



STATUS REPORT

Investment Agreement implementation

September 13, 2018

Info session

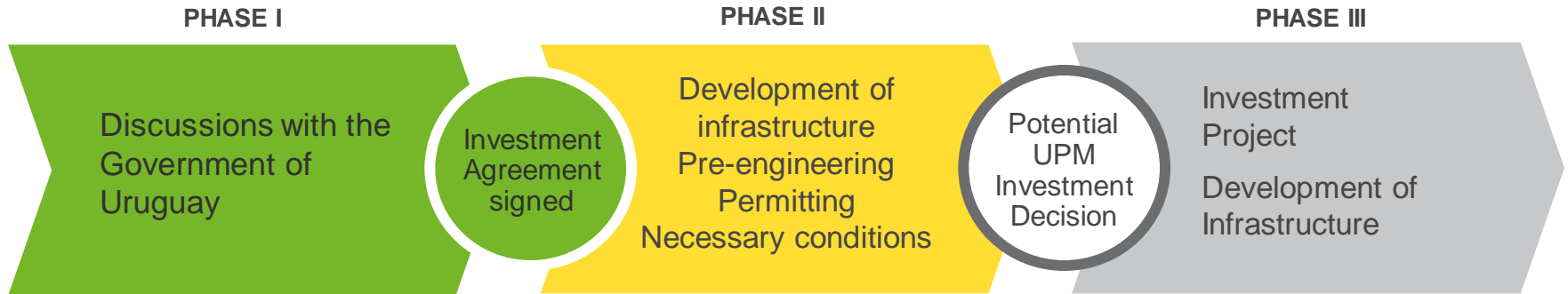
Topics

- Status report on Investment Agreement
- Framework for logistics solutions for Uruguay
- Stronger communities through education
- Innovation Fund for research and regional development

Summary and next steps

The second preparation phase

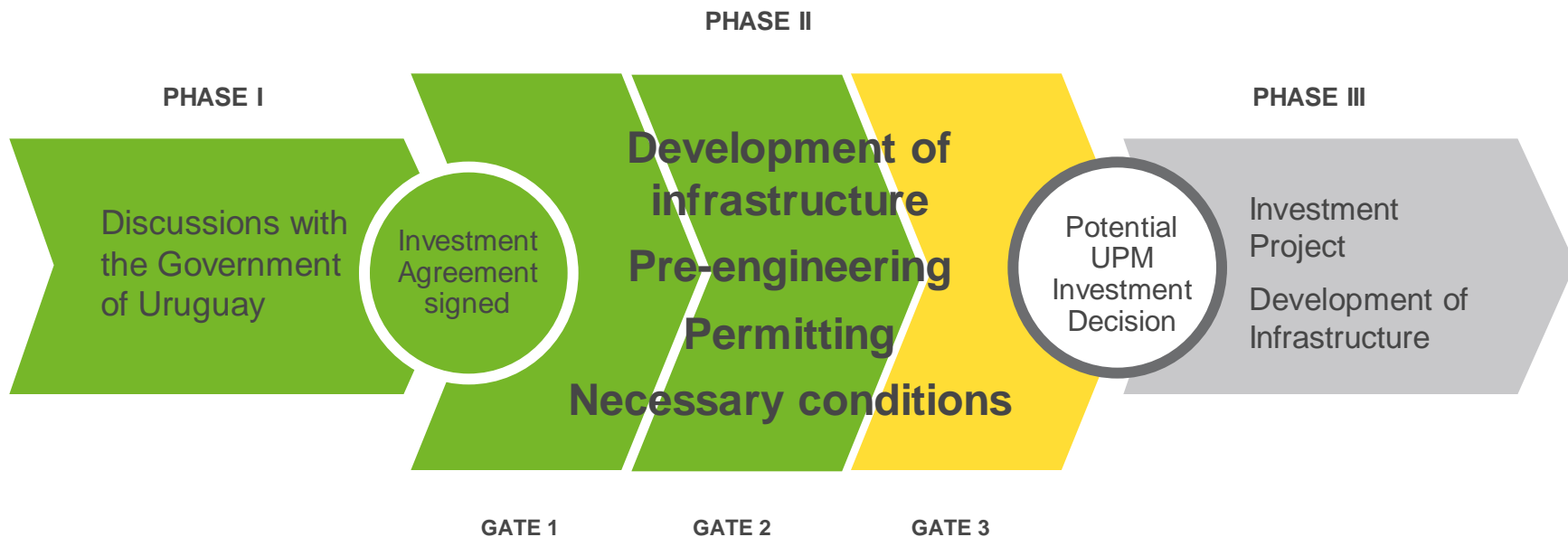
UPM's process for the possible new pulp mill consist of three phases





The second preparation phase

This phase consists of three gates for the implementation of the IA



STATUS REPORT ON INVESTMENT AGREEMENT

Status report on Investment Agreement

- We are now closing the second gate of the second phase. This gate has progressed according to plan in spite of some minor delays
- There were several remarkable achievements, like a framework for new logistic solutions for Uruguay, establishment of innovation Fund and continuation of the environmental impact assessment of the possible pulp mill
- In spite of certain delays on the rail tendering and construction permitting processes, they are expected to proceed in the agreed main timeline
- Now we are entering the third gate, where the main items are related to the rail and infrastructure, labour protocols and regulations, mill permitting, complementary items, and regional development.

Status report

GATE 1
Nov 2017 – April 2018

GATE 2
April 2018 – Sept 2018

GATE 3
Sept 2018 – Mar 2019



Not started

In progress

Implemented

FRAMEWORK FOR LOGISTICS SOLUTIONS FOR URUGUAY

Framework for logistics solutions for Uruguay



- Uruguay has established **railway regulation principles** which enable modern and efficient operations
- Railway development means **transport opportunities for businesses** like grain, wooden products and containers, while increasing Uruguay's export competitiveness worldwide
- Rail is the **safest** and most **environmentally sound** means for long-distance heavy logistics
- **UPM could provide the critical mass of about 50% of the total cargo capacity** which is of about 4,5 M tons annually
- Maximum amount of traffic for **UPM operations is about 7 trains one way per day**

Framework for logistics solutions for Uruguay

High performance vehicles introduced



The high performance (tri-train) truck pilot finalized and the configuration authorized by the Ministry of Transportation

The pilot included the following tests:

- Deceleration and calibration
- Slalom and passing capability
- Safety and environment



Main advantages

- Road endurance
- Reduction of more than 20% in the consumption of fuel per ton transported
- Lower emissions
- Net capacity growth from 30 to 50 tons



Competitive solution for the Uruguayan agro-forestry sector

- Industries with high production volumes will benefit of tri-trains
- Among them are the cereal, mining, cement, forestry and fuel-distribution industries
- Diversify the country's logistic offer

Framework for logistics solutions for Uruguay

UPM selecting operators for its logistics solutions



UPM is studying every part of the supply chain to make it efficient, competitive and sustainable in the long term

UPM begins the process of selecting operators for its logistics solutions

For the operators to be ready, the investments, recruitment and trainings will all take about 3 years

Criteria for selection:

- Company financial stability
- Capability and experience for greenfield development and implementation
- Compatibility with local society and systems
- Environmentally sound and safe

The companies have equal possibilities to participate from different parts of the world.

STRONGER COMMUNITIES THROUGH EDUCATION

Stronger communities through education



Social monitoring requested by Uruguay's environmental authority DINAMA since 2008 to date following the start-up of UPM Fray Bentos

Carried out by Equipos Consultores twice a year for 10 years

Main conclusions

- Stakeholder interest has been in employment and training at different levels
- The main change during this period was the switch from short-term expectations to long-term perspective and planning
- The value of the educational dimension as an inevitable path for economic and social development was also made evident

UPM and the UPM Foundation played a major role as an active driver of these changes in the fields of production and education, as well as in assisting the process in the community

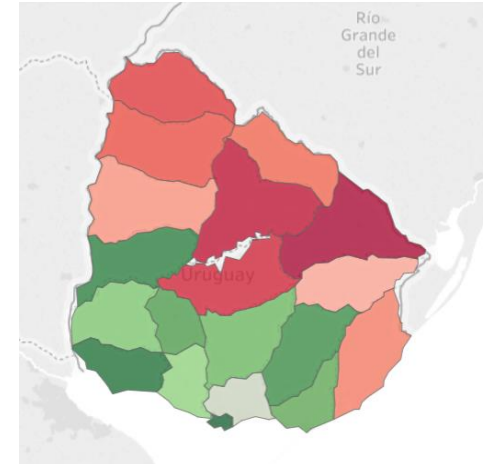
Regional improvement after 10 years of UPM operations

The Departmental Development Indicator (IDD) prepared by Cinve (2007-2015) considers:

- Citizen security and reliable law system
- Inclusive society, prepared and healthy
- Efficient and dynamic factors market
- Physical and technological infrastructure

Main conclusions

- All departments improved their results
- The trend indicates that the northwest of the country is more undeveloped than the southern departments
- Río Negro department had the highest relative improvement (place 13 to place 3)



"It is clear that the promotion of the department occurred since 2008 with the installation of UPM's pulp mill in Fray Bentos", the report concludes

INNOVATION FUND FOR RESEARCH AND REGIONAL DEVELOPMENT

Innovation Fund for research and regional development



The Sector Innovation Fund was established and is lead by the Government

The fund will finance:

- Centers for forest wood technology, bio economy and business development creating research and development projects
- Development program for national providers
- Professional training and labour counselling for construction phase and operation
- A scholarship program for masters and doctorates
- Río Negro Initiative

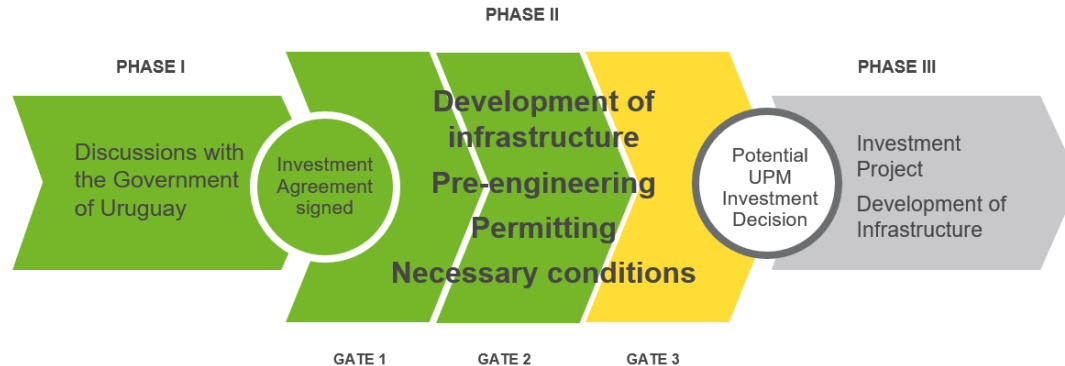
The Fund will generate new skills, products and services, develop local economy and suppliers

UPM will make a total contribution of USD 1.5 million per year to the fund over a period of twenty-three years after the start-up of the pulp mill

SUMMARY AND NEXT STEPS

Summary and next steps

- Gate 2 closed mainly according to the plan in spite of some minor delays, which are not expected to impact to main timetable
- Now we are entering to Gate 3
- The main items are related to business fundamentals of UPM, predictability and stability to run sustainable long-term operations



UPM fundamentals for reinvesting in Uruguay



Strong political and social stability

Democratic tradition, based on transparent government policies

Stable and **predictable** regulation



Uruguayan **forest availability** and **quality of wood**

Clear **land ownership** structure and **taxation**

Well functioning and maintained logistics infrastructure



Well educated people, **predictable** and **stable** labour market

To ensure **total cost competitiveness** from all angles on international markets



Web-page for up-to-date information

Growth opportunity

with a new pulp mill



Demand for sustainable eucalyptus pulp continues to grow and UPM is looking for opportunities to grow in pulp business. This is why UPM and the Government of Uruguay have agreed on the fundamentals for a potential new pulp mill investment in central Uruguay.

The Investment Agreement, signed 7 November 2017, defines the requirements for the operating environment of a world-class pulp mill project. It details the roles, commitments and time-line for both parties as well as the relevant items to be agreed prior to UPM's final investment decision.

If all goes to plan, Uruguay could be a competitive alternative for UPM to address the global pulp market opportunities in the 2020s.

INVESTMENT AGREEMENT IN SHORT

INVESTMENT AGREEMENT (COMPLETE VERSION)



Website with all public information related to the project at

www.upm.uy/growth

Contents

- Link to the Investment Agreement
- Impacts of a potential new pulp mill
- Follow-up of the progress



UPM

The Biofore
Company