



FINANCIAL STATEMENTS 2016

Jussi Pesonen
President and CEO
31 January 2017

2016 demonstrated the results of UPM transformation and sets the stage for the future

- Differentiating, agile **business model**
 - Business area commercial strategies, growth and competitiveness
 - Capturing corporate benefits
- Disciplined **capital allocation**
 - Focus on returns in growth investments
 - Industry leading balance sheet
- **Continuous improvement** programmes
 - Variable and fixed costs, safety, compliance, working capital
 - Efficient use of assets, including restructuring

Today's UPM is earnings growth oriented, capable and financially strong



2016 was financially a record year for UPM

2016 vs. 2015:

Sales

EUR 9,812m  -3%

EBITDA

EUR 1,560m  +210m

Comparable EBIT

EUR 1,143m  +227m

Comparable EPS

EUR 1.65  +0.27

Comparable ROE

10.9%  +1.4pp

Operating cash flow

EUR 1,686m  +501m

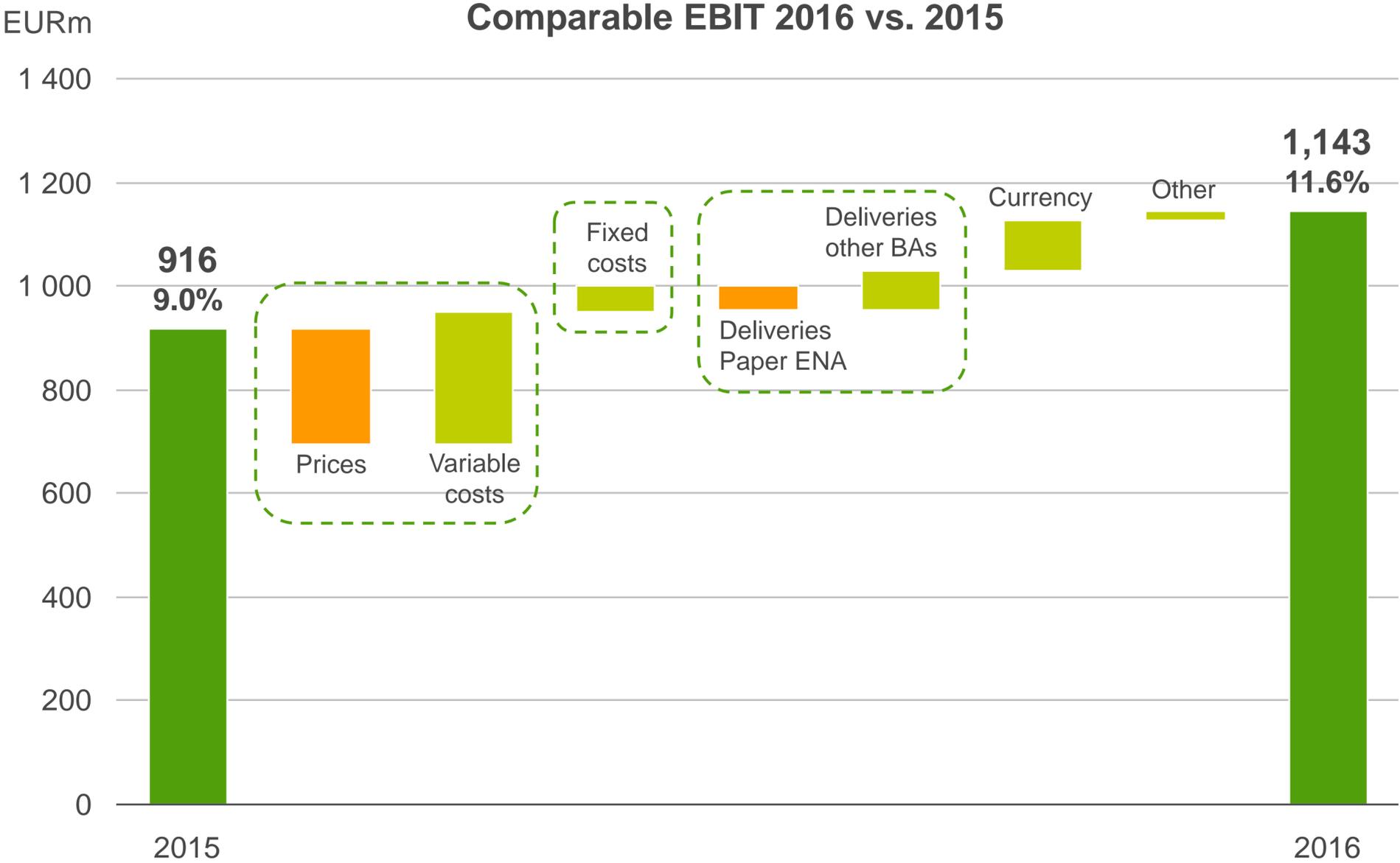
Net debt

EUR 1,131m  -969m

Net debt / EBITDA

0.73x  -0.83x

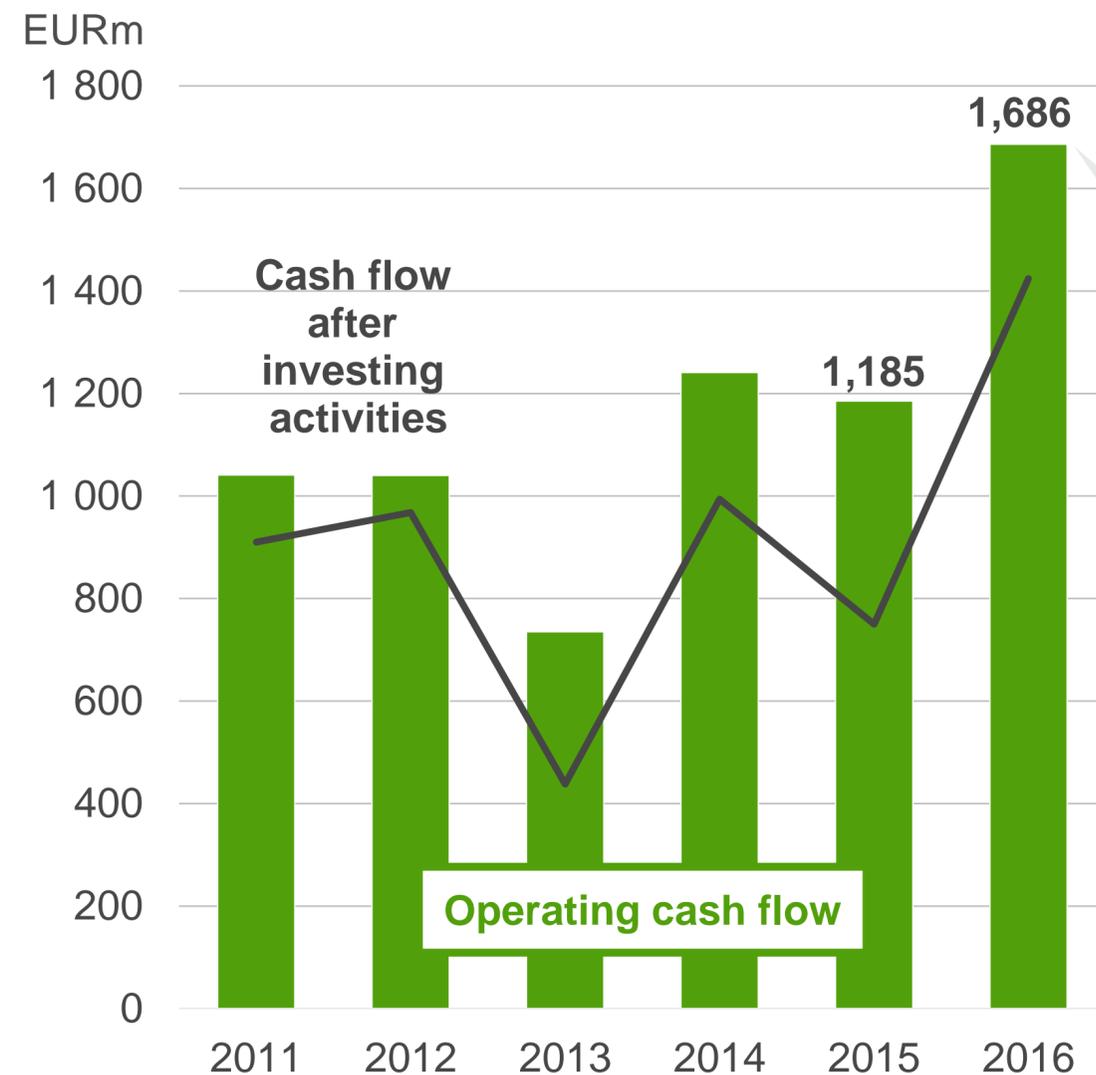
Growth projects contributed significantly and cost efficiency measures continued on a strong track





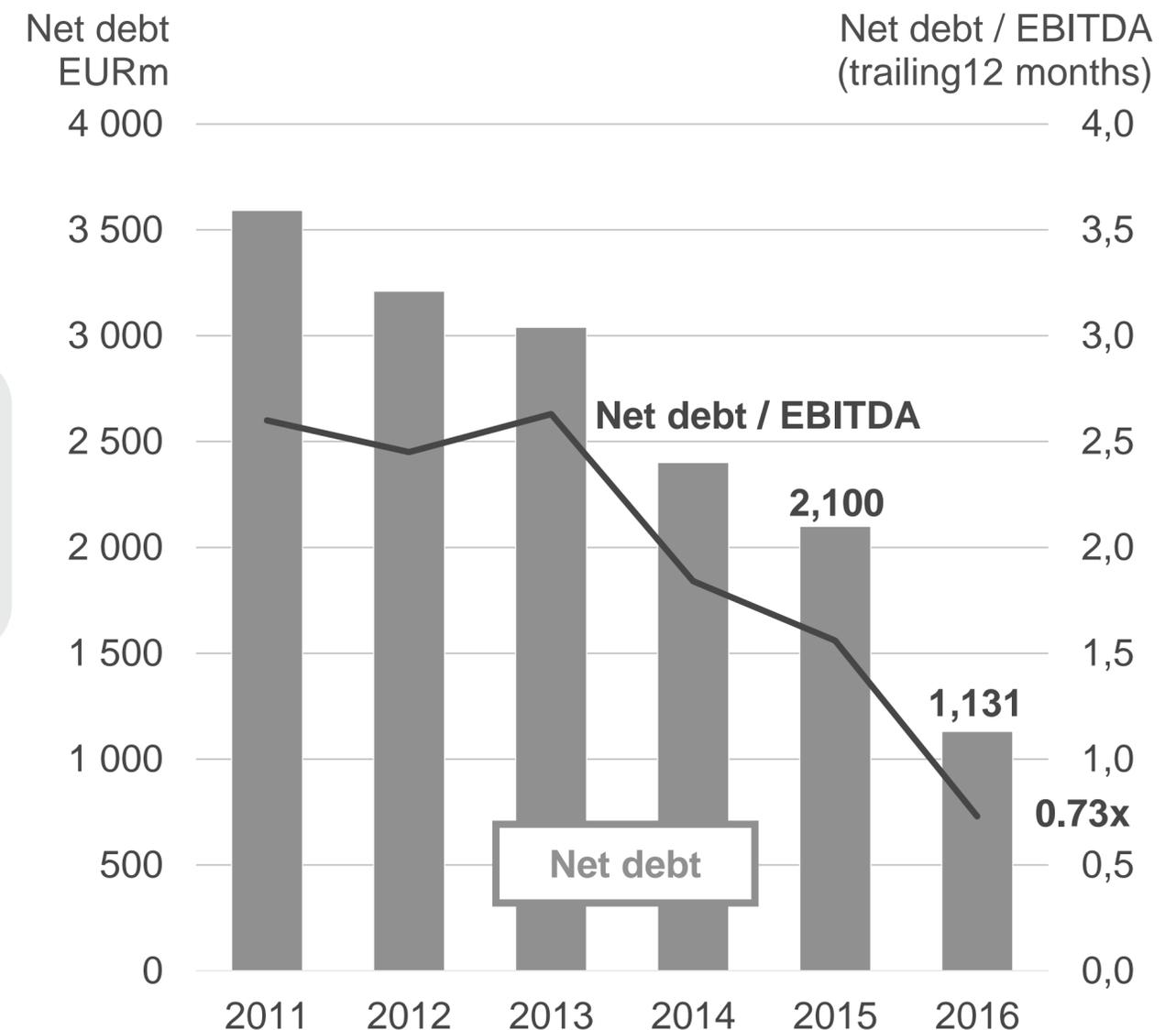
Record strong cash flow and balance sheet

Operating cash flow

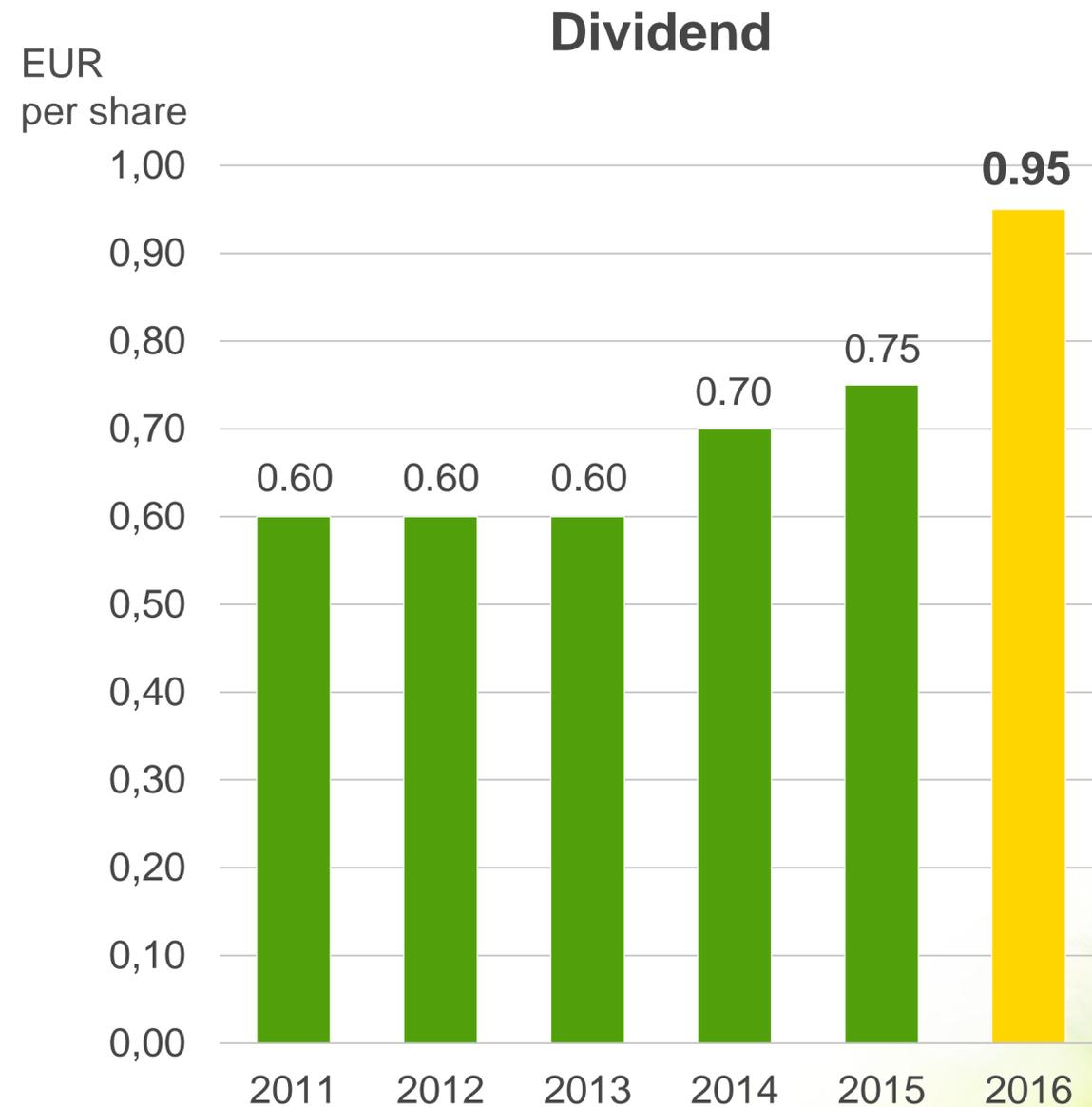


Working capital decreased by EUR 195m in 2016

Net debt



Dividend proposal



Dividend policy

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

Board's dividend proposal for 2016

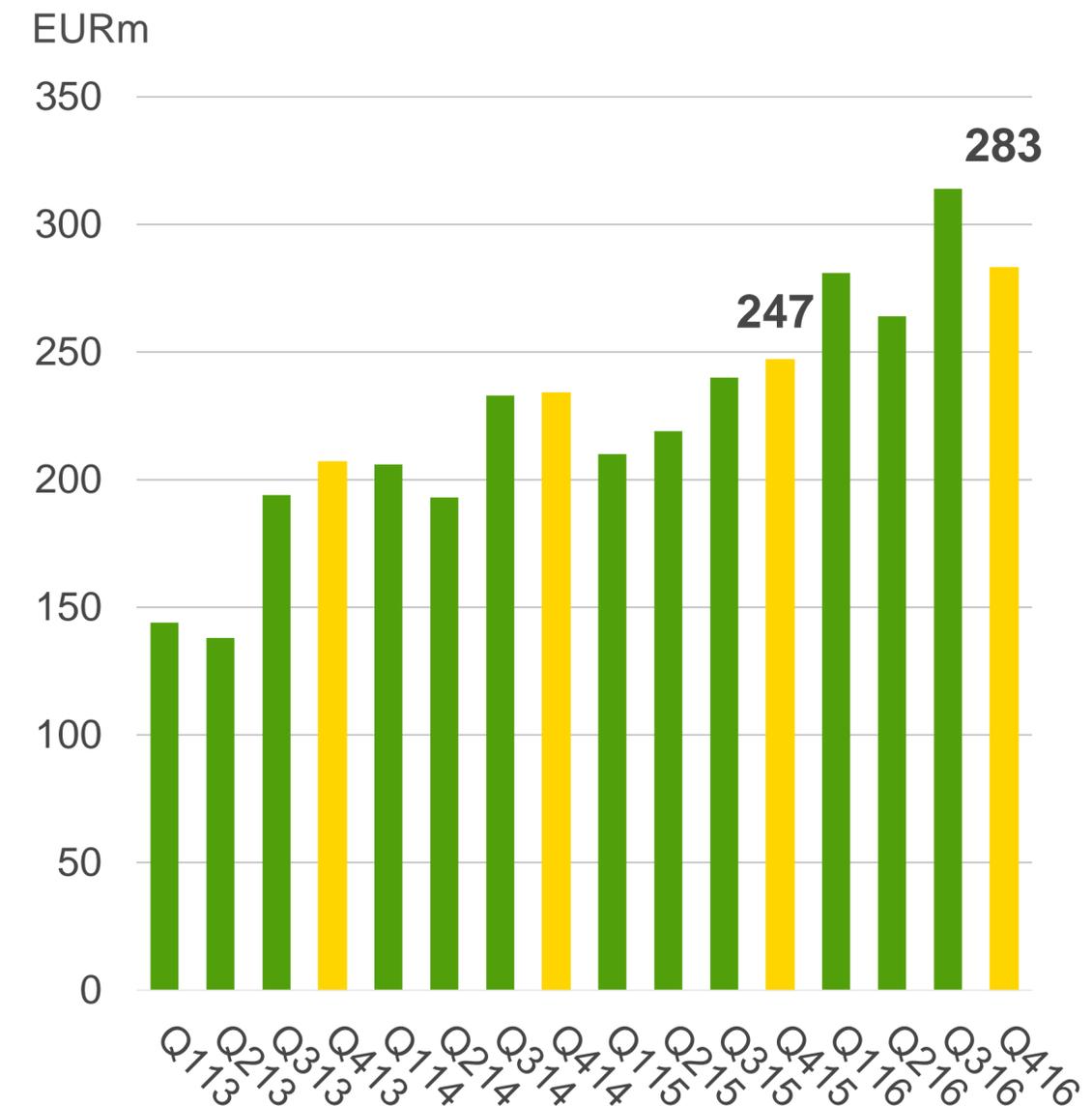
- EUR 0.95 (0.75) per share, totalling EUR 507m
- 30% of 2016 operating cash flow of EUR 1,686m



Good results for Q4

- Comparable EBIT increased by 15% to EUR 283m (247m)
 - High maintenance activity, especially in UPM Biorefining
 - Decrease in hydropower generation
 - Improvement in other businesses
 - Growth projects and cost efficiency measures contributed to earnings
 - Increase in forest and plantation values
- Strong operating cash flow at EUR 405m (390m)

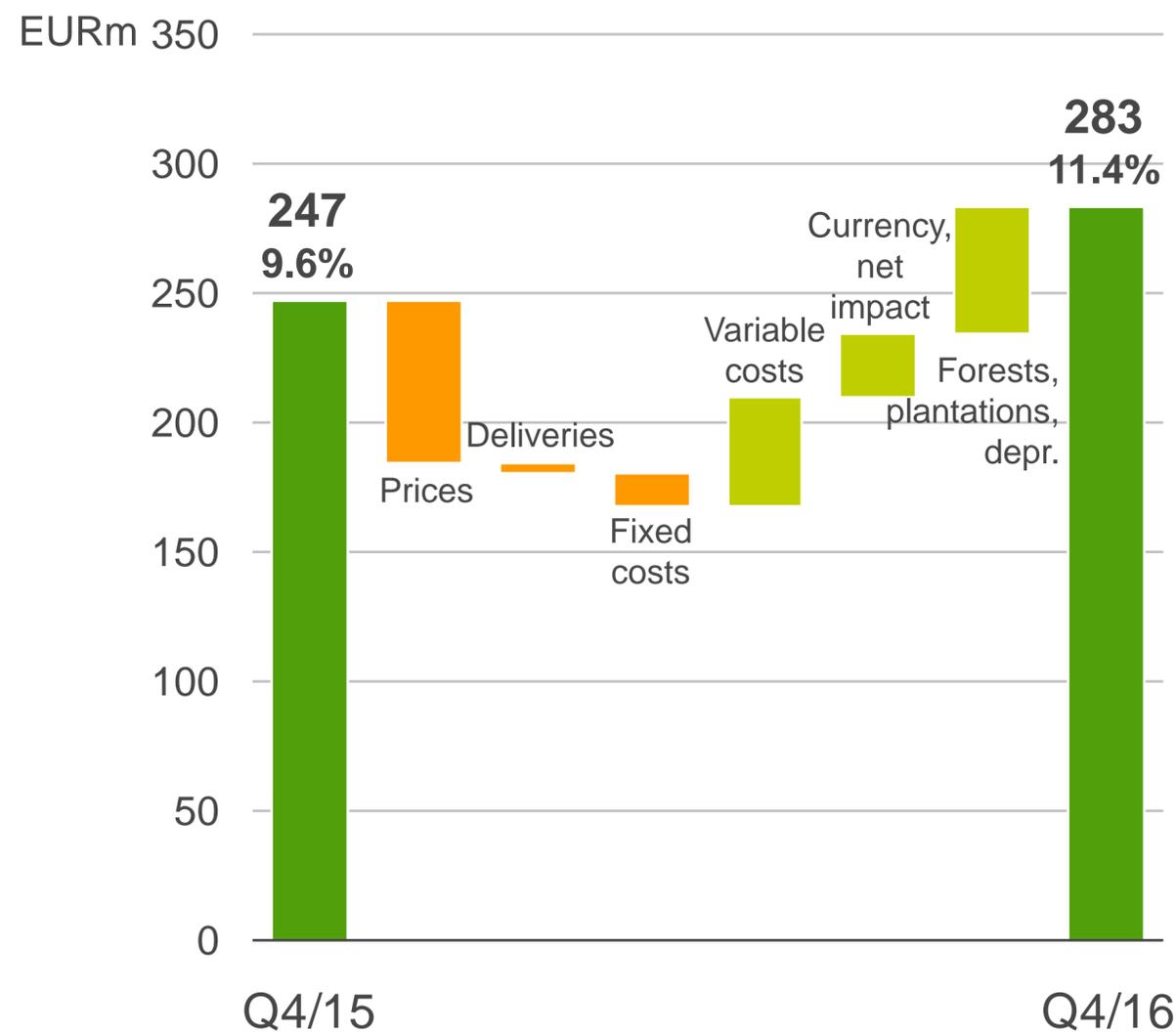
Comparable EBIT



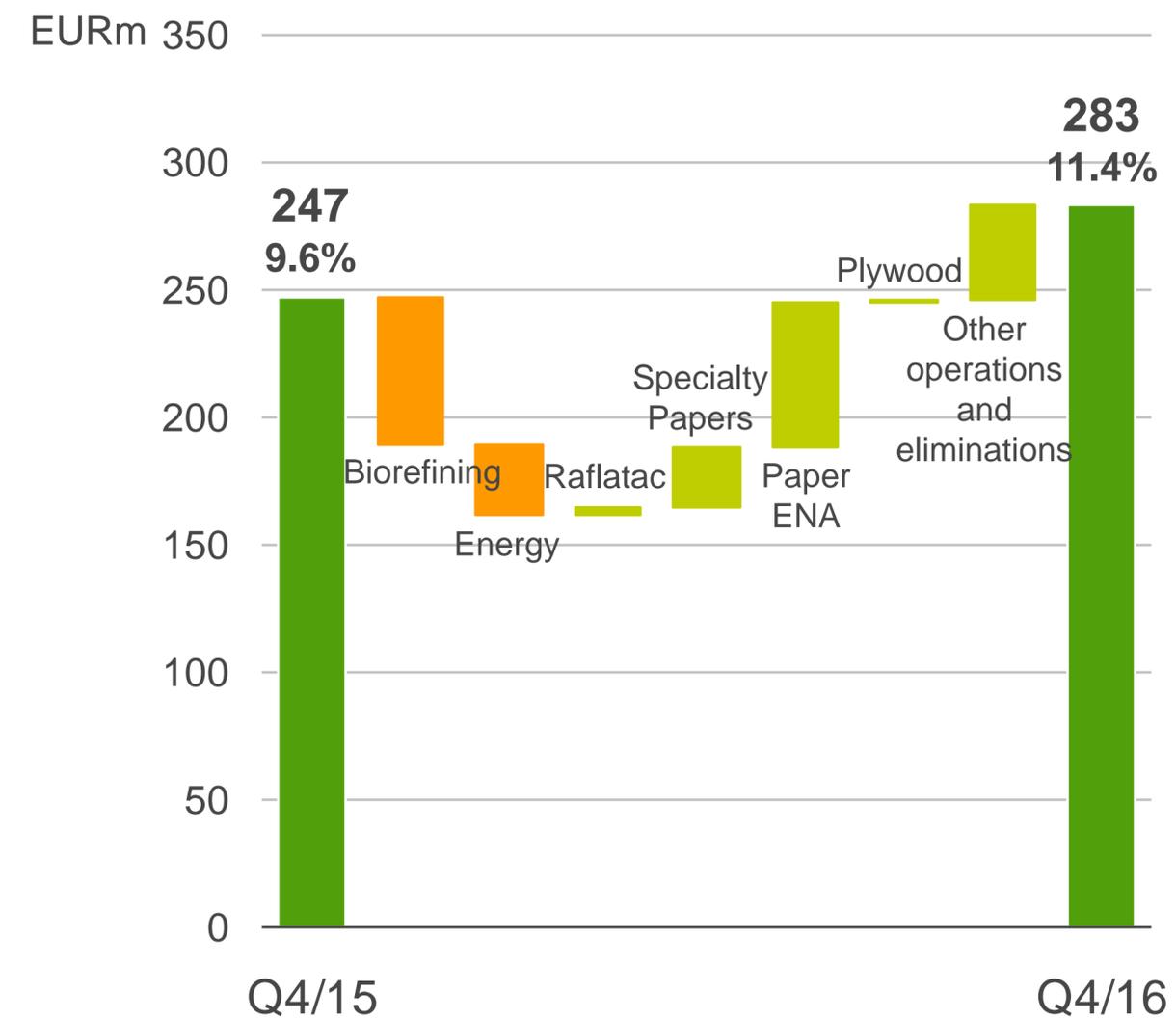


Comparable EBIT in Q4 2016 vs. Q4 2015

Heavy maintenance activity, normalised hydropower volume and increase in forest and plantation values.

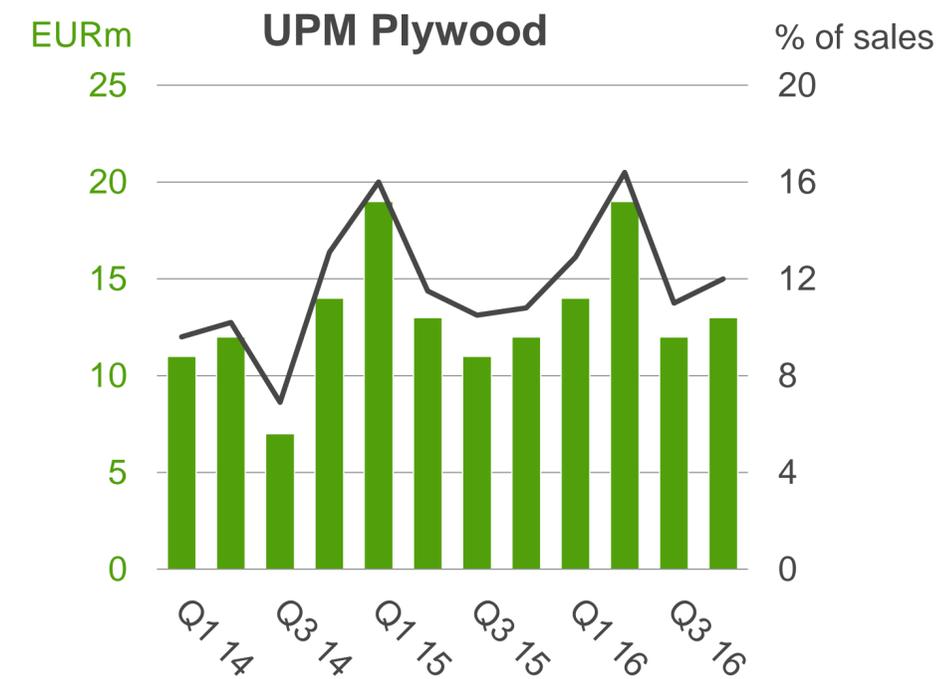
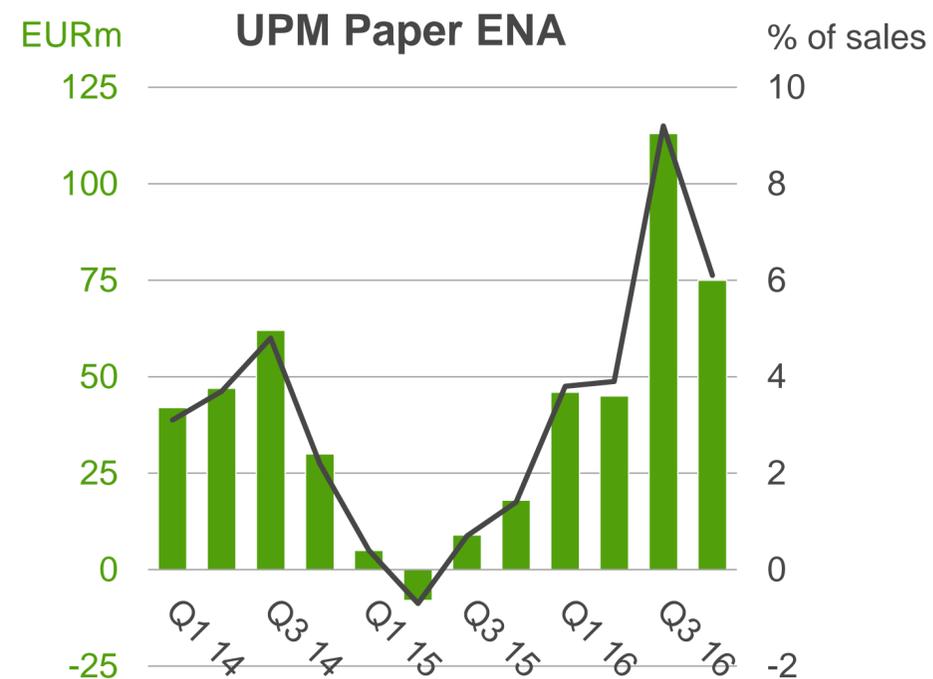
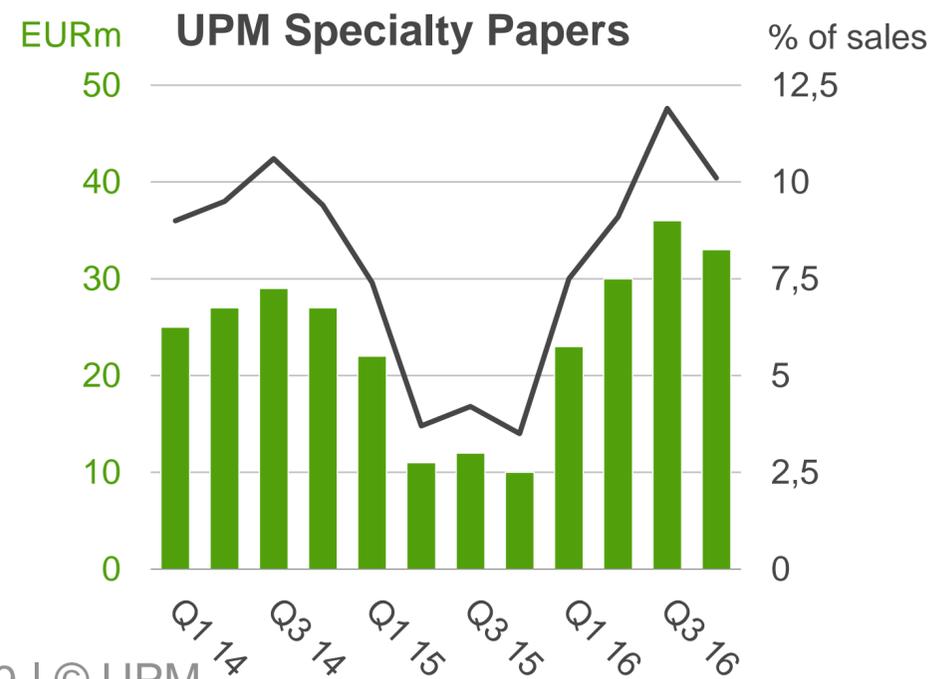
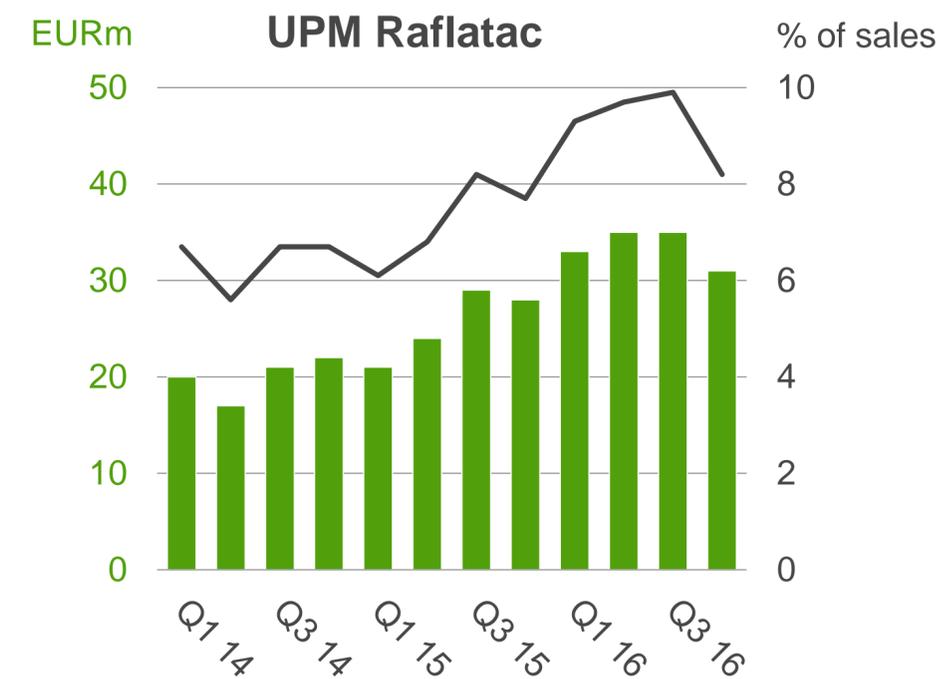
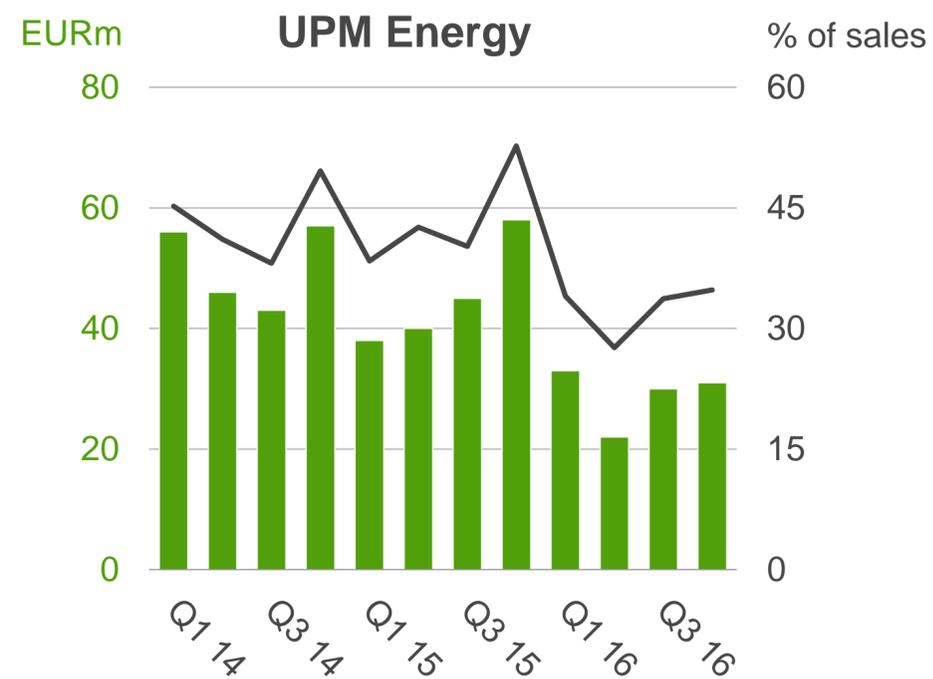
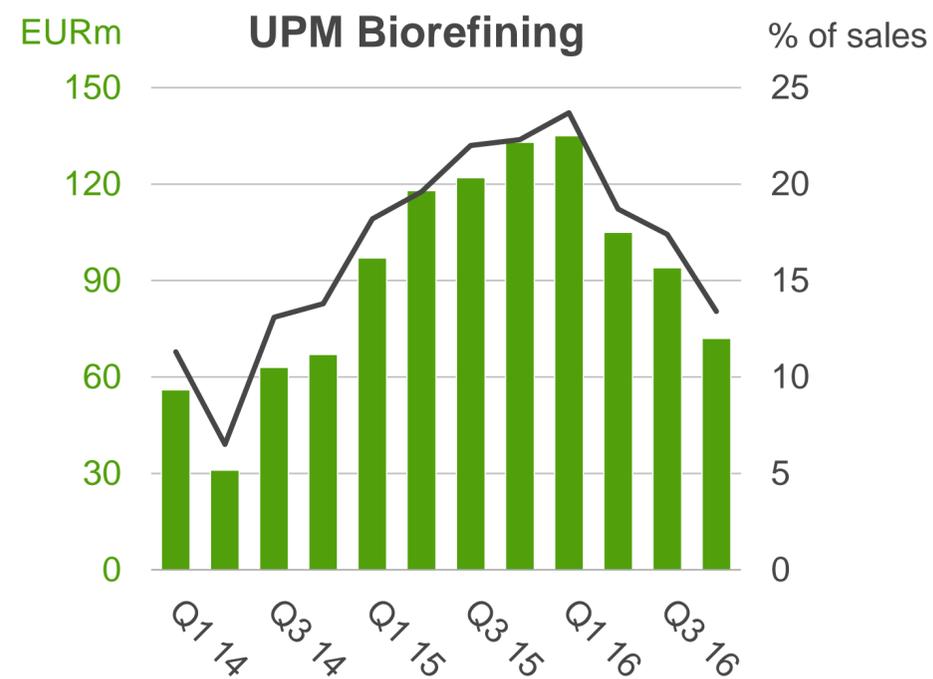


Heavy maintenance and lower prices in Biorefining, lower hydropower and prices in Energy. Solid improvement in other businesses.





Comparable EBIT by business area



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.

UPM aims higher with renewed long-term financial targets

UPM renews its long-term financial targets:

- Business area long-term return targets increased
- Growth target introduced for group comparable EBIT
- Comparable ROE target increased
- A new financial policy on leverage based on net debt/EBITDA introduced
- The cash flow-based dividend policy remains unchanged.



New long-term financial targets

Business area returns

Increased return targets for each business area

ROCE, FCF/CE

Group earnings growth

Earnings growth through focused top-line growth and margin expansion

Comparable EBIT

Capital structure and shareholder returns

Efficient capital structure, investment grade rating and attractive shareholder returns

Net debt / EBITDA

ROE %

Dividend policy



New long-term financial targets

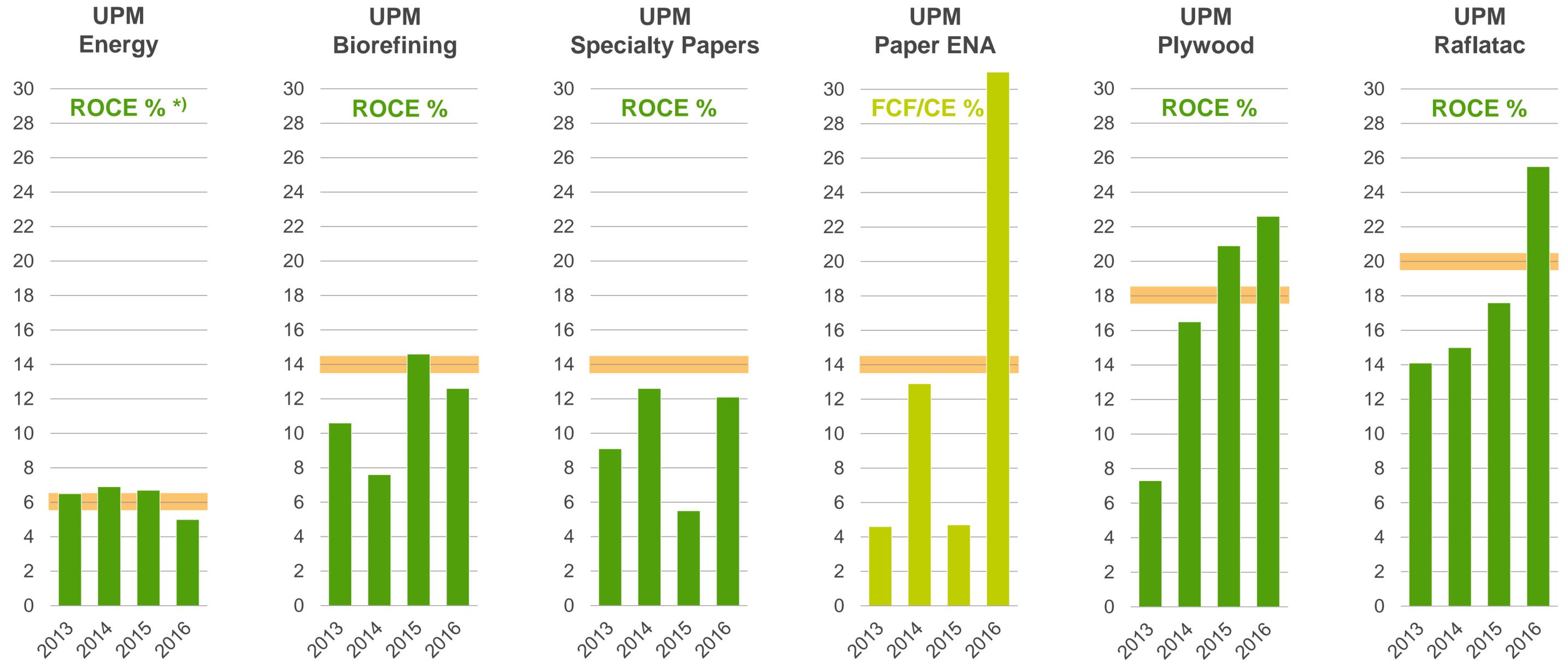
Business area targets

Business area	Return target
UPM Energy	ROCE 6%
UPM Biorefining	ROCE 14%
UPM Specialty Papers	ROCE 14%
UPM Paper ENA	FCF/CE 14%
UPM Plywood	ROCE 18%
UPM Raflatac	ROCE 20%

UPM group targets

- **Comparable EBIT growth** through focused top-line growth and margin expansion
- **Comparable ROE: 10%**
- **Net debt / EBITDA:** around 2x or less
- **Dividend policy:** 30-40% of operating cash flow per share

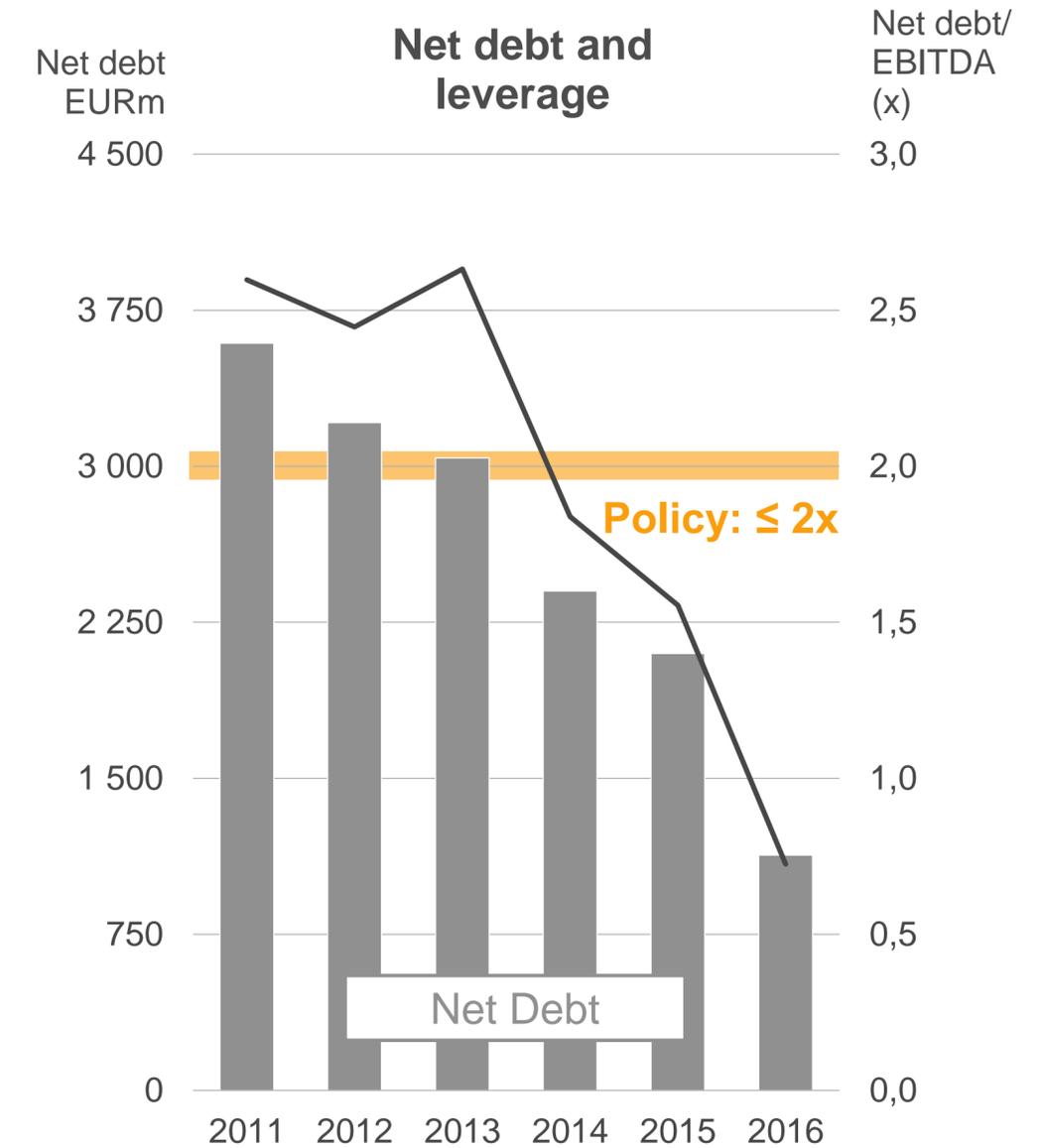
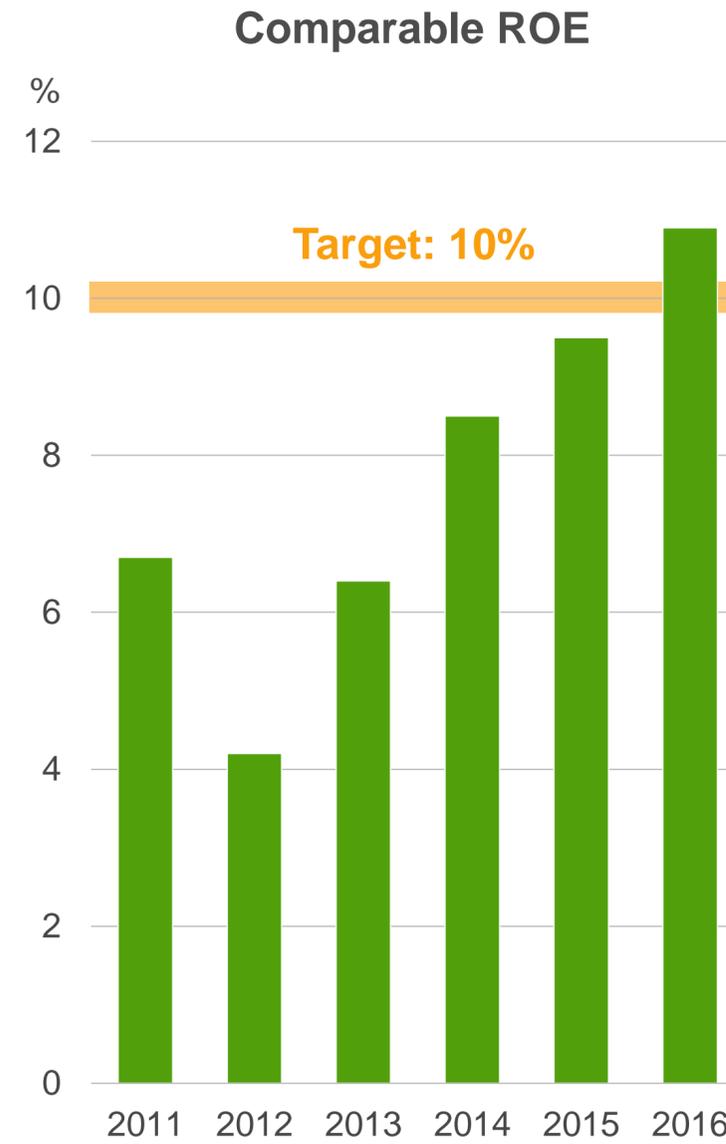
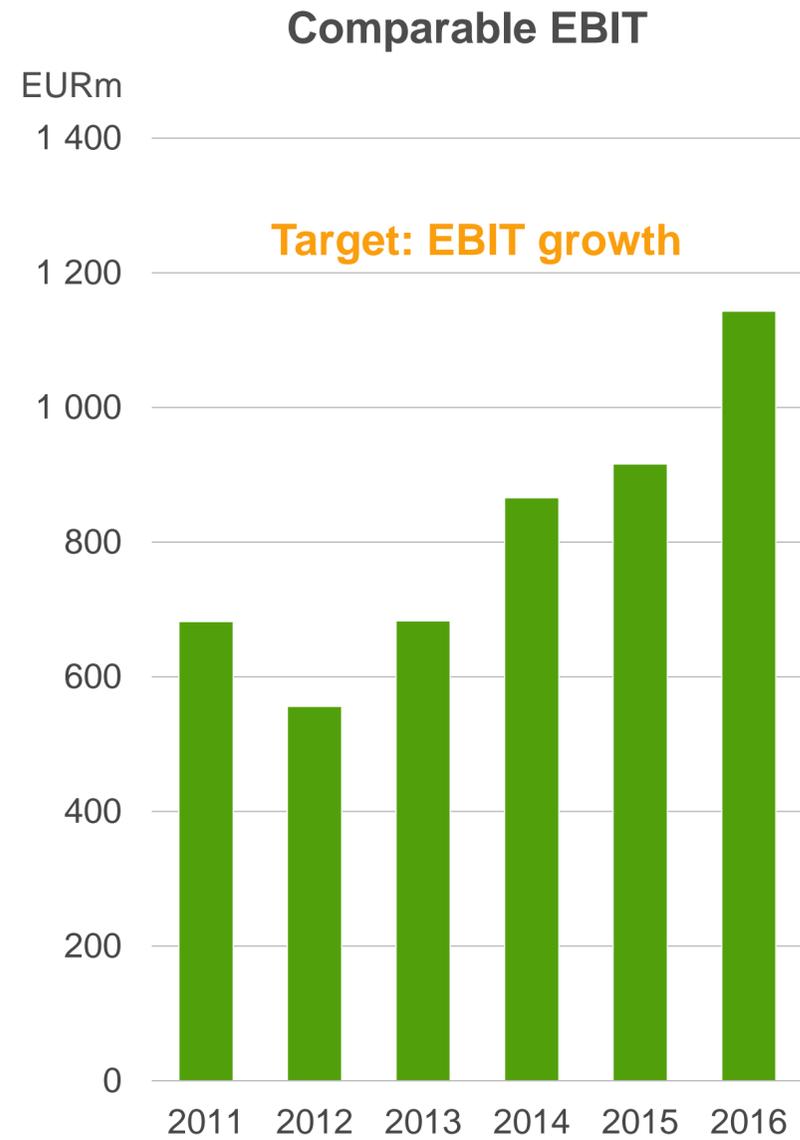
New business area long-term targets compared with realised returns



*) shareholdings in UPM Energy valued at fair value

 Long-term return target

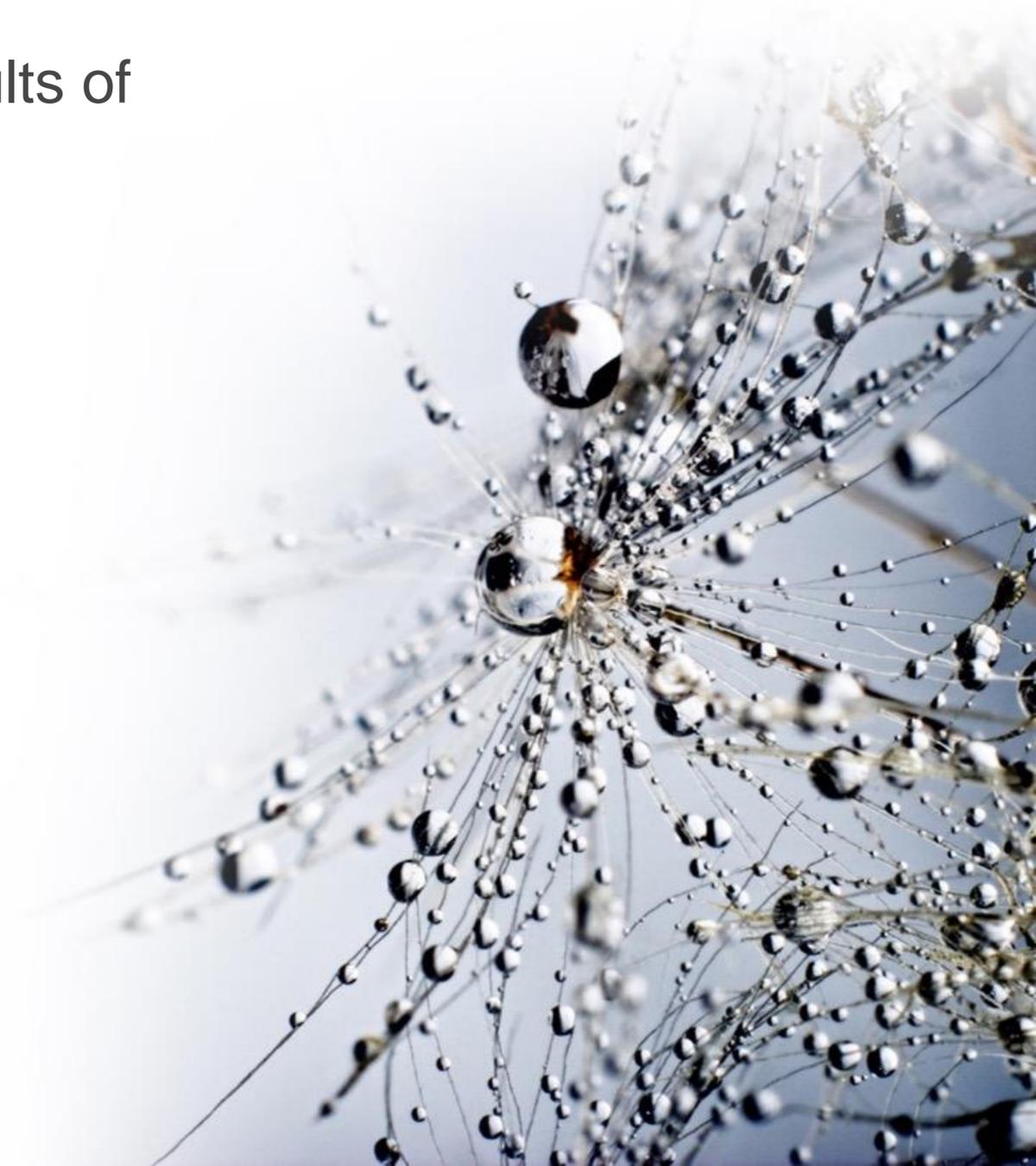
Group financial performance



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

Summary

- 2016 was financially a record year, demonstrating the results of UPM transformation
- Board proposes a dividend of EUR 0.95 (0.75) per share
- UPM aims higher with renewed long-term financial targets





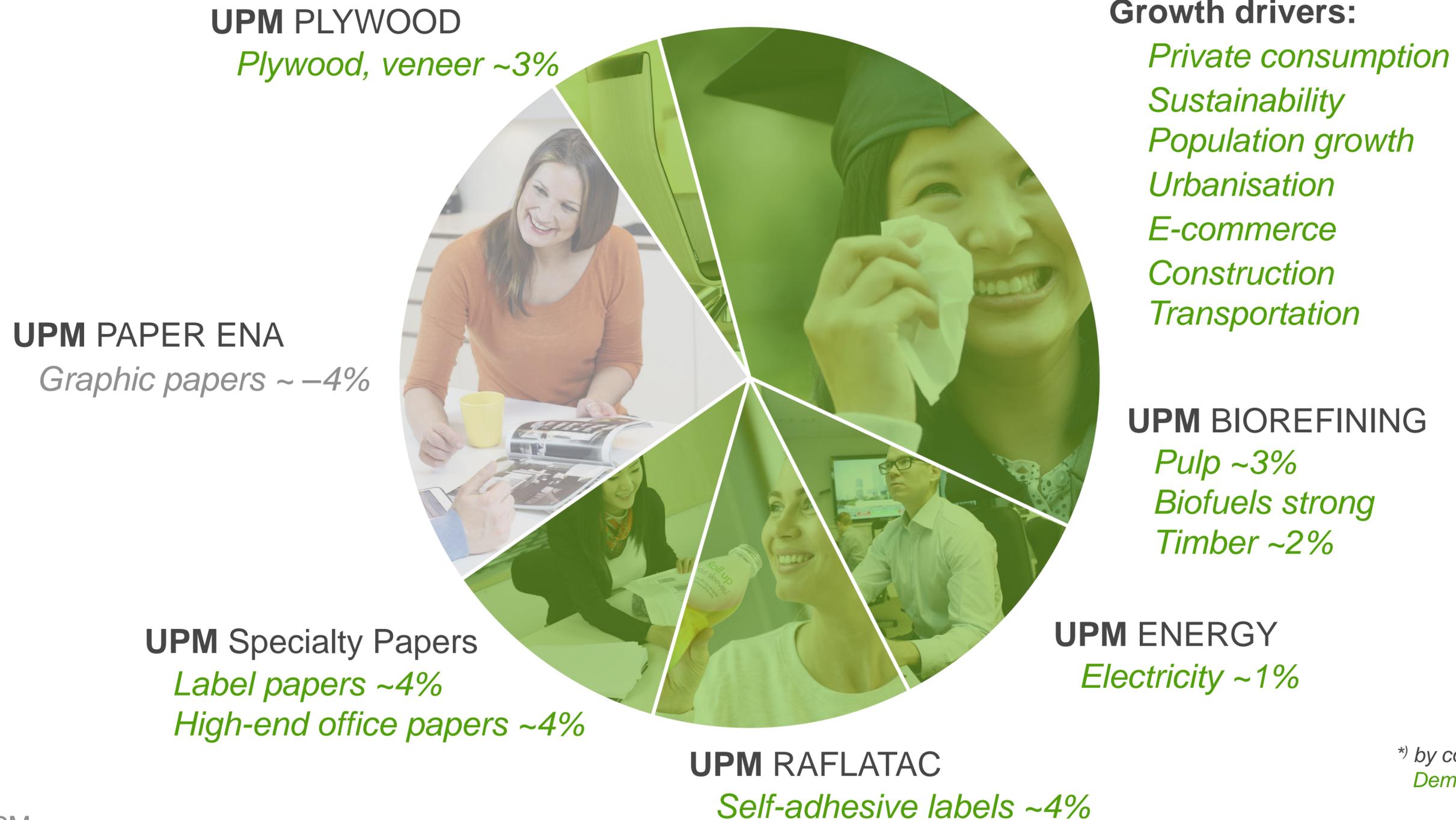
UPM

The Biofore
Company

UPM business portfolio today^{*)}

Competitive businesses with strong market positions

Operating on healthily growing markets



^{*)} by comparable EBIT 2016
Demand trend growth, % pa

Mostly favourable market demand in 2016

Growing demand

- Pulp
- Advanced biofuels
- Self-adhesive label materials
- Label, pack and release materials
- Office papers in Asia
- Plywood
- Sawn timber
- Electricity

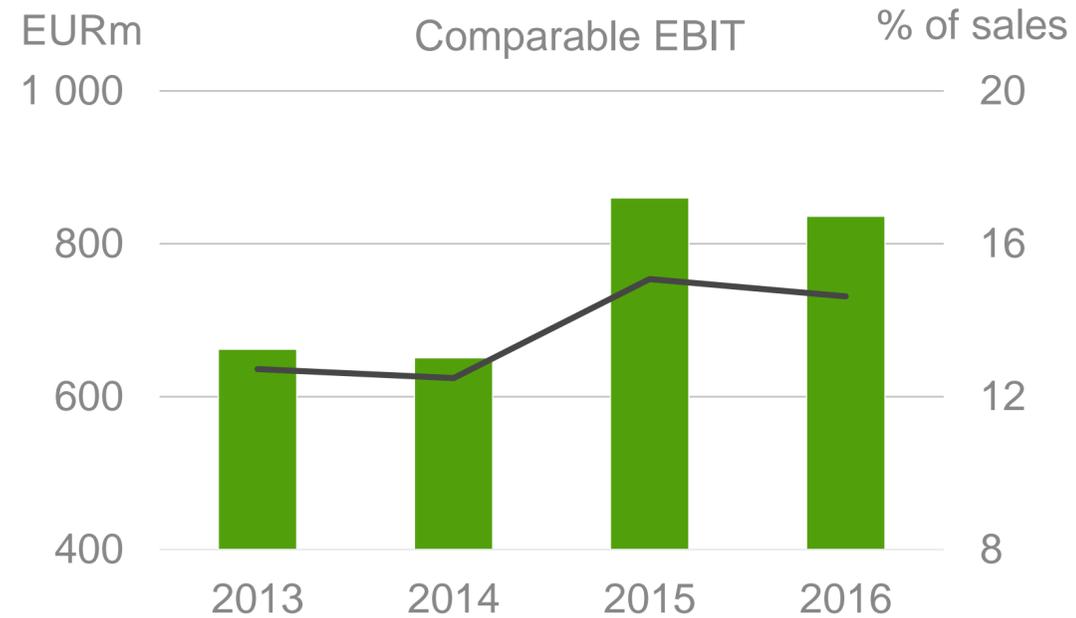
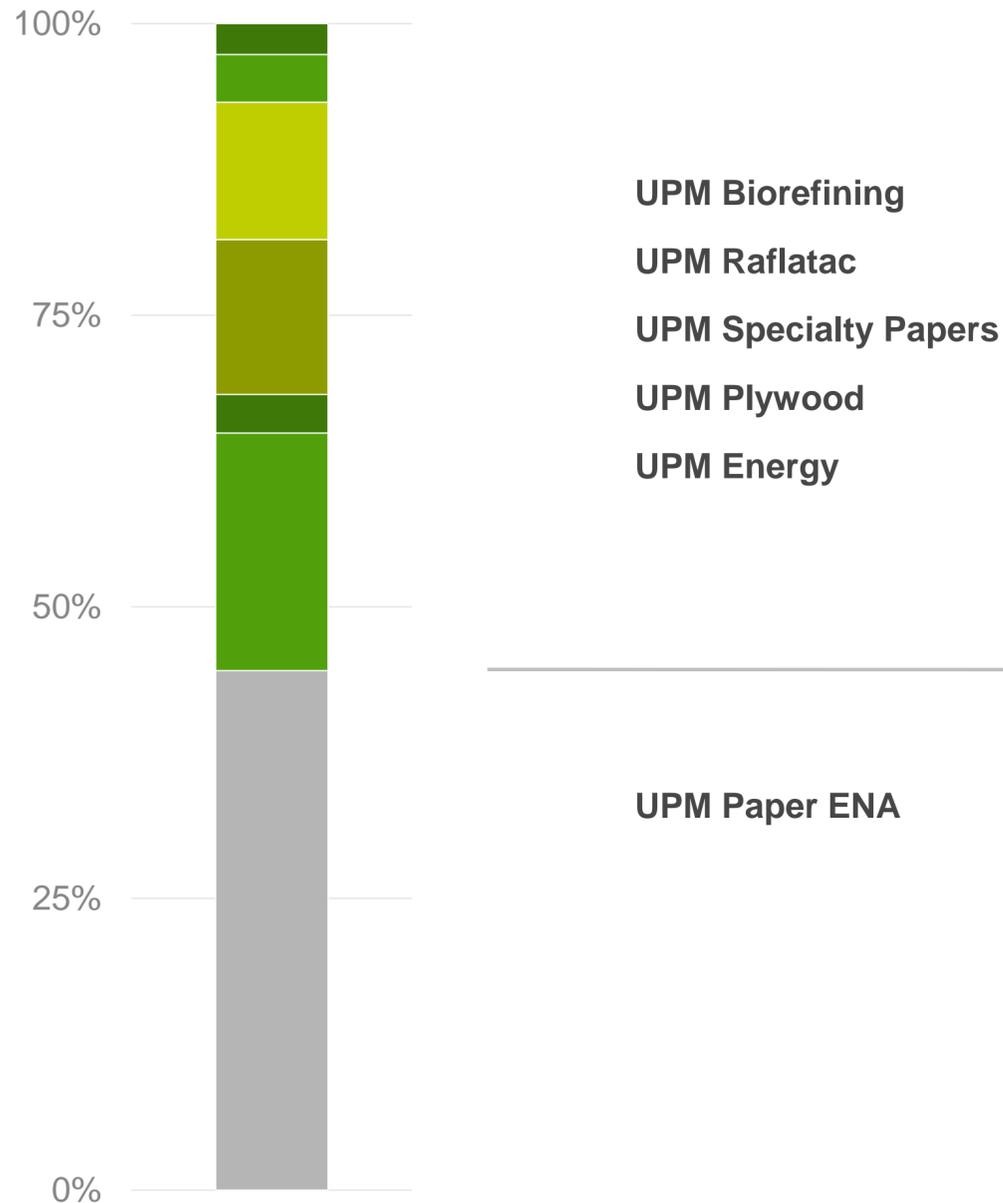
Declining demand

- Graphic papers in Europe and North America



Value creation through sustainable growth and cash generation

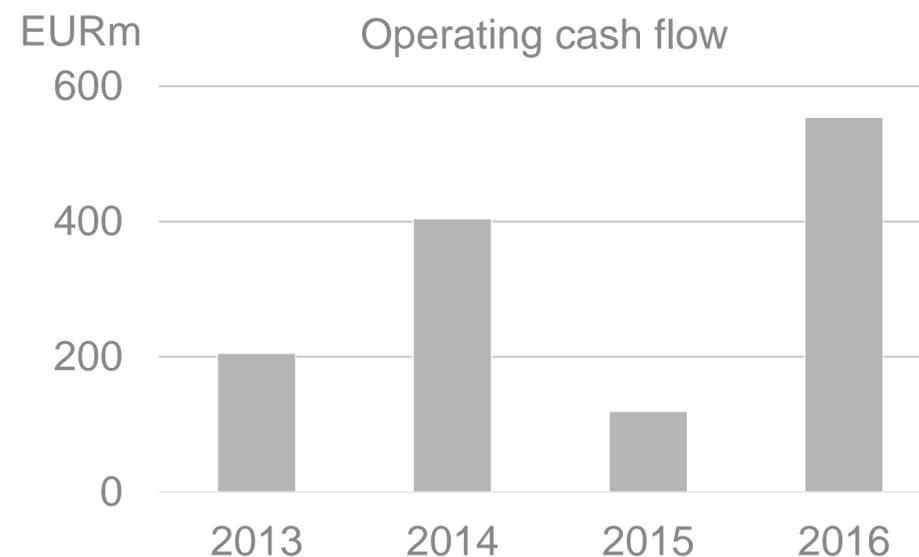
Sales 2016



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 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

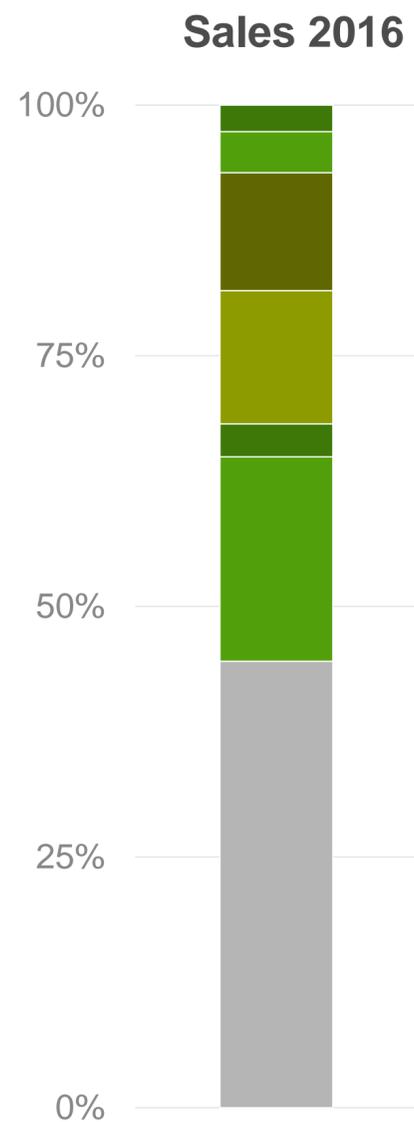


Under construction

- Kymi pulp mill expansion
- Raflatac expansion in Poland



Focused investments are delivering growth

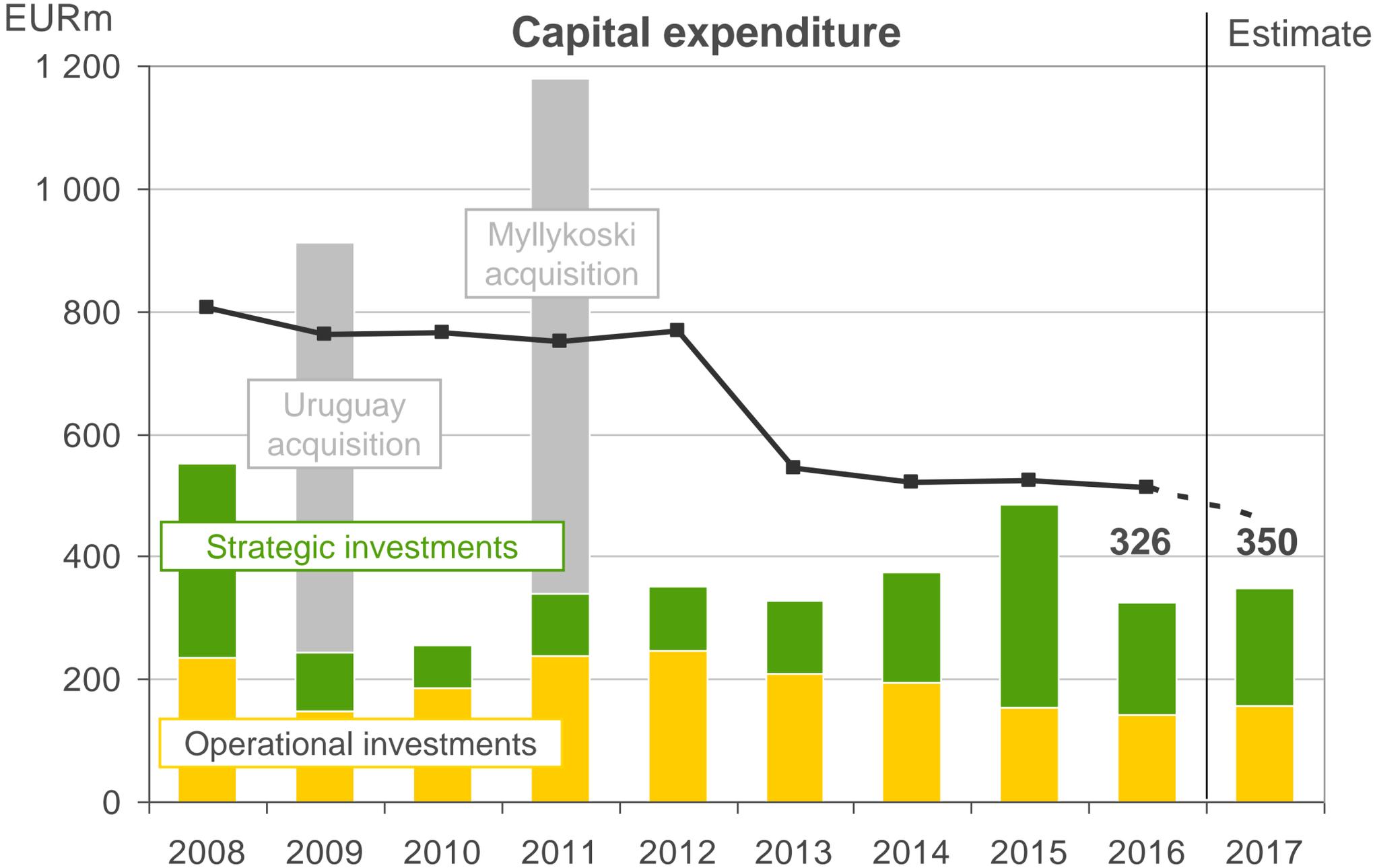


Average delivery growth 2011 –2016

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%



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





Maturity profile and liquidity

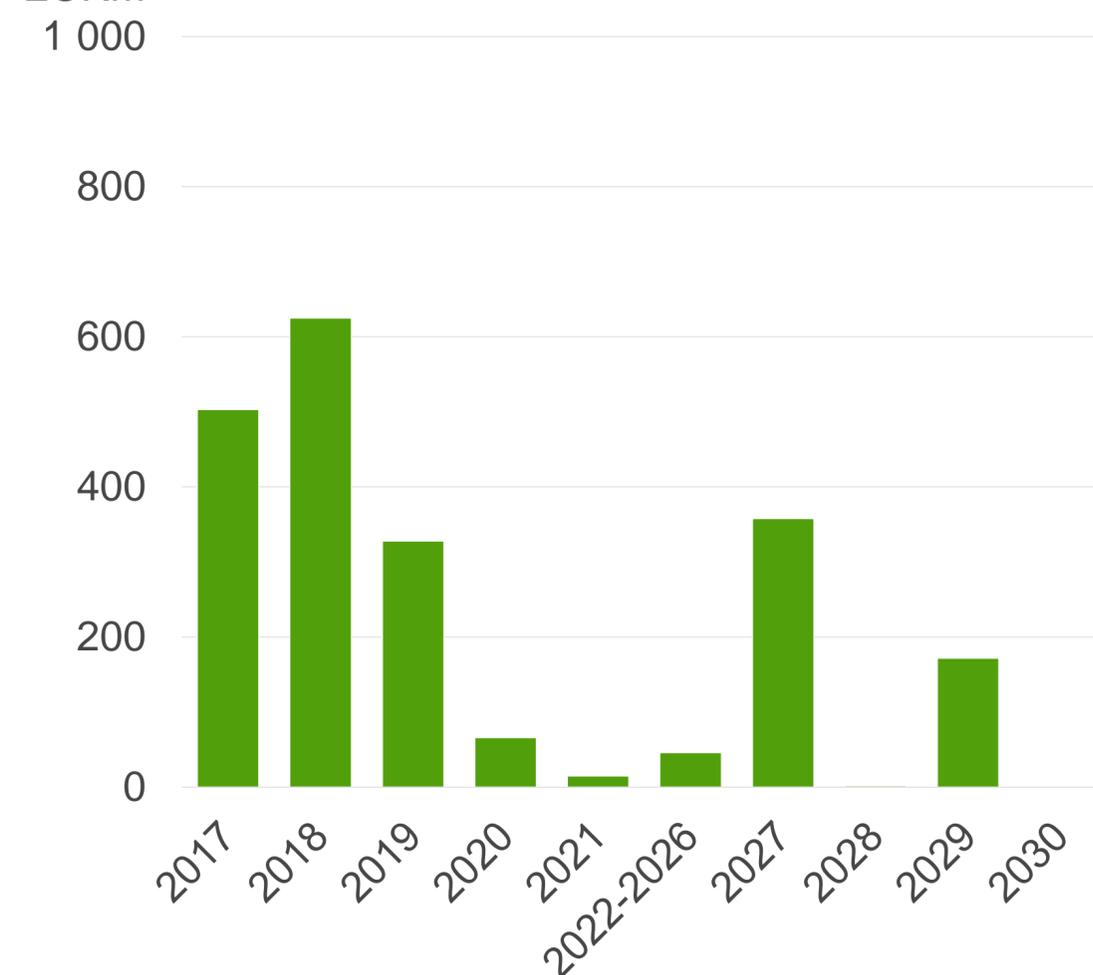
Liquidity

Liquidity was EUR 1.6bn on 31 December 2016
(cash and unused credit facilities)

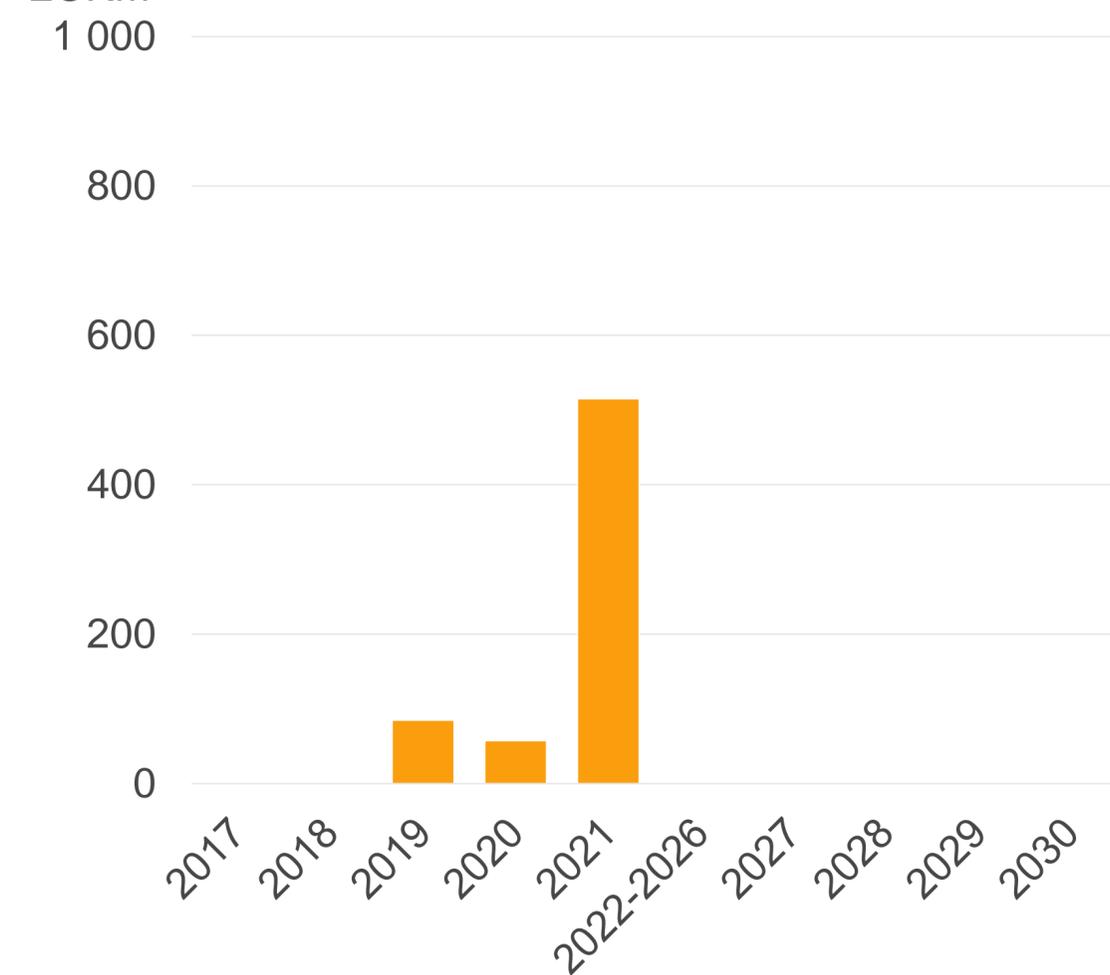
Committed credit facilities

Bilateral committed credit facilities EUR 656m

EURm Maturity profile of outstanding debt

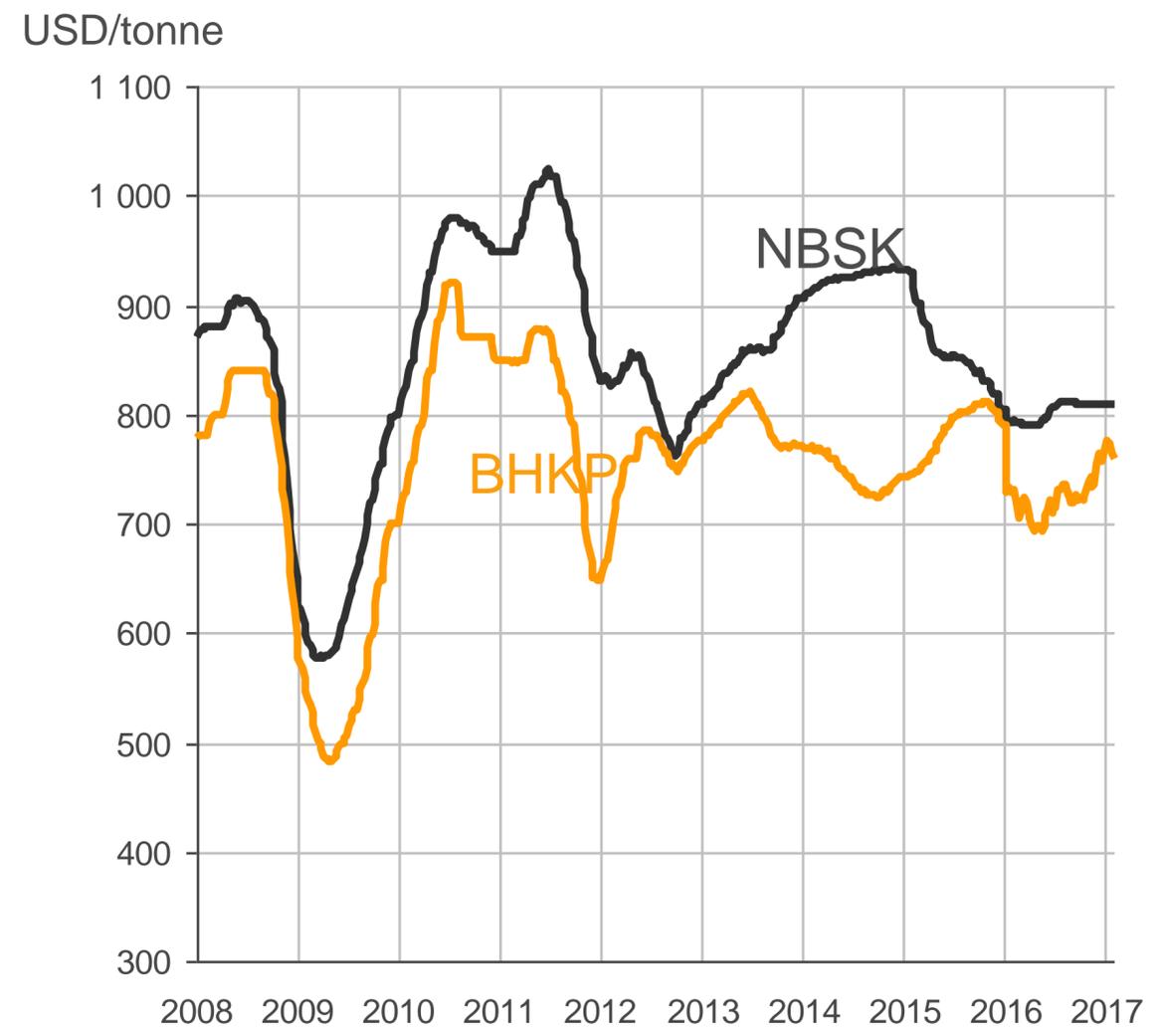


EURm Committed credit facilities' maturities



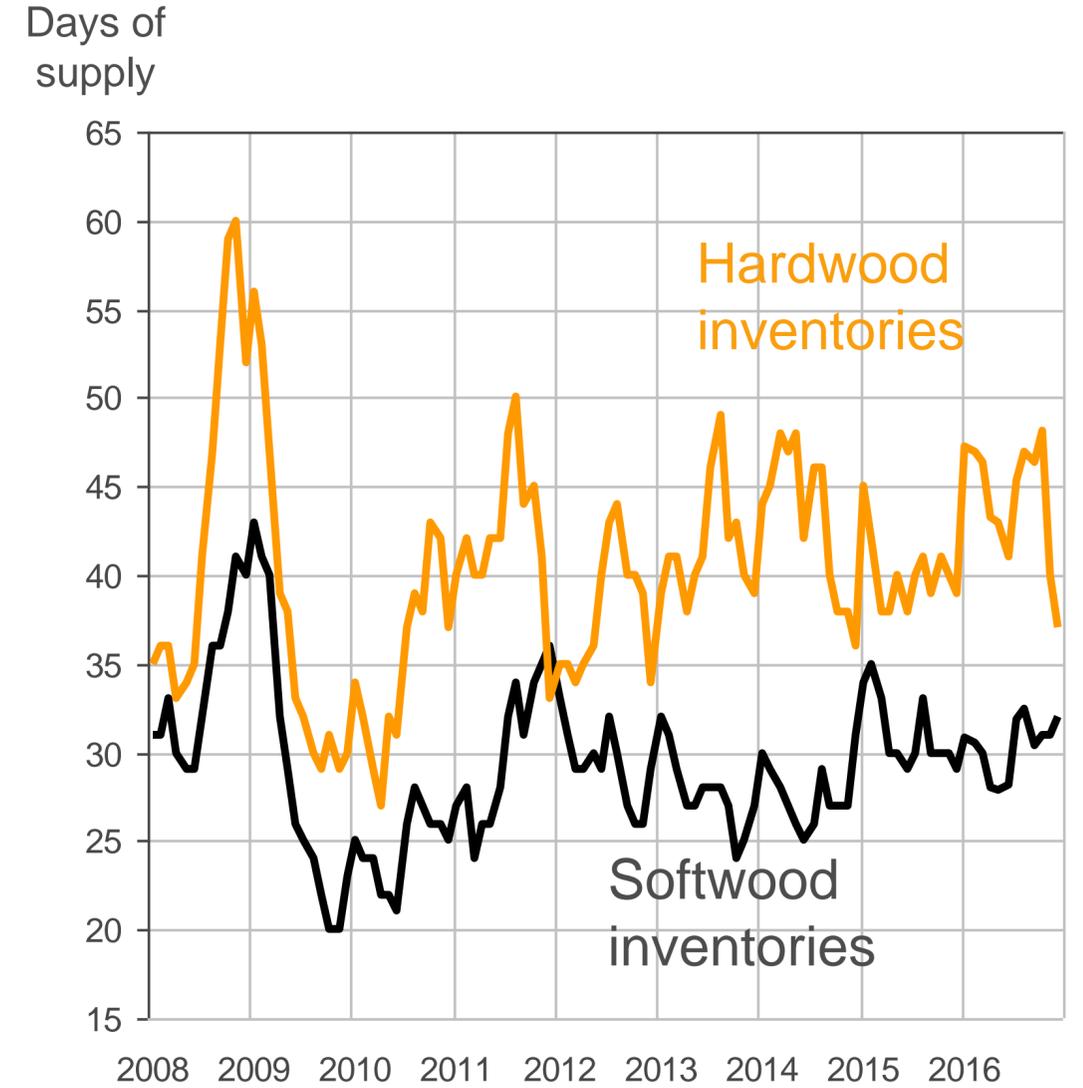
Chemical pulp market

Q4 NBSK pulp price remained stable from Q3
Q4 BHKP pulp price decreased 2% from Q3



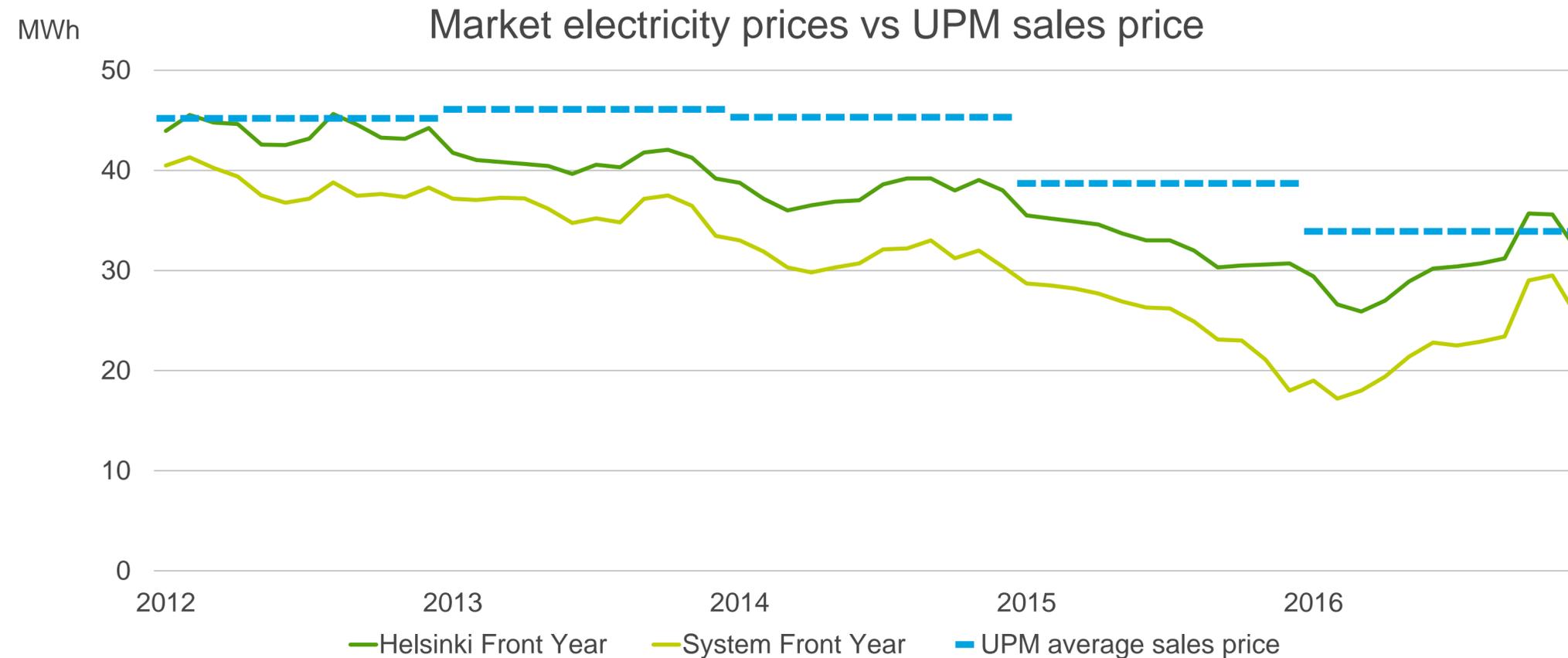
Source: FOEX Indexes Ltd.

Pulp inventories



Source: PPPC World-20 statistics

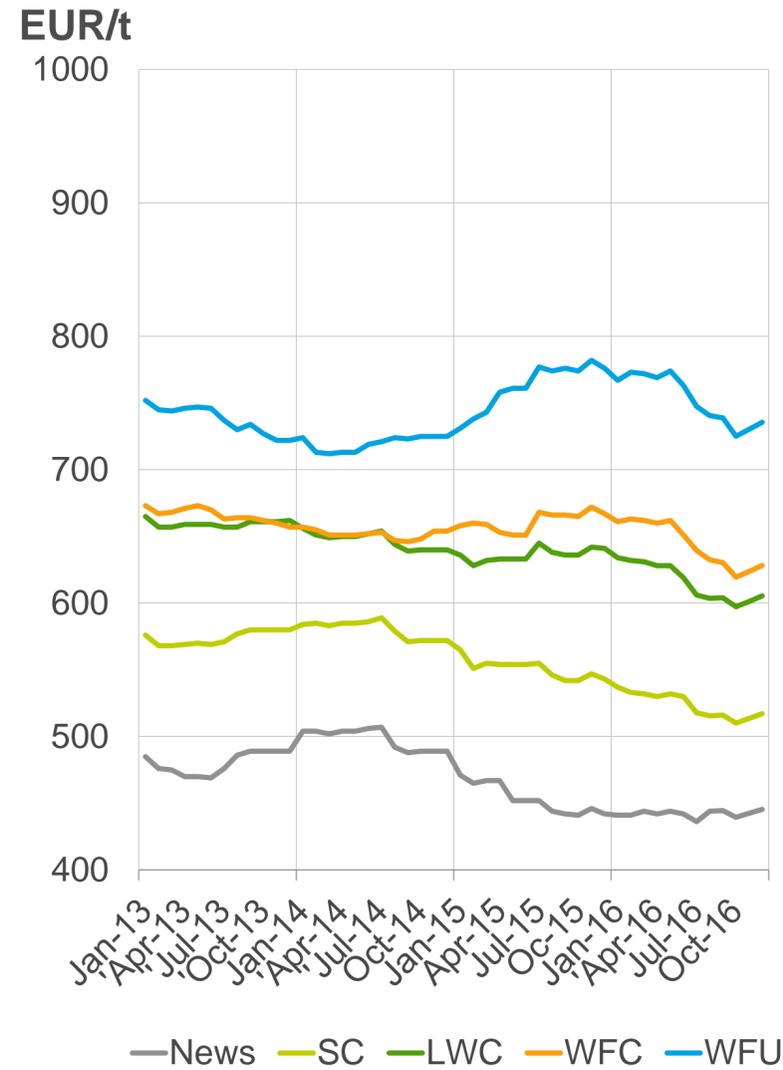
Cost efficient generation enables robust profitability also in challenging market environment



UPM Energy profitability	2012	2013	2014	2015	2016
Comparable EBIT, EURm	217	186	202	181	116
% of sales	45.0	39.9	43.5	43.6	32.7

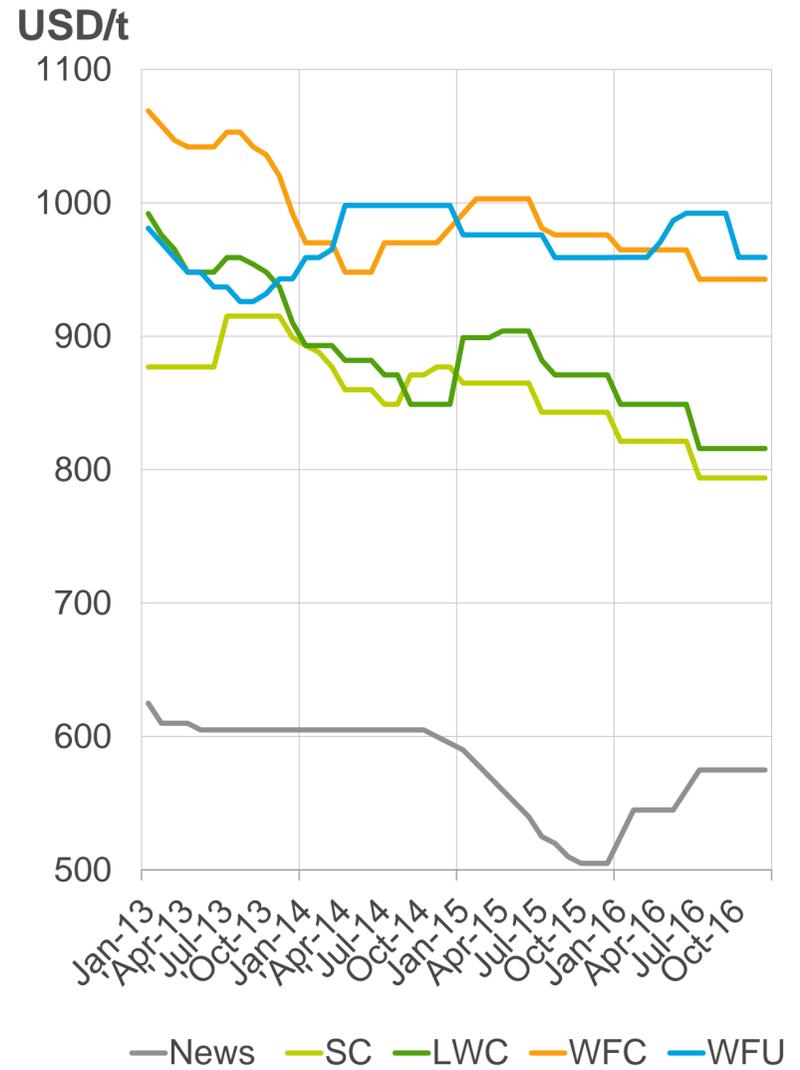
Graphic paper prices

Europe

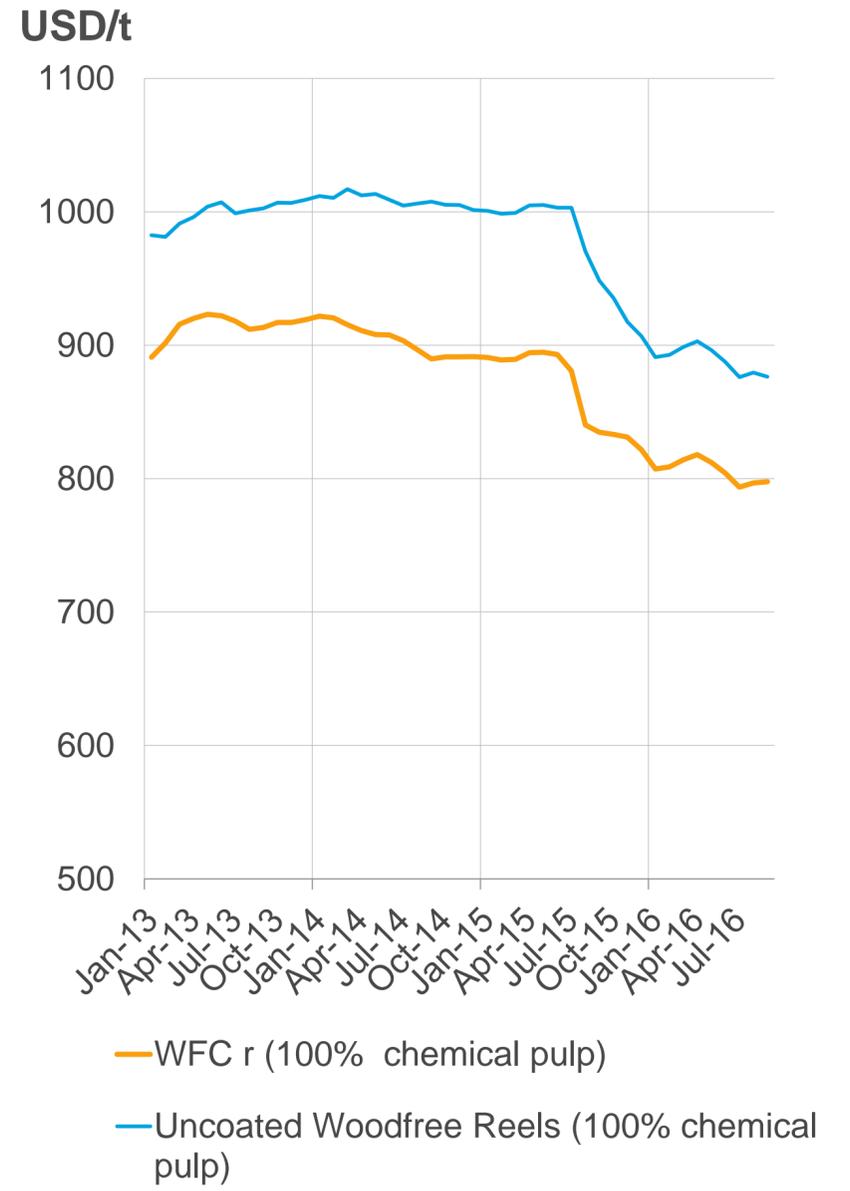


Sources: PPI, RISI

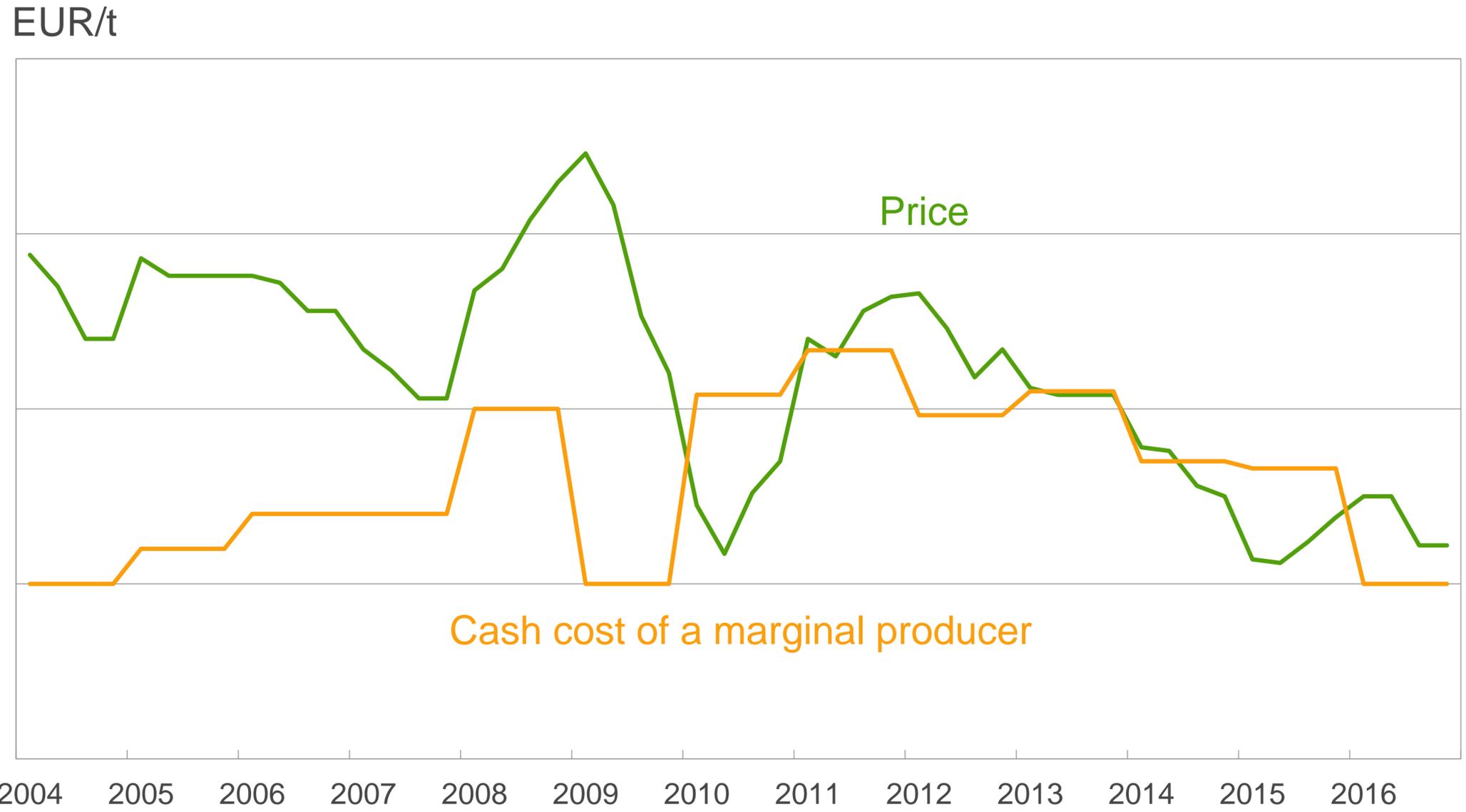
North America



China



Demand-supply balance in European graphic paper is visible in margins



Sources: PPI, RISI, Pöyry



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