The Biofore Company UPM

UPM INTERIM REPORT Q1 2018

Jussi Pesonen
President and CEO
26 April 2018

Q1 2018 – UPM continues to grow earnings, strong customer demand in all businesses

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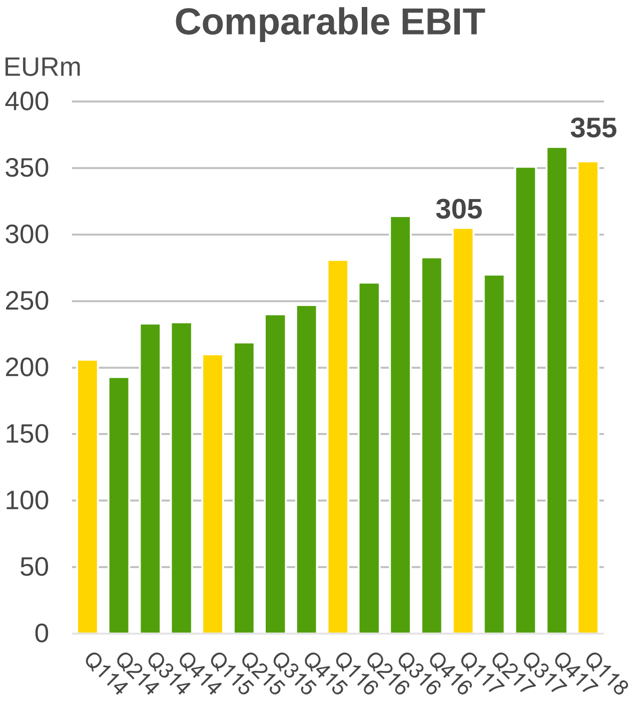
- Comparable EBIT increased by 17% to EUR 355m (305m)
- Sales prices increased in all business areas, outweighing the impact of higher input costs
- Production impacted by temporary wood harvesting limitations
- Operating cash flow was EUR 208m (396m)
- Net debt decreased to EUR 41m (807m)
- Announced new projects focused on growing the attractive release liner business



Q1 2018 – Commercially a successful quarter, operationally left room for improvement

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UPM BIOREFINING
- Good market demand. Pulp deliveries -7%, production impacted by temporary wood harvesting limitations
- Pulp prices significantly higher

UPM SPECIALTY PAPERS
- Good market demand, deliveries -3%, mix improvement
- Price increases offset most of the variable cost increases

UPM COMMUNICATION PAPERS
- Deliveries -4%
- Price increases offset most of the variable cost increases

UPM RAFLATAC
- Good demand, deliveries -4%
- Price increases restored unit margins after 12 months of input cost increases

UPM ENERGY
- Electricity deliveries +15%
- Higher electricity market prices
- Hydropower generation at a good level

UPM PLYWOOD
- Good demand, deliveries +4%
- Price increases offset the variable cost increases

Comparable EBIT by business area

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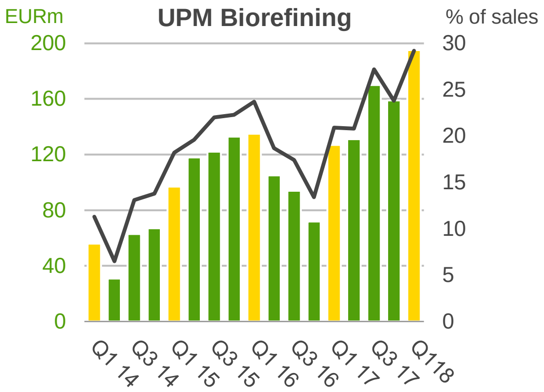
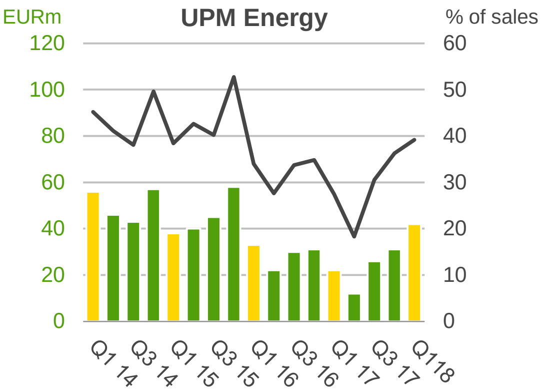
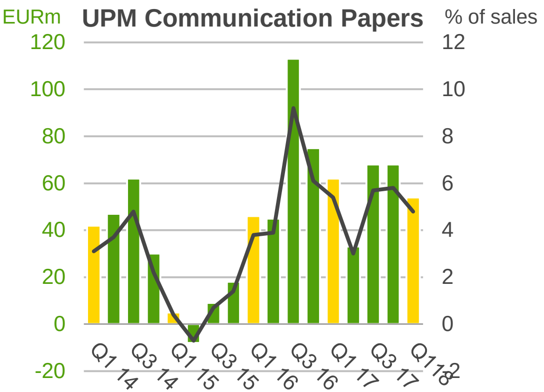
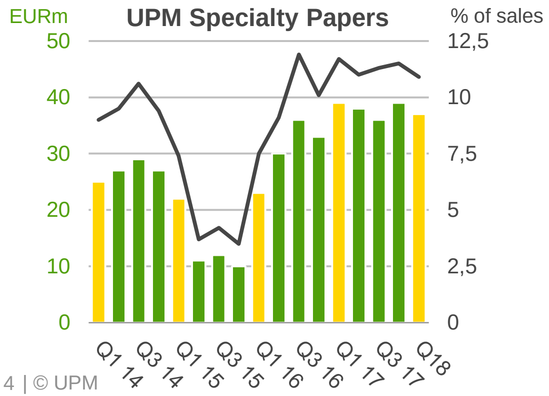
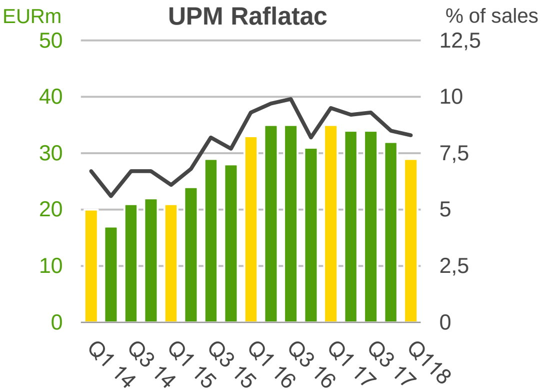
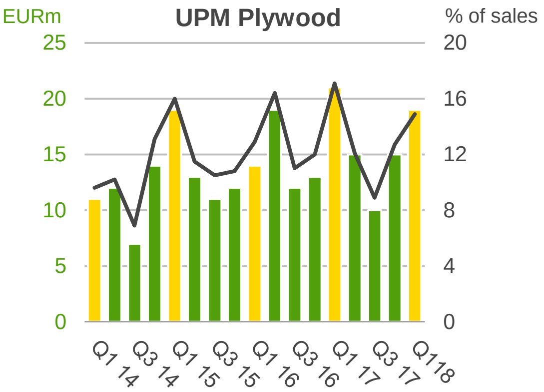






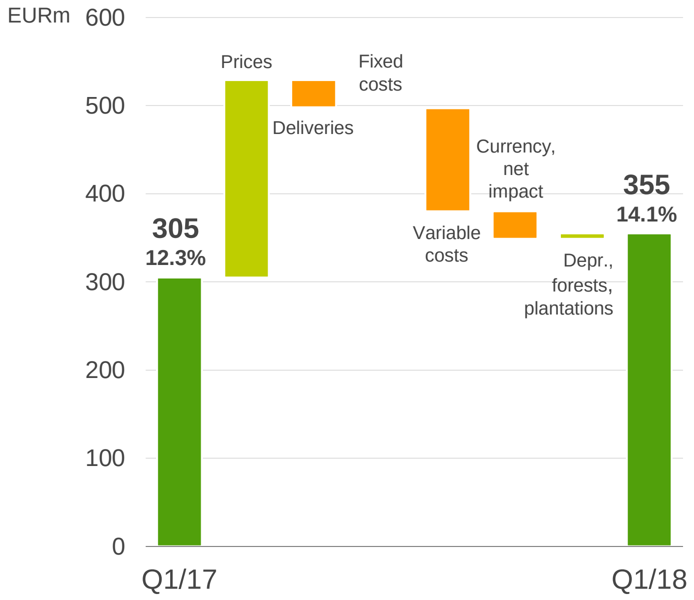




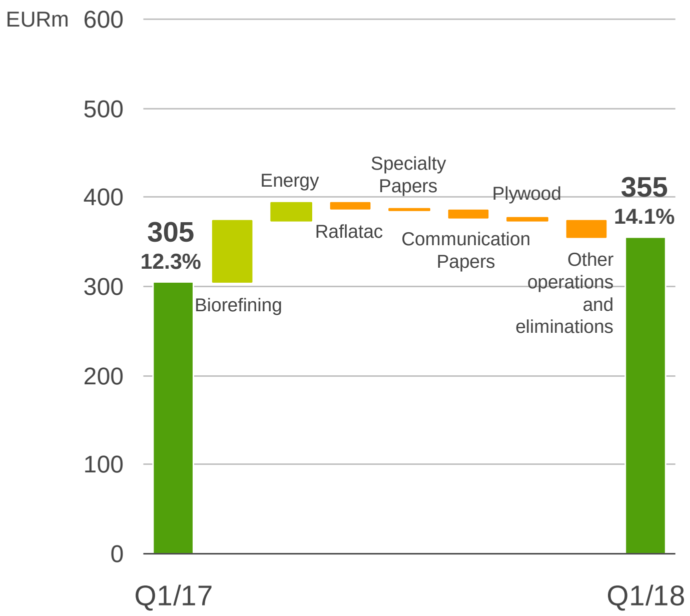


Comparable EBIT in Q1 2018 vs. Q1 2017

Increased prices in all businesses
Higher input costs and unfavourable currencies
Production impacted by wood harvesting limitations



Improvement in Biorefining and Energy, input cost mitigation in the other businesses



Strong cash flow and balance sheet

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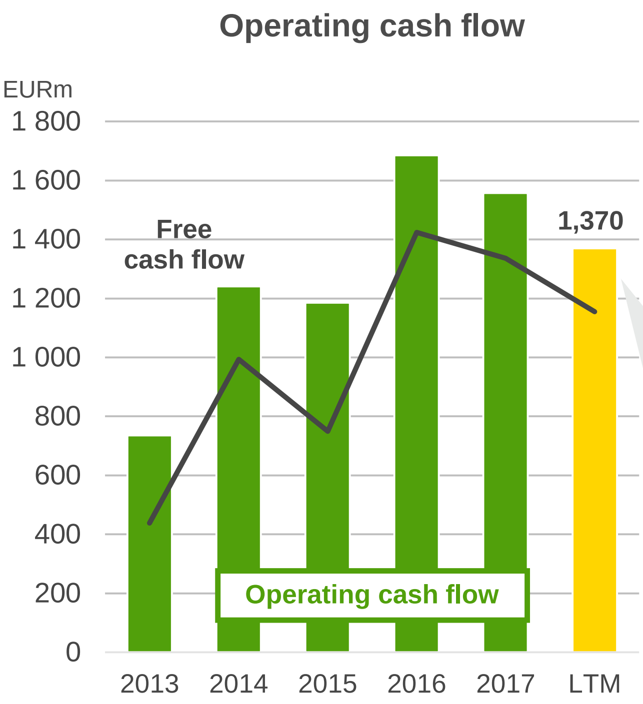
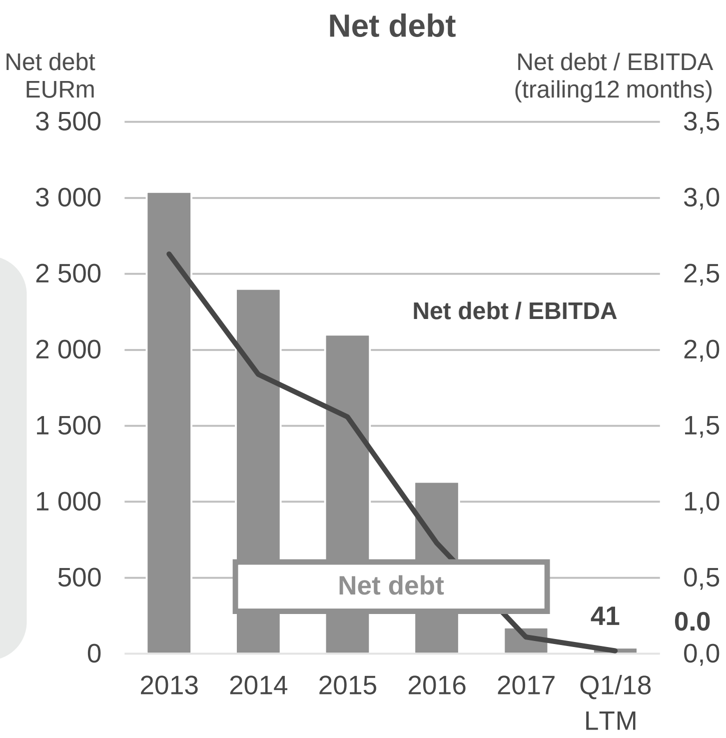


Q1/18 operating cash flow EUR 208m

Working capital increased seasonally by EUR 142m



Outlook for 2018

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- UPM reached record earnings in 2017 and its comparable EBIT is expected to increase further in 2018 compared with 2017.
- The fundamentals for UPM businesses in 2018 continue to be favourable. Healthy demand growth is expected to continue for most UPM businesses in 2018, while demand decline is expected to continue for UPM Communication Papers. Sales prices are expected to be higher in UPM businesses in 2018 compared with 2017.
- Input costs are expected to be higher in 2018 compared with 2017. In order to mitigate this, UPM will continue to implement measures to reduce fixed and variable costs. 2018 has started with less favourable currency exchange rates than 2017.
- Q2 2018 results will be impacted by significant maintenance activity, especially in UPM Biorefining.

Timing of significant maintenance shutdowns

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Significant maintenance shutdowns in 2017 and 2018

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 turnaround Olkiluoto nuclear power plant
Q4 18	Pietarsaari pulp mill

Maintenance shutdowns have an impact on

- Maintenance costs
- Production volumes
- Operational efficiency

Excluding the impact of larger maintenance shutdowns, there is a seasonal pattern in UPM's fixed costs

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

UPM's current investment portfolio for earnings growth

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Focused growth projects

- Kaukas pulp mill expansion,
  +30kt in Q2 2018, Finland
- Raflatac speciality label expansion,
  in Q4 2018, Finland
- Chudovo plywood mill expansion,
  +155k m^3 in Q3 2019, Russia
- Jämsänkoski release liner expansion,
  +40kt in Q4 2018, Finland
- Nordland PM2 conversion to release liner,
  +110kt in Q4 2019, Germany
- Changshu release liner expansion,
  +40kt in Q1 2020, China

UPM's current investment portfolio for earnings growth

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Transformative prospects

- Possible new pulp mill, Uruguay
  - Second preparation phase is proceeding. The permitting processes for the mill, rail and port, as well as rail tendering have started as agreed.
- Biomolecules businesses
  - Basic engineering work regarding a potential industrial-scale biochemicals refinery, Germany
  - Exploring next steps in biofuels, environmental impact study in Kotka, Finland




Second preparation phase for the potential new pulp mill in Uruguay proceeding

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Phase I
Completed in Q4/17

Discussions with the Government of Uruguay
Prerequisites for a possible pulp mill investment

Investment agreement signed in Q4/17

Phase II
Expected to take 1.5-2 years

Permitting
Pre-engineering
Development of infrastructure
Necessary conditions

Potential UPM investment decision

Phase III

Investment project
Development of infrastructure

Main items in preparation phase II:

- Mill permitting, pre-engineering
- Rail permitting, tendering, start construction
- Port permitting, tendering, concession
- Roads
- Labour protocols, regulation
- Investment regimes
- Regional planning and development
- Energy and complementary items

Summary

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- Customer demand is strong and sales prices increased in all business areas in Q1 2018
- Q1 2018 comparable EBIT grew by 17%, driven by strong business performance
- Comparable EBIT is expected to increase in 2018 compared with 2017
- Next focused growth projects announced in the attractive release liner business
- Transformative prospects in Uruguay and in biomolecules businesses are proceeding

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WELCOME TO UPM'S CAPITAL MARKETS DAY!

LIMITLESS OPPORTUNITIES OF BIOECONOMY

London 31 May 2018

30 May *dinner with a keynote speech by the Chairman of the Board*

31 May *presentations and discussion with the CEO and the UPM management team*

Register by email: ir@upm.com
More information: www.upm.com/Investors

UPM

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Company

Establishing a competitive operating platform in Uruguay – we are now in preparation phase II

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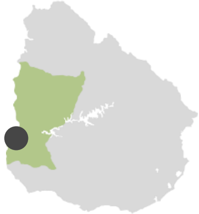
Current operations



- 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

Disciplined capital allocation – 5-year cumulative cash flow (2013-2017)

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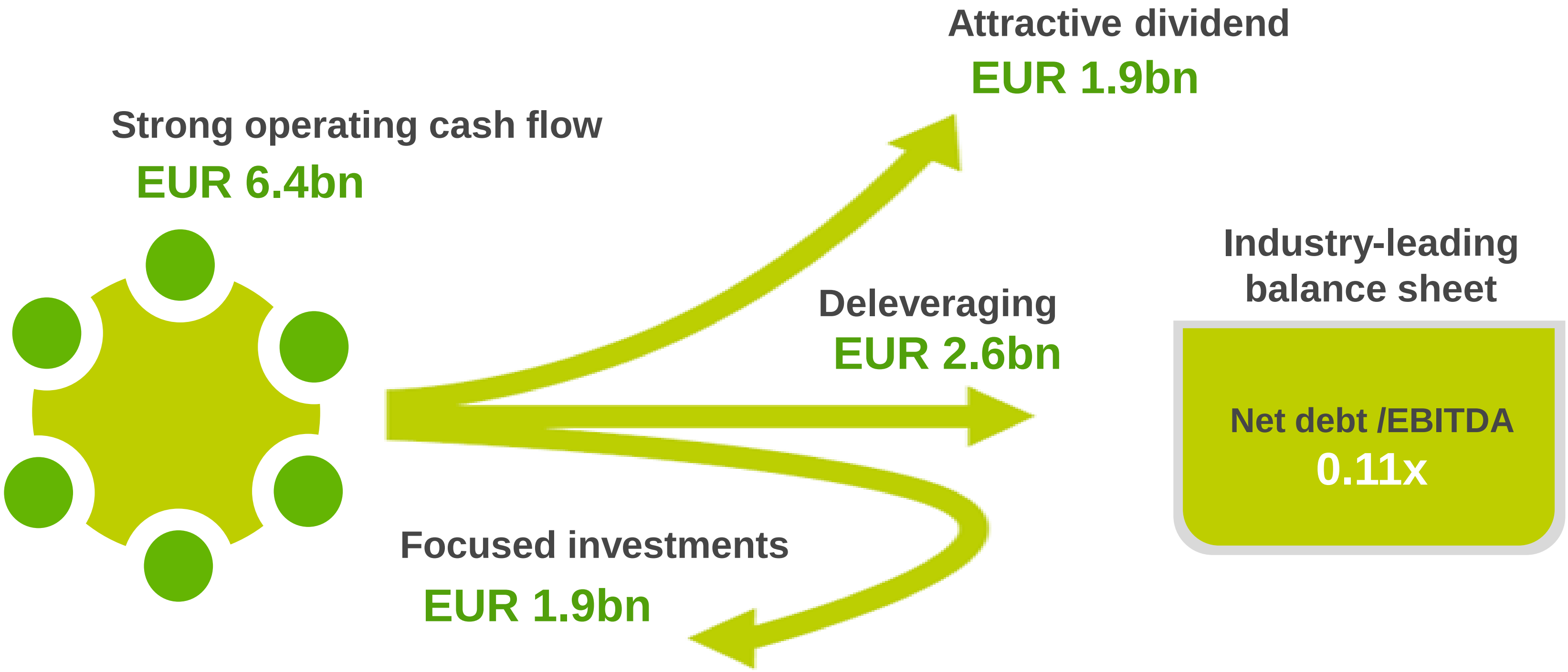

Illustrative capital allocation(* for next 5 years, assuming the Uruguay pulp mill investment

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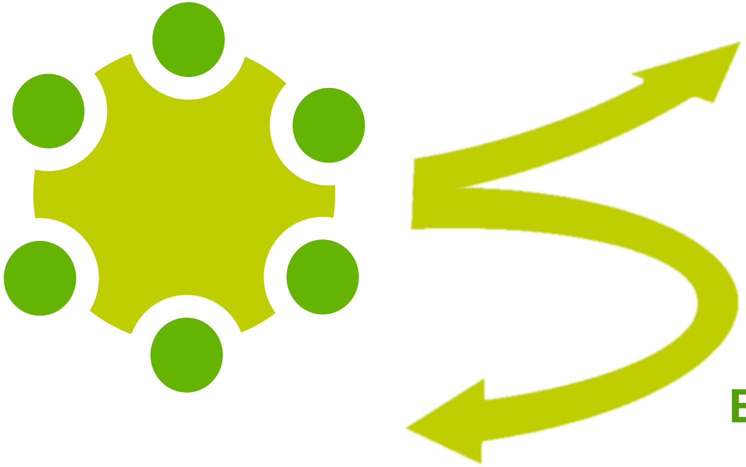
Performance focus

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

Business area long-term targets compared with realised returns

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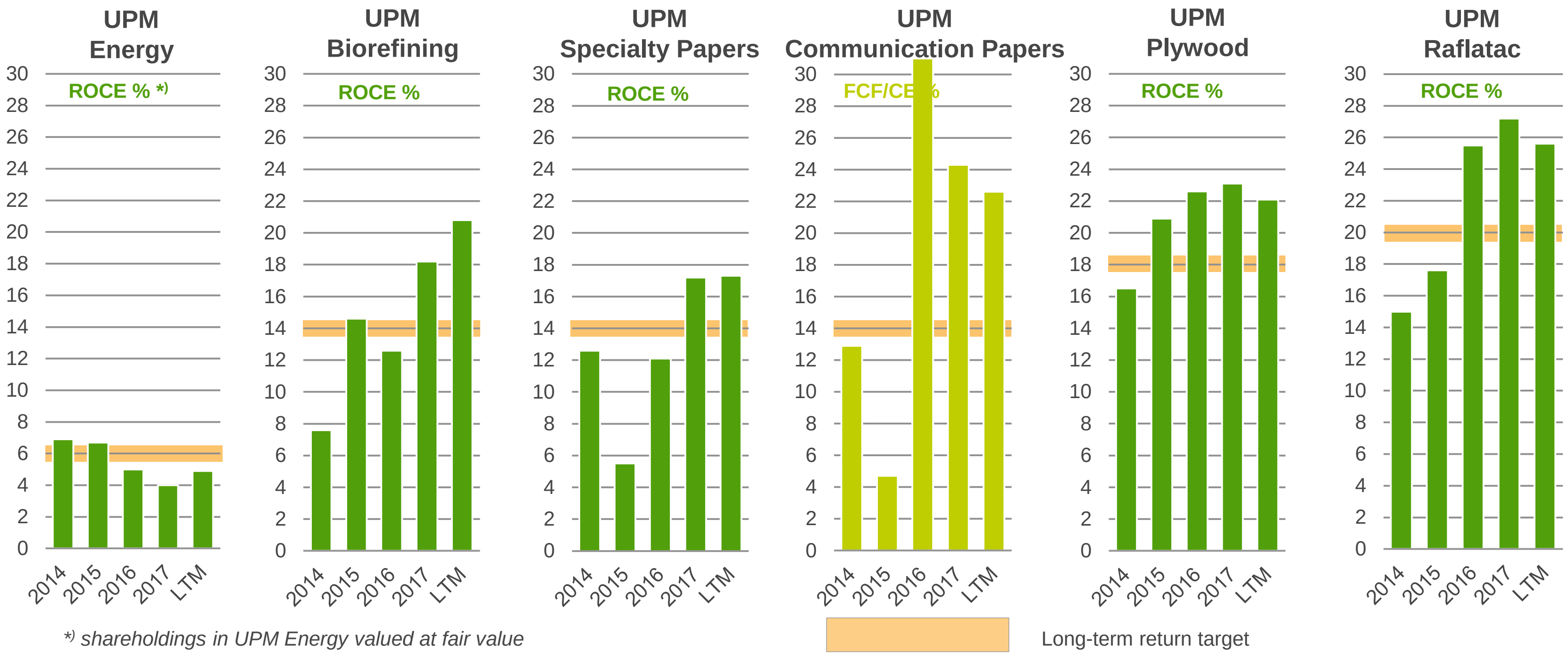

*) shareholdings in UPM Energy valued at fair value

Group financial performance

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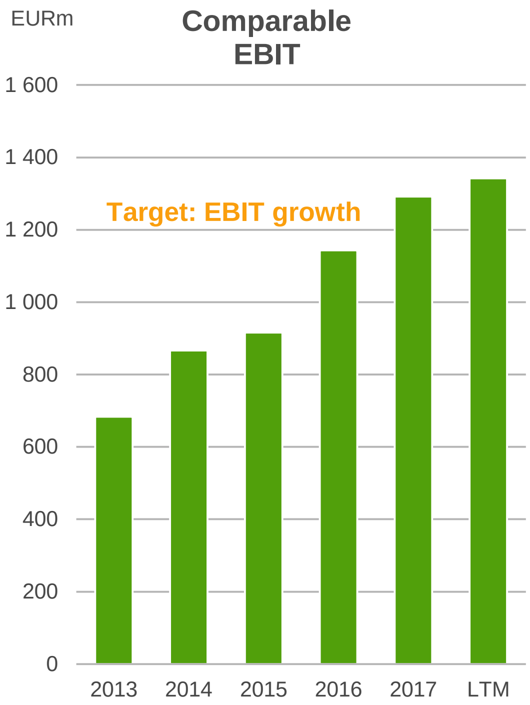

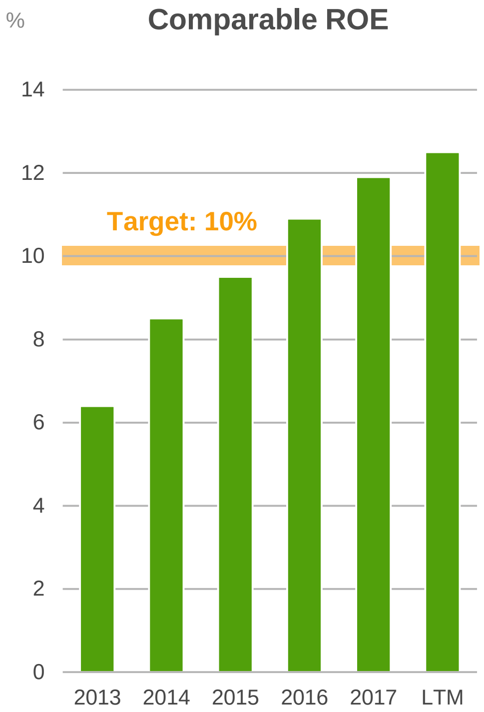

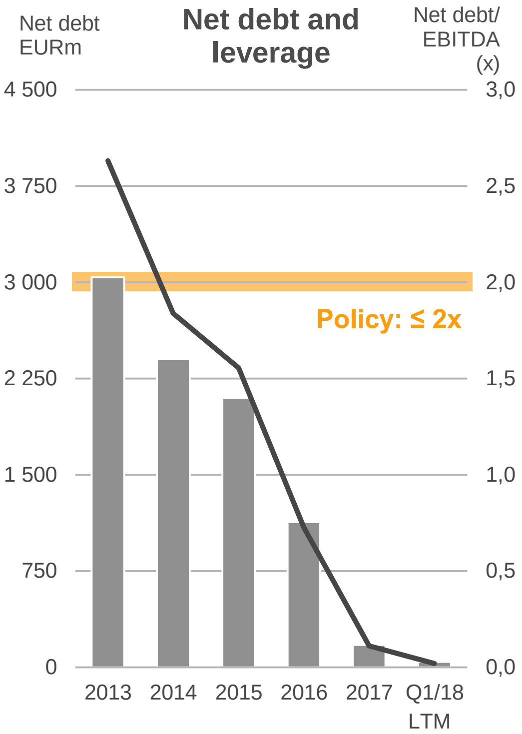

Comparable figures for 2014 – 2018, excluding special items for earlier years

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

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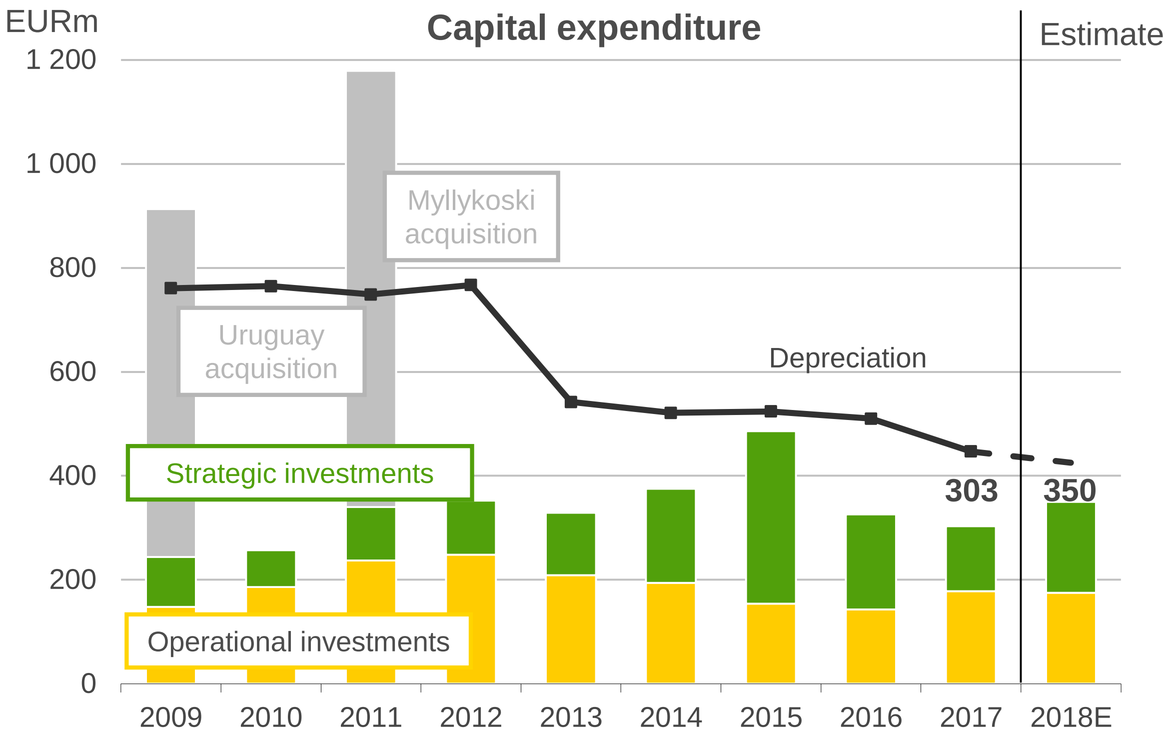

UPM's main currency exposures

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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	700	360	180	260

Maturity profile and liquidity

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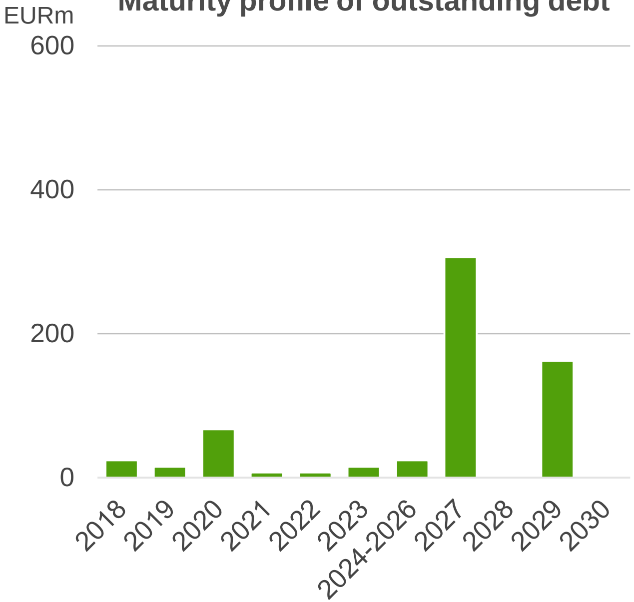
Liquidity

Liquidity on 31 March 2018 was EUR 1.1bn
(cash and unused credit facilities)

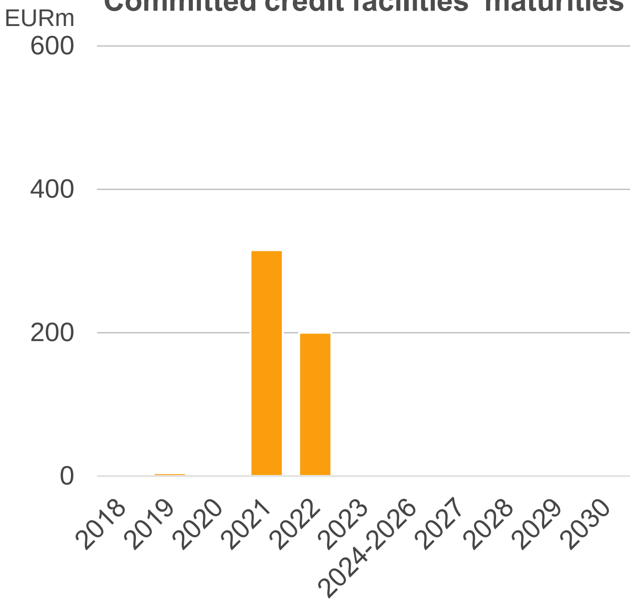
Maturity profile of outstanding debt



Committed credit facilities

Bilateral committed credit facilities
EUR 522 million for general financing purposes

Committed credit facilities' maturities



UPM Biorefining

Demand-supply drivers of pulp market

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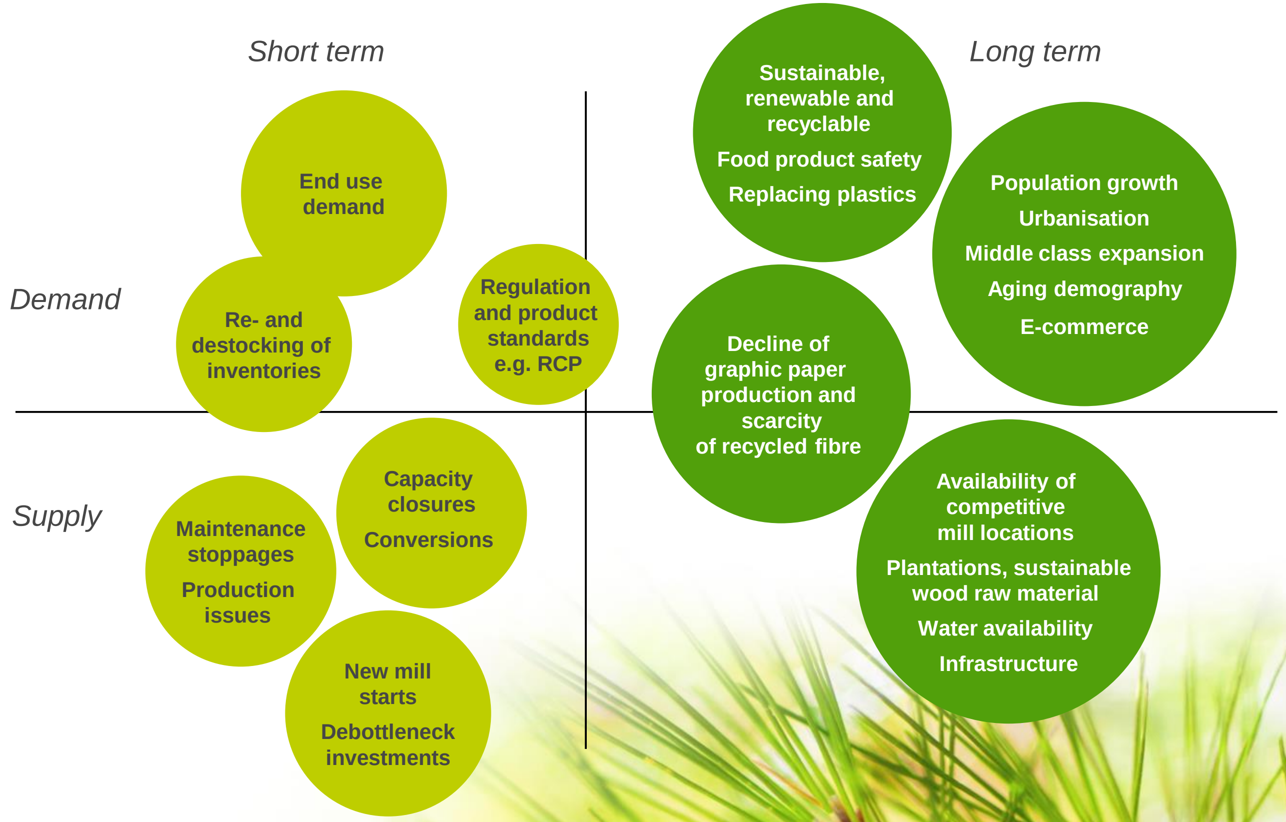

UPM Biorefining

Chemical pulp market prices

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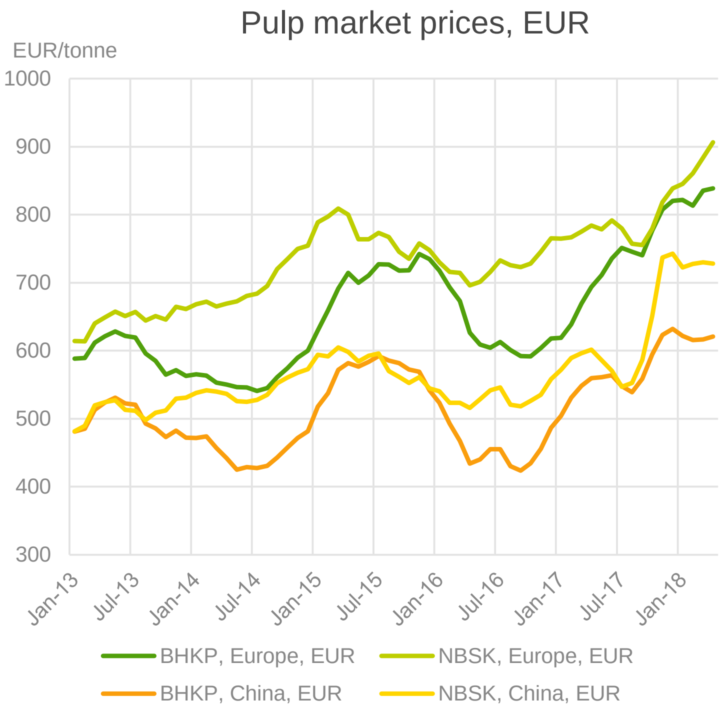

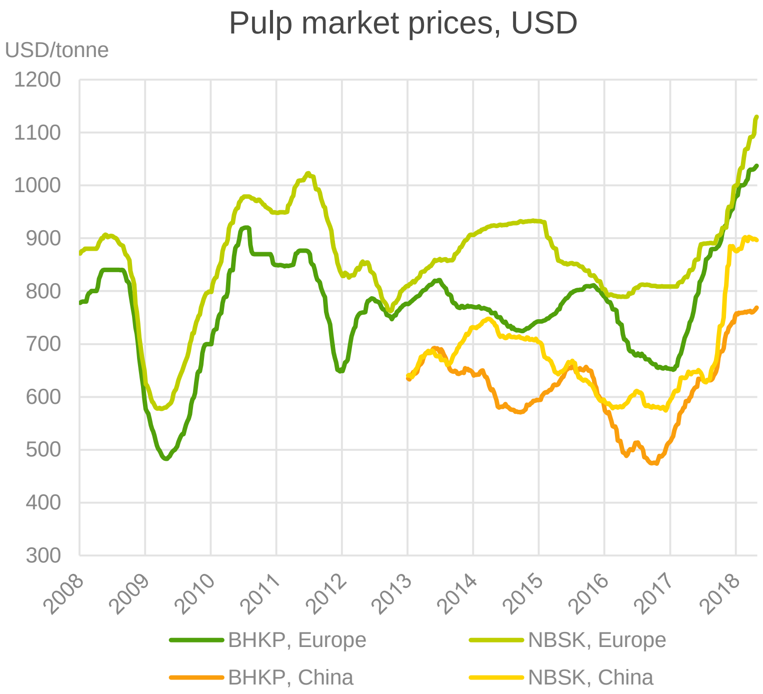

Sources: FOEX Indexes Ltd, ECB

UPM Energy

Cost efficient generation enables robust profitability in challenging market environment

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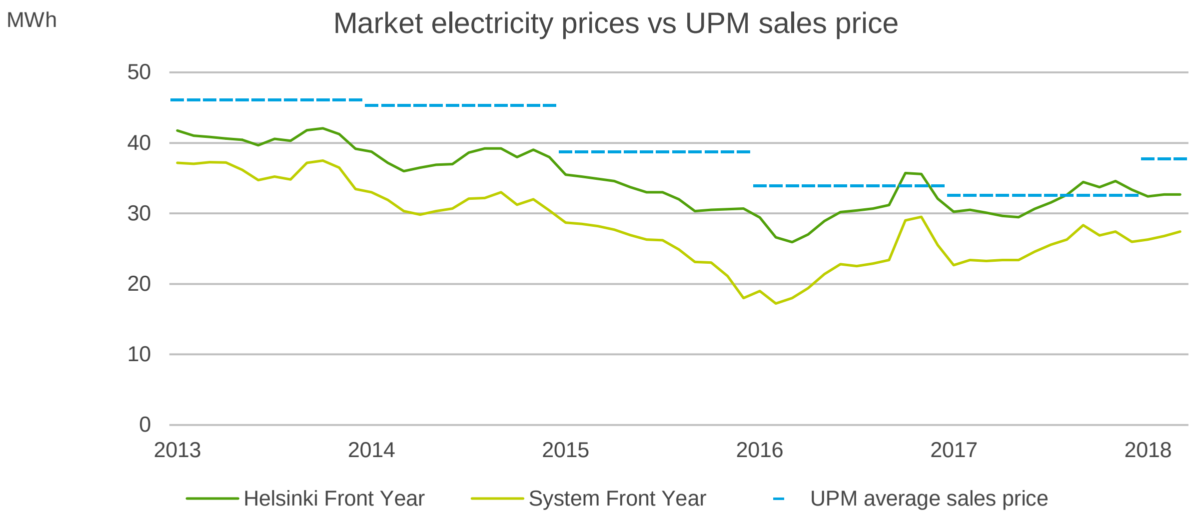

UPM Energy profitability	2013	2014	2015	2016	2017	Q118
Comparable EBIT, EURm	186	202	181	116	91	42
% of sales	39.9	43.5	43.6	32.7	28.8	39.2

UPM Communication Papers

Graphic paper prices

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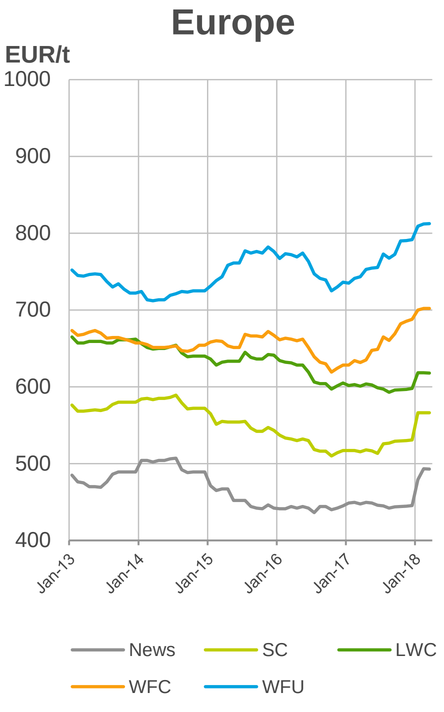

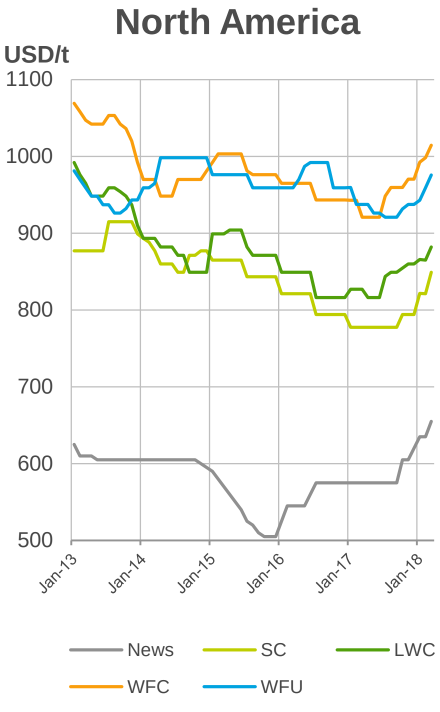

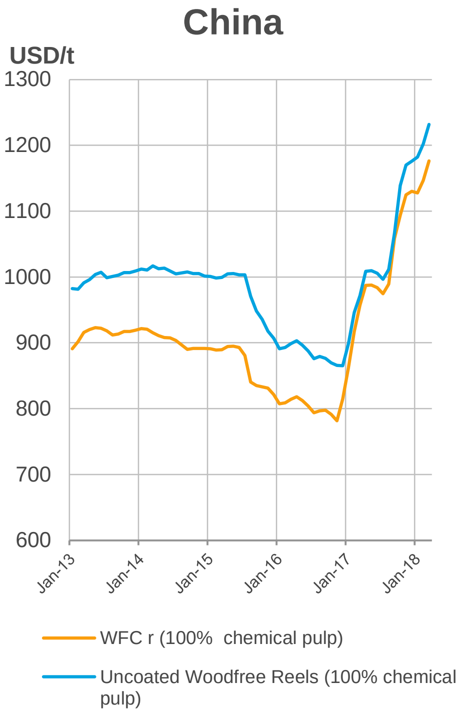

Sources: PPI, RISI

Paper price vs. cash cost of marginal cost producer

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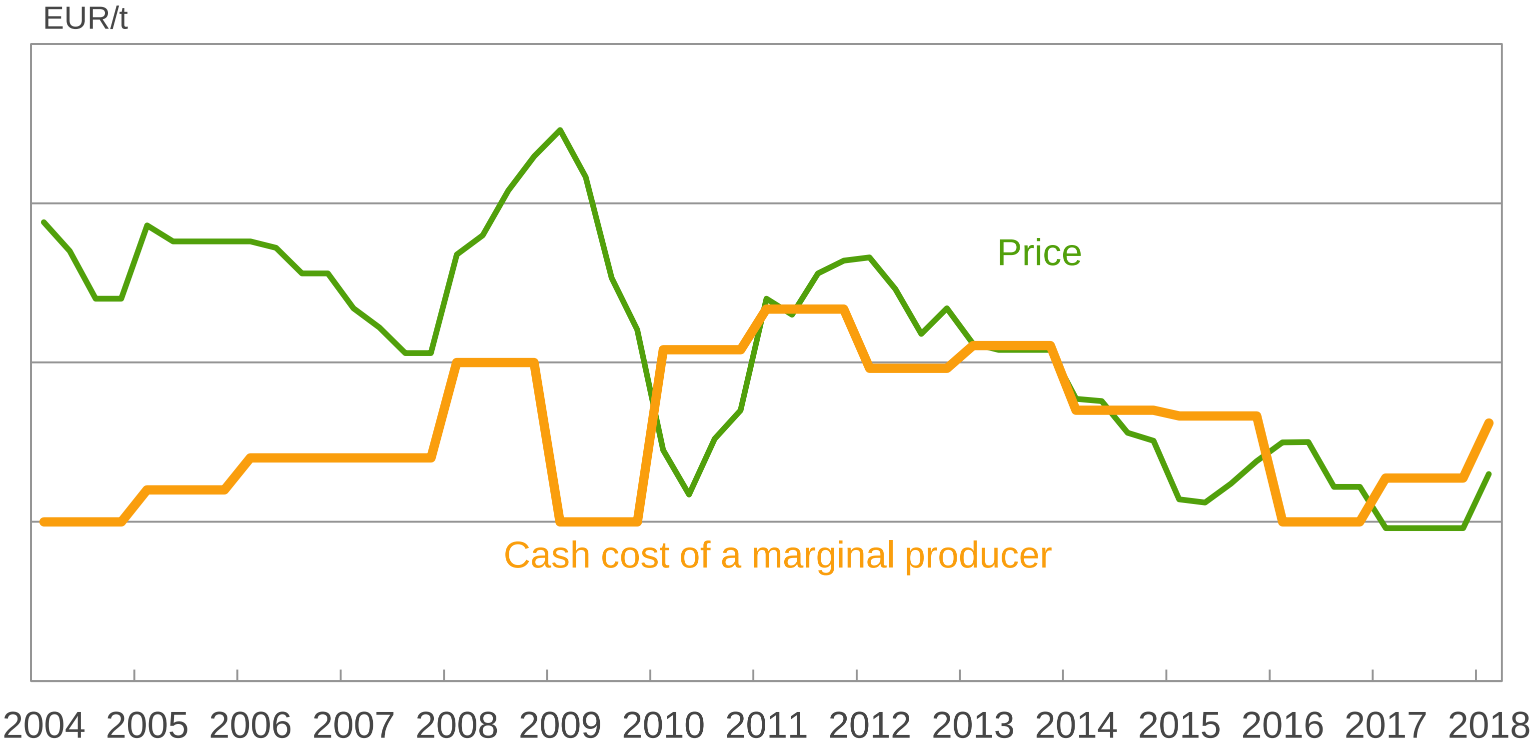

Sources: PPI, RISI, Pöyry

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