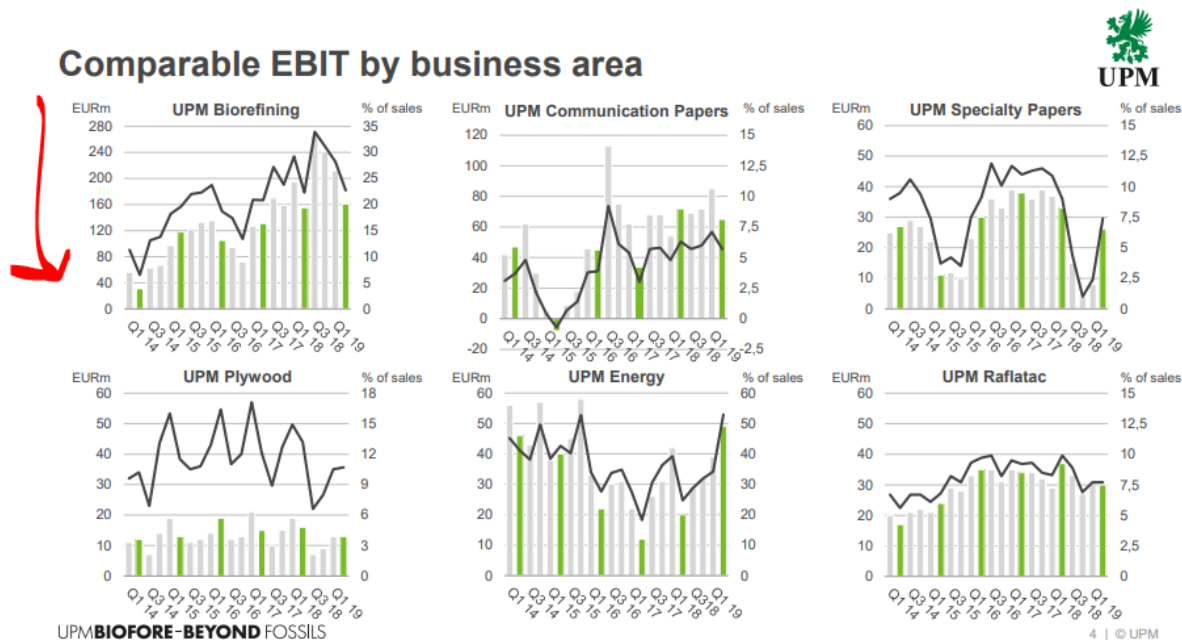


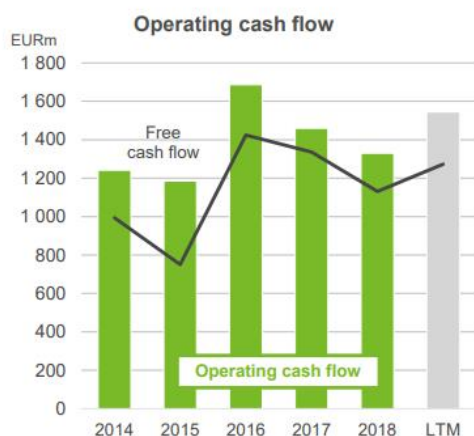
UPM KYMMENE Q2 2019 update

The company continues to be profitable, albeit the pulp business profit fell in the quarter but is still above the previous quarter.



Cash flows are strong and they are at minimal debt.

Consistently strong cash flow



- Q2/19 operating cash flow was EUR 436m (328m in Q2/18)
- Working capital decreased by EUR 48m (increased by 20m)
- H1/19 operating cash flow was EUR 756m (542m)

1.2 billion in cash flow is excellent on a market capitalization of 14 billion EUR, but still just 8.5%.

Further, they announced to go on with the new pulp mill in Uruguay.

UPM invests in a world class pulp mill in Uruguay



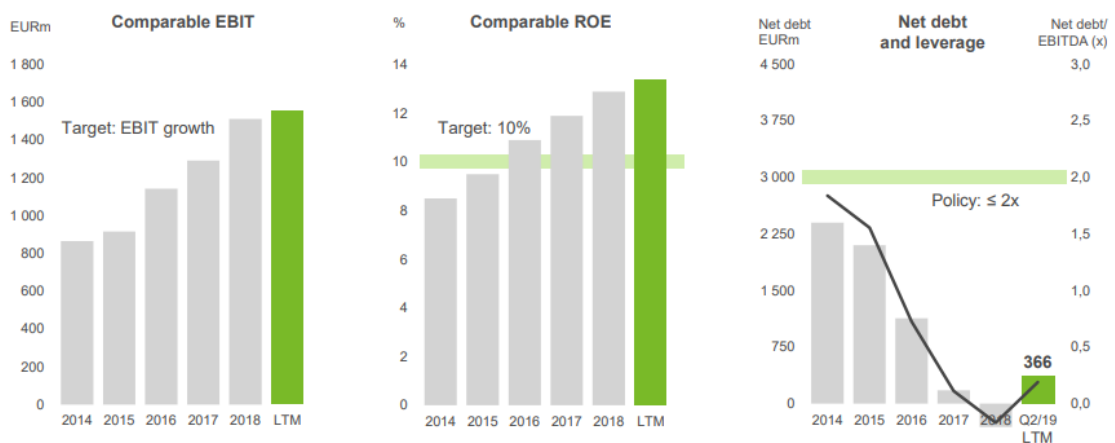
- UPM will construct a competitive new pulp mill with annual production capacity of 2.1 million tonnes of eucalyptus pulp
- Mill investment of USD 2.7 billion
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million
- Scheduled start-up in H2 2022
- Located in the department of Durazno on the southern side of Rio Negro, close to the town of Paso de los Toros



They will spend \$3 billion USD, to add 56% of pulp production. If I go back to slide 1, the upper left chart shows EBIT from pulp. You can see it is volatile. EBIT was 200 million in 2014 and around 800 million in 2018.

If we take an average, it will be around 400 million, with bad and good years. The 56% increase, at low costs and good quality, should bring to another 300 million. 25% tax rate, we are at let's say 200 million in average, average profits per year. So, profits would go up by just 20 to 30% on the current basis. It would still keep it below my required investment level. Minus the interest costs and debt repayment as they like to repay the debt.

Group financial performance



If they take 3 billion in loans, they could probably do that now on a 10 years basis with interest rates of 3%. So, that would be 90 million in interest per year.

Conclusion

It is hard to have a competitive advantage here. Pulp is pulp and you also depend on the economy. So, UPM is a good business, demand for pulp will grow but this will be a volatile, average margin business.

I'll keep watching and comparing.

A market cap I would like to see, is below 10 billion. And then compare.