

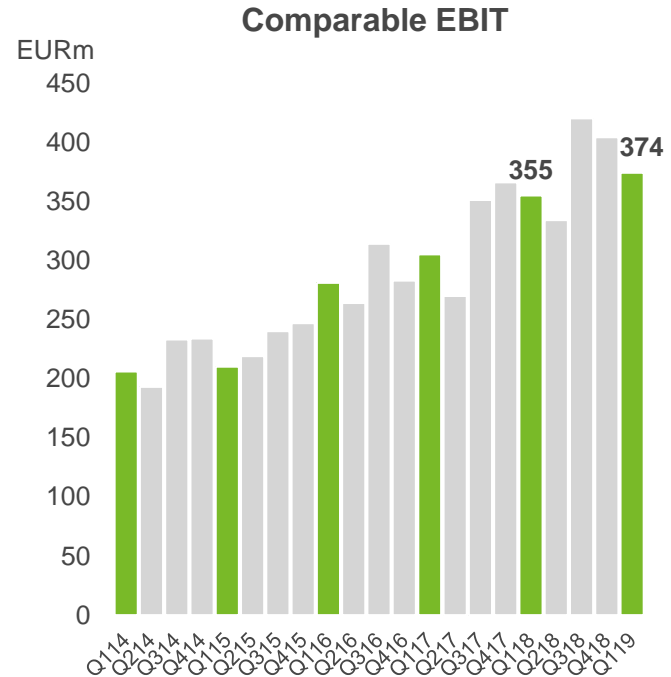


# UPM Interim Report Q1 2019

Jussi Pesonen  
President and CEO  
26 April 2019

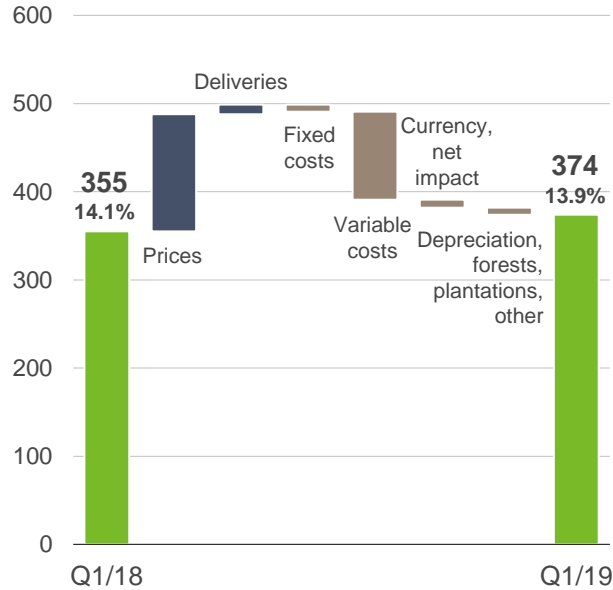
# Q1 2019: UPM continues to grow sales and earnings

- Sales grew by 7% to EUR 2,693 million (2,512 million in Q1 2018)
- Comparable EBIT increased by 5% to EUR 374m (355m)
- Sales prices were higher, outweighing the impact of increased variable costs
- Operating cash flow was EUR 320m (214m)
- Net debt decreased to EUR –5m (41m)

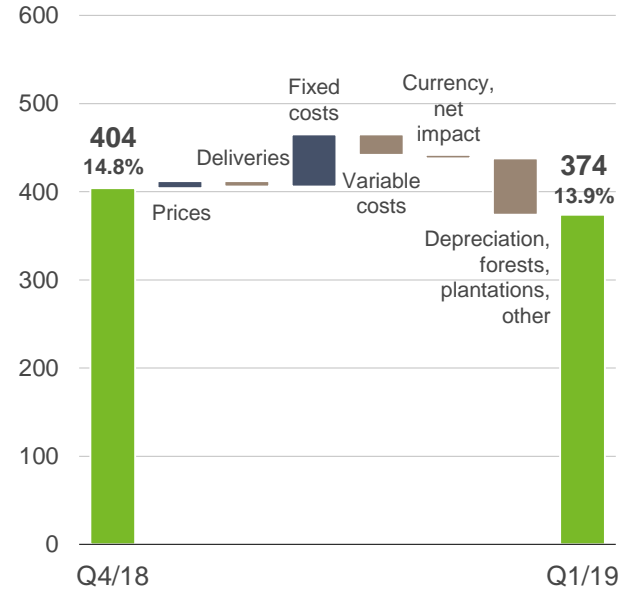


# Comparable EBIT in Q1 2019

Sales prices higher, outweighing the impact of increased variable costs. Deliveries increased.

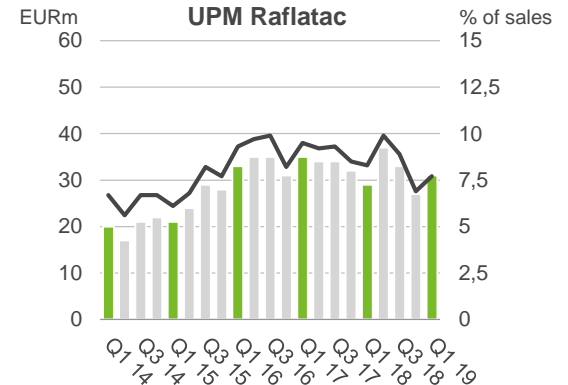
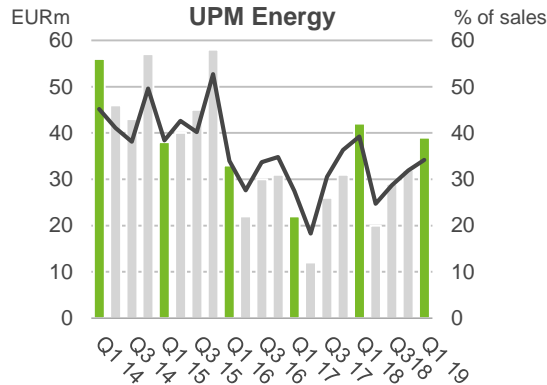
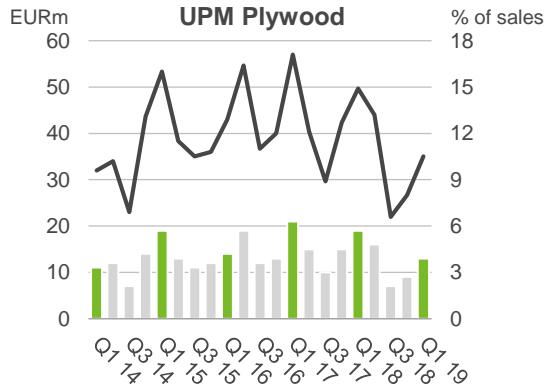
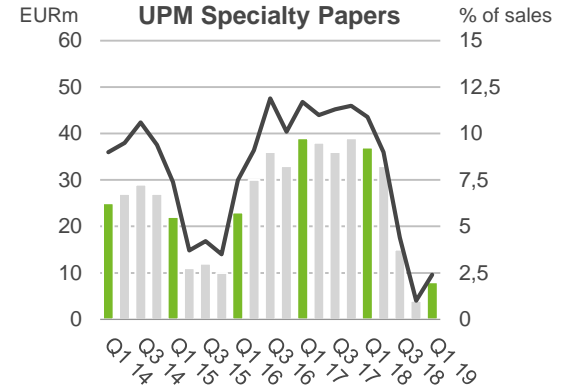
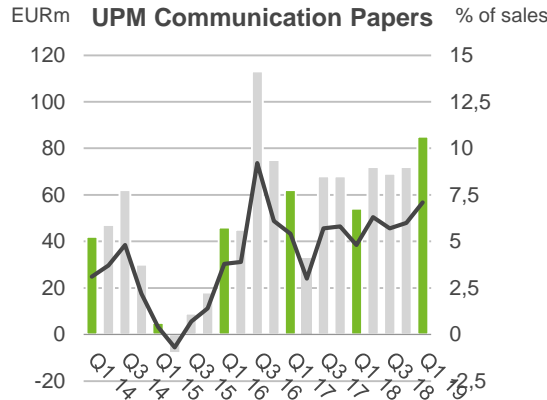
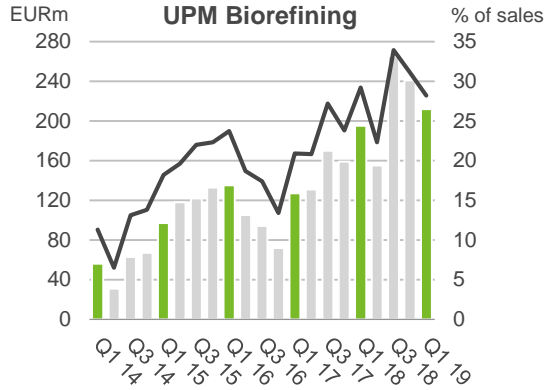


Lower increase in fair value of forests, depreciation higher. Fixed costs lower and variable costs higher, partly due to seasonal factors.





# Comparable EBIT by business area



# Q1 2019: favourable demand in most businesses, operationally a successful quarter



## UPM BIOREFINING

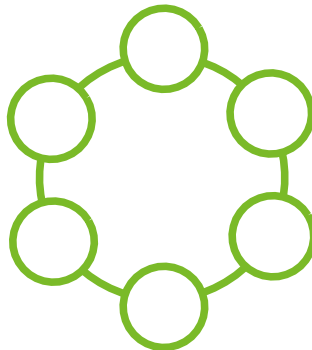
- Average pulp prices in euros +6%
- Pulp deliveries +8%
- Good customer demand for pulp, biofuels, timber
- Operationally a successful quarter

## UPM SPECIALTY PAPERS

- Deliveries +2%
- Good customer demand for label materials, solid customer demand for fine papers in Asia
- Cost reduction, growth and product development initiatives to restore profitability

## UPM COMMUNICATION PAPERS

- Average paper price +14%
- Deliveries -6%
- Measures to continuously improve cost competitiveness and adapt capacity to the profitable customer demand



## UPM RAFLATAC

- Sales grew by 15%, driven by increased sales prices and higher deliveries vs. low comparison base
- Customer demand growth continued
- Fixed cost reduction programme started

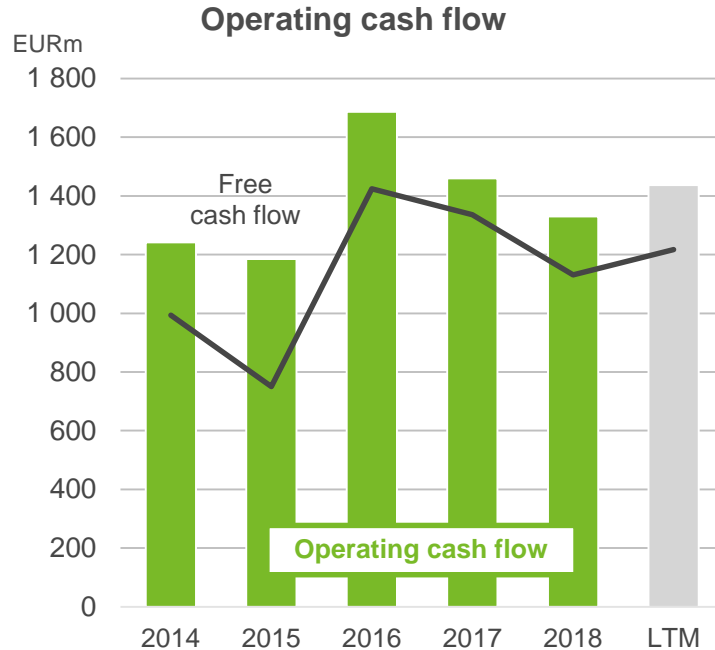
## UPM ENERGY

- Average electricity sales price +16%
- Electricity deliveries -8%
- Dry weather limited hydropower generation

## UPM PLYWOOD

- Price increases offset the higher variable costs
- Deliveries -6%
- Solid market demand continued

# Consistently strong cash flow



- Q1/19 operating cash flow was EUR 320m (214m in Q1/18)
- Working capital increased seasonally by EUR 111m (142m)

# 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.

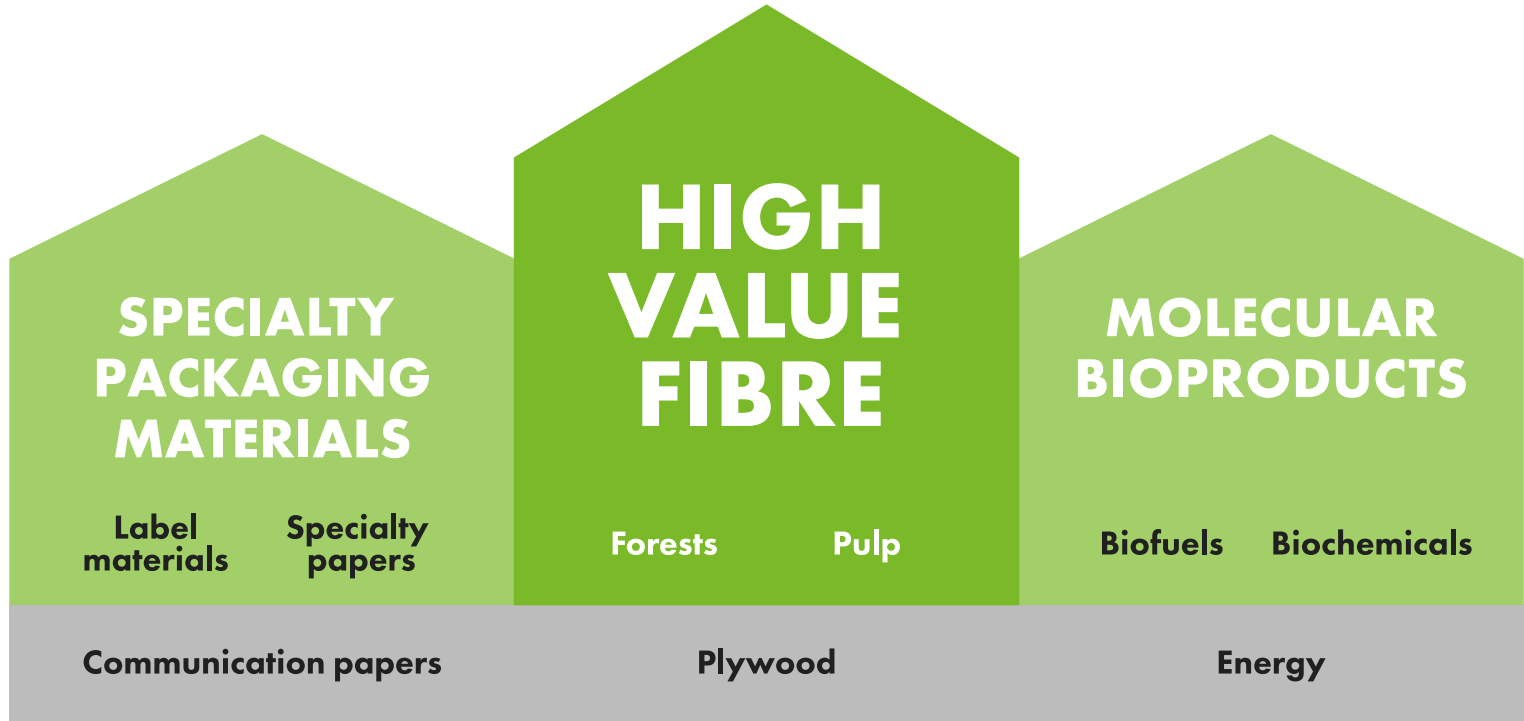
In the early part of 2019, pulp prices are expected to be lower and graphic paper prices in Europe higher than in Q4 2018.

Input costs are expected to stabilise after the significant increases seen in 2018.

UPM will continue measures to reduce both variable and fixed costs.

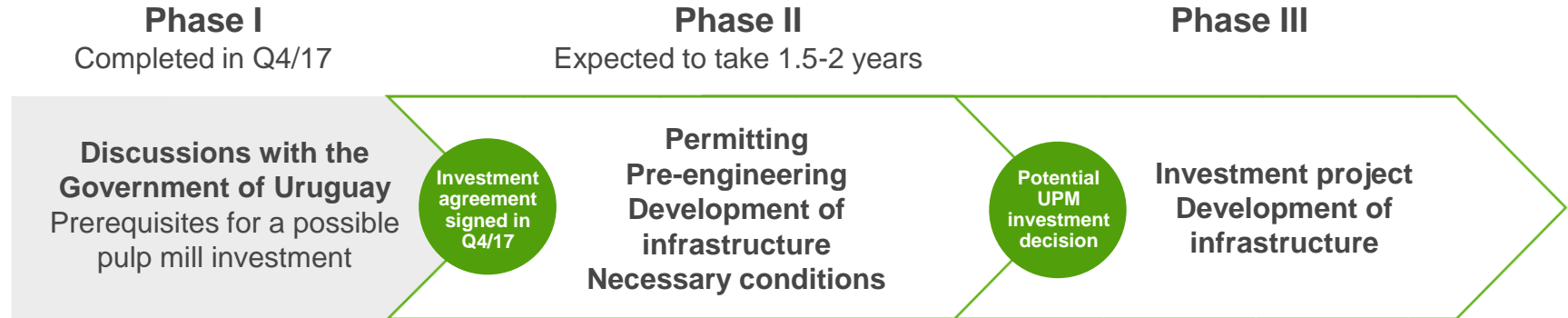
Fair value increases of forest assets are not expected to contribute materially to comparable EBIT in 2019.

# Spearheads for growth





# Second preparation phase for the potential new pulp mill in Uruguay ongoing



## 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 ongoing: the port concession awarded, mill engineering, design, tendering and permitting processes proceeding, free-trade zone granted.
  - Pending: Central Railway PPP project, labour protocols and conflict mitigation regulation and certain material outstanding items specified in the IA.
- Molecular bioproducts, possible biorefineries
  - Basic engineering completed for a potential 150kt biochemicals refinery in Germany. Final site assessment and commercial studies ongoing.
  - Environmental impact study completed for a potential 500kt biofuels refinery in Finland. Ambition to scale-up with a next generation biorefinery, development ongoing into next year.



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



- Completed
  - Jämsänkoski release liner expansion  
+40kt in Q4 2018, Finland
  - Raflatac speciality label expansion  
in Q1 2019, Finland
- Construction stage
  - Chudovo plywood mill expansion  
+45k m<sup>3</sup> 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 continues to grow sales and earnings – Q1 2019 was the 24<sup>th</sup> consecutive quarter of earnings growth.
- 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.
- Second preparation phase of the potential new pulp mill in Uruguay is in an intensive phase.



# UPM **BIOFORE** **BEYOND** FOSSILS

Inspired by  
the limitless  
opportunities  
of bioeconomy

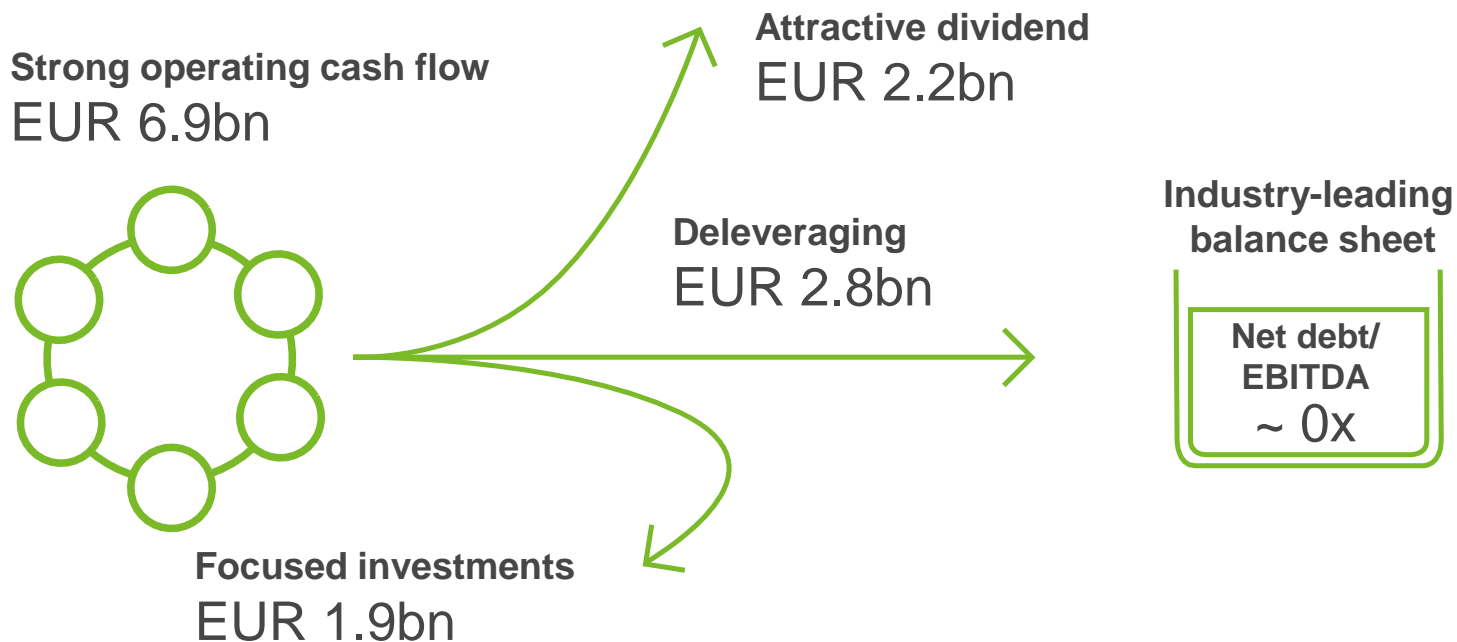
Delivering  
renewable and  
responsible  
solutions

Innovating  
for a future  
beyond fossils

UPM **BIOFORE**  
**BEYOND** FOSSILS



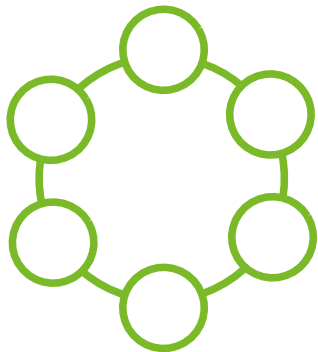
# 5-year cumulative cash flow (2014–2018) – efficient capital allocation in action



# Illustrative capital allocation \*) for the 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

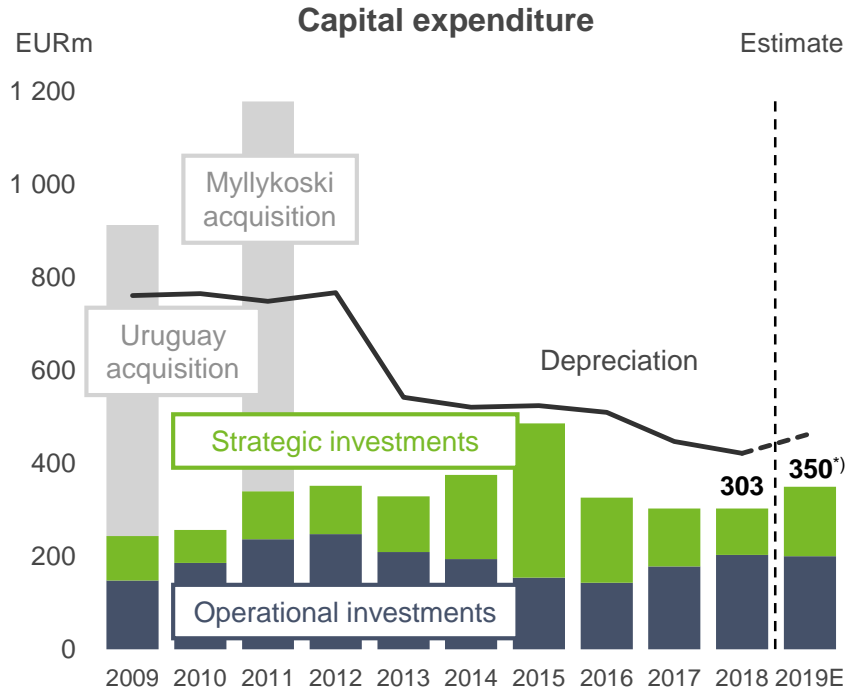


Maintain headroom

\*) This is not a forecast



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



<sup>\*)</sup> Excluding potential transformative prospects

## Focused growth investments

- ✓ High returns and fast payback
- ✓ Low implementation risk
- ✓ Financed from operating cash flow

## Low replacement investments

- ✓ Asset quality in all businesses, e.g. large competitive pulp mills
- ✓ UPM Communication Papers

## Modest total capex and attractive returns

# 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

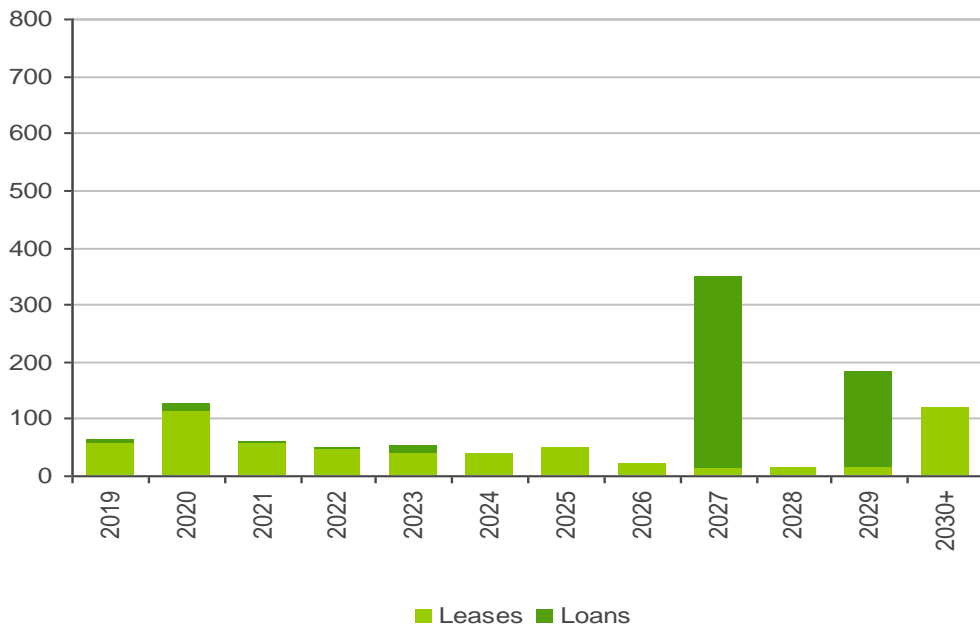
- Key currency exposures USD, GBP and JPY
- Policy to hedge an average of 50% of the estimated net currency cash flow for the next 12 months

Estimated annual foreign currency net cash flow, before hedging

	USD	GBP	JPY	Others
EURm	1,110	380	190	390

# Maturity profile and liquidity

EUR million



Liquidity on 31 March 2019 was EUR 1.1bn

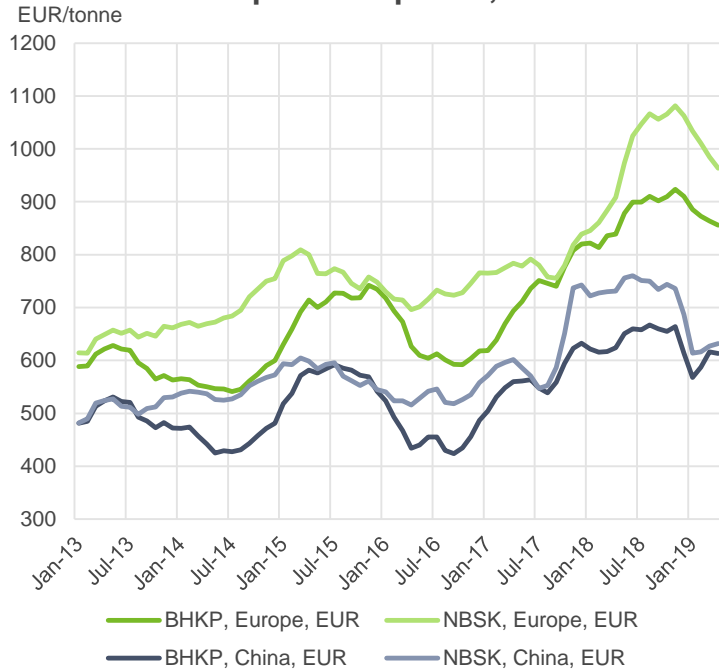
UPM has bilateral committed facility EUR 6.5 million related to joint operations maturing in 2020.

# UPM Biorefining

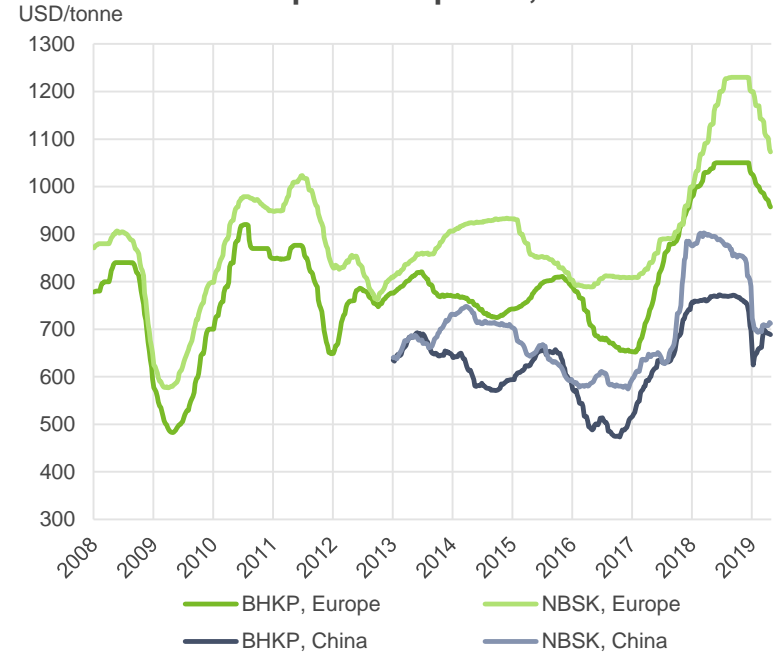
## Chemical pulp market prices



### Pulp market prices, EUR

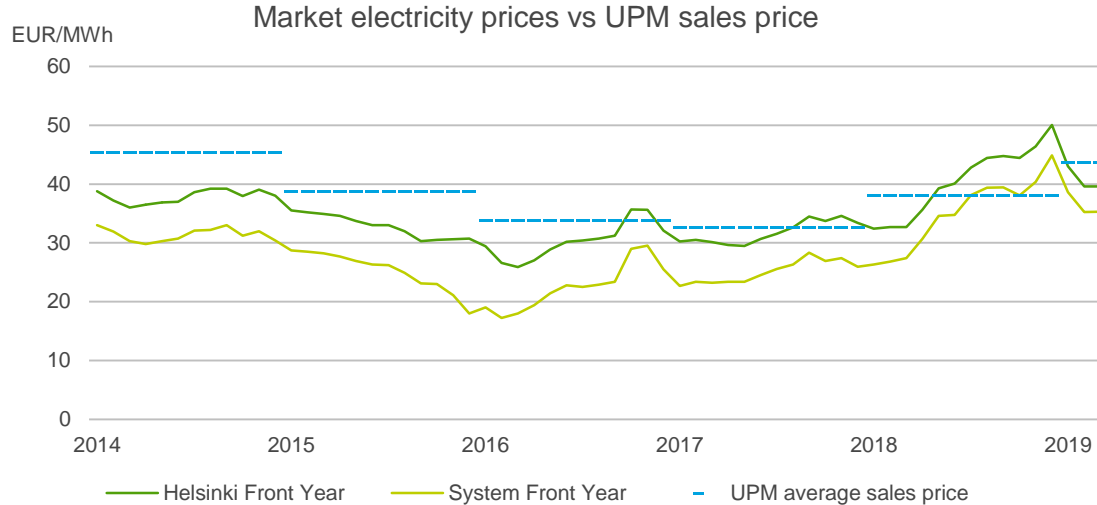


### Pulp market prices, USD



Source: FOEX Indexes Ltd

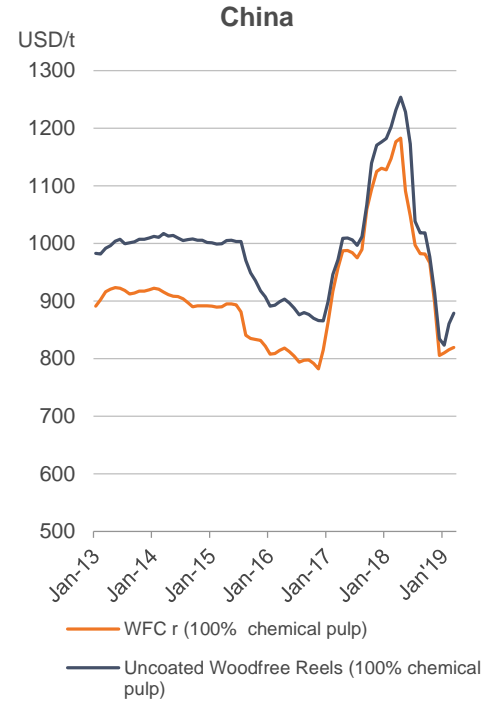
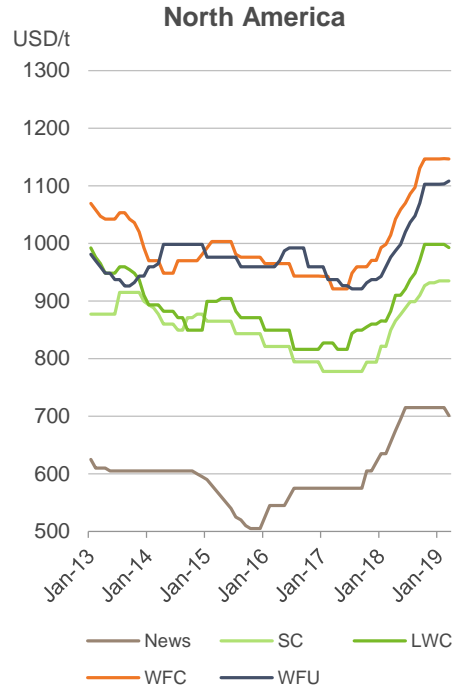
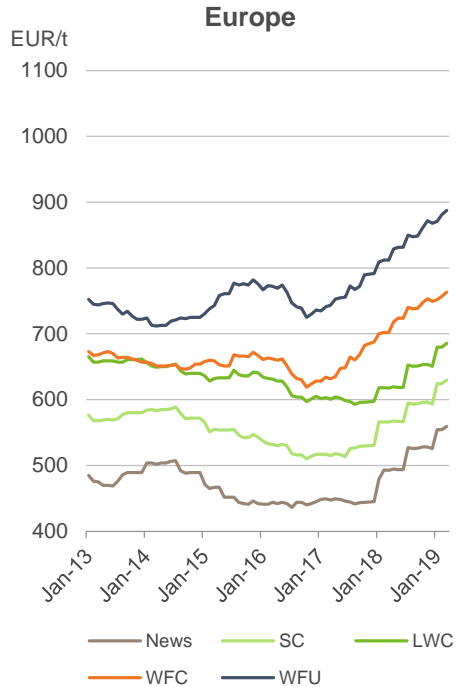
# Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2014	2015	2016	2017	2018	Q119
Comparable EBIT, EURm	202	181	116	91	123	39
% of sales	43.5	43.6	32.7	28.8	31.5	34.2

# UPM Communication Papers

## Graphic paper prices

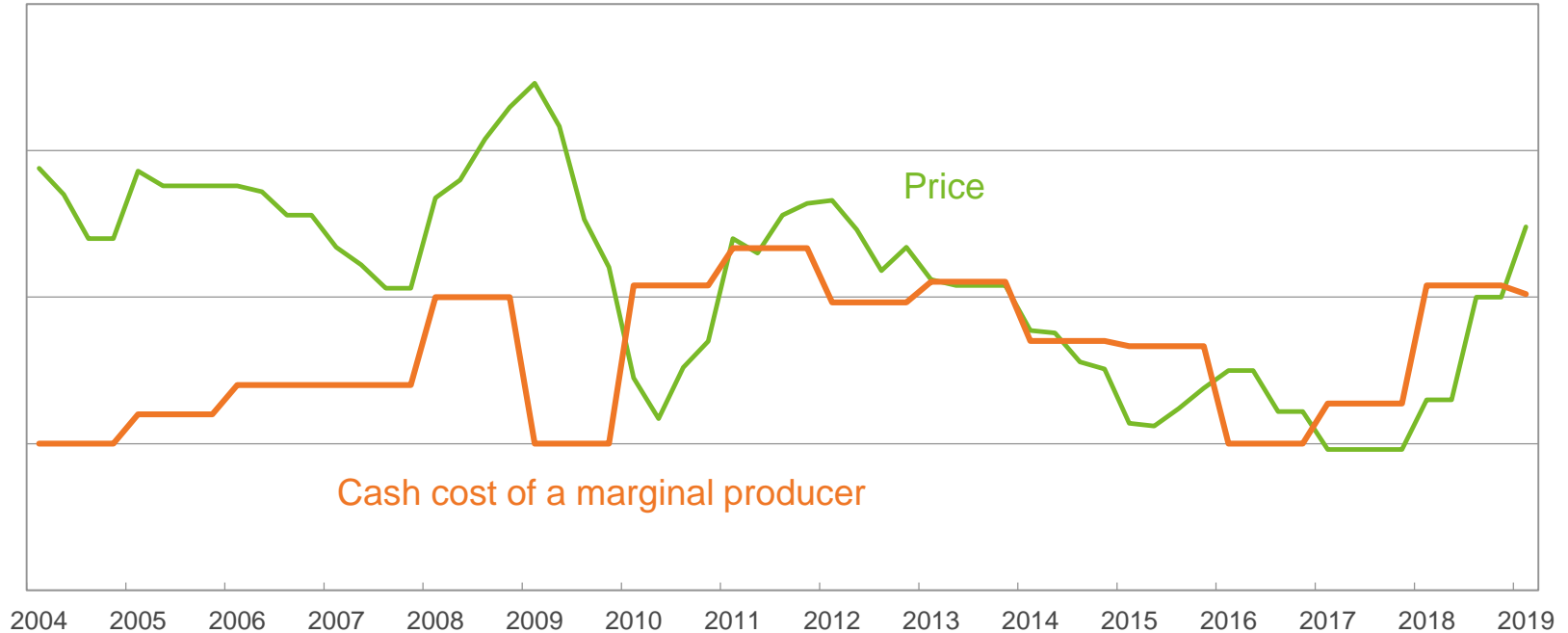


Sources: PPI, RISI

# Paper price vs. cash cost of marginal cost producer



EUR/t



Sources: PPI, RISI, Pöyry



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