

# UPM FINANCIAL STATEMENTS RELEASE 2017

**AIMING HIGHER**  
**WITH BIOFORE**

Jussi Pesonen  
President and CEO  
31 January 2018

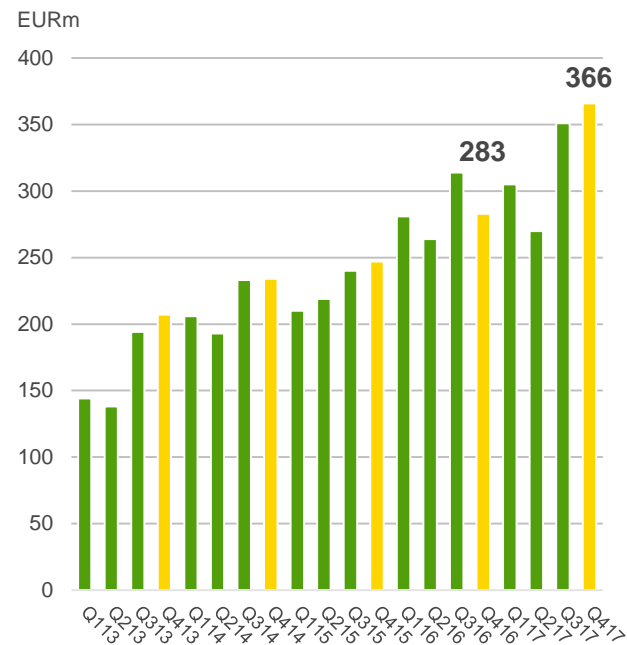
# Q4 2017 – Excellent finish to the record-strong year 2017



The Biofore Company UPM

- Comparable EBIT increased by 29% to EUR 366m (283m)
- Operating cash flow was EUR 407m (405m)
- Net debt decreased to EUR 174m (1,131m)
- Agreement with the Government of Uruguay on local prerequisites for a possible pulp mill
- Started basic engineering study of a possible biochemicals refinery
- Announced focused growth projects in Plywood and Specialty Papers
- Kymi pulp mill expansion and the Raflatac expansion in Poland were completed

### Comparable EBIT



# Q4 2017 – Strong market environment

## UPM BIOREFINING

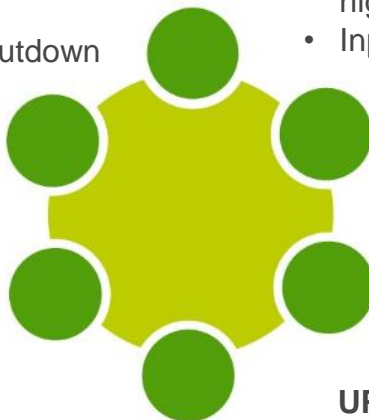
- Good demand, pulp deliveries +6%, strong growth in biofuels
- Pulp prices higher
- UPM Kymi pulp mill investment shutdown

## UPM SPECIALTY PAPERS

- Good demand, deliveries flat
- Significant progress in product mix, higher release liner deliveries
- Input cost increases mitigated

## UPM PAPER ENA

- Graphic paper deliveries -4%
- Newsprint contract manufacturing at the Schwedt mill ended
- Fibre costs higher



## UPM RAFLATAC

- Good demand globally, deliveries +6% driven in particular by developing markets
- Input cost increases impacted sales margins

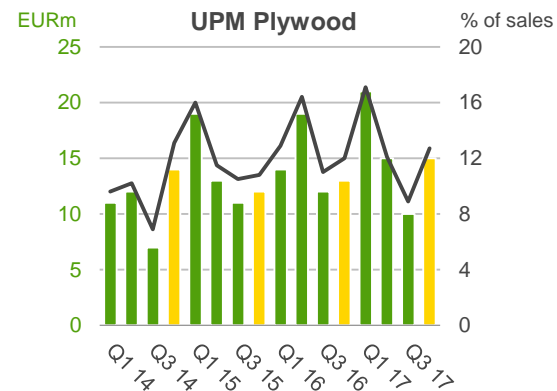
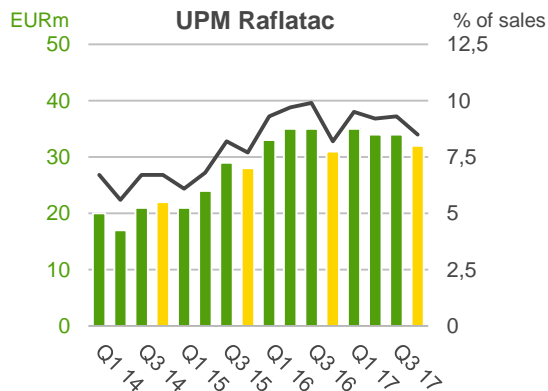
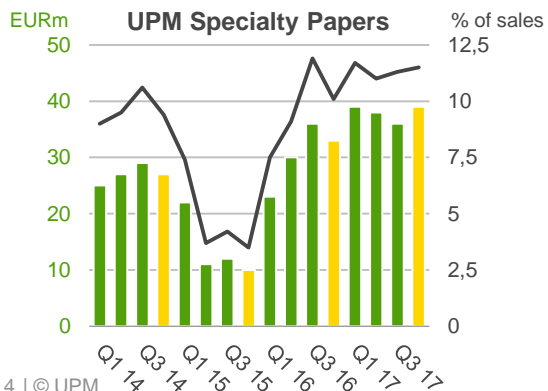
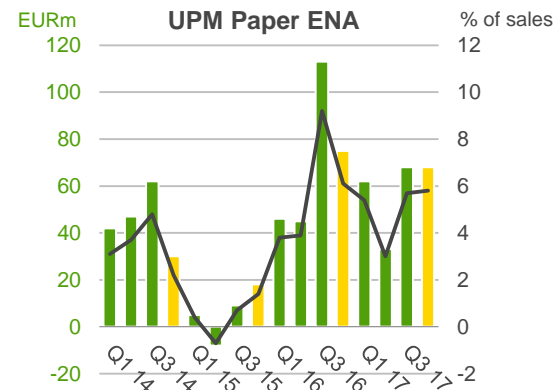
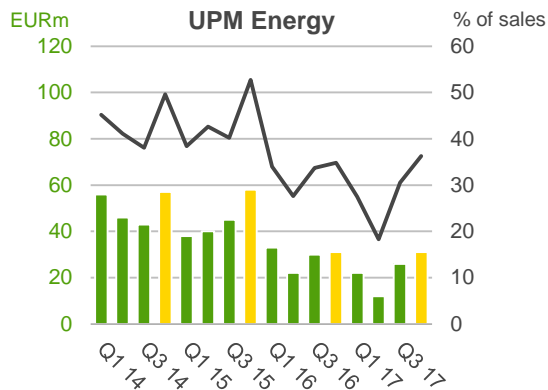
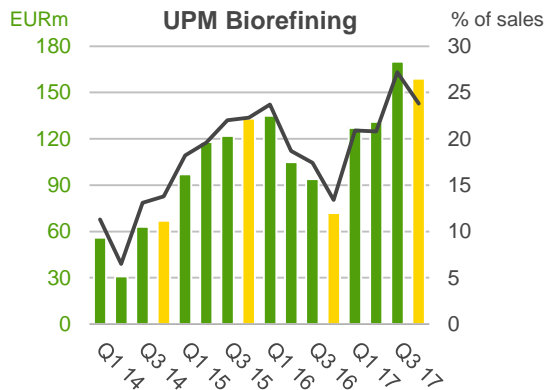
## UPM ENERGY

- Electricity deliveries +4%
- Hydropower generation increased above normal level

## UPM PLYWOOD

- Good demand, deliveries +11%
- Modest input cost increases impacted sales margins

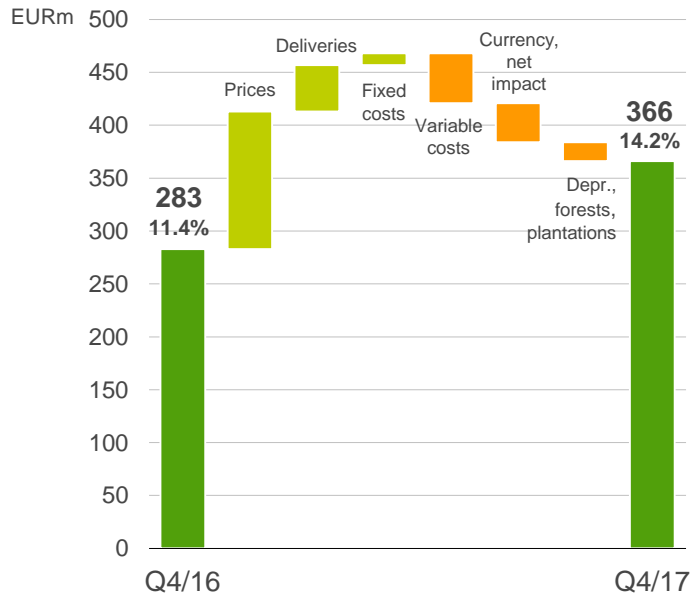
# Comparable EBIT by business area



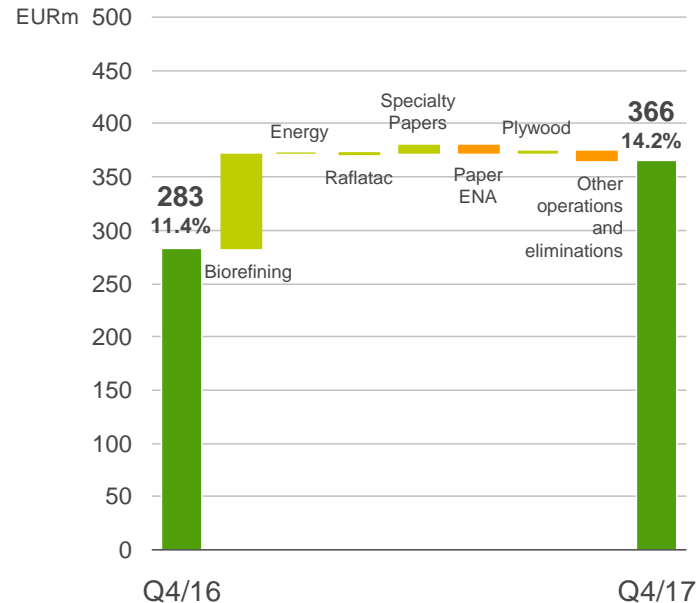


# Comparable EBIT in Q4 2017 vs. Q4 2016

Prices increased more than variable costs.  
Growth in deliveries. Less maintenance.  
Currencies had a negative impact.



Pulp prices and deliveries increased in Biorefining. Good deliveries and successfully offset input cost increases in other businesses.



# 2017 – strong performance continued through a turn in input costs environment

## 2017 vs. 2016:

Sales

EUR 10,010m  2%

Comparable ROE

11.9%  +1.0pp

EBITDA

EUR 1,631m  +71m

Operating cash flow

EUR 1,558m  -128m

Comparable EBIT

EUR 1,292m  +149m

Net debt

EUR 174m  -957m

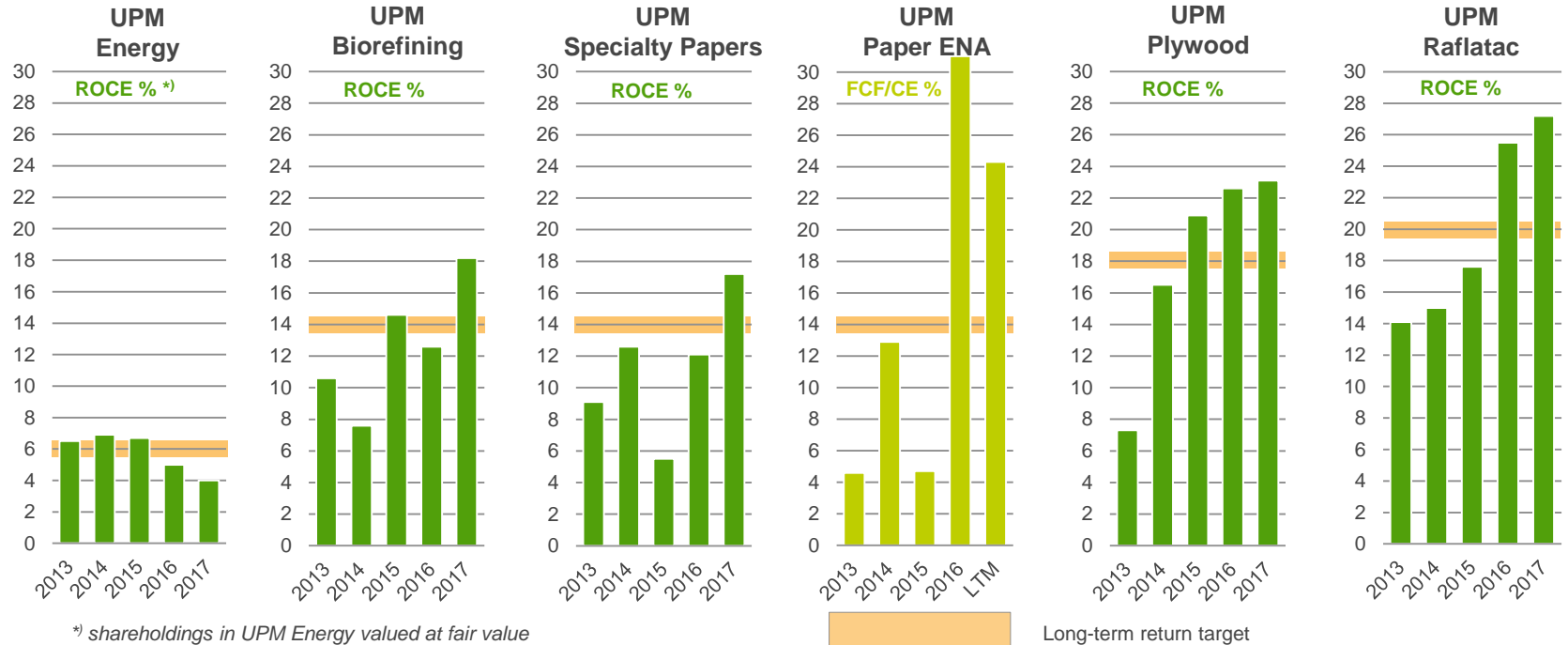
Comparable EPS

EUR 1.88  +0.23

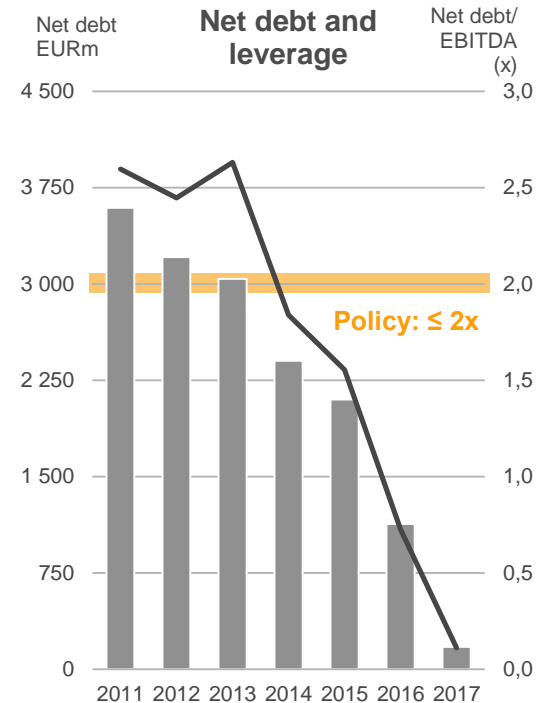
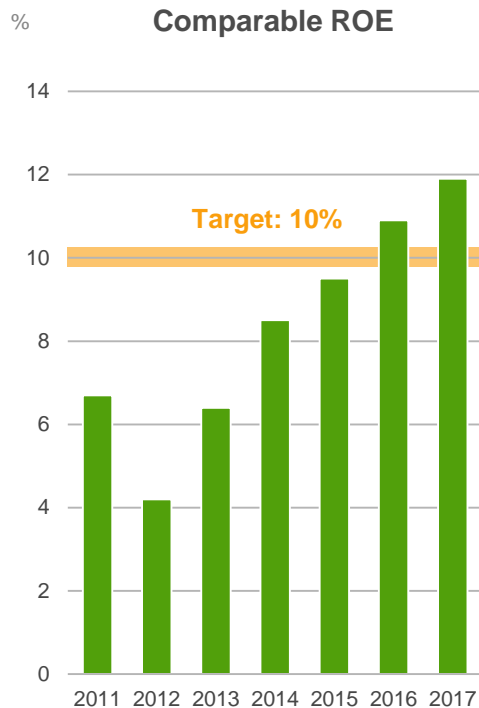
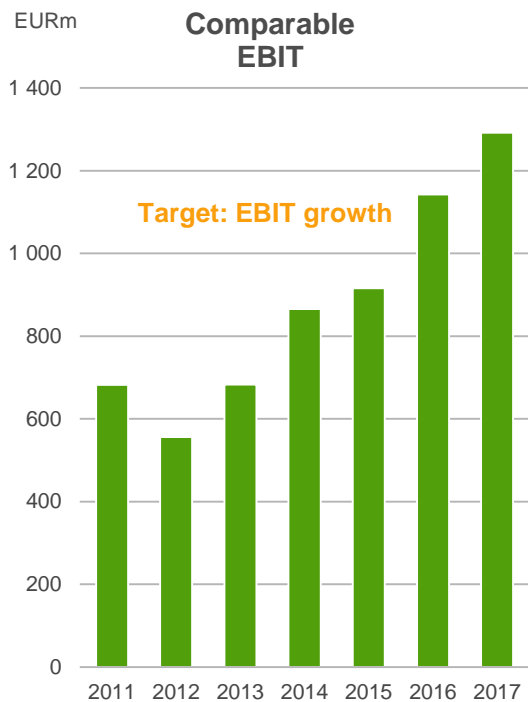
Net debt / EBITDA

0.11x  -0.62x

# Business area long-term targets compared with realised returns



# Group financial performance



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

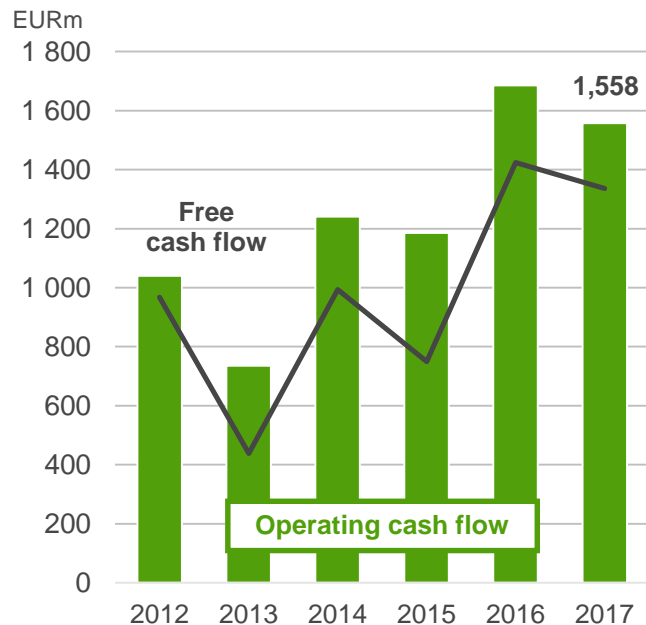


# Outlook for 2018

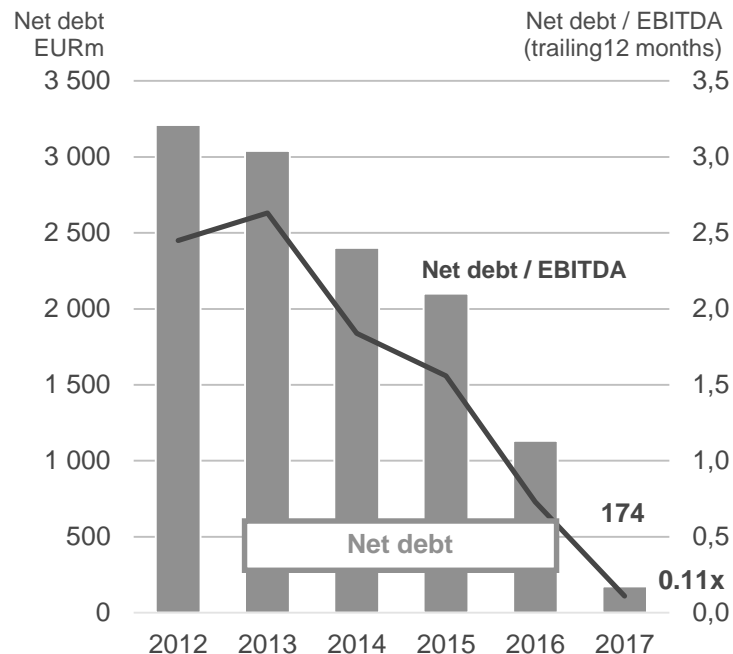
- UPM reached record earnings in 2017. Fundamentals for UPM businesses in 2018 continue to be favourable.
- Healthy demand growth is expected to continue for most of UPM's businesses in 2018, while modest demand decline is expected to continue for UPM Paper ENA. Sales prices are expected to increase in most of UPM's businesses, compared with 2017.
- Input costs are expected to continue increasing in 2018, compared with 2017. UPM will continue measures to reduce fixed and variable costs to mitigate this. 2018 starts with less favourable currencies than 2017.
- Q1 2018 results are expected to be impacted by temporary wood harvesting limitations in Northern Europe caused by unusually warm and wet weather in late 2017 and the beginning of 2018.

# Strong cash flow and balance sheet

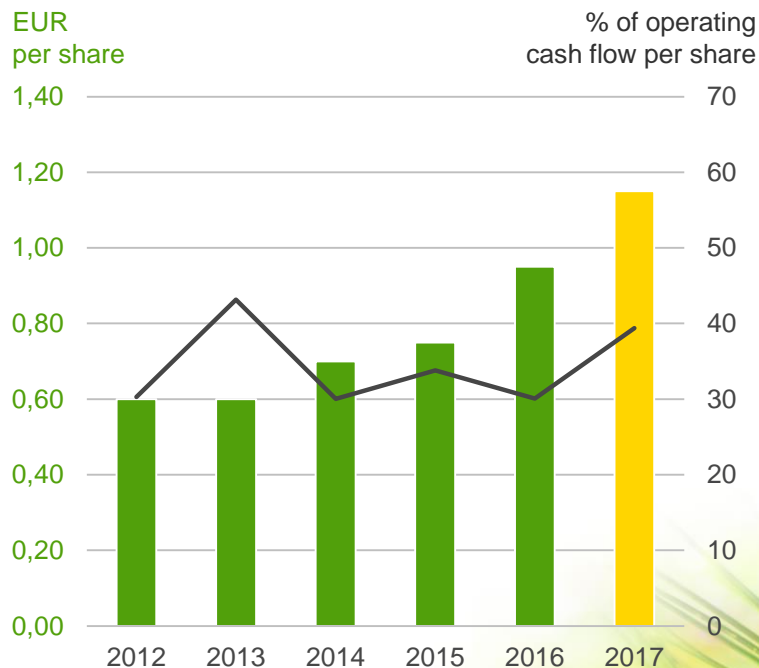
## Operating cash flow



## Net debt



# Dividend proposal: 21% increase



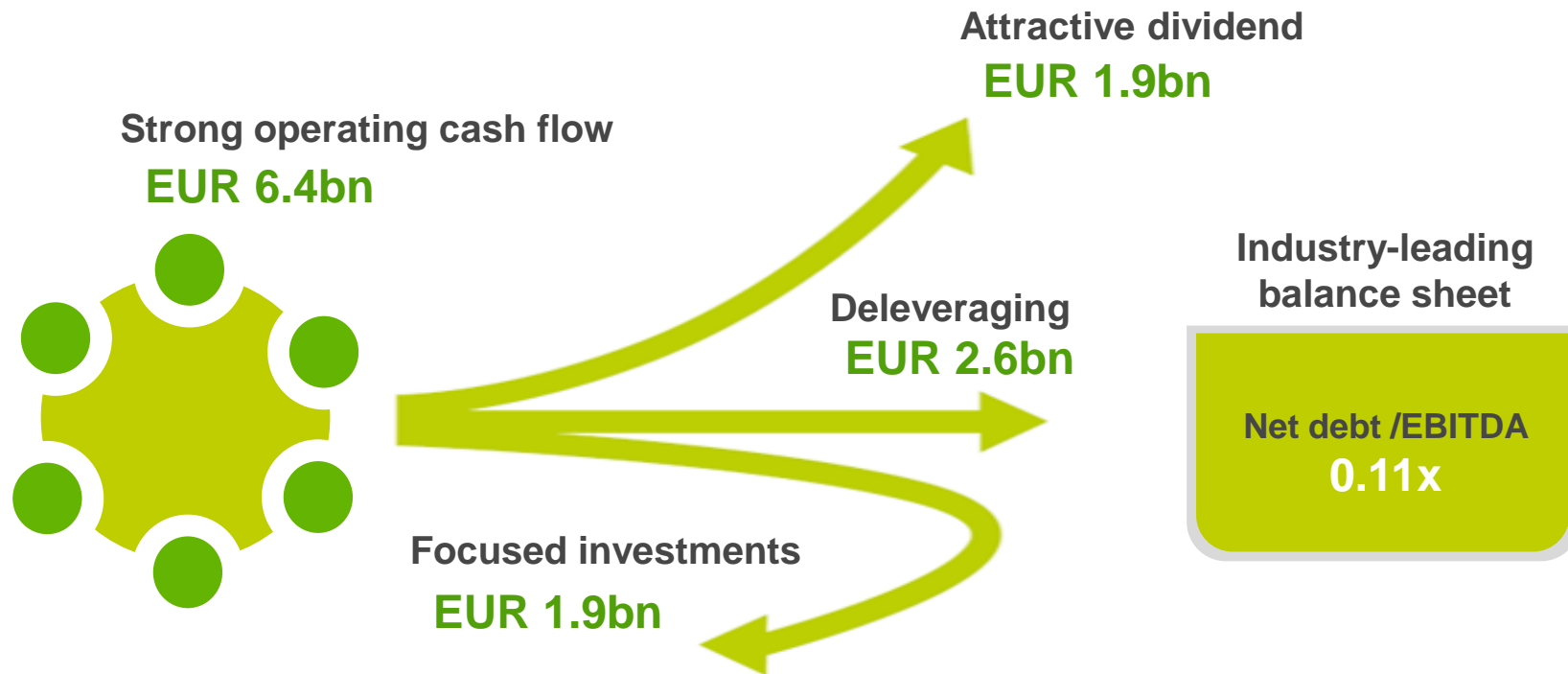
## Dividend policy

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

## Dividend proposal for 2017

- EUR 1.15 (0.95) per share, totalling EUR 613m
- 39% of 2017 operating cash flow

# 5-year cumulative cash flow (2013-2017) – disciplined capital allocation in action



# Aiming higher with continued transformation and earnings growth

- **Performance focus** continues, supported by continuous improvement culture and innovation
- **Attractive shareholder distribution**
- **Capital allocation to growth**, maintaining high standards for return requirements. Attractive focused growth investments and selected transformative projects
- **Maintain** headroom in our **strong balance sheet**

# UPM current investment portfolio for earnings growth

## Focused growth projects

- Completed in Q4/17
  - Kymi pulp mill expansion, Finland
  - Raflatac expansion, Poland
- Construction stage
  - Kaukas pulp mill expansion, Finland
  - Raflatac expansion, Finland
  - Jämsänkoski label papers expansion, Finland
  - Chudovo plywood mill expansion, Russia
- Feasibility study
  - Nordland PM2 conversion from fine papers to label papers, Germany

## Transformative prospects

- Possible new pulp mill, Uruguay
  - UPM and the Government of Uruguay signed an agreement on local prerequisites for a possible new pulp mill. Infrastructure projects and the pre-engineering of the mill in progress.
- Biomolecules businesses
  - Basic engineering study started regarding a potential industrial-scale biochemicals refinery, Germany
  - Exploring next steps in biofuels

# Establishing a competitive operating platform in Uruguay

## Current operations

Plantation base in West Uruguay



Fray Bentos pulp mill  
1.3 million tonnes



~100 km of river barging  
for outbound logistics



Sea port in Nueva Palmira  
loading half vessels



Ocean vessels to pulp markets



## Uruguay prospect

Plantation base in Central and North Eastern Uruguay



Potential new pulp mill  
about 2 million tonnes, on-site  
investment estimate EUR 2bn



Railway with high  
technical standards



Deep sea port in Montevideo  
loading full vessels

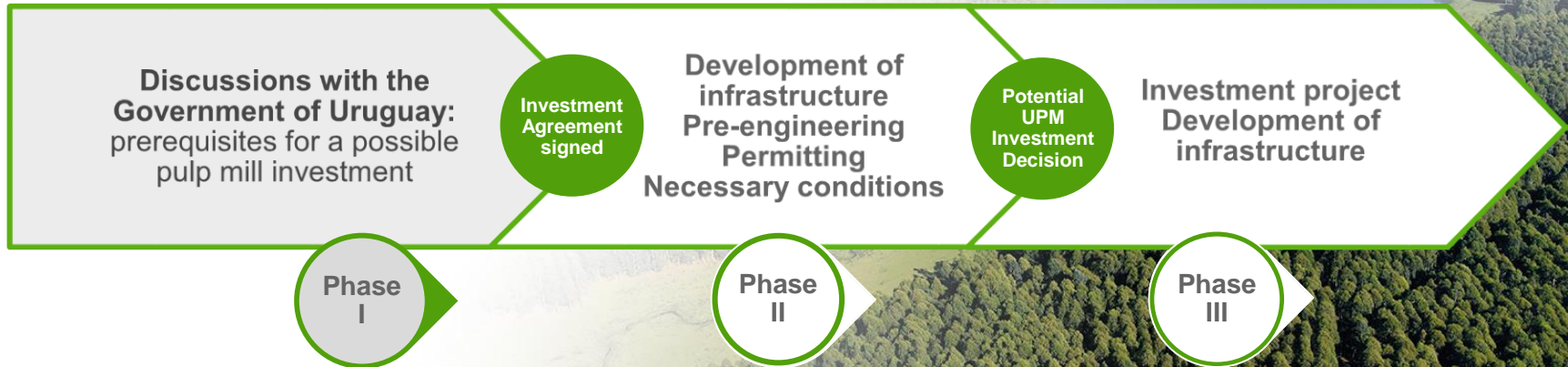


Ocean vessels to pulp markets



# Potential pulp mill in Uruguay could be a competitive alternative – time schedule is several years

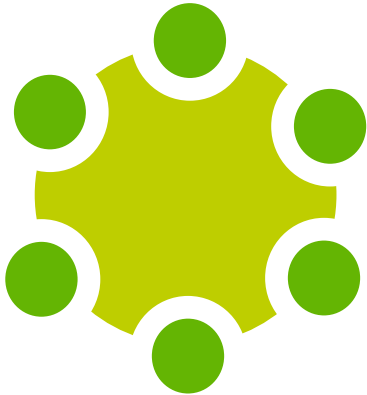
The ongoing second preparation phase is expected to take 1.5–2 years





# Illustrative capital allocation<sup>(\*)</sup> for next 5 years, assuming the Uruguay pulp mill investment

Performance focus  
**Strong cash flow**



Attractive dividend  
**EUR ~3-4bn**



High return investments  
**EUR ~3-4bn**

Industry-leading  
balance sheet

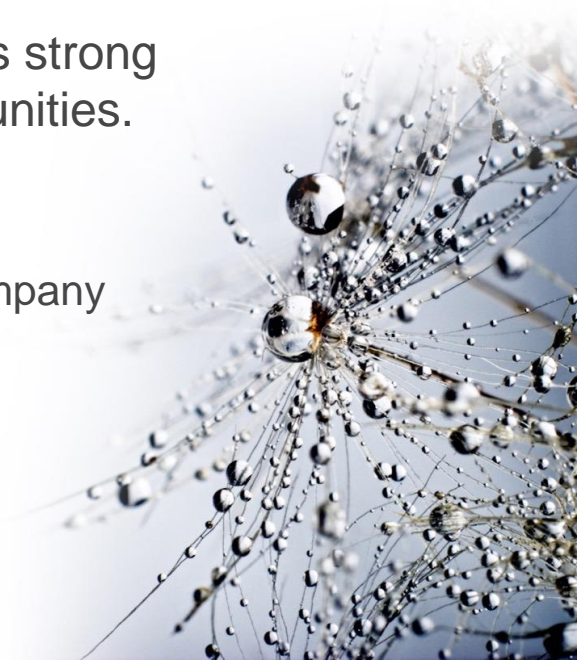


**Maintain headroom**

<sup>(\*)</sup> This is not a forecast

# Summary

- UPM reached record earnings in 2017. Fundamentals for UPM businesses in 2018 continue to be favourable.
- UPM is in better standing than ever. The company has strong businesses and a portfolio of attractive growth opportunities.
- In the coming years, UPM can:
  - allocate more capital to growing and transforming the company
  - increase the distribution to the shareholders
  - maintain headroom in the strong balance sheet
- The Board proposes a dividend increase of 21%



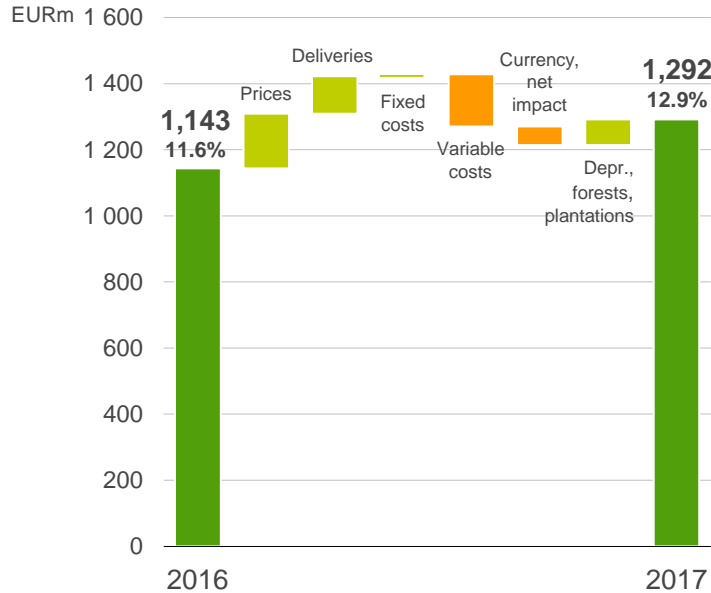


**UPM**

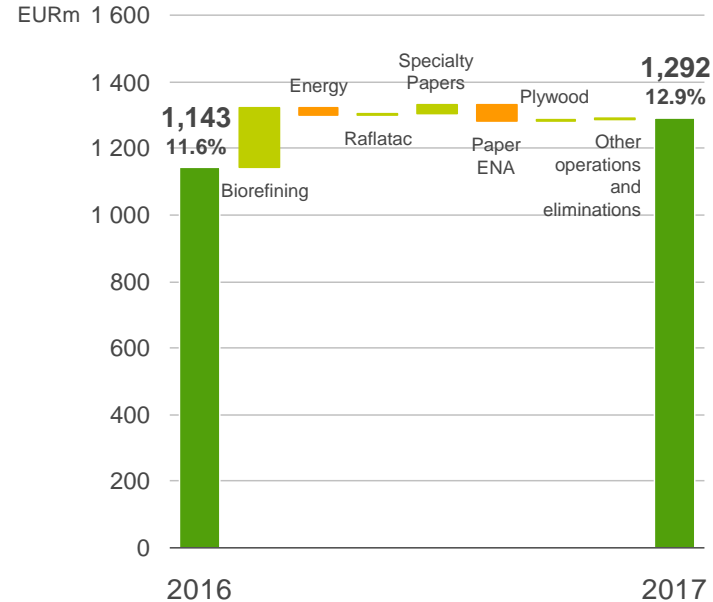
The Biofore  
Company

# Comparable EBIT in 2017 vs. 2016

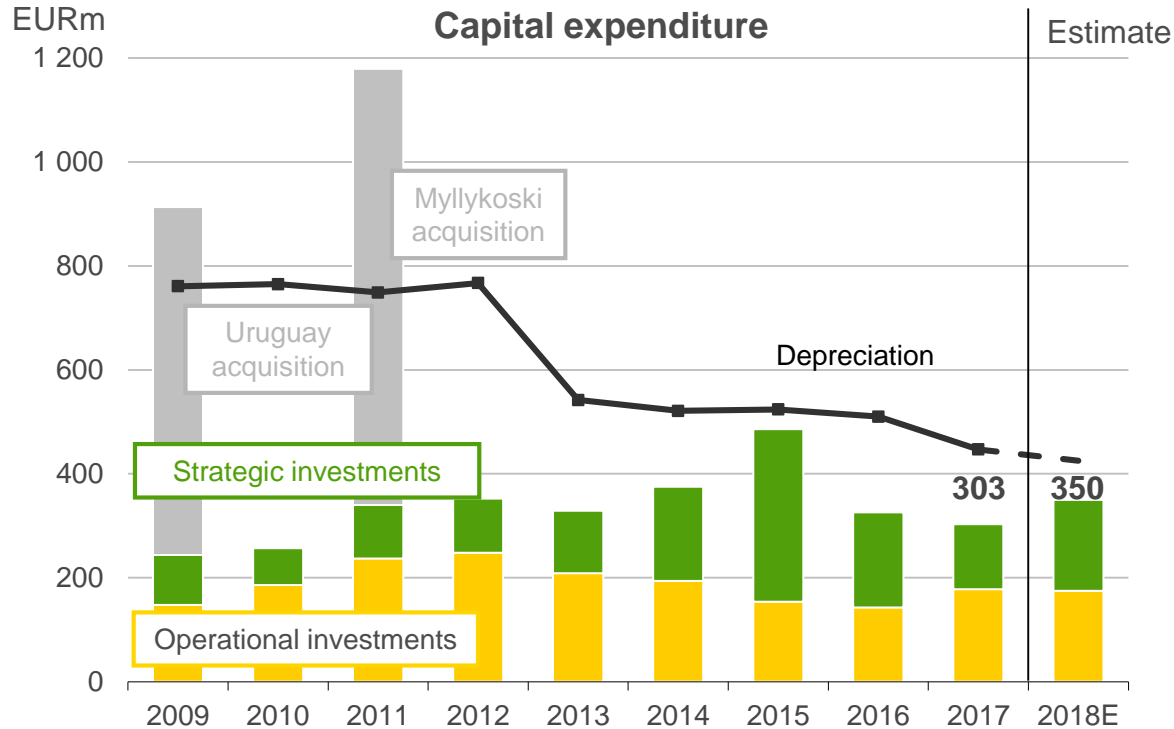
Prices and variable costs increased.  
Growth in deliveries. Less maintenance.  
Currencies had a negative impact.



Pulp prices and deliveries increased, biofuels improved in Biorefining. Good deliveries and input cost mitigation in other businesses.



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



## UPM's main currency exposures

- 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	810	370	200	220

# Timing of significant maintenance shutdowns

## Timing of significant maintenance shutdowns

Timing	Unit
Q2 17	Pietarsaari pulp mill Olkiluoto nuclear power plant
Q4 17	Kymi pulp mill
Q2 18	Fray Bentos pulp mill Kaukas pulp mill Lappeenranta biorefinery Olkiluoto nuclear power plant
Q4 18	Pietarsaari pulp mill

### Maintenance shutdowns impact

- Maintenance costs
- Production volumes
- Operational efficiency

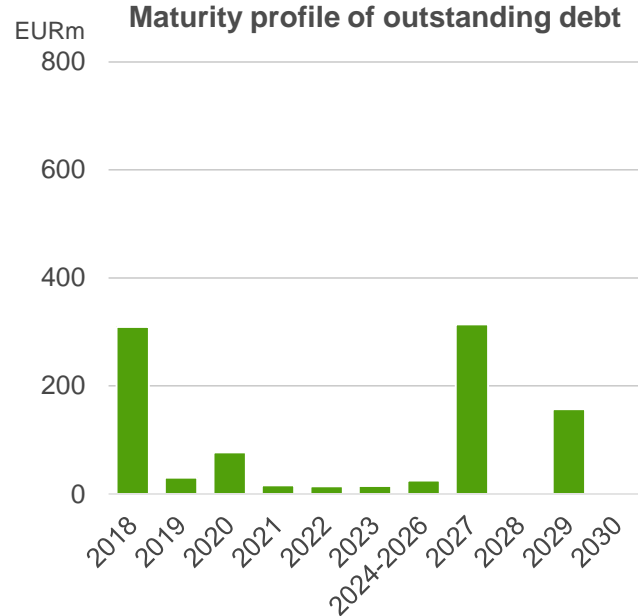
Excluding the impact of larger maintenance shutdowns, there is a seasonal pattern in UPM's fixed costs, partly related to other maintenance activity

- Q1, Q3 fixed costs below annual average
- Q2, Q4 fixed costs above annual average

# Maturity profile and liquidity

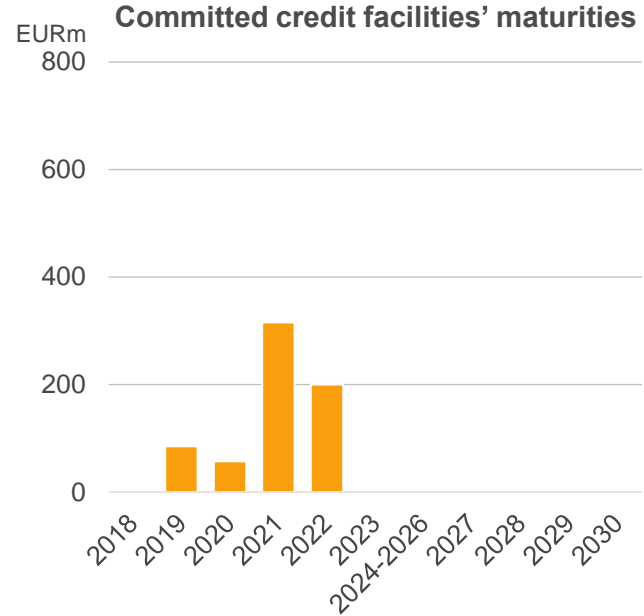
## Liquidity

Liquidity on 31 December 2017 was EUR 1.4bn (cash and unused credit facilities)



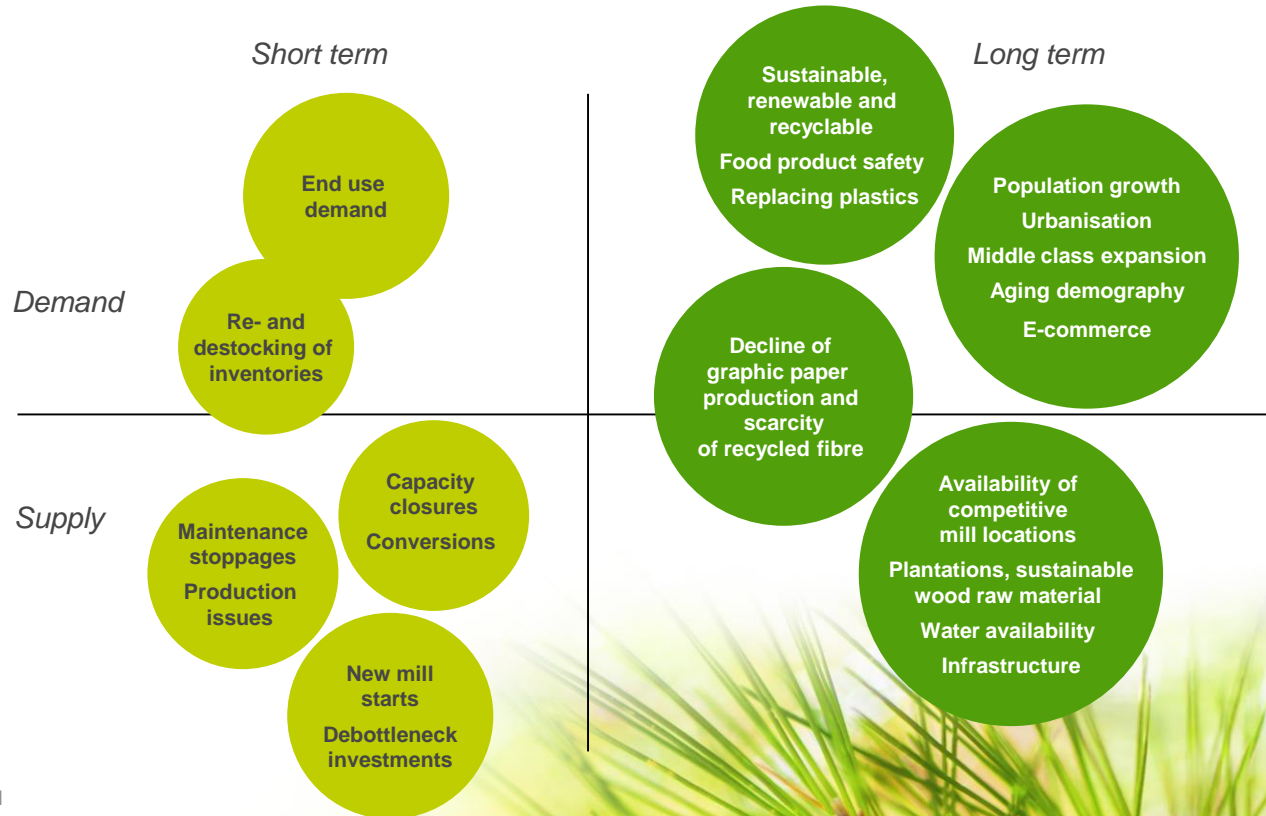
## Committed credit facilities

Bilateral committed credit facilities  
EUR 657 million for general financing purposes





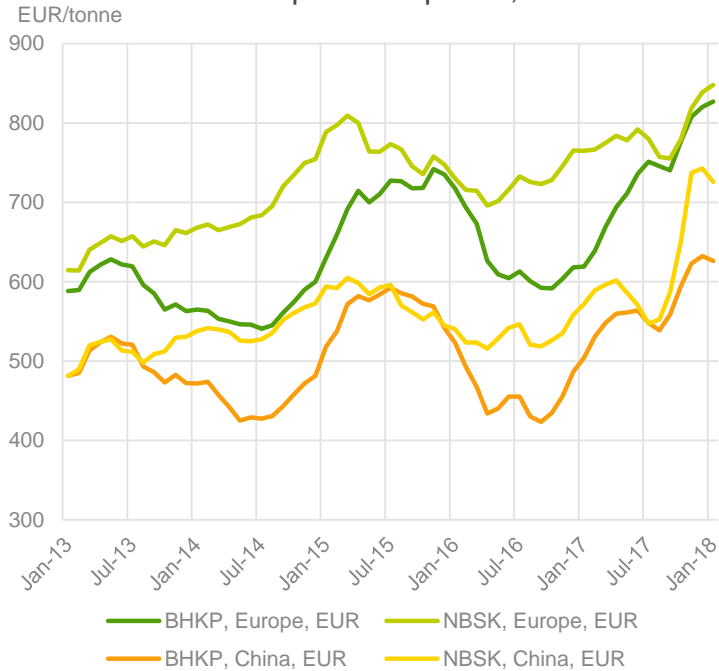
# Demand-supply drivers of pulp market



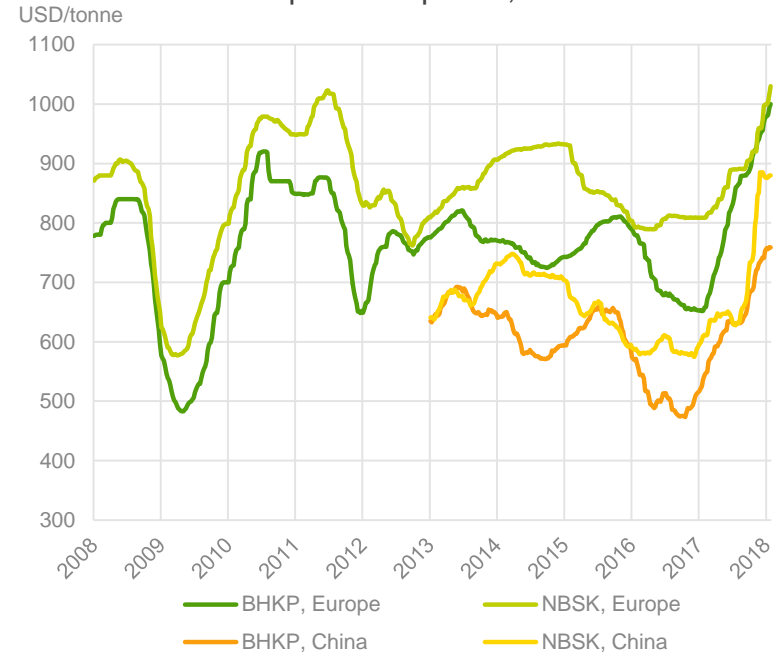
# UPM Biorefining

## Chemical pulp market

### Pulp market prices, EUR

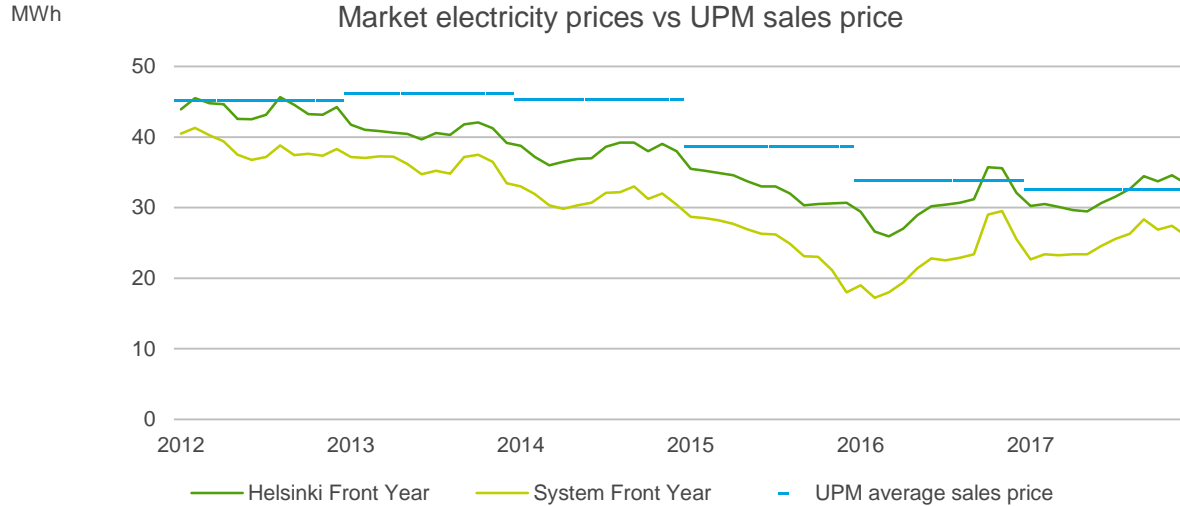


### Pulp market prices, USD



Sources: FOEX Indexes Ltd, ECB

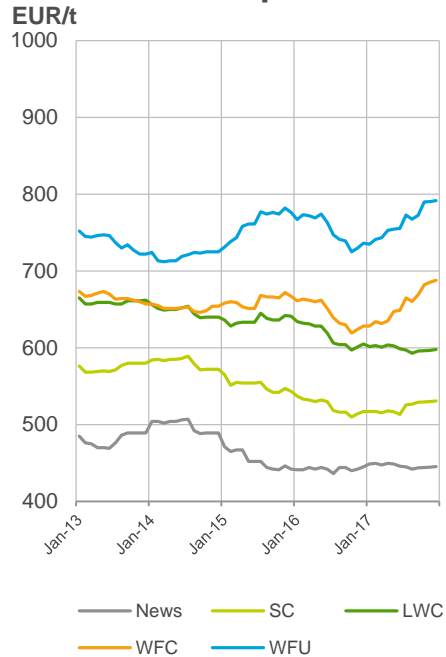
# Cost efficient generation enables robust profitability in challenging market environment



UPM Energy profitability	2012	2013	2014	2015	2016	2017
Comparable EBIT, EURm	217	186	202	181	116	91
% of sales	45.0	39.9	43.5	43.6	32.7	28.8

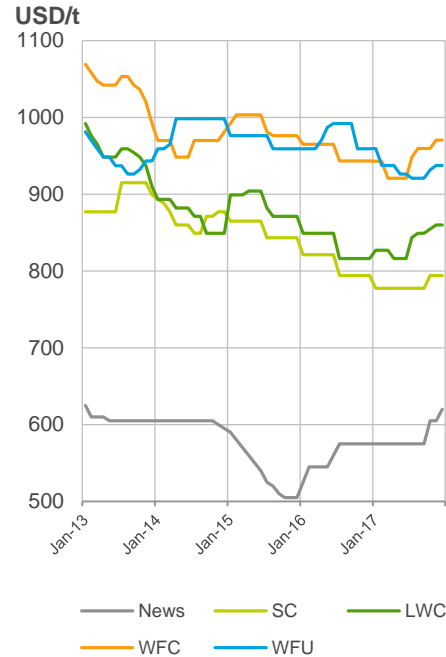
# Graphic paper prices

## Europe

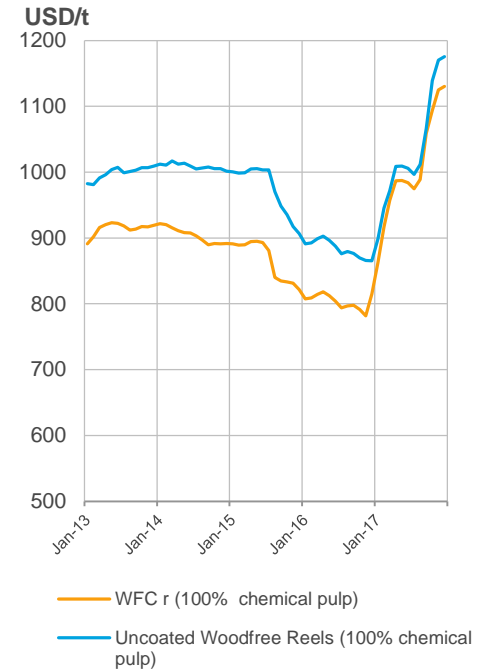


Sources: PPI, RISI

## North America



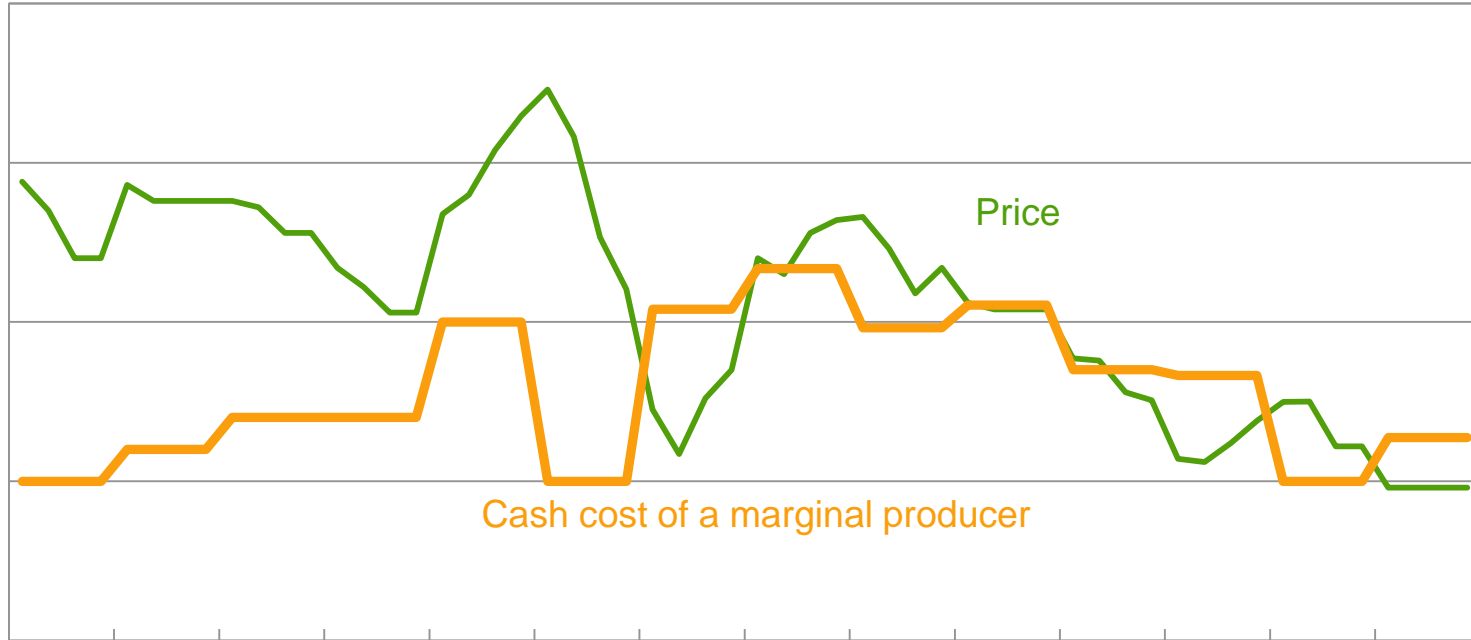
## China



# Paper price vs. cash cost of marginal cost producer



EUR/t



2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017



**UPM**

The Biofore  
Company