

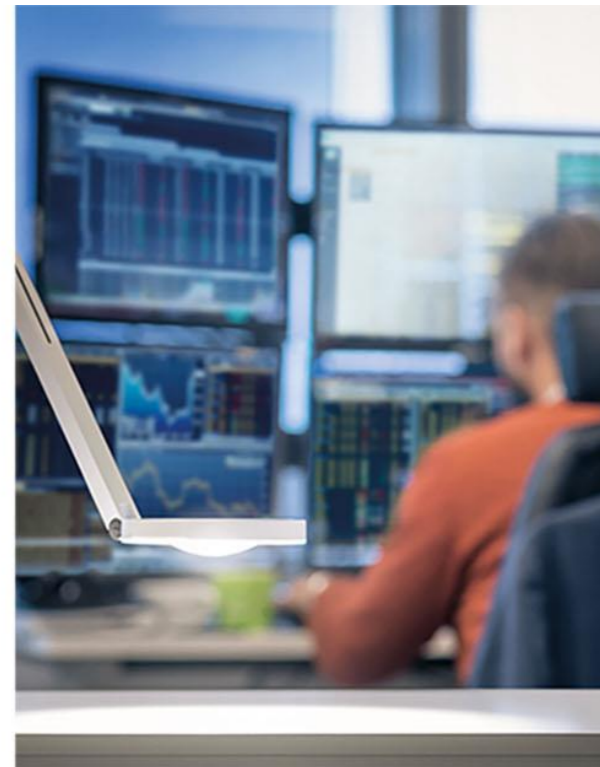
ANNUAL GENERAL MEETING 2017

AIMING HIGHER

WITH BIOFORE

Jussi Pesonen
President and CEO

UPM today



UPM BIOREFINING

Pulp
Biofuels
Timber

UPM ENERGY

Electricity
generation and
trading

UPM RAFLATAC

Label
materials for
product and
information
labelling

UPM SPECIALTY PAPERS

Label papers,
release liners,
office papers
and flexible
packaging

UPM PAPER ENA

Magazine
papers,
newsprint and
fine papers

UPM PLYWOOD

Plywood and
veneer
products

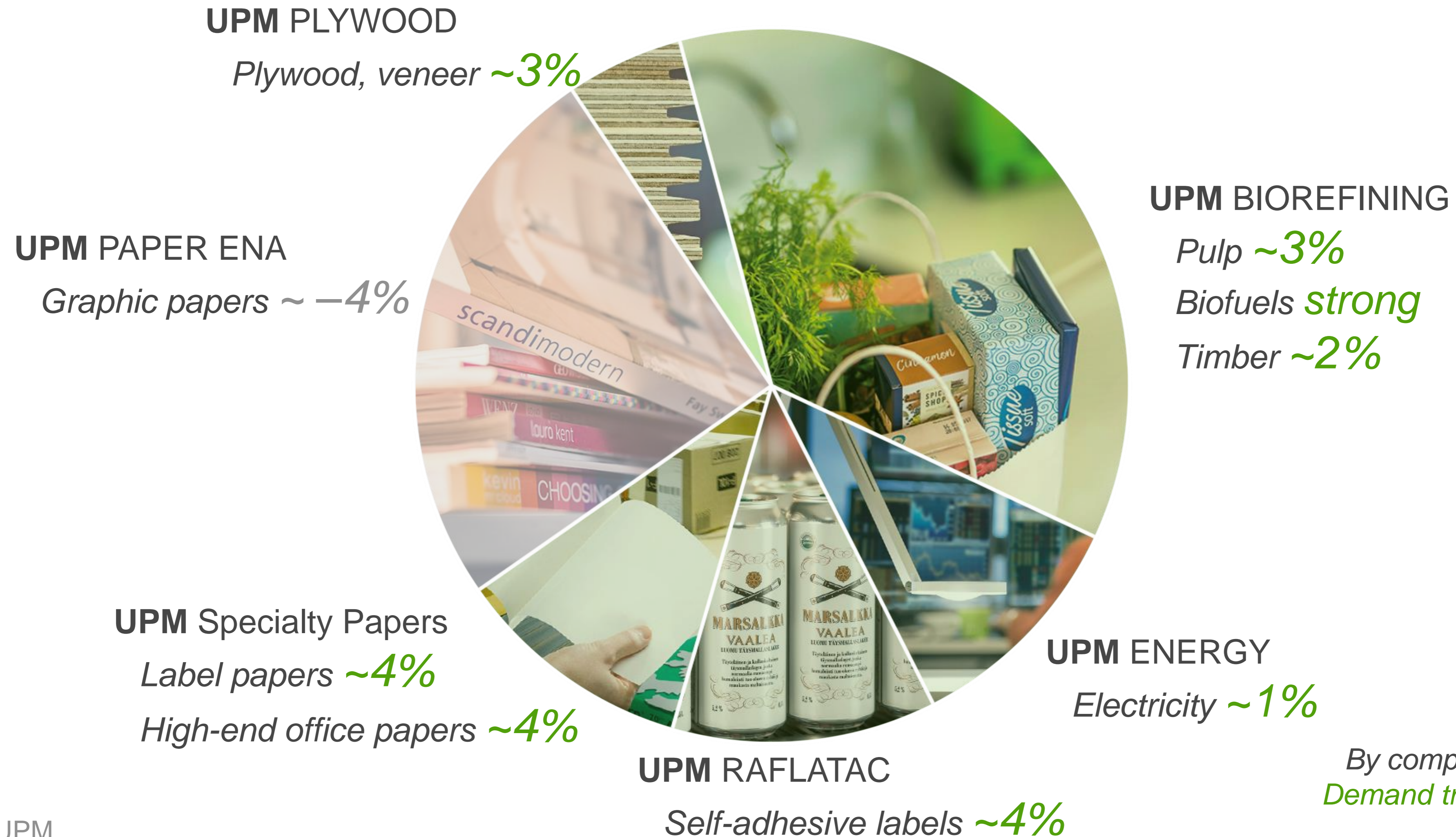
UPM BIOCOMPOSITES

UPM
BIOCHEMICALS

WOOD SOURCING
AND FORESTRY

Competitive businesses with strong market positions

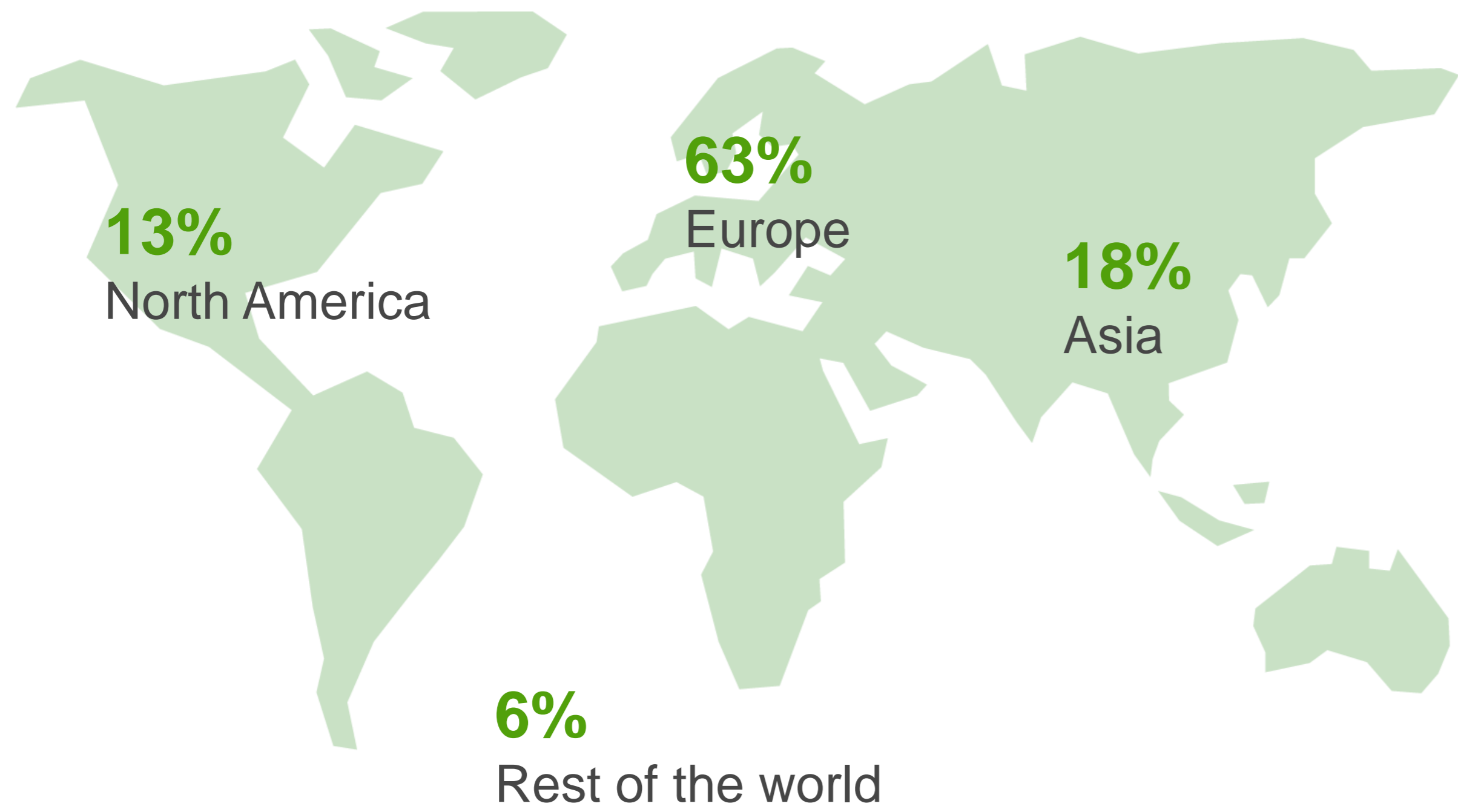
Operating on healthily growing markets



By comparable EBIT 2016
Demand trend growth, % pa

Global businesses – local presence

UPM's sales by market 2016
EUR 9,812 million



54
production plants in
12 countries



19,300
employees
in **45** countries

12,000
customers
in **120** countries

85,000
shareholders
in **40** countries

55,000
suppliers
in **70** countries

Contents

- Results 2016
- Responsibility is good business
- UPM in transformation
- Aiming higher

RESULTS 2016



UPM's operating model is showing results – record-strong year 2016

Top performance

Comparable EBIT
+25%

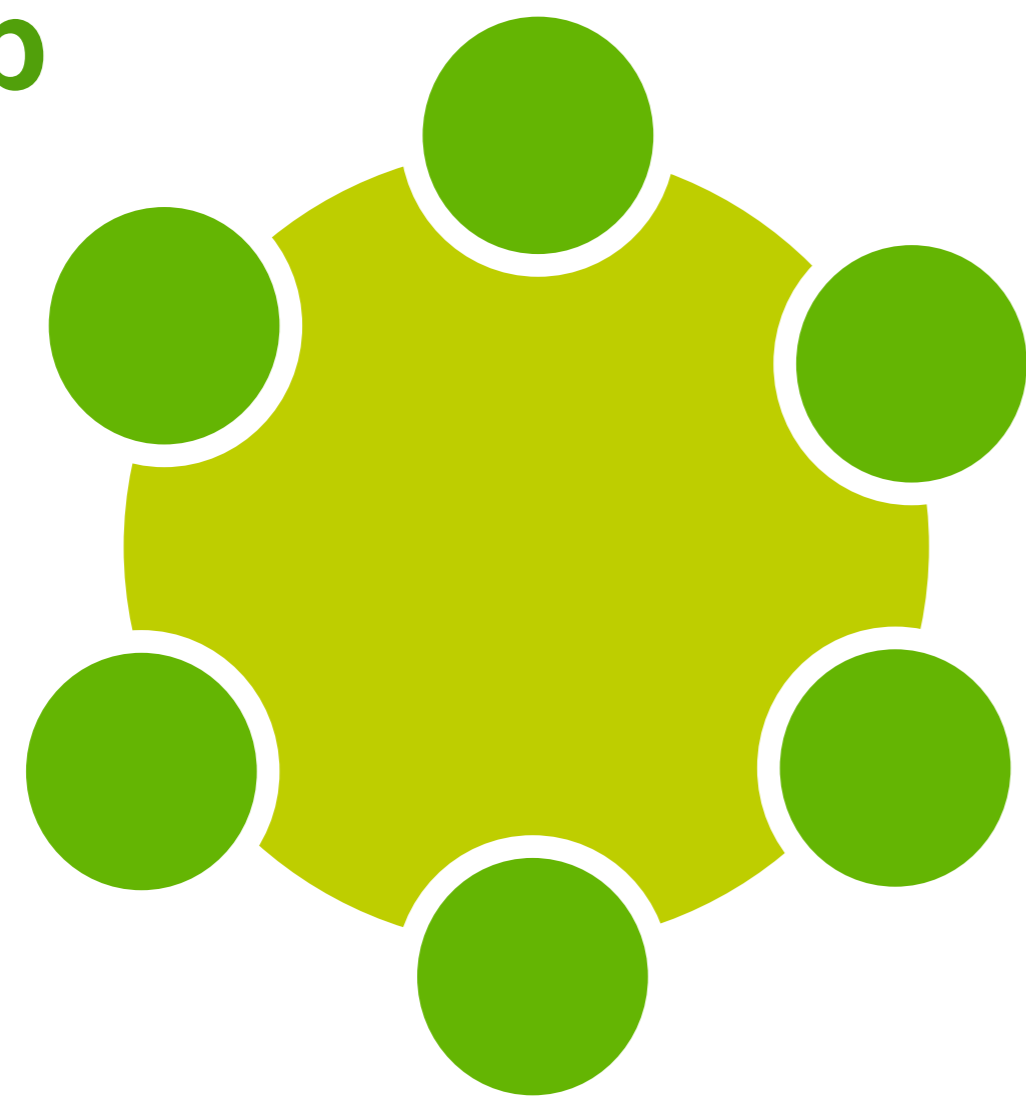
Comparable ROE
+1,4pp

Strong cash flow

Operating cash flow
+42%

Attractive dividend

Dividend proposal
+27%



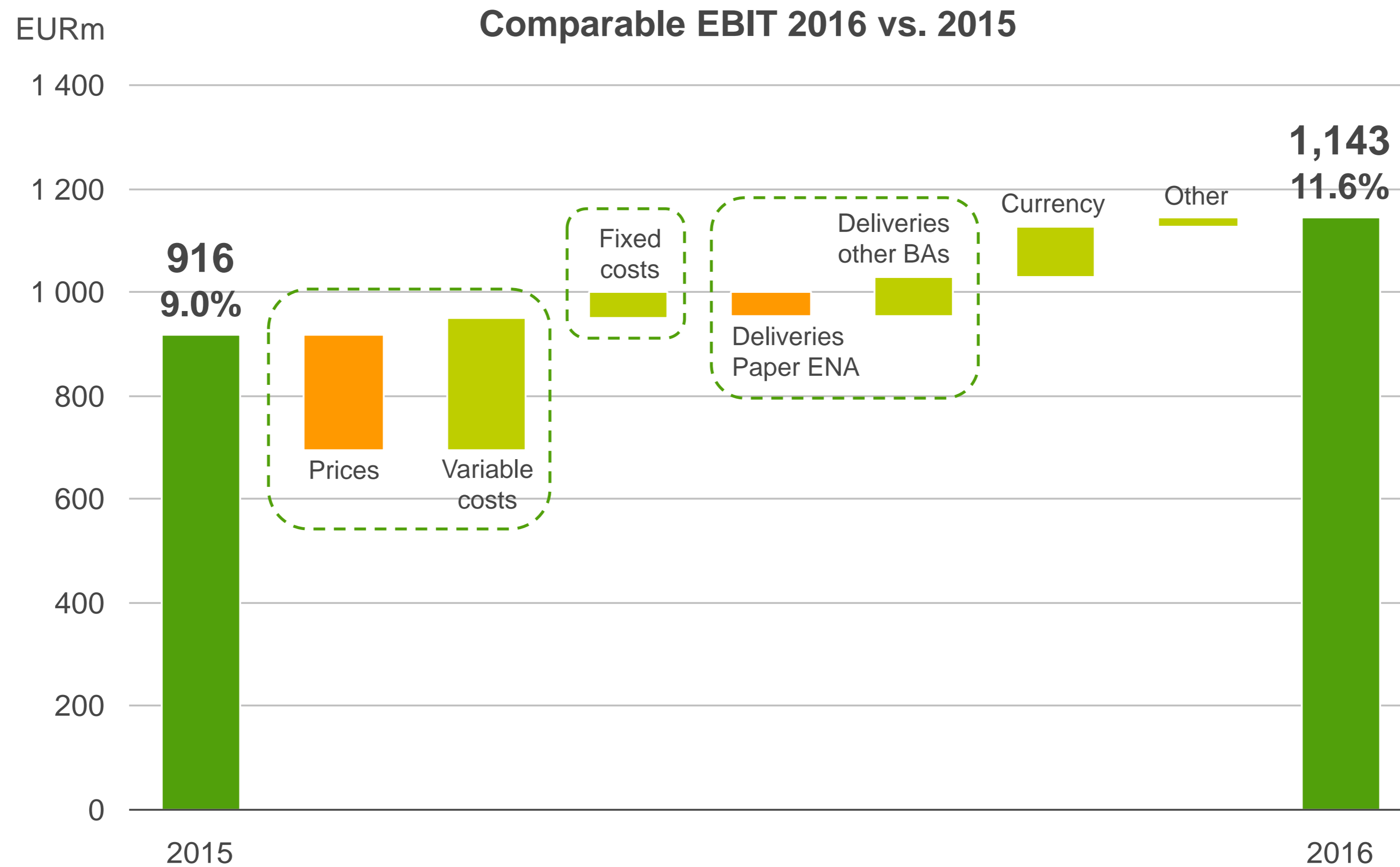
Focused investments
Attractive returns

Net debt reduction
-46%

Industry-leading balance sheet

Net debt /EBITDA
0.73x

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



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

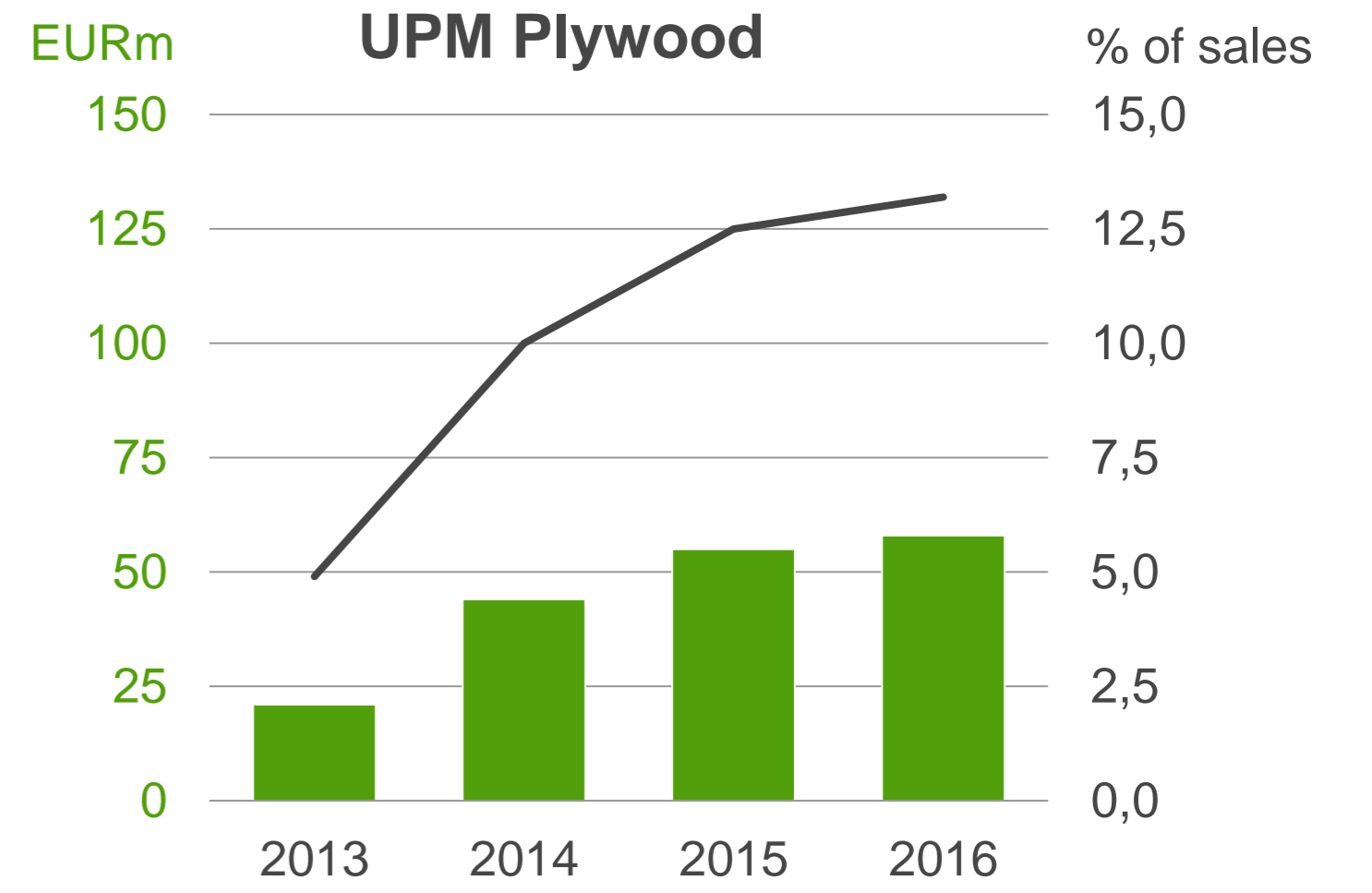
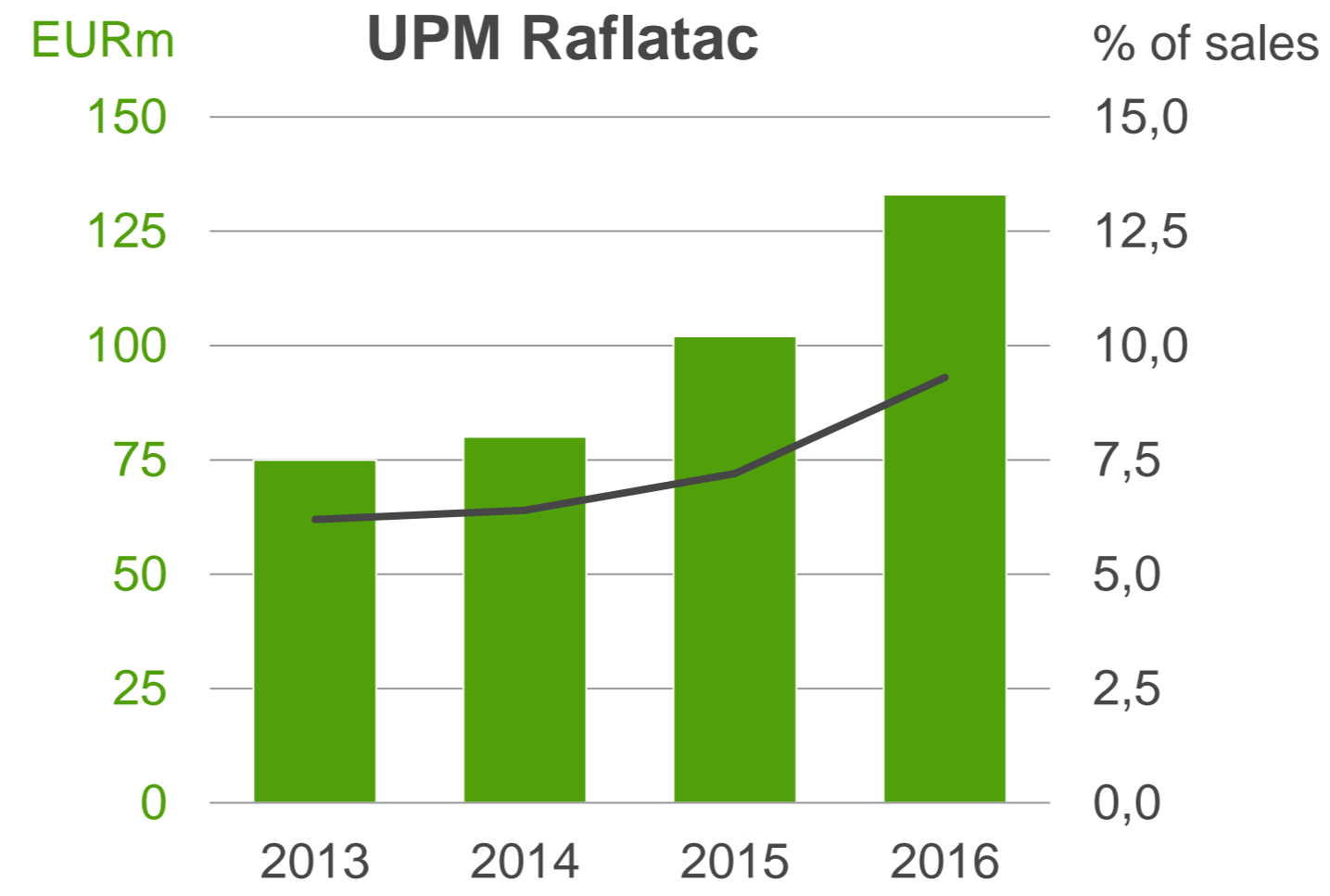
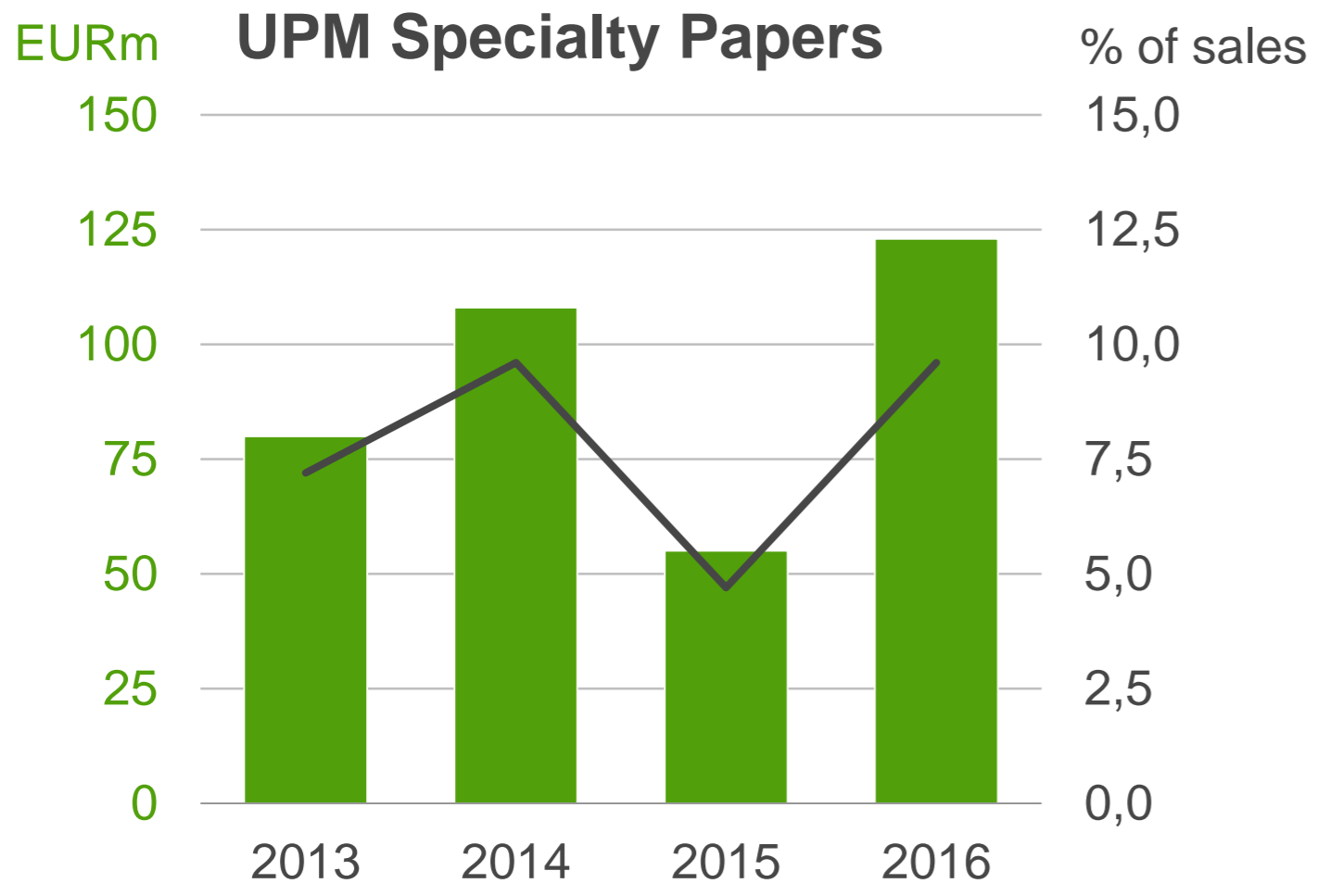
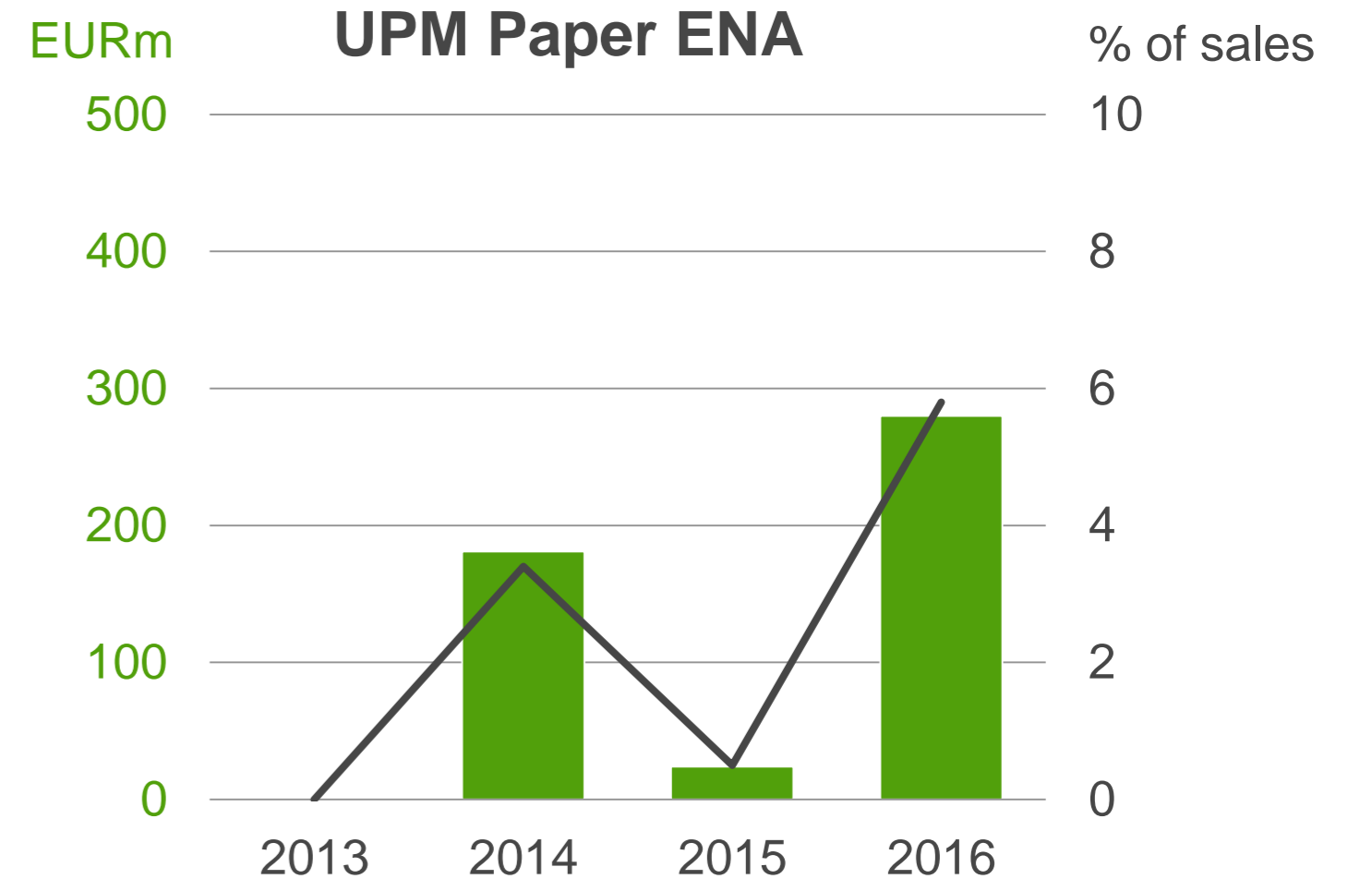
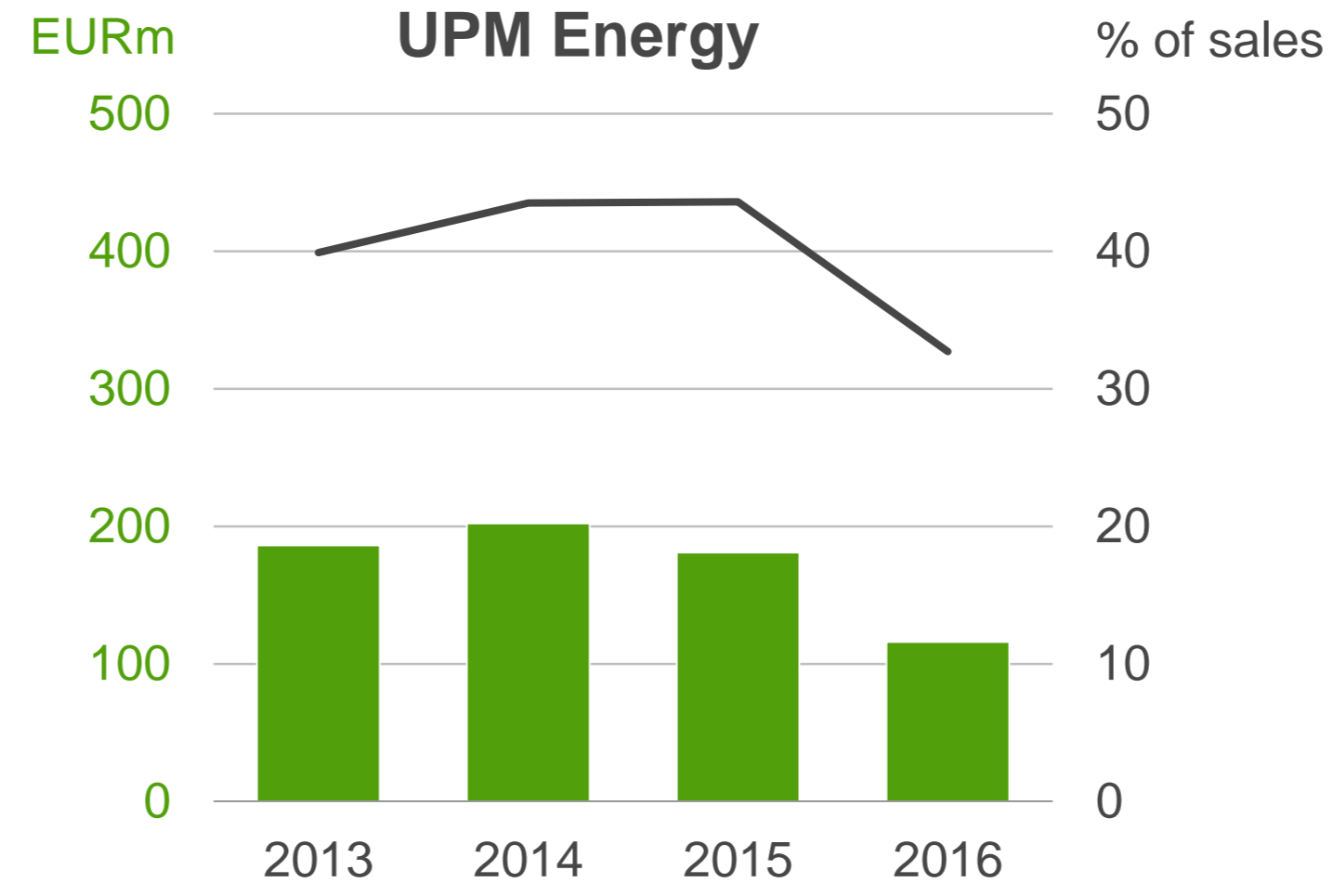
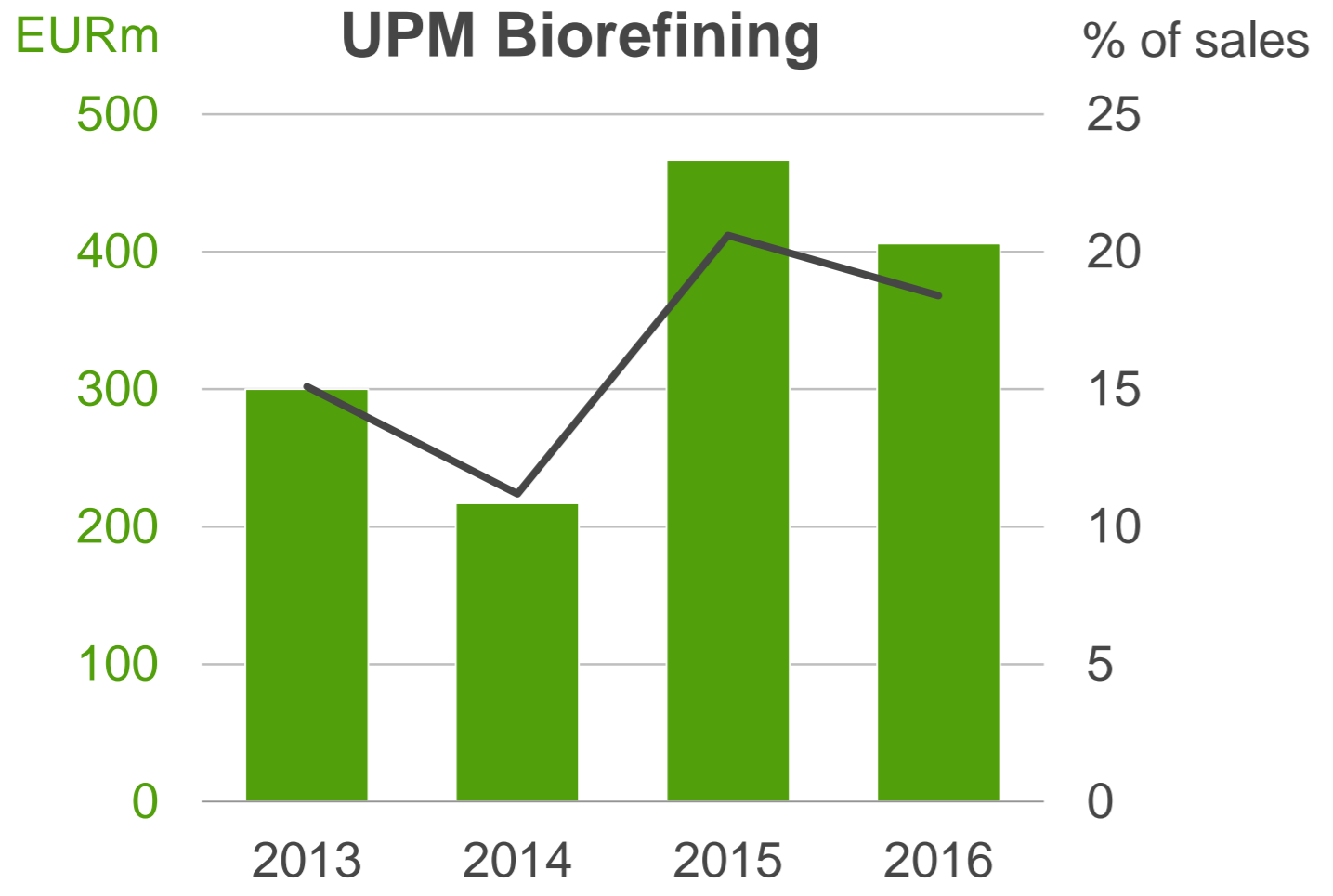
- Otepää plywood mill expansion
- Kaukas pulp mill efficiency



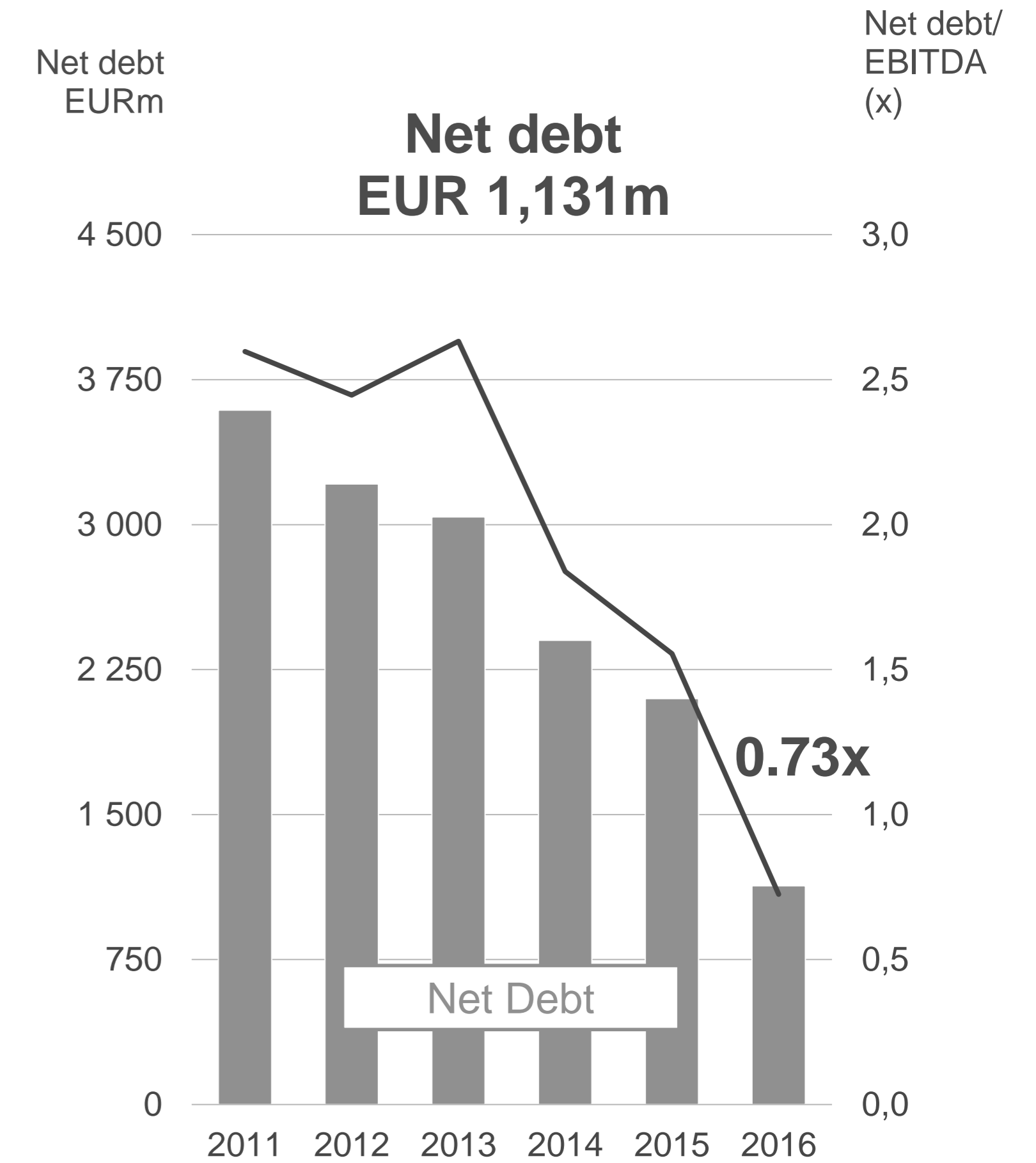
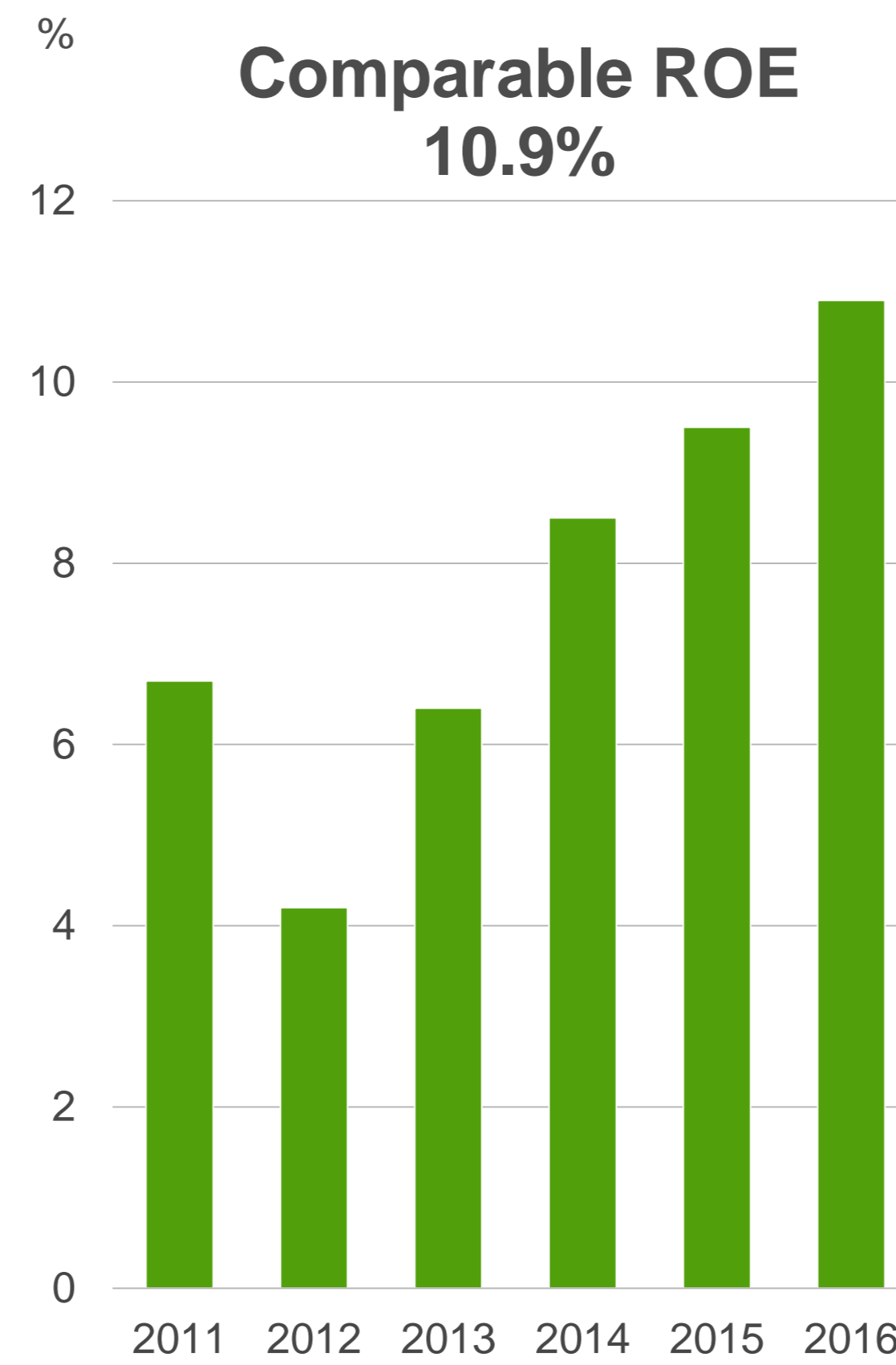
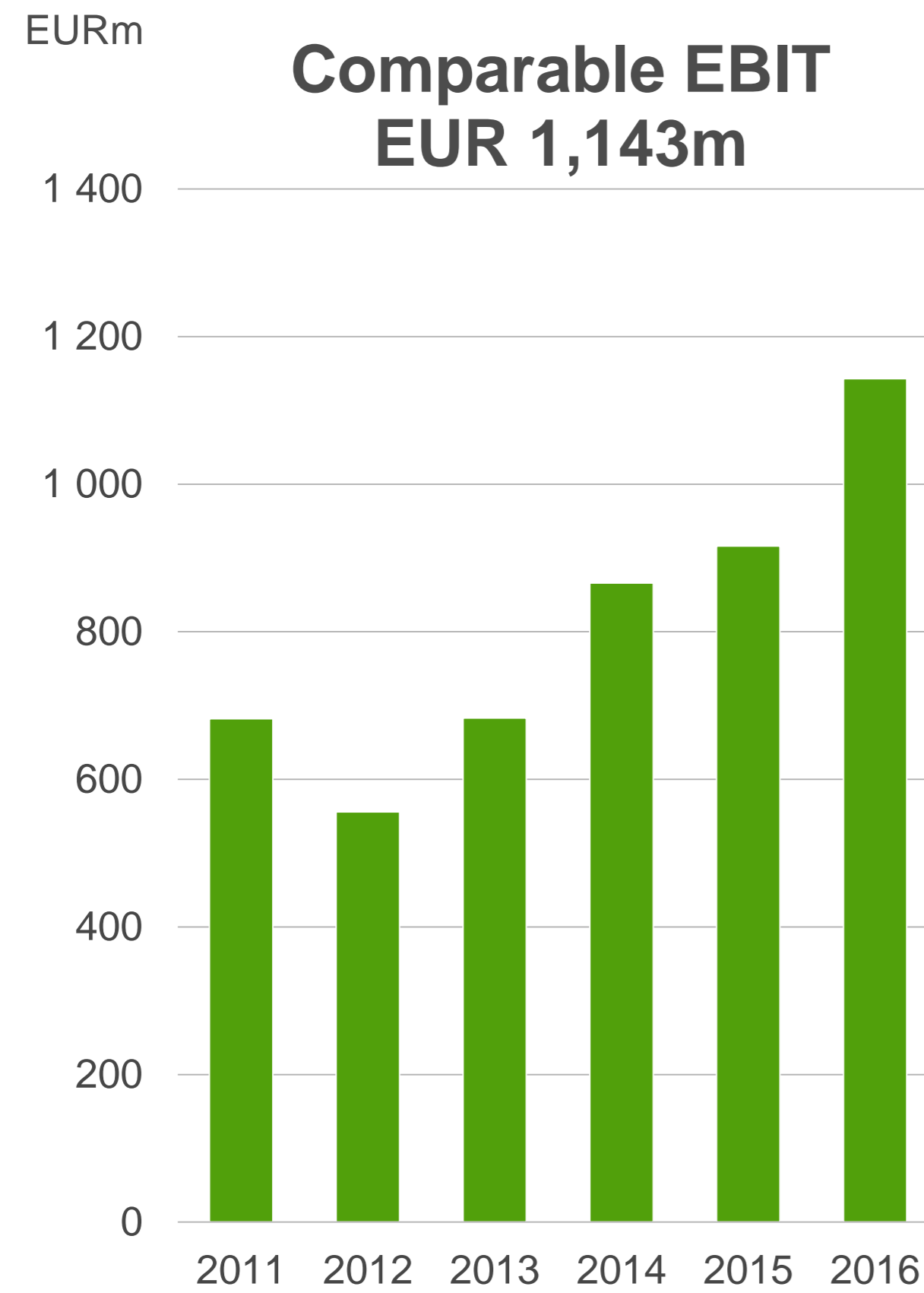
Under construction

- Kymi pulp mill expansion
- Raflatac expansion in Poland

Comparable EBIT by business area



Group financial performance



*Comparable figures for 2014-2016,
excluding special items for earlier years*

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.



The Biofore Company **UPM**

RESPONSIBILITY IS GOOD BUSINESS

Responsibility is good business

MORE WITH BIOFORE



Creating value through products and innovation



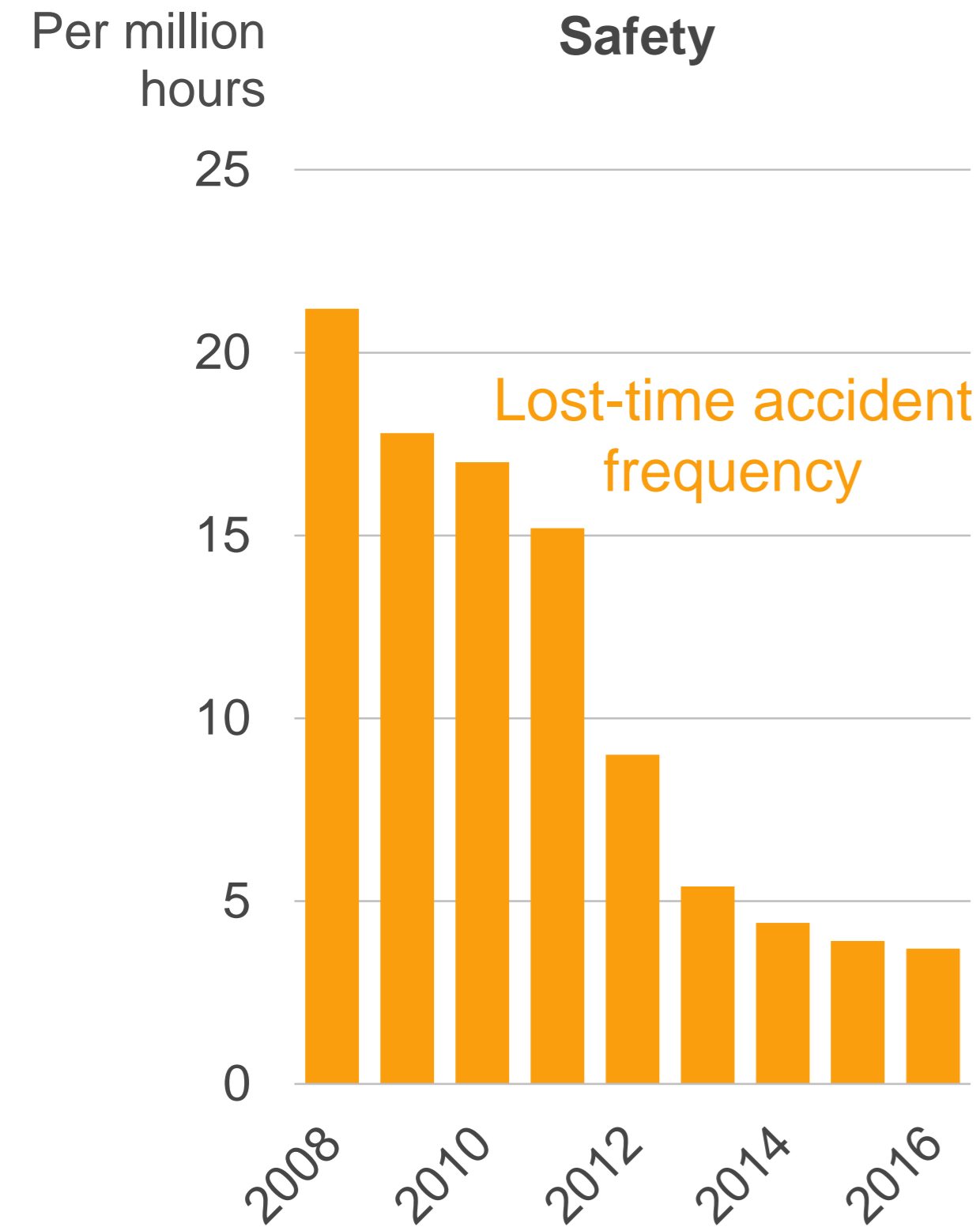
Creating competitive advantage and long-term value



Risk mitigation by responsible value chain and production

"We believe that customers, investors and other stakeholders value responsible operations that keep risks under control and add to our business opportunities, thereby increasing the company value."

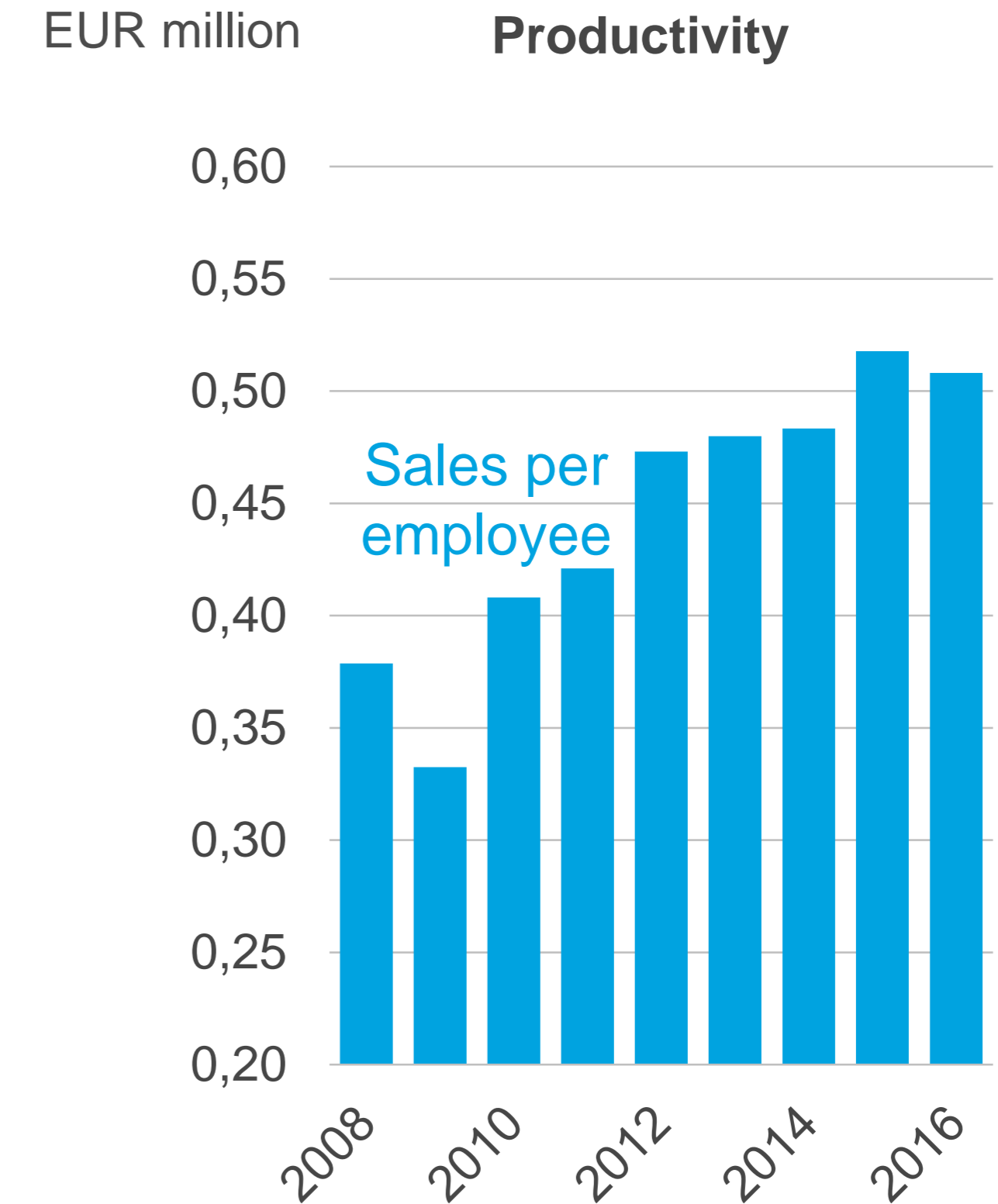
Creating competitive advantage and long-term value by engagement



5-year change:
-76%



5-year change:
+9



5-year CAGR:
+4% pa

Creating competitive advantage and long-term value by efficiency

Case: UPM Changshu mill in China



Water

-60%

Per tonne of paper



Energy

-30%

Per tonne of paper



Waste to landfill

-60%

Per tonne of paper



Certified fibre

85%

In 2015

2015 compared to 2005



COD in effluent

-75%

Per tonne of paper



SO₂ emission

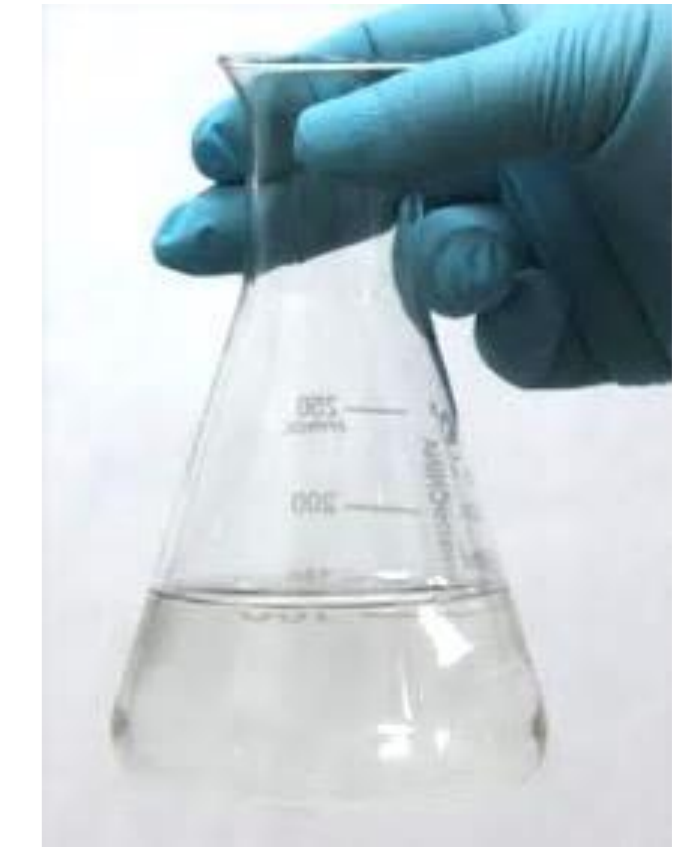
-90%

Per tonne of paper

Water intake



Water discharge



Source: UPM

Creating value through products and innovation



UPM BioVerno – turning residue into high-quality renewable diesel

-80%

fossil CO₂ emissions

100%

wood-based material



Consistent long-term work receives external recognition

UPM in sustainability indices



MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM



MORE WITH BIOFORE



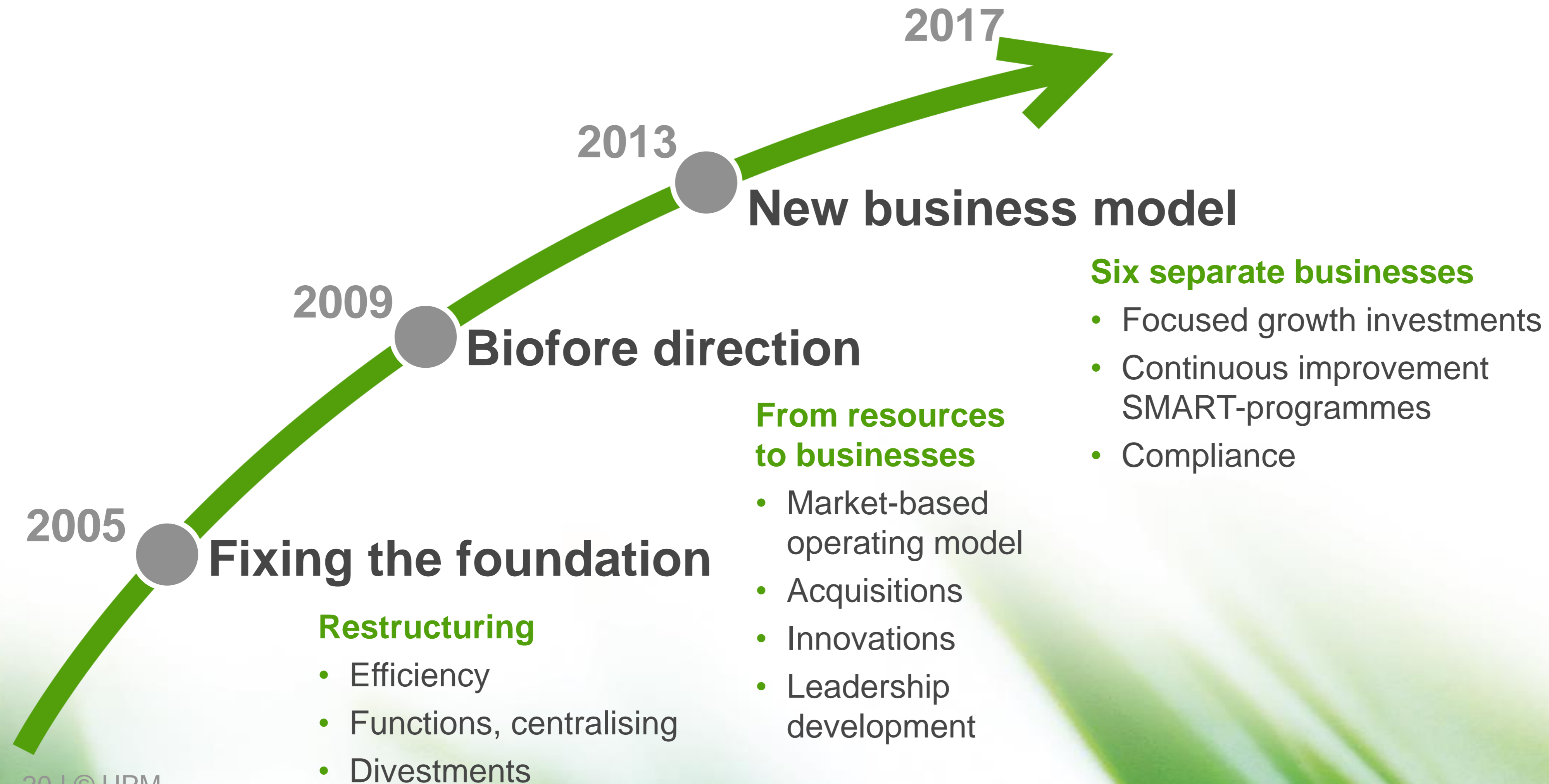
Sustainable and Responsible (SRI) investors form a significant part of UPM's shareholders



Source: Nasdaq, September 2016

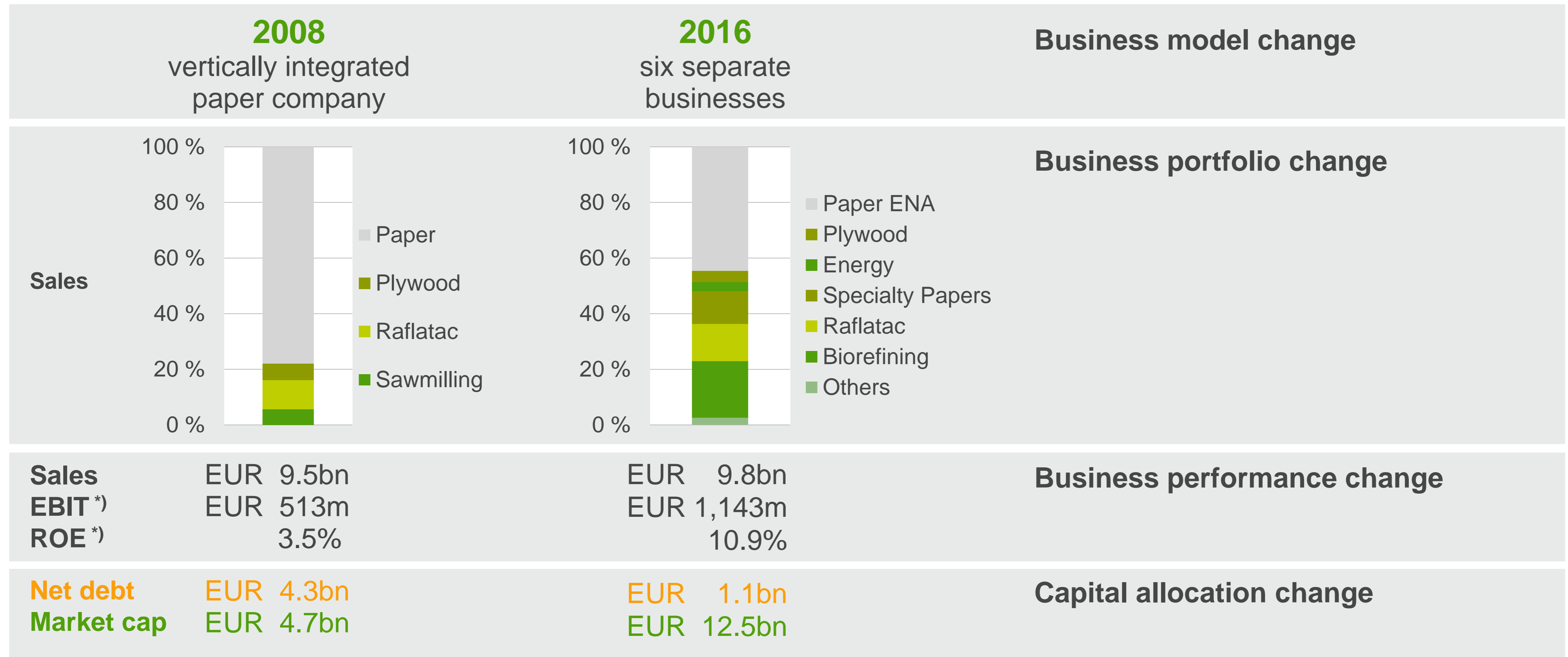
UPM IN TRANSFORMATION

2016 performance is the result of 10 years of transformation



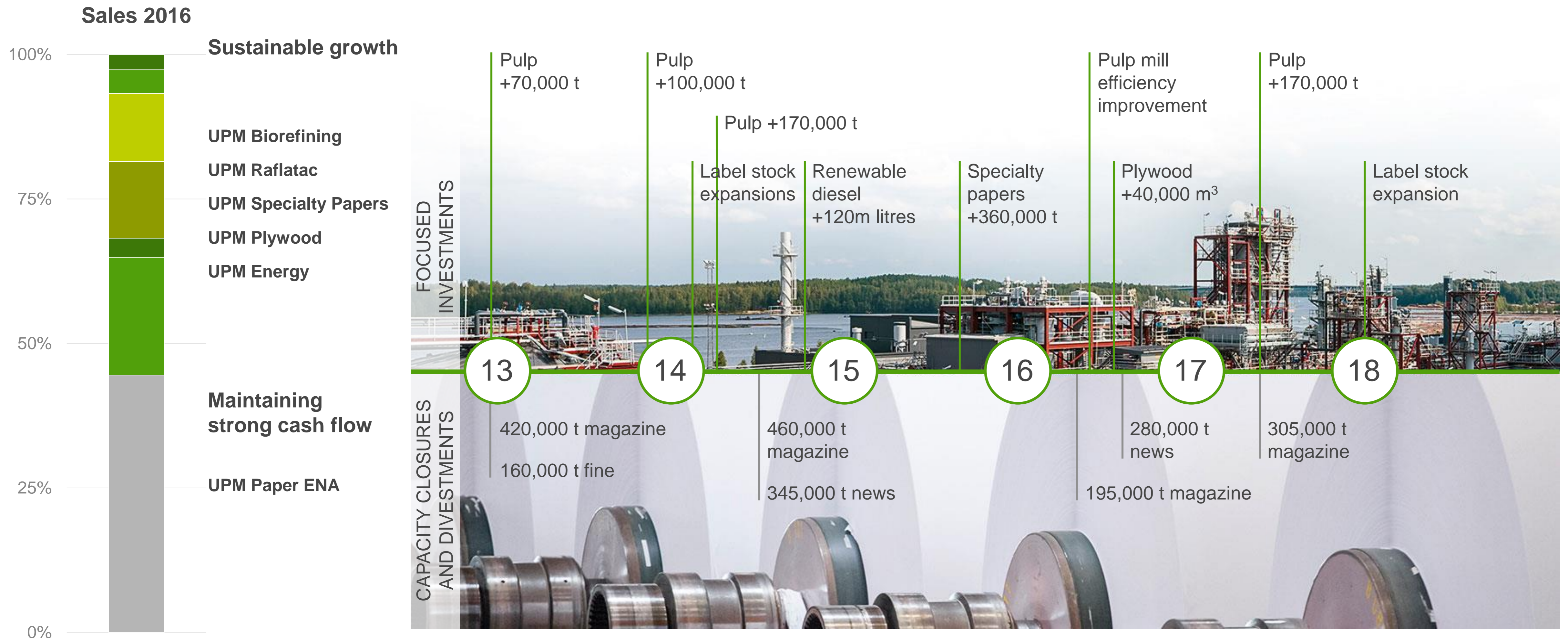


Transformation progress so far



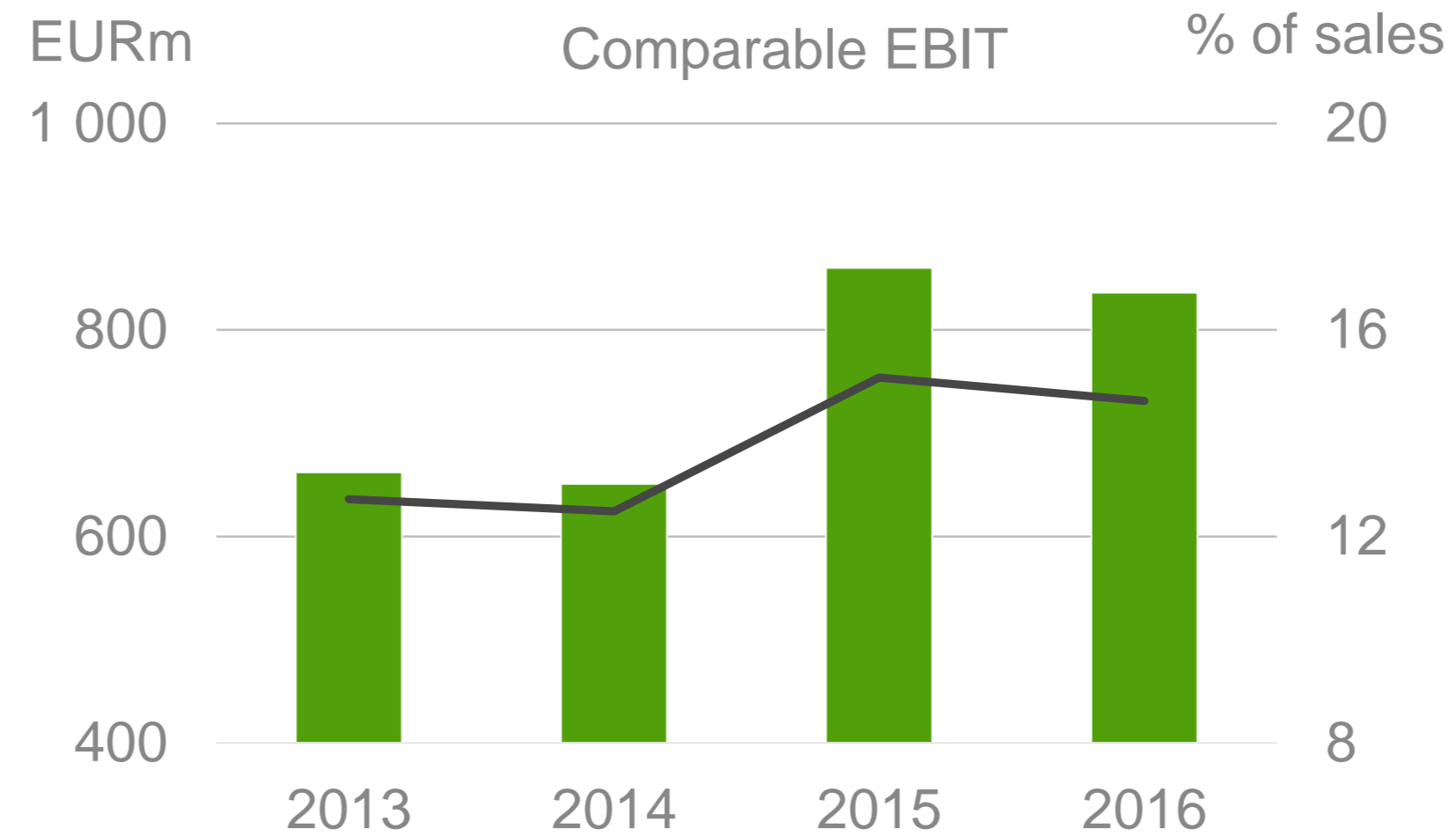
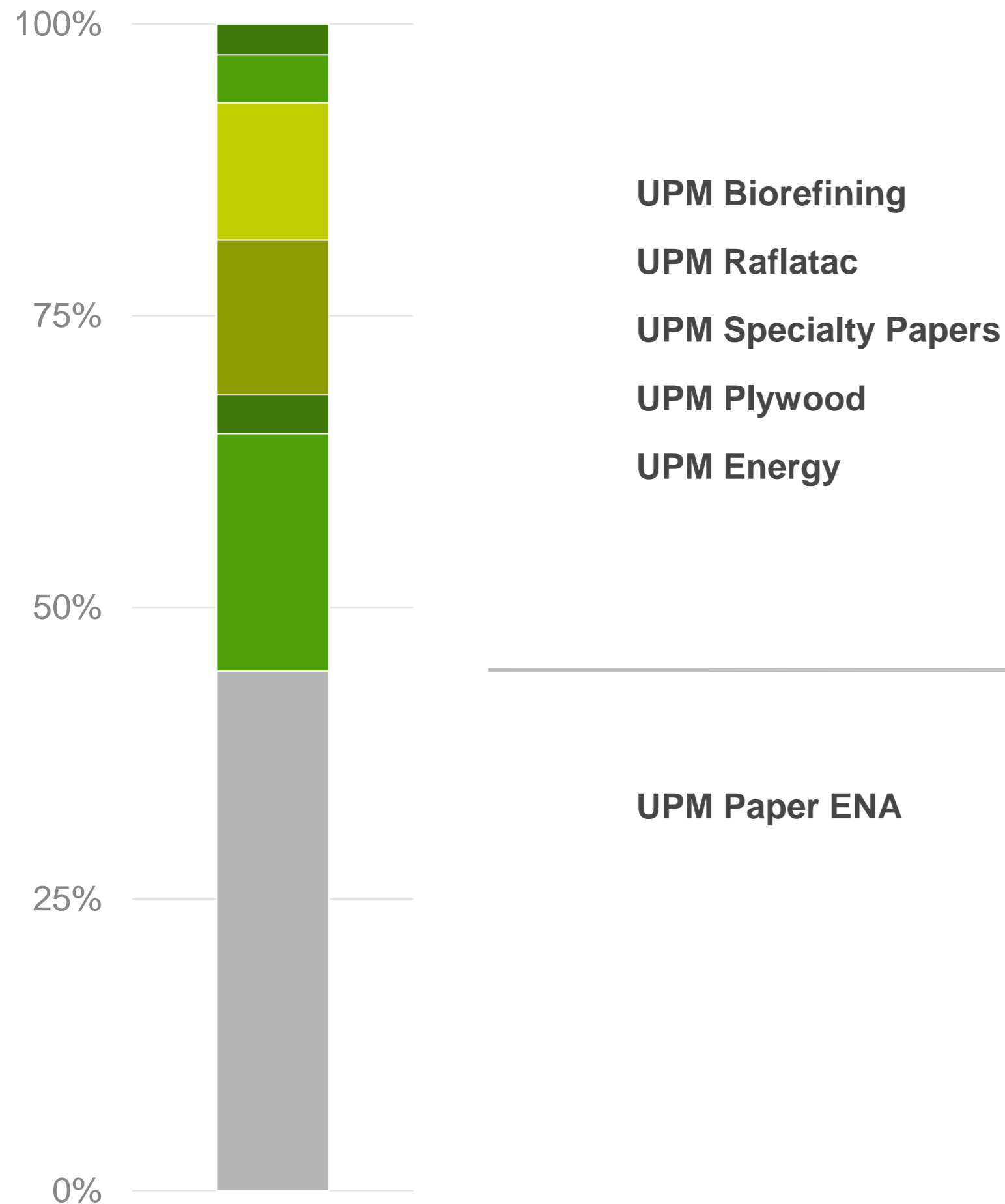
*) excluding special items for 2008, comparable figures for 2016

Increasing share of businesses with strong long-term fundamentals for profitability and growth



Value creation through sustainable growth and cash generation

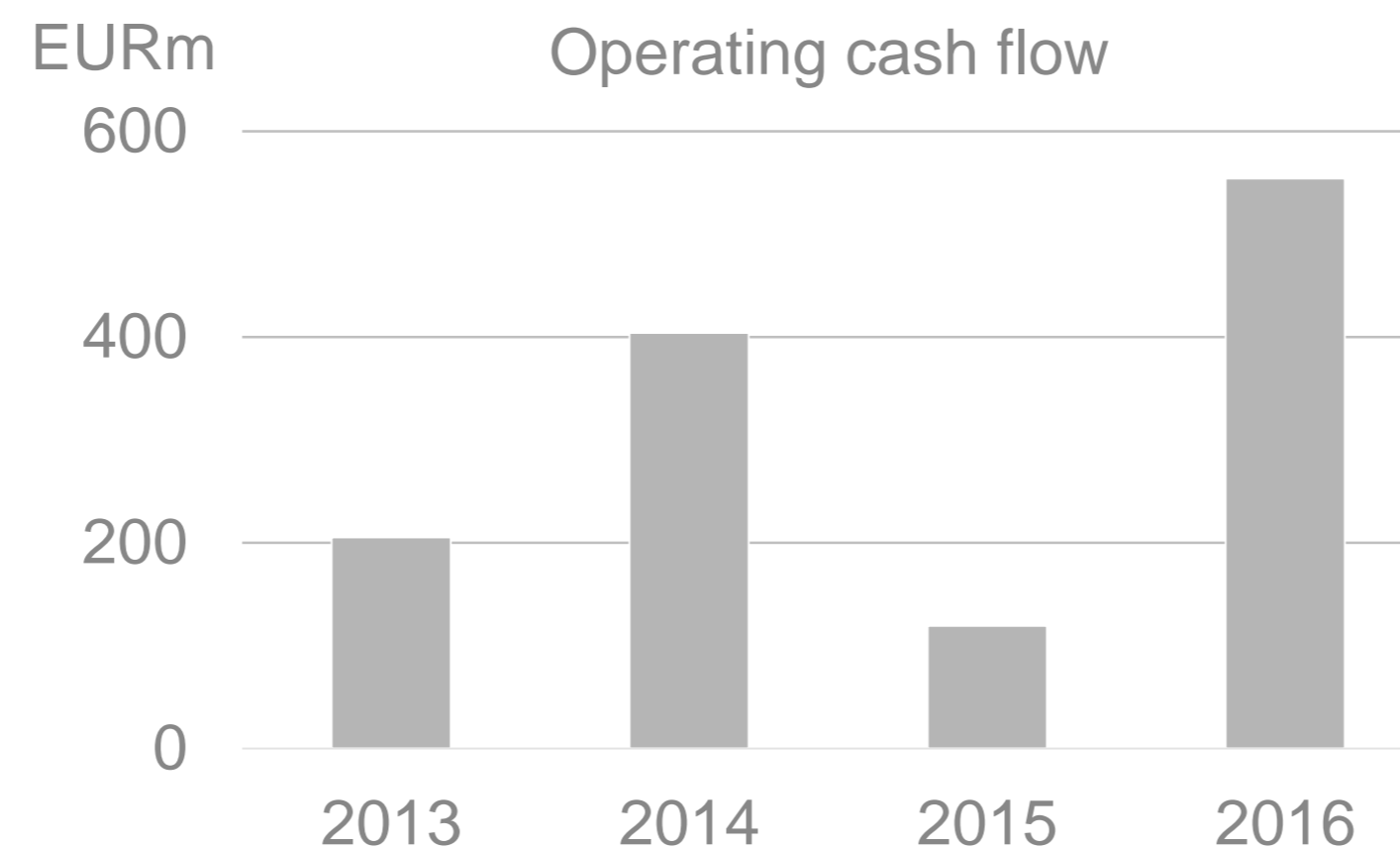
Sales 2016



Sustainable growth

- Commercial success
- Cost efficiency
- Focused growth investments
- Product mix development

UPM Paper ENA



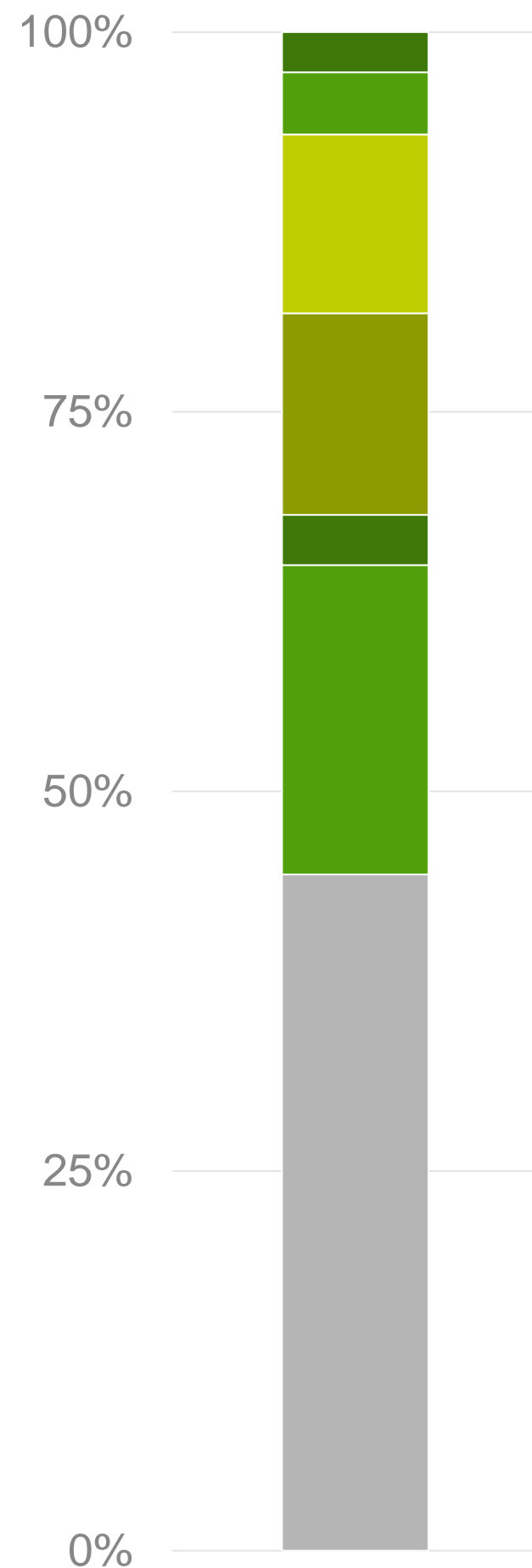
Maintain strong cash flow

- Commercial success
- Cost efficiency
- Efficient use of assets, including restructuring



Focused investments are delivering growth

Sales 2016



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

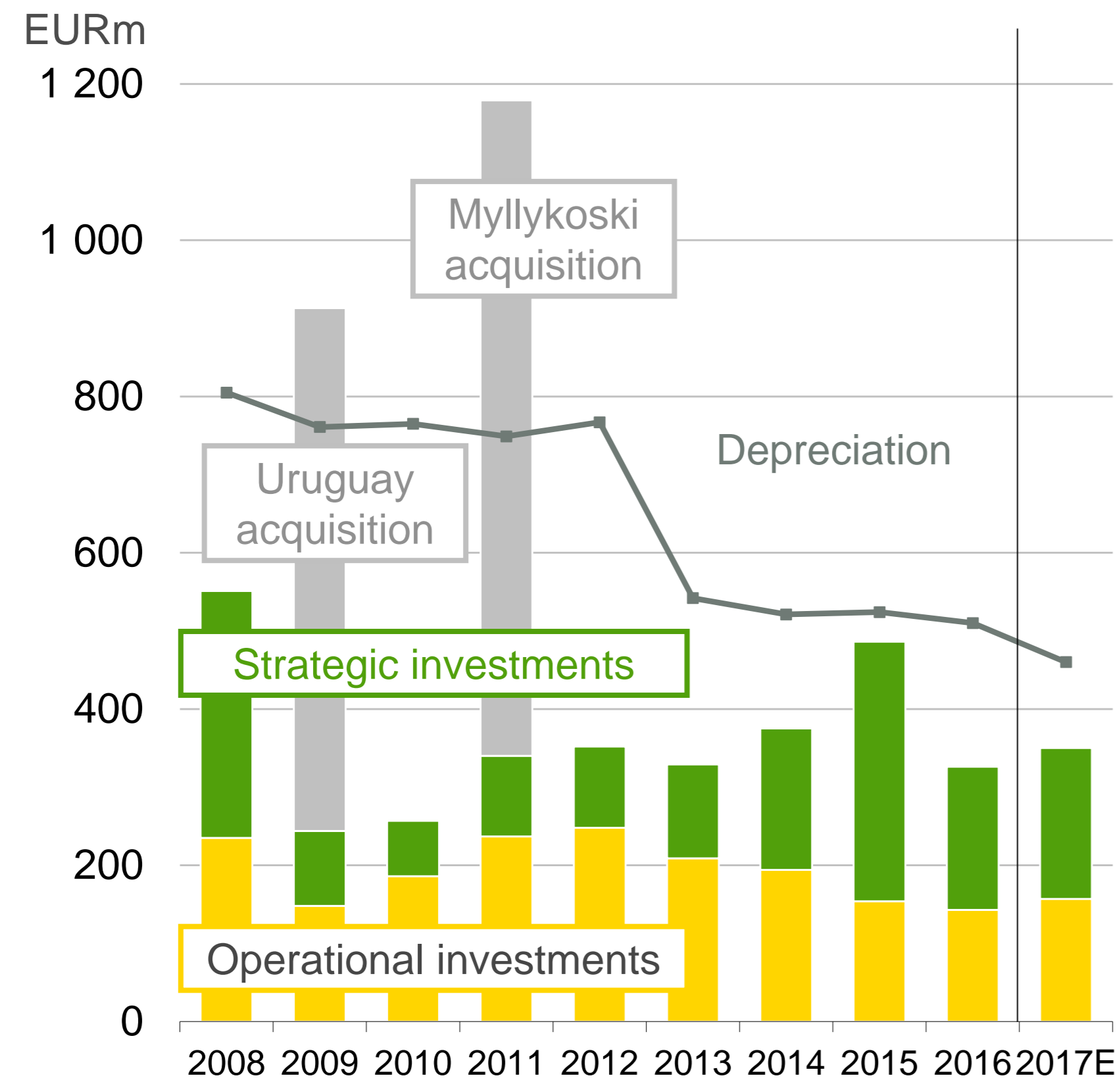
Plywood

CAGR **+3%**



UPM will continue to invest on growth through focused investments

Capital expenditure



Focused growth investments

- Sustainable returns, fast payback
- Low implementation risk
- Financed from operating cash flow

Potential larger investments

- Organic growth or M&A
- When the opportunity and timing are right

 Attractive returns and continuously strong balance sheet

Uruguay could be a competitive alternative – time schedule is several years



Biofuels and biochemicals are natural evolutionary steps in wood based value creation



EVOLUTION OF WOOD USAGE



Biofuels



Biochemicals



Pulp



Paper



Labels



Timber



Plywood

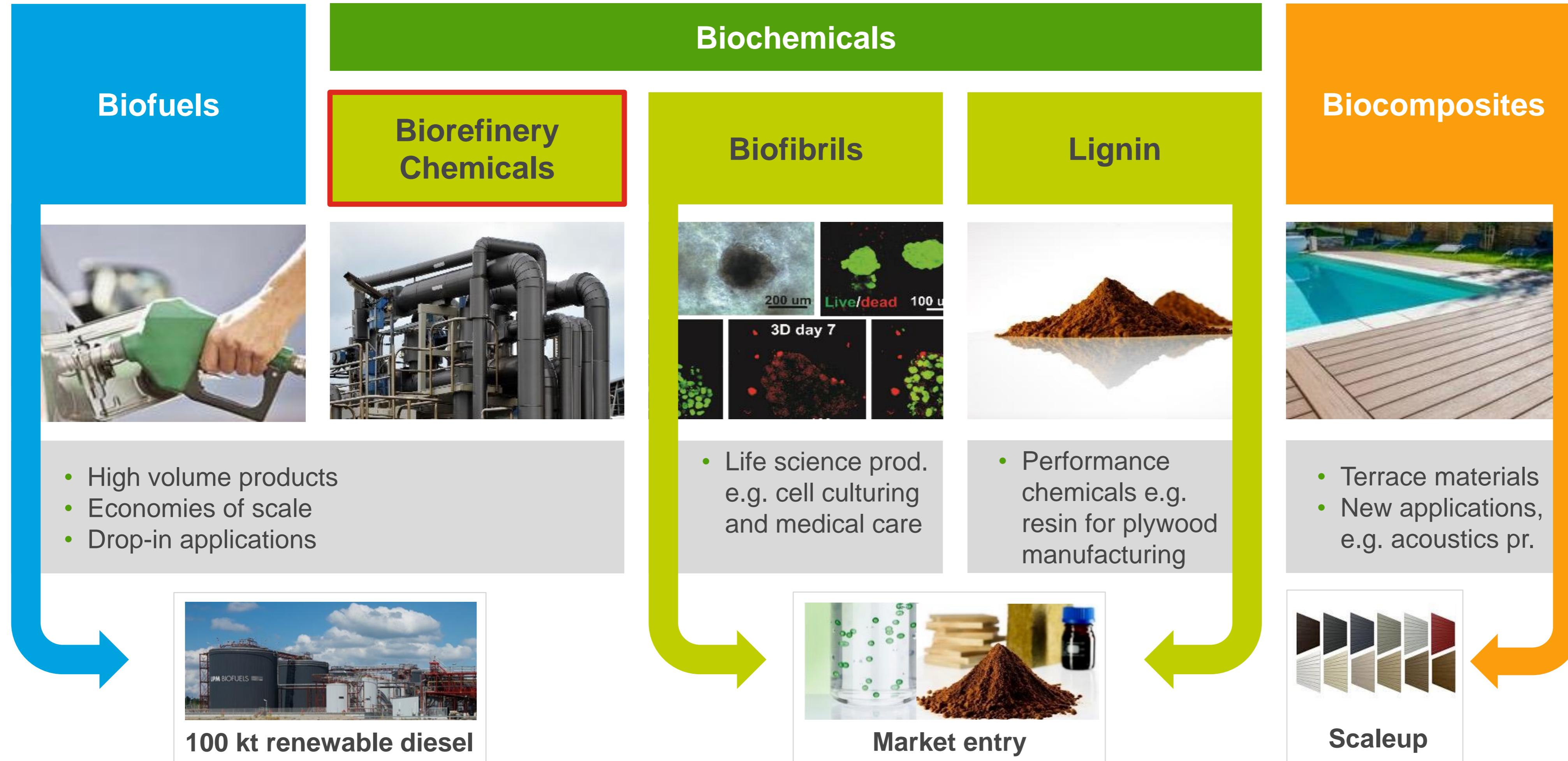


Energy

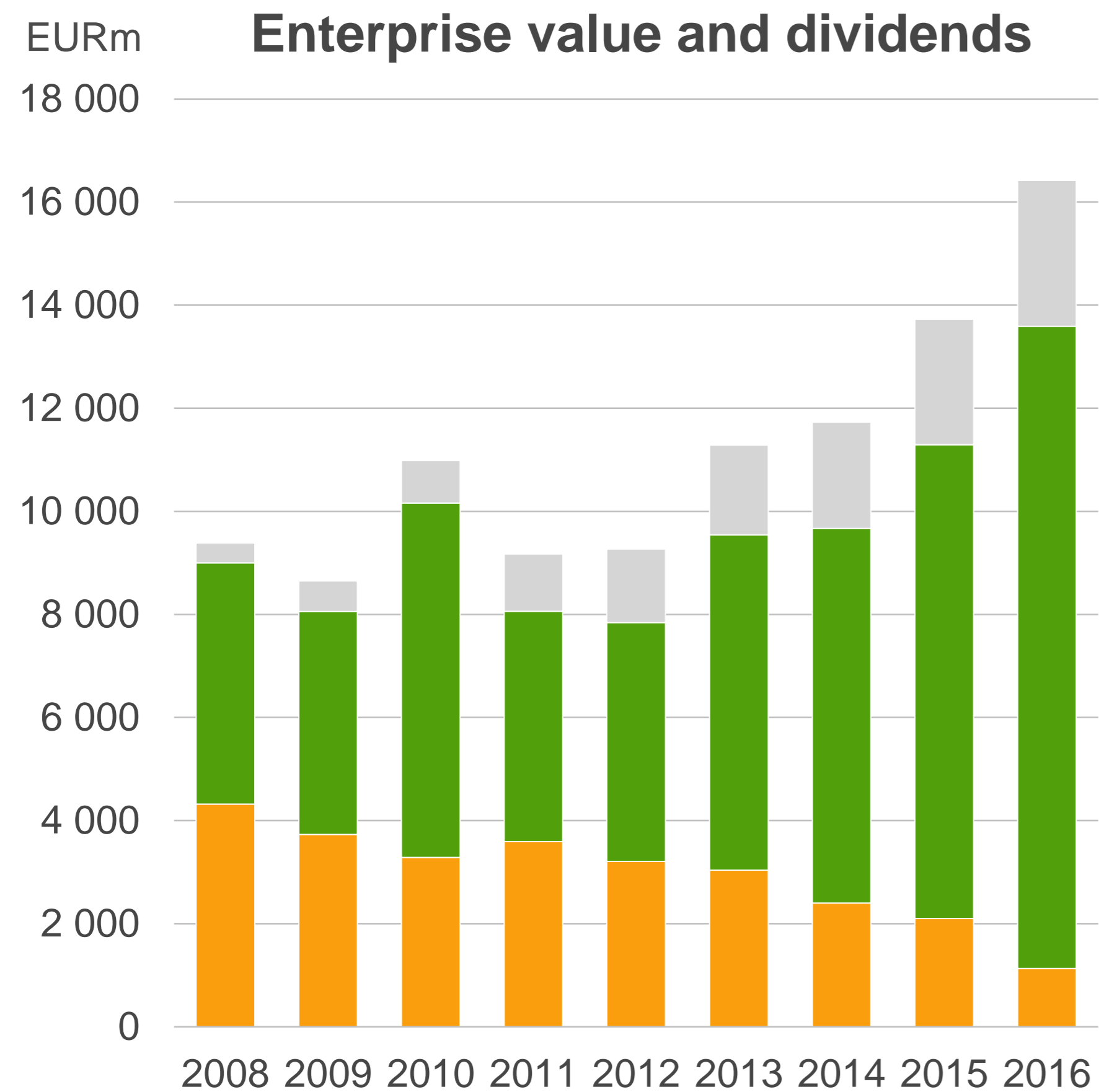




New business opportunities for UPM



UPM transformation and disciplined capital allocation are reflected in shareholder value



Cumulative dividends

Market capitalisation

Net debt

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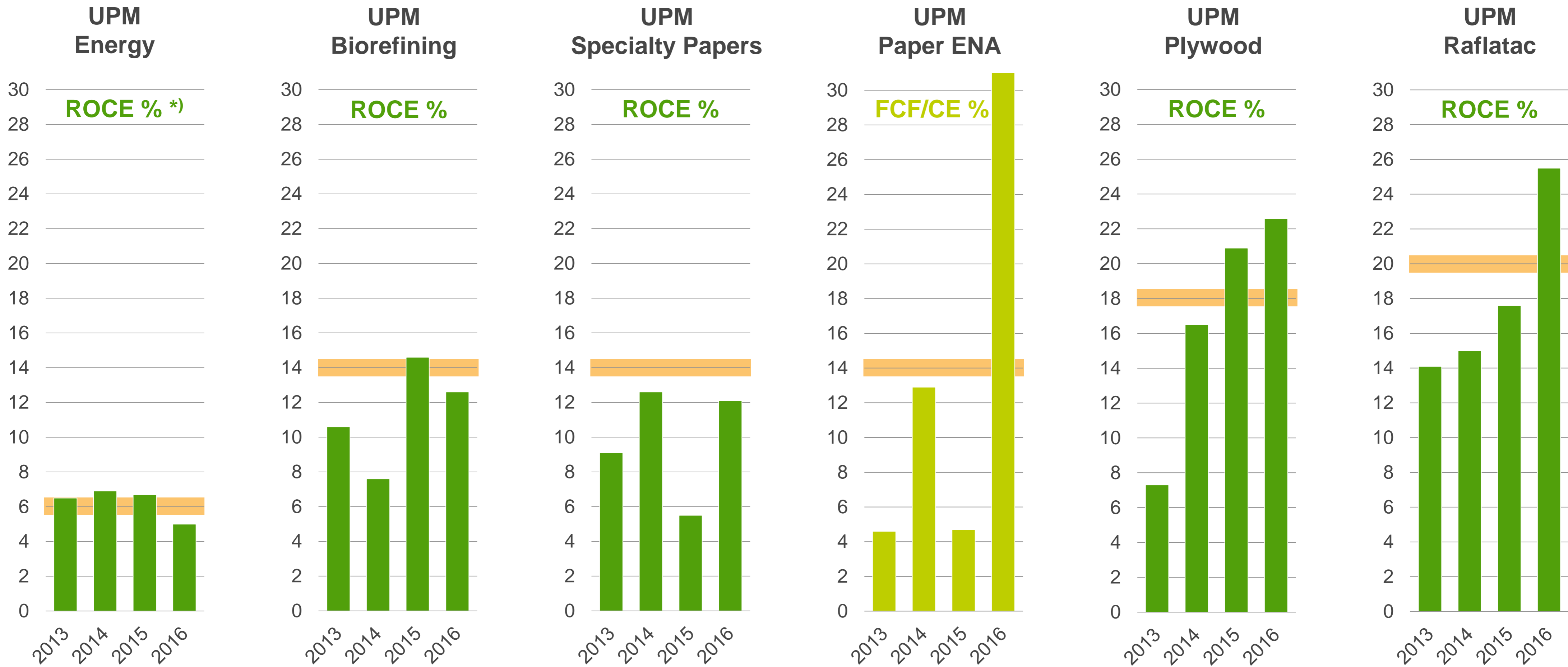
New phase beginning in UPM transformation

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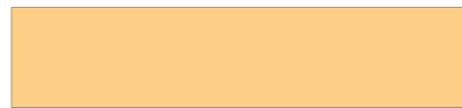
- Shareholder value
- Performance
- Leadership
- Growth
- Innovation
- Sustainability



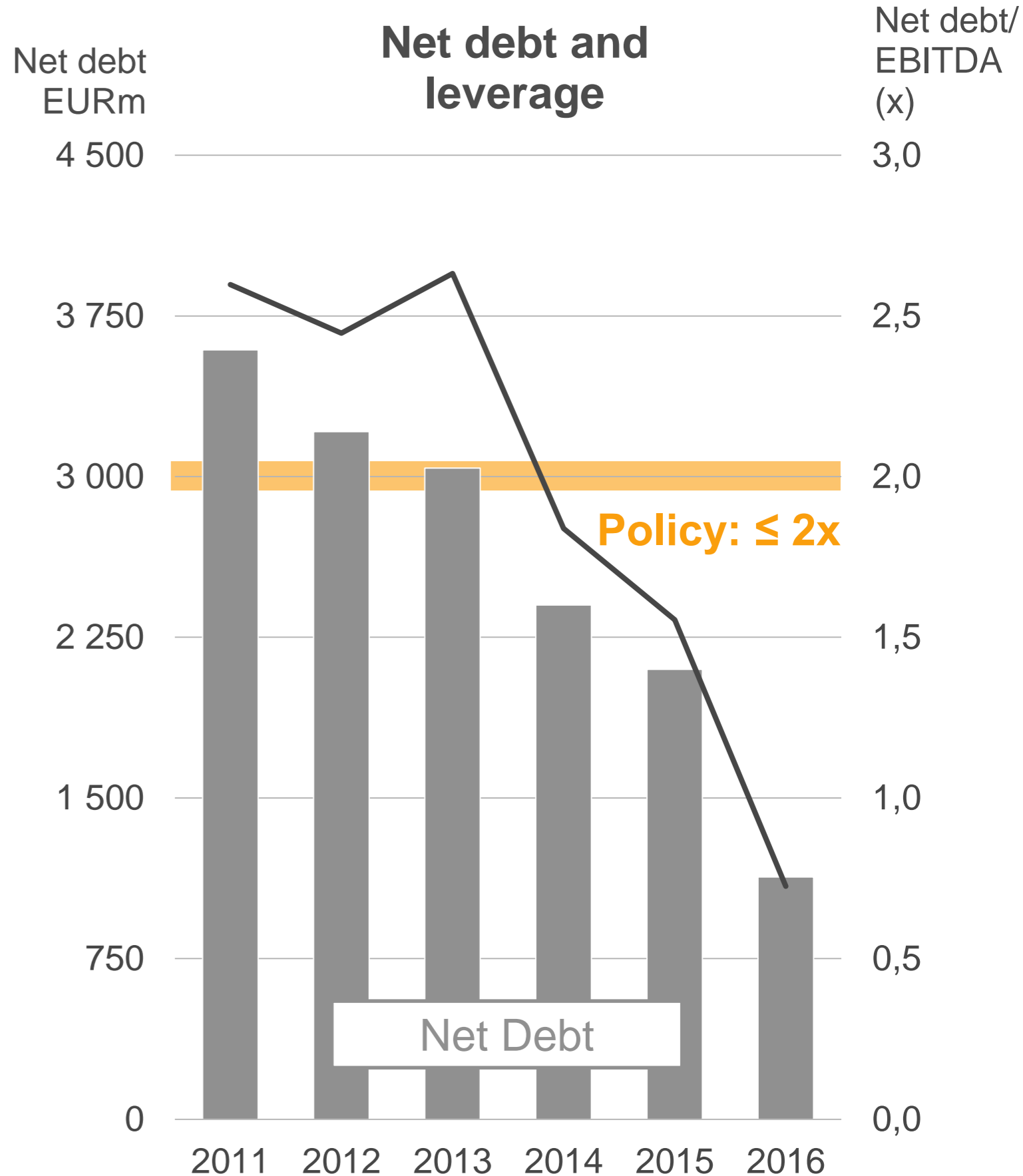
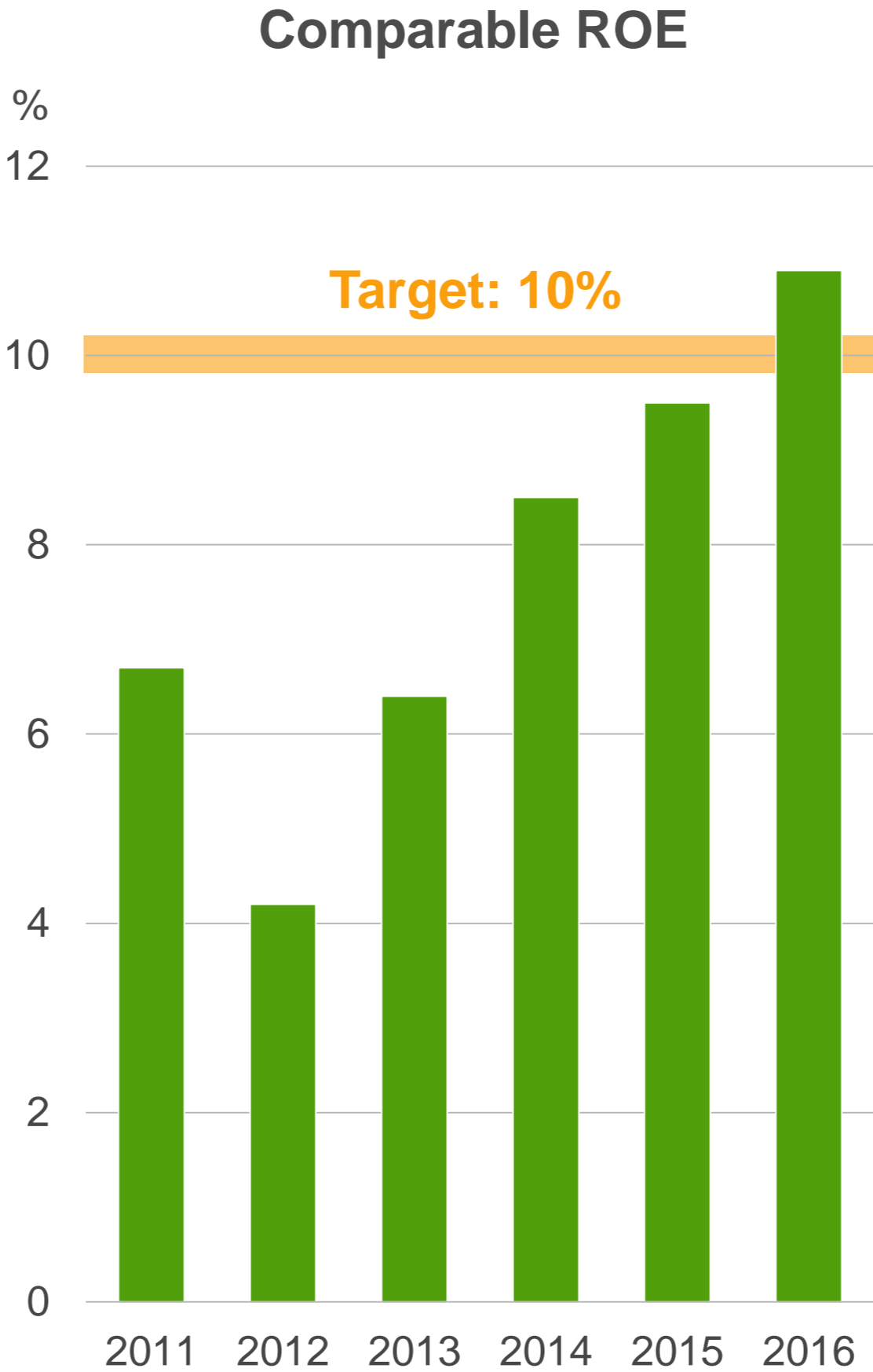
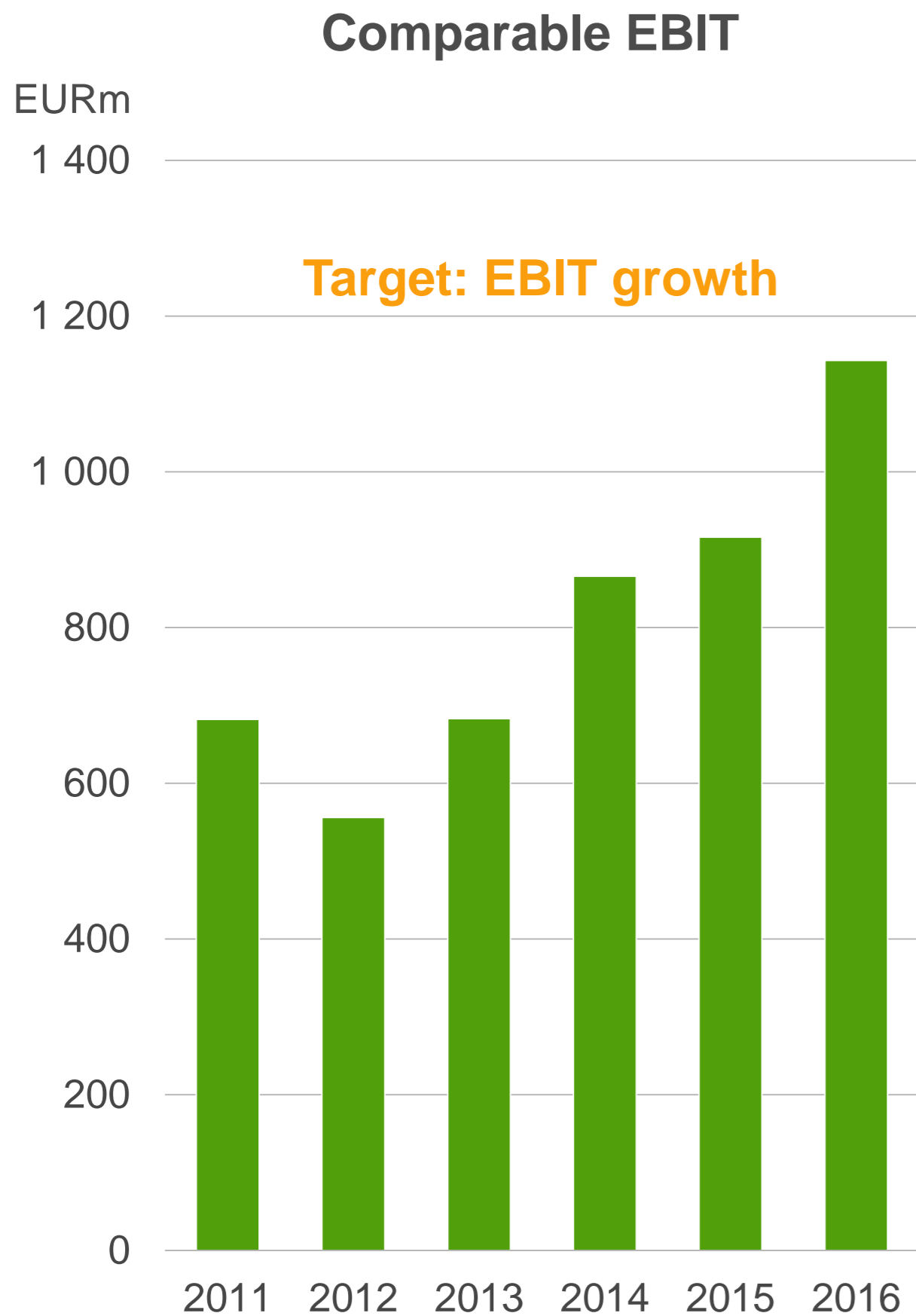
Renewed financial targets: business area long-term return targets increased



*) shareholdings in UPM Energy valued at fair value

 Long-term return target

Renewed financial targets: aiming for earnings growth and attractive shareholder returns



Comparable figures for 2014-2016, excluding special items for earlier years

AIMING HIGHER

WITH BIOFORE

Direction: grow businesses with strong long-term fundamentals and sustainable competitive advantage

Operating model

→ *Better than sum of parts*

- Separate businesses
- Top performance
- Corporate benefits

Performance

→ *Continuous improvement*

- Profit focus
- High performing people
- Value-based leadership and responsibility
- Innovation

Capability

→ *Foundation for opportunities*

- Strong cash flow
- Strong balance sheet
- Corporate structure

Capital allocation

→ *Attractive returns*

- Attractive dividend
- Focused growth investments
- Selected larger investments
- Synergistic M&A

Growth

→ *Earnings growth and valuation*

- Current growing businesses
- New bio-based businesses



UPM

The Biofore
Company