



UPM financial statements release 2018

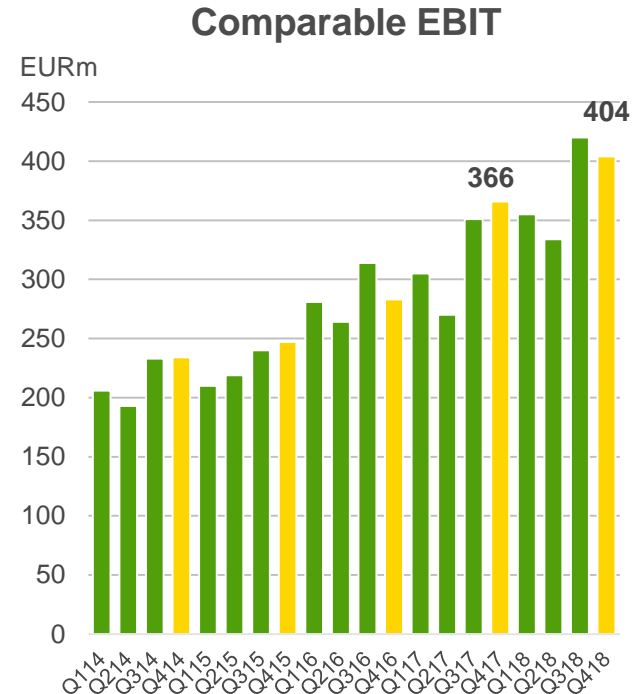
Jussi Pesonen

President and CEO

31 January 2019

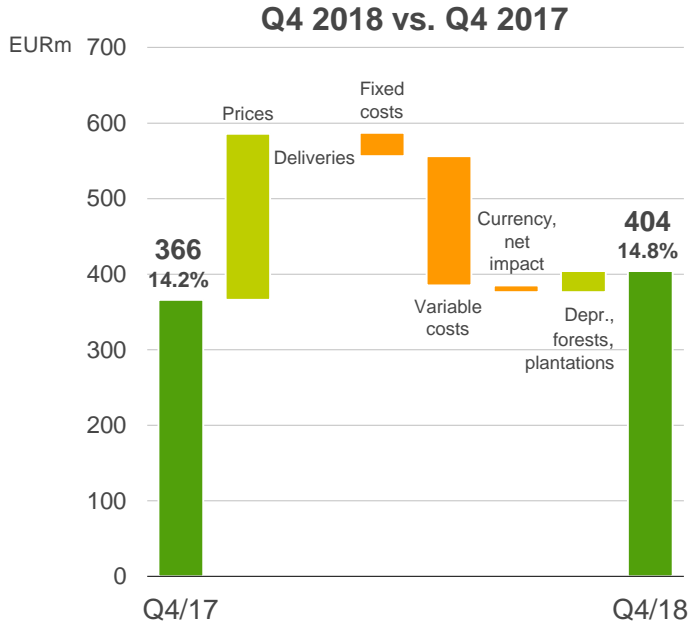
Q4 2018: 23rd consecutive quarter of earnings growth

- Sales grew by 6% to EUR 2,731 million (2,571 million in Q4 2017)
- Comparable EBIT increased by 10% to EUR 404m (366m)
- Sales prices increased in all business areas, outweighing the impact of higher input costs
- Operating cash flow was EUR 420m (407m), net debt decreased to EUR -311m (174m)

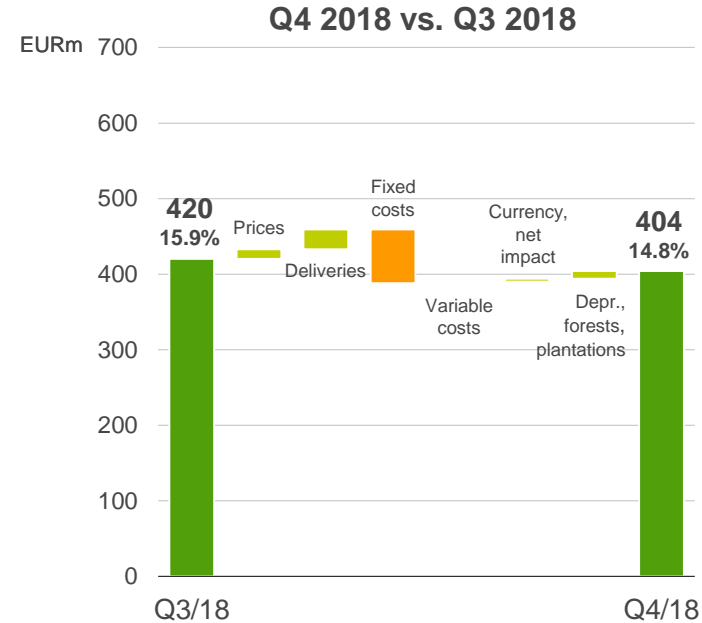


Comparable EBIT in Q4 2018

Prices increased in all businesses, input costs higher.
Fixed costs increased partly due to maintenance.

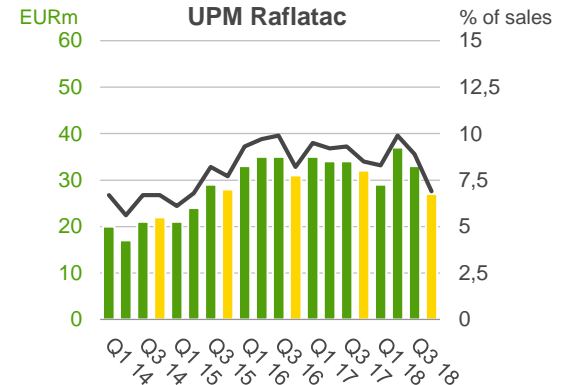
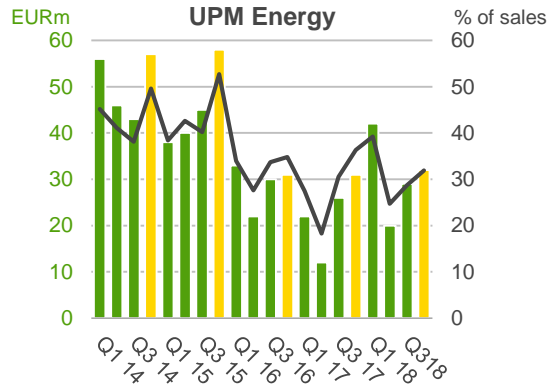
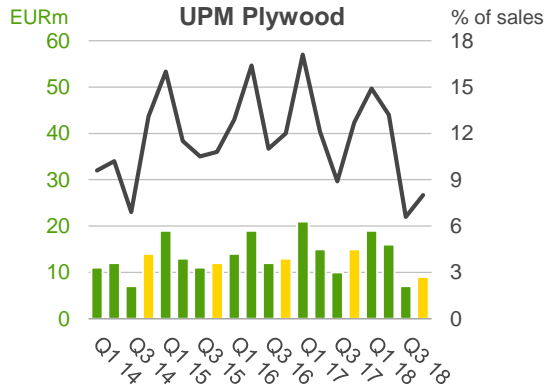
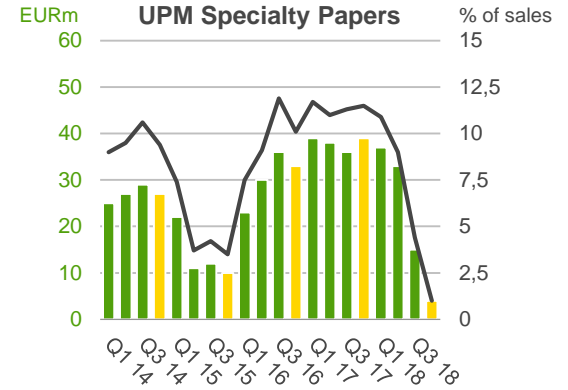
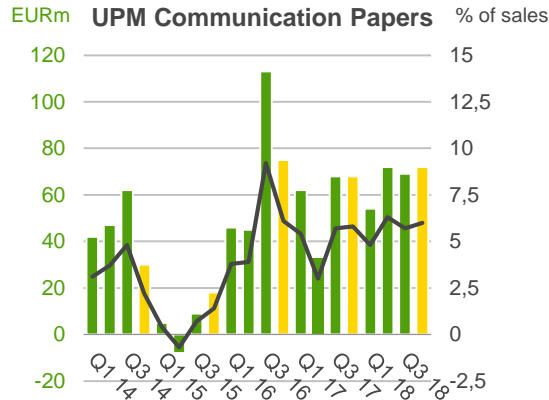
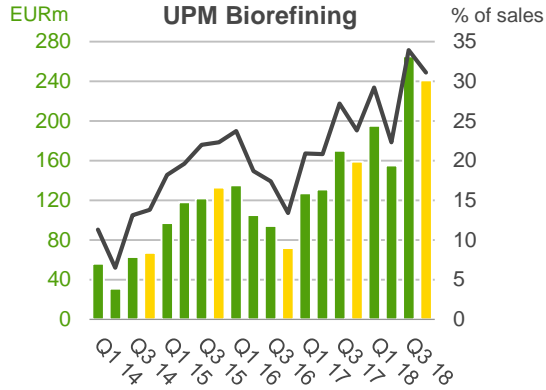


Top-line increased. Fixed costs increased due to seasonal factors and higher maintenance activity.





Comparable EBIT by business area



UPM delivered record earnings in 2018 – in a strong position for 2019



2018 vs. 2017:

Sales

EUR 10,483m  5%

EBITDA

EUR 1,823m  +192m

Comparable EBIT

EUR 1,513m  +221m

Comparable EPS

EUR 2.24  +0.36

Comparable ROE

12.9%  +1.0pp

Operating cash flow

EUR 1,391m  -167m

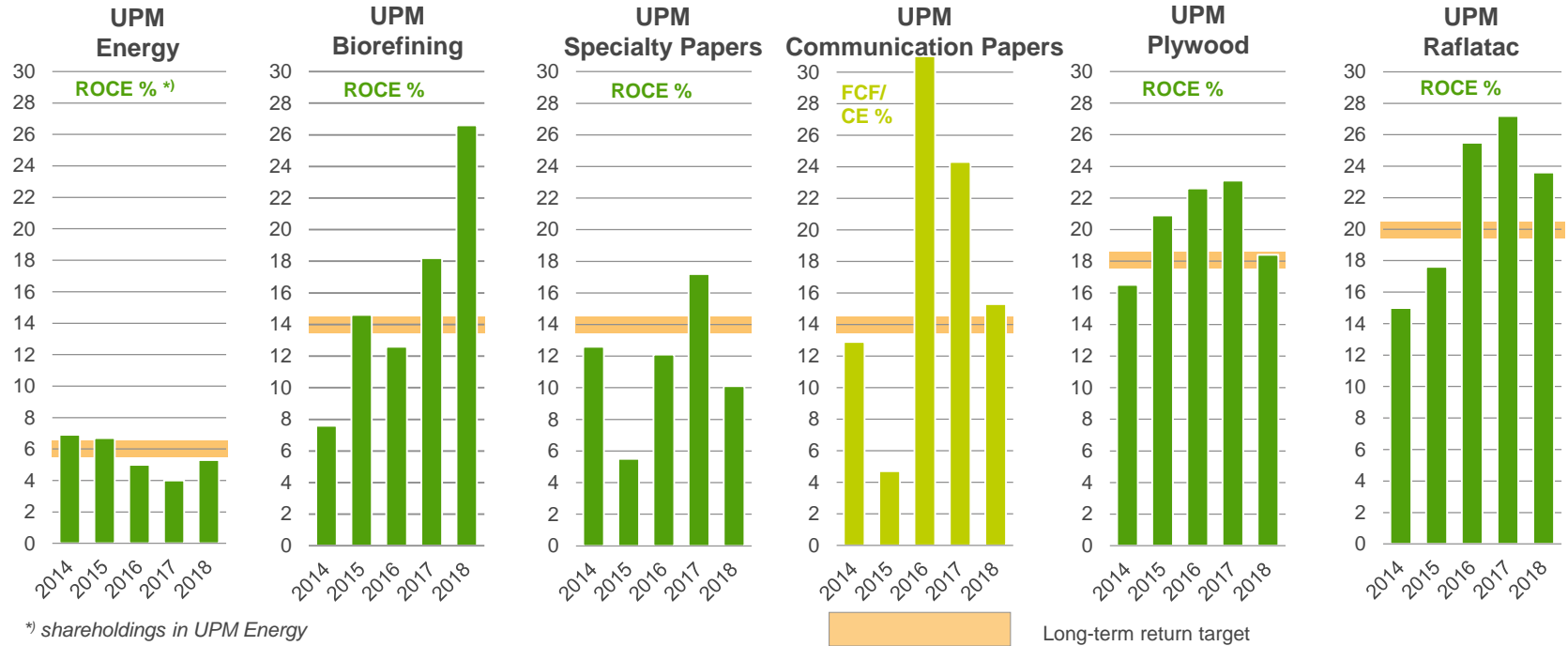
Net debt

EUR -311m  -485m

Net debt / EBITDA

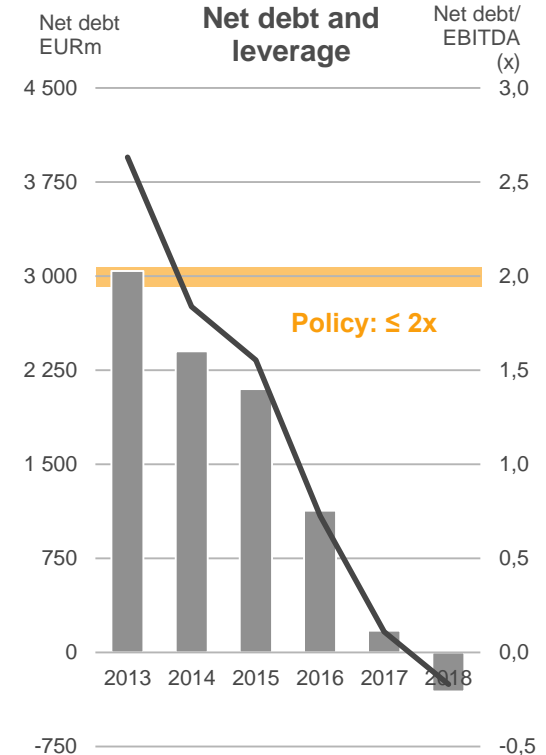
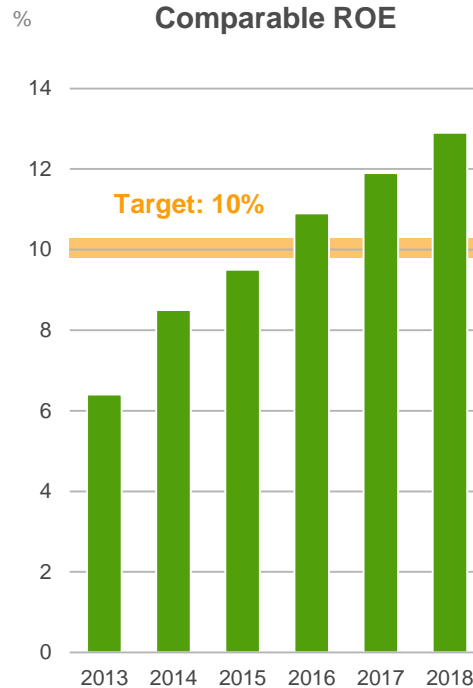
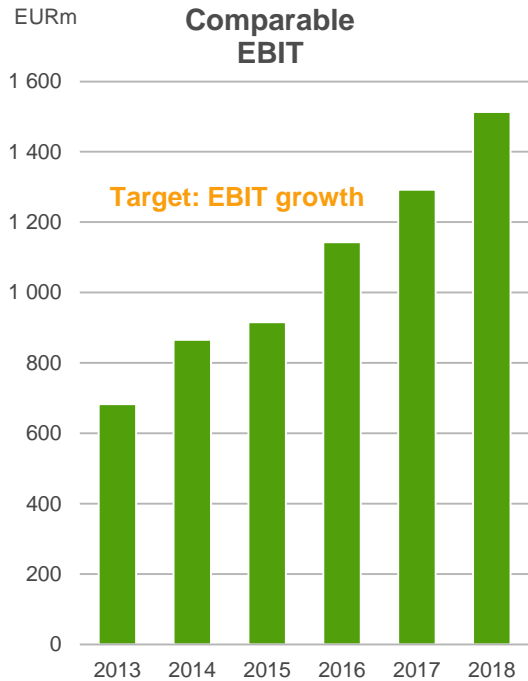
-0.17x  -0.28x

Business area long-term return targets

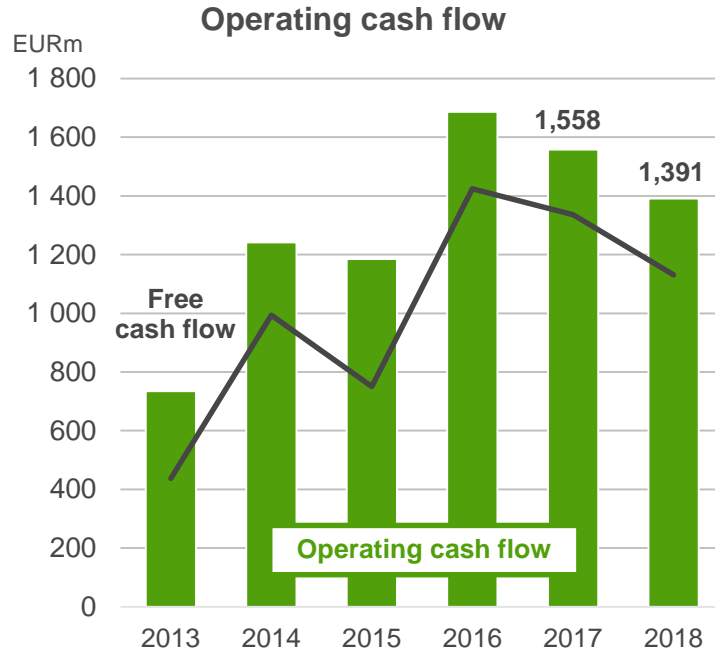


*) shareholdings in UPM Energy valued at fair value

Group financial performance

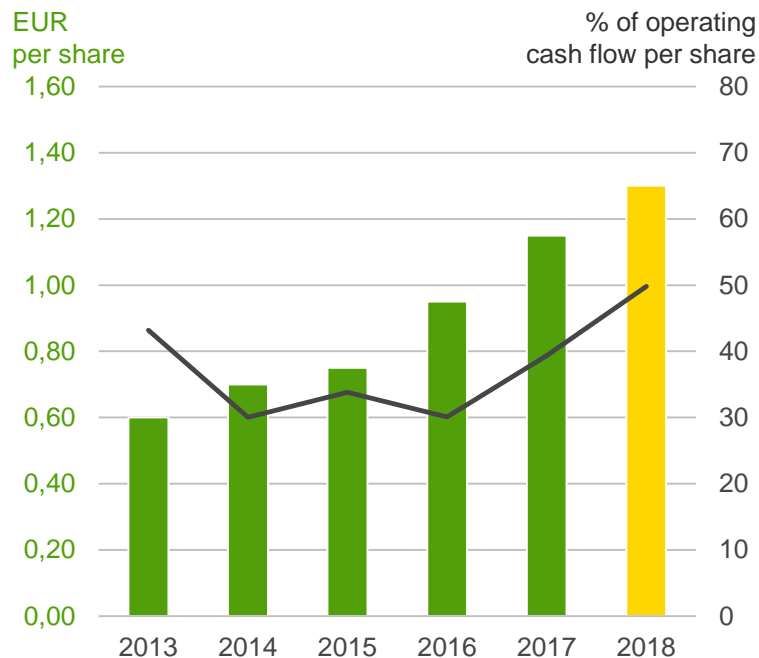


Consistently strong cash flow



- Operating cash flow was 1,391m in 2018 (1,558m in 2017)
- Working capital increased by EUR 209m (decreased 91m), driven by increased prices of UPM's products and raw materials and higher wood inventories
- Q4/18 operating cash flow was EUR 420m (407m in Q4/17). Working capital decreased by EUR 29m (61m)

Dividend proposal: 13% increase



Long term dividend policy

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

Dividend proposal for 2018

- EUR 1.30 (1.15) per share, totalling EUR 693m
- 50% of 2018 operating cash flow

Outlook for 2019

The global economic growth is estimated to continue in 2019, albeit at a slower pace than in 2018. There are, however, significant uncertainties related to this, including trade negotiations between China and the US, growth in China, the undefined nature of Brexit and political uncertainties in several countries. These issues may have an impact on the global economic growth and on UPM's product and raw material markets during 2019.

UPM reached record earnings in 2018. UPM's business performance is expected to continue at a good level in 2019.

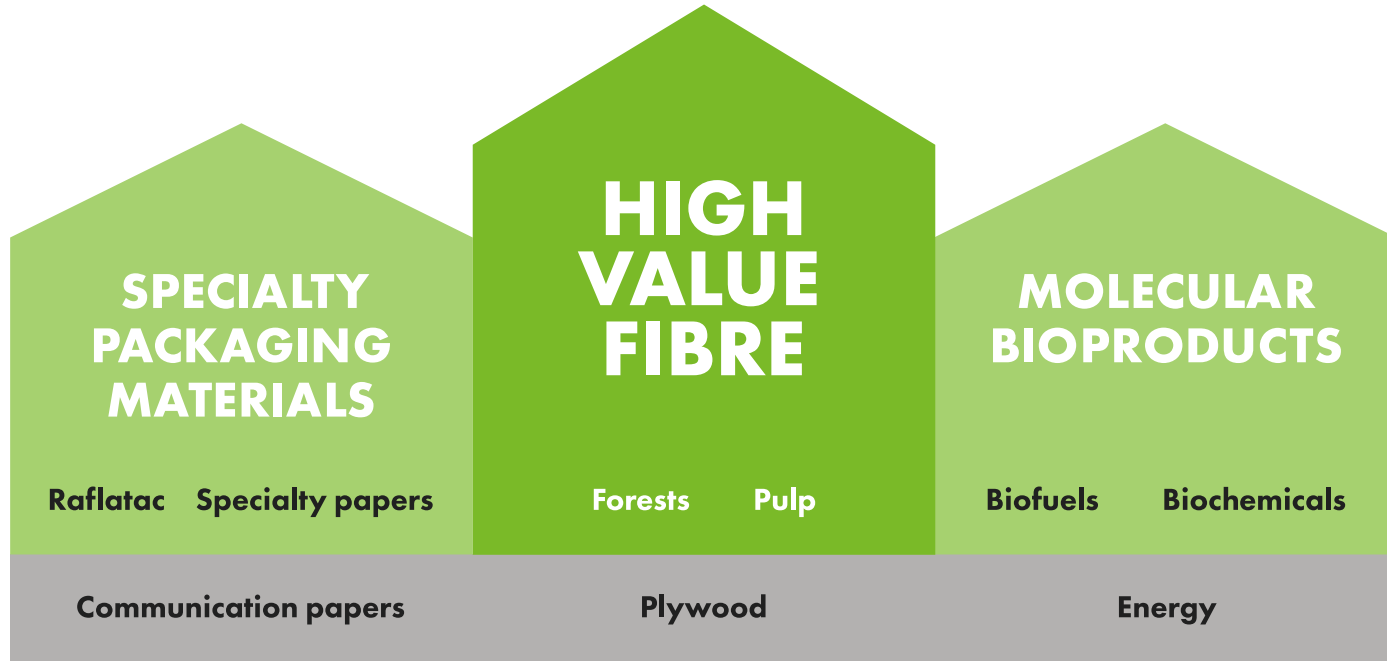
In 2019, favorable demand is expected to continue for most UPM businesses. Demand decline is expected to continue for UPM Communication Papers.

In the beginning of the year 2019, pulp prices are expected to be lower and graphic paper prices in Europe are expected to be higher than in Q4 2018.

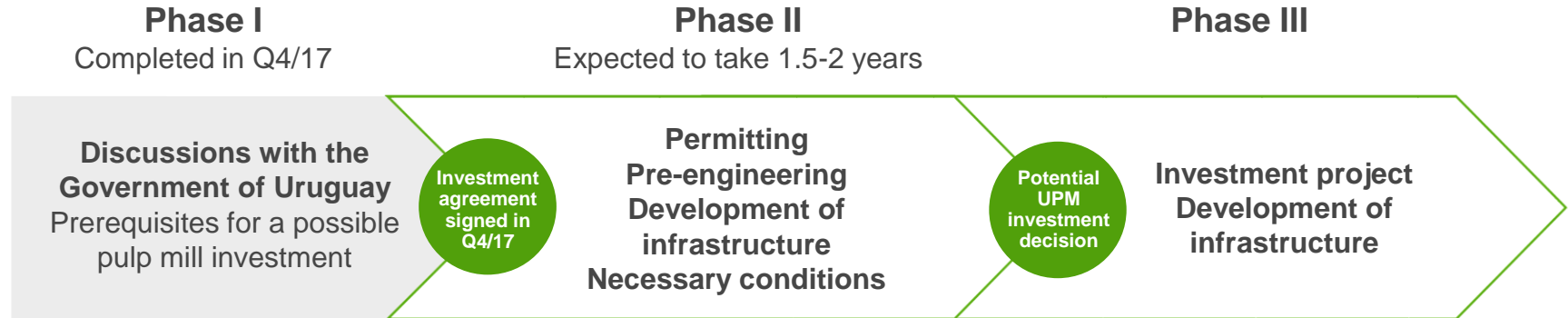
Input costs are expected to stabilise after the significant increases seen in 2018. UPM will continue measures to reduce both variable and fixed costs.

Fair value increases of forest assets are not expected to contribute meaningfully to comparable EBIT in 2019.

Spearheads for growth



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

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



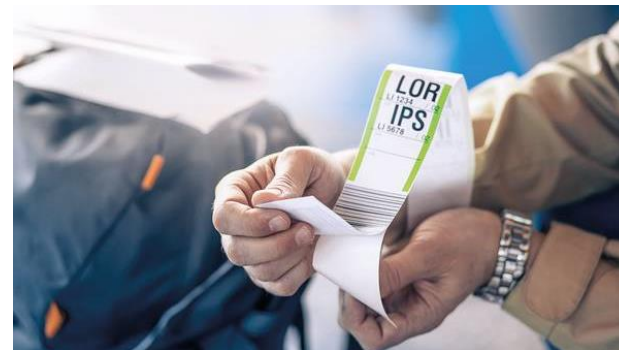
- Possible new 2mt pulp mill, Uruguay
 - Second preparation phase proceeding: The rail tendering process in final stages, UPM is taking part in the public tendering process in Montevideo port. Environmental and social impact study for the mill submitted.
- Molecular bioproducts, possible biorefineries
 - Basic engineering work continues regarding a potential 150kt biochemicals refinery, Germany
 - Exploring next steps in biofuels, environmental impact study submitted for a potential 500kt biorefinery, Finland



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



- Completed
 - Kaukas pulp mill expansion
+30kt in Q2 2018, Finland
 - Jämsänkoski release liner expansion
+40kt in Q4 2018, Finland
 - Raflatac speciality label expansion
in Q1 2019, Finland
- Construction stage
 - Chudovo plywood mill expansion
+45k m³ in Q3 2019, Russia
 - Nordland PM2 conversion to release liner
+110kt in Q4 2019, Germany
 - Changshu release liner expansion
+40kt in Q1 2020, China
 - Kuusankoski hydropower refurbishment
in Q4 2022, Finland



Summary

- UPM delivered record earnings in 2018, Q4 was the 23rd consecutive quarter of earnings growth.
- UPM is in a strong position for 2019, while there are uncertainties in the global economy.
- UPM's business performance is expected to continue at a good level in 2019.
- Preparations continue for UPM's transformative prospects with unique opportunities for significant long-term earnings growth.
- Dividend proposal +13%, reflects UPM's exceptional financial position and confidence in future cash generation.

UPM **BIOFORE** BEYOND FOSSILS



Inspired by the
limitless opportunities
of bioeconomy

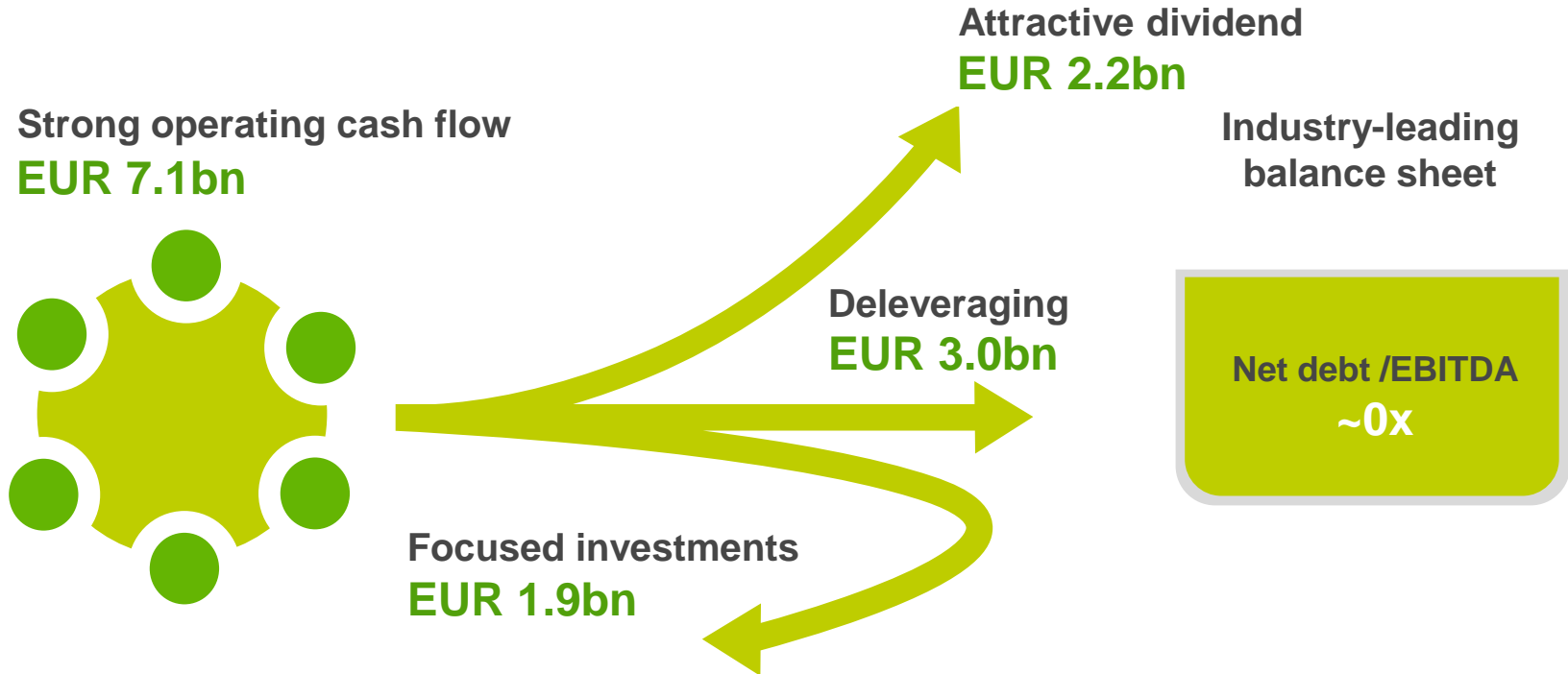
Delivering renewable
and responsible
solutions

Innovating for
a future beyond
fossils

UPM **BIOFORE**
BEYOND FOSSILS



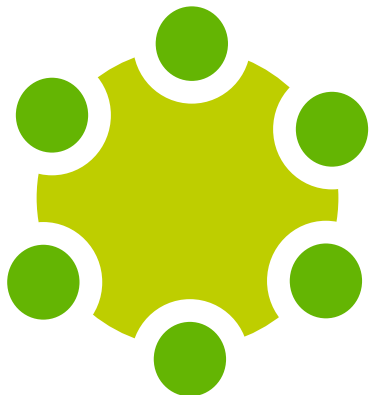
5-year cumulative cash flow (2014–2018) – disciplined capital allocation in action



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

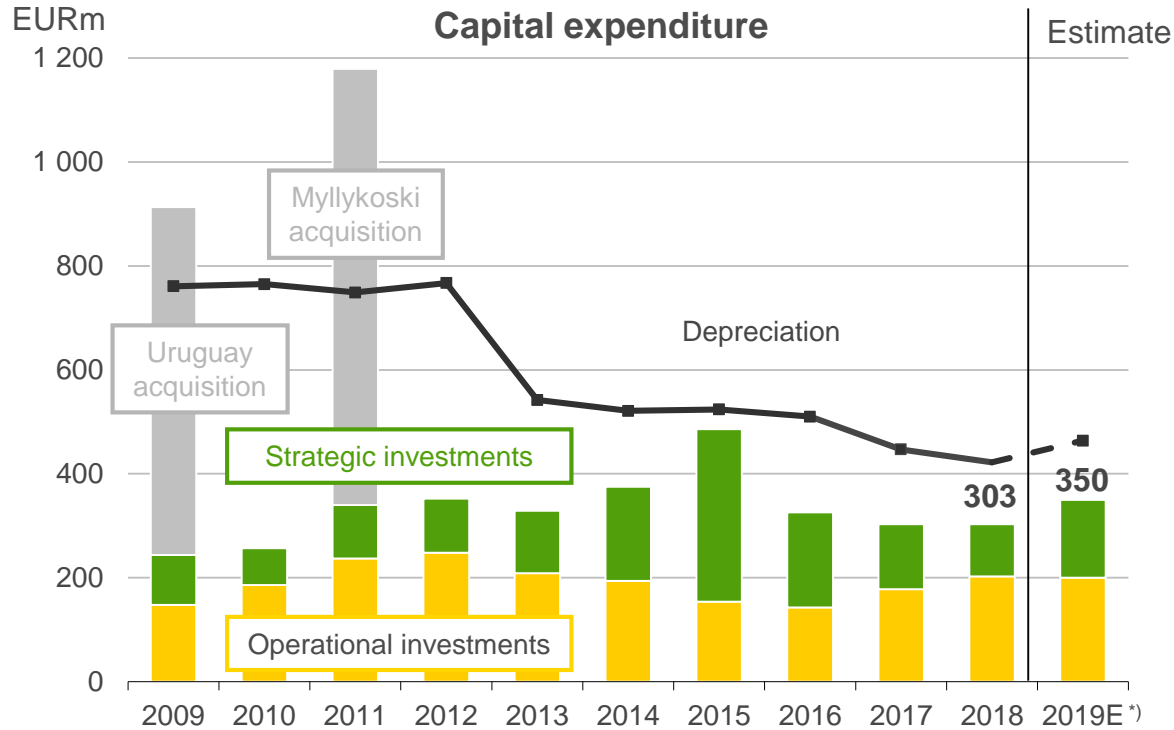
Industry-leading balance sheet

Net debt / EBITDA
< 2x

Maintain headroom

^{*)} This is not a forecast

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



Maintenance shutdowns in 2018 and 2019

Significant maintenance shutdowns in 2018 and 2019

Timing	Unit
Q2 18	Fray Bentos pulp mill Kaukas pulp mill Lappeenranta biorefinery turnaround Olkiluoto nuclear power plant
Q4 18	Pietarsaari pulp mill
Q2 19	Kymi pulp mill Olkiluoto nuclear power plant
Q4 19	Fray Bentos pulp mill

Maintenance shutdowns have an impact on

- Maintenance costs
- Production volumes
- Operational efficiency

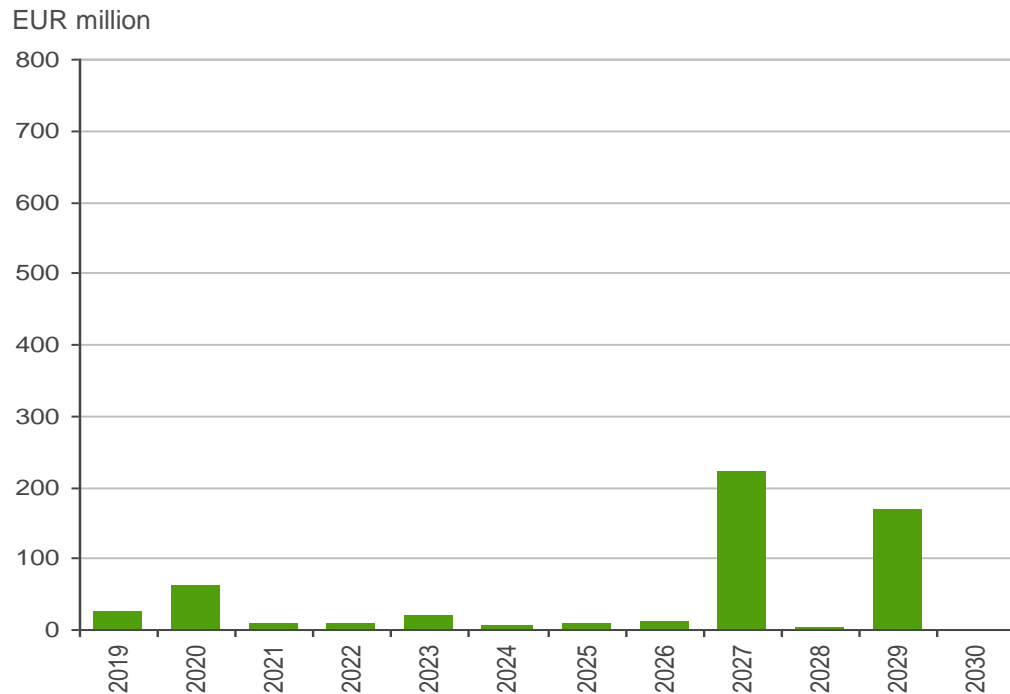
UPM's main currency exposures

- 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	1,050	340	170	420

Maturity profile and liquidity



Liquidity on 31 December 2018 was EUR 0.9bn

UPM has bilateral committed facility EUR 6.5 million related to joint operations maturing 2020.

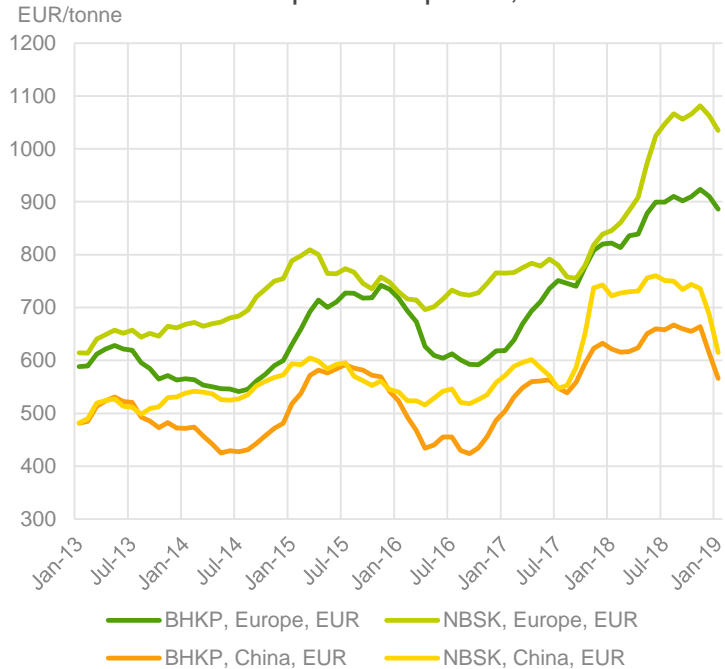
Other committed bank facilities have been cancelled during H2 2018.

UPM Biorefining

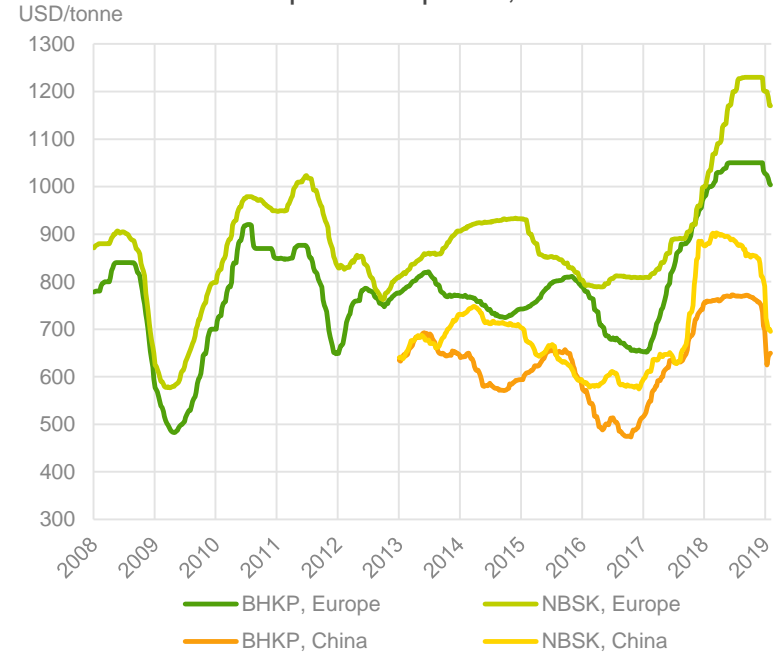
Chemical pulp market prices



Pulp market prices, EUR

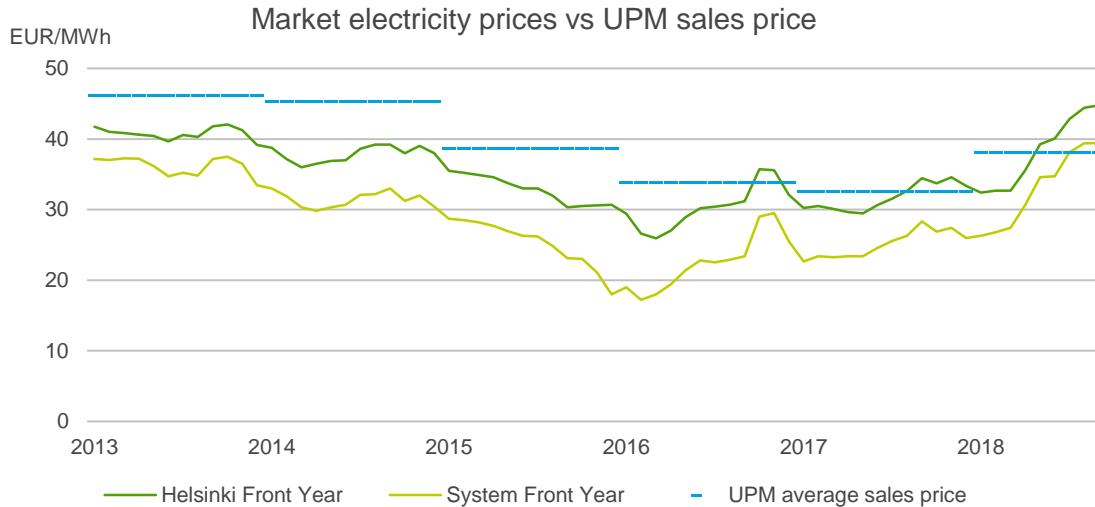


Pulp market prices, USD



Sources: FOEX Indexes Ltd, ECB

Cost efficient generation enables robust profitability in changing market environment



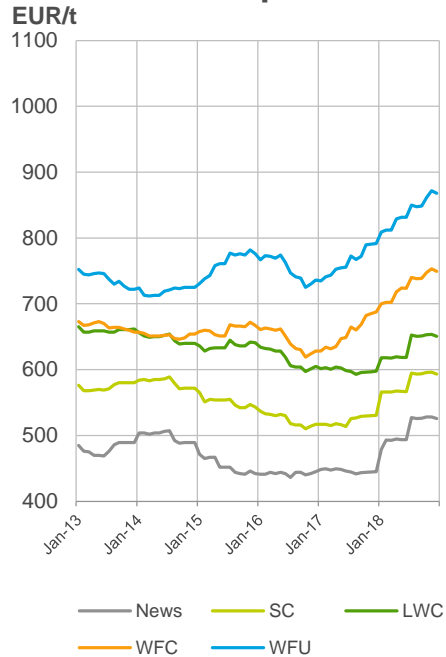
UPM Energy profitability	2013	2014	2015	2016	2017	2018
Comparable EBIT, EURm	186	202	181	116	91	123
% of sales	39.9	43.5	43.6	32.7	28.8	31.5

UPM Communication Papers

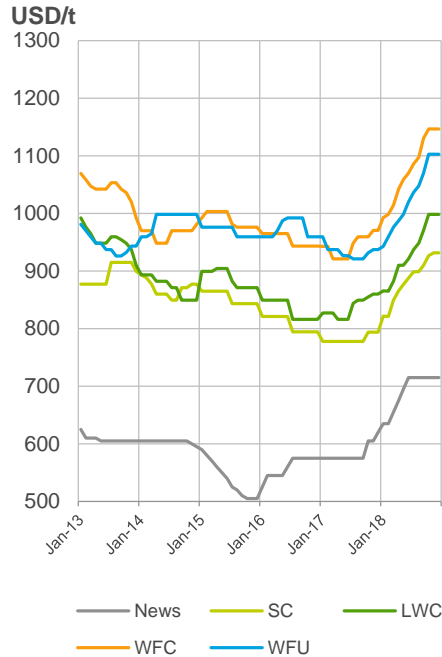
Graphic paper prices



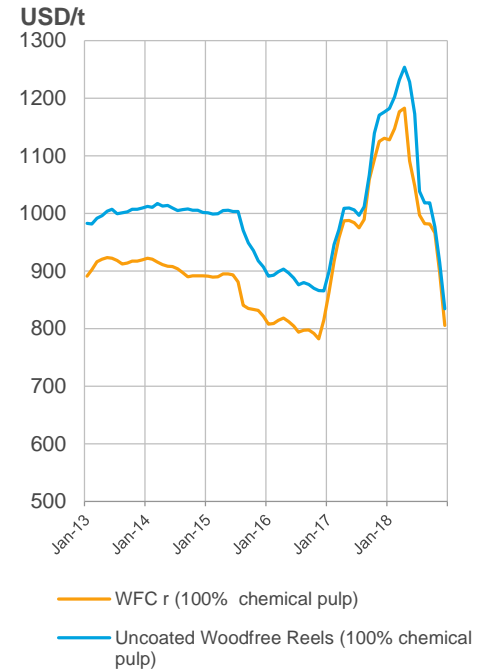
Europe



North America



China

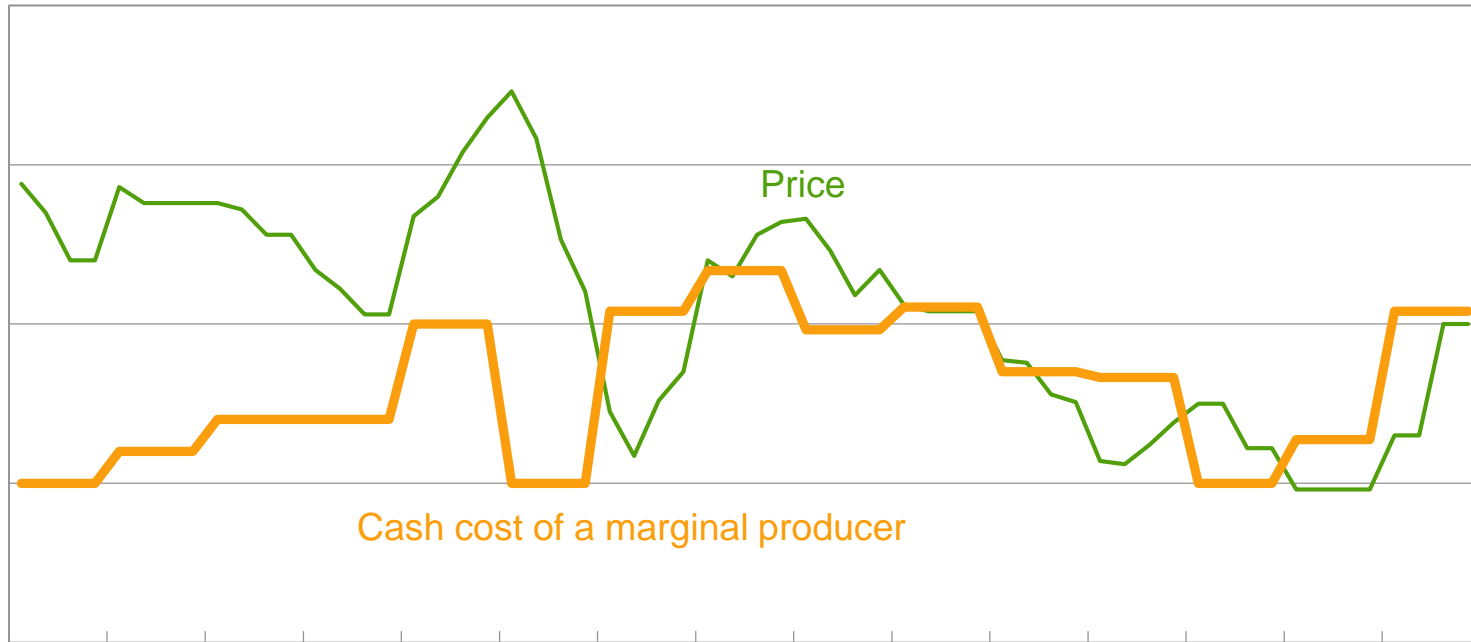


Sources: PPI, RISI

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 2018

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