



UPM

The Biofore
Company



**AIMING
HIGHER
WITH
BIOFORE**

UPM Half Year Financial Report 2018

Jussi Pesonen
President and CEO

24 July 2018

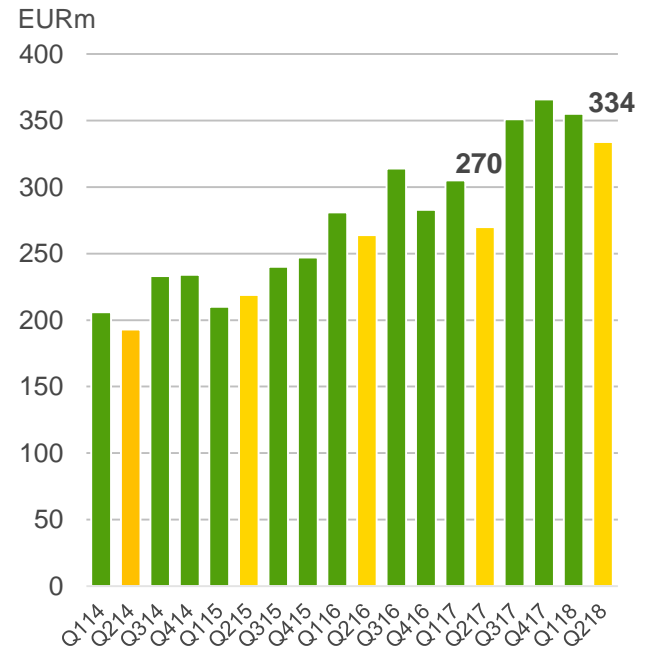


The Biofore
Company

Q2 2018: Commercial success drives growth in sales and earnings – strong outlook for H2 2018

- Sales grew by 5% to EUR 2,589m (2,464m in Q2 2017)
- Comparable EBIT increased by 24% to EUR 334m (270m)
- Sales margins improved, as prices increased in all business areas, outweighing the impact of higher input costs
- Q2 performance was held back by several significant scheduled maintenance shutdowns
- Operating cash flow was EUR 329m (269m)

Comparable EBIT



Q2 2018: Sales prices increased in all business areas, outweighing the impact of higher input costs

UPM BIOREFINING

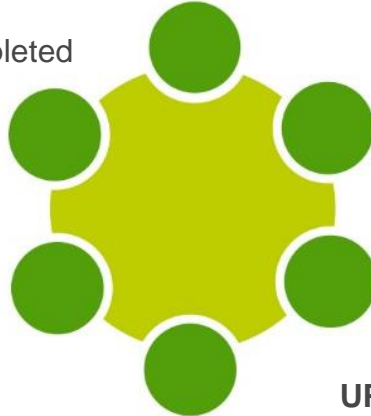
- Good market demand. Pulp deliveries -8%, production impacted by scheduled maintenance shutdowns
- Kaukas pulp mill expansion completed
- Pulp prices significantly higher

UPM COMMUNICATION PAPERS

- Tight market, deliveries -3%
- Price increases more than offset the variable costs increases

UPM ENERGY

- Electricity deliveries +15%
- Higher electricity market prices
- Power generation impacted by maintenance shutdown at the Olkiluoto power plant



UPM SPECIALTY PAPERS

- Good demand, deliveries -3%
- Price increases offset part of the variable costs increases
- Two new focused growth projects announced

UPM RAFLATAC

- Good demand, deliveries -2%
- Price increases more than offset input costs increases

UPM PLYWOOD

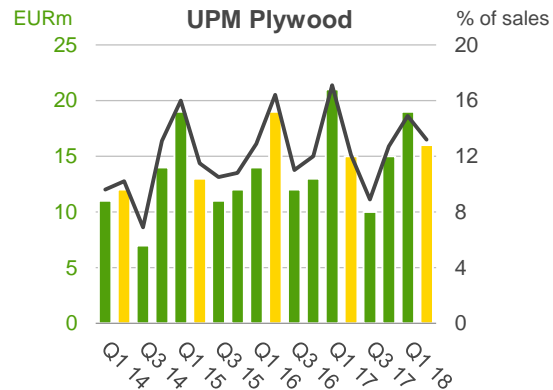
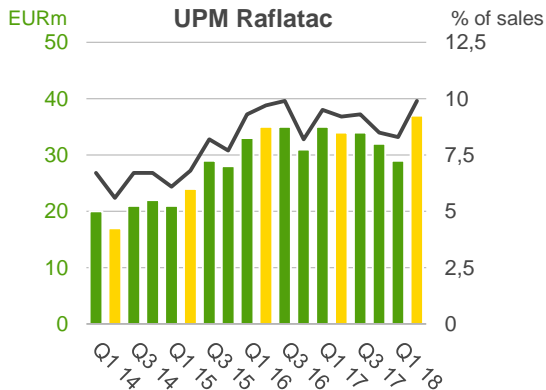
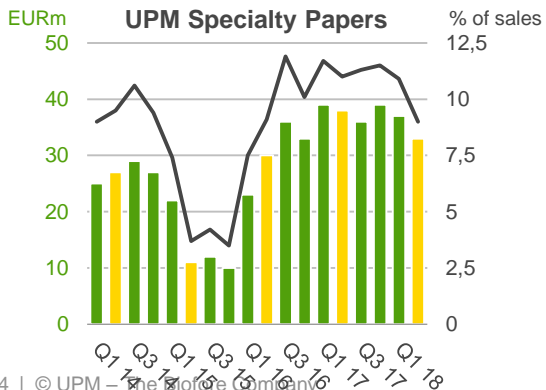
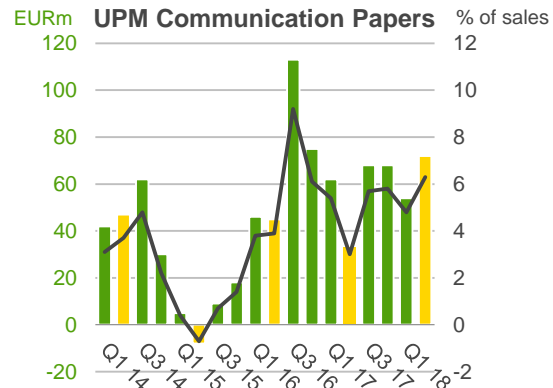
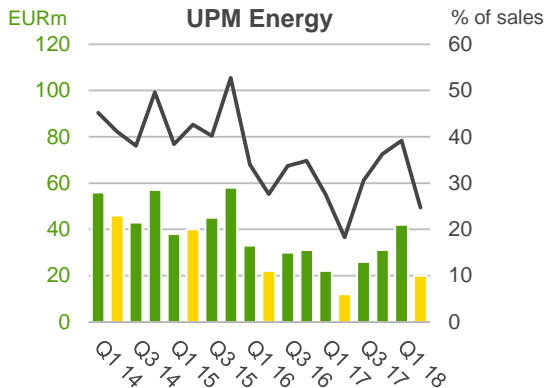
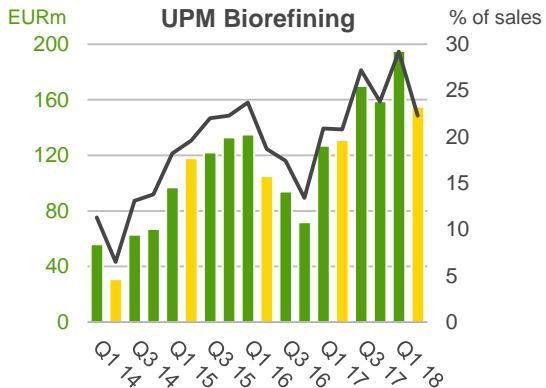
- Good demand, deliveries -4%
- Price increases more than offset the variable costs increases



UPM

The Biofore
Company

Comparable EBIT by business area





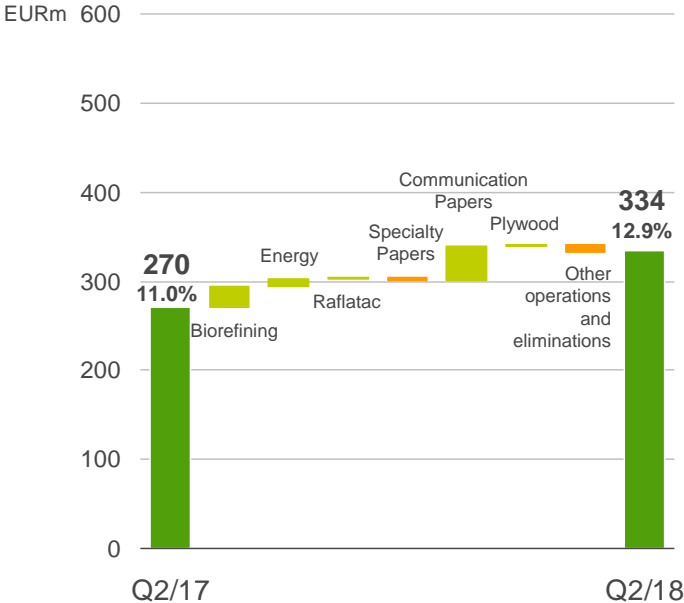
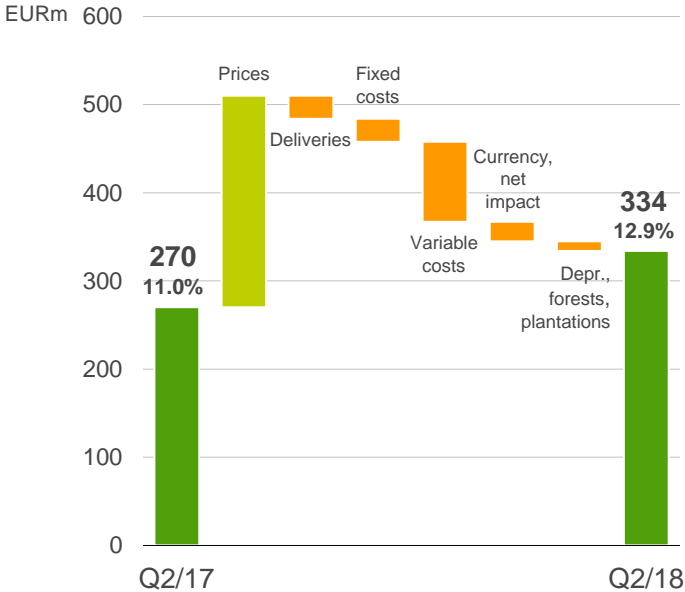
UPM

The Biofore Company

Comparable EBIT in Q2 2018 vs. Q2 2017

Increased prices in all businesses, higher input costs
Fixed costs higher and production lower mainly due to several scheduled maintenance shutdowns

Improvement in Biorefining, Energy, Raflatac, Communication Papers and Plywood



Q2 2018 included several significant scheduled maintenance shutdowns

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

Q2 2018 total impact on operating profit was

- EUR -60m compared with Q2 2017
- EUR -90m compared with Q1 2018

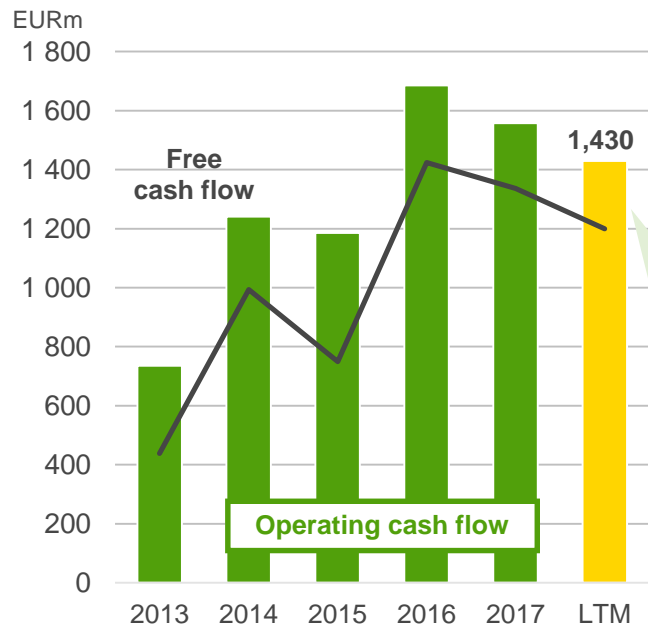


UPM

The Biofore
Company

Strong cash flow and balance sheet

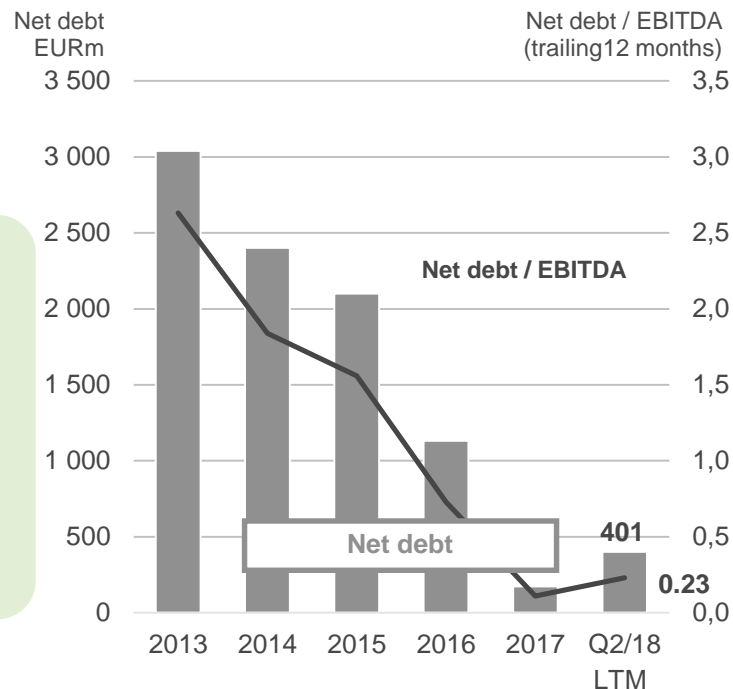
Operating cash flow



Q2/18
operating
cash flow
EUR 329m

Working
capital
increased by
EUR 20m

Net debt





The Biofore
Company

Outlook for 2018

- UPM's comparable EBIT is expected to continue growing in 2018 compared with 2017. H2 2018 comparable EBIT is expected to be significantly higher compared with H1 2018.
- The fundamentals for UPM businesses in 2018 are favourable. Sales price increases in 2018 are expected to outweigh the increase in variable cost, compared with 2017.
- H1 2018 results were impacted by four significant maintenance shutdowns and weather-related wood harvesting limitations. H2 2018 is scheduled to have one significant maintenance shutdown.

Focused growth projects to develop market position while maintaining and growing earnings



The Biofore Company

- Completed

- Raflatac expansion
in Q4 2017, Poland
- Kymi pulp mill expansion
+170kt in Q4 2017, Finland
- Kaukas pulp mill expansion
+30kt in Q2 2018, Finland

- Construction stage

- Raflatac speciality label expansion
in Q4 2018, Finland
- Chudovo plywood mill expansion
+45k m³ 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



Transformative prospects with unique and exciting opportunities for significant long-term earnings growth

- Possible new 2mt pulp mill, Uruguay
 - Second preparation phase:
The permitting processes for the mill, rail and port, as well as rail tendering are proceeding as agreed.
- Molecular bioproducts, possible biorefineries
 - Basic engineering work regarding a potential 150kt biochemicals refinery, Germany
 - Exploring next steps in biofuels, environmental impact study for a potential 500kt biorefinery, Finland





UPM

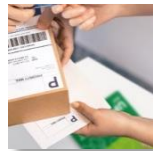
The Biofore
Company

Spearheads for growth

Specialty packaging materials



Raflatac



Specialty papers

High value fibre



Forests

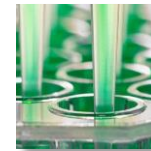


Pulp

Molecular bioproducts



Biofuels



Biochemicals

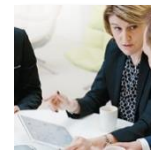
Communication papers



Plywood



Energy





UPM

The Biofore
Company

UPM **BIOFORE**

BEYOND FOSSILS

**Inspired by the
limitless opportunities
of bioeconomy**

**Delivering renewable
and responsible
solutions**

**Innovating for a future
beyond fossils**

Summary

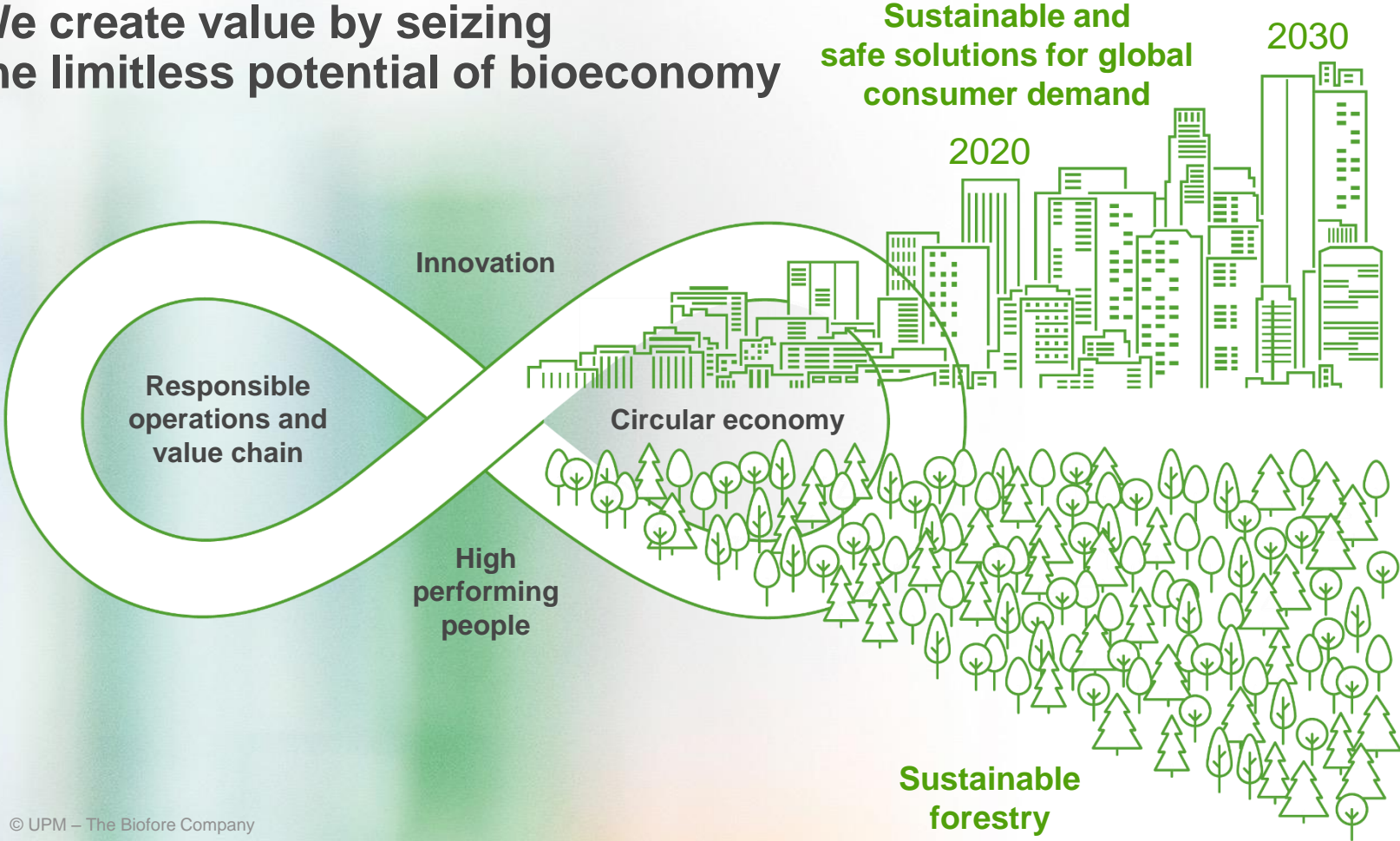
- Commercial success drove 5% growth in Q2 sales, 24% growth in comparable EBIT
- Strong outlook for H2 2018: comparable EBIT is expected to be significantly higher compared with H1 2018
- Focused growth projects enable us to develop our market position while maintaining and growing our earnings
- Transformative prospects provide us with unique and exciting opportunities for significant long-term earnings growth



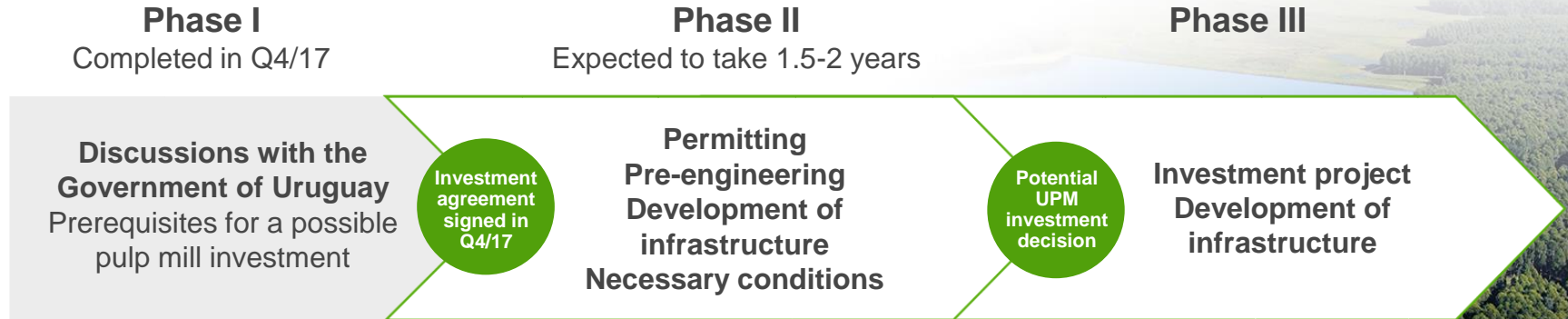
UPM

The Biofore
Company

We create value by seizing the limitless potential of bioeconomy



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



Main items in preparation phase II:

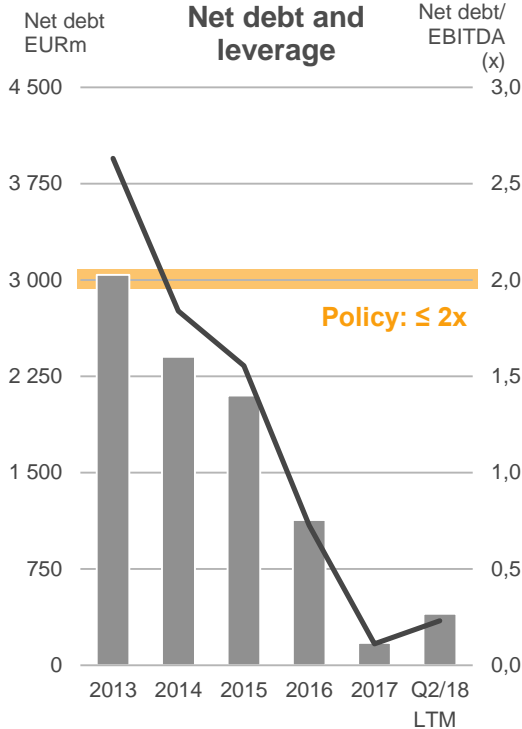
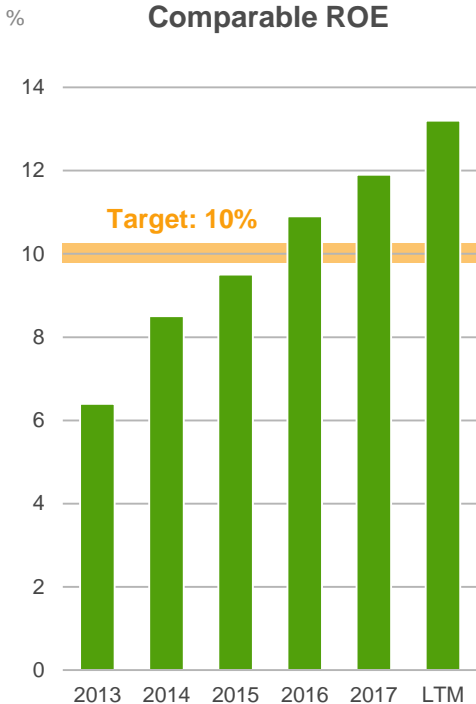
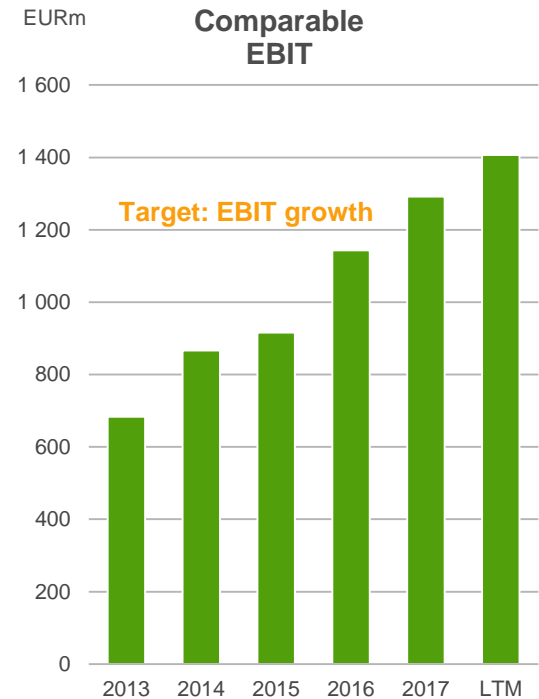
- Mill permitting, pre-engineering
- Rail permitting, tendering, start construction
- Port permitting, tendering, concession
- Roads
- Labour protocols, regulation
- Investment regimes
- Regional planning and development
- Energy and complementary items



UPM

The Biofore
Company

Group financial performance

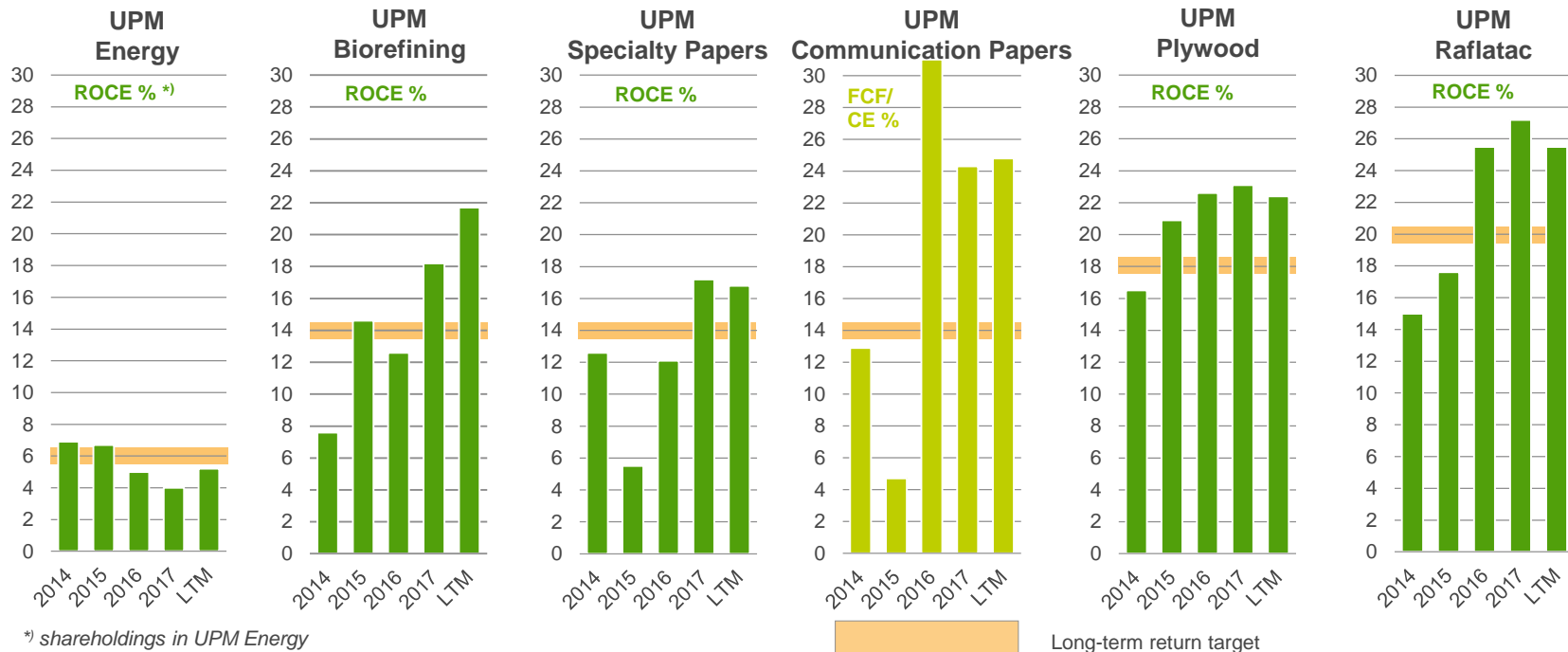


Comparable figures for 2014 – 2018,
excluding special items for earlier years



The Biofore Company

Business area long-term return targets apply over investment and business cycles

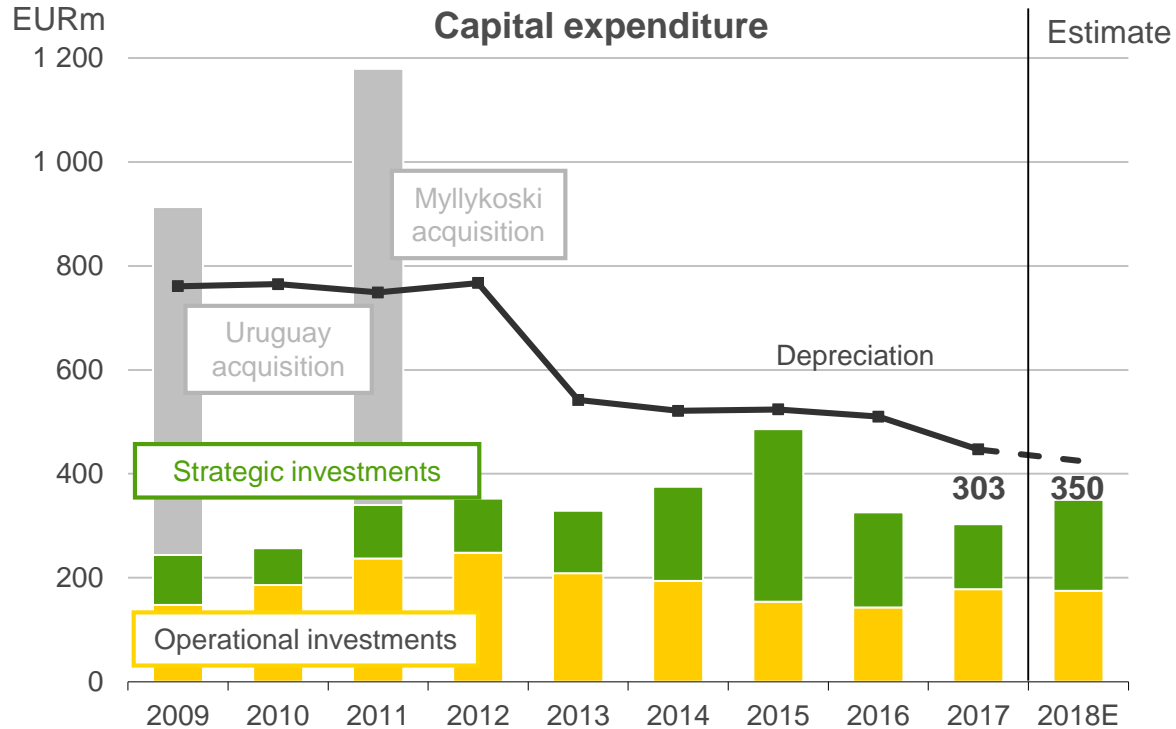


*) shareholdings in UPM Energy valued at fair value

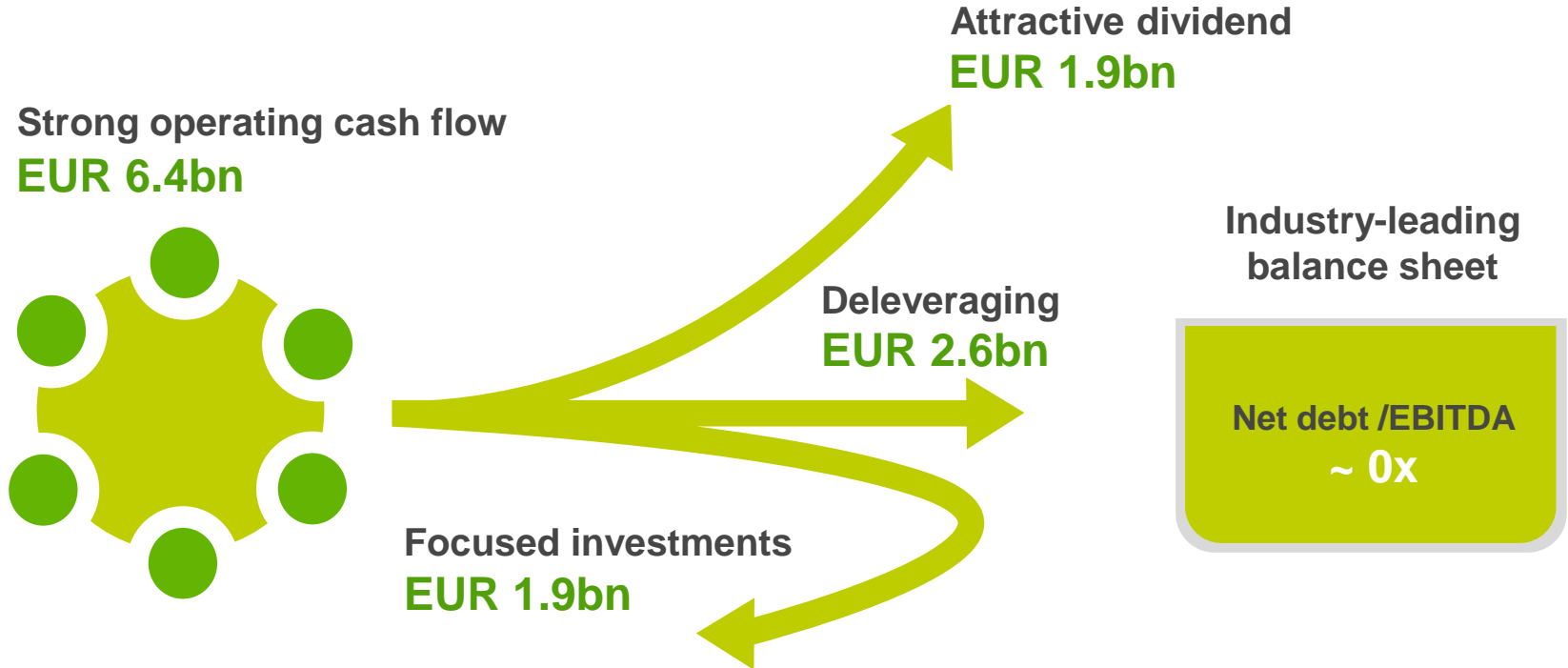


The Biofore Company

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

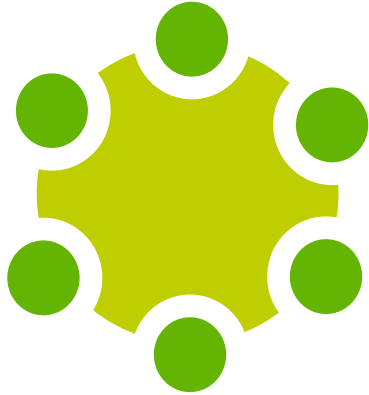


5-year cumulative cash flow (2013–2017) – disciplined capital allocation in action



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



Maintain headroom

^{*)} This is not a forecast

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	820	360	170	370



The Biofore
Company

Maturity profile and liquidity

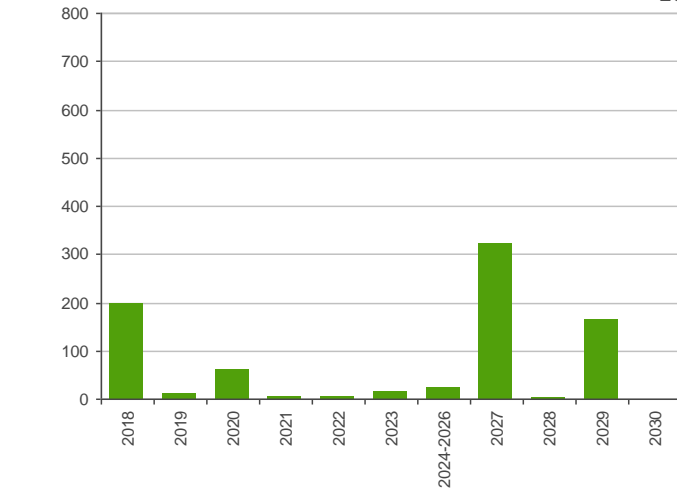
Liquidity

Liquidity on 30 June 2018 was EUR 0.9bn
(cash and unused credit facilities)

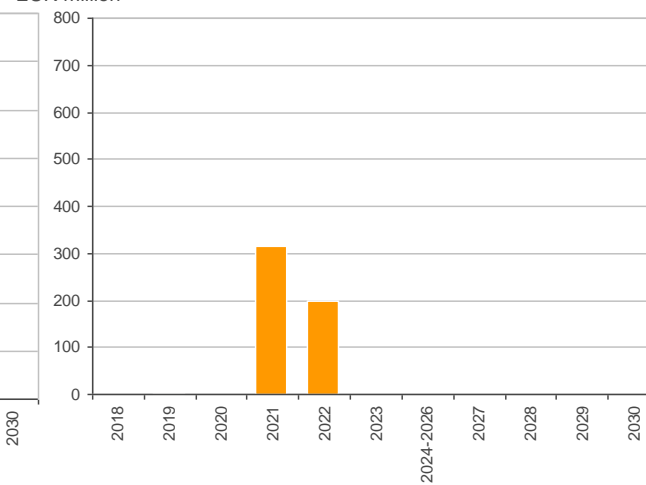
Committed credit facilities

bilateral committed credit facilities
EUR 522 million for general financing
purposes

EUR million **Maturity profile of outstanding debt**



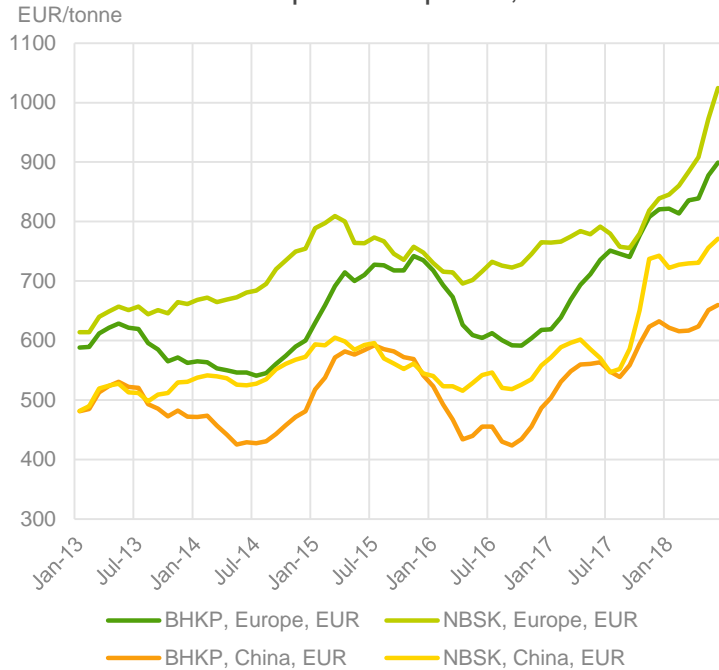
EUR million **Committed credit facilities' maturities**



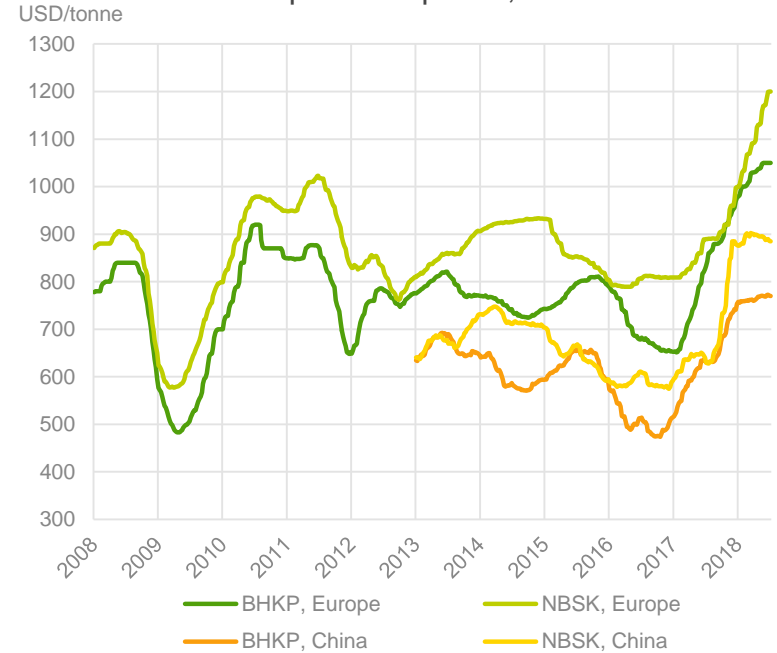
UPM Biorefining Chemical pulp market prices



Pulp market prices, EUR

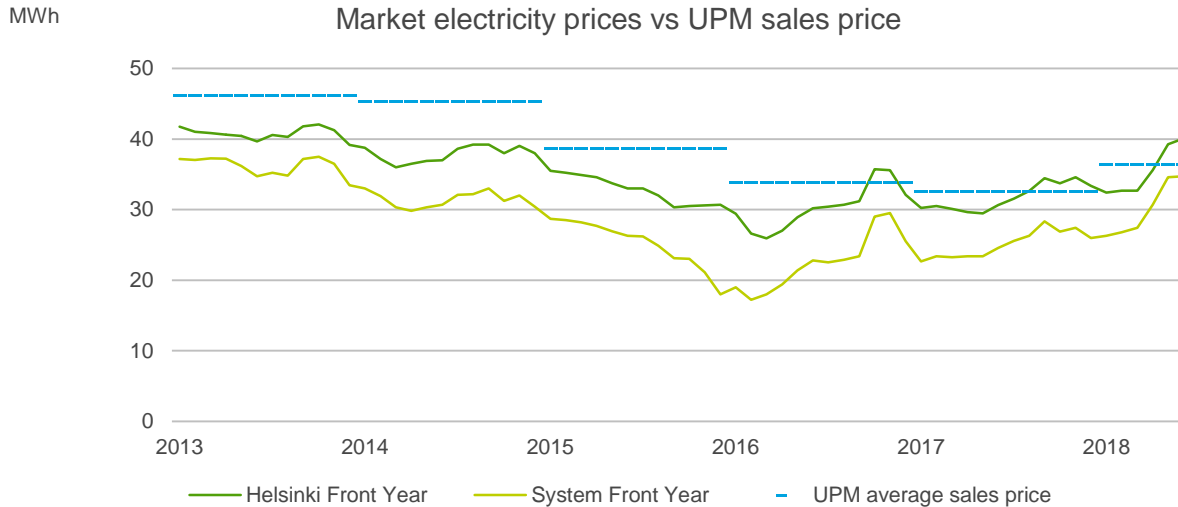


Pulp market prices, USD



Sources: FOEX Indexes Ltd, ECB

Cost efficient generation enables robust profitability in challenging market environment



UPM Energy profitability	2013	2014	2015	2016	2017	H1/18
Comparable EBIT, EURm	186	202	181	116	91	63
% of sales	39.9	43.5	43.6	32.7	28.8	32.8



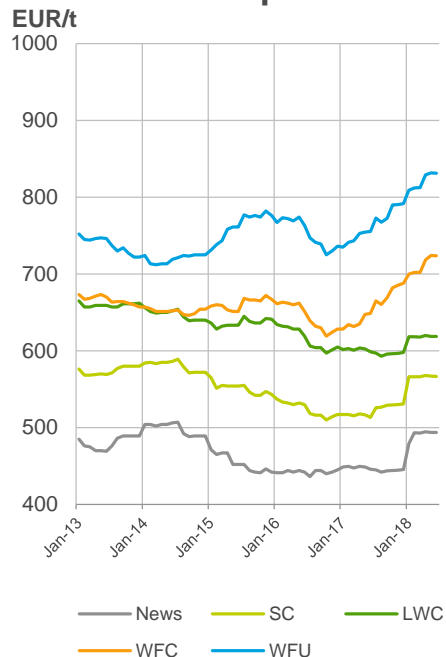
UPM

The Biofore Company

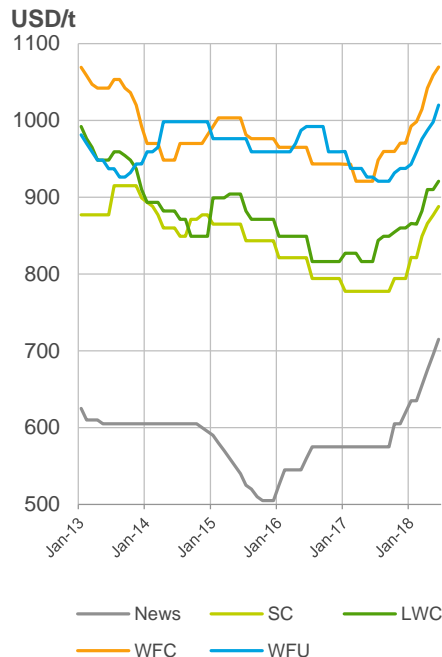
UPM Communication Papers

Graphic paper prices

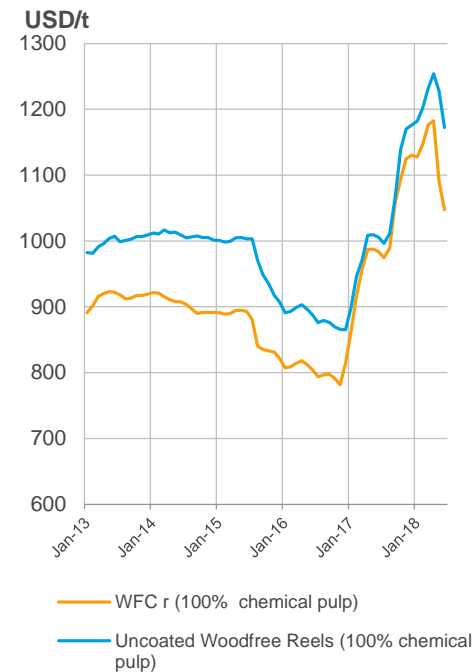
Europe



North America



China



Sources: PPI, RISI

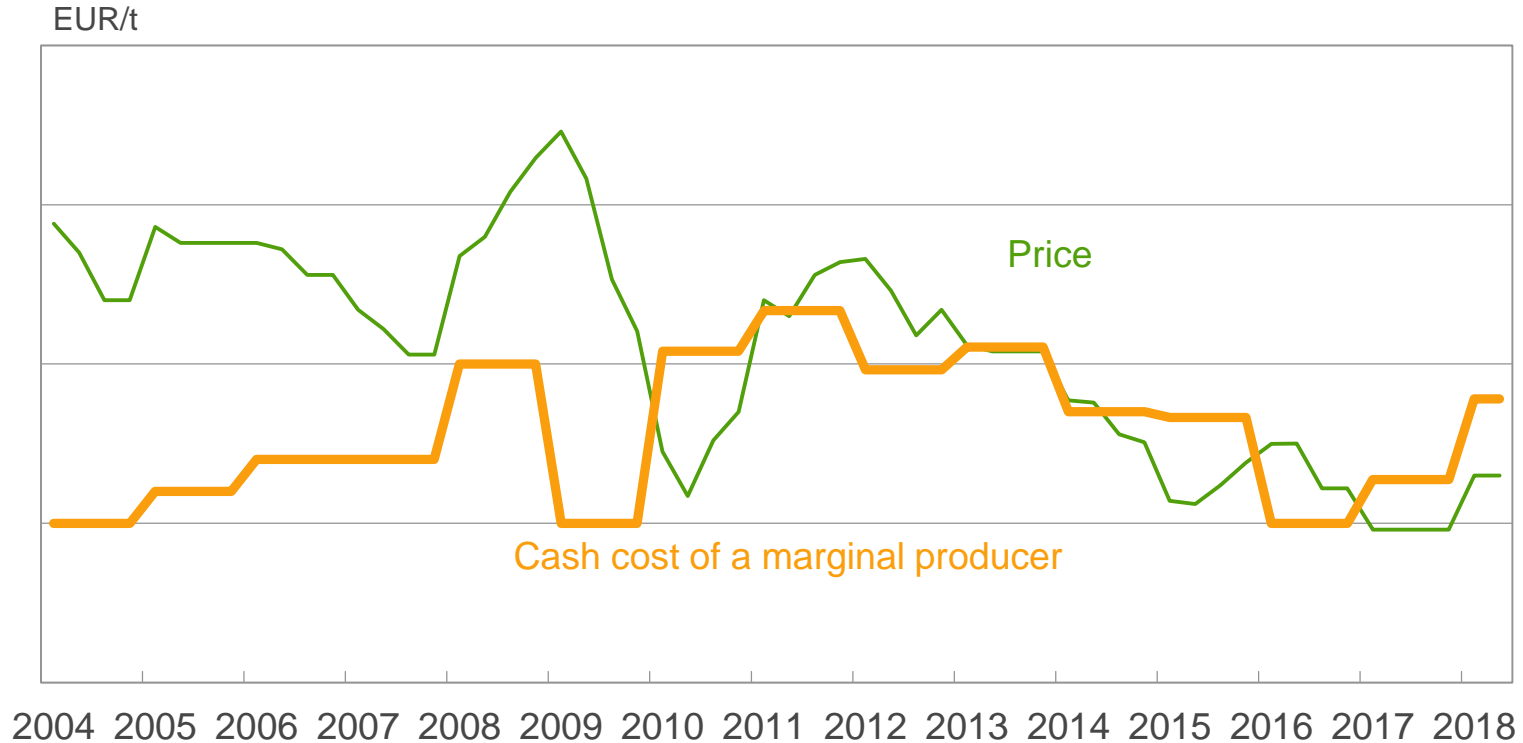


UPM

The Biofore
Company

UPM Communication Papers

Paper price vs. cash cost of marginal cost producer





UPM

The Biofore
Company