

UPM Q3 Interim Report 2019

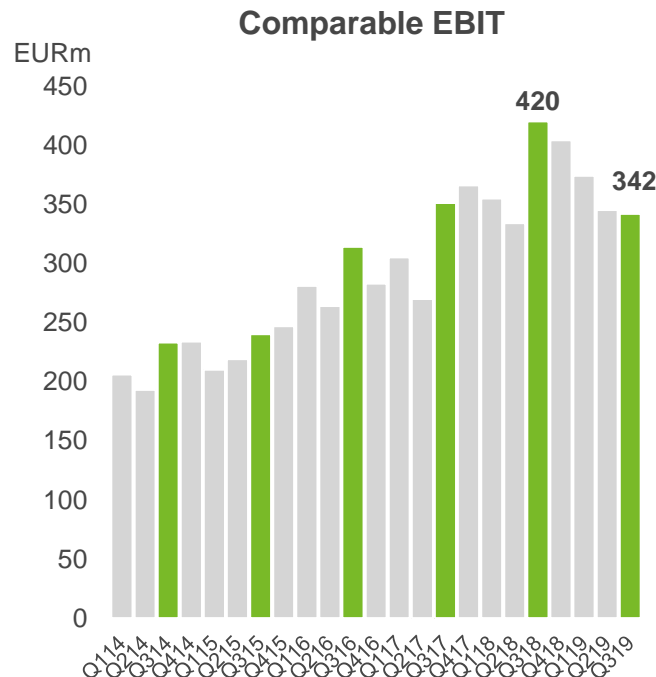
Jussi Pesonen
President and CEO
24 October 2019

Q3 2019: Good performance and strong financial position

– Uruguay decision drives significant future earnings growth

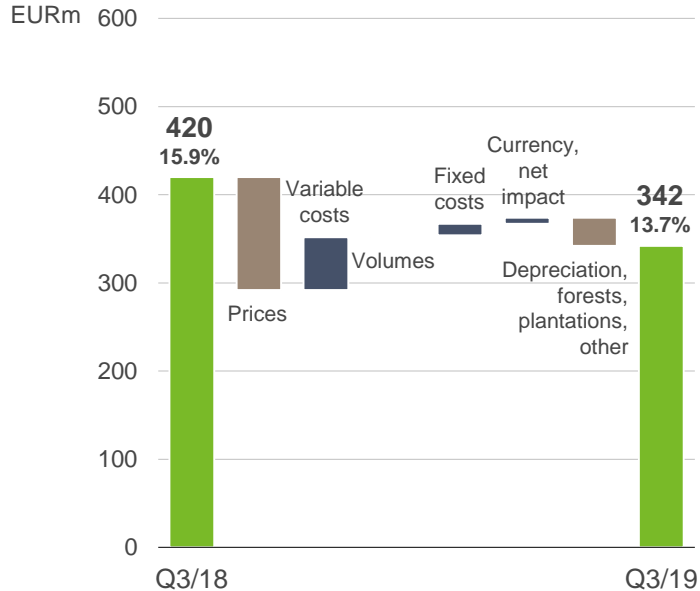


- Sales decreased by 6% to EUR 2,493 million (2,650 million in Q3 2018)
- Comparable EBIT decreased by 19% to EUR 342m (420m)
- Sales prices decreased, outweighing the impact of lower variable costs in all businesses
- Operating cash flow was strong at EUR 500m (405m)
- Net debt decreased to EUR -2m (4m)

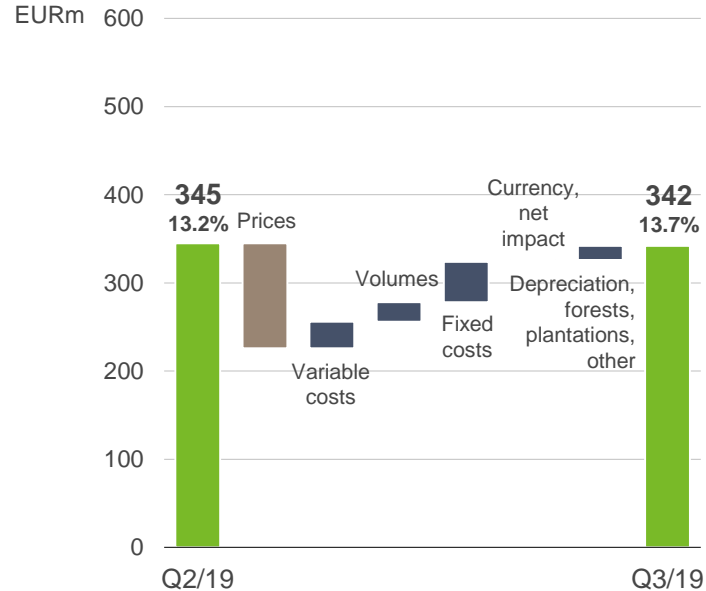


Comparable EBIT in Q3 2019

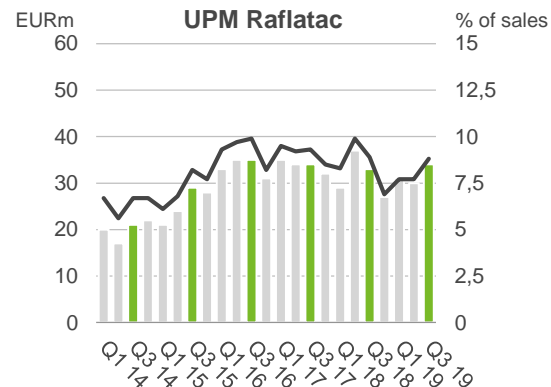
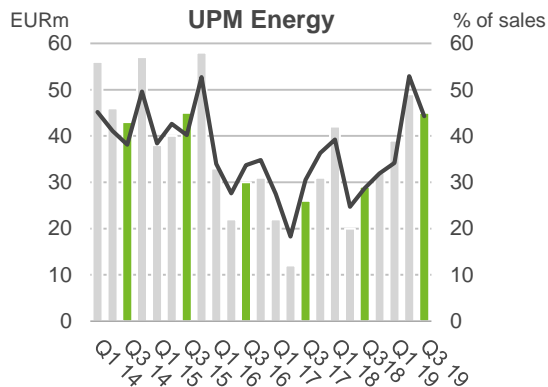
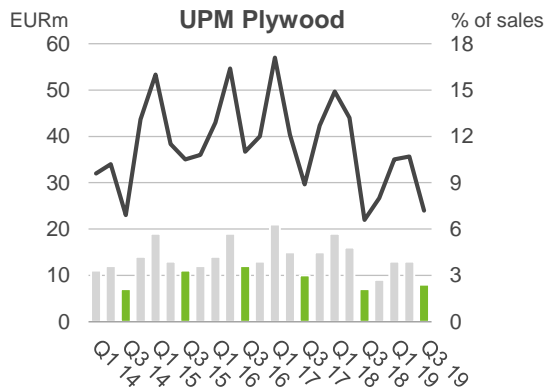
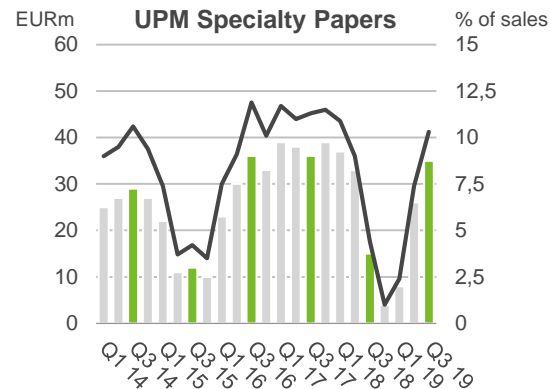
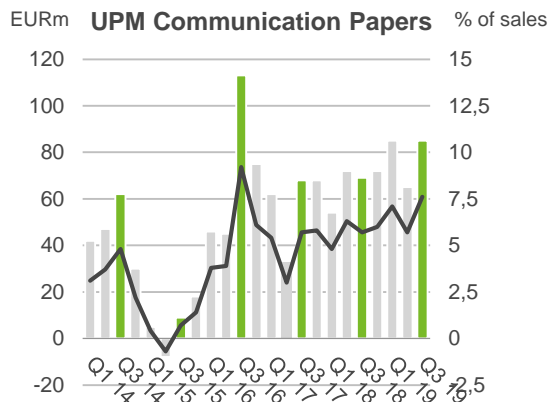
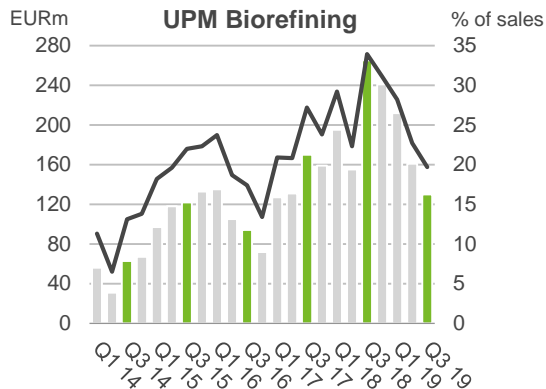
Sales prices decreased, outweighing the impact of lower variable costs across all business areas.
Fixed costs decreased.



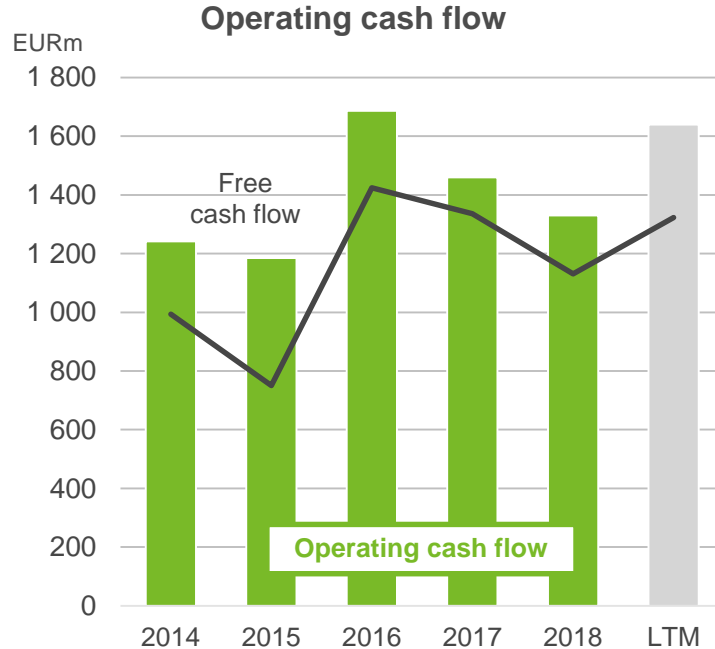
Sales prices decreased more than variable costs.
Fixed costs lower, mainly due to seasonal factors.
Deliveries increased.



Comparable EBIT by business area



Consistently strong cash flow



- Q3/19 operating cash flow was EUR 500m (405m in Q3/18)
- Working capital decreased by EUR 112m (increased by 75m)
- Q1-Q3/19 operating cash flow was EUR 1,256m (947m)

Outlook for 2019



The global economic growth is estimated to continue in 2019, albeit at a slower pace than in 2018. There are significant uncertainties related to global economic growth, including global trade tensions. Growth has slowed down in Europe, particularly in Germany. These issues may have an impact on the global economic growth and on UPM's product and raw material markets.

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

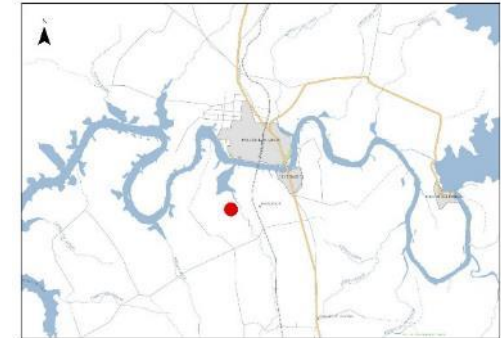
In 2019, demand growth has continued for most UPM businesses, albeit at a modest pace. Demand decline has continued for UPM Communication Papers.

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

In Q4 2019, the average pulp price for UPM businesses is expected to be lower than in Q3 2019. UPM Biorefining is affected by the scheduled maintenance shutdown at the UPM Fray Bentos pulp mill. UPM Communication Papers is positively impacted by the annual energy related refunds.

UPM invests in a world class pulp mill in Uruguay

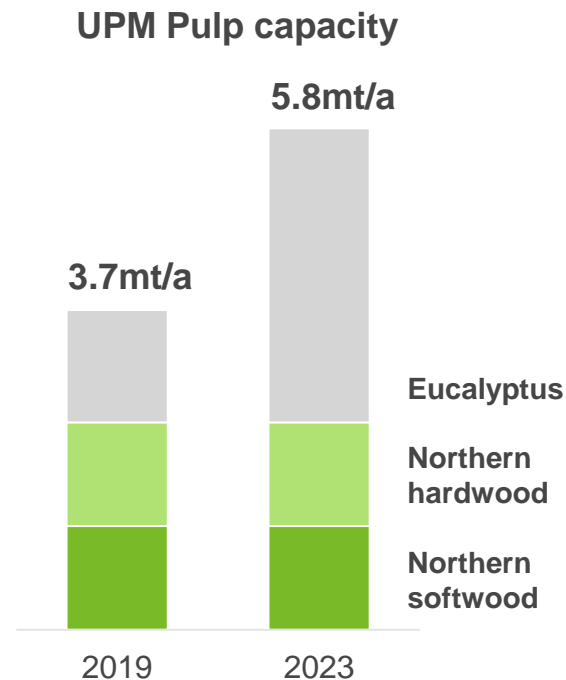
- UPM will construct a competitive new pulp mill with annual production capacity of 2.1 million tonnes of eucalyptus pulp
- Mill investment of USD 2.7 billion
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million
- Scheduled start-up in H2 2022
- Located in the department of Durazno, close to the town of Paso de los Toros
- The main part of the total capital expenditure of USD 3 billion will take place in 2020–2022



Transformative step in UPM's pulp business and in UPM's future earnings



- Significant step for UPM's future earnings
 - Expected cash cost level of USD 280 per delivered tonne of pulp^(*) – one of the most competitive mills in the world
 - Attractive returns in various market scenarios
 - Carefully prepared to ensure long-term competitiveness and to minimise risks both in the project phase and during continuous operations
- Step change in UPM's pulp business
 - +57% in pulp business size in a sustainable and highly competitive way
 - UPM becomes one of the most competitive suppliers of premium pulp in the world



Project status today

- Mill site preparatory works ongoing
 - Fencing, access control, temporary office and roads
 - Electricity lines and IT connections
 - Earthmoving and levelling
- Pulp terminal construction works started at the Montevideo Port
 - Demolition of old piers ongoing, followed by dredging
- Central railway initial works have started
 - PPP agreement between the government and the construction company signed in May 2019, financing closed in October 2019
- Resourcing and recruitment is proceeding
 - Online recruitment platform for employees and suppliers for the construction phase opened by the government of Uruguay: 27,000 registered during the first month
 - Over 30 new UPMers by the end of the year in the project
- Construction of temporary and permanent housing for mill construction employees started
- Permitting proceeds with the mill and port sites



UPM current investment portfolio for earnings growth

Focused investments

- 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
- New power plant in Nordland
in Q3 2022, Germany
- Kuusankoski hydropower refurbishment
in Q4 2022, Finland

Transformative prospects

New 2.1mt eucalyptus pulp mill

- Mill investment of USD 2.7 billion, Uruguay
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million
- Scheduled start-up in H2 2022

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.

Continuously taking action to ensure competitiveness

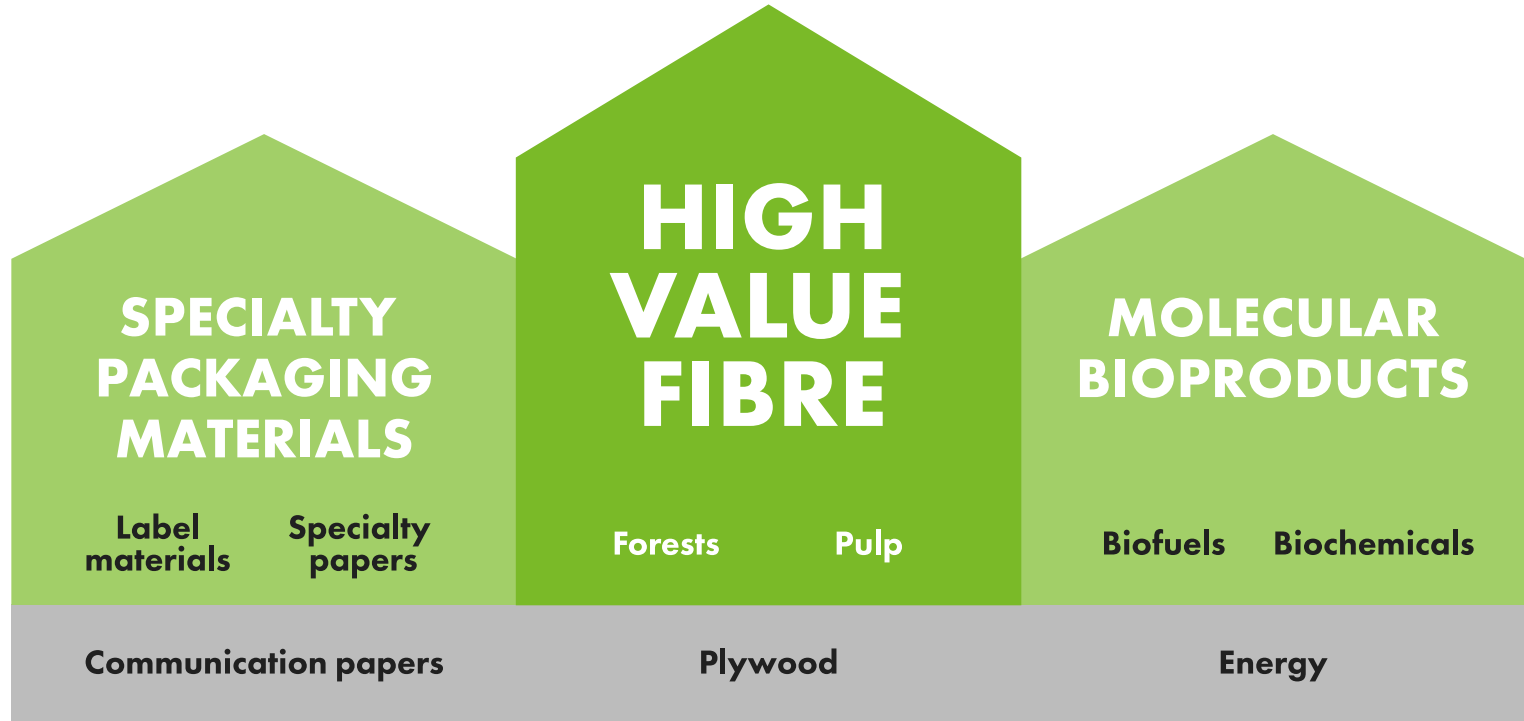
UPM Communication Papers

- UPM Plattling PM 10 (LWC)
-155kt closed down in Q3 2019
- UPM Rauma PM 2 (SC)
-265kt, plan to close down by the end of 2019
- UPM Chapelle (newsprint)
-240kt, plan to sell by the end of Q2 2020
- UPM Nordland PM2 (fine)
-200kt, conversion to release liner in Q4 2019
- New power plant in UPM Nordland
in Q3 2022

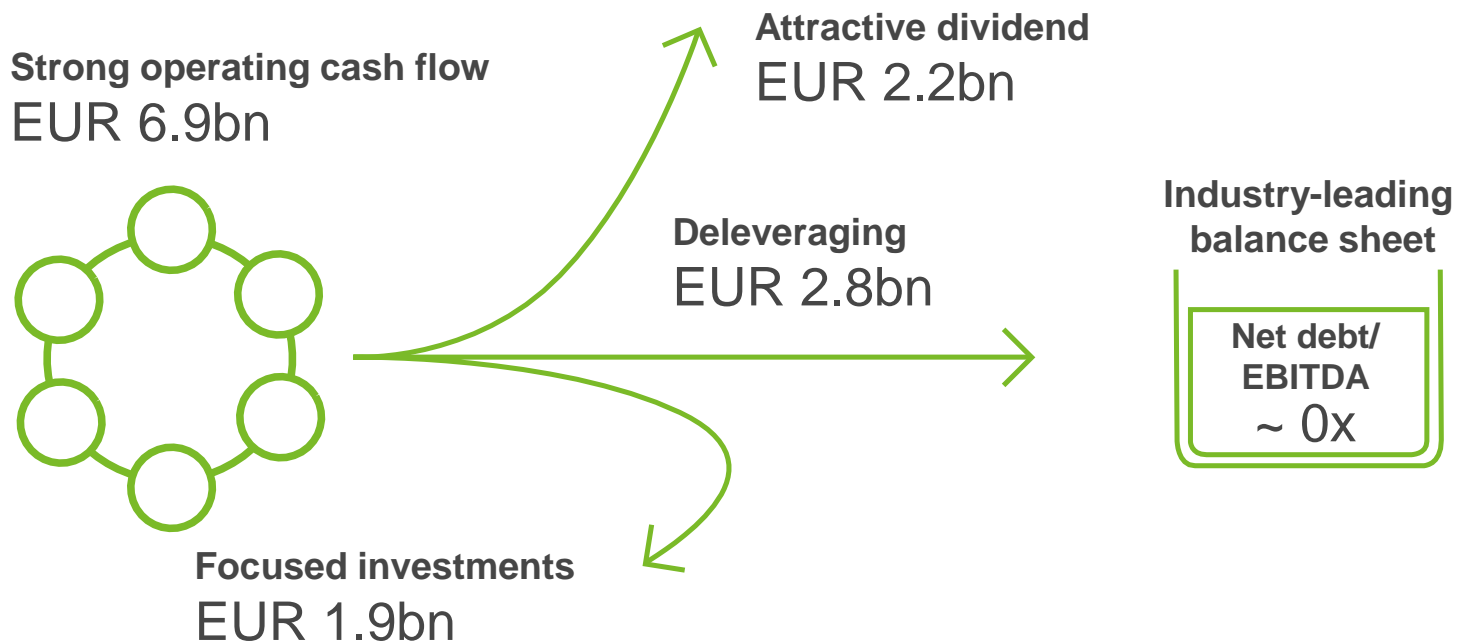
All business areas and functions

- Continuous improvement programmes
Variable costs, working capital, commercial strategies, maintenance and site costs, safety, environmental performance
- Efficient use of assets
- Fixed cost reduction
New Business Services Hub in Wroclaw, Poland
- Product and mix development
- Digitalisation
Customer interface, planning, data analytics

Spearheads for growth

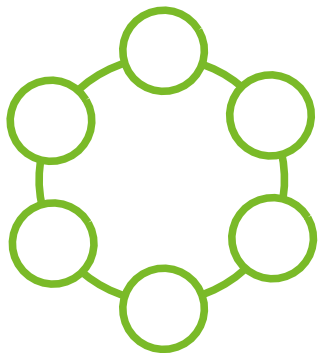


5-year cumulative cash flow (2014–2018) – efficient capital allocation in action



Illustrative capital allocation ^{*)} for the next 5 years

Performance focus
Strong cash flow



Attractive dividend
EUR ~3–4bn

High return
investments
EUR ~4bn

Industry-leading
balance sheet

Net debt/
EBITDA
< 2x

Maintain headroom

^{*)} This is not a forecast

Our consistent efforts on responsibility have received recognition globally

- UN Global Compact LEAD
- Dow Jones Sustainability Index
- CDP Programs
- MSCI ESG Ratings



<https://www.msci.com/documents/1296102/15233886/How-to-Reference-an-MSCI-ESG-Rating-Final.pdf>



Summary



- The new pulp mill investment in Uruguay represents a step change in the scale of UPM' pulp business, and in UPM's future earnings
- UPM continues to take action to ensure competitiveness
- Good business performance continued in Q3 2019 - margins maintained at H1 2019 level
- Consistently strong cash flow and debt-free balance sheet provide a solid foundation for attractive growth investments
- UPM's business performance is expected to be at a good level in 2019

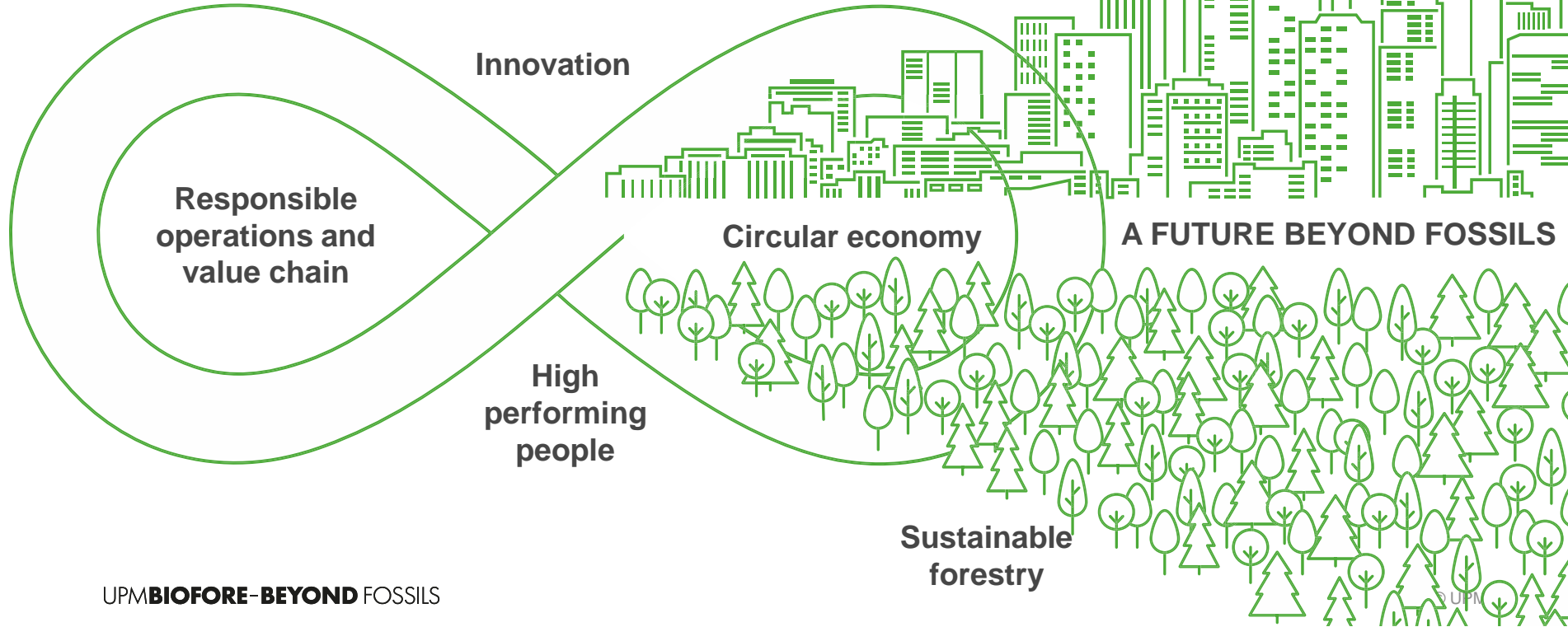
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2030

Limitless opportunities of bioeconomy

Sustainable and safe solutions
for global consumer demand



UPM invests in Germany to reduce costs and emissions, increasing flexibility to participate in electricity markets

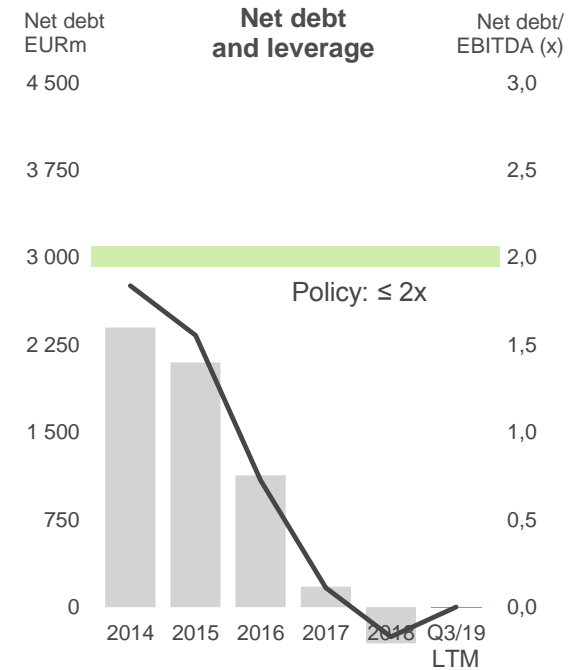
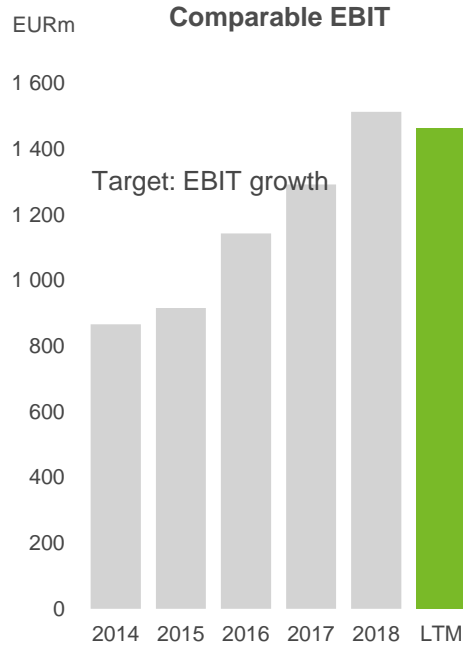


New combined heat and power plant at UPM Nordland

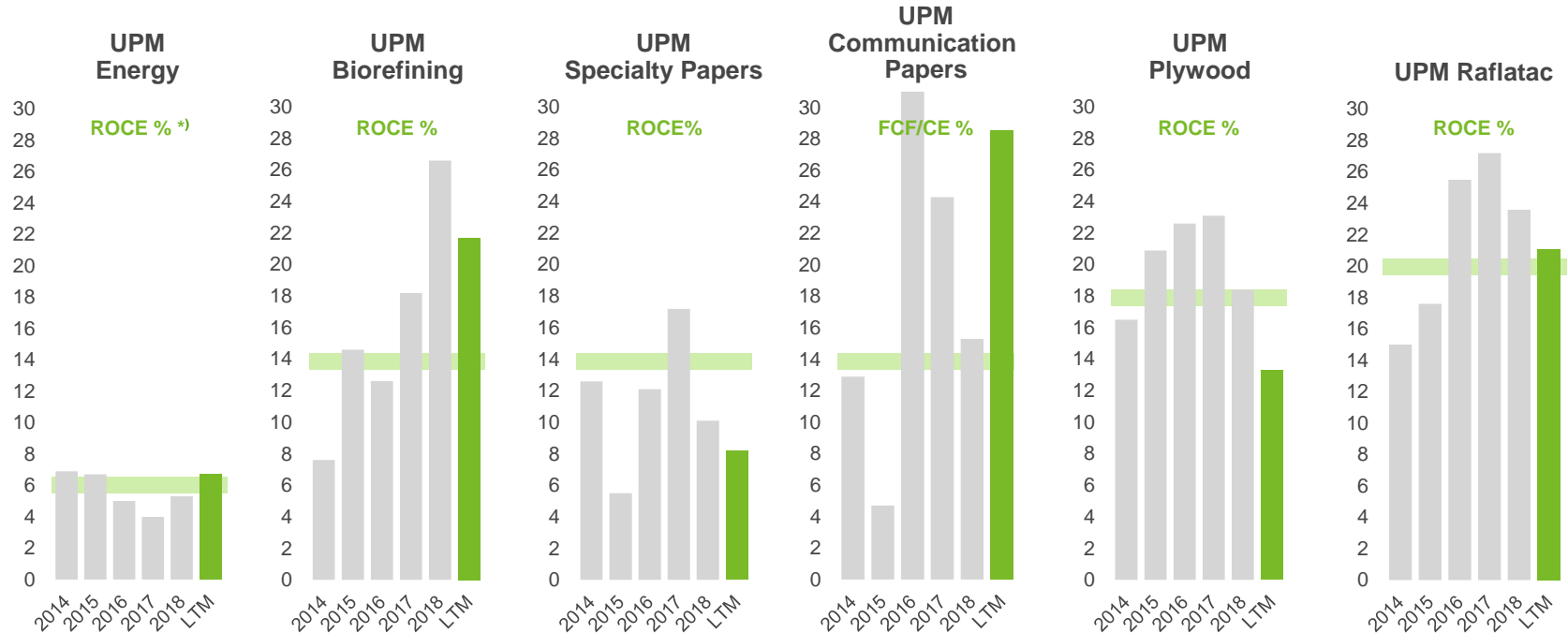
- Reduce energy costs by EUR 10m annually
- Reduce UPM's global CO₂ emissions by 300,000t (5%)
- Increase flexibility and enable active participation in the increasingly volatile German electricity markets
- EUR 95m investment with 3 years payback
- Supports the German energy transition, built under the German Combined-Heat-And-Power Cogeneration Act
- Concept proven successfully at UPM Schongau



Group financial performance

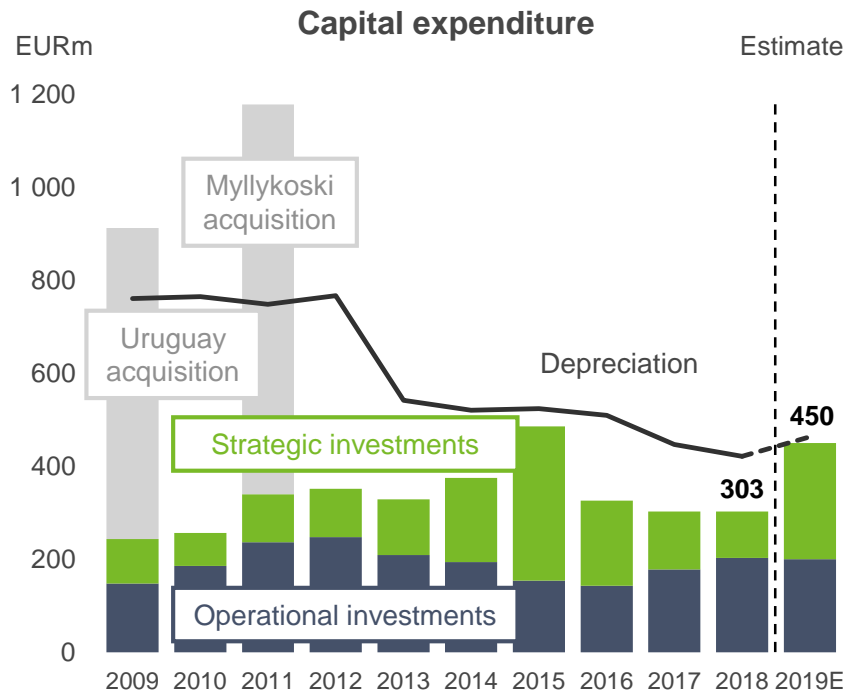


Business area returns and long-term targets



*) shareholdings in UPM Energy
valued at fair value

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



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

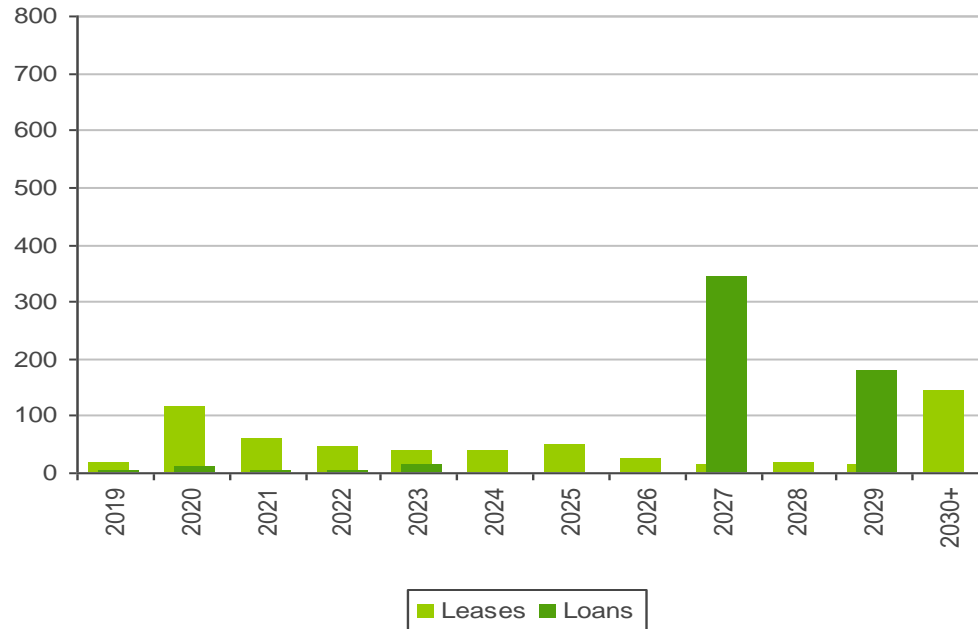
- Key currency exposures USD, GBP and JPY
- Policy to hedge an average of 50% of the estimated net currency cash flow for the next 12 months

Estimated annual foreign currency net cash flow, before hedging

	USD	GBP	JPY	Others
EURm	1,180	210	240	230

Maturity profile and liquidity

EUR million



Liquidity on 30 September 2019 was EUR 1.1 bn

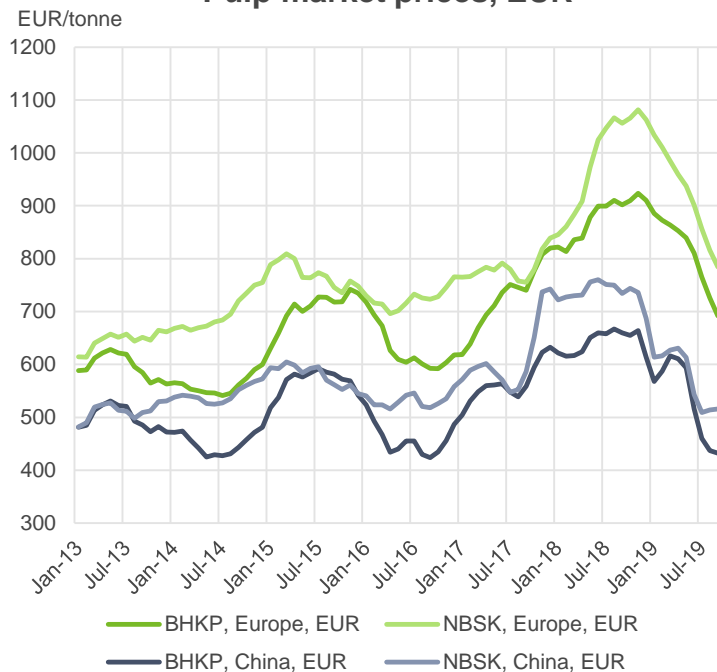
UPM has bilateral committed facility EUR 6.5 million related to joint operations maturing 2020.

UPM Biorefining

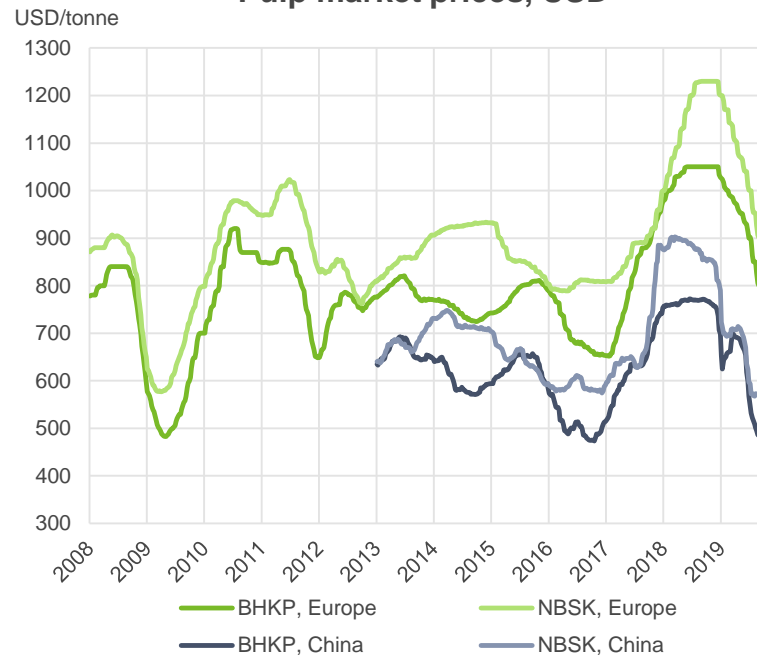
Chemical pulp market prices



Pulp market prices, EUR

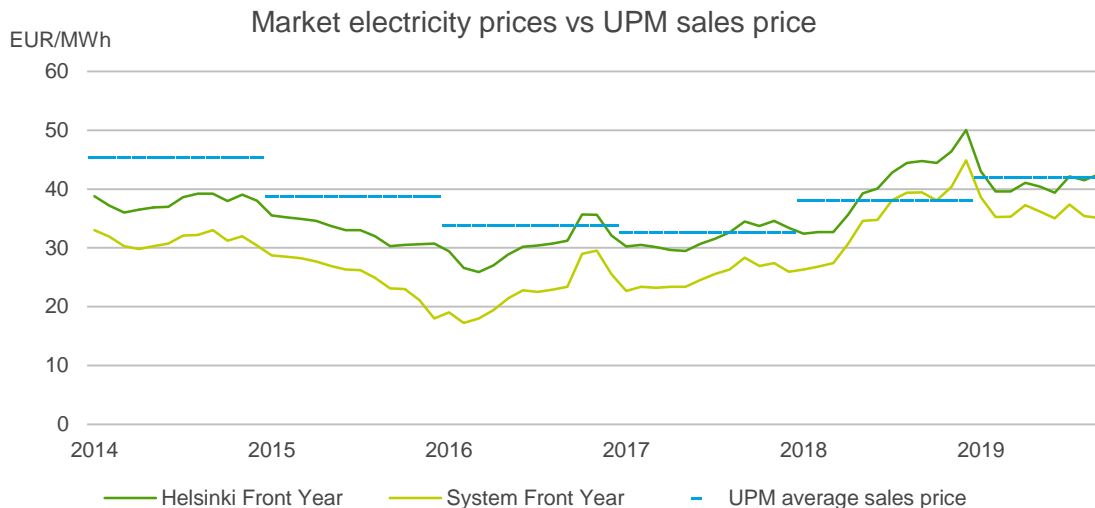


Pulp market prices, USD



Source: FOEX Indexes Ltd

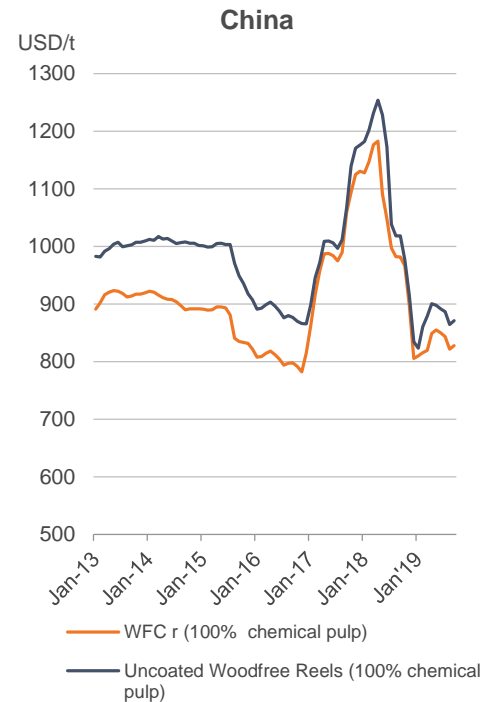
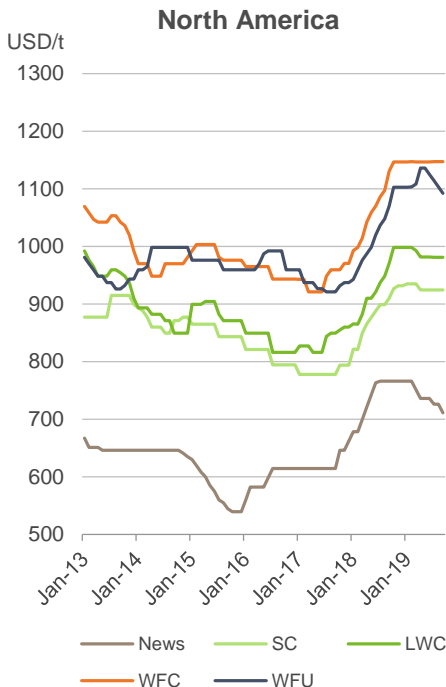
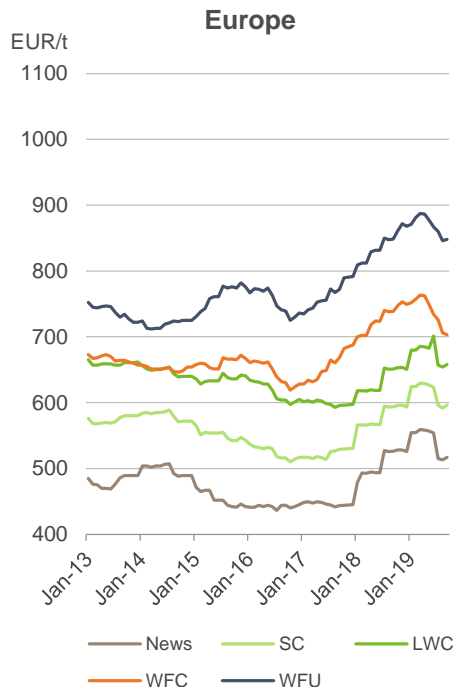
Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2014	2015	2016	2017	2018	9M/19
Comparable EBIT, EURm	202	181	116	91	123	132
% of sales	43.5	43.6	32.7	28.8	31.5	43.2

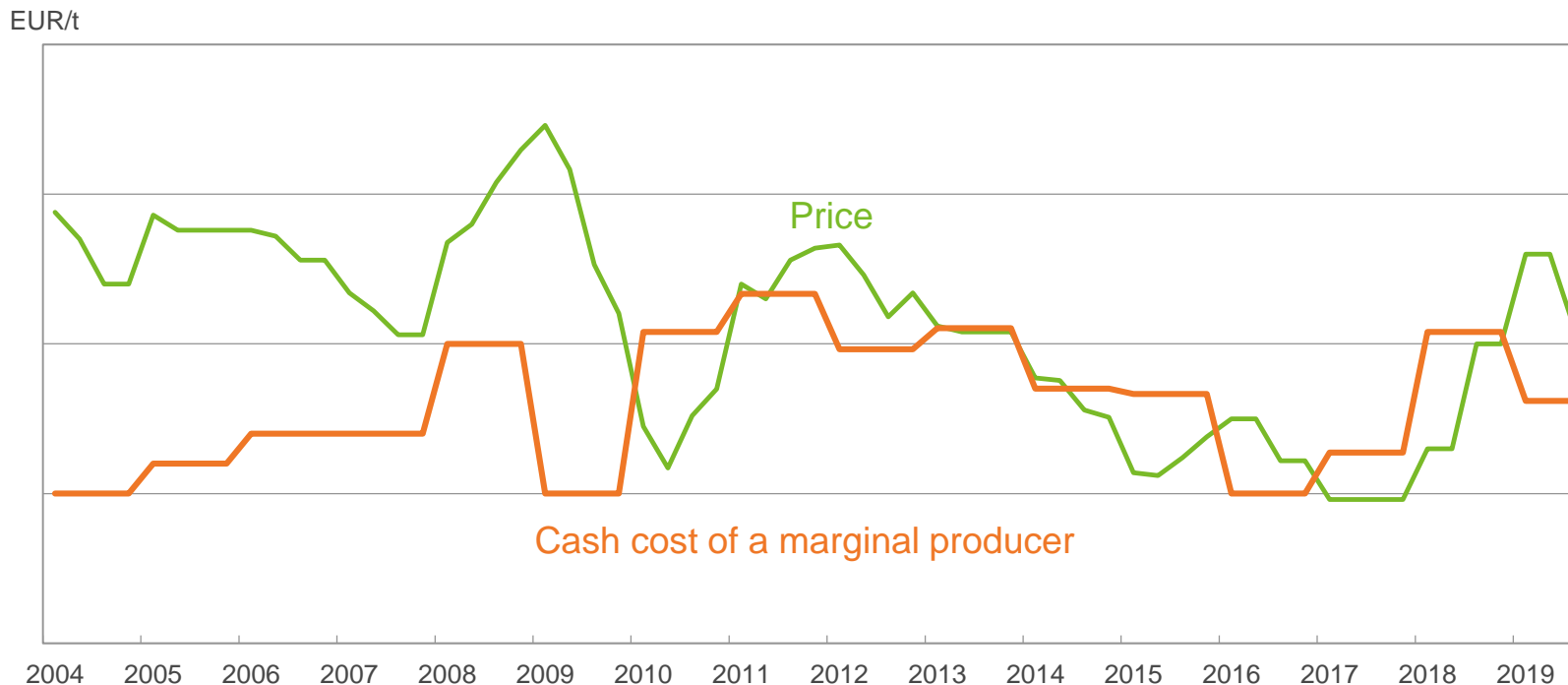
UPM Communication Papers

Graphic paper prices



Sources: PPI, RISI

Paper price vs. cash cost of marginal cost producer



Sources: PPI, RISI, Pöyry

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