UPM RESULTS Q2 2016

Jussi Pesonen
President and CEO
26 July 2016
Q2 2016 – comparable EBIT increased by 21%, cash flow reaching new highs

EBITDA increased by 21%
+ Cost efficiency measures resulted in significantly lower variable, fixed costs
+ Growth projects contributed to earnings
+ Realised currency hedges neutral

Comparable EBIT increased by 21% to EUR 264m (219m)

Strong operating cash flow at EUR 434m (324m)

Net debt decreased by EUR 759m to EUR 1,876m (2,635m)
Mostly favourable market demand in Q2 2016

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

Stable demand
- Electricity
- Fine papers in Asia

Declining demand
- Graphic papers in Europe and North America
UPM continues its transformation

Actions so far in 2016

• Great ramp-up at the UPM Kymi pulp mill’s first expansion
• Ramp-up at UPM Changshu PM3 and the Lappeenranta biorefinery continues
• Closed the Madison SC paper mill in the US
• Sold the UPM Schwedt newsprint mill in Germany
• Corporate structure changed to match the business structure

In the pipeline

• UPM Kaukas pulp mill investment
• UPM Otepää plywood investment
• UPM Kymi pulp mill second investment EUR 98m, 170,000 tonnes
Comparable EBITDA in Q2 2016 vs. Q2 2015

UPM benefited from cost efficiency measures in a deflationary business environment.

Cost efficiency improved in all businesses. Biorefining, Raflatac and Paper Asia showed growth in deliveries.

EURm

EBITDA
Q2/15
EBITDA
Q2/16

Currency, net impact

385

317 12.4%

385 15.8%

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Cost efficiency improved in all businesses. Biorefining, Raflatac and Paper Asia showed growth in deliveries.

EURm

EBITDA
Q2/15
EBITDA
Q2/16

Prices

Deliveries

Variable costs

Fixed costs

317 12.4%

385 15.8%

317 12.4%

385 15.8%
**Strong cash flow**

- Q2 2016 operating cash flow was EUR 434m (324m)
- In Q2 2016, working capital decreased by EUR 10m (EUR 31m)
- In the latest 12 months, operating cash flow was EUR 1,528m (1,194m), EUR 2.86 per share (2.24)
Balance sheet continued to strengthen

**Liquidity** was EUR 1.5bn at the end of Q2 2016

Repayments total EUR 0.15bn in 2016
Growth projects ramping up and contributing to earnings in 2016 and beyond

Lappeenranta biorefinery
120m litres of renewable diesel

Kymi pulp mill expansion
170,000t

In operation and ramping up

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

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

Kaukas pulp mill efficiency improvement, paper and pulp decoupling completed

Investments EUR 150m

UPM Plywood
Otepää mill expansion to 90,000m³

Outlook for 2016 is unchanged

- UPM’s profitability improved in 2015 and the improvement is expected to continue in 2016.
- 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 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.
Summary

Strong Q2 2016 results – further evidence of the business model

- Cost efficiency measures
- Growth projects
- Record strong cash flow and balance sheet

UPM is well positioned

- Ramp-up of growth projects continues
- Cost efficiency measures continue
- Strong business model with six agile businesses, efficient capital allocation and an industry-leading balance sheet
Welcome to our Capital Markets Day in London!

UPM’s Capital Markets Day

August 31  dinner with a keynote speech by the Chairman of the Board

September 1  presentations and discussion with the CEO and the UPM management team

Register by email:  [ir@upm.com](mailto:ir@upm.com)

“We have a strong business model with six agile businesses, efficient capital allocation and an industry-leading balance sheet. This ensures good opportunities for focused growth investments, continued strong cash flow and an attractive dividend.”

– Jussi Pesonen, President and CEO
UPM strategic focus areas

1. Performance
   Continuous improvement in performance
   “Cost efficiency measures”

2. Growth
   Focused growth projects
   “EBITDA target for growth projects EUR 200m”

3. Portfolio
   Business portfolio development and value creation
   “Net debt reduction EUR 759m”

4. Innovation
   New business and product development
   “Biofuels commercial ramp-up”
Strengths of UPM’s model

Top performance

Focused investments

Industry-leading balance sheet

Attractive dividend

Strong cash flow
Q2 2016 – comparable EBIT increased by 21%, cash flow reaching new highs

Q2 2016 vs. Q2 2015:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>EUR 2,445m</td>
<td></td>
<td>-4%</td>
</tr>
<tr>
<td>Comparable EBITDA</td>
<td>EUR 385m</td>
<td>+68m</td>
<td></td>
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<tr>
<td>Comparable EBIT</td>
<td>EUR 264m</td>
<td>+45m</td>
<td></td>
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<tr>
<td>Comparable profit before tax</td>
<td>EUR 252m</td>
<td>+57m</td>
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<tr>
<td>Comparable ROE</td>
<td>10.2%</td>
<td>+1.4pp</td>
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<tr>
<td>Operating cash flow</td>
<td>EUR 434m</td>
<td>+110m</td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>EUR 1,876m</td>
<td>-759m</td>
<td></td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>1.25x</td>
<td>-0.75x</td>
<td></td>
</tr>
<tr>
<td>Gearing</td>
<td>24%</td>
<td>-11pp</td>
<td></td>
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</tbody>
</table>
Low investment needs in existing assets allow growth projects with modest total capex
Maturity profile and liquidity

Liquidity
Liquidity on 30 June 2016 was EUR 1.5bn (cash and unused credit facilities)

Committed credit facilities
Bilateral committed credit facilities EUR 1,075m
Actions

- Pulp production capacity increased and production efficiency improved.
- Potential for further increases in production identified at UPM Kymi pulp mill; investment decision announced in July.
- Scheduled maintenance carried out at the Lappeenranta biorefinery.
- Cost efficiency improved.
Actions

• Scheduled maintenance shutdown at Olkiluoto nuclear power plant units.
Actions

- Improved product mix and operational efficiency enabled record strong profitability.
Actions

- Production ramped up successfully at the new speciality paper machine at the UPM Changshu mill in China, contributing to solid growth in deliveries.
Actions

• Successful cash release as a result of profit improvement, reduction in working capital and sale of assets.

• In line with the decision announced in March, paper production ceased at Madison Paper Industries in the US.

• According to the agreement announced on 26 April 2016 the UPM Schwedt mill site and relevant assets were transferred from UPM to LEIPA Georg Leinfelder GmbH on 1 July 2016.
Actions

- Strong performance.
- Otepää mill expansion proceeded.
- UPM Pellos mills exceeded 10 million cubic meters in all-time total production.
UPM
The Biofore Company
Chemical pulp market

Q2 NBSK pulp price increased 1% from Q1
Q2 BHKP pulp price decreased 5% from Q1

Source: FOEX Indexes Ltd.

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

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

Sources: PPI, RISI, Pöyry