



The Biofore Company

UPM

DOING BUSINESS IN CHINA



AGENDA



UPM Presence in China



UPM Credit Risk Management in China



UPM PRESENCE IN CHINA

UPM – The Biofore Company



€10 bn
Sales (2017)



19,100
Employees



90,000
Shareholders



54
Production units



UPM Biorefining

- Pulp
- Plantations
- Biofuels
- Sawmills
- Wood Sourcing and Forestry

UPM Energy

- Hydro-, nuclear- and condensing power (incl. shares in energy companies)
- Electricity production and trading

UPM Raflatac

- Label materials for product and information labelling

UPM Specialty Papers

- Label papers and release liners globally
- Fine and specialty papers in China and APAC
- Packaging papers mainly in Europe

UPM Communication Papers

- Magazine papers, newsprint and fine papers for various end-uses

UPM Plywood

- Wisa® Plywood and veneer products
- UPM Grada® wood material

UPM Biocomposites

- UPM ProFi
 - UPM Formi
- ### UPM Biochemicals
- Chemical building blocks
 - Lignin products
 - Biofibrils
 - Biomedical products

PRODUCTION

SALES OFFICES

REGIONAL WAREHOUSES

UPM Changshu Paper Mill:

- Personnel: 1,285
- Capacity: 1.4 million t/a
- Productions units: PM1, PM2, PM3
- Products: WFU, WFC, WFU Spec, Office paper, labelling material

UPM RAFLATAC Labelstock Factory in Changshu:

- Produce Paper, Film label material for standard and special applications

- Beijing, Guangzhou, Hong Kong, Shanghai and Wuhan

- Beijing, Changshu x 2, Chongqing, Guangzhou, Shenzhen and Wuhan (China)

3 LABEL MATERIAL TERMINALS

- Chengdu, Guangzhou and Tianjin (China)



UPM in China today

Over 2 billion USD investment in 20 years

- R&D center
- 2 production mills
- 3 paper machines
- Label Materials factory
- Sales offices, warehouses and terminals across the country

~1,000
customers

1,780
employees



AGENDA



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UPM CREDIT RISK MANAGEMENT IN CHINA



AIMING HIGHER
WITH BIOFORE

UPM Credit Risk Management in China



Before sales

Credit Risk Assessment



The Biofore Company

UPM

KYC – Know Your Customer

Customer Set up

Mandatory documents

- ❑ Business License
- ❑ VAT billing information

Customer Information

Information channels

- ❑ Credit information companies
- ❑ Sales team
- ❑ Customer visit & customer documents
- ❑ Public website
- ❑ UPM records
- ❑ UPM Credit Insurer

Before sales

Credit Risk Assessment

- Credit risk assessment by analyzing customer's:
 - ✓ **CAPACITY** – ability to repay the debt
 - ✓ **COLLATERAL** – forms of security customer can provide
 - ✓ **CAPITAL** – owner's investment in the business
 - ✓ **CONDITION** – overall economic climate and external environment
 - ✓ **CHARACTER** – subjective judgment on customer's creditworthiness

KYC – Know Your Customer

5 Cs

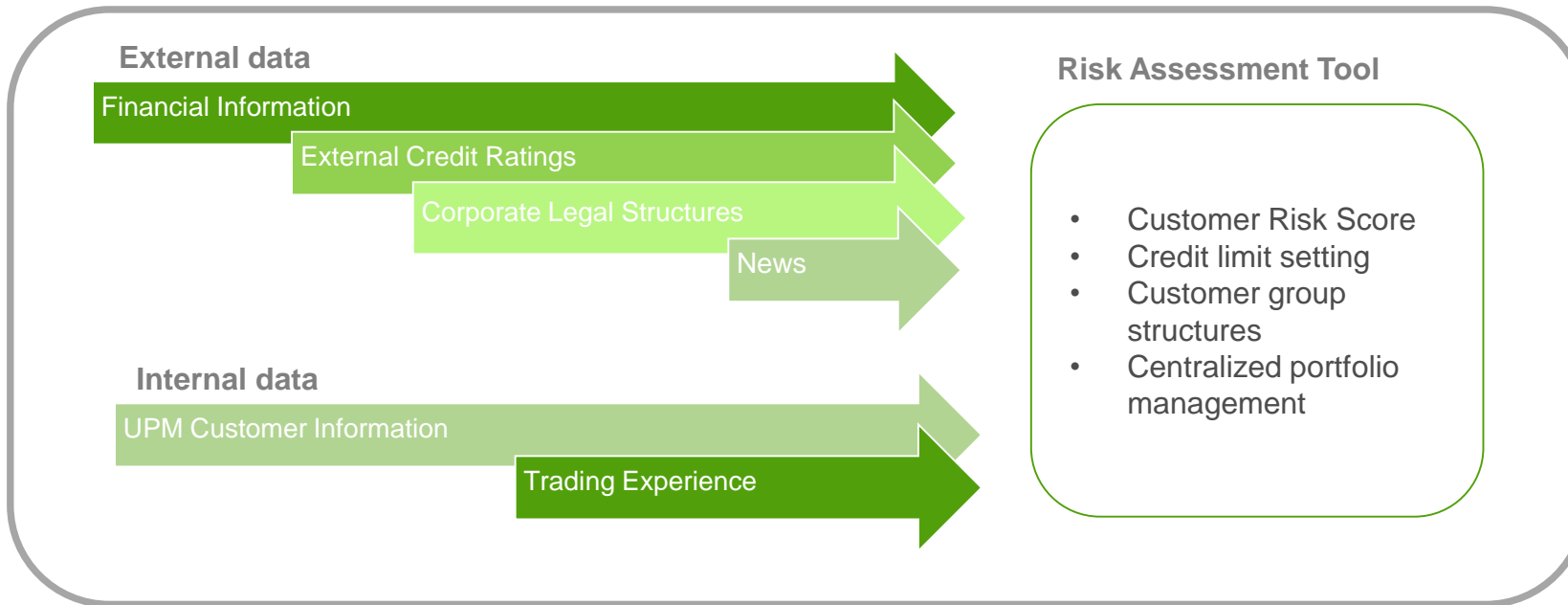


Before/In sales Credit Risk Assessment

Credit risk assessment process and a platform where UPM internal customer information is combined with the external financial and credit risk information:

- Manual and time consuming customer credit analysis automated
- More time to focus on assessment of high and medium risk cases
- Proactive customer account management
- Increase the transparency to customer risk portfolio and support the business steering

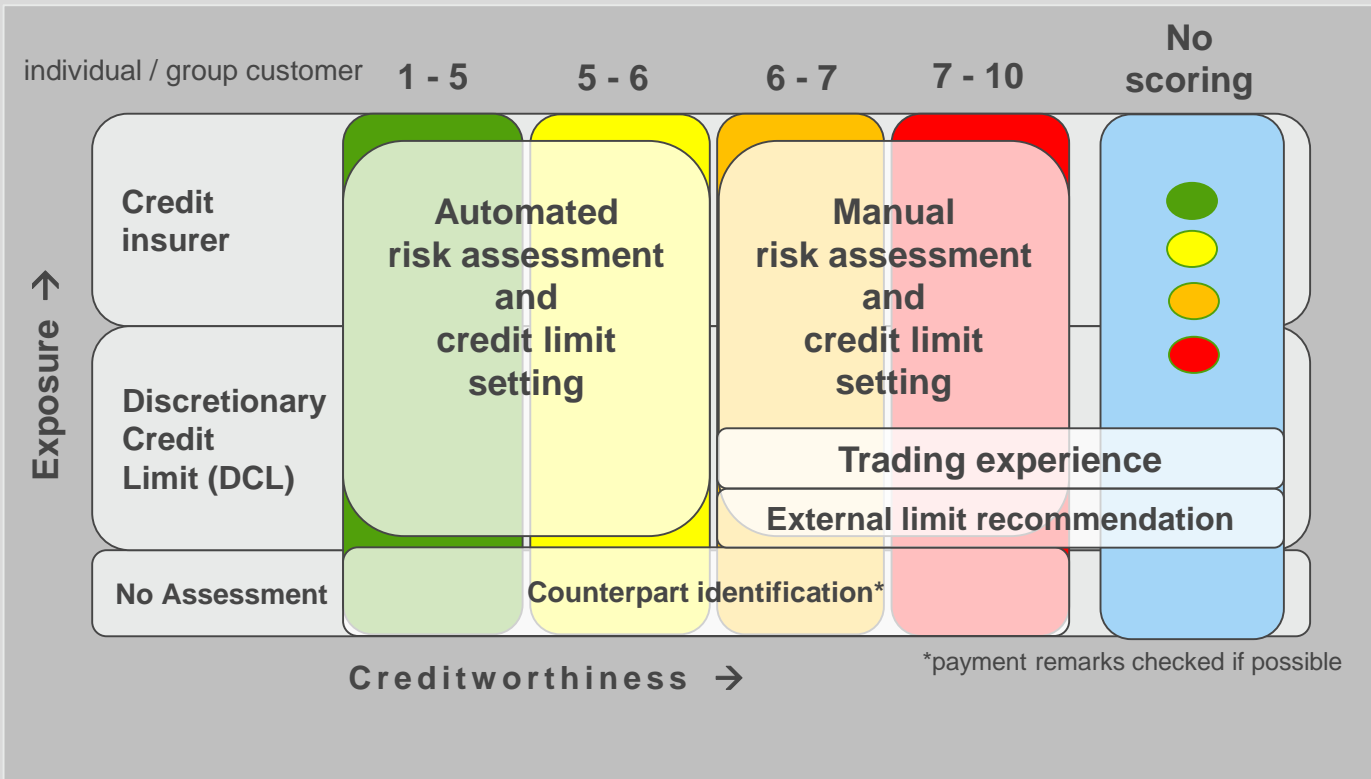
KYC – Know Your Customer



Before/In Sales

Automated credit risk assessment process

Proactive customer credit risk management



Risk Assessment Tool	Finance Reporting Tool
Customer risk scoring	Customer risk scoring
Credit limit • setting & changes	Credit limit information • automated monitoring of exposure (balance v limit exceeding 80%)
Group structures • changes	Exposure of individual and group customers
Legal information • change of legal status, cease of activity, etc	n/a
Adverse information • insolvency, etc	n/a

In sales Delivery Control

- COD customers have to pay before the order delivered (those customers without credit terms and credit limit)
- Order Block is triggered as a result of credit failure by customer with credit terms and credit limit
- Credit checks are performed in terms of overdue and credit exposure

Overdue Check

- When every order is entered in the system
- Based on different risk categories defined on customer level
- Order is blocked when overdue >3 days, or >7 days

Credit Exposure Check

- When AR balance is above 80% of credit limit
- Credit Analysts re-evaluate and apply appropriate limit after discussion with Sales

After sales AR Collection

Internal collection

- Sales team is the main force with the support from Finance team
- It is crucial to keep copies of
 - written documents to show the collection efforts
 - Correspondence with the customer (either in the form of letters, telefaxes or emails)

External collection

- Collection company
- Lawsuit/legal collection



After sales AR Collection

- The most common payment methods in China are **wire transfer** and **bank draft**
- **Bank draft**
 - ❑ Bank draft is a financial instrument which works like a cheque, except that it is issued by a bank (issuing bank)
 - ❑ It is an obligation given by the issuing bank to pay a specified sum of money on a specified date in the future
 - ❑ The value of each bank draft could be up to a max of 10 million CNY
 - ❑ Maximum bank draft tenor is 6 months and electronic bank draft can be upto 1 year
 - ❑ Bank draft can be endorsed, transferred and discounted
- ① We accept Bank draft from creditworthy and reputable banks only -> to mitigate bank risk
- ② We accept bank draft with limited endorsement -> to mitigate the credit risk



THANK YOU
FOR YOUR ATTENTION