The Biofore Company UPM

UPM HALF YEAR FINANCIAL REPORT 2017

AIMING HIGHER

WITH BIOFORE

Jussi Pesonen
President and CEO

25 July 2017

Q2 2017 – Good performance and favourable market demand continued

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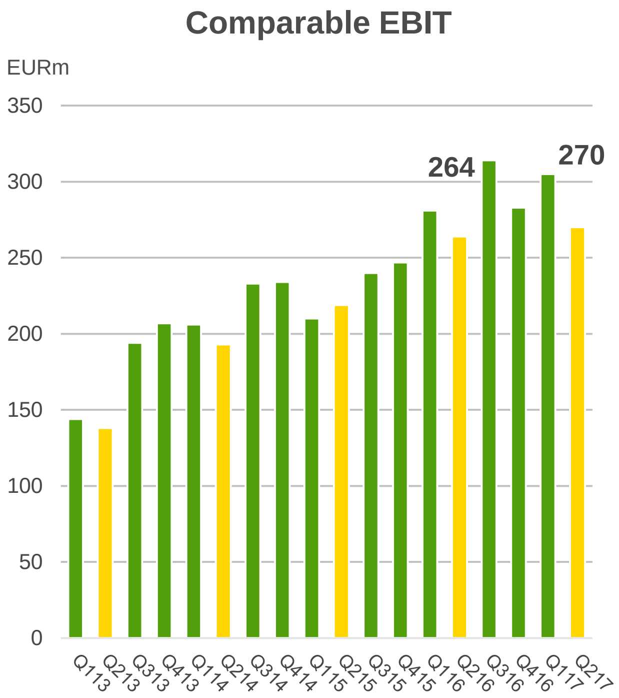
- Comparable EBIT increased by 2% to EUR 270m (264m)
- Temporarily higher fixed costs, lower efficiency due to high maintenance activity
- Operating cash flow was EUR 269m (434m)
- Net debt decreased to EUR 1,046m (1,876m), net debt/EBITDA to 0.68x (1.25x)

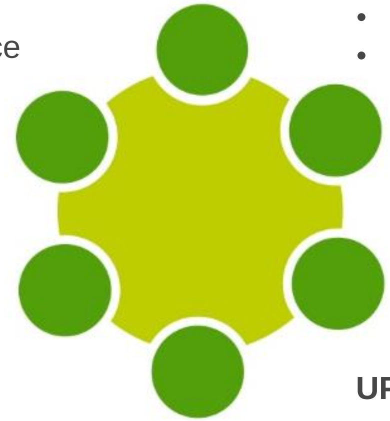
- Comparable ROE (LTM) was 11.4%
- Operating cash flow (LTM) was EUR 1,576m, EUR 2.95 per share



Q2 2017 – Good market demand, high maintenance activity

UPM BIOREFINING
- Good demand, pulp deliveries +2%, strong growth in biofuels
- Pulp prices higher
- Pietarsaari pulp mill maintenance
- Kaukas investment decision

UPM SPECIALTY PAPERS
- Significant progress in product mix, higher release liner deliveries
- Good demand
- Pulp costs higher, sales prices higher



UPM PAPER ENA
- Graphic paper deliveries –2%
- Seasonally high fixed costs, including maintenance
- Fibre costs higher

UPM RAFLATAC
- Good demand, deliveries +6%
- Variable costs higher
- Specialty label investment decision, Tampere

UPM PLYWOOD
- Good demand, deliveries +4%
- Variable costs higher, sales prices higher

UPM ENERGY
- Electricity deliveries –17%
- Hydropower generation below average and prolonged maintenance at Olkiluoto nuclear power plant

Q2 2017 – main maintenance impacts

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- UPM Biorefining – Pietarsaari pulp mill maintenance
(no pulp mill maintenance in Q1/17 or Q2/16)

- UPM Energy – Olkiluoto nuclear power plant prolonged maintenance shut
(no maintenance in Q1/17, longer shut than in Q2/16)

- UPM Paper ENA – seasonally higher fixed costs, incl. maintenance
(seasonally higher than in Q1/17, similar to Q2/16)

➡ Temporarily higher fixed costs and lower operational efficiency:
Q2 2017 total impact on comparable EBIT was approx.
EUR -20m compared with Q2 2016
EUR -45m compared with Q1 2017

Comparable EBIT by business area

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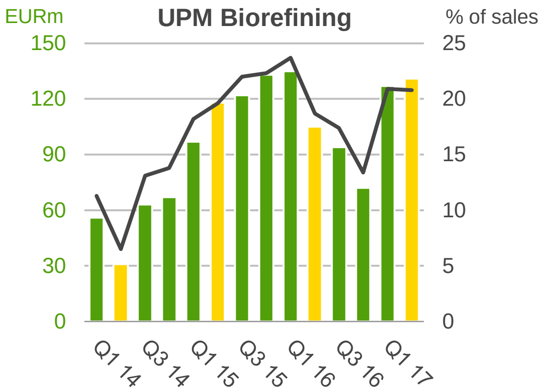

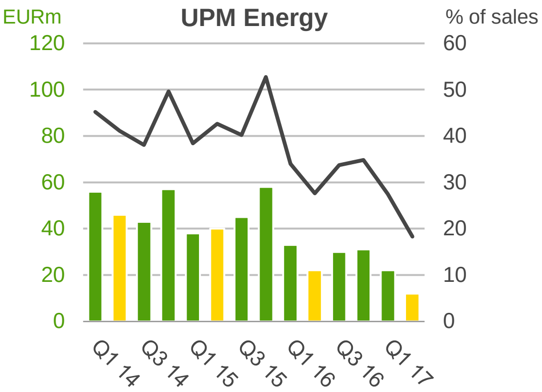

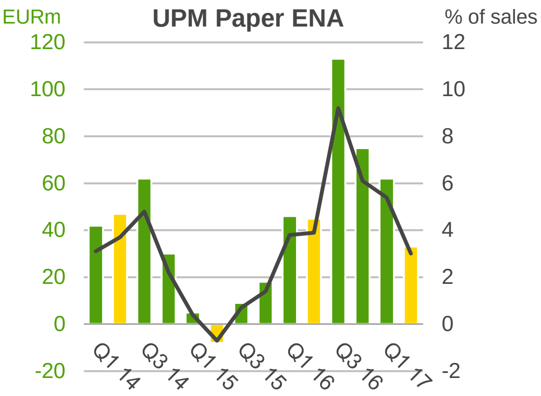

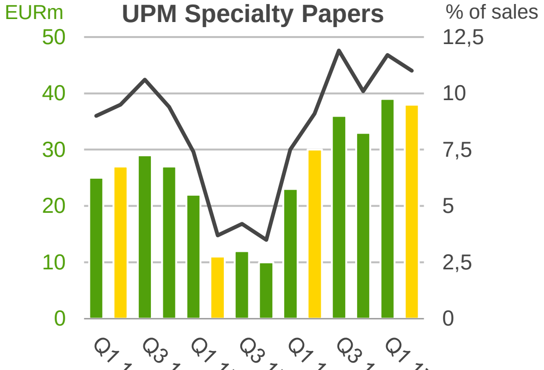

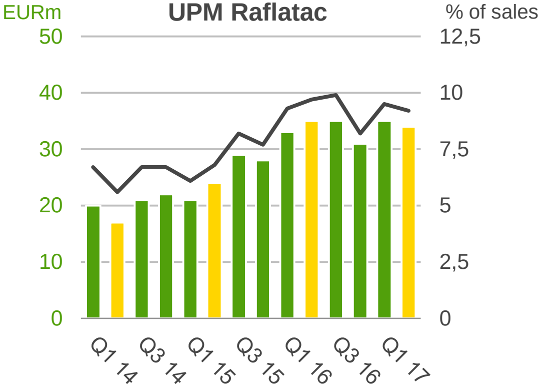

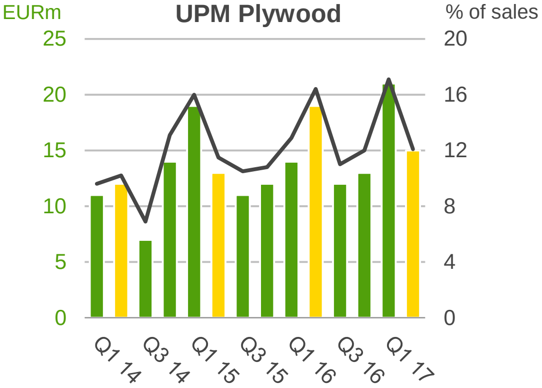

Comparable EBIT in Q2 2017 vs. Q2 2016

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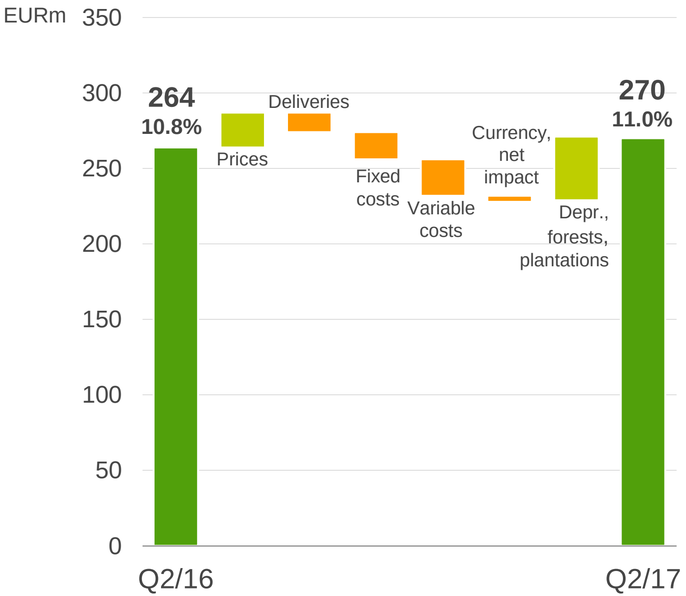
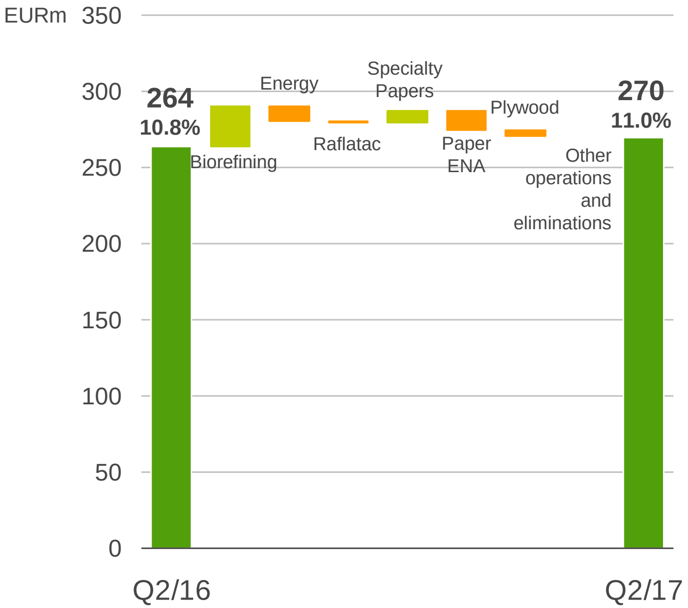
High maintenance activity in Q2/17 resulted in temporarily higher fixed costs and lower operational efficiency. Prices increased.



Higher maintenance activity in Biorefining and Energy. Pulp prices increased. Mix improvement in Specialty Papers.



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Strong cash flow and balance sheet

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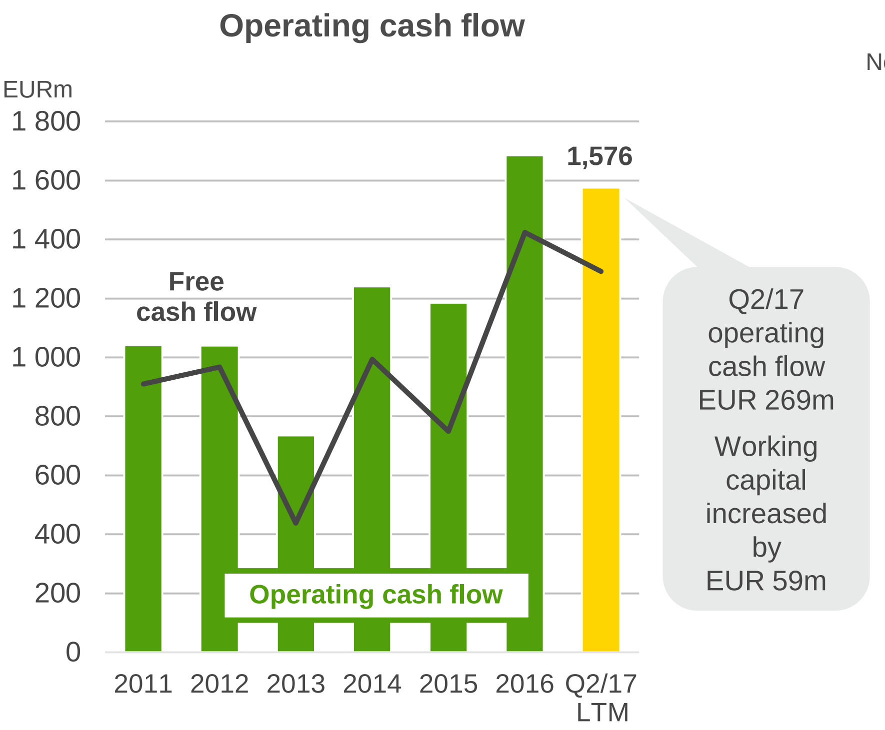

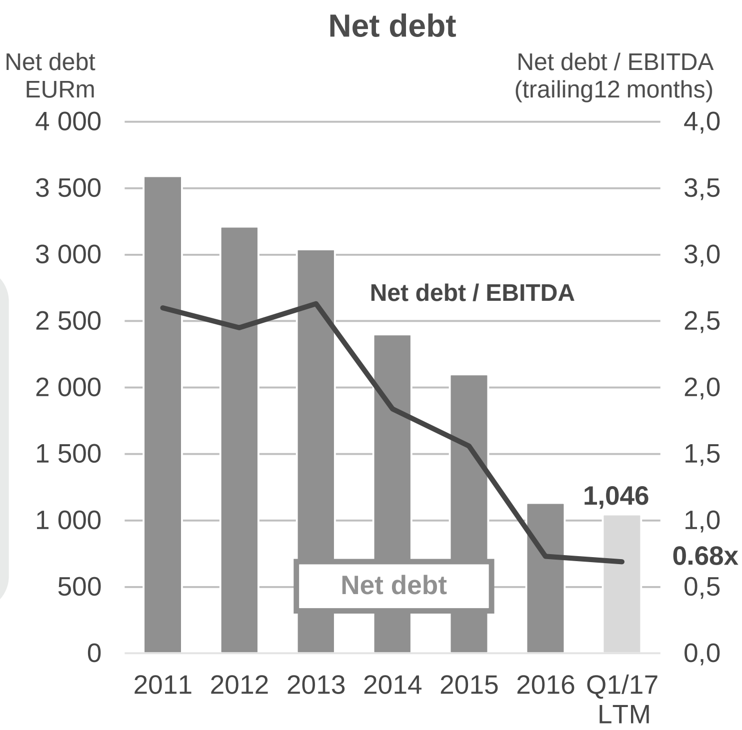

Outlook for 2017

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- UPM's profitability improved significantly in 2016 and is expected to continue 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.
- Q3 2017 is expected to include significantly less maintenance activity than Q2 2017 in UPM Biorefining, UPM Paper ENA and UPM Energy.

Focused growth projects have been successful, contributing well to UPM's profits and returns

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Ongoing projects under construction

- Kymi second pulp mill expansion, Finland
- UPM Raflatac expansion, Poland

New investments announced in Q2 2017

- Kaukas second pulp mill efficiency, expansion
- UPM Raflatac specialty labels expansion, Finland

Longer term growth option

- Discussions continue with the Government of Uruguay concerning the infrastructure development and other local prerequisites for a potential pulp mill investment

Summary

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- Comparable EBIT continued on an increasing track in Q2, including maintenance-related impacts
- Favourable market demand continued
- Variable cost pressures mitigated with cost reduction measures and targeted price increases
- Two new focused investments announced, discussions continue in Uruguay concerning prerequisites for longer term growth
- Good profitability is expected to continue

UPM

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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

Business area long-term targets compared with realised returns

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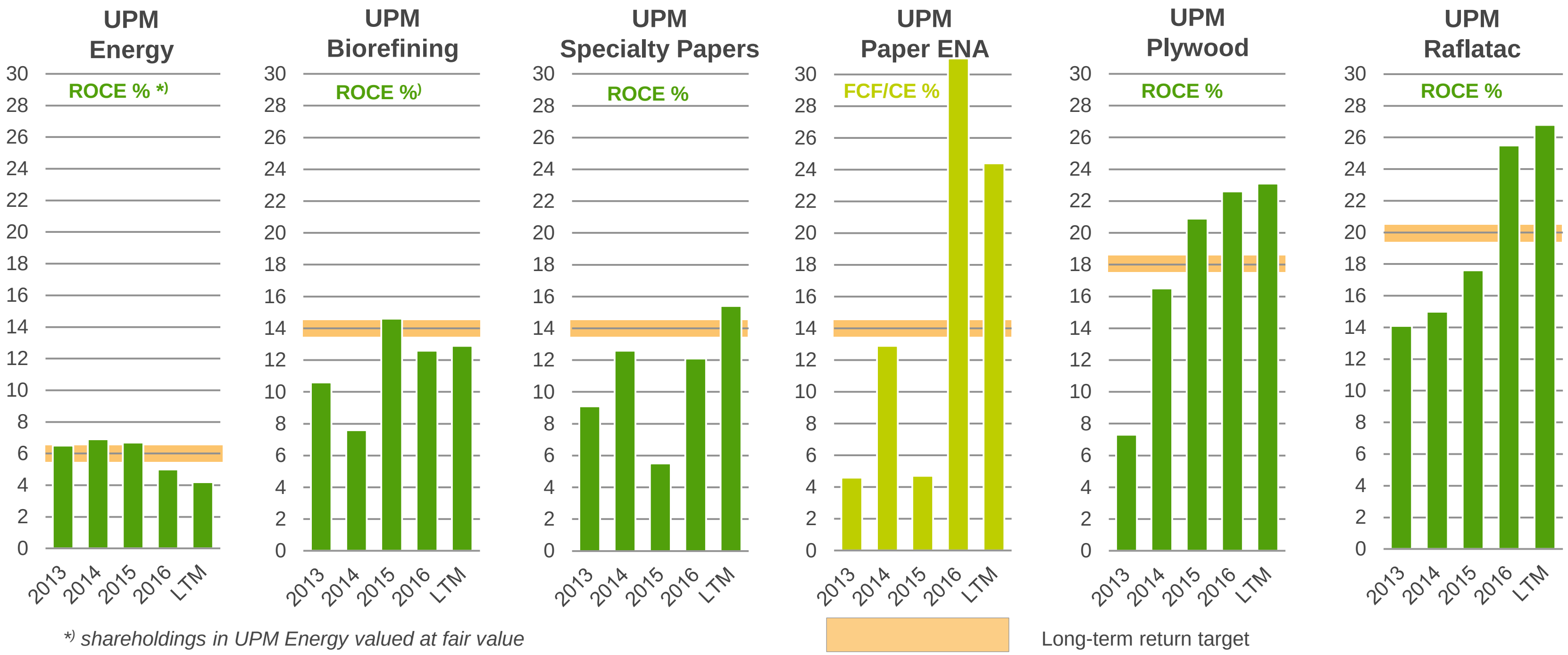

*) *shareholdings in UPM Energy valued at fair value*

Group financial performance

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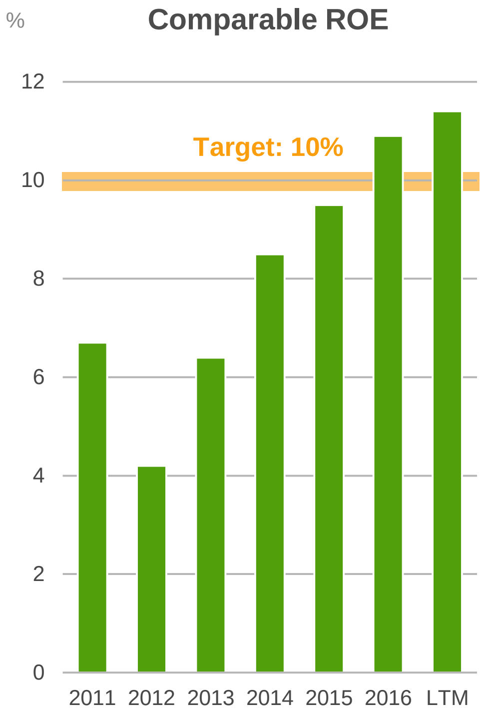

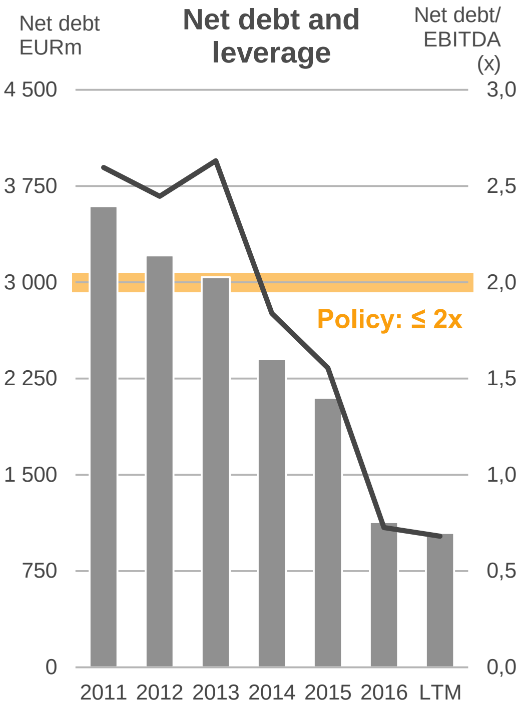

Comparable figures for 2014 – 2017, excluding special items for earlier years

Comparable EBIT +5% in H1 2017 vs. H1 2016

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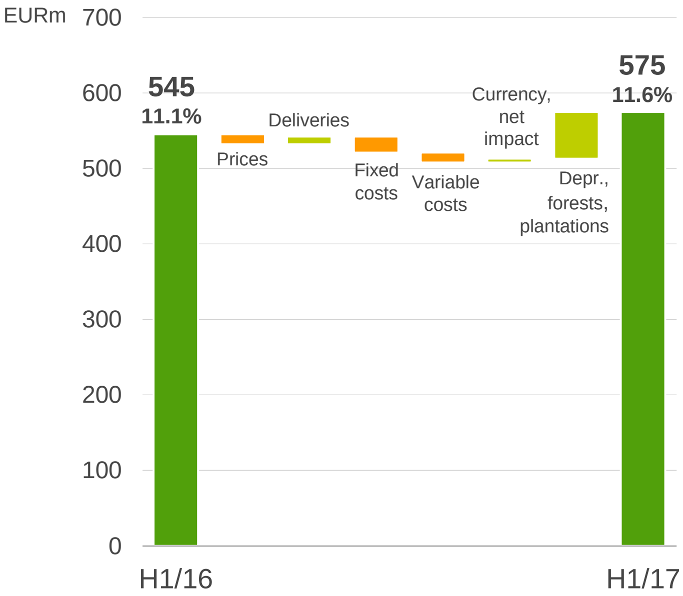
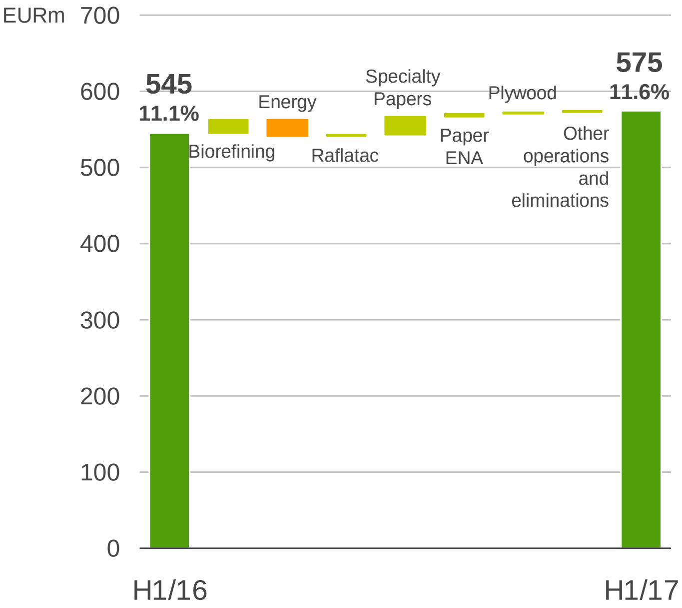
Good growth in deliveries.
Higher maintenance activity in Q2/17.
Prices and costs slightly negative.



Growth in deliveries in Biorefining, Raflatac and Plywood. Mix improvement in Specialty Papers. Cost control in Paper ENA.



Serving the increasing customer demand with the focused growth projects

Fully contributing

- Pietarsaari pulp mill expansion
- Fray Bentos pulp mill expansion
- Kymi pulp mill expansion
- Raflatac expansion in APAC, Poland
- Kaukas pulp mill efficiency

Contributing well in H1 2017

- Lappeenranta biorefinery
- Changshu speciality paper machine
- Otepää plywood mill expansion

Under construction

- Kymi pulp mill expansion 2
- Raflatac expansions in Poland and Finland
- Kaukas pulp mill expansion 2

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

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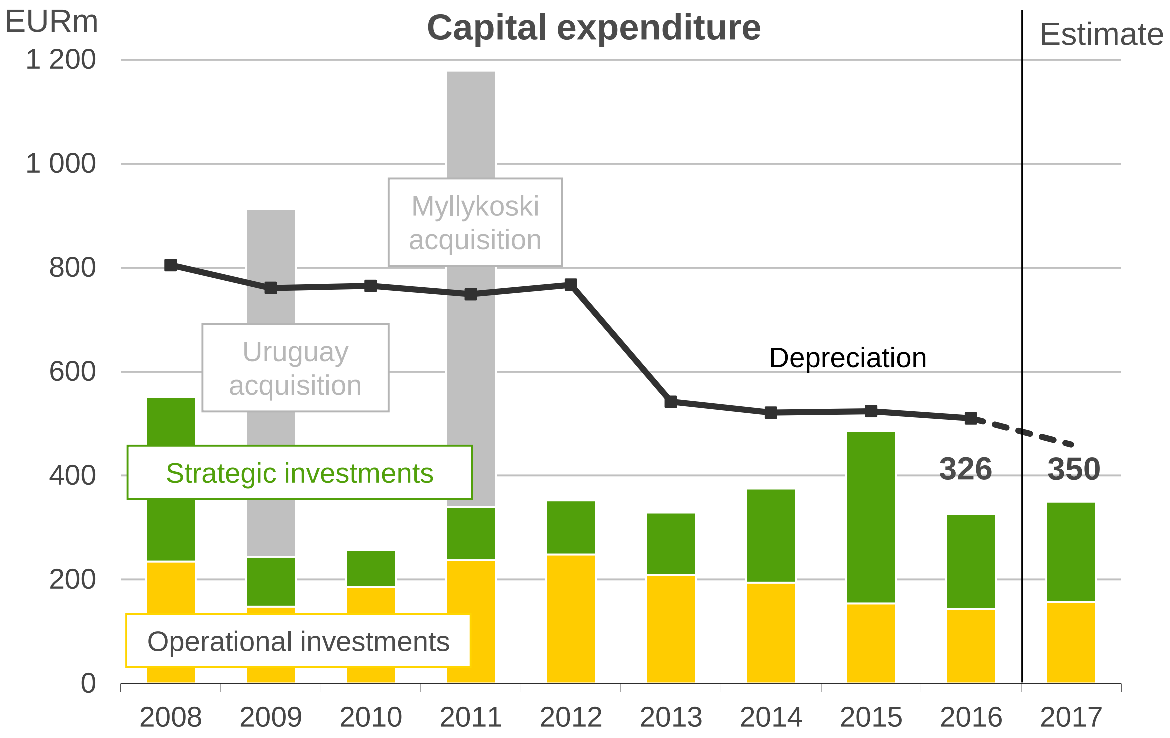

UPM's main currency exposures

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- Key currency exposures USD, GBP and JPY
- Policy to hedge an average of 50% of the estimated net currency cash flow for the next 12 months

Estimated annual foreign currency net cash flow, before hedging

	USD	GBP	JPY	Others
EURm	1,060	370	210	90

Maturity profile and liquidity

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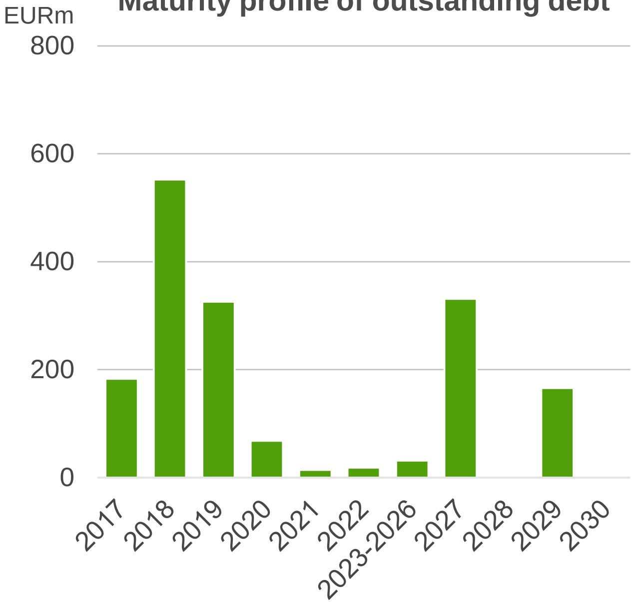
Liquidity

Liquidity on 30 June 2017 was EUR 1.2bn
(cash and unused credit facilities)

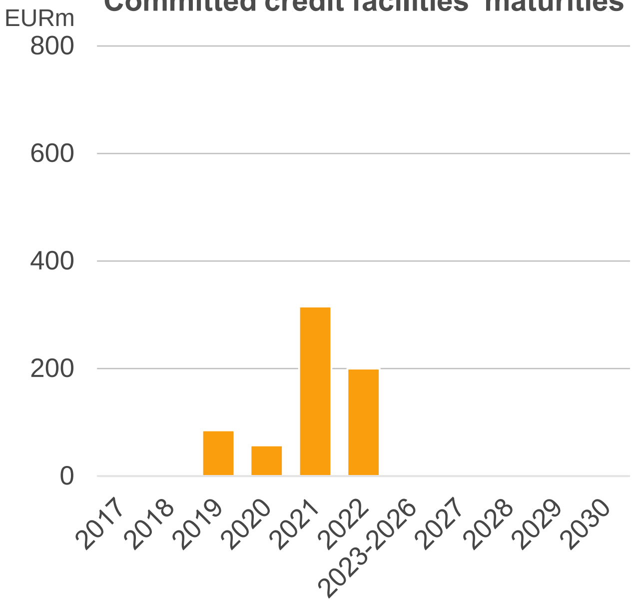
Maturity profile of outstanding debt



Committed credit facilities

Bilateral committed credit facilities
EUR 657 million for general financing purposes

Committed credit facilities' maturities



Chemical pulp market

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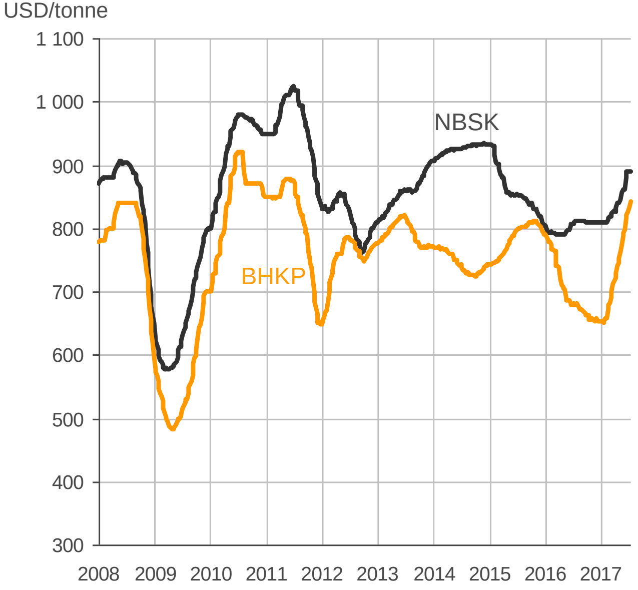
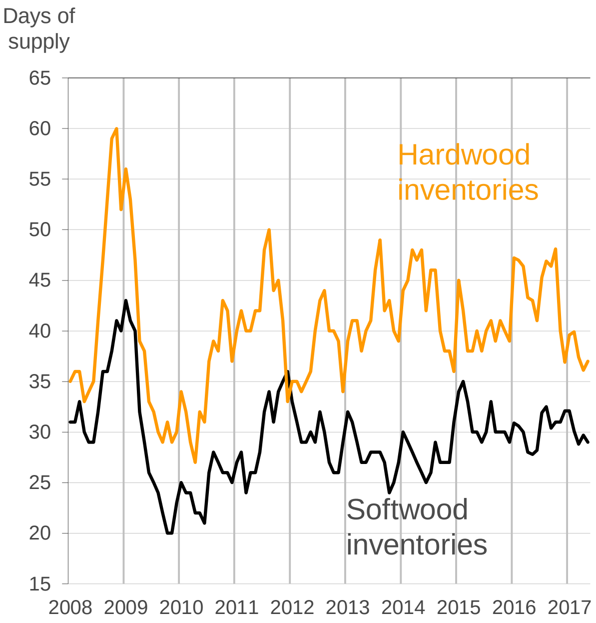
Q2 NBSK pulp price increased by 5% from Q1
Q2 BHKP pulp price increased by 15% from Q1



Source: FOEX Indexes Ltd.

Pulp inventories



Source: PPPC World-20 statistics

Cost efficient power generation enables robust profitability also in challenging market environment

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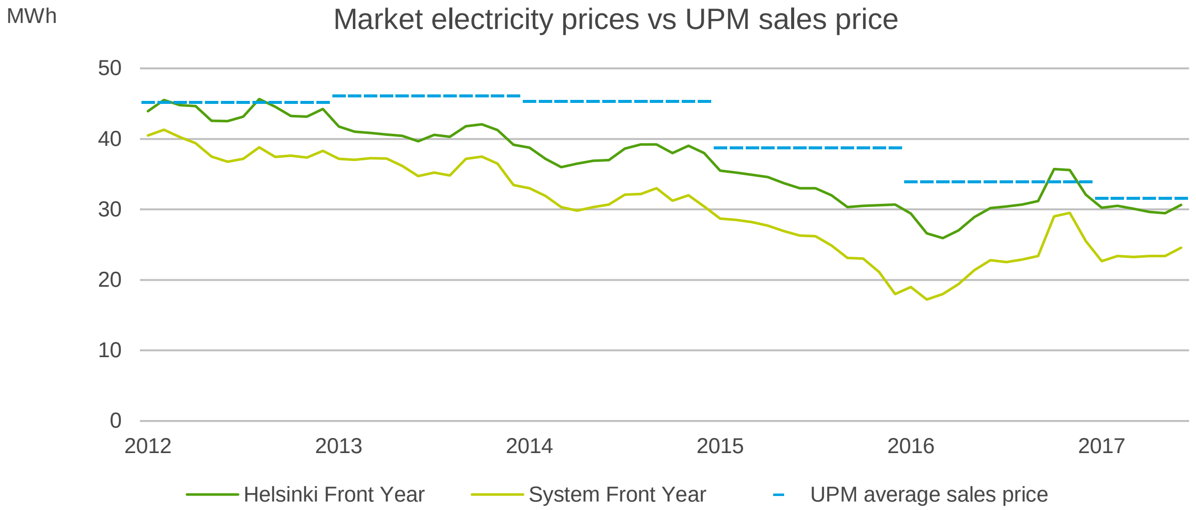

UPM Energy profitability	2012	2013	2014	2015	2016	H117
Comparable EBIT, EURm	217	186	202	181	116	34
% of sales	45.0	39.9	43.5	43.6	32.7	23.4

Graphic paper prices

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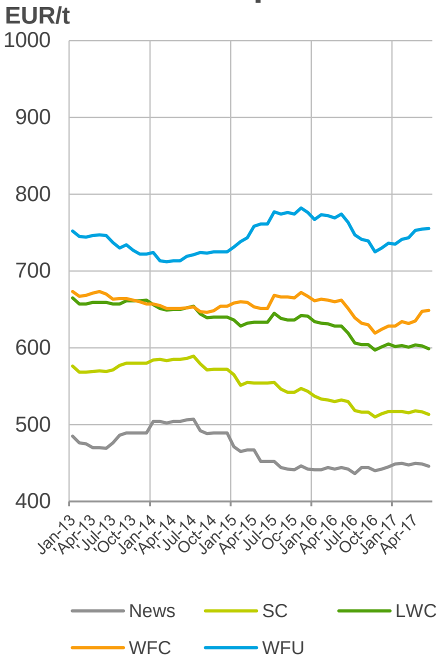
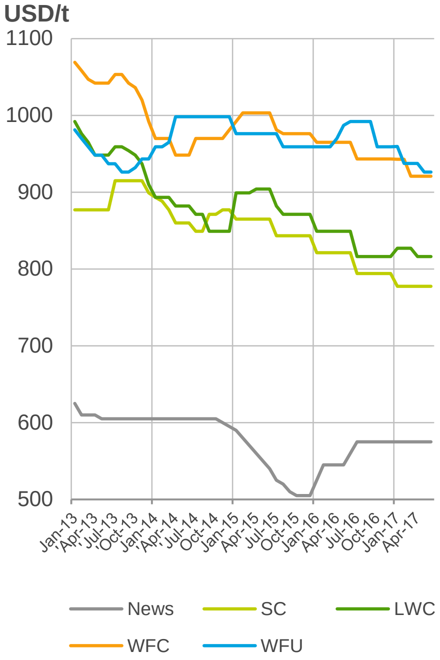
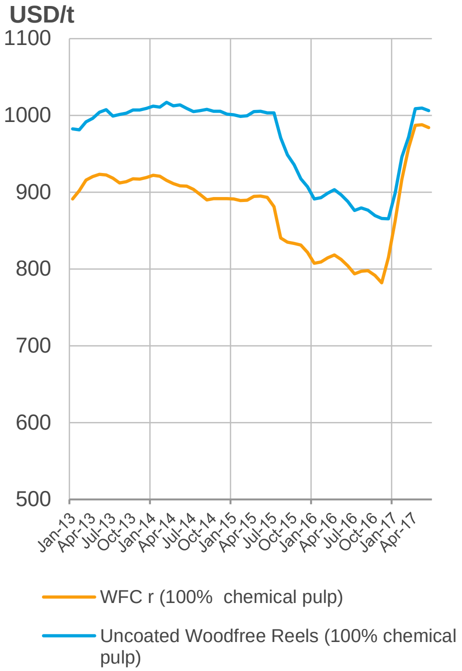
Europe



North America



China



Sources: PPI, RISI

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

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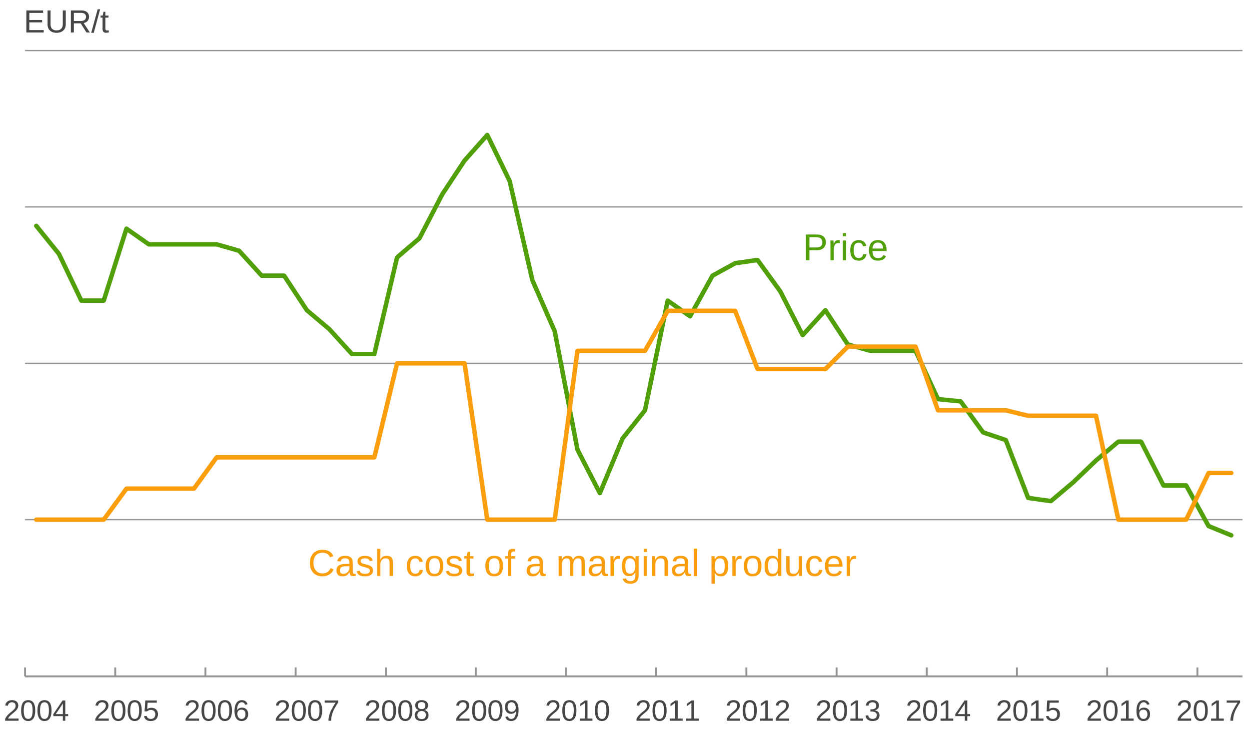

Sources: PPI, RISI, Pöyry

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