

MORE WITH BIOFORE

UPM RESULTS Q4 2015

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President and CEO
2 February 2016

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

Best quarterly EBITDA in five years: EUR 363m (334m)

- + Profit improvement programme exceeded its target by 10%, reaching annualised cost reduction impact of EUR 165m
- + Growth projects started to contribute to earnings, with strong start at the expanded UPM Kymi pulp mill and UPM Biofuels reaching break-even level. UPM Changshu PM3 ramp-up started well in December

Operating profit excluding special items came to EUR 225m (230m)

Strong operating cash flow at EUR 390m (462m)

Net debt decreased to a new record-low of EUR 2,100m (2,401m)

Board proposes a dividend of EUR 0.75 (0.70) per share

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

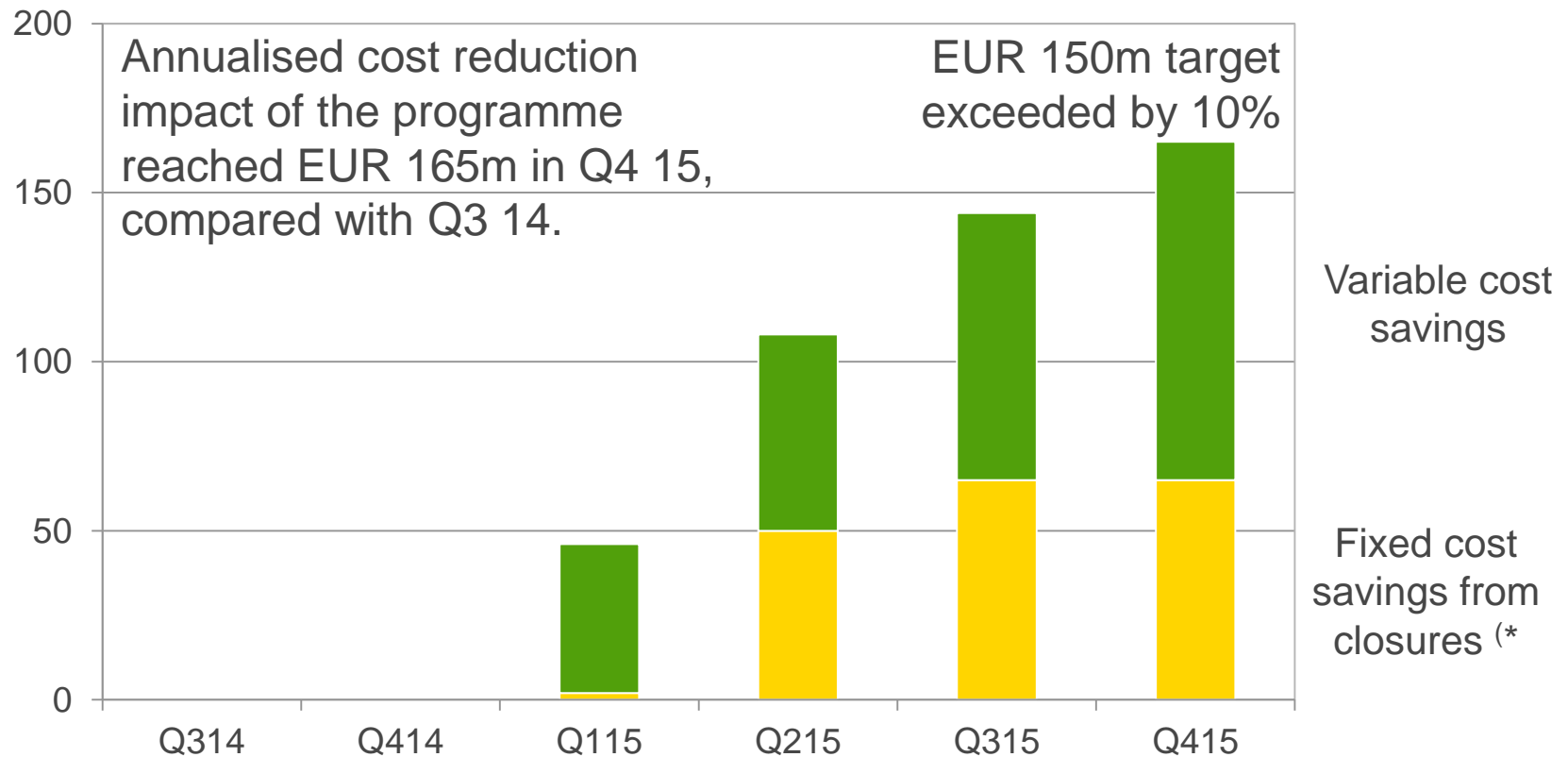


0.05

(*) excluding special items.

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

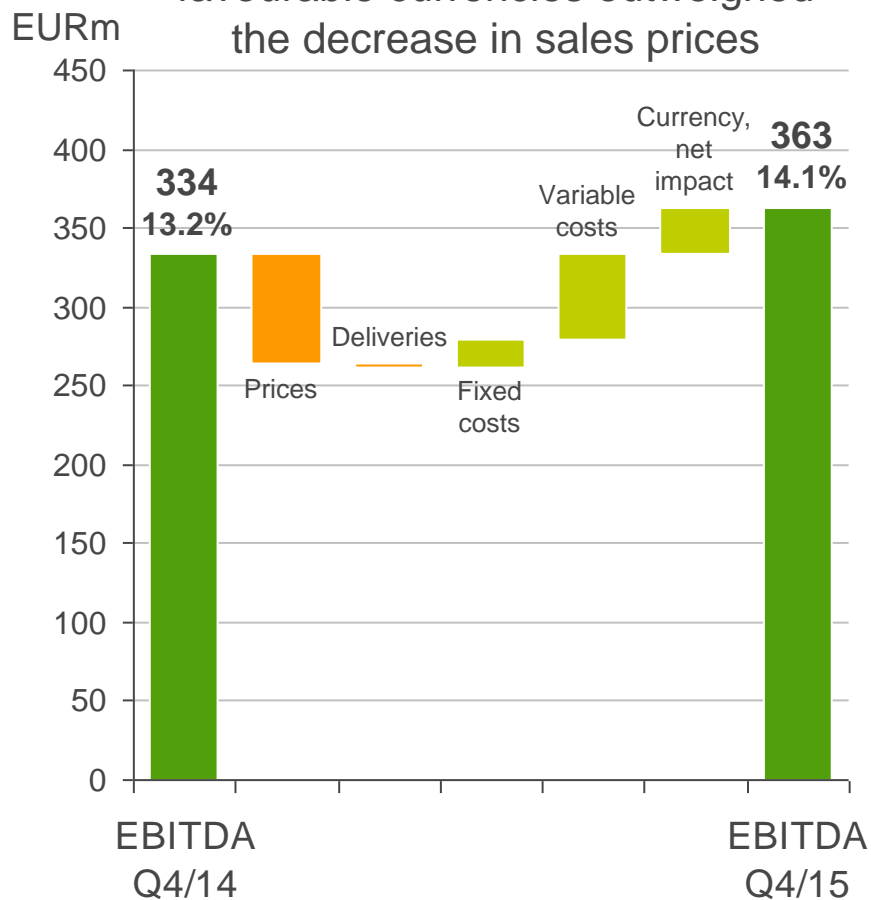
EUR million



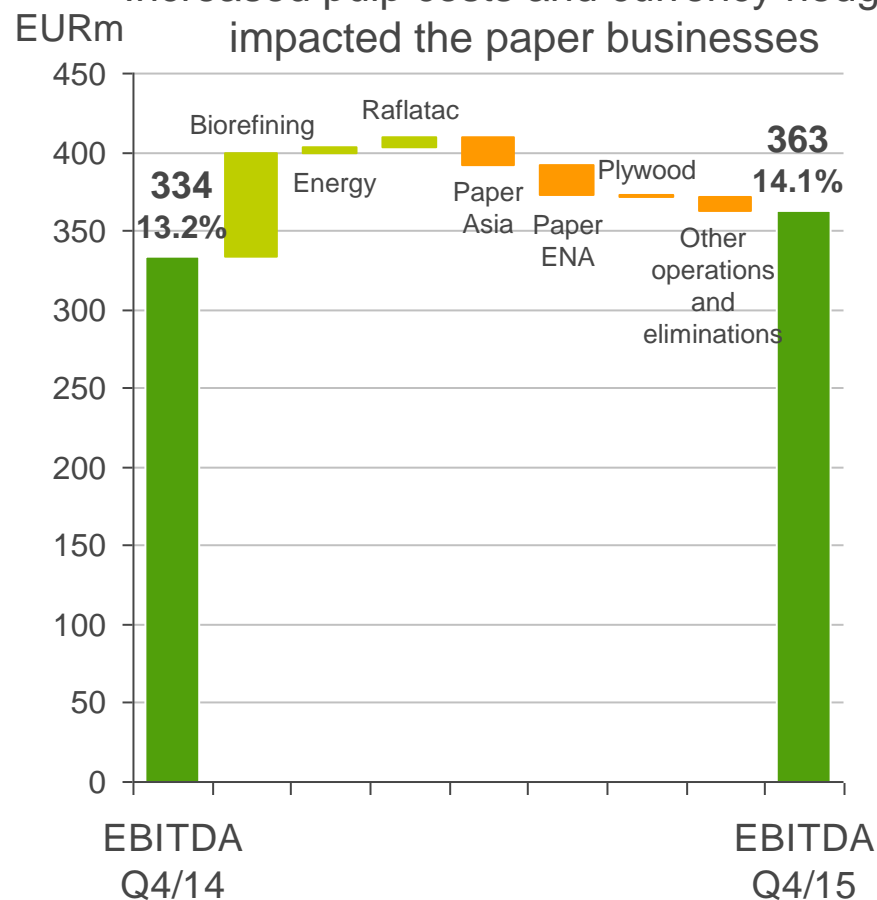
(* 800,000 tonnes of publication paper capacity in Europe: four paper machines were closed in H1 15)

EBITDA in Q4 2015 vs. Q4 2014

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



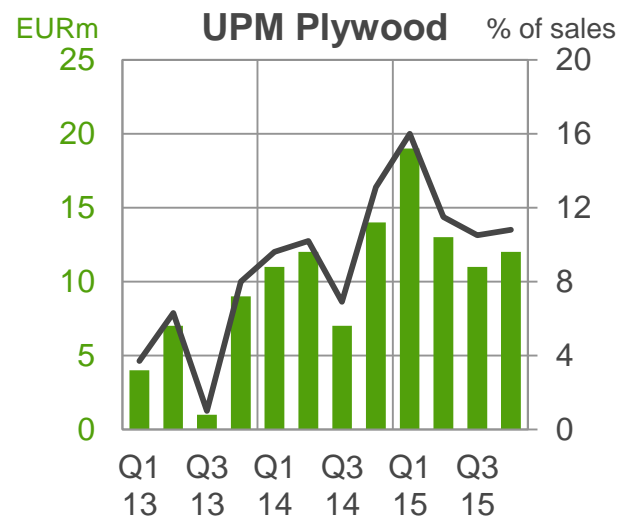
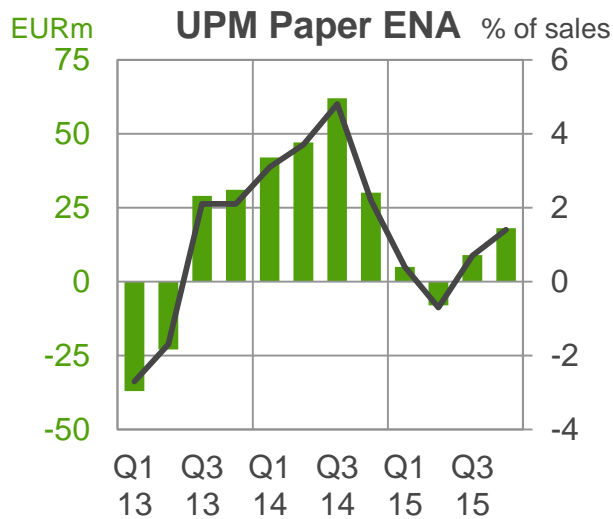
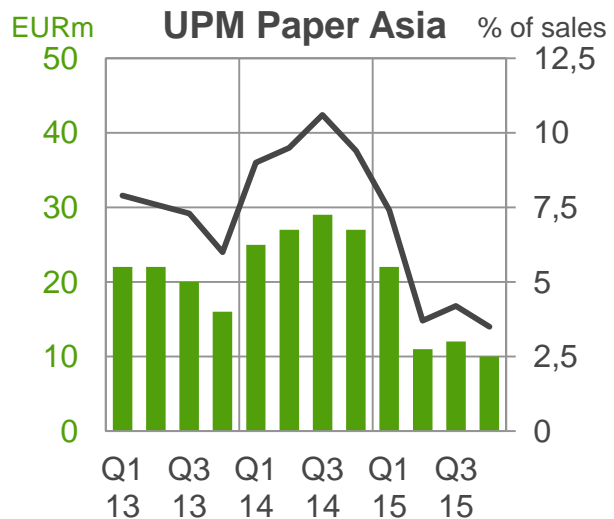
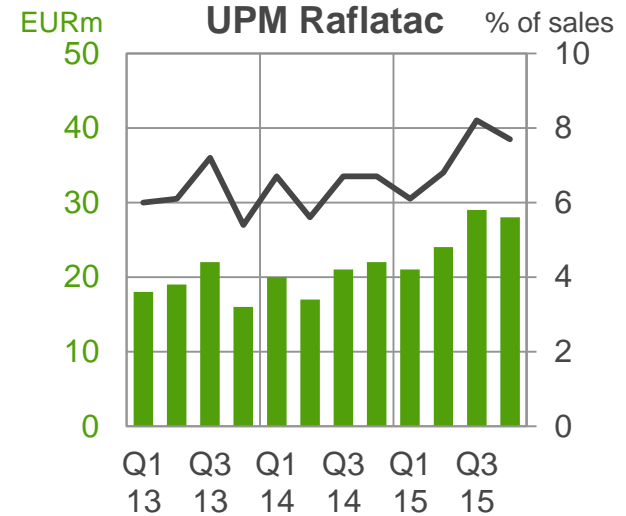
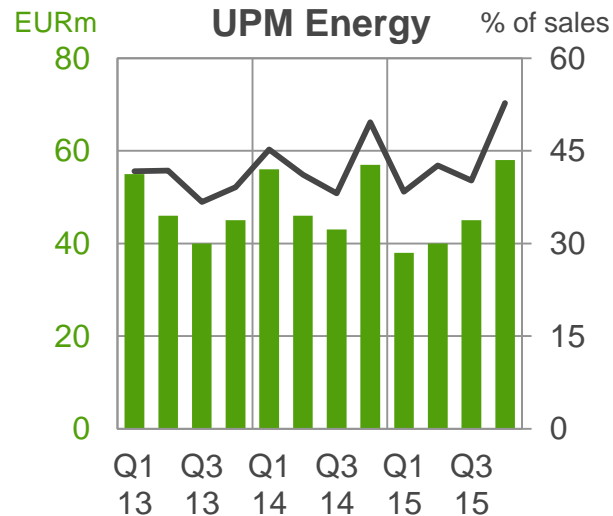
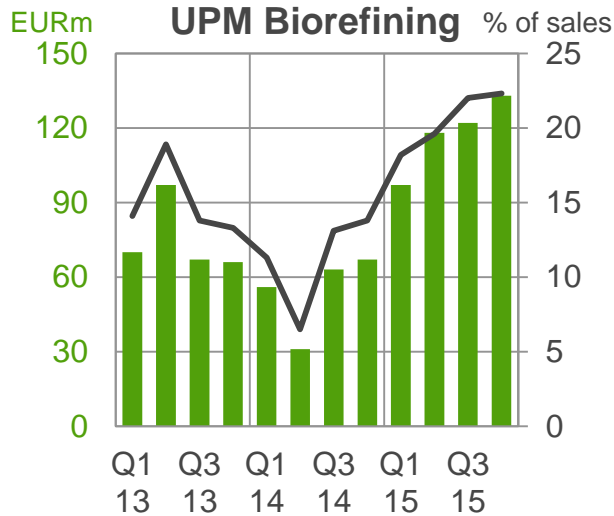
Favourable pulp market, currencies and costs benefited UPM Biorefining. Increased pulp costs and currency hedges impacted the paper businesses





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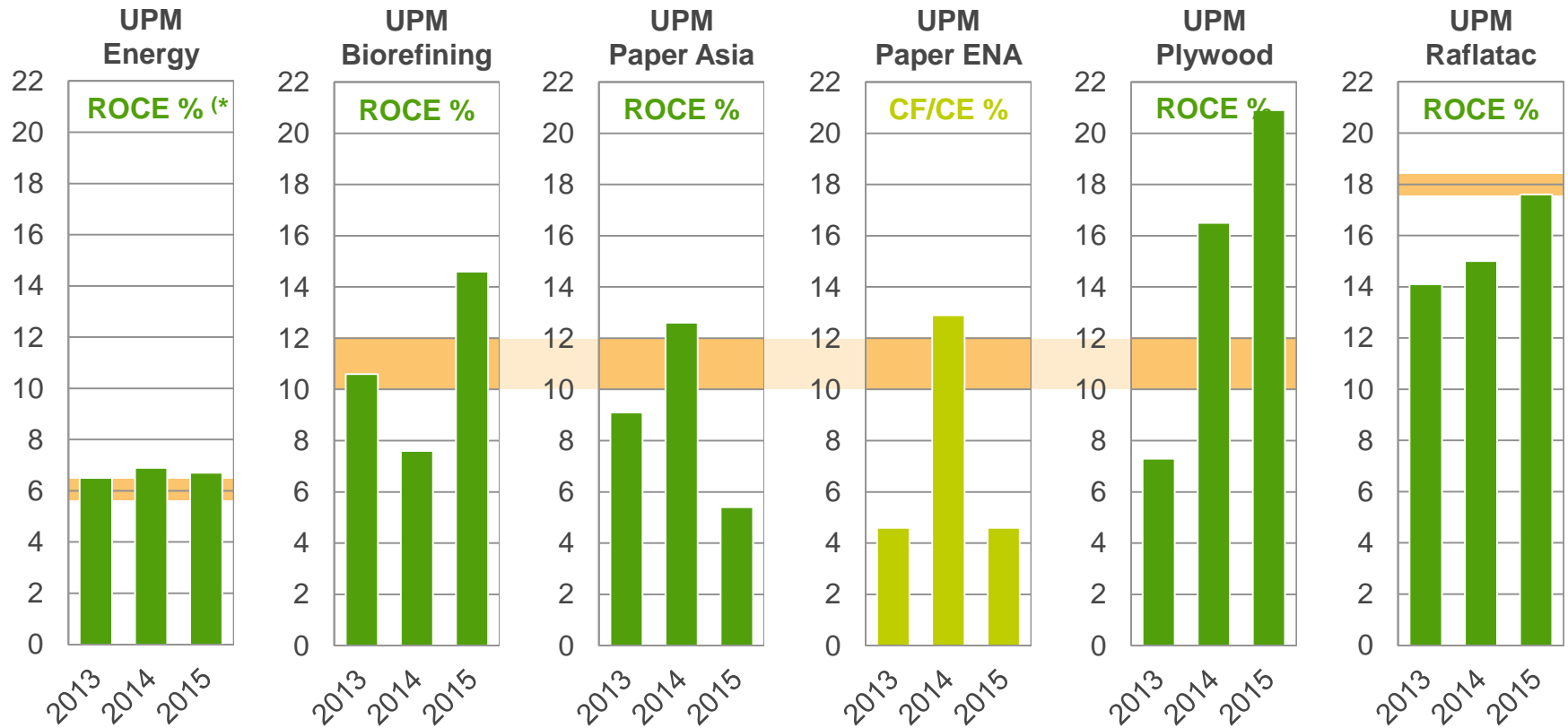
Operating profit ^{*)} by business area





The Biofore Company **UPM**

Business area returns and long-term targets

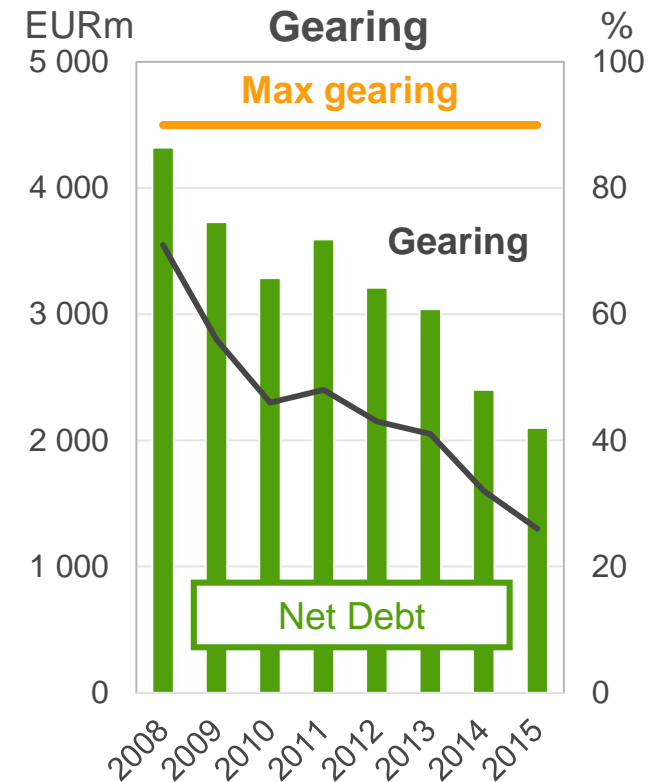
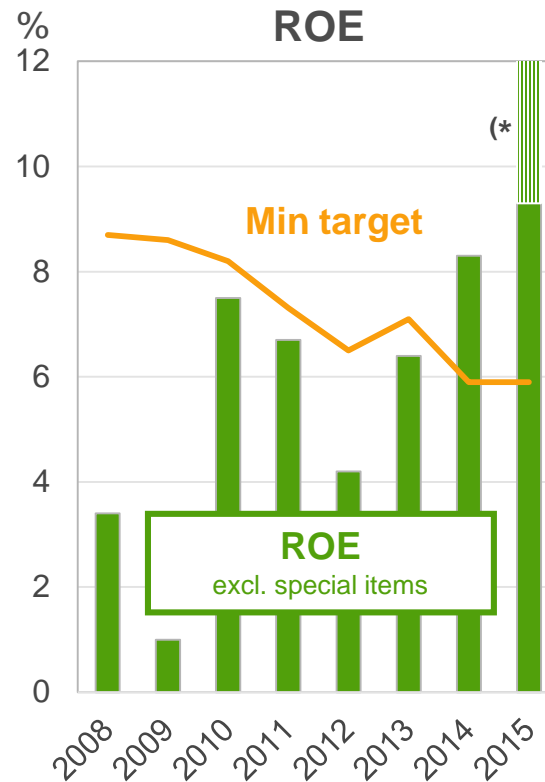
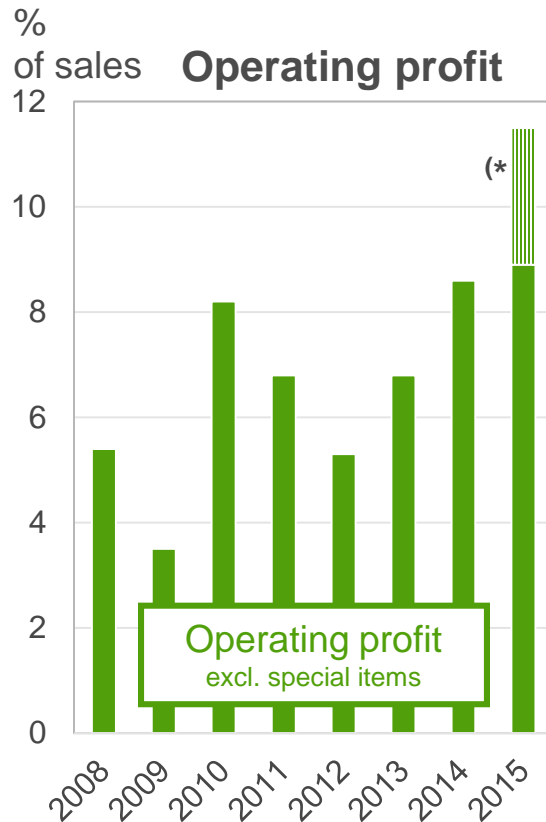


(* shareholdings in UPM Energy valued at fair value)

 Long-term return target

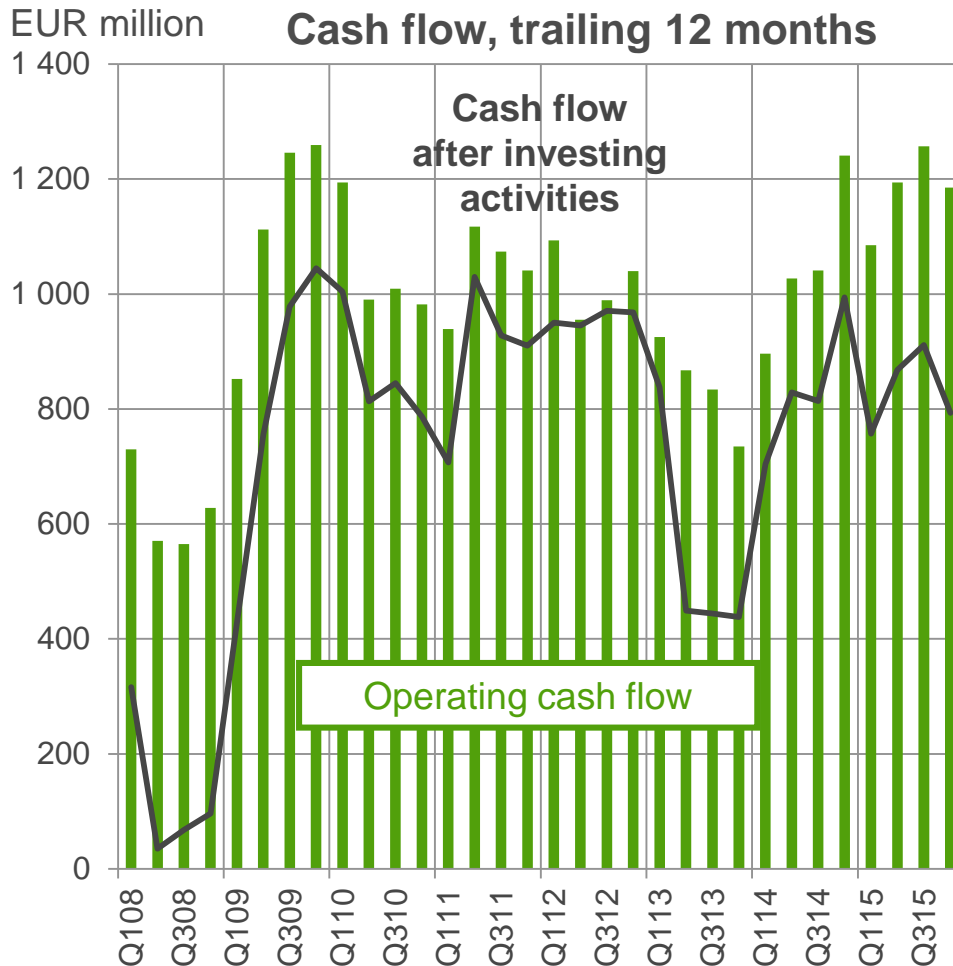


Group profitability and targets



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

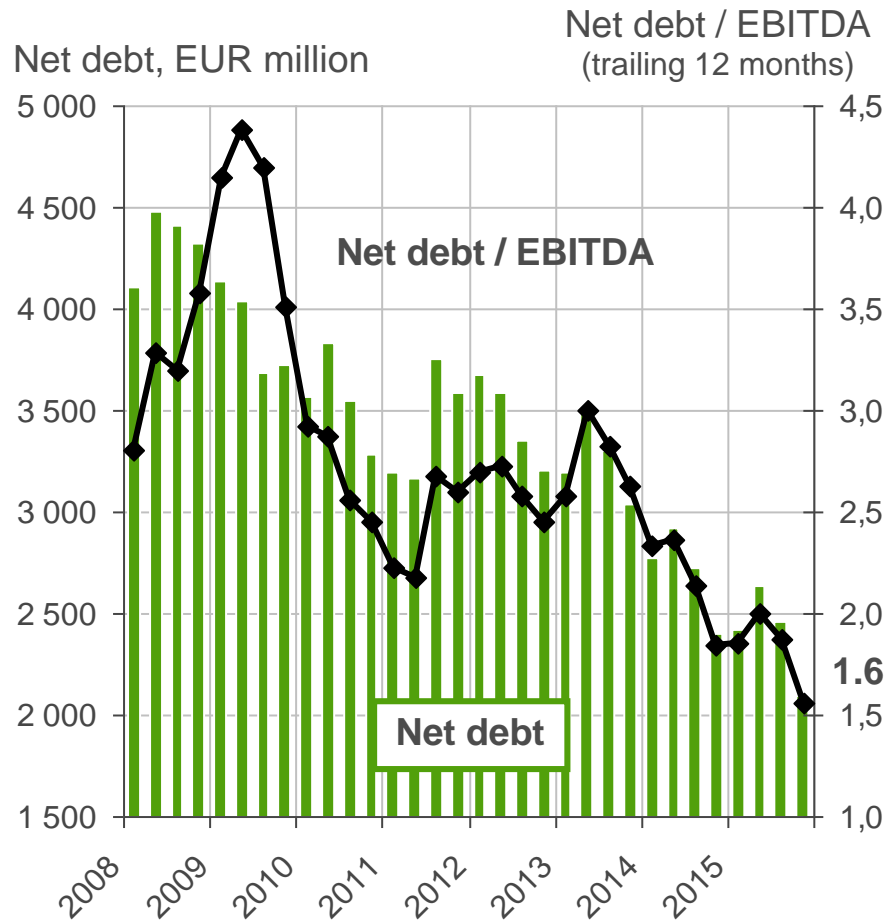
Strong cash flow



- 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)



Balance sheet continued to strengthen



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

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

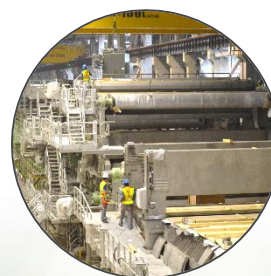
Q2
2016

Q3
2016

Q4
2016



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

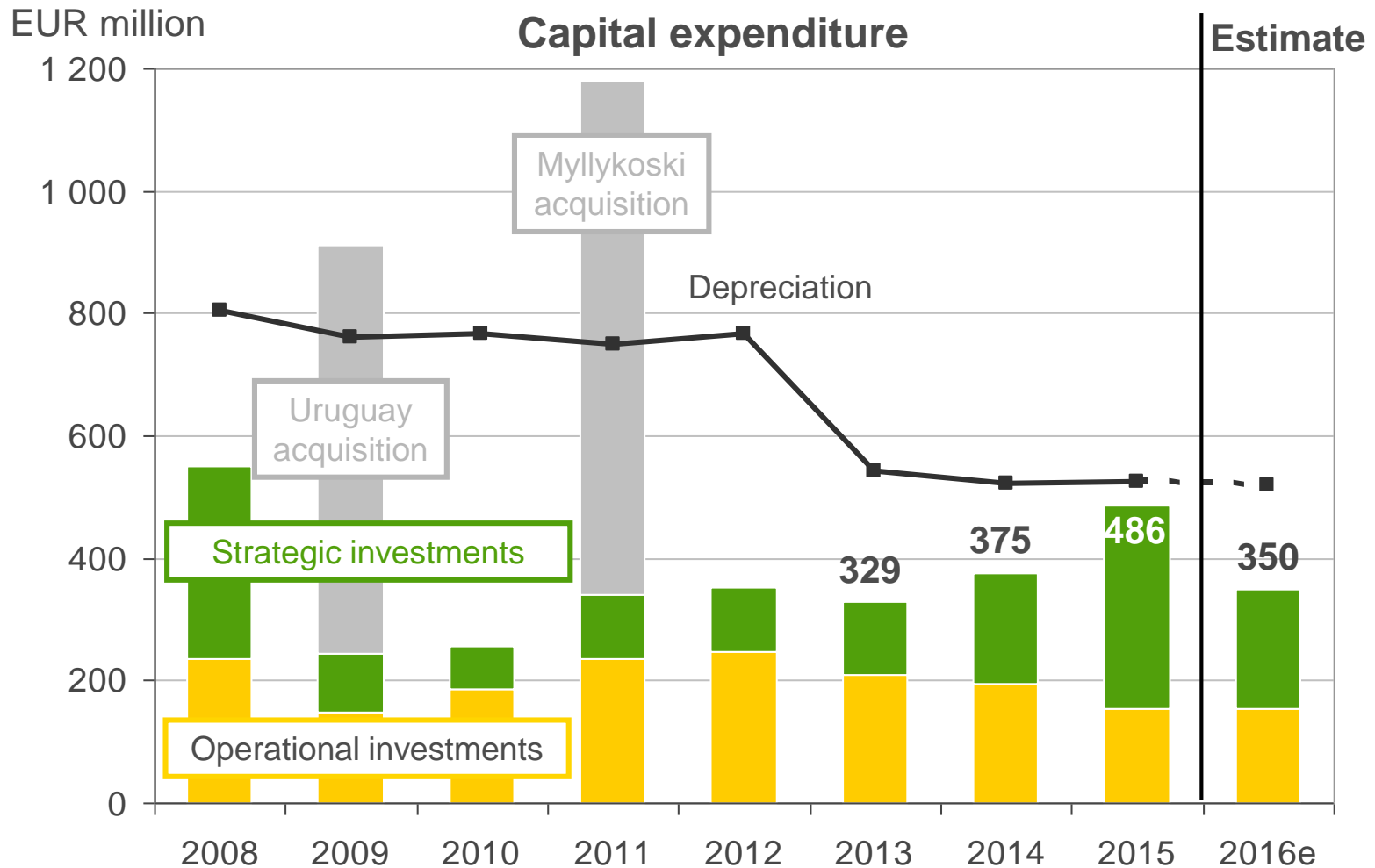


UPM Paper Asia
Changshu
new speciality
paper machine
360,000t



UPM Plywood
Otepää mill
expansion
to 90,000m³

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

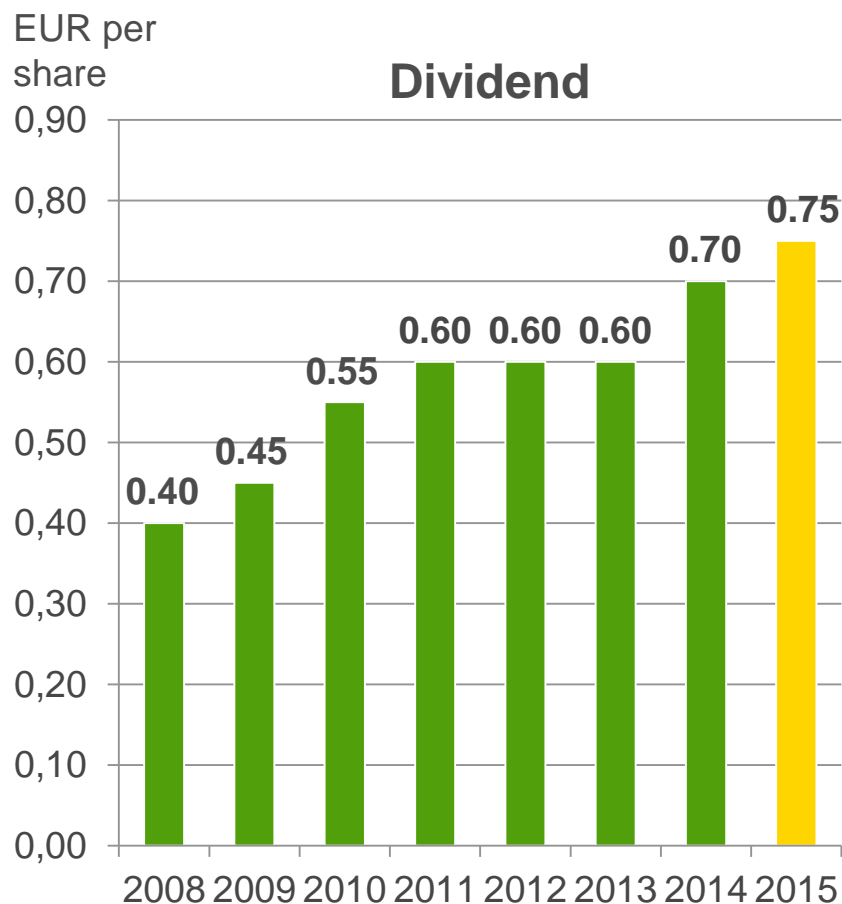




Outlook for 2016

- 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.

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

Summary

UPM's profitability improved in both Q4 and full year 2015

- Profit improvement programme exceeded its targets
- Several growth projects were completed
- Strong cash flow, record-strong balance sheet

UPM is well positioned for 2016

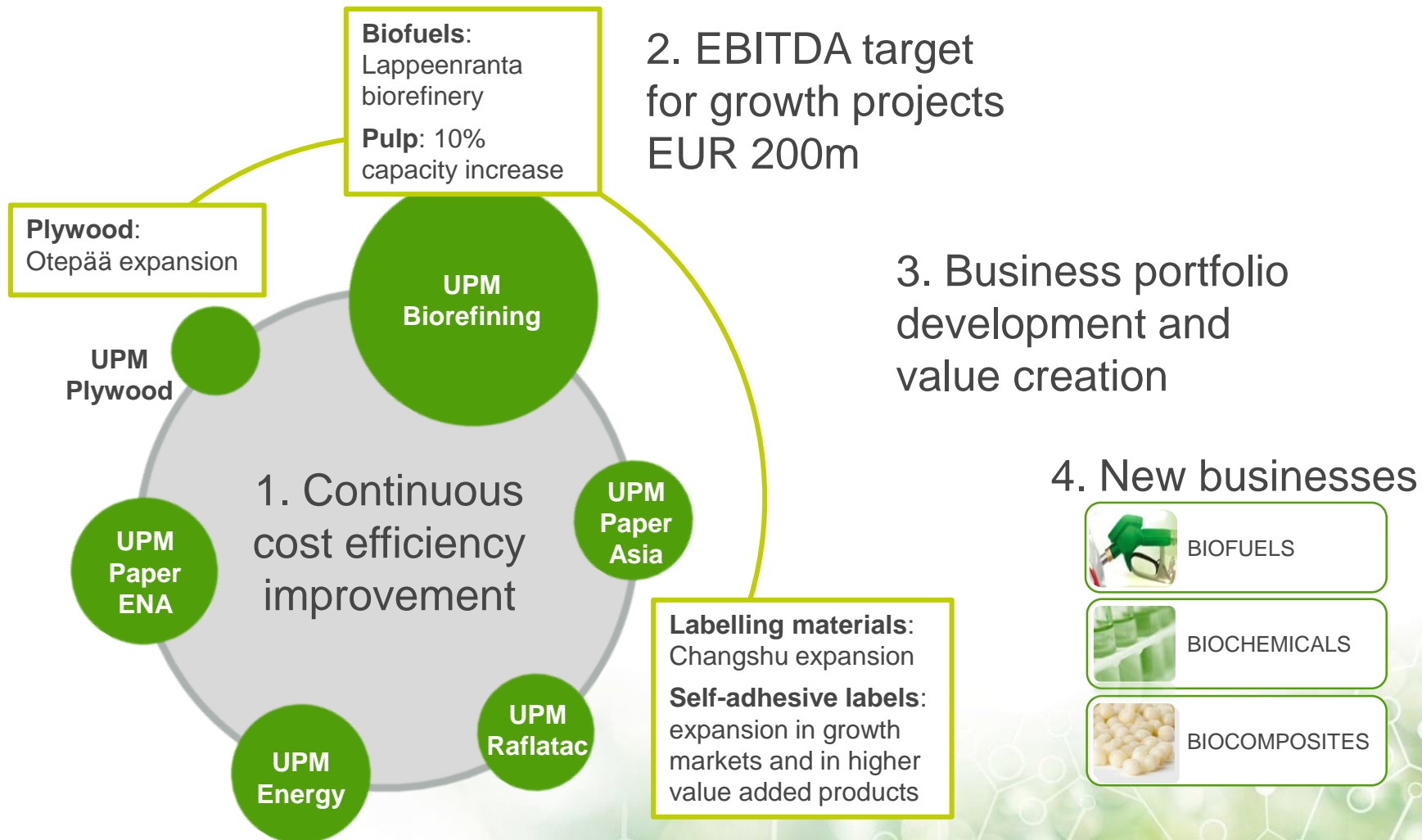
- Growth projects are expected to contribute
- Cost efficiency measures continue
- Impact of favourable currencies, as hedges roll over

Strong cash flow and balance sheet

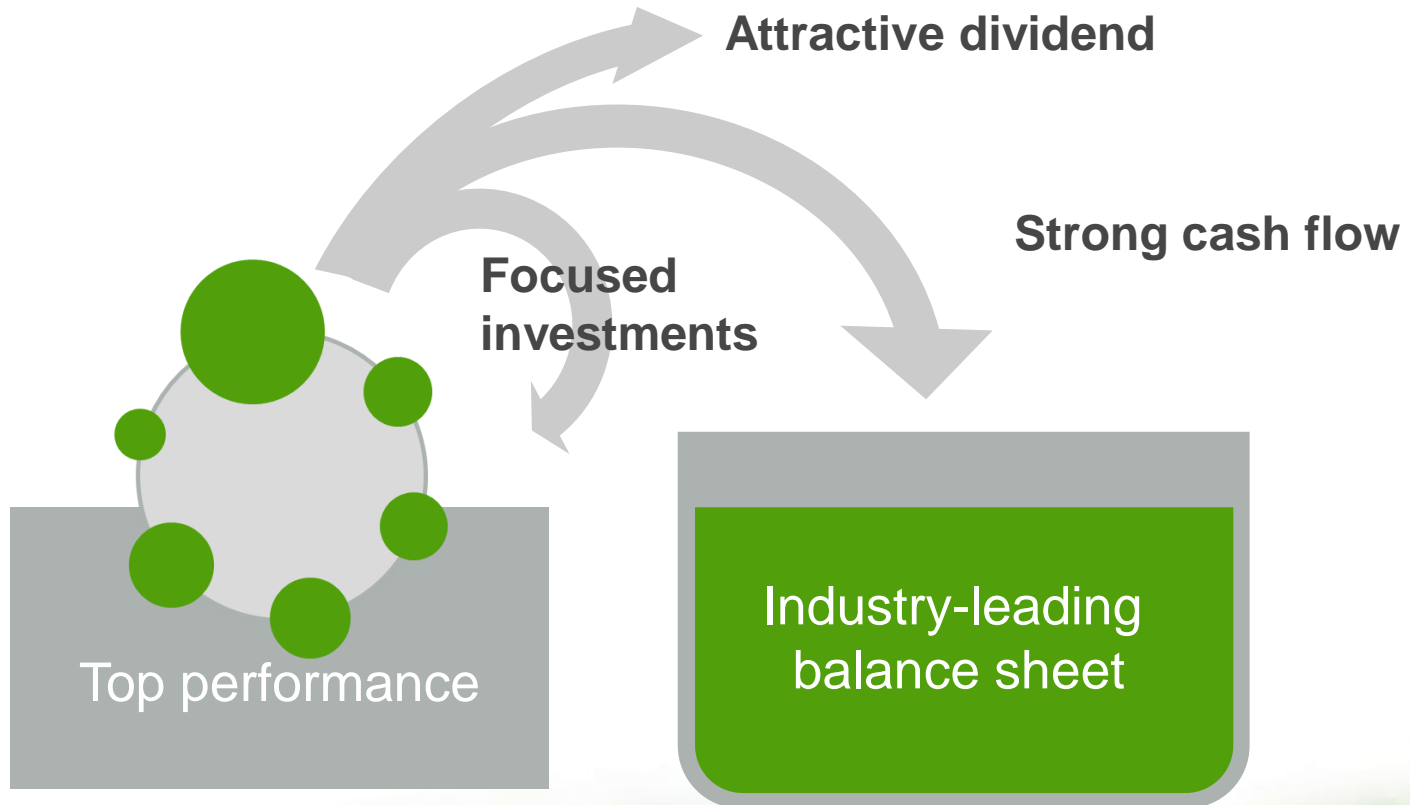
- ➡ UPM is in a unique position to simultaneously distribute attractive dividend, implement growth projects and act on strategic opportunities



UPM strategy in action



Strengths of UPM's model





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

| EUR million | Q4 2015 | Q4 2014 | Q3 2015 | 2015 | 2014 |
|-----------------------------|------------|------------|------------|--------|-------|
| Sales | 2,574 | 2,531 | 2,530 | 10,138 | 9,868 |
| EBITDA | 363 | 334 | 345 | 1,350 | 1,306 |
| % of sales | 14.1 | 13.2 | 13.6 | 13.3 | 13.2 |
| Operating profit (*) | 225 | 230 | 507 | 1,163 | 847 |
| Profit before tax (*) | 219 | 216 | 492 | 1,096 | 774 |
| Earnings per share, EUR (*) | 0.37 | 0.32 | 0.76 | 1.75 | 1.17 |
| ROE, % (*) | 9.9 | 9.2 | 20.7 | 12.1 | 8.3 |
| Operating cash flow | 390 | 462 | 363 | 1,185 | 1,241 |
| Net debt | 2,100 | 2,401 | 2,465 | 2,100 | 2,401 |
| Gearing, % | 26 | 32 | 31 | 26 | 32 |

(*) excluding special items

Cash flow

| EUR million | Q4/15 | Q4/14 | Q3/15 | 2015 | 2014 |
|---|------------|------------|------------|--------------|--------------|
| EBITDA | 363 | 334 | 345 | 1,350 | 1,306 |
| | | | | | |
| Cash flow before change in working capital | 364 | 349 | 352 | 1,365 | 1,291 |
| Change in working capital | 60 | 144 | 48 | -8 | 73 |
| Finance costs and income taxes | -34 | -31 | -37 | -172 | -123 |
| Net cash from operating activities | 390 | 462 | 363 | 1,185 | 1,241 |
| Capital expenditure | -110 | -103 | -128 | -432 | -378 |
| Asset sales and acquisitions | 8 | 47 | 21 | 40 | 131 |
| Cash flow after investing activities | 288 | 406 | 256 | 793 | 994 |



Maturity profile and liquidity

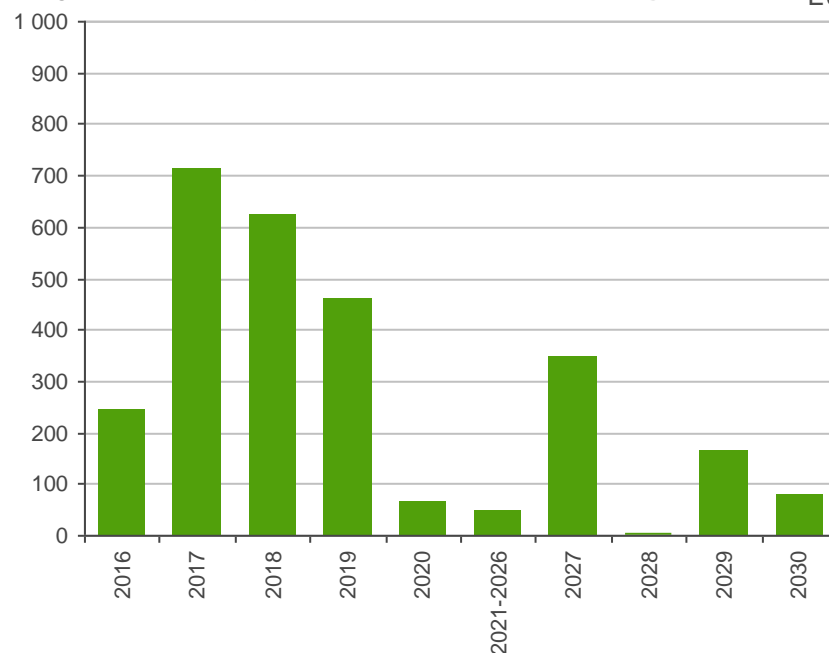
Liquidity

Liquidity on 31 December 2015 was EUR 1.7bn
(cash and unused credit facilities)

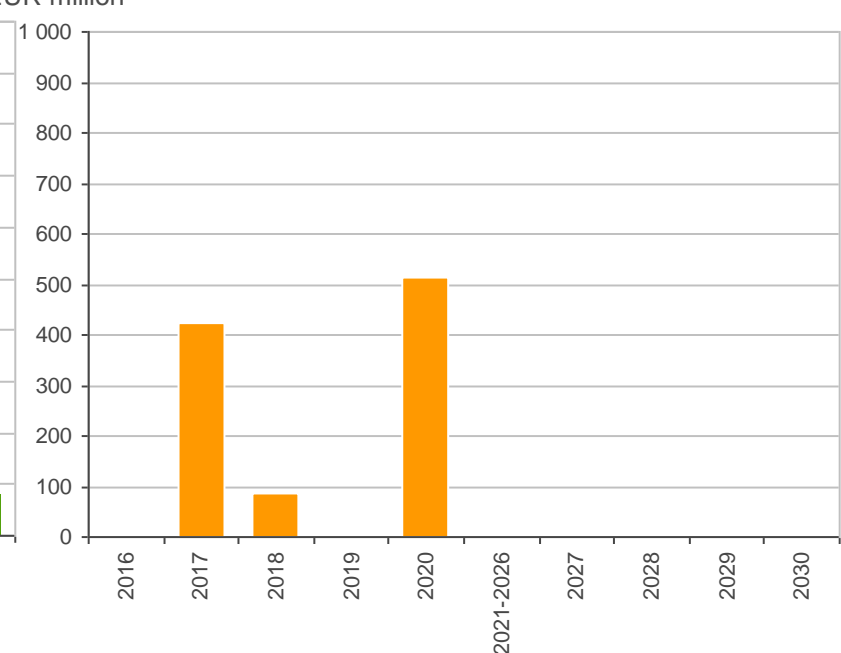
Committed credit facilities

Bilateral committed credit facilities EUR 1.025bn

EUR million **Maturity profile of outstanding debt**

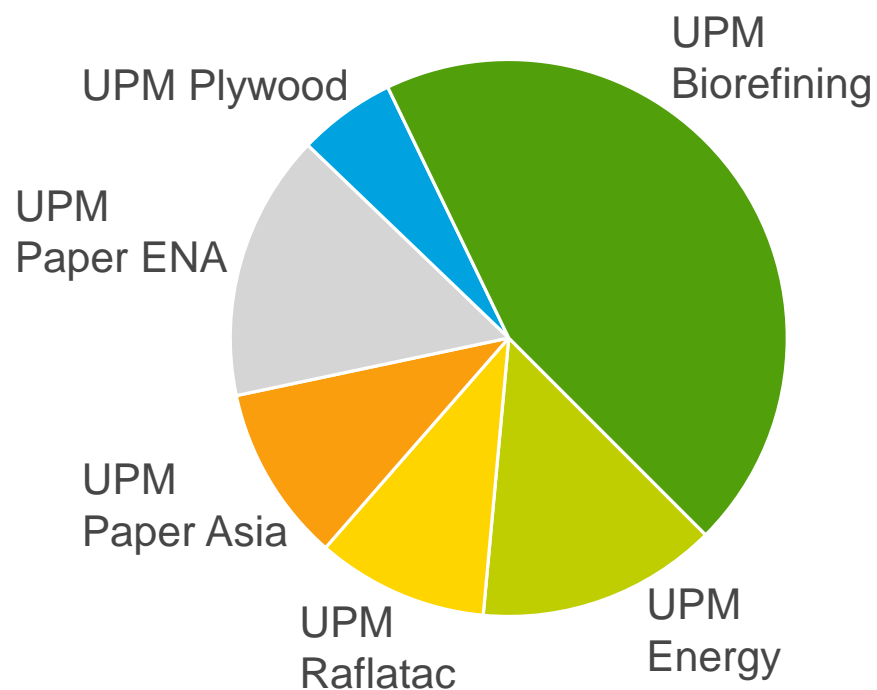


EUR million **Committed credit facilities' maturities**

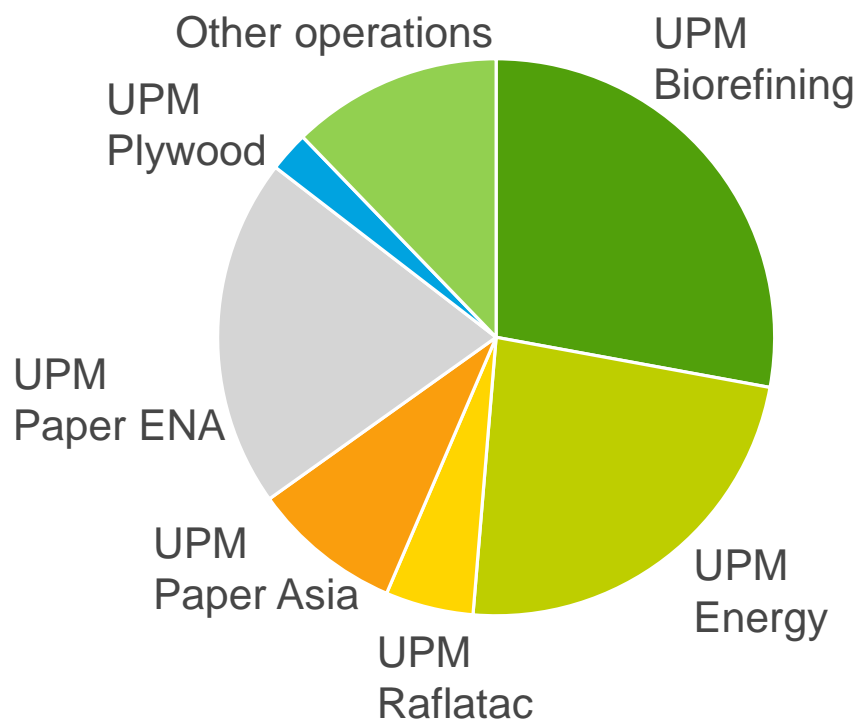


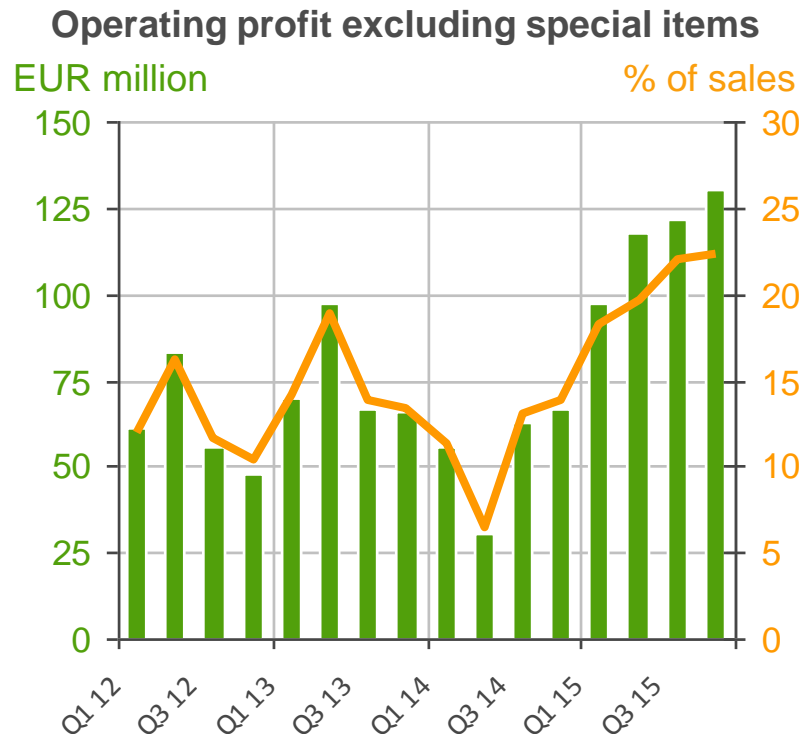
UPM businesses by EBITDA generation and capital employed

EBITDA 2015
EUR 1,350m



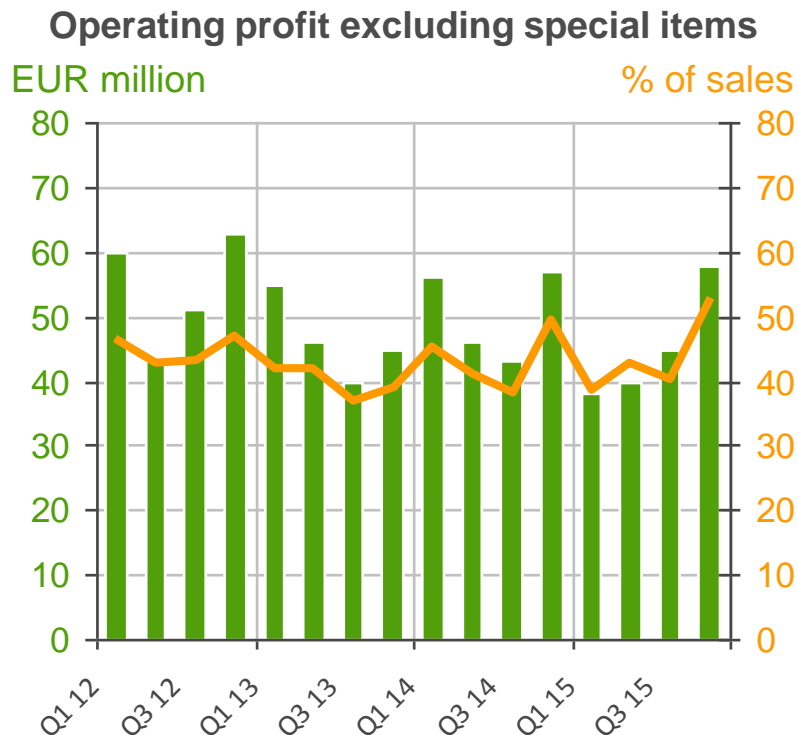
Capital employed, December 2015
EUR 11.0bn





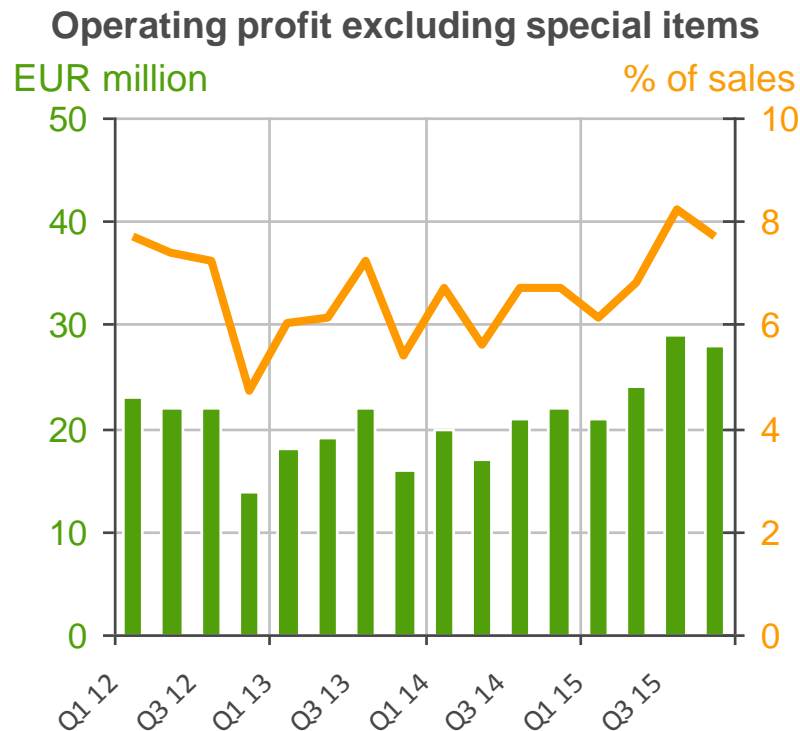
Market review 2015

- Global chemical pulp demand remained robust and growth was well distributed over several regions.
- In Europe the average NBSK pulp market price was 10% higher and the average BHKP price was 26% higher than in the previous year.
- Demand for advanced biofuel increased, and regulations developed in favour of advanced biofuels.



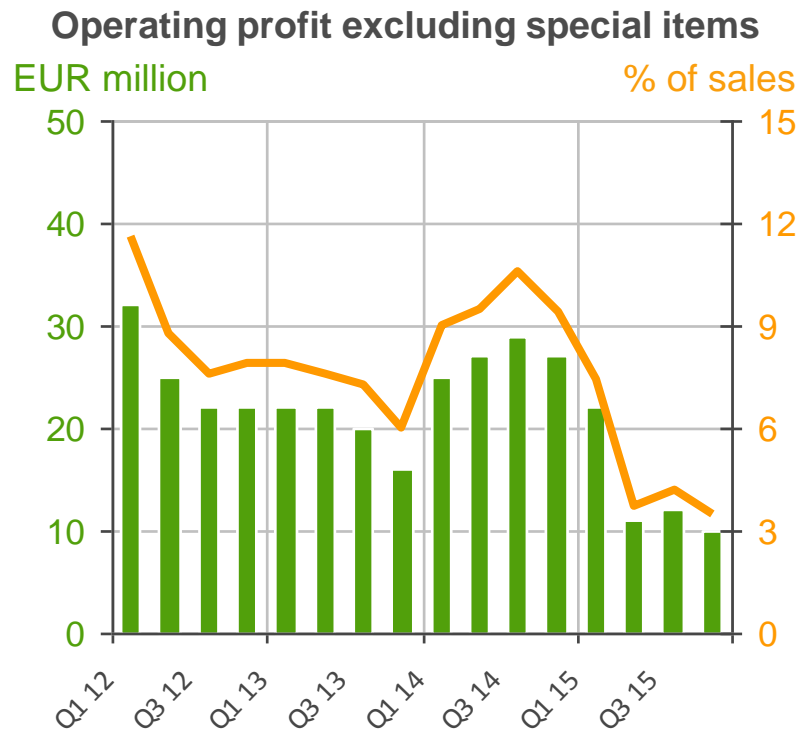
Market review 2015

- The Nordic and Finnish hydrological balance improved and was well above the long-term average level in December.
- The average Finnish area spot price on the Nordic electricity exchange was 18% lower than the same period last year, because of mild temperatures and improved hydrology.
- The Finnish area price was above the Nord Pool system price because of dependency on imports.
- At year end the Finnish area front-year forward electricity price closed 15% lower than on the same date the previous year.



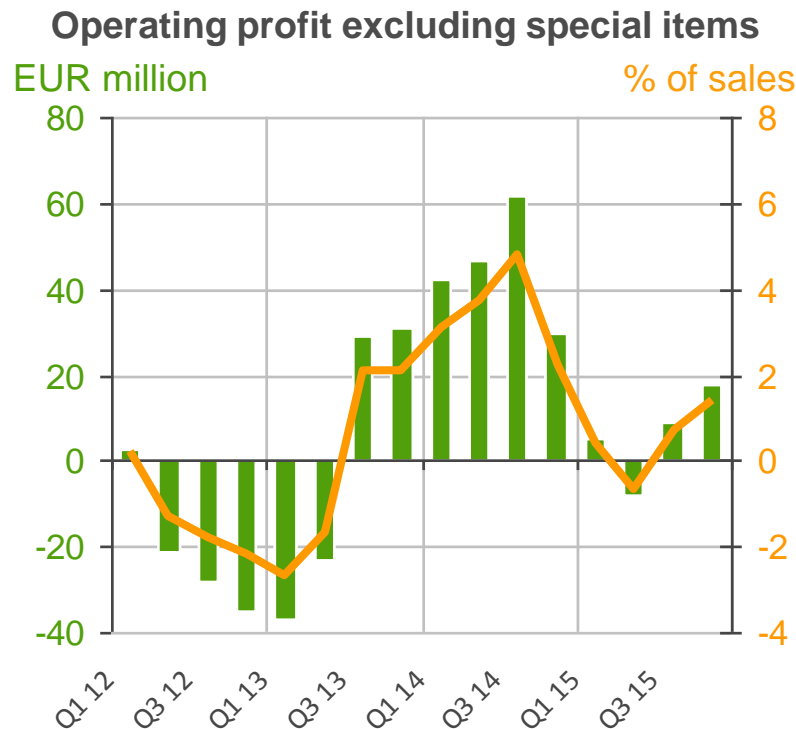
Market review 2015

- Global demand for self-adhesive label material increased by approximately 4–5% compared with the previous year.
- Demand strengthened particularly in Europe, thanks to higher consumer spending.
- In North America, demand remained robust, while in Asia, growth continued at a lower level than in the previous year. In Latin America, demand was at the previous year's level.



Market review 2015

- In the Asia-Pacific region, fine paper demand decreased slightly. Office paper demand growth continued.
- Overcapacity prevailed in all paper grades, and the preliminary United States anti-dumping duties added regional supply.
- The average market price in local currencies was slightly lower in most markets compared with 2014.
- Label and release paper demand increased globally, and average prices were slightly lower than in 2014.



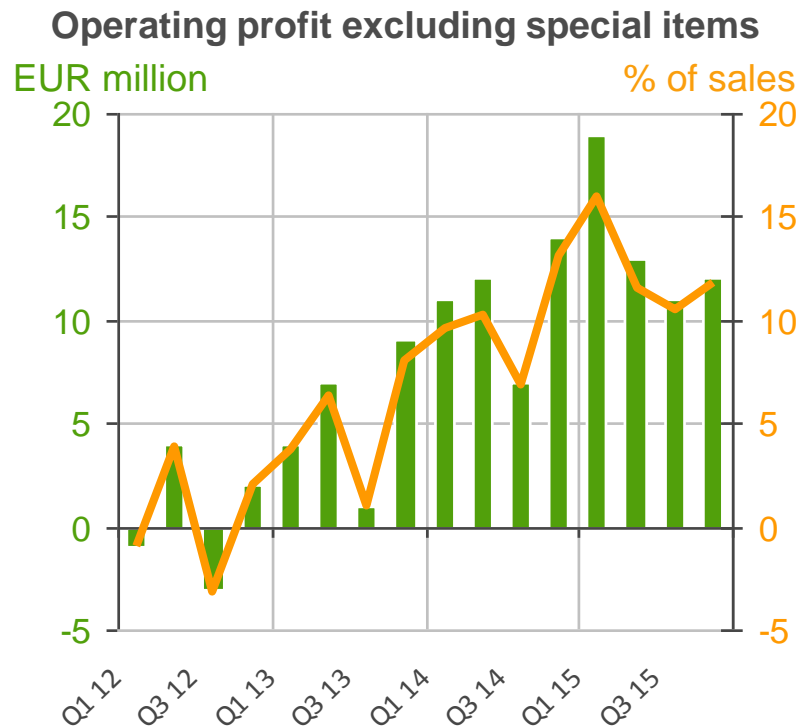
Market review 2015

Europe

- Demand for graphic paper was 4% lower than in 2014. The decline was steeper in newsprint and magazine paper, while uncoated fine paper demand decline was more moderate.
- Publication paper prices were on average 5% lower than in 2014, while fine paper prices were on average 4% higher than in 2014.

North America

- Demand for magazine papers was 7% lower than in 2014.
- The average US dollar price for magazine papers were on average 1% higher than in 2014.



Market review 2015

- Plywood demand in Europe increased slightly. Demand grew in both industrial applications and construction-related end-use segments.
- The plywood market in Europe was in balance during the first half of 2015. Imports increased over the course of the year, leading to price pressure in some product segments in the fourth quarter.



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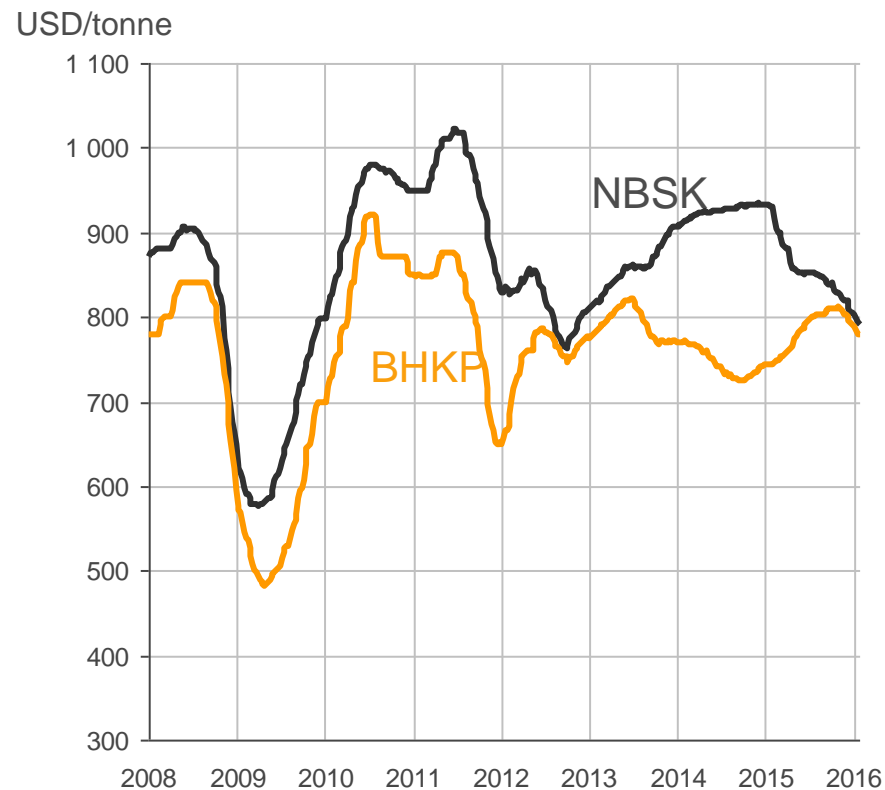
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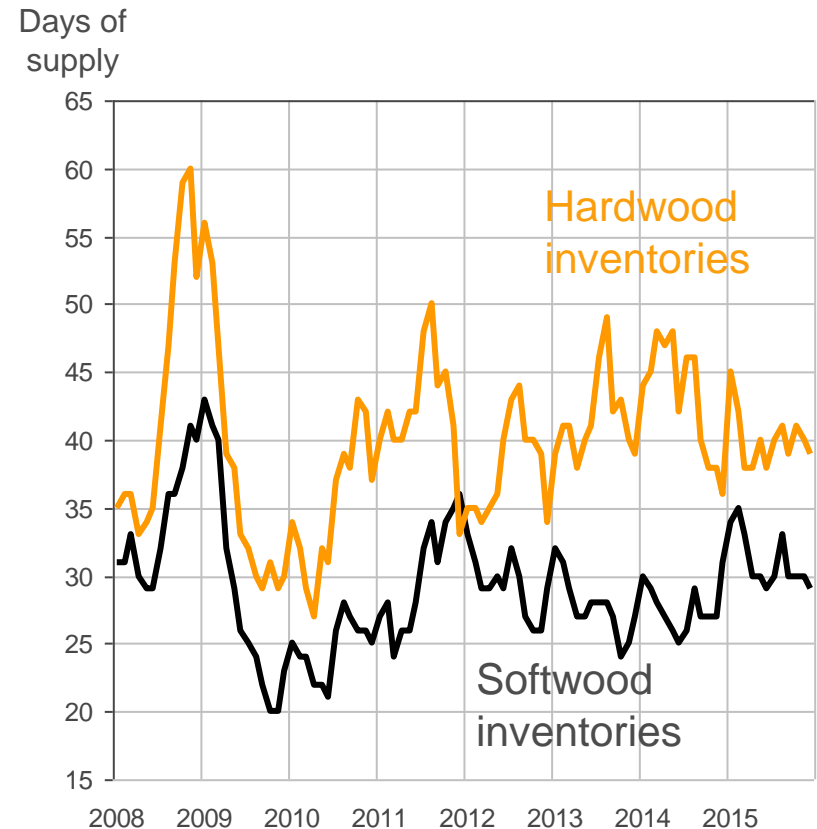
Chemical pulp market

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



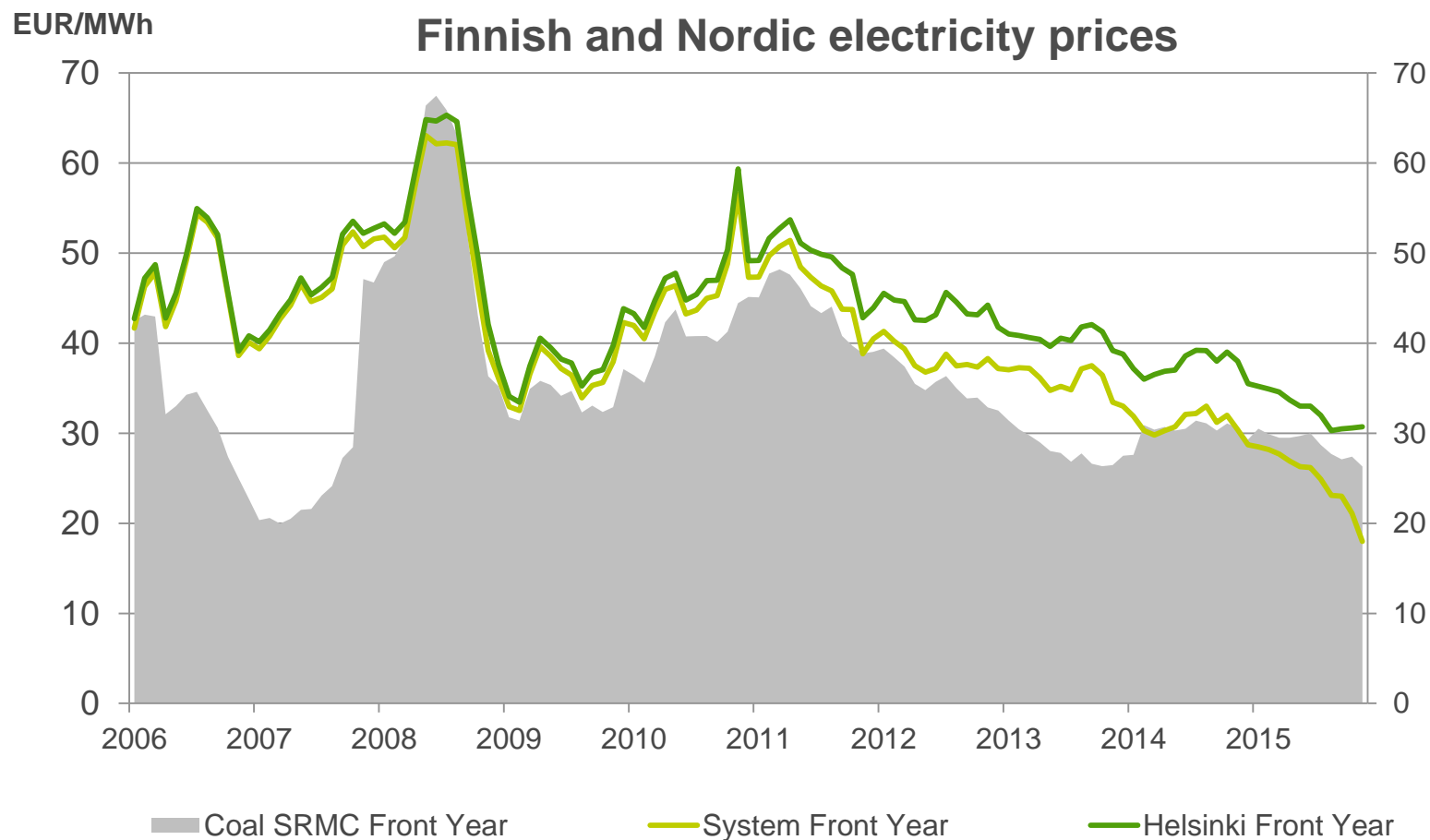
Source: FOEX Indexes Ltd.

Pulp inventories



Source: PPPC World-20 statistics

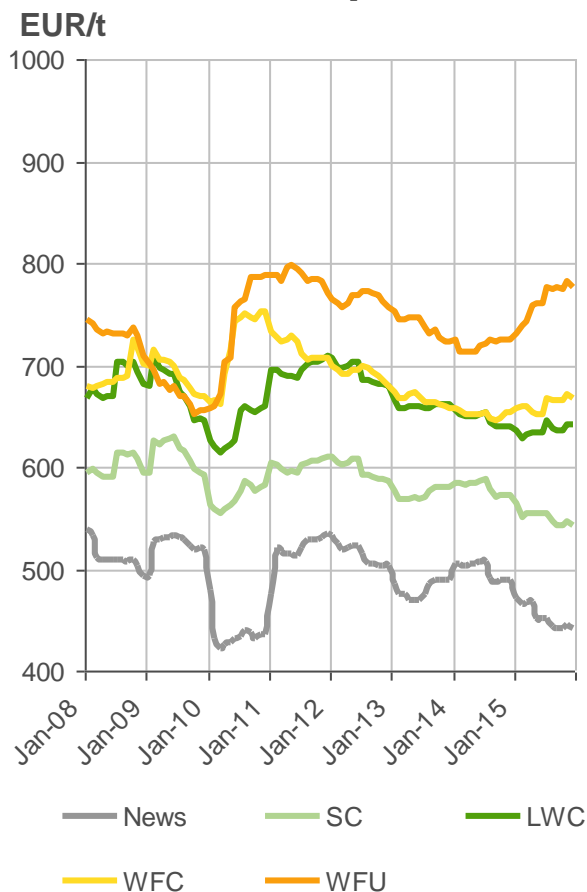
Price development in the Nordic and Helsinki power markets



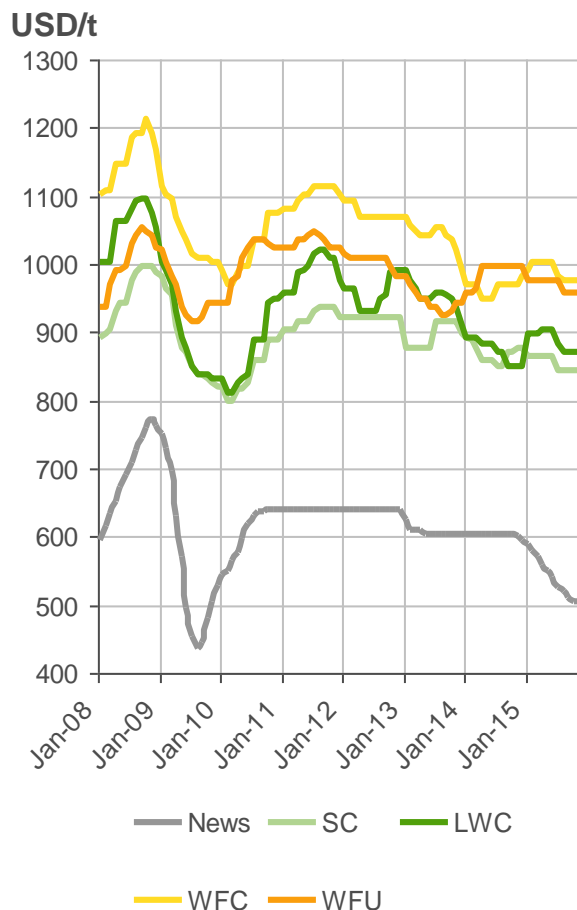
Source: Reuters

Graphic paper prices

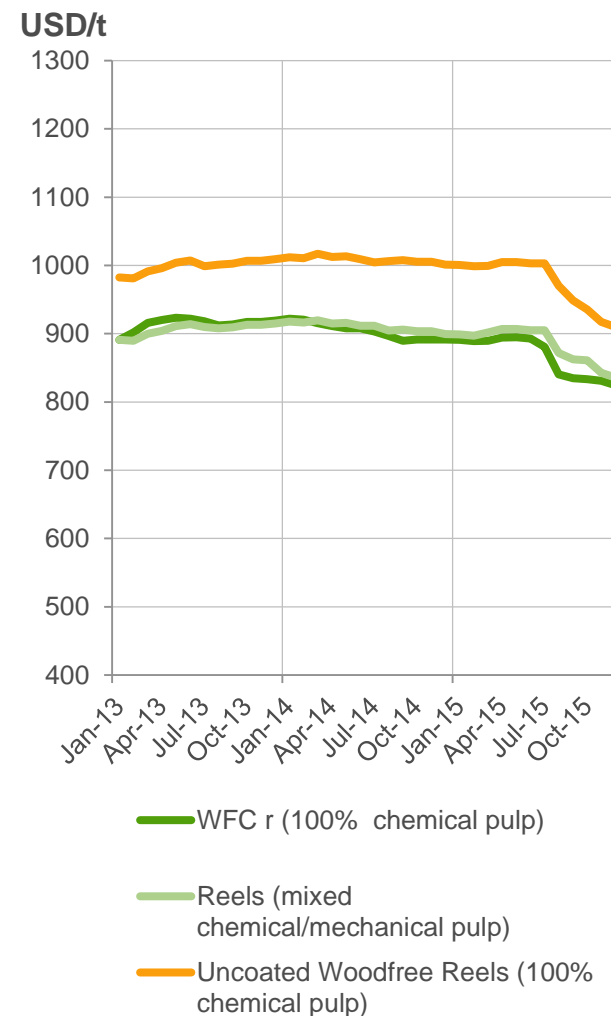
Europe



North America



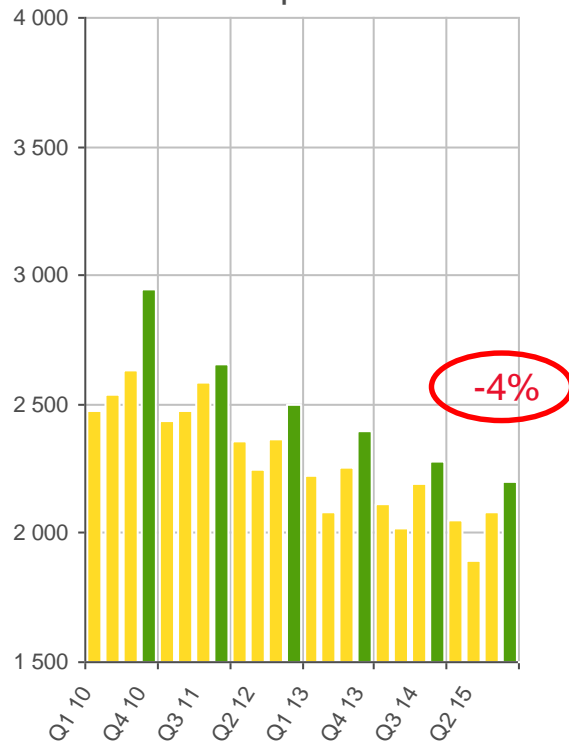
China



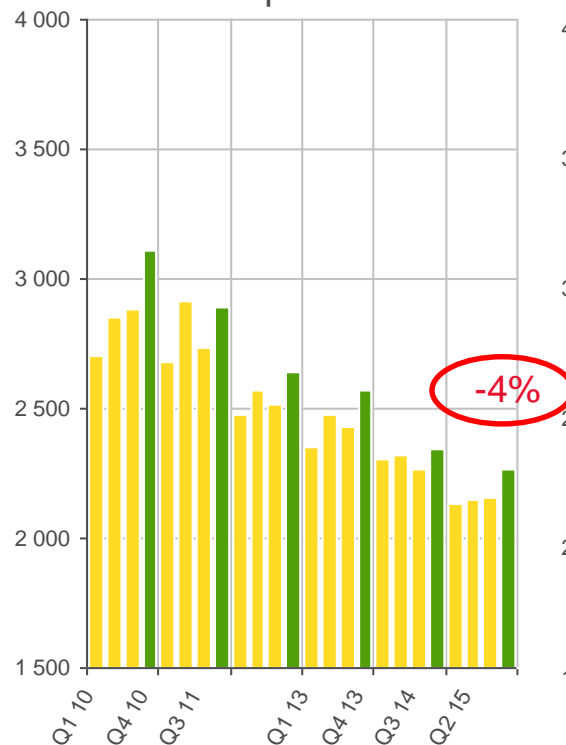
Sources: PPI, RISI

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

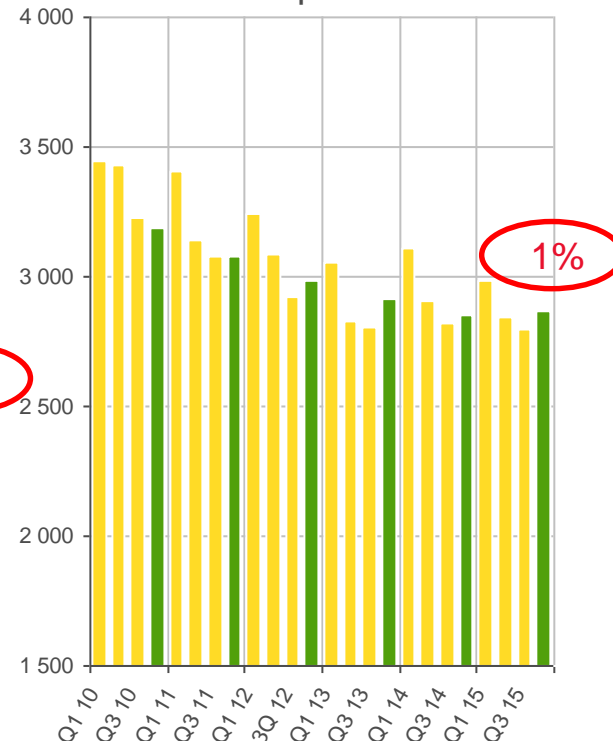
'000 tonnes Magazine papers demand in Europe -5% 2015



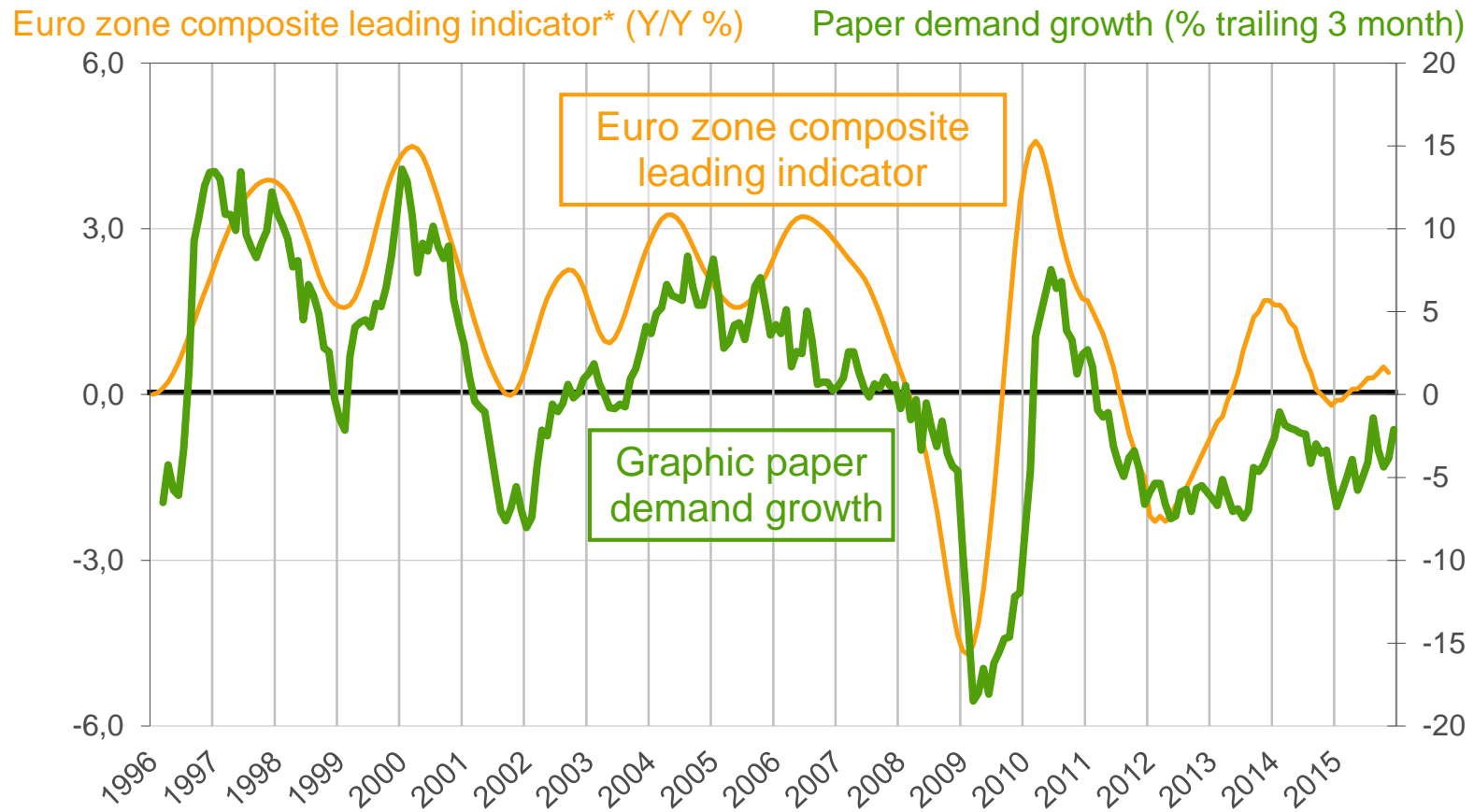
Newsprint demand in Europe -6% 2015



Fine papers demand in Europe -2% 2015

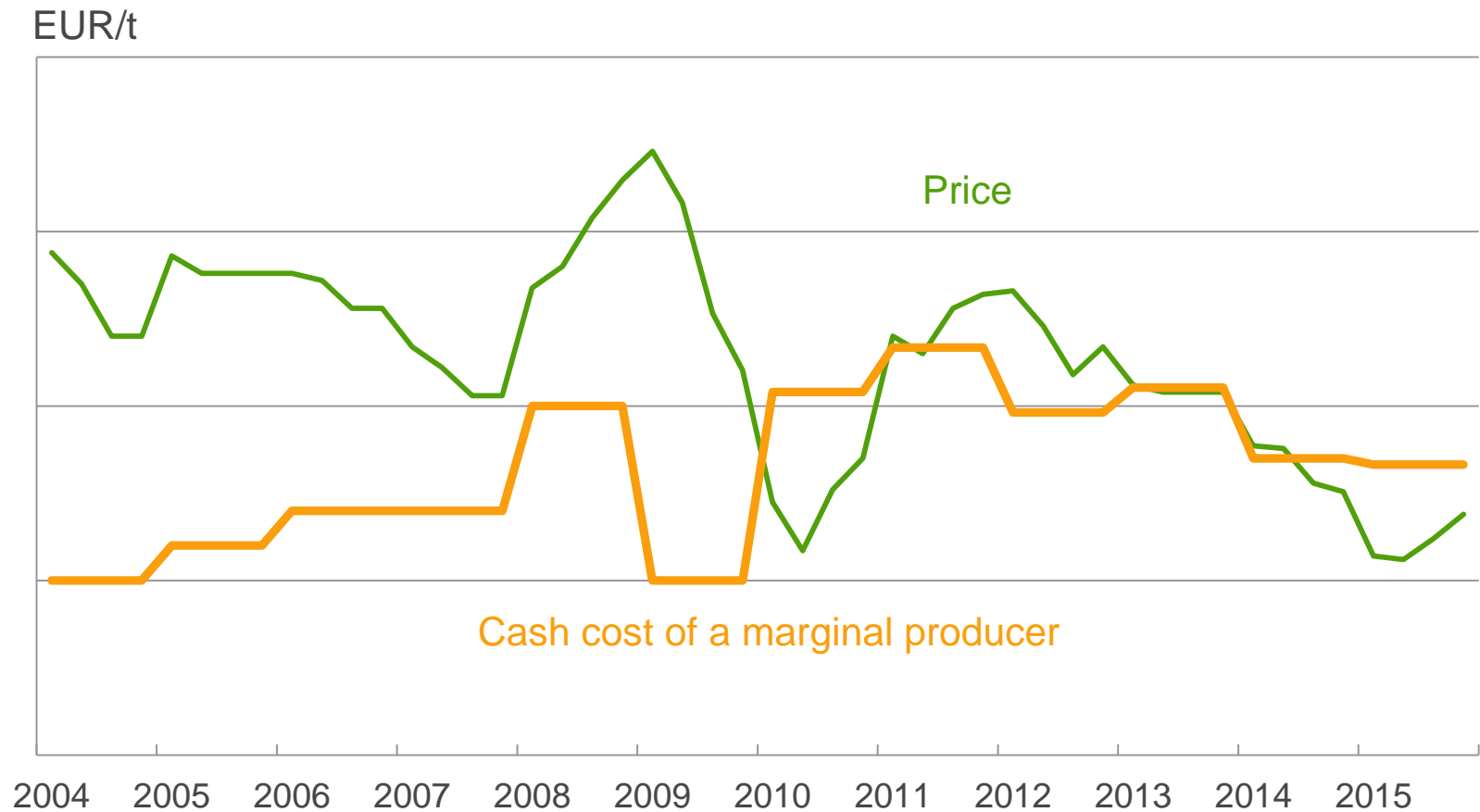


Growth in the European economy remains low



Sources: Cepiprint, Cepifine, OECD

Overcapacity in European graphic paper is visible in margins



Sources: PPI, RISI, Pöyry



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