

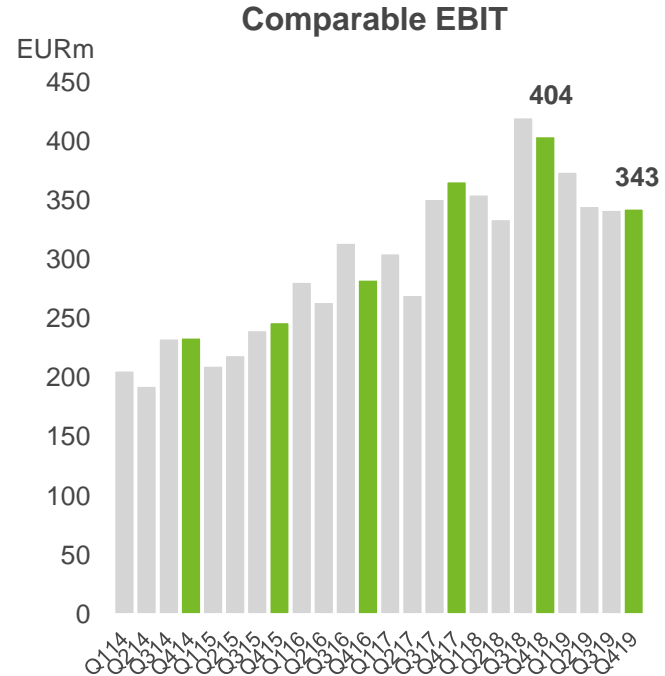


# UPM financial statements release 2019

Jussi Pesonen  
President and CEO  
30 January 2020

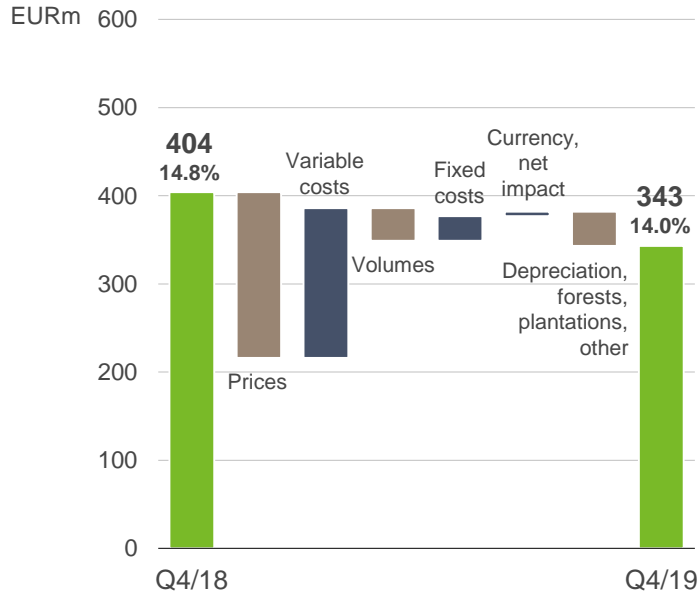
## Q4 2019: good performance and record cash flow

- Sales decreased by 10% to EUR 2,447m (2,731m in Q4 2018) due to lower pulp price and lower deliveries of graphic papers
- Comparable EBIT decreased by 15% to EUR 343m (404m)
- Record cash flow in Communication Papers and Raflatac, record comparable EBIT in Specialty Papers
- Record quarterly operating cash flow at EUR 592m (384m)
- Net debt decreased to EUR -453m (-311m at the end of 2018, before IFRS 16 Leases)

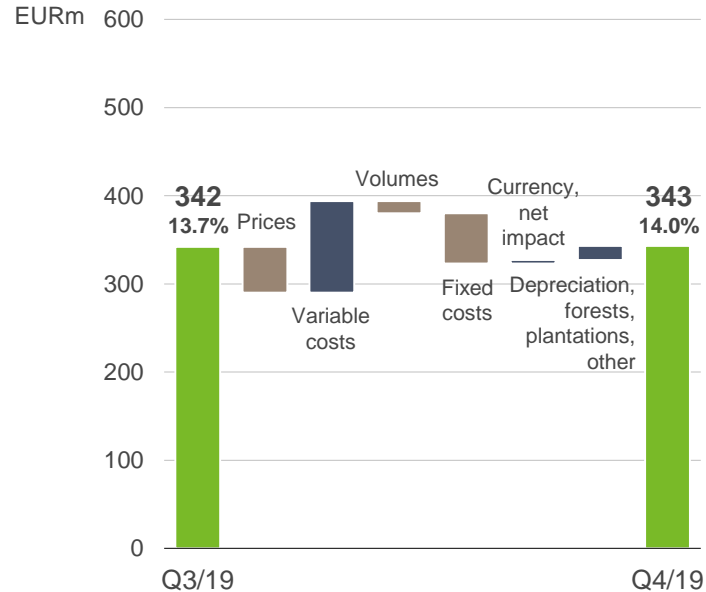


# Comparable EBIT in Q4 2019

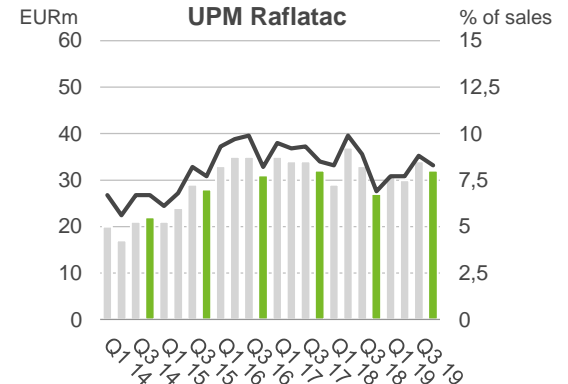
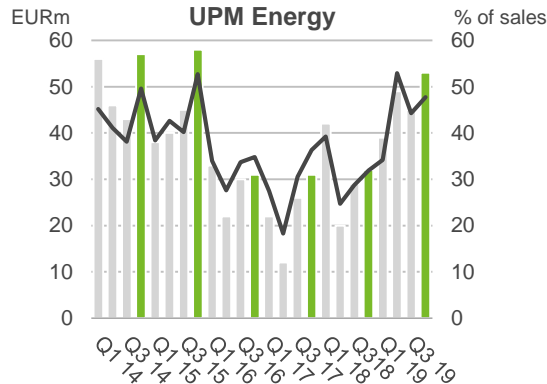
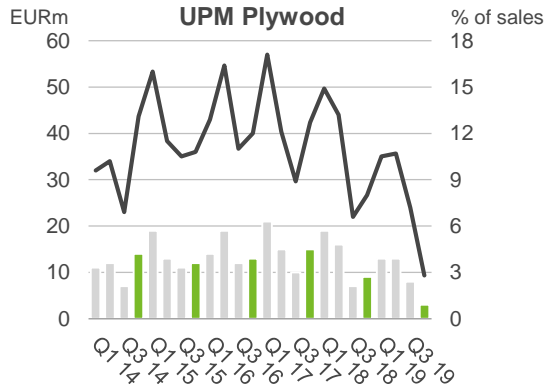
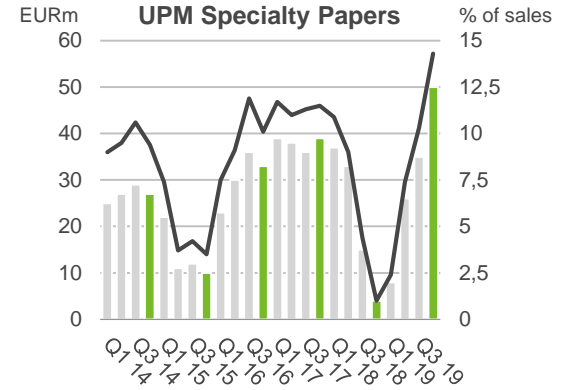
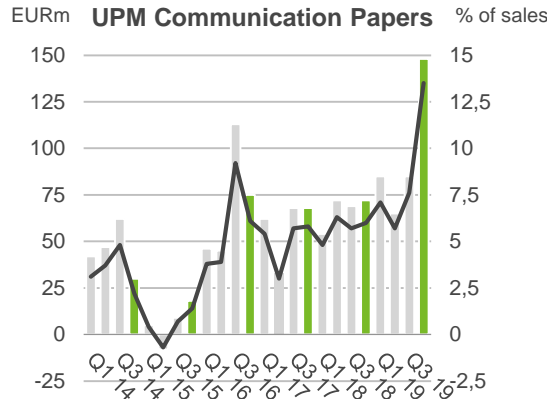
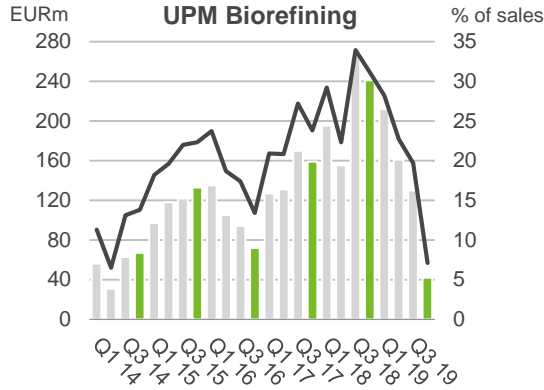
Sales prices decreased, outweighing the impact of lower variable costs across all business areas.  
Fixed costs decreased.



Sales prices and variable costs decreased.  
Energy costs seasonally lower, incl. annual energy related refunds.  
Fixed costs seasonally higher, incl. maintenance.



# Comparable EBIT by business area



## 2019: good performance and record cash flow

### 2019 vs. 2018:

Sales

EUR 10,238m  - 2%

EBITDA

EUR 1,851m  -17m

Comparable EBIT

EUR 1,404m  -109m

Comparable EPS

EUR 2.07  -0.17

Comparable ROE

11.2%  -1.7pp

Operating cash flow

EUR 1,847m  +517m

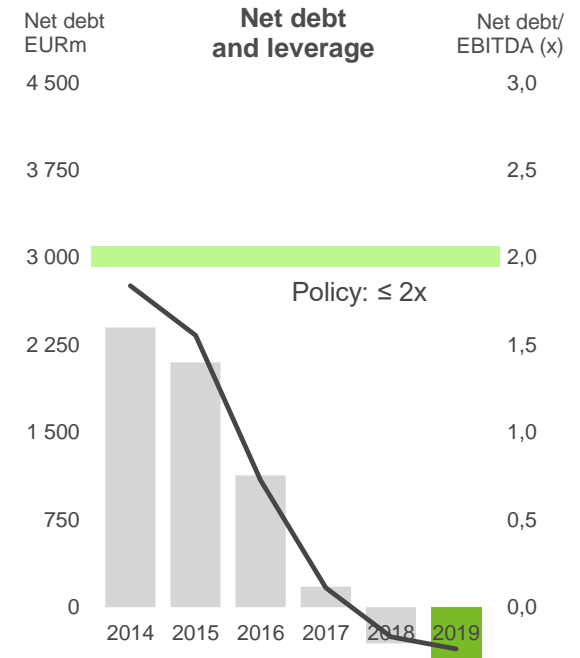
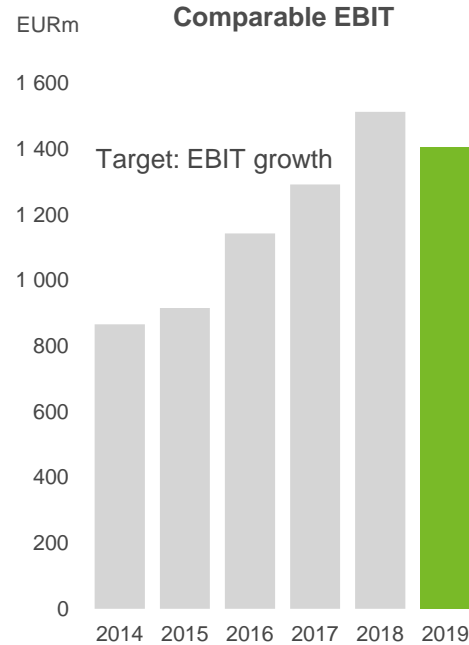
Net debt

EUR -453m  -142m

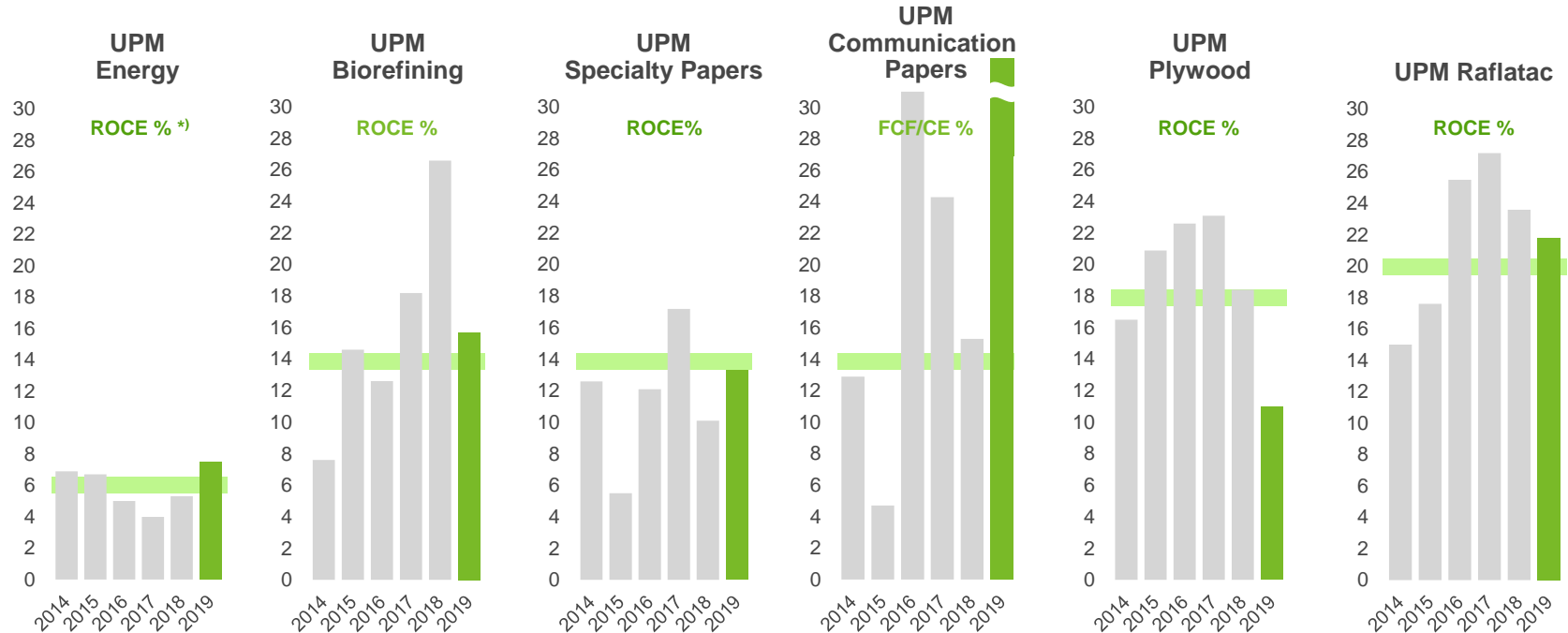
Net debt / EBITDA

-0.24x  -0.07x

# Group financial performance

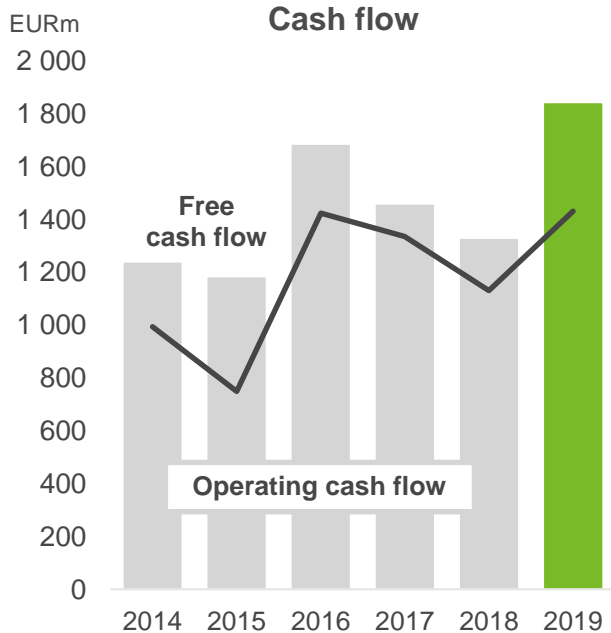


# Business area returns and long-term targets



\*) shareholdings in UPM Energy  
valued at fair value

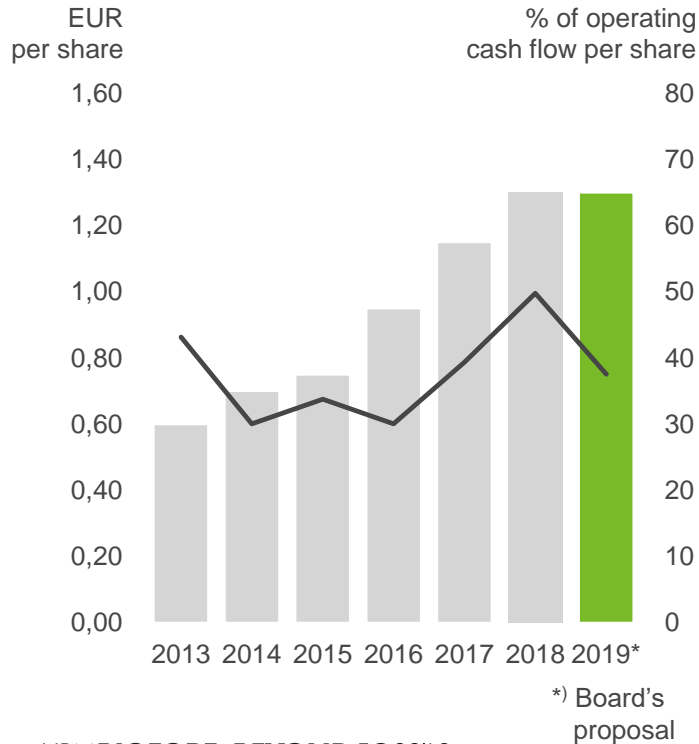
## Consistently strong cash flow



- 2019: record annual operating cash flow at EUR 1,847m (1,330m)
- Working capital decreased by EUR 276m (increased by 209m)
- Q4/19: record quarterly operating cash flow at EUR 592m (384m in Q4/18)
- Working capital decreased by EUR 227m (decreased by 29m)



# Dividend proposal: EUR 1.30 per share



## Long term dividend policy

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

## Dividend proposal for 2019

- EUR 1.30 (1.30) per share, totalling EUR 693m
- 38% of 2019 operating cash flow

# Outlook for 2020



Global economic growth is expected to continue in 2020, albeit at a modest level. Growth is expected to be slow in Europe. Potential intensification or easing of trade tensions between major economic areas cause uncertainty to the business environment. These issues may impact UPM's product and raw material markets in 2020.

In 2020, robust demand is expected to continue for most UPM businesses, whereas demand decline is expected to continue for UPM Communication Papers.

In the beginning of the year 2020, paper prices are expected to decrease moderately, compared with Q4 2019. Pulp prices are starting the year 2020 at a low level, after the decreases that took place throughout the year 2019.

UPM will continue its actions to reduce fixed and variable costs. In 2020, the intensifying phase of UPM's transformative growth projects is expected to add project-related costs to the fixed costs.

UPM's comparable EBIT in H1 2020 is expected to be significantly lower than in H1 2019, due to lower sales prices, partly offset by decreases in variable costs. Comparable EBIT is expected to recover in H2 2020.

# 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, closed down in Q4 2019
- UPM Chapelle (newsprint)  
-240kt, plan to sell by the end of Q2 2020
- UPM Nordland PM2 (fine)  
-200kt, conversion to release liner in Q1 2020
- 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
- Product and mix development
- Digitalisation  
Customer interface, planning, data analytics

Mitigating climate change – driving long-term value creation



## UPM **BIOFORE-BEYOND** FOSSILS



*We act through* **FORESTS**  
Climate-positive forestry



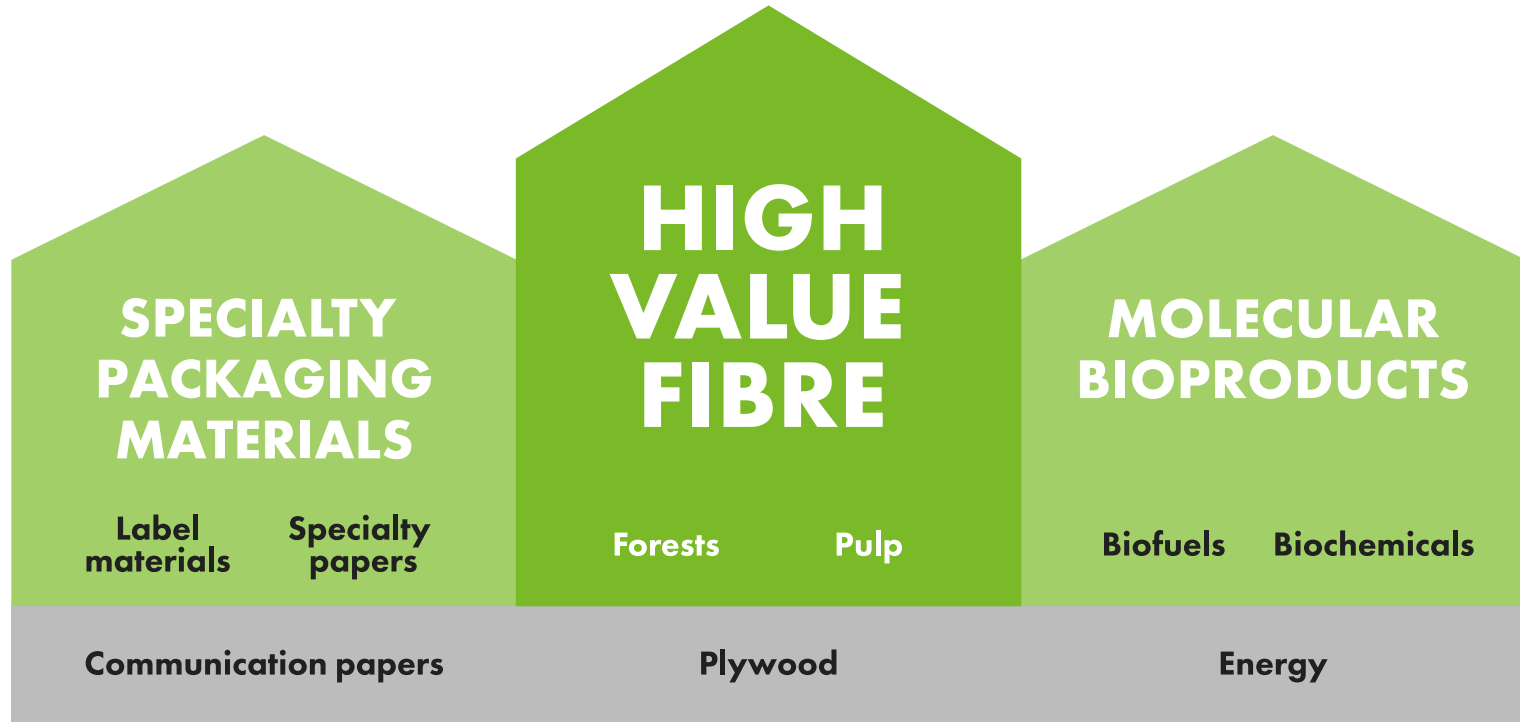
*We act through* **EMISSIONS**  
65% less CO<sub>2</sub> emissions



*We act through* **PRODUCTS**  
Innovate novel products

**BUSINESS**  
AMBITION FOR **1.5°C**   **OUR ONLY**  
**FUTURE**

# Spearheads for growth





# UPM Biochemicals

## Switch from fossil raw materials to renewable solutions



## UPM invests in next generation biochemicals

- EUR 550 million investment in an industrial scale biorefinery at Leuna, Germany
- 100% wood-based biochemicals provide alternatives to fossil materials in various consumer-driven end-uses
- Total annual capacity of 220,000 tonnes
- Scheduled to start up by the end of 2022
- Safety and sustainability of the value chain based on UPM's high standards

# UPM creates a totally new sustainable business with large growth potential



- Major milestone in UPM's transformation
- UPM biochemicals respond to the customers' increasing needs for renewable alternatives in their businesses
- Current supply is limited and high-quality biochemicals are priced at a premium in the markets
- Sustainable wood supply, unique technology, existing infrastructure and proximity to customers enables a good cost position, comparable to the fossil-based alternatives
- Attractive returns: ROCE target of 14% once the facility is fully ramped up and optimized





## Renewable product range

- **Bio-monoethylene glycol (bMEG)**  
for textiles, PET bottles, packaging, deicing fluids
- **Renewable functional fillers**  
for rubber applications as a sustainable, light-weight and high-purity alternative to carbon black and silica
- **Bio-monopropylene glycol (bMPG)**  
for composites, pharma, cosmetics, detergents
- **Industrial sugars**  
for various applications in chemicals industry

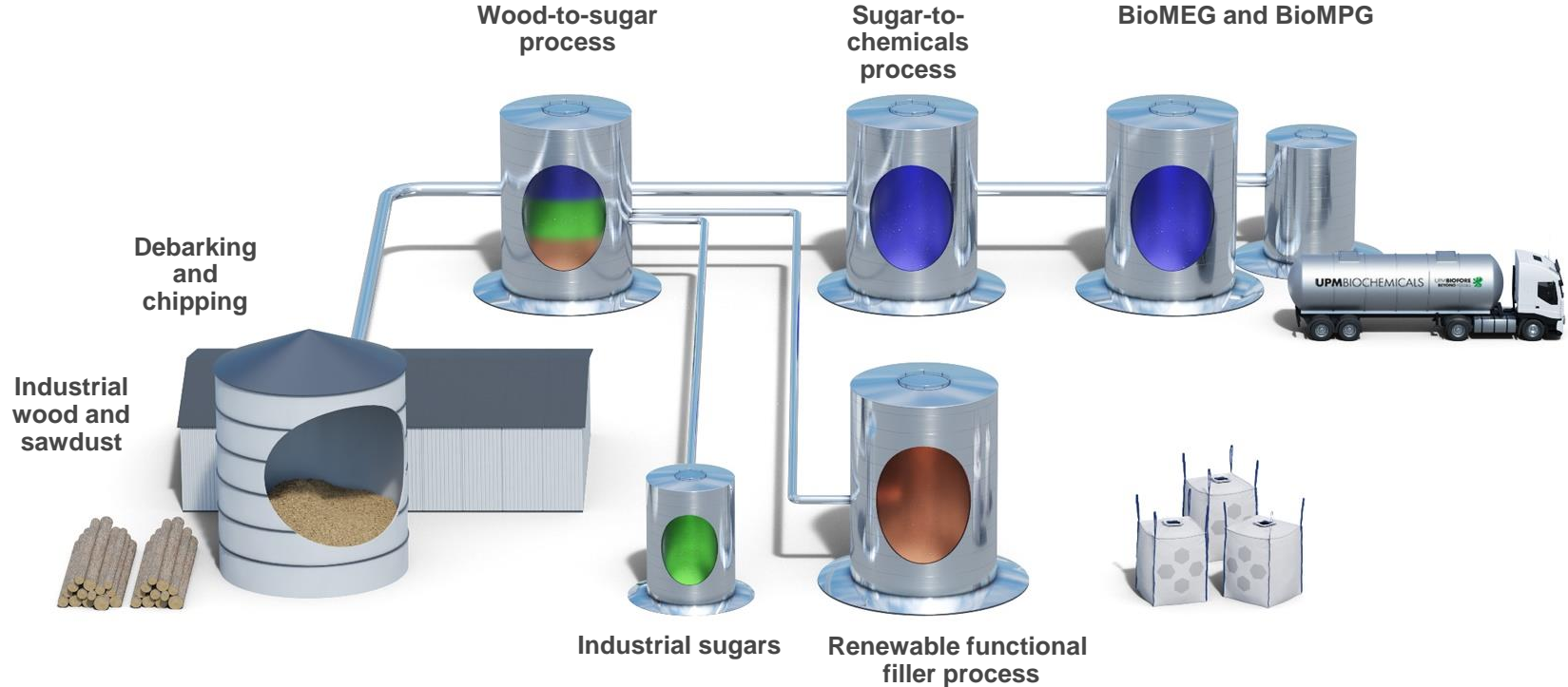


## Large growth markets – unique sustainability value



- The global glycols market is more than 30 million tonnes, with expected annual growth of approx. 4%
- The global market of carbon black and silica is more than 15 million tonnes, with expected annual growth of approx. 3%
- Current market supply based on non-renewable raw materials
- Customers increasingly committed to sustainable solutions
- UPM's renewable raw material and new technologies provide significant reduction in carbon footprint
- UPM biochemicals fit directly into customers' processes and the existing recycling infrastructure

# Unique technology converting wood to biochemicals



# Attractive location in Germany and efficient value chain



- UPM is a responsible local producer with an entirely European value chain
- Chemical Site Leuna provides existing processes, logistics arrangements and infrastructure for various services and utilities
- Strong chemicals cluster in Germany with proximity to customers and suppliers
- Good availability of sustainably sourced hardwood from forest thinnings and residues of sawmills
- Innovation-friendly environment with strong universities, institutes and skilled potential employees





# UPM Paso de los Toros a highly competitive pulp mill project in Uruguay

# UPM invests in a world class pulp mill in Uruguay

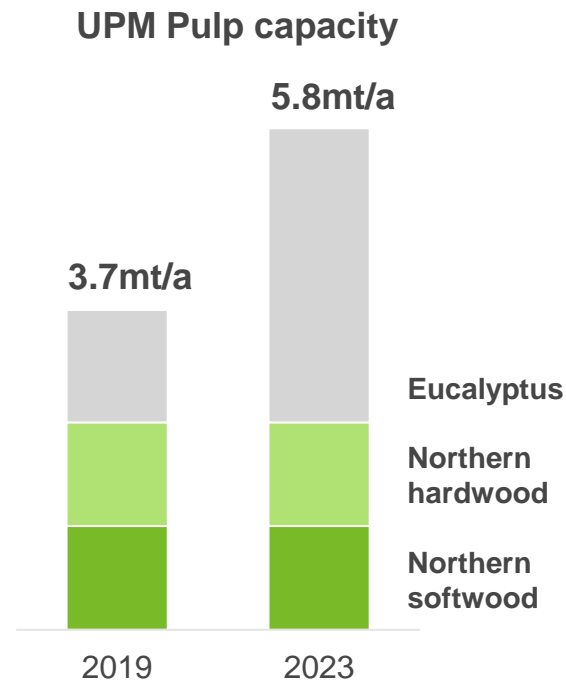
- UPM is constructing a highly competitive new pulp mill with annual production capacity of 2.1 million tonnes of eucalyptus pulp
- Mill investment of USD 2.7 billion
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million
- Scheduled start-up in H2 2022
- Located in the department of Durazno, close to the town of Paso de los Toros
- Industry-leading safety and sustainability performance of the value chain from plantations to customers



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

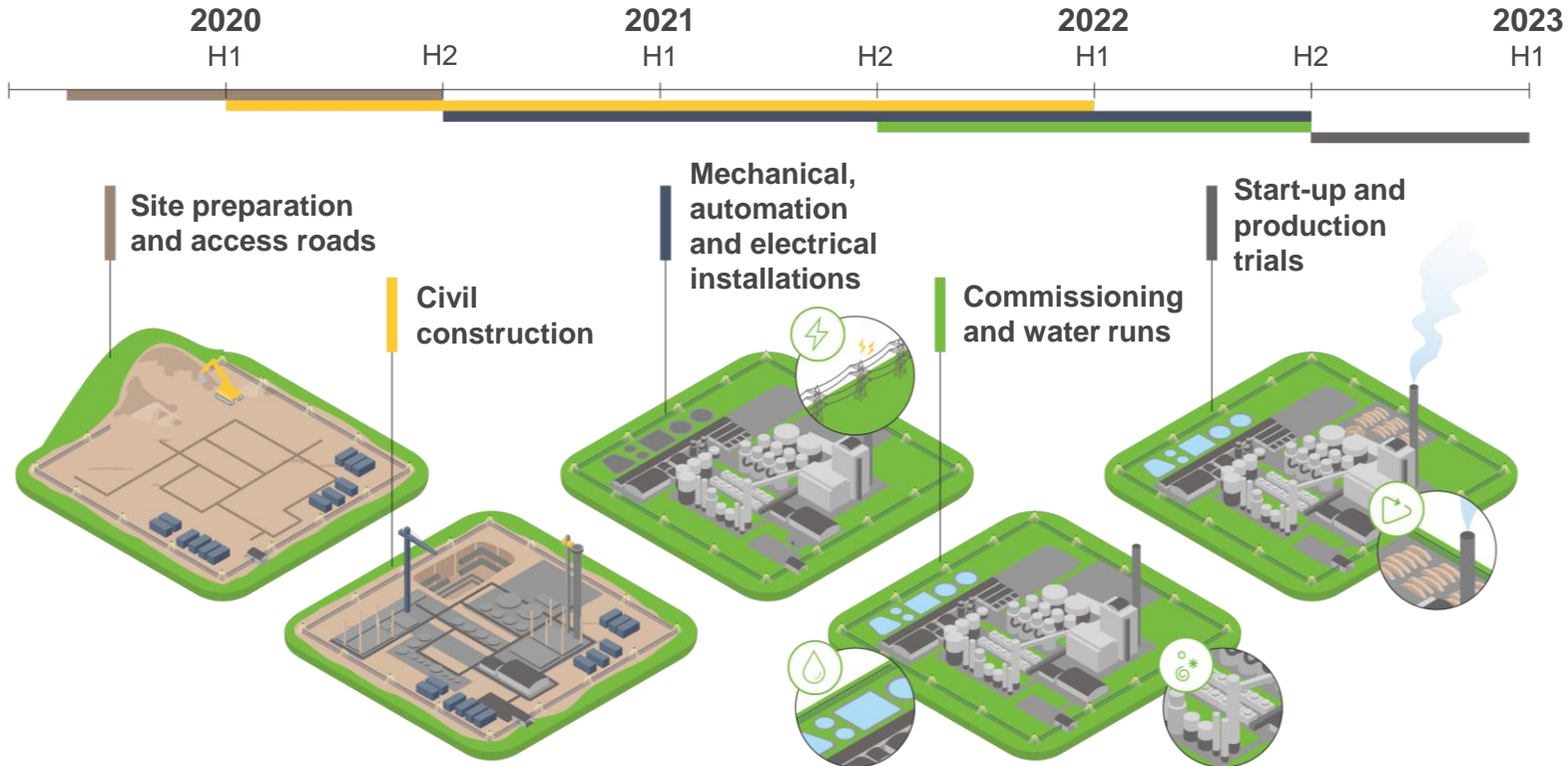


- Significant step for UPM's future earnings
  - Expected cash cost level of USD 280 per delivered tonne of pulp<sup>(\*)</sup> – one of the most competitive mills in the world
  - Attractive returns in various market scenarios
  - Carefully prepared to ensure long-term competitiveness and to minimise 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



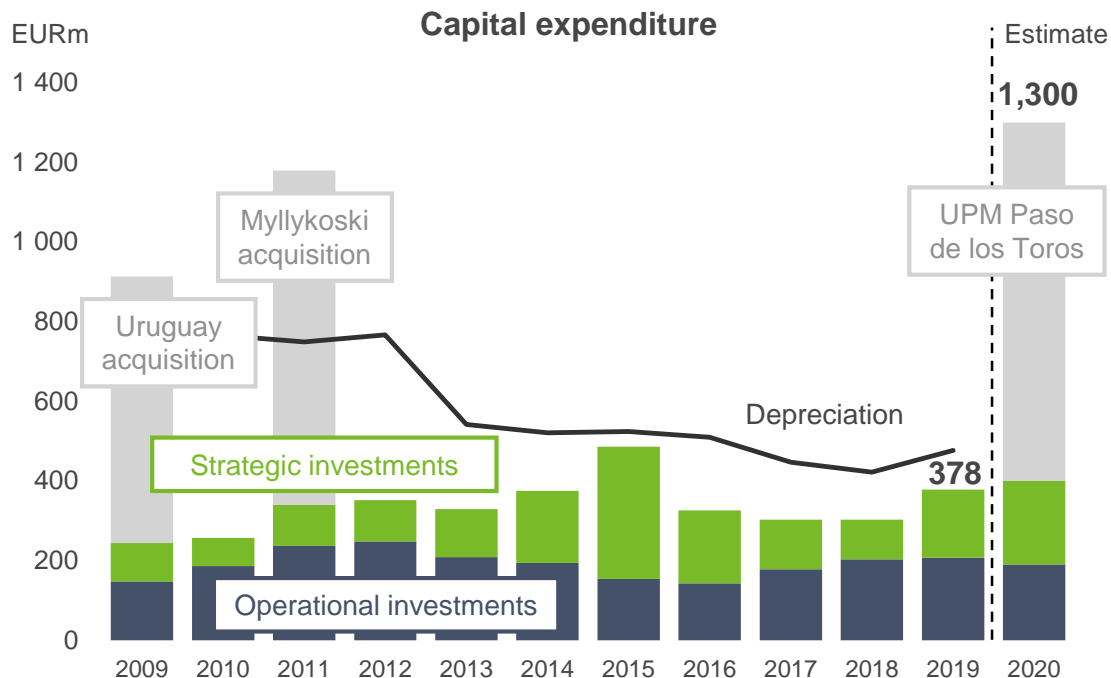


# UPM Paso de los Toros pulp mill construction schedule





# Transformative growth projects in pulp and biochemicals, low investment needs in existing assets



## Capex estimate for 2020

- Total EUR 1,300m
- Includes EUR 900m on the new pulp mill and related capex in Uruguay
- Operational investment needs consistently low

# Summary

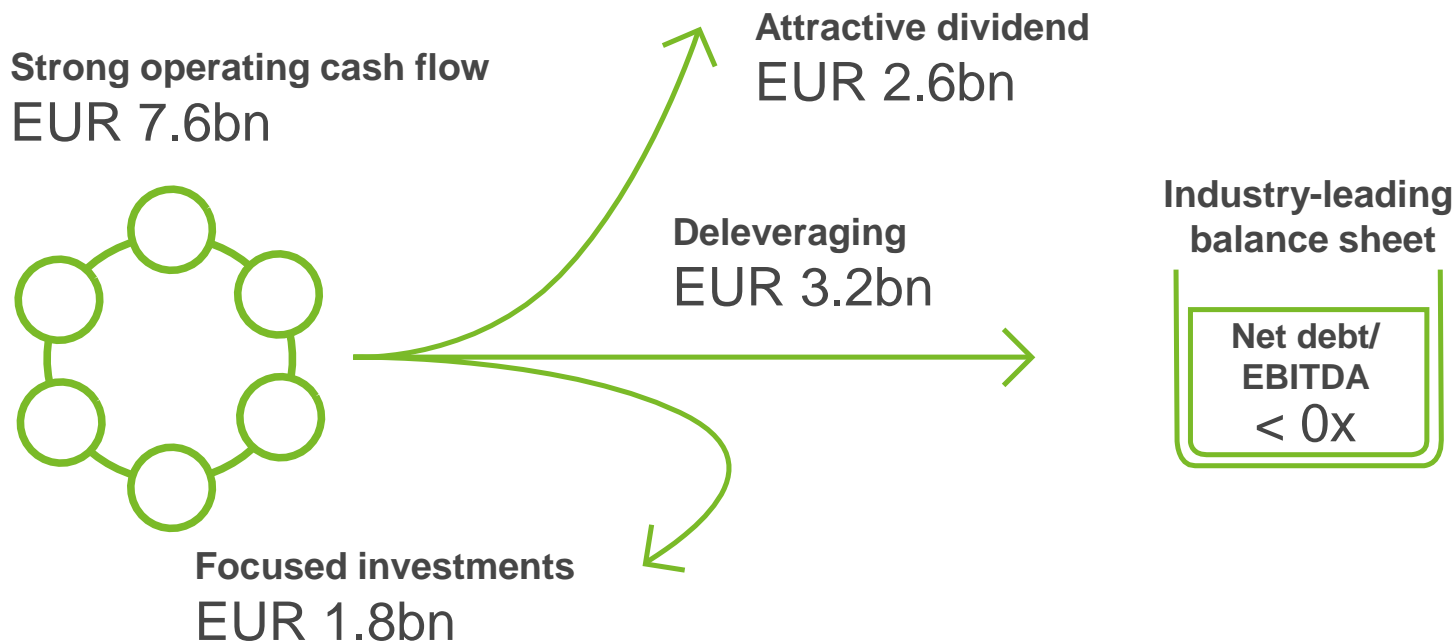


- UPM reported good performance and record cash flow in 2019
- H1 2020 is expected to be impacted by lower sales prices. Earnings are expected to recover in H2 2020. UPM continues its actions to reduce fixed and variable costs
- Financial position is exceptionally strong, which enables transformative projects and attractive dividends
- UPM is committed to the UN Business Ambition for 1.5°C with a tangible action plan
- The competitive pulp mill project in Uruguay drives a step change in UPM's future earnings and in the scale of UPM's pulp business
- With the biochemicals investment, UPM creates a totally new sustainable business with large growth potential

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

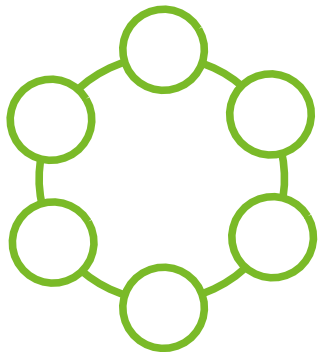


## 5-year cumulative cash flow (2015–2019) – efficient capital allocation in action



## Illustrative capital allocation <sup>\*)</sup> for the next 5 years

Performance focus  
Strong cash flow



Attractive dividend  
EUR ~3.5–4bn

High return  
investments

EUR ~4–4.5bn

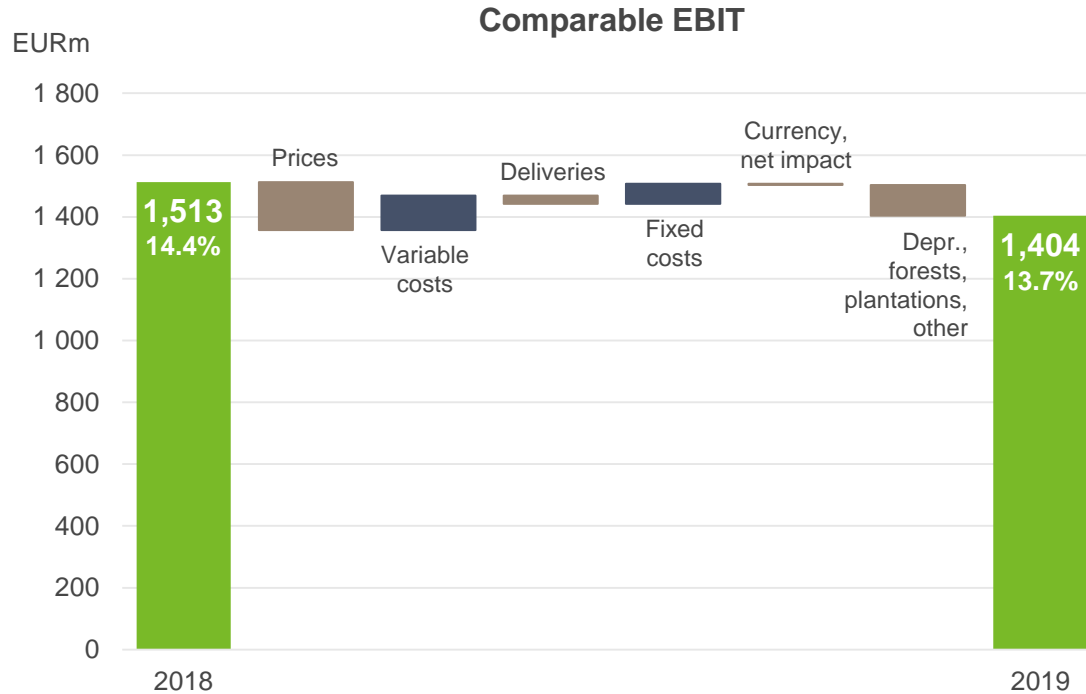
Industry-leading  
balance sheet

Net debt/  
EBITDA  
< 2x

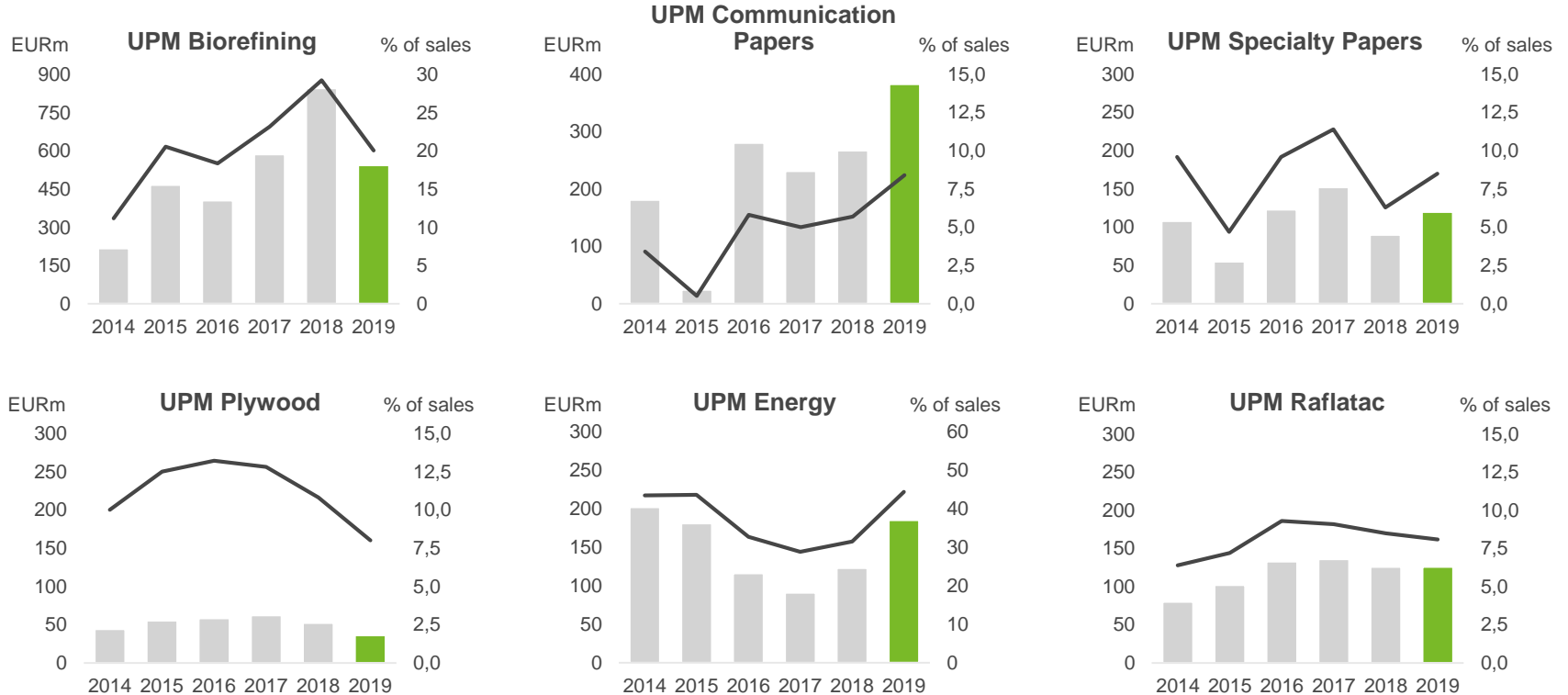
Maintain headroom

<sup>\*)</sup> This is not a forecast

# Comparable EBIT in 2019 vs. 2018



# Comparable EBIT by business area



# UPM current investment portfolio for earnings growth

## Focused investments

- Chudovo plywood mill expansion  
+45k m<sup>3</sup> in Q3 2019, Russia
- Nordland PM2 conversion to release liner  
+110kt in Q1 2020, Germany
- Changshu release liner expansion  
+40kt in Q4 2019, 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 2.7bn, Uruguay
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350m
- Scheduled start-up in H2 2022

### Molecular bioproducts

- Next generation biochemicals refinery in Germany. Annual capacity of 220kt of wood-based biochemicals, investment of EUR 550m. Scheduled start-up by the end of 2022.
- Environmental impact study completed for a potential 500kt biofuels refinery in Finland. Ambition to scale-up with a next generation biorefinery, development ongoing.



# Maintenance shutdowns in 2019 and 2020

Significant maintenance shutdowns  
in 2019 and 2020

Timing	Unit
Q2 19	Kymi pulp mill Olkiluoto nuclear power plant
Q4 19	Fray Bentos pulp mill
Q2 20	Kaukas pulp mill Pietarsaari pulp mill Olkiluoto nuclear power plant

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	1,090	200	220	160

# Maturity profile and liquidity

EUR million



Liquidity on 31 December 2019 was EUR 1.5 bn

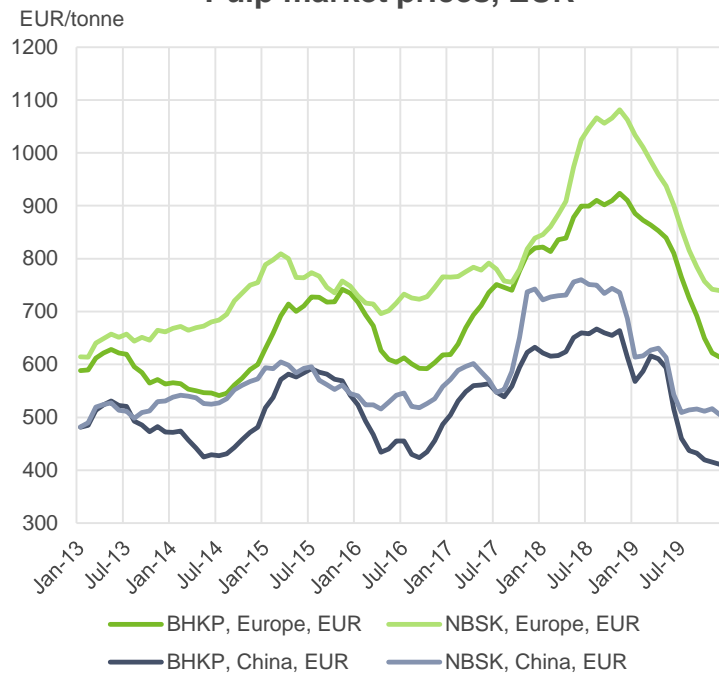
UPM has bilateral committed facility EUR 6.5 million related to joint operations maturing 2020.

# UPM Biorefining

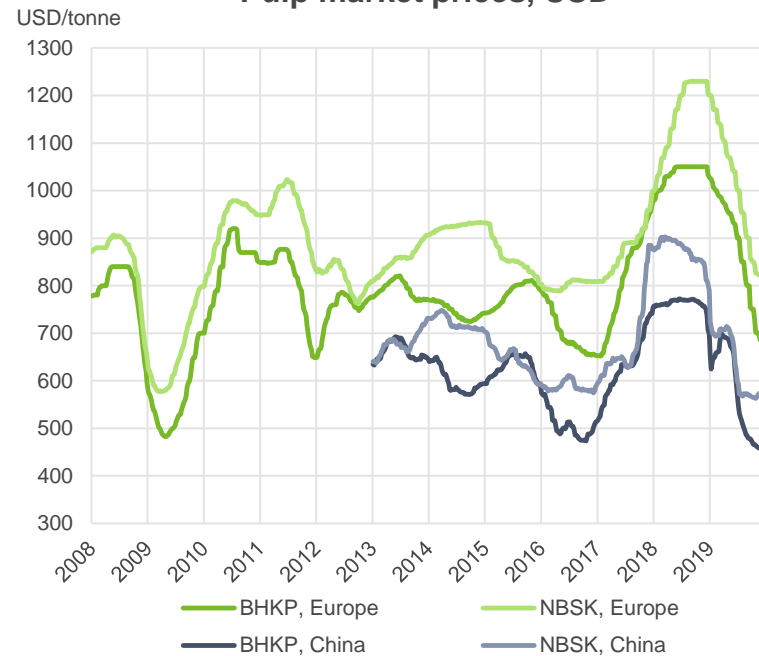
## Chemical pulp market prices



### Pulp market prices, EUR

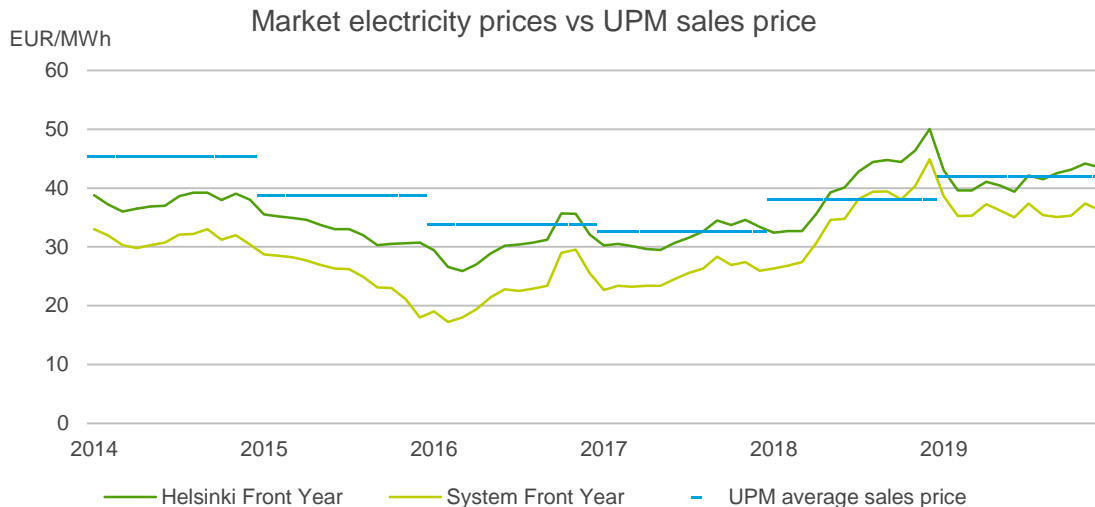


### Pulp market prices, USD



Source: FOEX Indexes Ltd

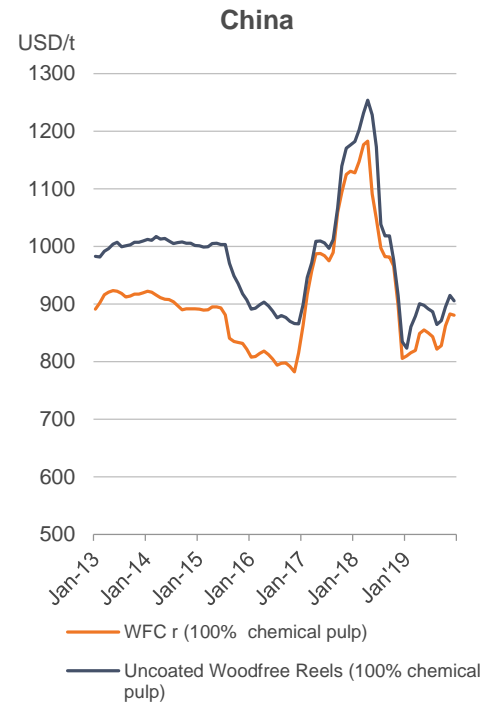
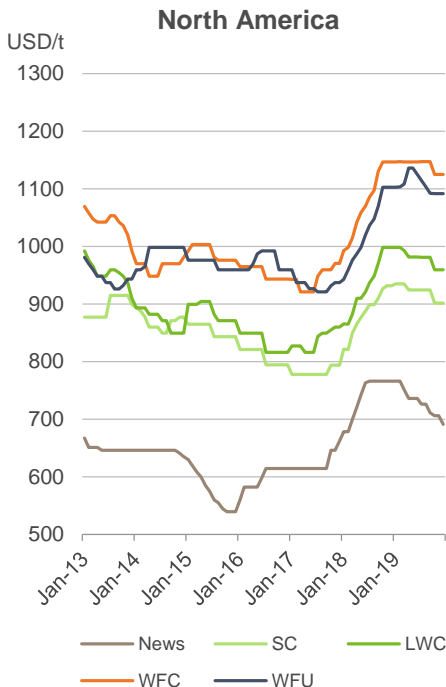
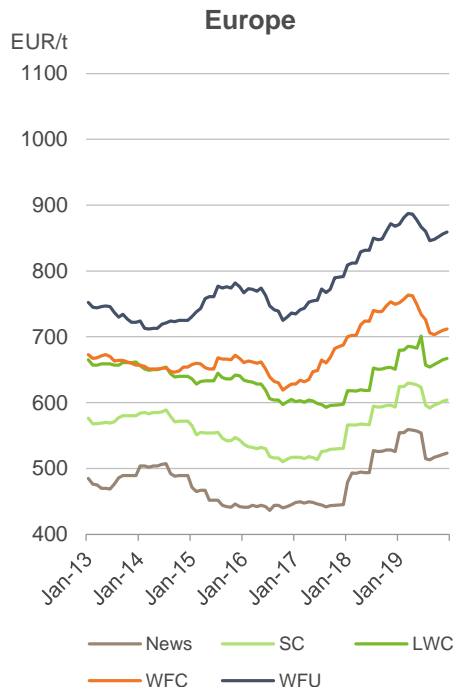
# Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2014	2015	2016	2017	2018	2019
Comparable EBIT, EURm	202	181	116	91	123	185
% of sales	43.5	43.6	32.7	28.8	31.5	44.4

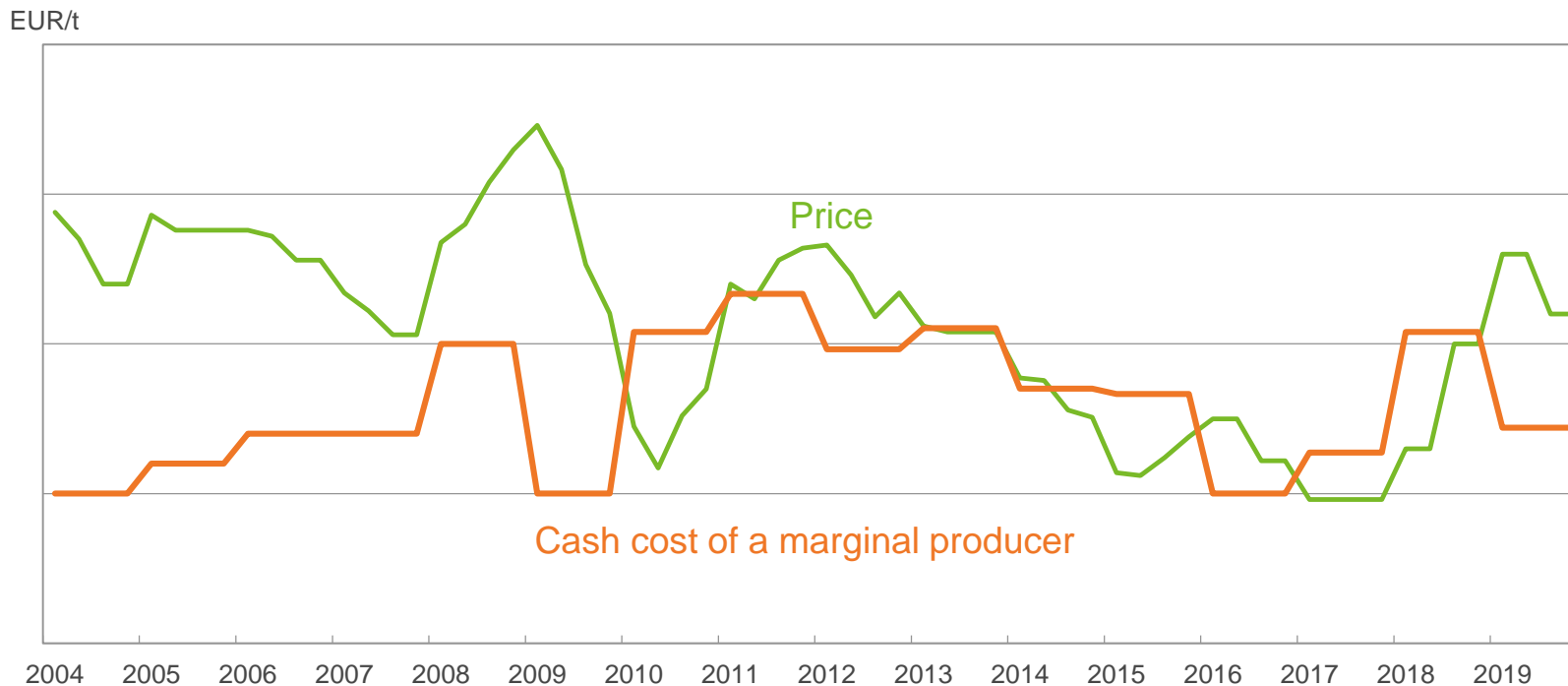
# UPM Communication Papers

## Graphic paper prices



Sources: PPI, RISI

# Paper price vs. cash cost of marginal cost producer



Sources: PPI, RISI, Pöyry

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