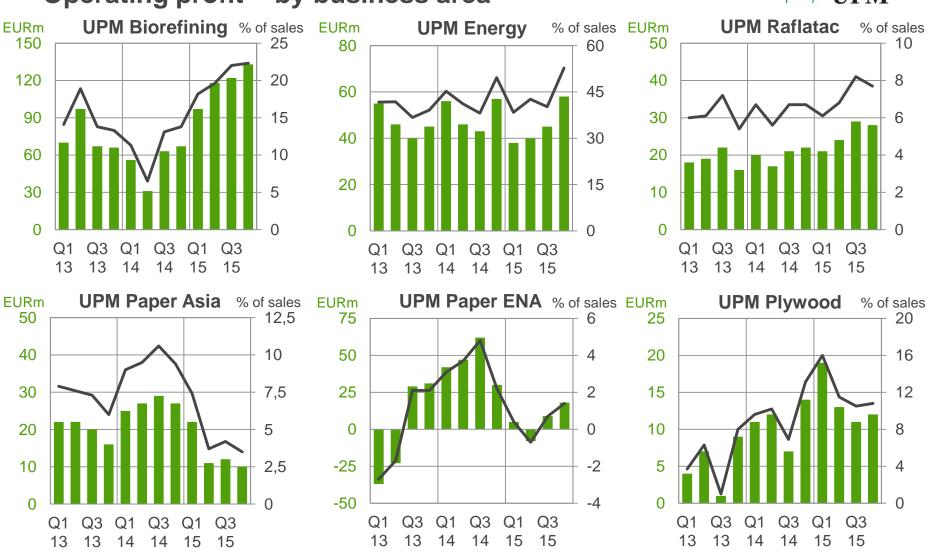




Operating profit *) by business area

14 | © UPM

*) excluding special items



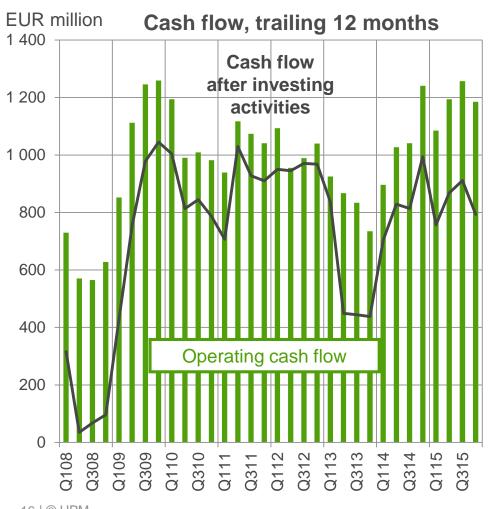


Outlook for 2016

- 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.



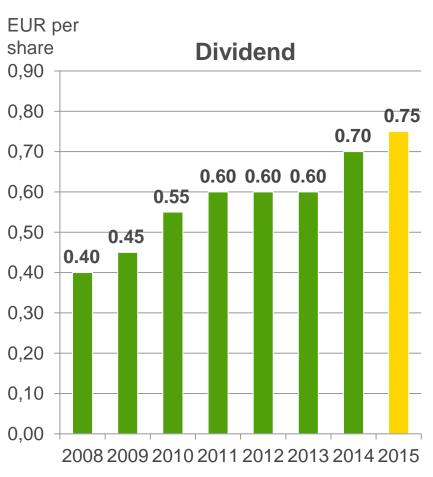
Strong cash flow



- 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

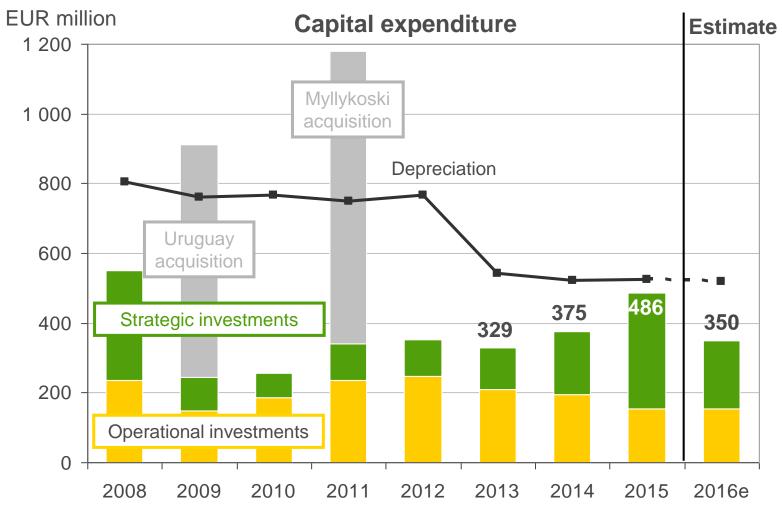
 UPM aims to pay an attractive dividend, 30-40% of operating cash flow per share

Board's dividend proposal for 2015

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

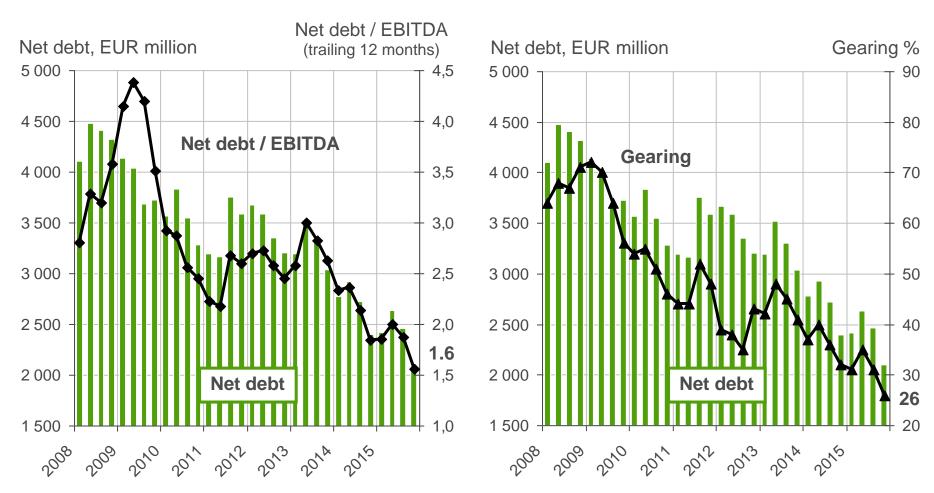
Low investment needs in existing assets allow growth projects with modest total capex







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

Capitals

Capital intensive process industry

Engaged high performing people

Sustainable forest biomass from certified sources and with full traceability

Sustainable forest management

Responsible sourcing

Intellectual property rights

Community engagement

Forestry and wood sourcing

- Professional sourcing organisation
- UPM's certified forests in Finland
- UPM certified eucalyptus plantations in Uruguay
- Forestry services

Production

Pulp

materials

sourcing

Mood

Synergies

- Large modern mills
- Efficient production
- Combined heat and power production

Biofuels

- World's first biorefinery producing woodbased renewable diesel
- Proprietary technology
- IPR

Timber

Efficient sawmills

Sales

Pulp

operations in production integration

Synergistic

- Global sales
- Strategic sales co-operation
- co-operation
 World-class
- World-class technical service

Biofuels

Regional biofuels sales

Timber

Skilled global sales network

Customers

Pulp

- Tissue,
- Packaging board,
- Speciality paper and
- Graphic paper producers

Biofuels

Fuel distributors

Timber

 Construction, furniture, joinery industries

End uses











Outcomes

Safe and sustainable products

Renewable energy

Carbon storing products

Low emissions

Biodiversity Employment

Work safety

Community wellbeing

ROCE

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



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



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%)

*Source: Hawkins Wright, August 2015

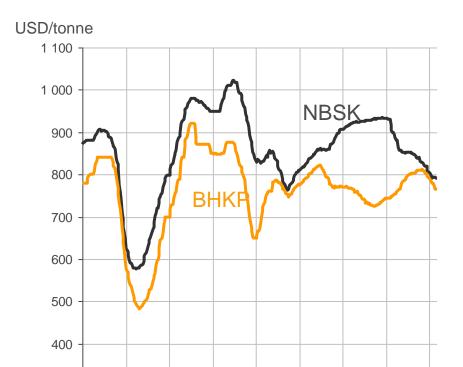


= declining market segment (14%)

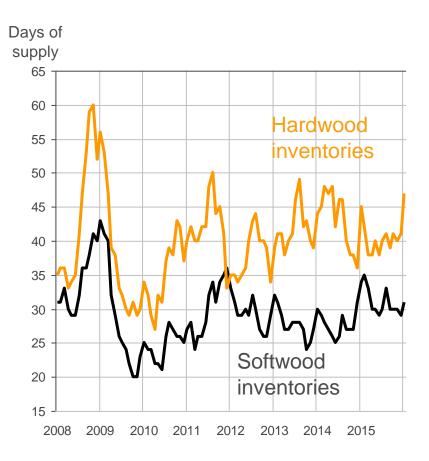
UPM Biorefining Chemical pulp market



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



Pulp inventories



Source: FOEX Indexes Ltd.

Source: PPPC World-20 statistics

Renewable drop-in diesel suitable for all diesel engines

The Biofore Company **UPM**

- 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 %



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 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



UPM Energy UPM Energy





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



UPM Energy value created

Capitals

Capital intensive utility business

Low-emission energy sources, including water rights

Fuels

Engaged high performing people

Organisational experience

Energy trading platform

Regulation

Versatile generation

Nuclear

Cost

Low

Efficient

base load

competitive

emissions

(from own hydropower plants and shareholdings in energy companies)

Hydro power

- I
- Flexible
- Cost competitive
- Low emissions
- Renewable

Condensing power

· Reliable peak load

Physical power market

- Physical value creation
- Mainly Nord Pool Spot market for day-ahead and intraday trading
- Members (buyers and sellers) agree on contracts for the delivery of power

Transmission

11110010

Distribution

*** ***





Small and medium sized enterprises



Industrial electricity consumption



Outcomes

Lowemission electricity

Work safety

Energy supply security

Flexible power supply

Risk mitigation

ROCE

Financial Markets Derivative power contracts traded on Nasdaq Commodities

Value protection and creation

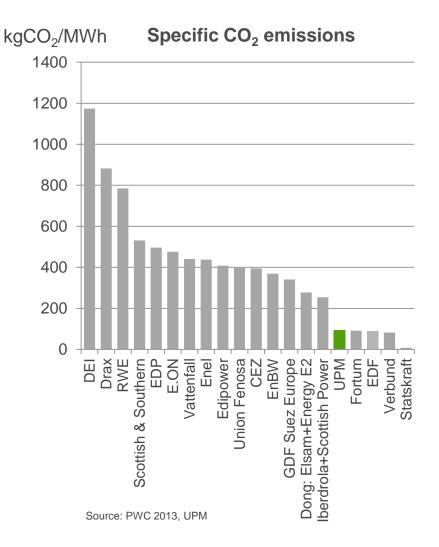
UPM Energy

Cost competitive low-emission electricity generation



Electricity generation capacity in 2014

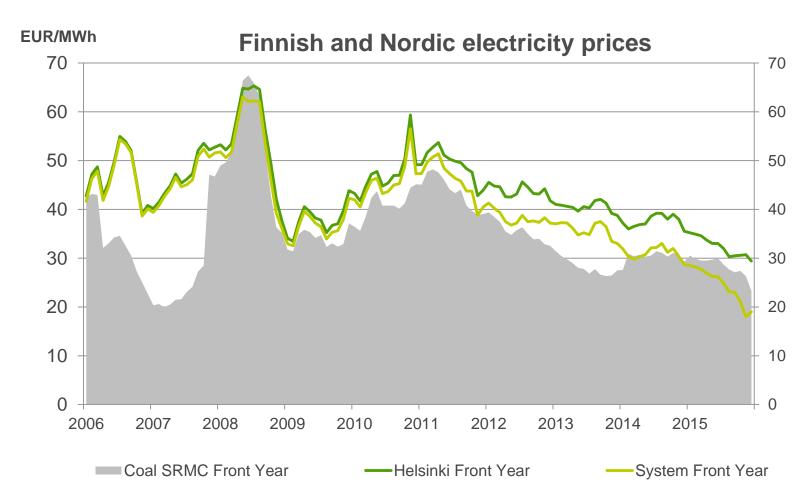
Type	Nominal capacity MW
Hydropower	708
Nuclear power	581
Condensing power	320
Wind power	1
Total in UPM Energy	1,610



UPM Energy

Price development in the Nordic and Helsinki power markets





Source: Reuters

UPM Raflatac UPM Raflatac

The Biofore Company UPM

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



UPM Raflatac value created

Capitals

Capital light converting business

Engaged high performing people

Responsible sourcing

Face paper

Release paper

Films

Adhesives

Silicones

Self-adhesive labelstock factories

- Modern
- Efficient
- Strategically located

Distribution network

 Optimised distribution and slitting network

and slitting

 Efficient and responsive

Sales and services

- Loval relationships
- Global scale
- Technical know-how

Customers

Label printers

Home & Personal care

Food & Beverage Retail

Label using

industries

A4 and cut-size Pharmaceutical

Transport & Logistics

Durables Tyres

New concepts and products, sustainability throught the lifecycle







Outcomes

Safe and certified products

Brand appeal

Work safety

Employment

Recyclable products

RafCyclewaste recycling concept

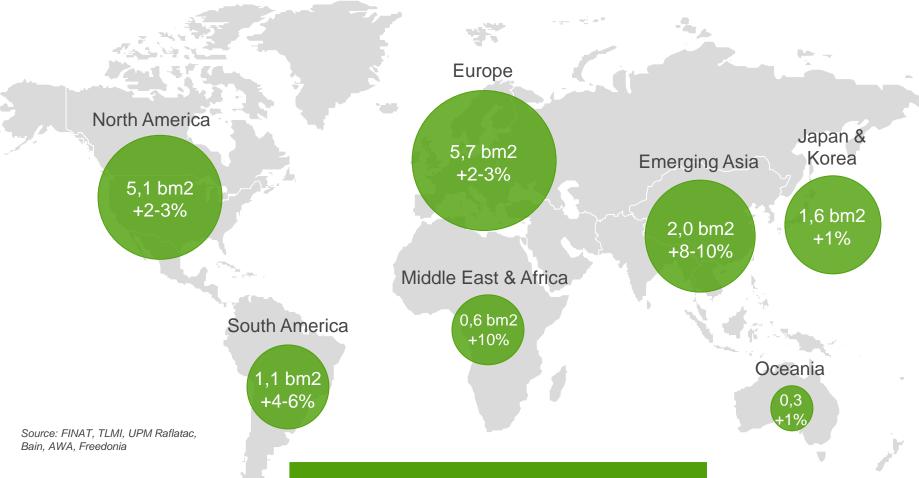
ROCE

UPM Raflatac

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



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



Global growth in 2014 estimated ~4%

UPM Raflatac

Next steps



- 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
- 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



UPM Paper Asia value created

Capitals

Capital intensive process industry

Engaged high performing people

Community engagement

Responsible sourcing

Sustainable chemical pulp with full traceability

Sustainable raw materials and energy

Production

Labelling materials

- Extensive experience in high quality release liners and face papers
- Cost competitive production

Fine papers

- Leading office paper brands in China
- Selectively in uncoated and coated segments
- Cost competitive production
- BAT (Best Available Techniques)

Customer-driven R&D

Sales

- Global market leader in labelling materials
- Own sales network of fine papers in Asia Pacific
- Reliable supplier
- Exceptional customer experience
- Recognised leader in sustainability

Customers

Labelstock manufacturers

Siliconisers

Packaging converters

Merchants

Printers & Publishers

Merchant-owned labels

End uses









Outcomes

Safe and certified products

Work safety

Employment

Career opportunity

Ethical and compliance in global norms

Recyclable products

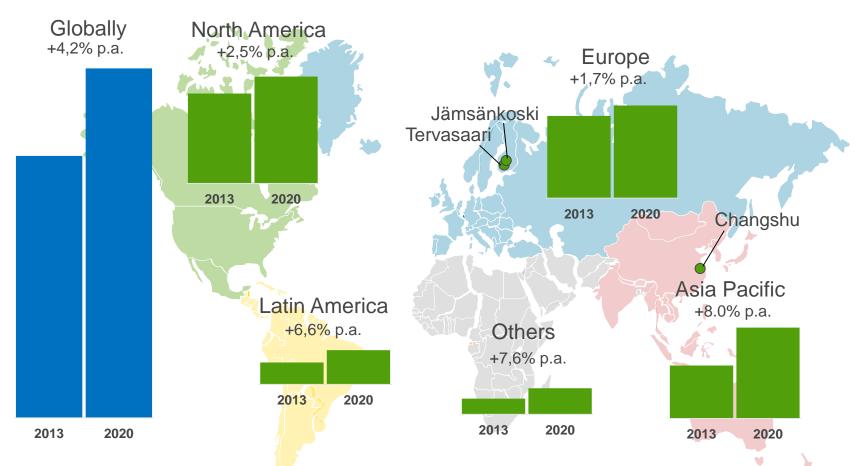
Low emissions

ROCE

UPM Paper Asia

Global market leader in labelling materials





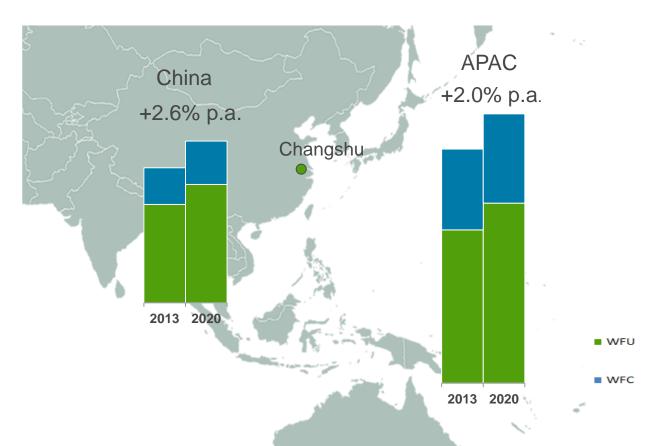
Labelling: glassine/SCK(* demand outlook by 2020

^{*}Glassine/SCK are papers used in labelling materials as release liners Source: AWA

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 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

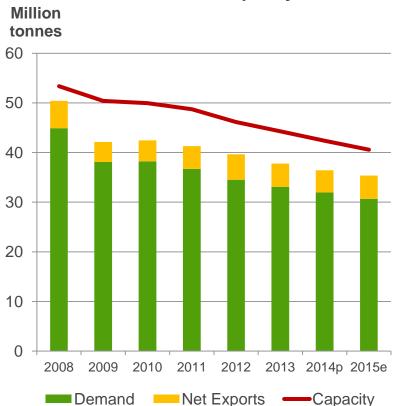
Responsible restructuring

Cash flow / Capital employed

European graphic paper market is oversupplied, industry structure is fragmented

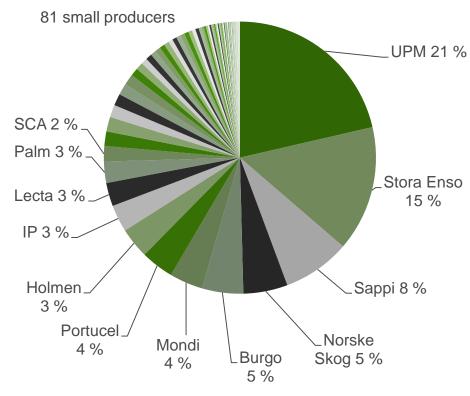


Demand and Capacity



Sources: Euro-Graph, PPPC

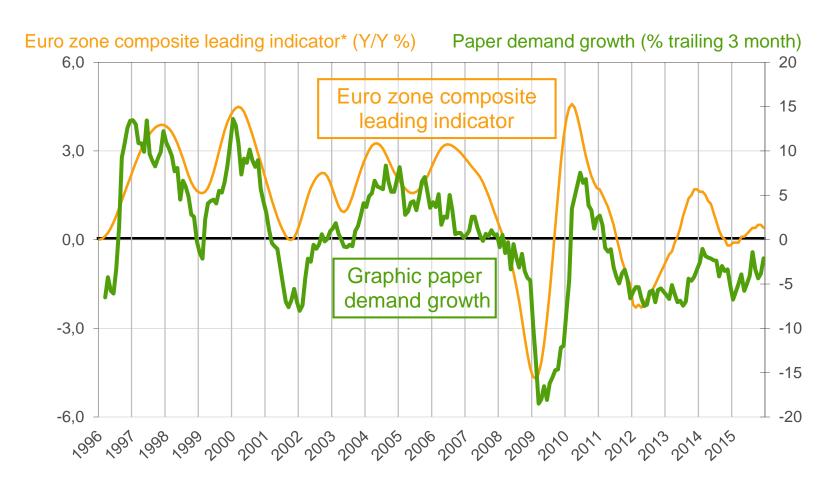
Industry structure



Sources: JP Webbmill

UPM Paper ENA Growth in the European economy remains low

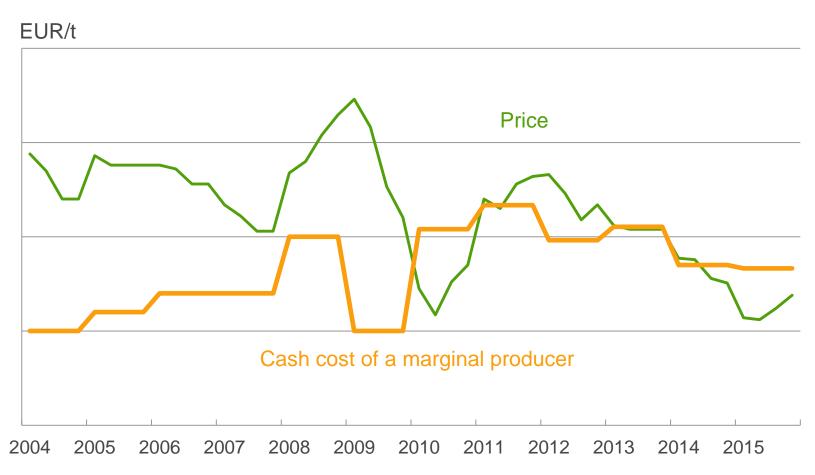




Sources: Cepiprint, Cepifine, OECD

Overcapacity in European graphic paper is visible in margins

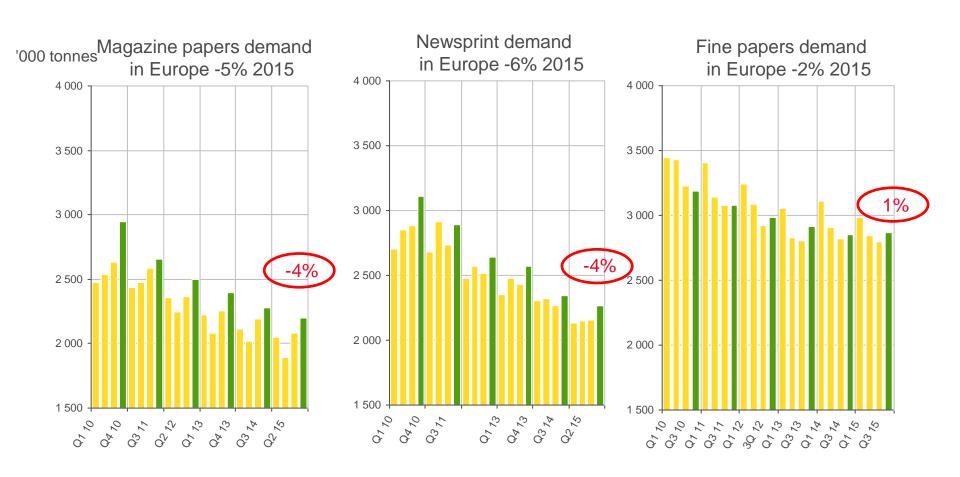




Sources: PPI, RISI, Pöyry

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

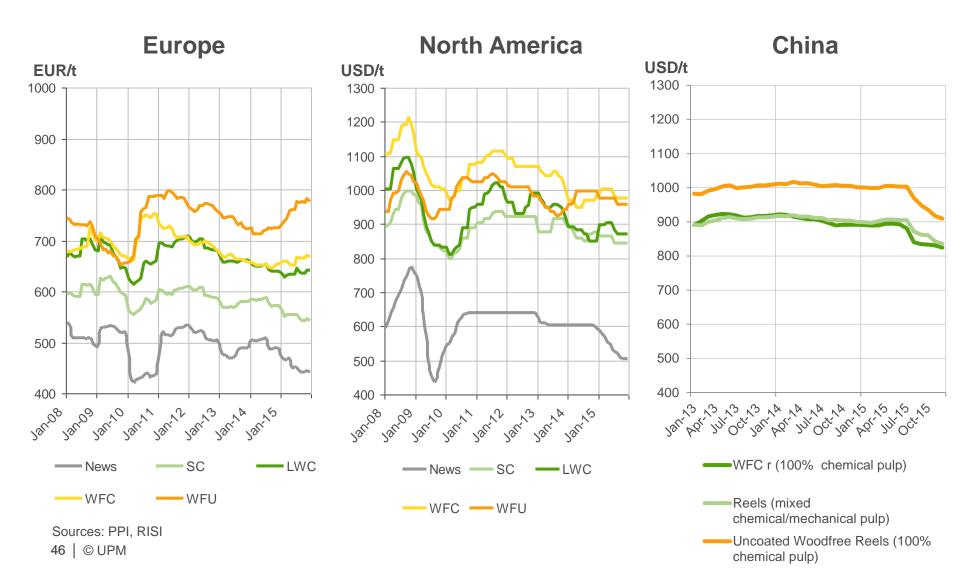




Sources: Cepiprint/fine, PPPC

UPM Paper ENA Graphic paper prices





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



UPM Plywood value created

Capitals

Moderately labour and capital intensive industry

Engaged high performing people

Community engagement

Responsible sourcing

Sustainably sourced wood from certified sources with full traceability

Sustainable energy

Production

Plywood mills (spruce)

Plywood mills (birch)

Veneer mill

Sales

- Leading supplier in demanding end uses
- High quality
- Supply chain services
- Professional technical services
- · Reliable supplier
- Strong brand

Customers industries

Construction

LNG shipbuilding

Vehicle flooring

Parquet

Other industrial manufacturing

End uses









Outcomes

Safe and certified products

Carbon storing products

Employment

Work safety

Vitality of local communities

Low emissions ROCE

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
- High share of road transportation to grow further in Europe
- Fleet replacement backlog
- Half of world's gas reserves can reach the market only as LNG
- Trade is growing, routes are getting longer

Construction / Panel Trading



Vehicle Flooring



LNG Shipbuilding



UPM #1-2 in Europe

• UPM #1 in Europe

UPM #1 globally

The Biofore Company UPM

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.

The Biofore Company UPM

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