



UPM Interim Report Q1 2020

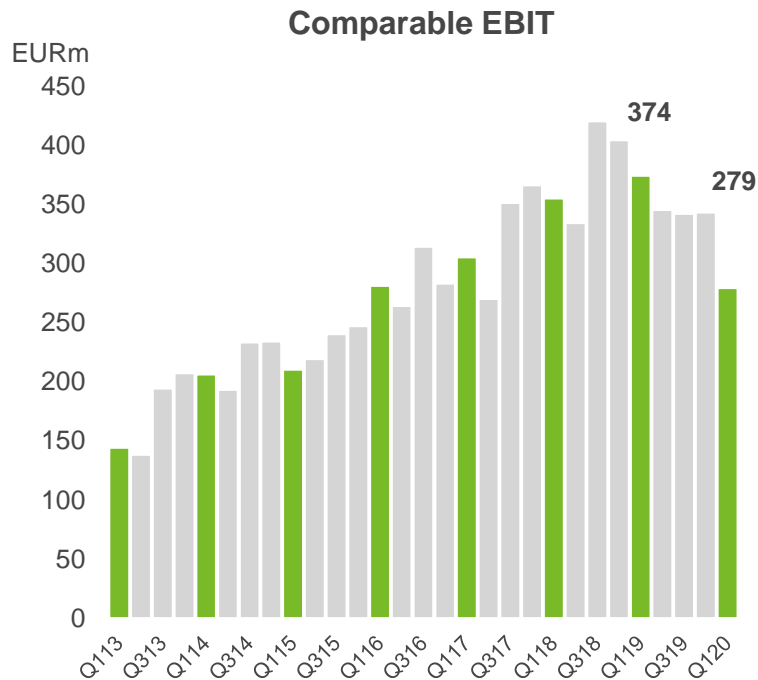
Jussi Pesonen
President and CEO
23 April 2020

UPM **BIOFORE** - BEYOND FOSSILS

Q1 2020: solid results, UPM well prepared for the current uncertainty and future recovery

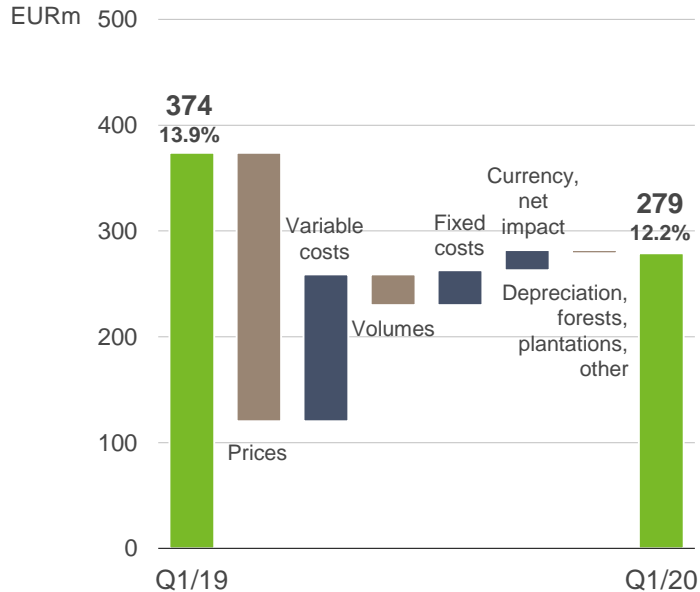


- Sales decreased by 15% to EUR 2,287m (2,693m in Q1 2019) due to lower pulp price and lower deliveries of graphic papers
- Comparable EBIT decreased by 26% to EUR 279m (374m)
- The strike in Finland affected UPM's pulp, paper, plywood and timber operations
- The COVID-19 pandemic did not materially impact UPM's operations in Q1
- Record comparable EBIT in UPM Raflatac and UPM Specialty Papers

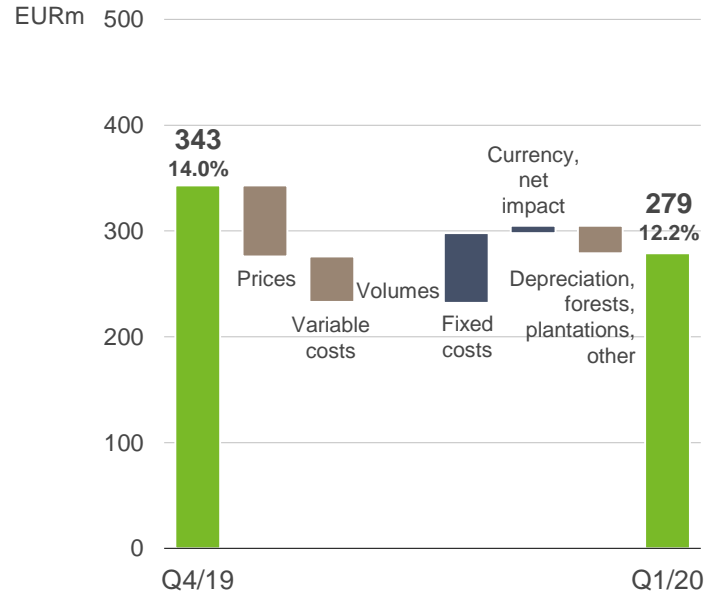


Comparable EBIT in Q1 2020

Sales prices decreased, clearly outweighing the impact of lower variable costs.
Fixed costs decreased, offsetting lower deliveries.

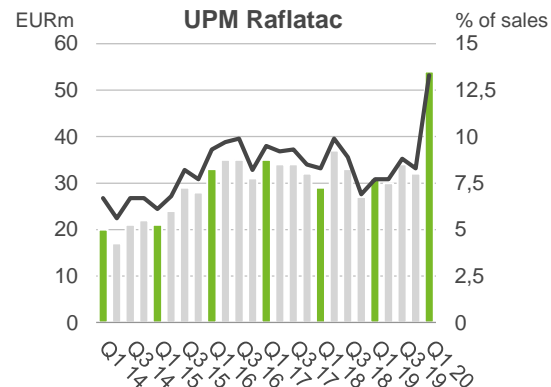
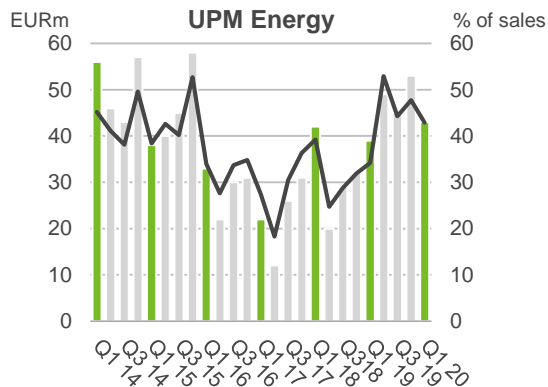
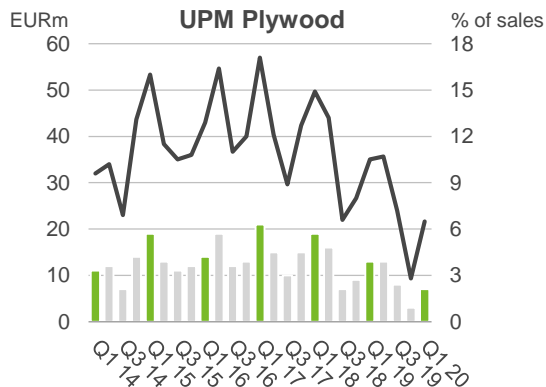
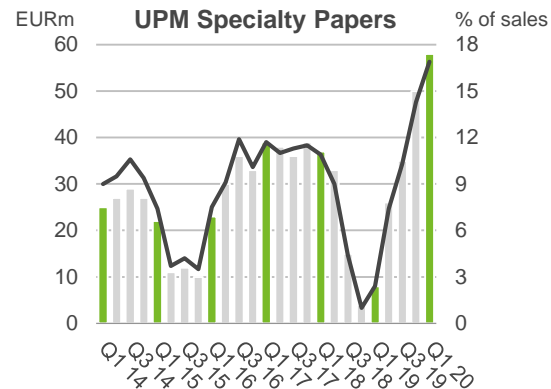
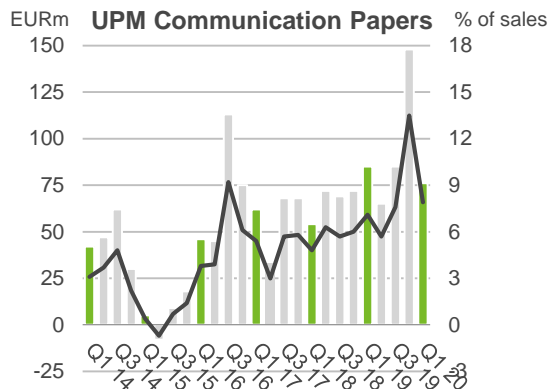
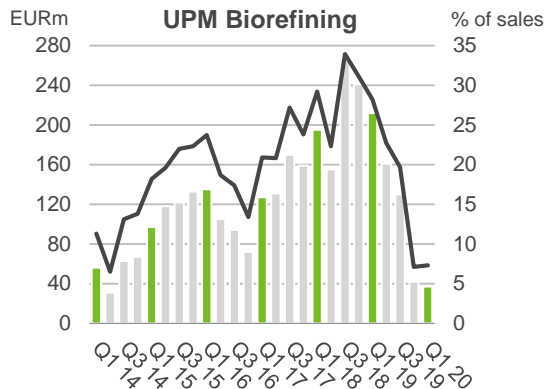


Sales prices decreased.
Seasonally higher energy costs, seasonally lower fixed costs.
No forest value gains in Q1/20.

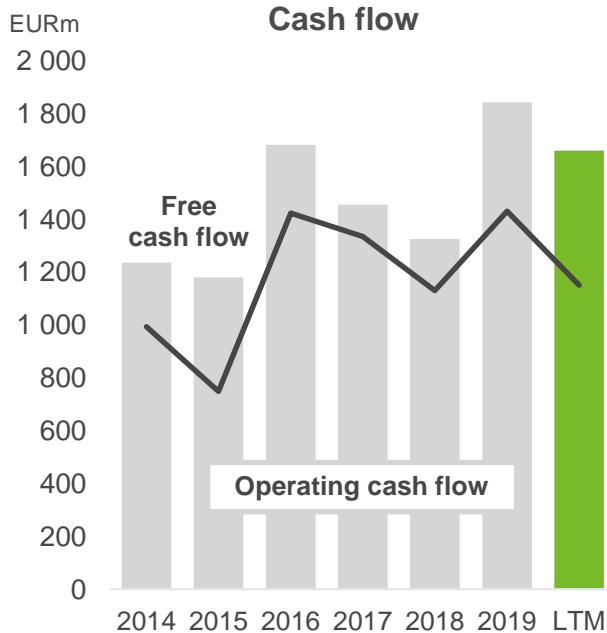




Comparable EBIT by business area

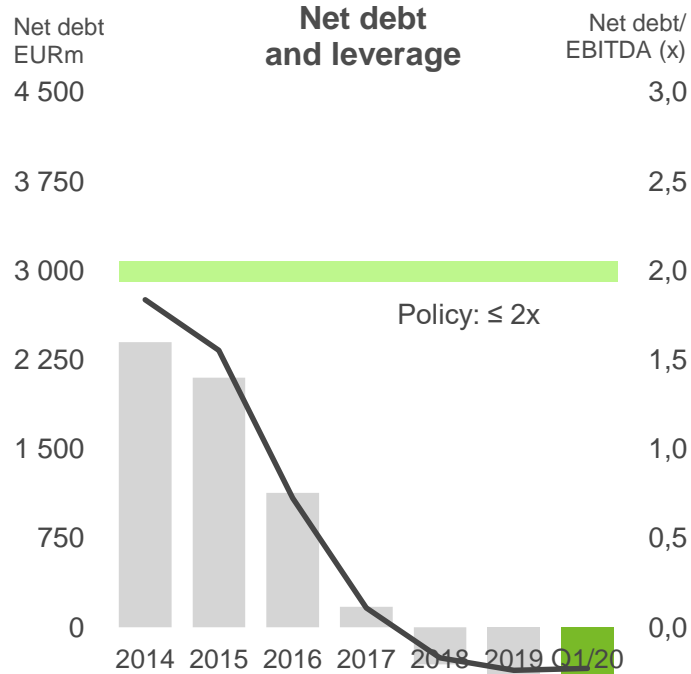


Consistent cash flow



- Q1/20: operating cash flow was EUR 137m (320m in Q1/19), after the record level in Q4/19
- Working capital increased seasonally by EUR 212m (increased by 111m in Q1/19, decreased by EUR 227m in Q4/19)

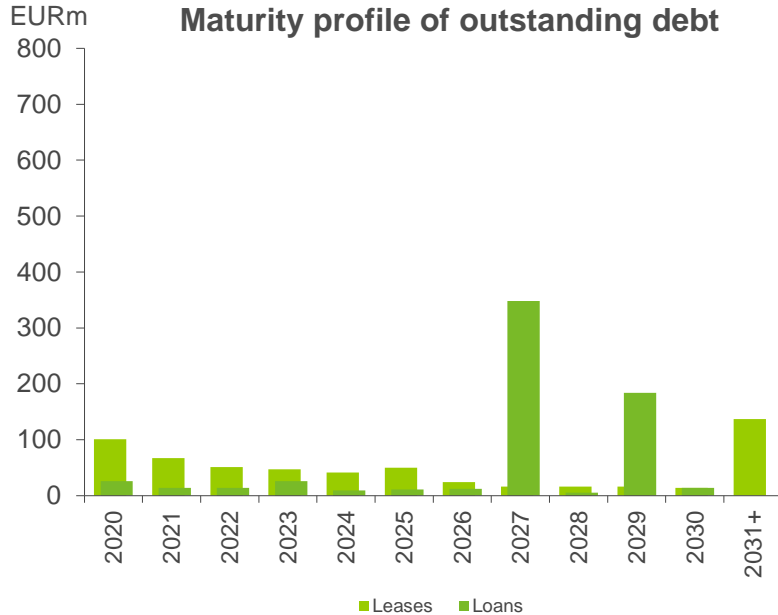
Exceptionally strong financial position



- Net debt EUR -405m at the end of Q1
- Cash funds and committed credit facilities EUR 2.2bn at the end of Q1
- Includes a new EUR 750m sustainability-linked revolving credit facility
- No financial covenants

Maturity profile and liquidity

Liquidity on 31 March 2020 was EUR 2.2bn (cash and unused credit facilities)



2020 and the COVID-19 pandemic

– safety, business continuity, demand and adjusting



UPM has implemented extensive precautions to protect the health and safety of its employees and to ensure business continuity and progress of its strategic projects.

Despite these efforts it is possible that during the pandemic the operation of one or more units or the supply chain and logistics could be disrupted.

Many of UPM products serve essential everyday needs and may see relatively resilient demand during the crisis. These products include pulp, specialty papers and self-adhesive label materials.

Demand for graphic papers, plywood and timber is likely to be affected by the pandemic-related lockdowns and the following recession. The lockdowns limit a wide range of services and retail that utilise printed advertising, as well as work at the office. This is likely to have a temporary negative impact on graphic paper demand.

UPM is planning to use shift arrangements, temporary lay-offs or reduced working hours as required to adjust to different scenarios.

2020 and the COVID-19 pandemic

– investment projects and maintenance shutdowns



The pandemic and the required health and safety measures add challenge to large investment projects and maintenance shutdowns.

UPM Paso de los Toros pulp mill and related projects in Uruguay and UPM Leuna biochemicals refinery project in Germany are proceeding with strict health and safety controls. Despite these efforts, some changes to detailed timeline of the projects are possible during the pandemic. Currently the projects proceed in line with the planned start-up timeline.

Due to the COVID-19 pandemic, fuel loading into OL3 reactor will not take place in June 2020 as planned. It is possible that regular electricity production would be delayed respectively.

UPM has rescheduled two pulp mill maintenance shutdowns from Q2 2020 to Q4 2020.

The maintenance shutdown at the OL1 nuclear power plant in Q2 2020 will be shorter than usual.

Long-term value creation driven by our
spearheads for growth



SPECIALTY PACKAGING MATERIALS

**Label
materials**

**Specialty
papers**

Communication papers

HIGH VALUE FIBRE

Forests

Pulp

Plywood

MOLECULAR BIOPRODUCTS

Biofuels

Biochemicals

Energy

UPM invests in a world class pulp mill in Uruguay

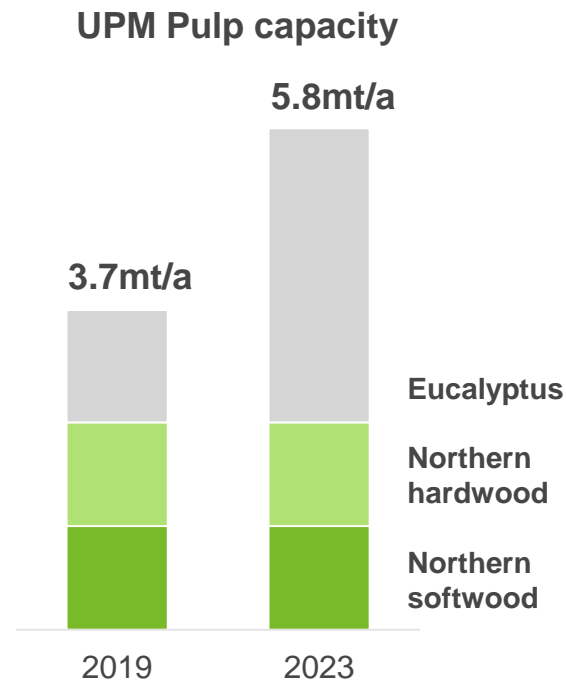
- A highly competitive new pulp mill with annual production capacity of 2.1 million tonnes of eucalyptus pulp
- Mill investment of USD 2.7 billion
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million
- Scheduled start-up in H2 2022
- Industry-leading 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
 - One of the most competitive mills in the world
 - Expected cash cost level of USD 280 per delivered tonne of pulp^(*)
 - 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



UPM Paso de los Toros, housing and the Montevideo port



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

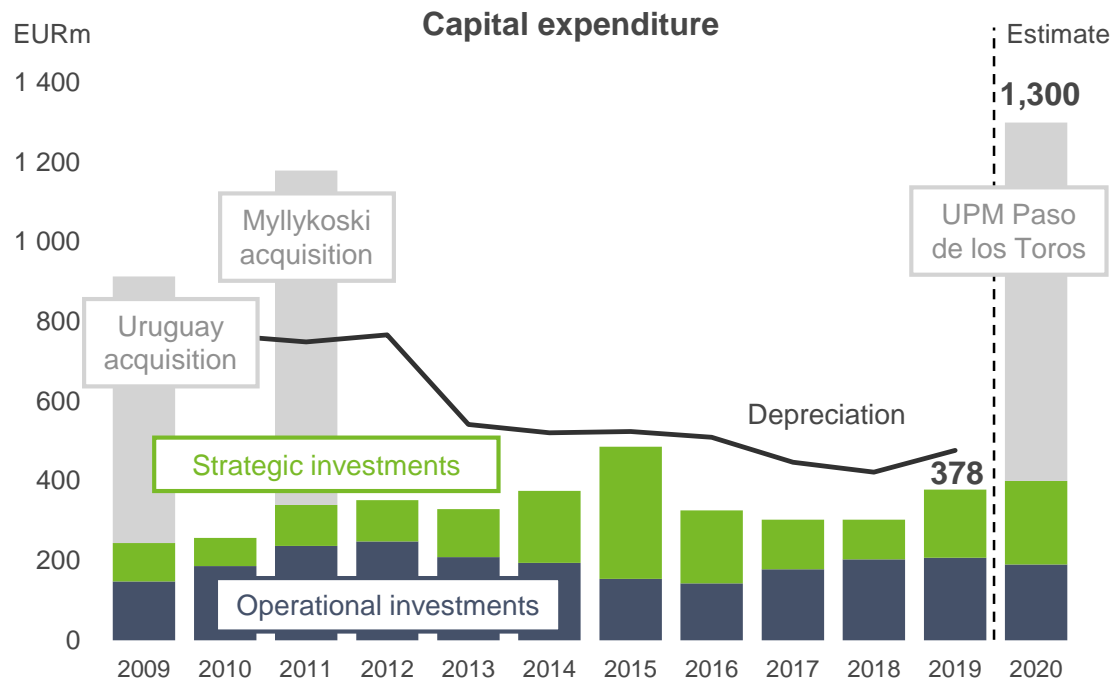
UPM creates a totally new sustainable business with large growth potential



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



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 solid Q1 results and is well prepared for the current uncertainty
- UPM has implemented extensive precautions to protect the health and safety of its employees and to ensure business continuity and progress of its strategic projects during the pandemic
- UPM is planning to use shift arrangements, temporary lay-offs or reduced working hours as required to adjust to different scenarios
- Financial position is exceptionally strong, which enables growth projects and dividends
- 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



Biofore strategy

We create value by seizing the limitless potential of bioeconomy



PERFORMANCE



GROWTH



RESPONSIBILITY



INNOVATION

Strong long-term fundamentals for demand growth and high barriers to entry

Driving long-term value creation
– mitigating climate change



UPM **BIOFORE-BEYOND** FOSSILS



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



We act through **EMISSIONS**
65% less CO₂ emissions



We act through **PRODUCTS**
Innovate novel products

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

Industry leader in responsibility



MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM



Global Compact
LEAD
2019 PARTICIPANT

MSCI
ESG RATINGS

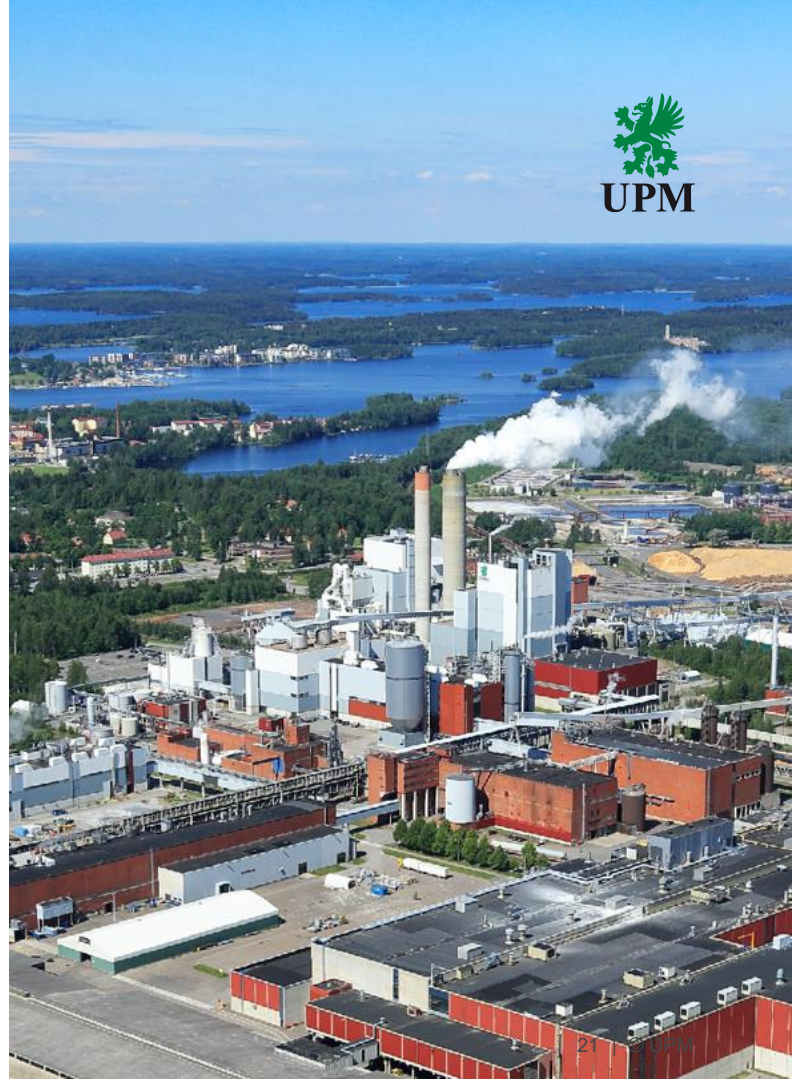


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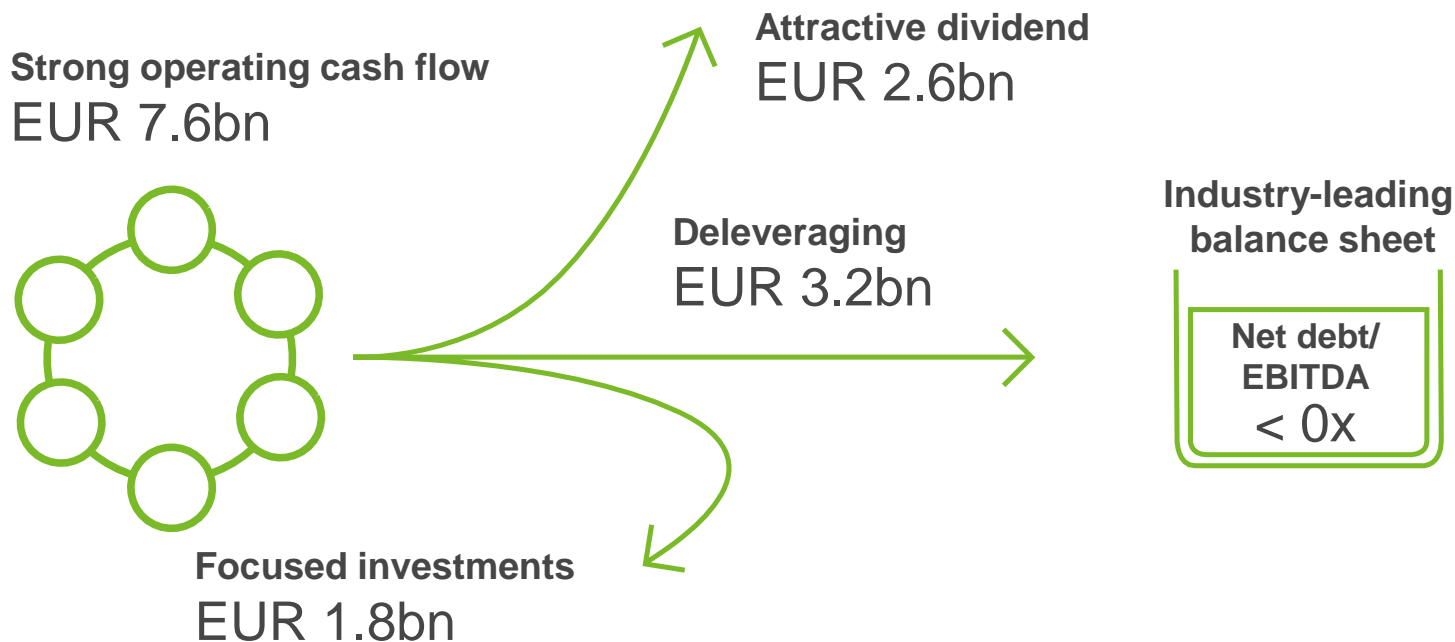


Sustainability Award
Gold Class 2020

UPM **BIOFORE-BEYOND** FOSSILS

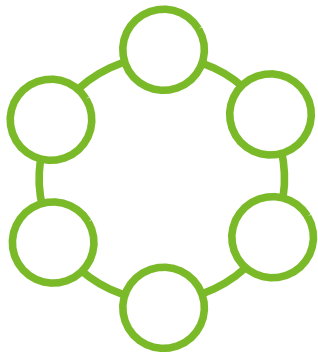


5-year cumulative cash flow (2015–2019) – efficient capital allocation in action



Illustrative capital allocation ^{*)} 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

^{*)} This is not a forecast

UPM current investment portfolio for earnings growth

Focused investments

- Nordland PM2 conversion to release liner +110kt in Q1 2020, Germany
- 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.

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 close down or 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

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	Olkiluoto nuclear power plant
Q4 20	Kaukas pulp mill Pietarsaari 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

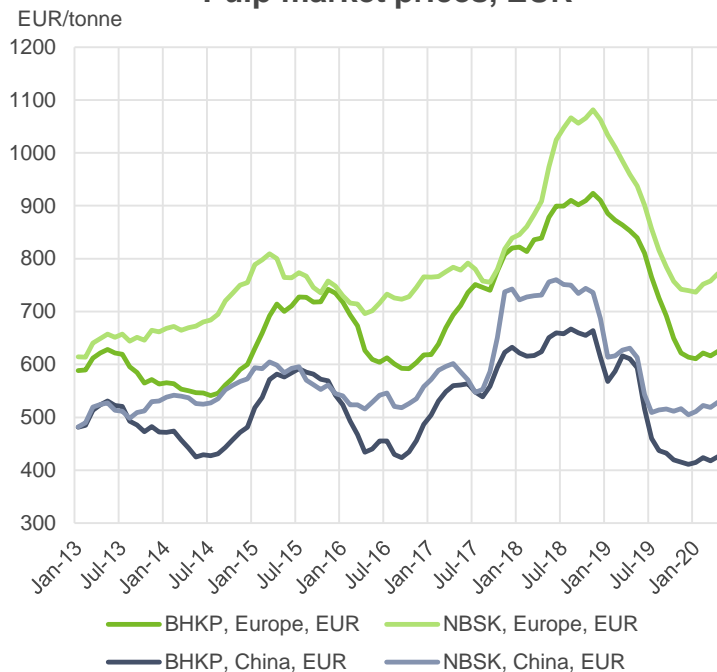
	USD	GBP	JPY	Others
EURm	1,270	175	215	160

UPM Biorefining

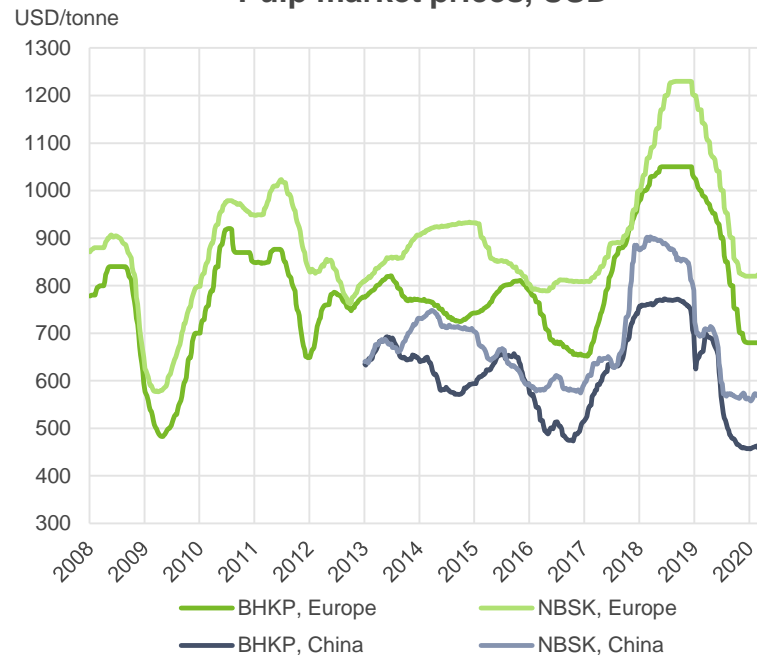
Chemical pulp market prices



Pulp market prices, EUR

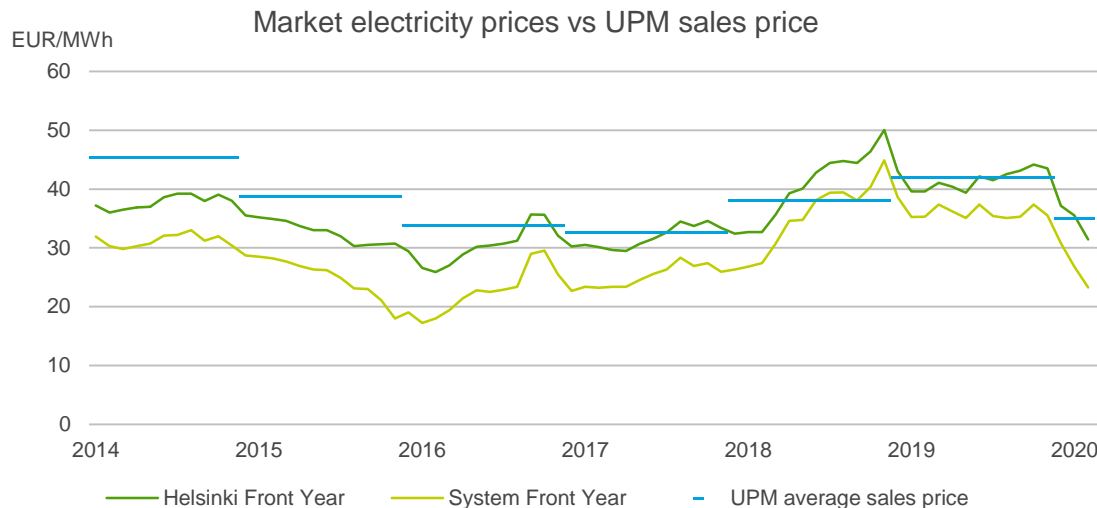


Pulp market prices, USD



Source: FOEX Indexes Ltd

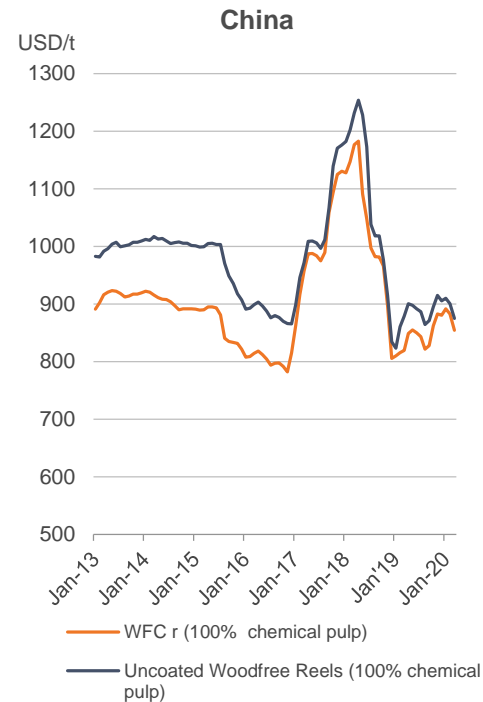
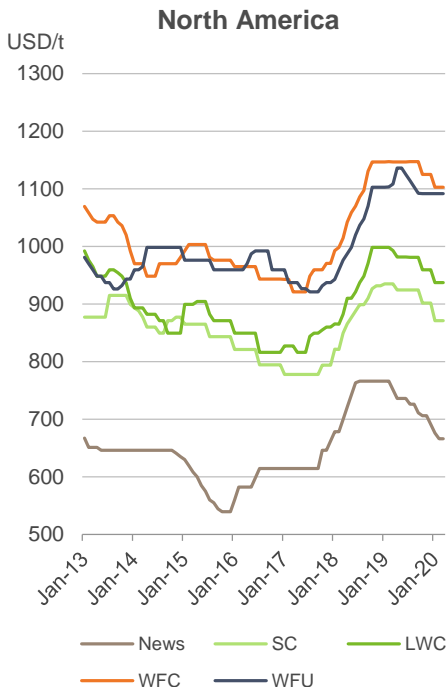
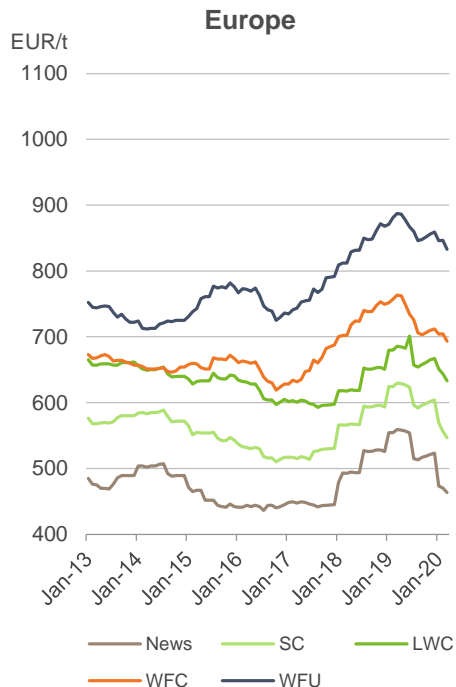
Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2015	2016	2017	2018	2019	Q1 2020
Comparable EBIT, EURm	181	116	91	123	185	43
% of sales	43.6	32.7	28.8	31.5	44.4	42.9

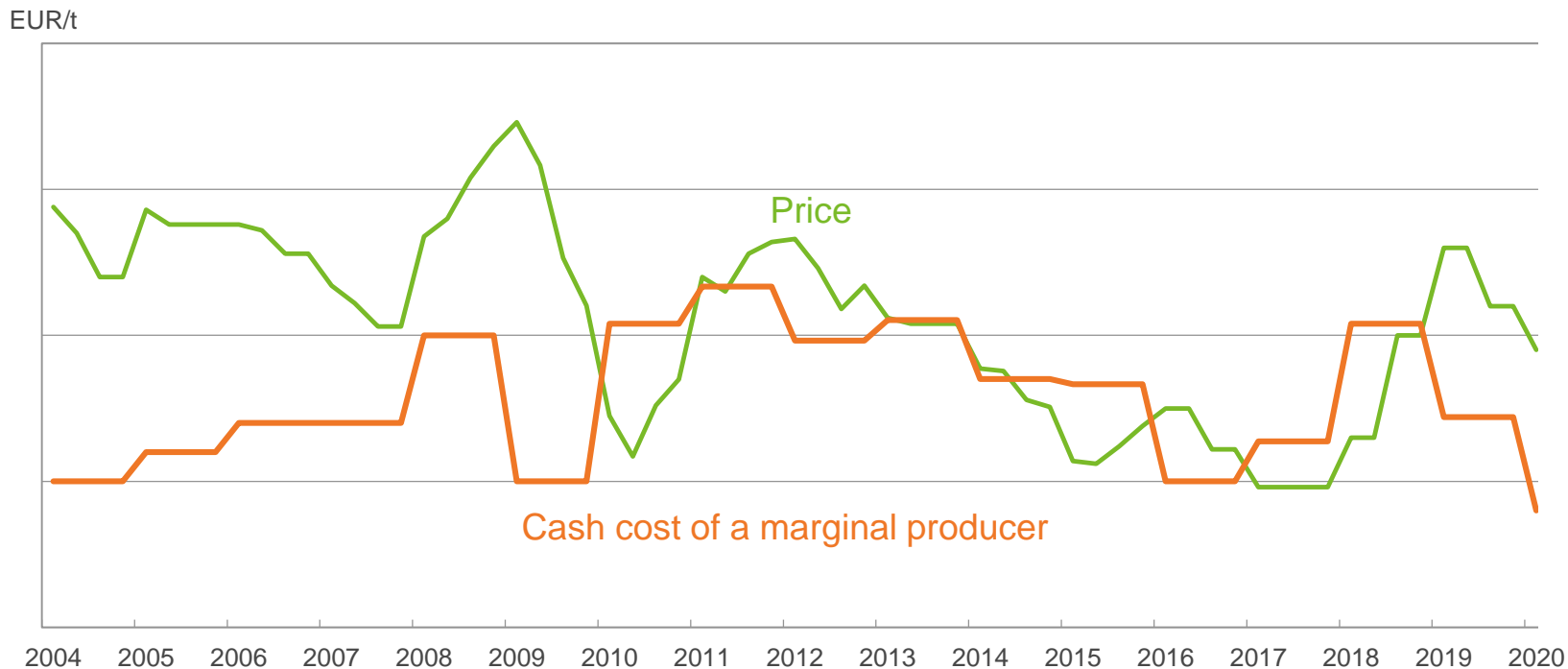
UPM Communication Papers

Graphic paper prices



Sources: PPI, RISI

Paper price vs. cash cost of marginal cost producer



Sources: PPI, RISI, Pöyry

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