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

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

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

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

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

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

EBITDA
EUR 1,631m  ↑  +71m

Comparable EBIT
EUR 1,292m  ↑  +149m

Comparable EPS
EUR 1.88  ↑  +0.23

Comparable ROE
11.9%  ↑  +1.0pp

Operating cash flow
EUR 1,558m  ↓  -128m

Net debt
EUR 174m  ↑  -957m

Net debt / EBITDA
0.11x  ↑  -0.62x
Business area long-term targets compared with realised returns

* Shareholdings in UPM Energy valued at fair value.
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

- **Operating cash flow**
- **Free cash flow**

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating cash flow</th>
<th>Free cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>EURm</td>
<td></td>
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<tr>
<td>2013</td>
<td>EURm</td>
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<td>2014</td>
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<td>2015</td>
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<td>2016</td>
<td>EURm</td>
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<tr>
<td>2017</td>
<td>EURm</td>
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</tr>
</tbody>
</table>

### Net debt

- **Net debt**
- **Net debt / EBITDA (trailing 12 months)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net debt EURm</th>
<th>Net debt / EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3 500</td>
<td>3.5</td>
</tr>
<tr>
<td>2013</td>
<td>3 000</td>
<td>3.0</td>
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<tr>
<td>2014</td>
<td>2 500</td>
<td>2.5</td>
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<tr>
<td>2015</td>
<td>2 000</td>
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<tr>
<td>2016</td>
<td>1 500</td>
<td>1.5</td>
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<tr>
<td>2017</td>
<td>1 000</td>
<td>1.0</td>
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<tr>
<td></td>
<td>174</td>
<td>0.11x</td>
</tr>
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</table>

### Analysis

- The company has maintained strong cash flow, indicating a healthy financial position.
- Net debt has decreased significantly over the years, reflecting effective debt management.
- Net debt / EBITDA ratio is declining, suggesting reduced financial risk.
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

- Strong operating cash flow: EUR 6.4bn
- Focused investments: EUR 1.9bn
- Deleveraging: EUR 2.6bn
- Attractive dividend: EUR 1.9bn
- Industry-leading balance sheet: Net debt / EBITDA 0.11x
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 (* 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
- Net debt / EBITDA < 2x

Maintain headroom

(*) 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%
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

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
<th>GBP</th>
<th>JPY</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>810</td>
<td>370</td>
<td>200</td>
<td>220</td>
</tr>
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</table>
## Timing of significant maintenance shutdowns

### 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

### Timing of significant maintenance shutdowns

<table>
<thead>
<tr>
<th>Timing</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 17</td>
<td>Pietarsaari pulp mill</td>
</tr>
<tr>
<td></td>
<td>Olkiluoto nuclear power plant</td>
</tr>
<tr>
<td>Q4 17</td>
<td>Kymi pulp mill</td>
</tr>
<tr>
<td>Q2 18</td>
<td>Fray Bentos pulp mill</td>
</tr>
<tr>
<td></td>
<td>Kaukas pulp mill</td>
</tr>
<tr>
<td></td>
<td>Lappeenranta biorefinery</td>
</tr>
<tr>
<td></td>
<td>Olkiluoto nuclear power plant</td>
</tr>
<tr>
<td>Q4 18</td>
<td>Pietarsaari pulp mill</td>
</tr>
</tbody>
</table>
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

Maturity profile of outstanding debt

Committed credit facilities’ maturities
Demand-supply drivers of pulp market

**Short term**
- End use demand
- Re- and destocking of inventories

**Long term**
- Sustainable, renewable and recyclable
- Food product safety
- Replacing plastics

**Demand**
- Population growth
- Urbanisation
- Middle class expansion
- Aging demography
- E-commerce

**Supply**
- Decline of graphic paper production and scarcity of recycled fibre
- Availability of competitive mill locations
- Plantations, sustainable wood raw material
- Water availability
- Infrastructure

**Maintenance stoppages**
- Production issues
- New mill starts
- Debottleneck investments

**Capacity closures**
- Conversions

**Capacity issues**
- Conversions
UPM Biorefining
Chemical pulp market

Pulp market prices, EUR

Pulp market prices, USD

Sources: FOEX Indexes Ltd, ECB
U**PM Energy**

Cost efficient generation enables robust profitability in challenging market environment

### UPM Energy profitability

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable EBIT, EURm</td>
<td>217</td>
<td>186</td>
<td>202</td>
<td>181</td>
<td>116</td>
<td>91</td>
</tr>
<tr>
<td>% of sales</td>
<td>45.0</td>
<td>39.9</td>
<td>43.5</td>
<td>43.6</td>
<td>32.7</td>
<td>28.8</td>
</tr>
</tbody>
</table>

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![Market electricity prices vs UPM sales price](image-url)

- **Helsinki Front Year**
- **System Front Year**
- **UPM average sales price**

MWh
Graphic paper prices

Sources: PPI, RISI
Paper price vs. cash cost of marginal cost producer

Sources: PPI, RISI, Pöyry