

UPM financial statements release 2021

Jussi Pesonen
President and CEO
27 January 2022

2021 was a strong year for UPM

2021 vs. 2020:

Sales

EUR 9,814m



+14%

EBITDA

EUR 1,821m



+26%

Comparable EBIT

EUR 1,471m



+55%

Comparable EPS

EUR 2.22



+62%

Comparable ROE

11.7%



+4.2pp

Operating cash flow

EUR 1,250m



+245m

Net debt

EUR 647m



+591m

Net debt / EBITDA

0.35x



+0.31x

Our focus areas



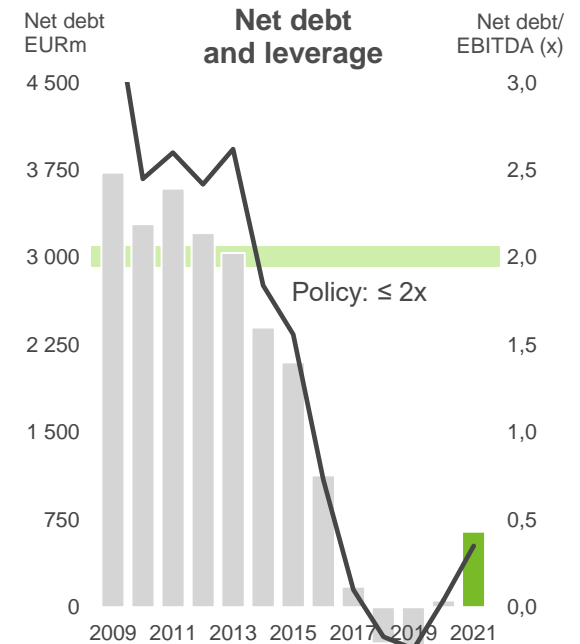
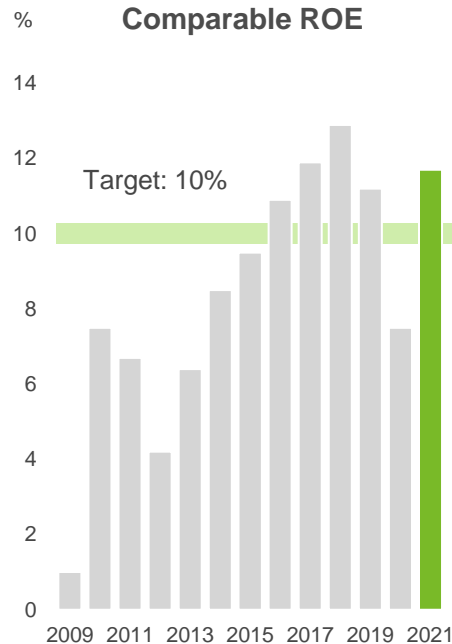
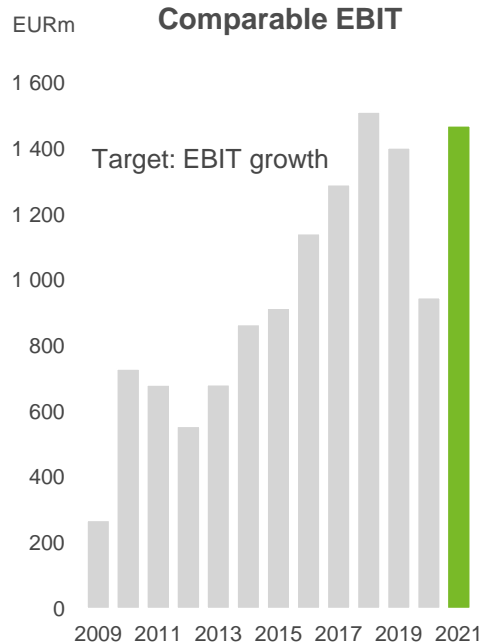
ENSURING PERFORMANCE



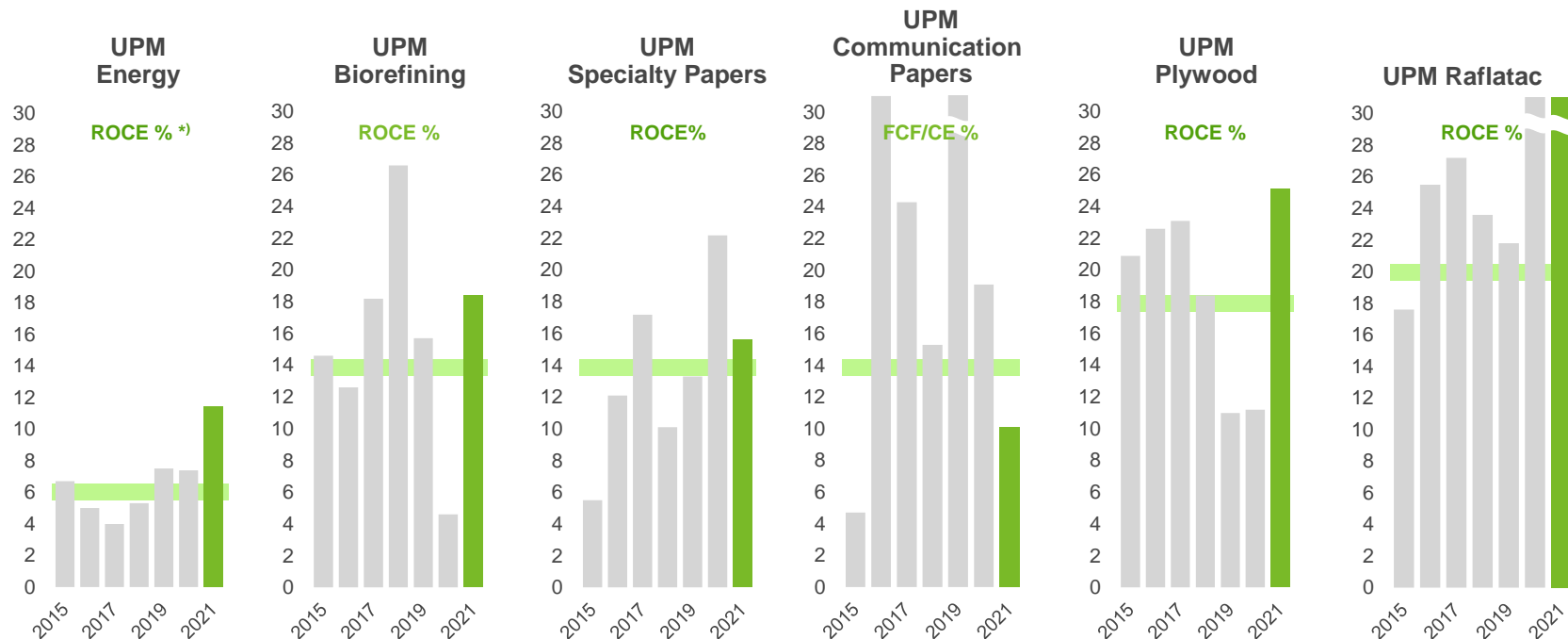
TRANSFORMATIVE GROWTH PROJECTS



Earnings back to strong pre-pandemic levels



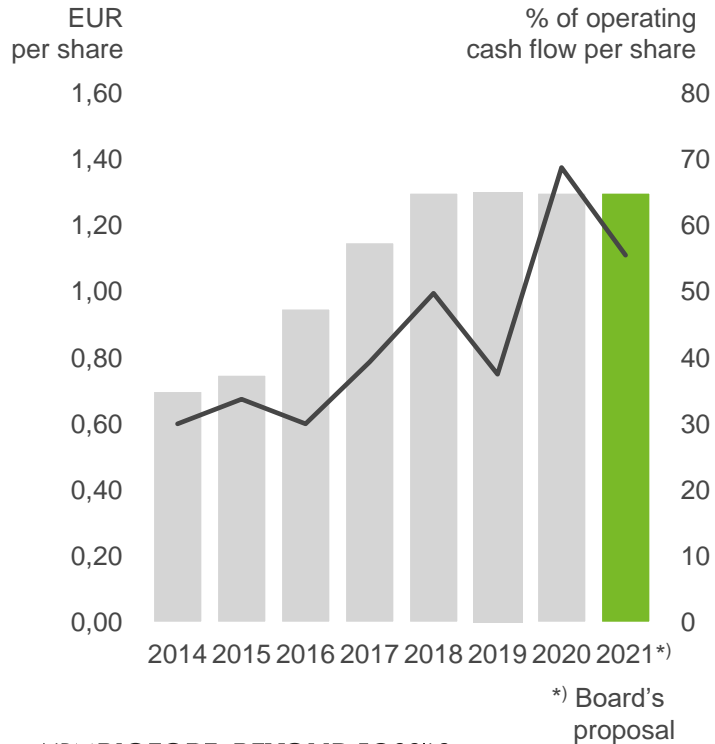
Five out of six business areas exceeded their long-term return targets



*) shareholdings in UPM Energy valued at fair value

Long-term return target

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

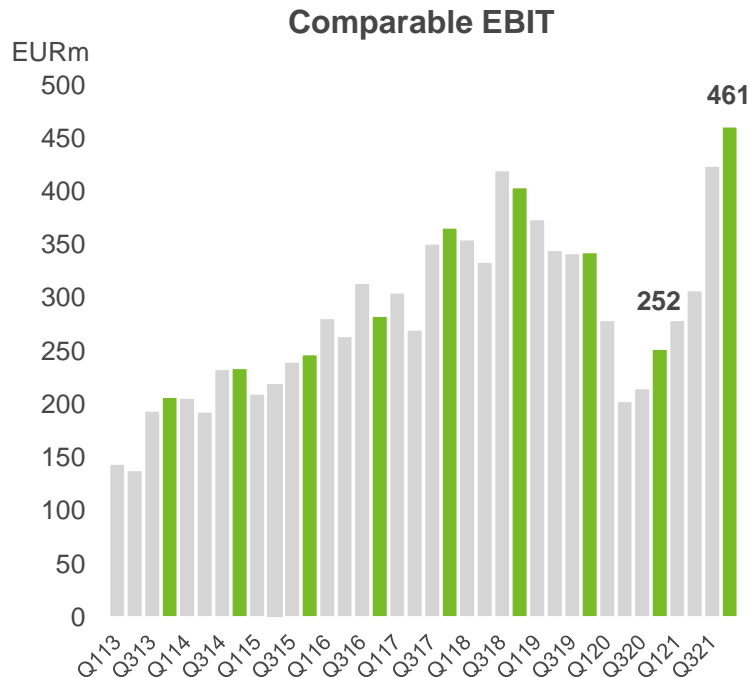
Dividend proposal for 2021

- EUR 1.30 (1.30) per share, totalling EUR 693m
- 55% of 2021 operating cash flow

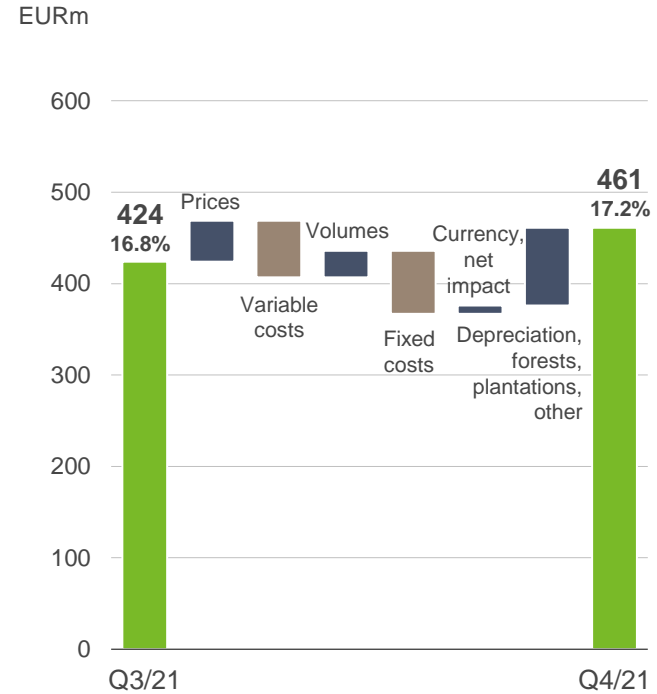
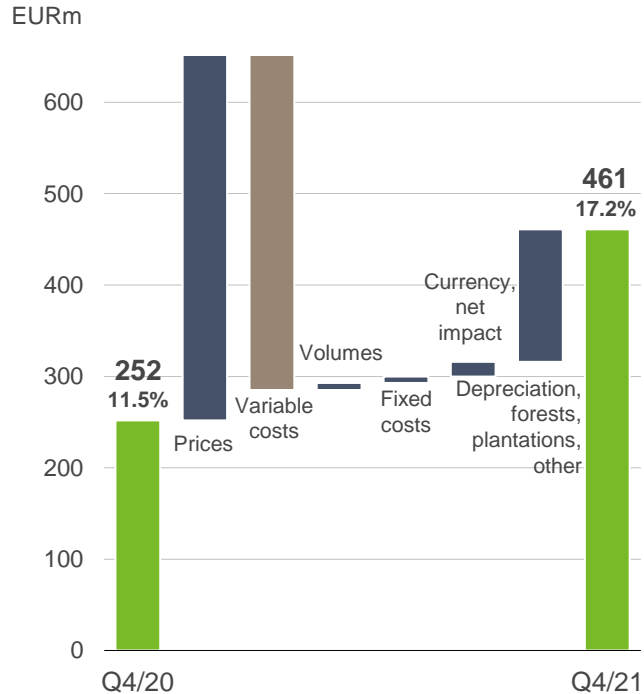
Q4 2021: earnings back to strong pre-pandemic levels



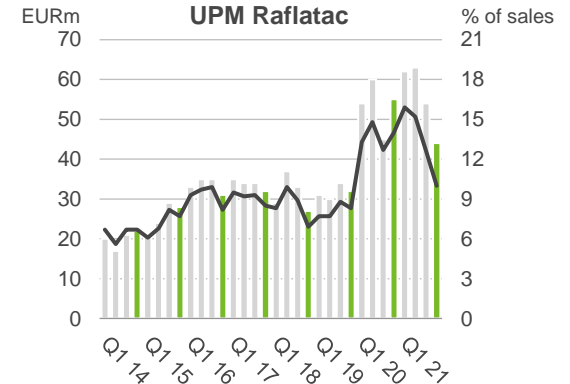
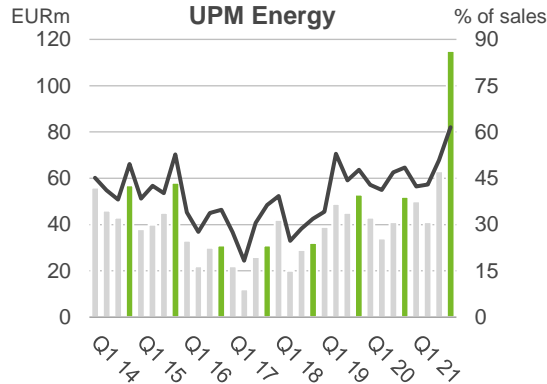
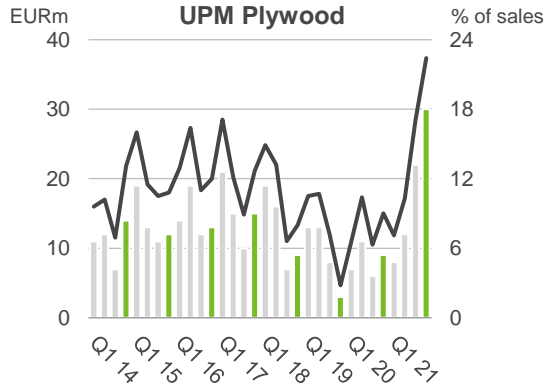
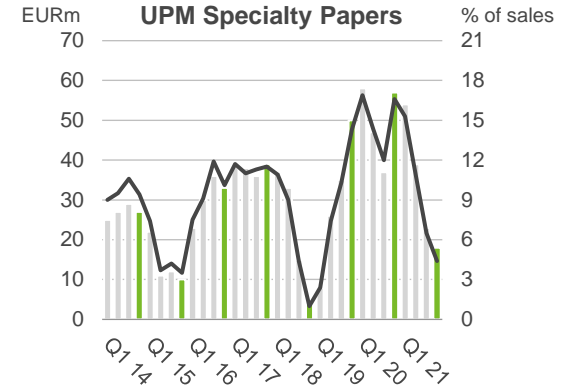
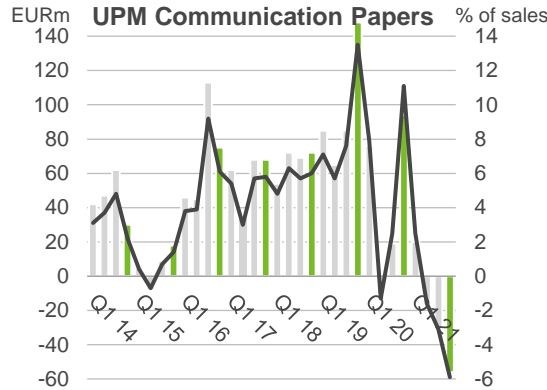
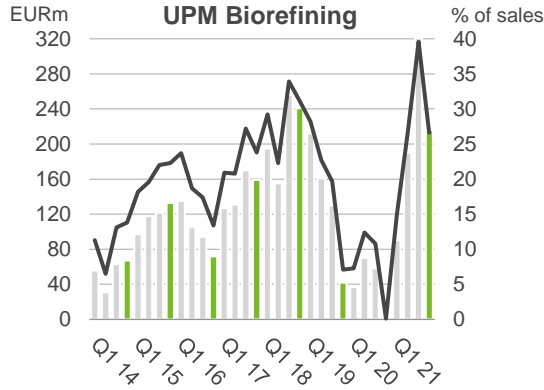
- Sales increased by 22% to EUR 2,673m (2,188m in Q4 2020)
- Comparable EBIT increased by 83% to EUR 461m, 17.2% of sales (252m, 11.5%)
- Operating cash flow was EUR 406 million (347 million)
- The unprecedented energy market situation enabled UPM Energy to reach record earnings but added to the paper businesses' costs
- The fair value of UPM's sustainably managed forests increased by EUR 103m due to higher wood volume, growth, and price estimates



Comparable EBIT in Q4 2021



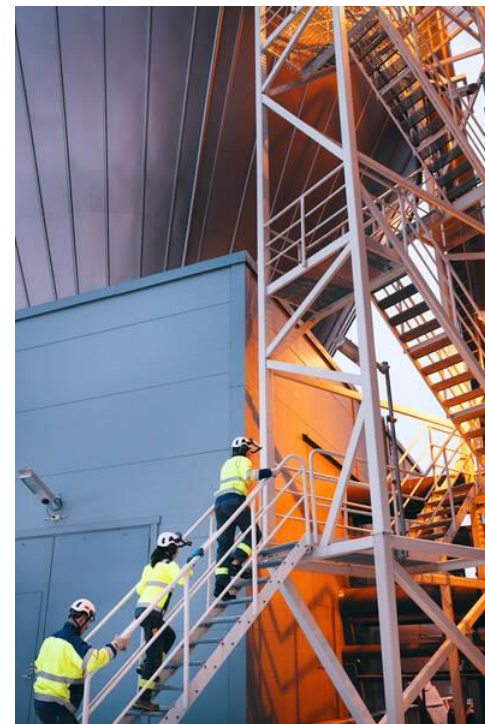
Comparable EBIT by business area



Labour markets in Finland – focus on mutually beneficial outcomes to support future growth and competitiveness



- We aim to negotiate business-specific agreements with focus on mutually beneficial outcomes that will enable each business and their employees to prosper well into the future, into the 2030s.
- At UPM Plywood and UPM Timber, agreements benefitting both the employees and the businesses were signed with the Industrial Union in December 2021.
- The Paperworkers' Union is aiming to negotiate a single group-level agreement with the corporation. Unfortunately, this has led to a strike lasting several weeks.
- During the strike we have been serving our customers from our mills outside Finland as much as possible.



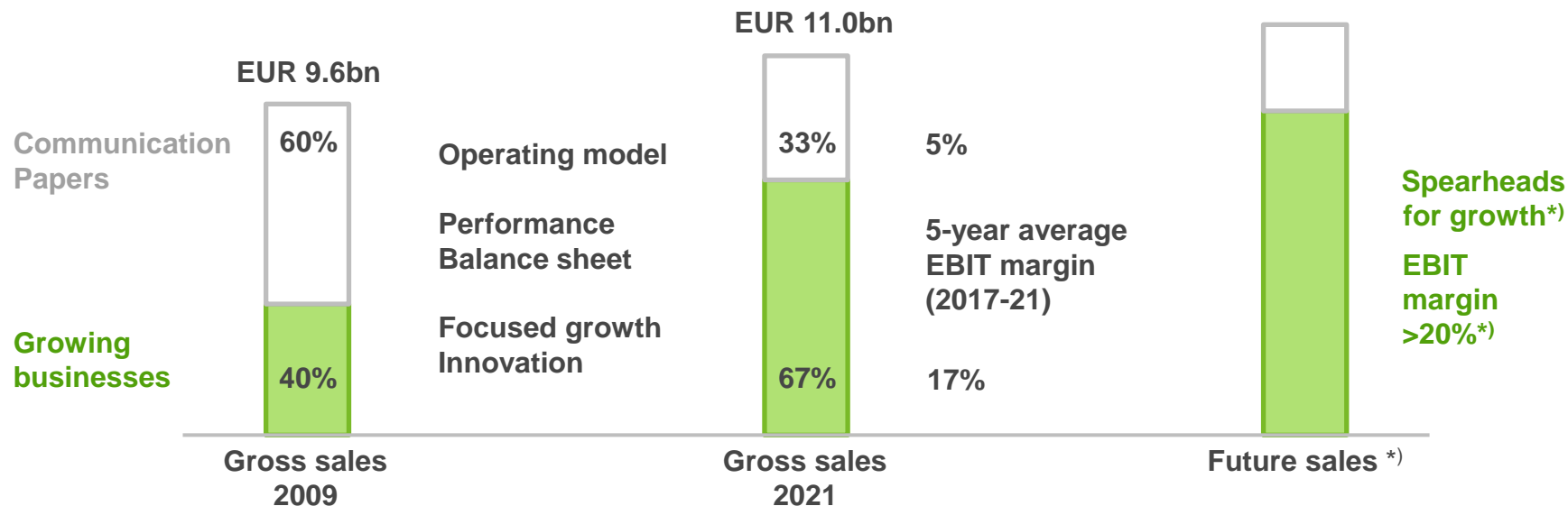
Outlook for 2022



- UPM's earnings recovered to the strong pre-pandemic level in 2021 and overall, 2022 is expected to be another good year for the company.
- There are significant uncertainties in the outlook for 2022, related to the ongoing pandemic, continuation of the global economic recovery, the unusual energy market situation, tight raw material supply chains and the labour negotiations in Finland.
- Good demand is expected to continue for most UPM products in 2022. In the early part of the year, production and earnings are affected by the strike at the Finnish units of UPM Pulp, UPM Biofuels, UPM Raflatac, UPM Specialty Papers and UPM Communication Papers.
- Sales prices for many UPM products are expected to increase in the beginning of 2022, most notably the graphic and specialty paper prices. Sales prices for pulp and energy are expected to continue on good levels in the early part of the year.
- Many variable cost items are expected to increase in 2022 or stay at elevated level. UPM will continue to manage margins with product pricing, optimising its product and market mix, efficient use of assets as well as by taking measures to improve variable and fixed cost efficiency.
- UPM's comparable EBIT in H1 2022 is expected to be on similar level compared to H1 2021.

Transformation proceeds at full speed

– business mix drives earnings and shareholder value



UPM Paso de los Toros completion plan refined, strong investment case confirmed



One of the most competitive mills in the world
with cash cost level of USD 280 per delivered tonne of pulp

**USD 3.47
billion
investment in
Uruguay**



Pulp mill in Paso de los Toros, deep seaport terminal in Montevideo and local community



Pulp is used in tissue, specialty and packaging papers, for example



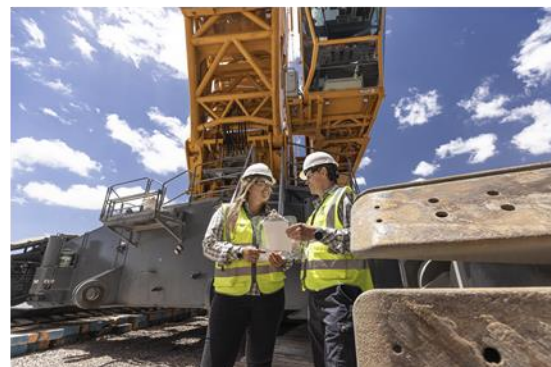
Total annual capacity of 2.1 million tonnes of eucalyptus pulp



**Scheduled
to start up
by the end of
Q1 2023**



Progress in UPM Paso de los Toros and the Montevideo port



UPM Leuna project schedule updated, keen market interest confirms the growth strategy



**100% wood-based biochemicals refinery
responding to strongly growing demand for sustainable solutions**

**EUR 550
million
investment
at Leuna,
Germany**



Industrial scale
biorefinery



Alternatives to fossil
materials in various
consumer-driven end-uses

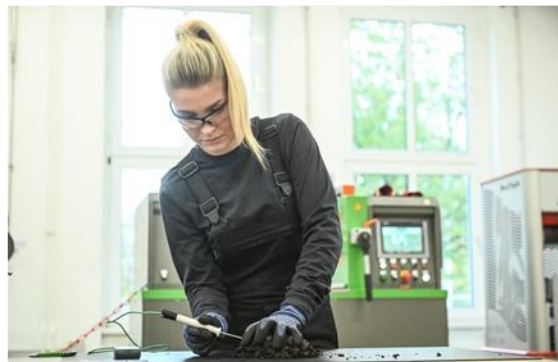


Total annual capacity
of 220,000 tonnes

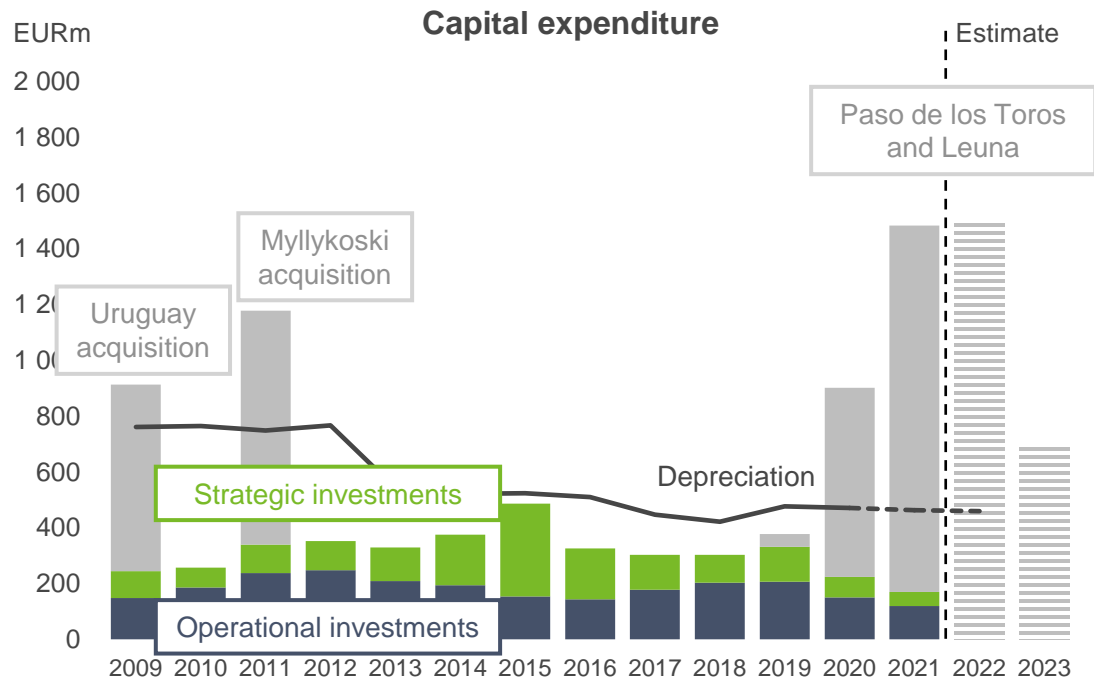


**Scheduled to
start up by the
end of 2023**

Progress in UPM Leuna



Transformative growth projects in the most intensive phase in 2021-22



Capex estimate for 2022

- Total EUR 1,500m
- Includes EUR 1,300m on the transformative growth projects, pulp in Uruguay and biochemicals in Germany
- Operational investment needs consistently low

Site assessment completed for the potential next generation biofuels refinery



- Work continues in Rotterdam, where the operating environment is more favourable for the biofuels business
- The current investment environment is very challenging for major projects like this. Therefore, we are not planning to make further decisions until the end of 2022

Building business platform for the innovation-driven businesses as of Q1 2022



UPM FIBRES



UPM Pulp

pulp for tissue, specialty and packaging papers.



UPM Timber

certified sawn timber for joinery, packaging, furniture and construction.

UPM BIOREFINING (reported as part of Other operations)



UPM Biofuels

renewable diesel for all diesel engines and renewable naphtha for petrochemical industry.



UPM Biomedicals

wood-based biomedical products for a variety of uses.



UPM Biochemicals

wood-based biochemicals for replacing fossil-based raw materials.



UPM Biocomposites

composite decking materials based on recycled waste.

Long-term value creation driven by our spearheads for growth



SPECIALITY PACKAGING MATERIALS

Label
materials

Specialty
papers

Communication papers

FIBRES

Forests

Pulp

Plywood

BIOREFINING

Biofuels

Biochemicals

Biomedicals

Biocomposites

Energy

We deliver positive impact to mitigate climate change and to create long-term value



WE ACT THROUGH FORESTS

We are committed to climate-positive forestry and enhancing biodiversity.



WE ACT THROUGH EFFICIENCY AND EMISSIONS

Our target is to reduce our CO₂ emissions by 65%.



WE ACT THROUGH PRODUCTS

We innovate novel products to provide ever more sustainable alternatives for fossil-based materials.



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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

**THE Paris...
CLIMATE 10 years
PLEDGE Early**

Summary



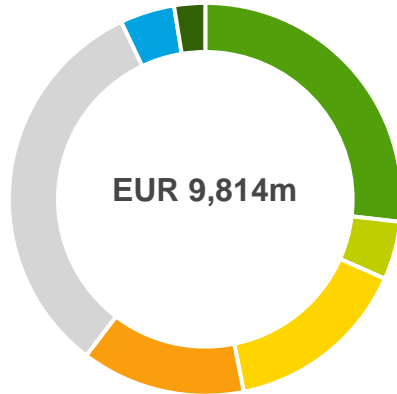
- 2021 earnings returned back to strong pre-pandemic levels and performance exceeded the financial targets
- 2022 is expected to be another good year for UPM
- In the labour negotiations in Finland, UPM aims for mutually beneficial outcomes that support future growth and competitiveness
- The investment cases for UPM's Paso de los Toros pulp mill and Leuna biochemicals projects remain very attractive
- UPM updates the projects' completion schedules owing to the successive waves of the pandemic and global supply chain bottlenecks

UPM **BIOFORE**
BEYOND FOSSILS

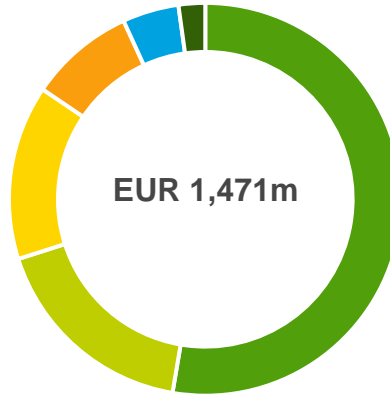


UPM by business area in 2021

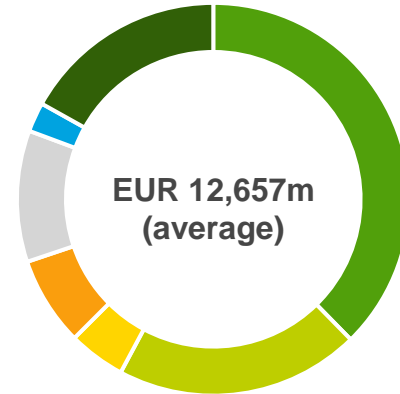
Sales



Comparable EBIT



Capital employed

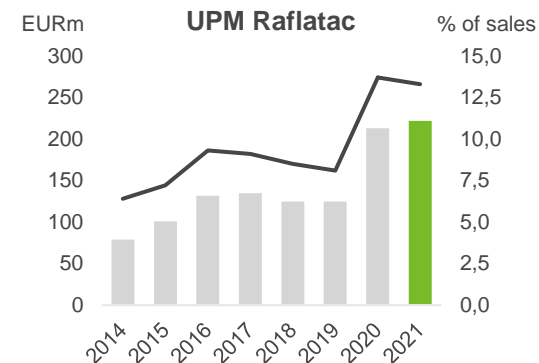
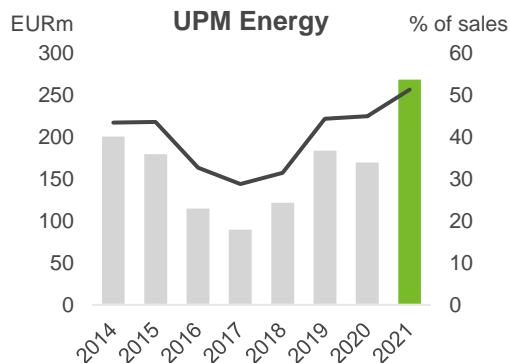
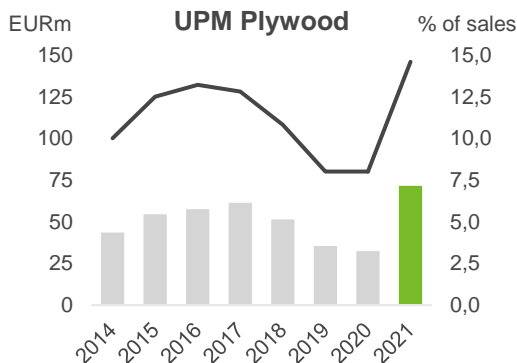
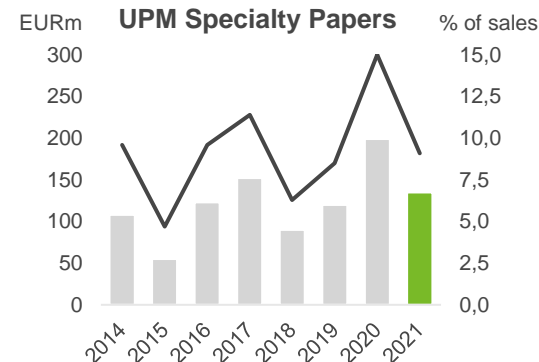
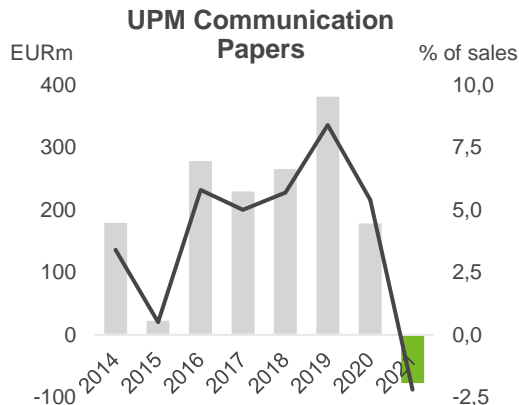
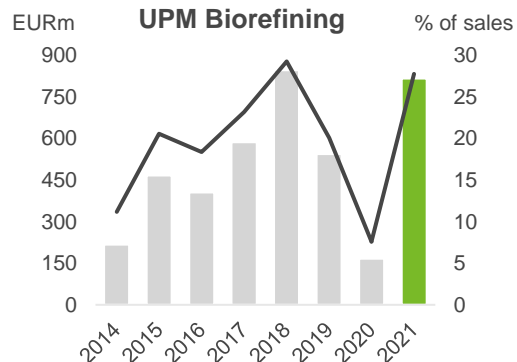


■ Biorefining
 ■ Energy
 ■ Raflatac
 ■ Specialty Papers
 ■ Communication Papers
 ■ Plywood
 ■ Other

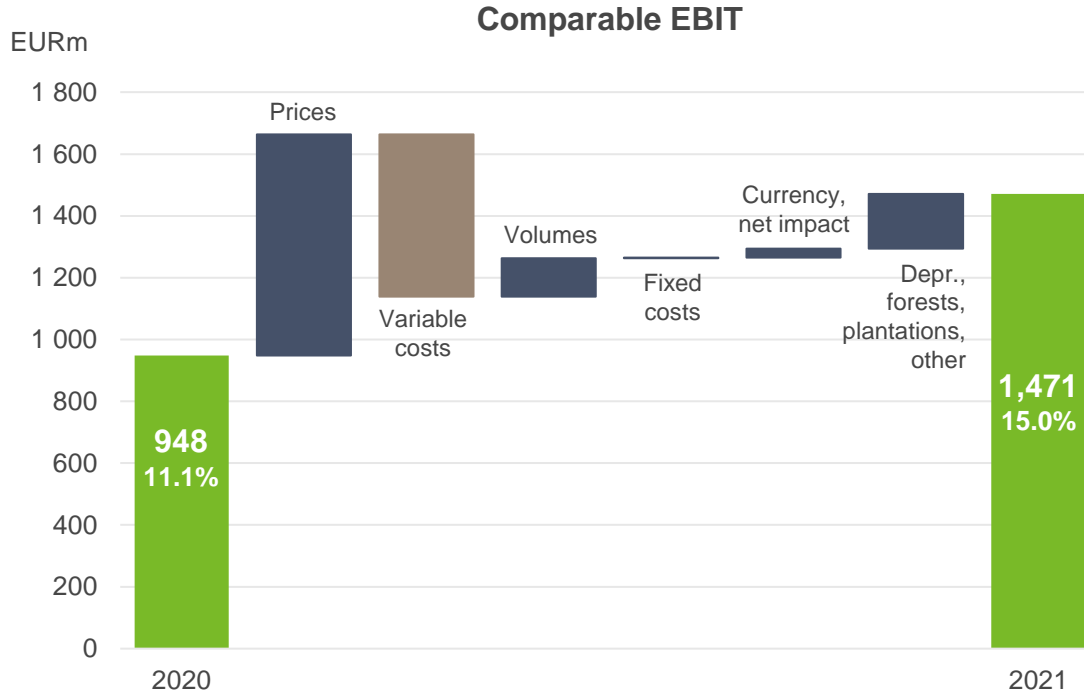
UPM business model delivers performance also in exceptional circumstances



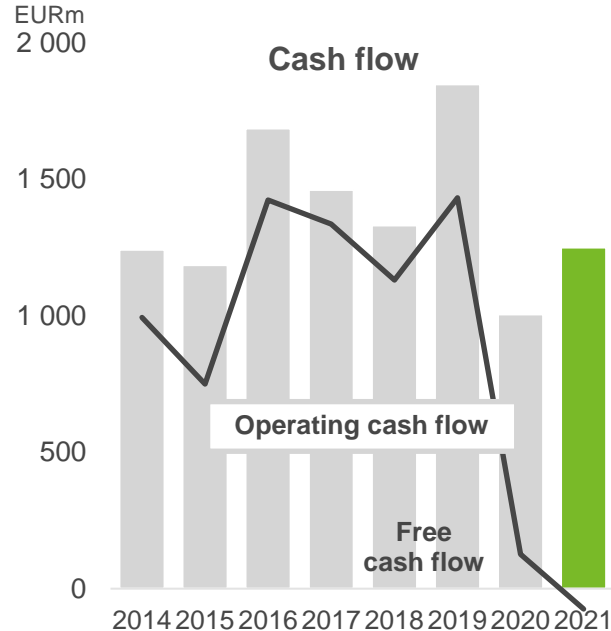
Comparable EBIT by business area



Comparable EBIT in 2021 vs. 2020

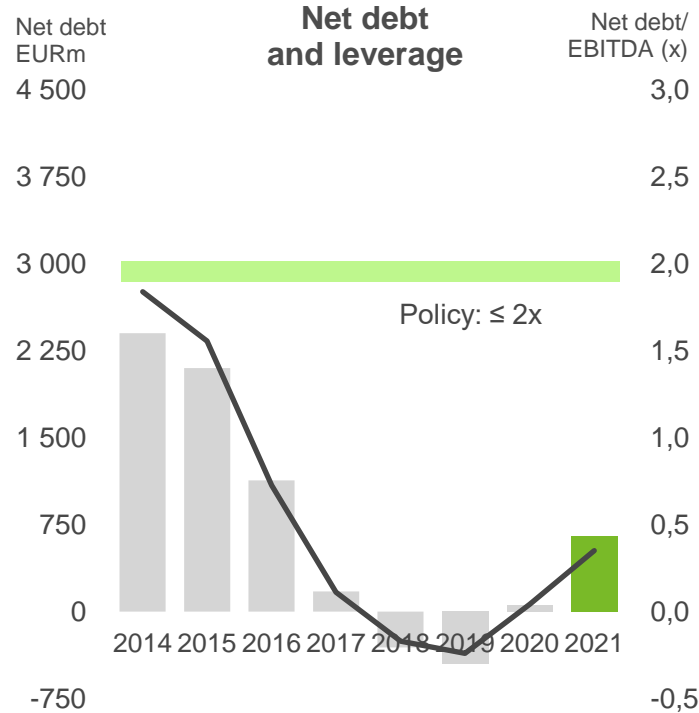


Robust cash flow



- Q4 2021 operating cash flow was EUR 406m (347m in Q4 2020)
- Working capital decreased by EUR 91m (decreased by 72m in Q4 2020)
- 2021 operating cash flow was EUR 1,250m (1,005m in 2020)
- Working capital increased by EUR 115m (increased by 93m)

Strong financial position



- Net debt EUR 647m at the end of 2021
- Cash funds and committed credit facilities EUR 2.5bn at the end of 2021
- UPM issued a EUR 500m Green Bond in Q1 2021
- No financial covenants

Biofore strategy drives our transformation as the frontrunner of bioeconomy

A FUTURE BEYOND FOSSILS

GROWTH

- We respond to megatrends and meet customers' changing needs
- Creating new markets and enabling sustainable choices



PERFORMANCE

- Continuous improvement
- Agile operating model



INNOVATION

- Creating new business and competitive advantage
- Replacing fossils with biomaterials



RESPONSIBILITY

- Renewable & sustainable solutions
- Responsible operations and value chain

PORTFOLIO

- Investing in businesses with strong long-term fundamentals for growth and high barriers to entry
- Effective capital allocation

Industry leader in responsibility



UPM Fibres Q1-Q4/21 restated

UPM Biorefining (1.1.2022 UPM Fibres)	Q1-Q4/21 as published	Q1-Q4/21 restated
Sales EURm	2,945	2,794
Comparable EBITDA, EURm	1,016	961
% of sales	35	34
Comparable EBIT, EURm	817	781
% of sales	28	28
Capital employed (average), EURm	4,437	4,277
Comparable ROCE, %	18	18

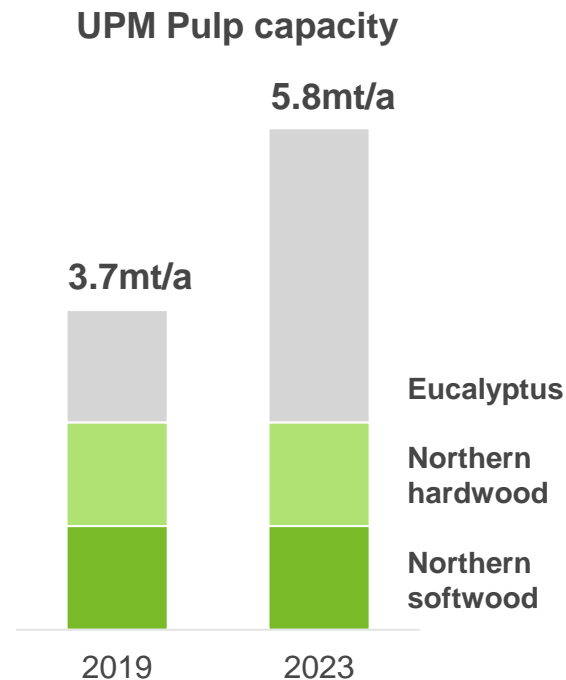
Other operations Q1-Q4/21 restated

Other operations	Q1-Q4/21 as published	Q1-Q4/21 restated
Sales EURm	280	483
Comparable EBITDA, EURm	-19	36
Comparable EBIT, EURm	76	113
Capital employed (average), EURm	1,992	2,152
Comparable ROCE, %	4	5

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 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 optimised



Growth plans in biofuels progress to the next stage



Basic engineering phase of new biorefinery ongoing



Potential next generation biofuels biorefinery



Products would significantly reduce carbon footprint in the road transport and aviation



Capacity would be 500,000t of renewable fuels incl. sustainable jet fuel



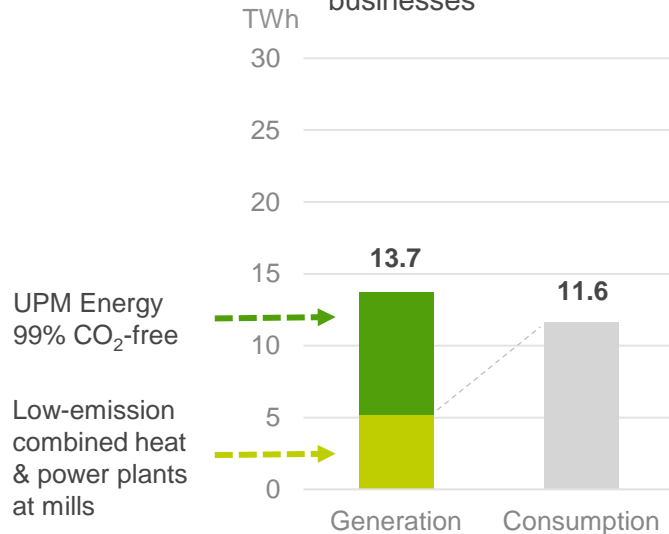
Potential location in Rotterdam, the Netherlands

UPM is a large producer and consumer of energy



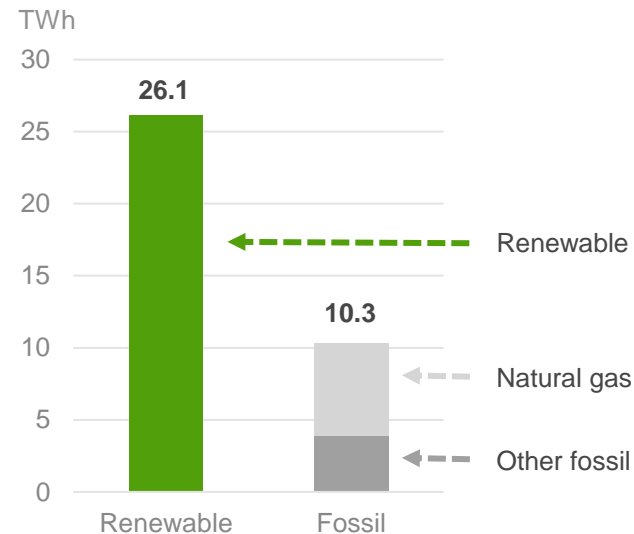
Electricity

Separate market-driven operations at UPM Energy and the energy-consuming businesses



Fuels

72% of all fuels are renewable, from the industrial processes



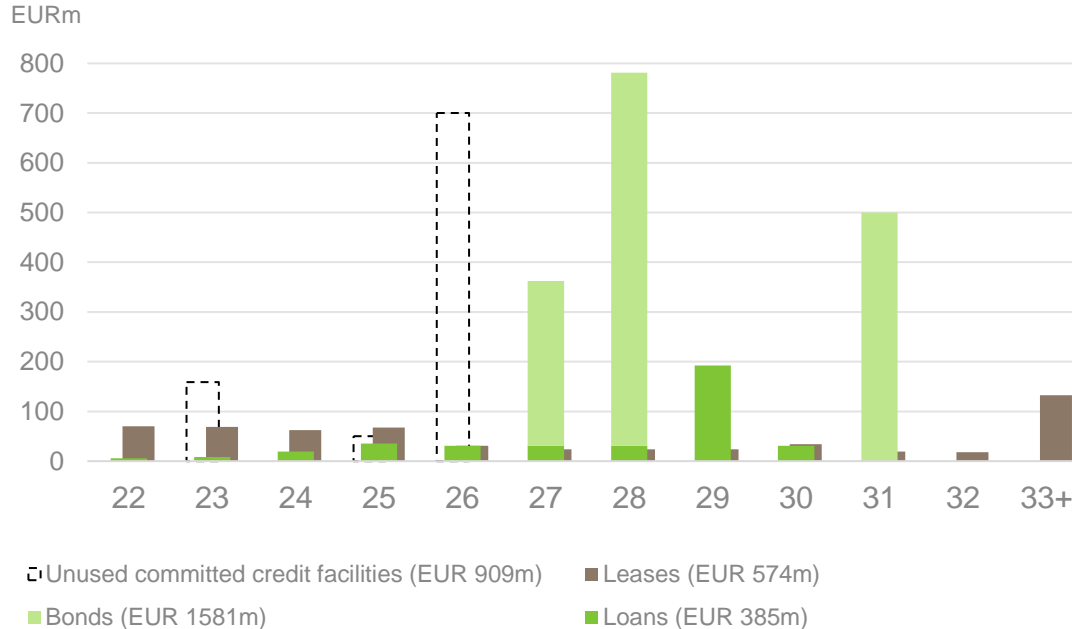
Hedging

Approx. 60% of electricity and fuel purchases hedged for the rest of 2021 and 2022

CO₂

due to implemented emission reductions, UPM has more emission allowances than it needs

Maturity profile and liquidity



Liquidity on 31 December 2021 was EUR 2.5bn (cash, funds and unused committed credit facilities)

UPM's committed credit facilities:

- EUR 159m rolling committed overdraft facility maturing 2023
- EUR 750m committed syndicated revolving credit facility of which EUR 50m maturing 2025 and EUR 700m maturing 2026

No financial covenants

Maintenance shutdowns in 2021 and 2022

Significant maintenance shutdowns
in 2021 and 2022

Timing	Unit
Q2 21	Olkiluoto nuclear power plant UPM Fray Bentos pulp mill
Q4 21	UPM Kymi pulp mill
Q2 22	Olkiluoto nuclear power plant UPM Kaukas pulp mill UPM Pietarsaari pulp mill
Q3 22	UPM Fray Bentos pulp mill
Q4 22	UPM Lappeenranta Biorefinery

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

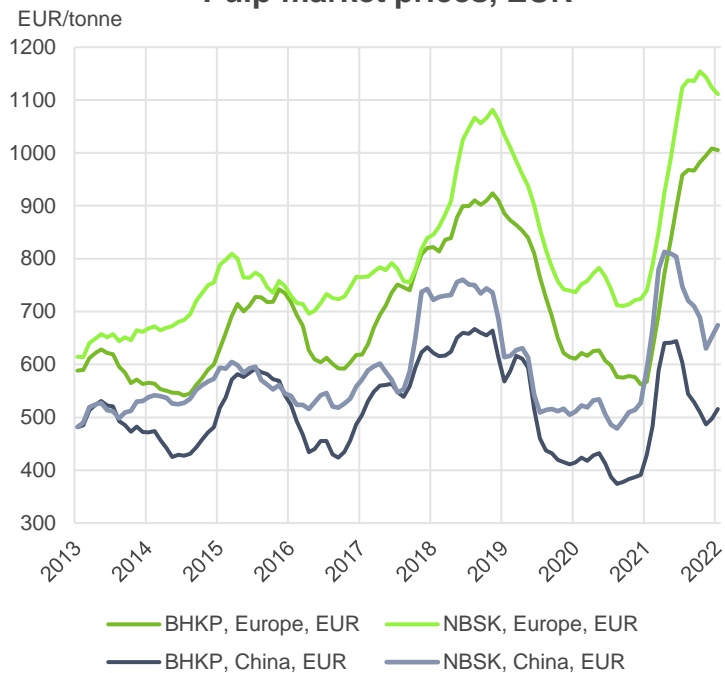
	USD	GBP	JPY	Others
EURm	1,170	360	170	180

UPM Biorefining

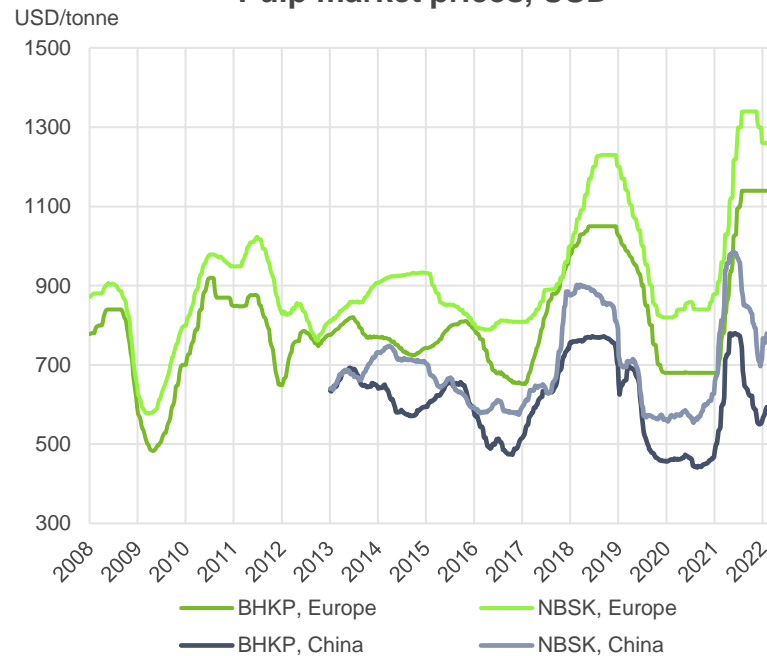
Chemical pulp market prices



Pulp market prices, EUR

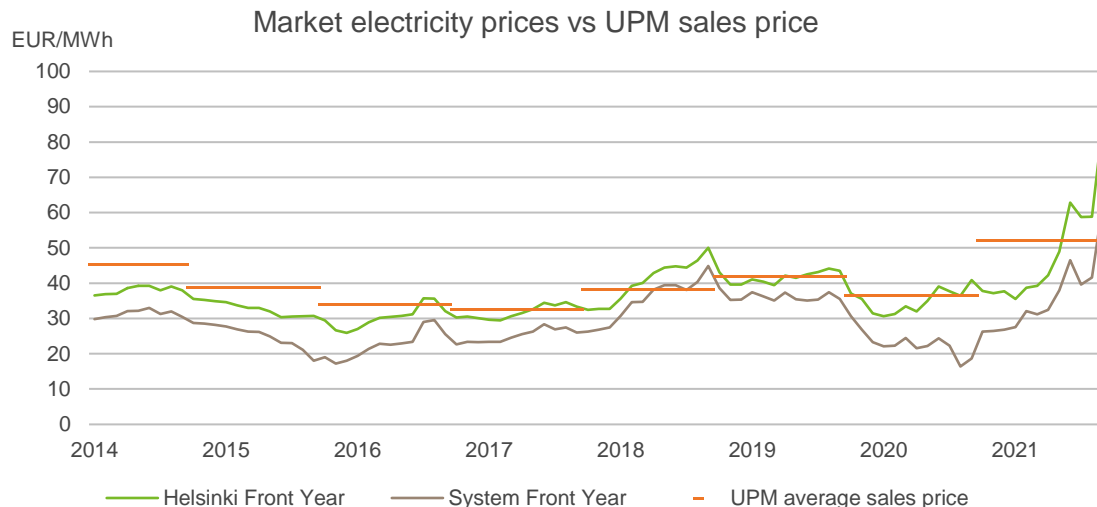


Pulp market prices, USD



Source: FOEX Indexes Ltd

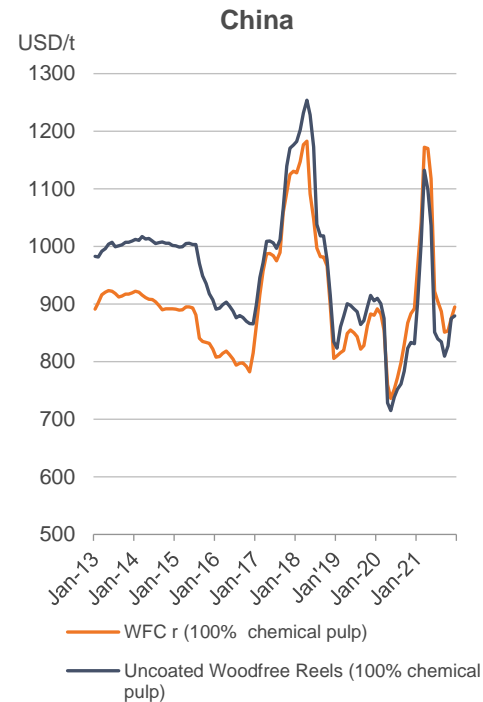
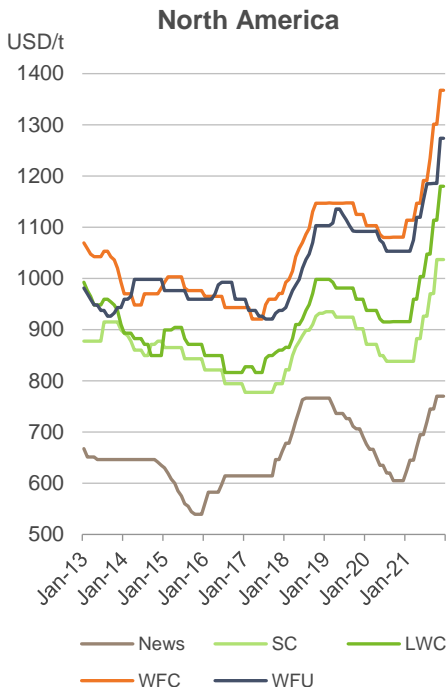
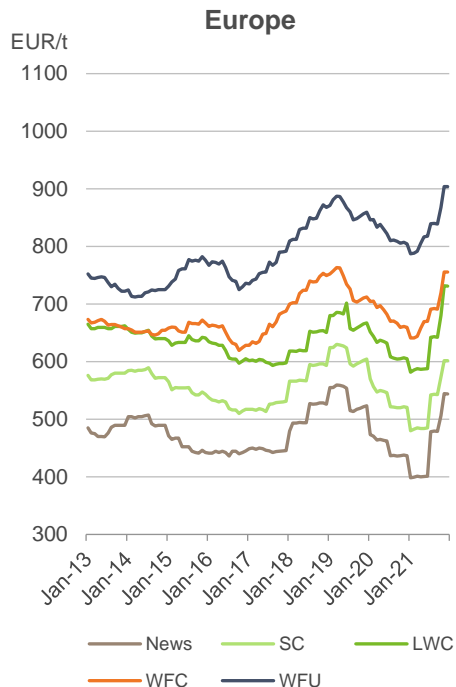
Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2016	2017	2018	2019	2020	2021
Comparable EBIT, EURm	116	91	123	185	171	270
% of sales	32.7	28.8	31.5	44.4	45.0	51.3

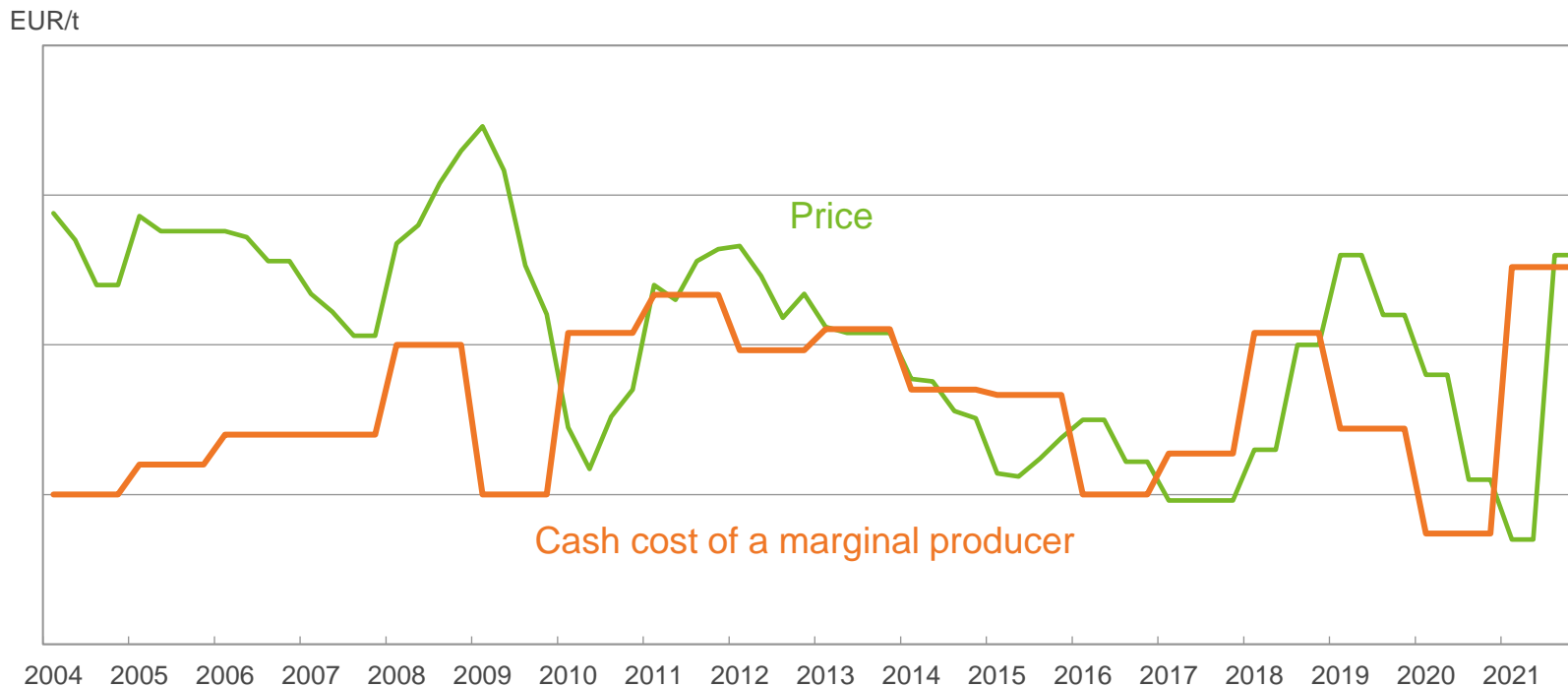
UPM Communication Papers

Graphic paper prices



Sources: PPI, RISI

Paper price vs. cash cost of marginal cost producer



Sources: PPI, RISI, Pöyry

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