

# WE CREATE A FUTURE BEYOND FOSSILS

Investor presentation  
April 2022



# This is UPM

**SALES 2021**  
**EUR 9.8 BILLION**

**Wood-based  
raw materials**



**Low-carbon  
energy**

## **BUSINESS AREAS:**


UPM FIBRES  
UPM ENERGY  
UPM RAFLATAC  
UPM SPECIALTY PAPERS  
UPM COMMUNICATION PAPERS  
UPM PLYWOOD  
OTHER BUSINESSES


**54**  
production  
plants




**17,000**  
employees in  
46 countries

## **RENEWABLE AND RECYCLABLE PRODUCTS FOR:**

 **PACKAGING**


 **LABELLING**


 **TRANSPORTATION**


 **ELECTRIFICATION**


 **CONSTRUCTION**

 **COMMUNICATION**

 **TISSUE AND  
HYGIENE PRODUCTS**

 **MANUFACTURING**

 **BIOPLASTICS**

 **BIOMEDICALS**

**11,400**  
customers



**200**  
million end-users  
globally



# Our businesses



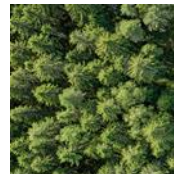
## UPM Pulp

A versatile range of chemical pulp for many growing end uses



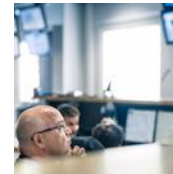
## UPM Timber

Certified sawn timber



## UPM Forest

Sourcing wood raw material for sustainable and recyclable products



## UPM Energy

Low-emission electricity generation of hydro, nuclear and thermal power



## UPM Raflatrac

Self-adhesive label materials for promotion, information and functional labelling



## UPM Specialty Papers

Labelling materials, release base papers, flexible packaging papers, office and graphic papers



## UPM Communication Papers

Magazine paper, newsprint and fine papers for a wide range of end uses



## UPM Plywood

Plywood and veneer products for construction, vehicle flooring and LNG shipbuilding



## UPM Biofuels

Wood-based renewable diesel and naphtha



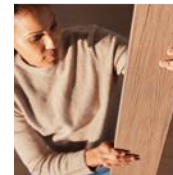
## UPM Biochemicals

Glycols, lignin products, renewable functional fillers



## UPM Biomedicals

Wood-based biomedical products for medical and life science applications



## UPM Biocomposites

UPM ProFi decking materials and UPM Formi composite material

# Biofore strategy

Biofore strategy drives our transformation as a bioeconomy frontrunner.

We seek sustainable growth by enabling our customers and consumers to make more sustainable choices.

High performance, innovations and world-leading responsibility are the cornerstones. We create a future beyond fossils.

## 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

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

### VALUES

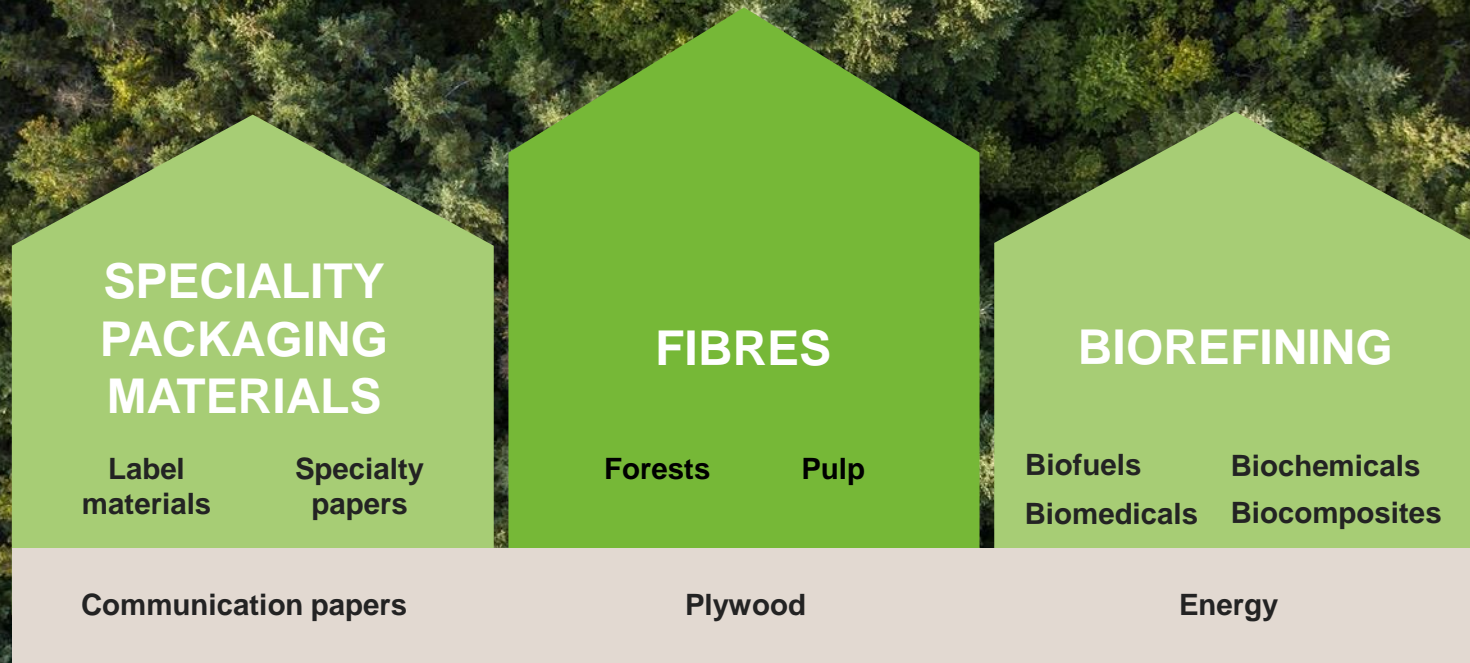
Trust and be trusted

Achieve together

Renew with courage



# Long-term value creation driven by our spearheads for growth





# Our climate commitment



## WE ACT THROUGH FORESTS

Committed to climate-positive forestry and enhancing biodiversity



## WE ACT THROUGH EMISSION REDUCTIONS

-65% from own CO<sub>2</sub> emissions  
-30% from CO<sub>2</sub> emissions of supply chain



## WE ACT THROUGH PRODUCTS

Innovative products  
Scientifically verifying the climate impact of all our products



SCIENCE  
BASED  
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

**BUSINESS  
AMBITION FOR**

**1.5°C**



**OUR ONLY  
FUTURE**

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

# Leader in responsibility

**MSCI**  
ESG RATINGS



Global Compact  
**LEAD**  
2021 PARTICIPANT

Member of  
**Dow Jones**  
**Sustainability Indices**

Powered by the S&P Global CSA

**Sustainability Award**  
Gold Class 2022

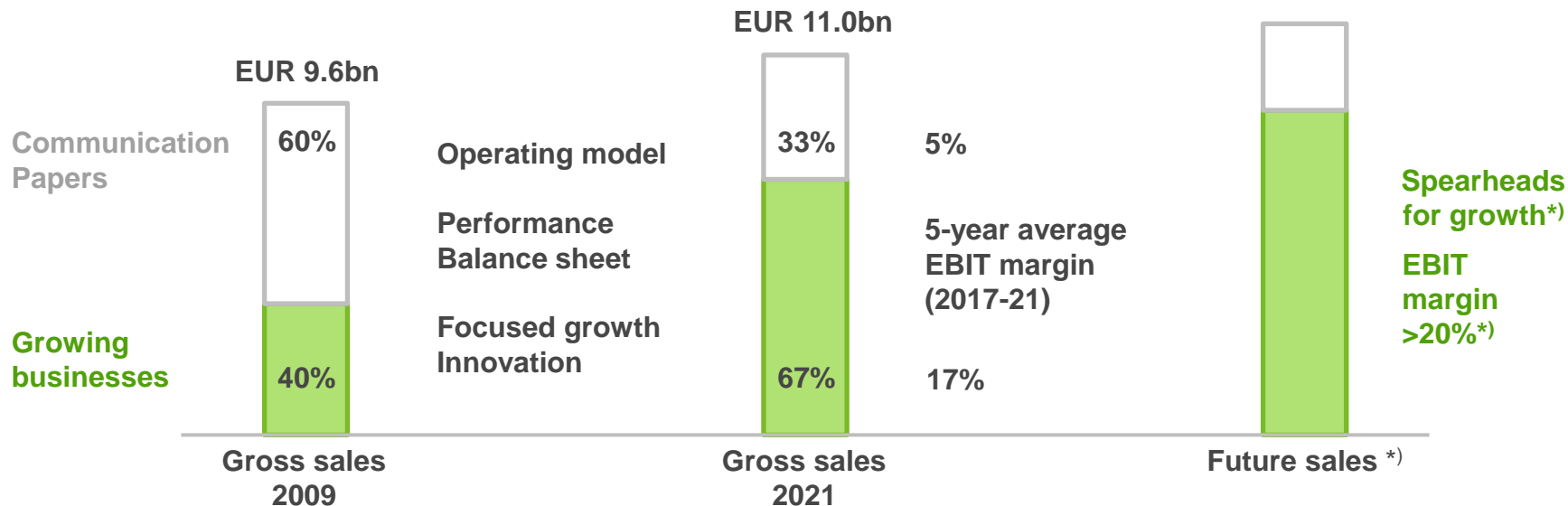
**S&P Global**





# Transformation proceeds at full speed

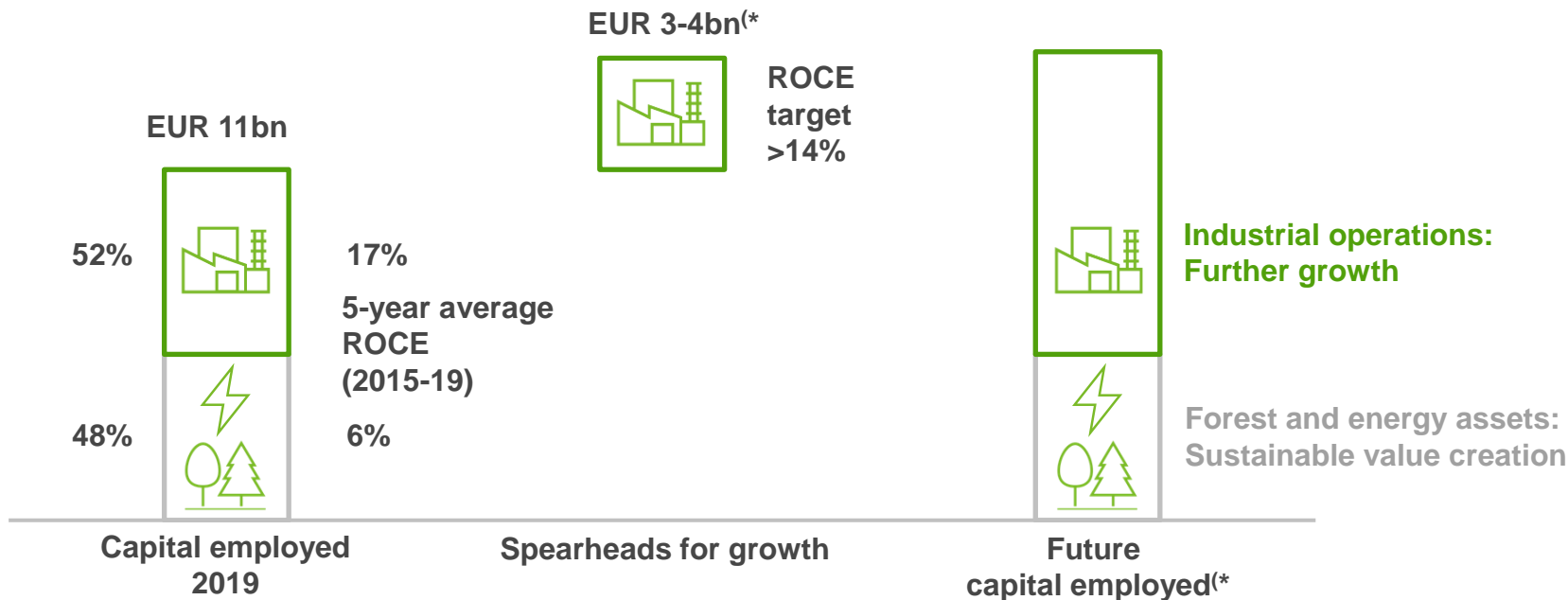
## – business mix drives earnings and shareholder value



\*) This is an illustration, not a forecast

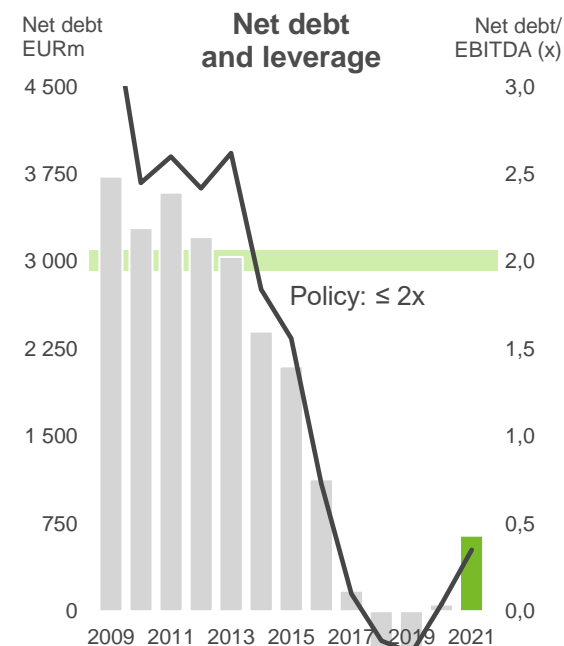
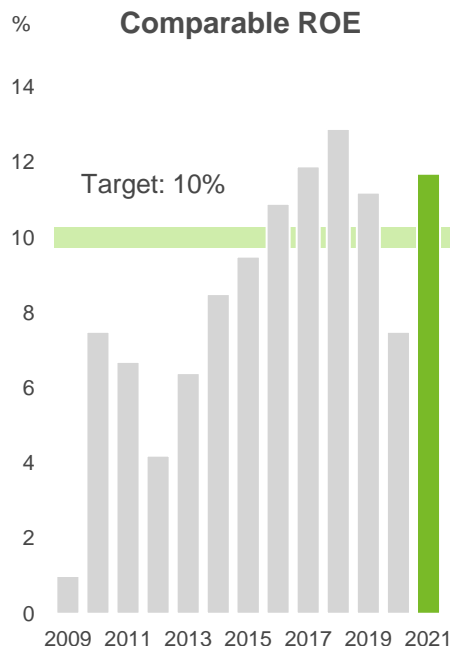
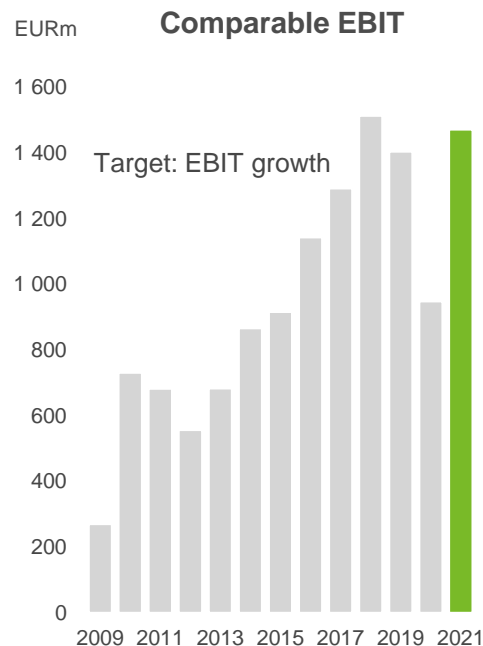


# Transformation improves UPM's asset mix, driving returns



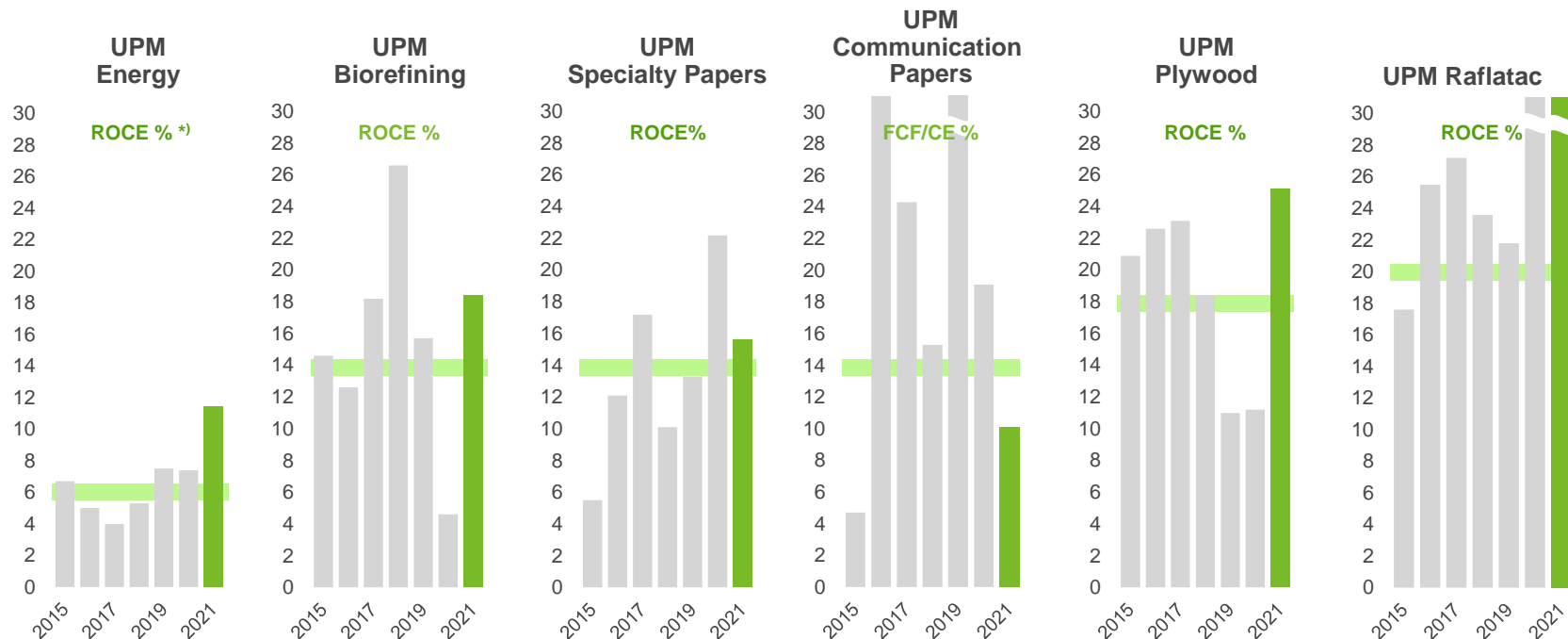
\*) This is an illustration, not a forecast

# Transformation is visible in earnings and balance sheet





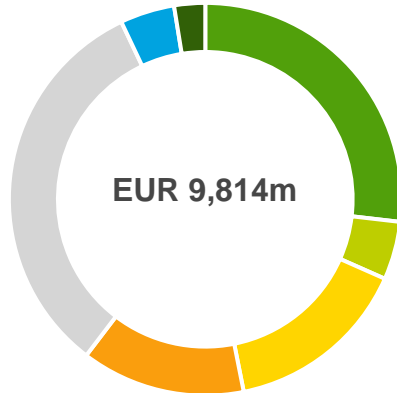
# Five out of six business areas exceeded their long-term return targets



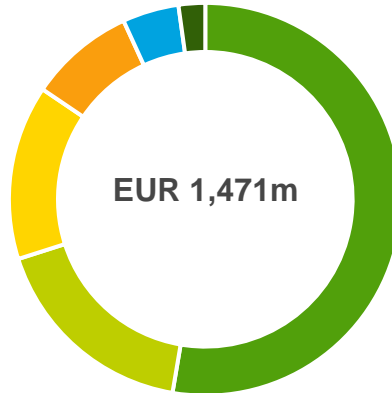
\*) shareholdings in UPM Energy valued at fair value

# UPM by business area in 2021

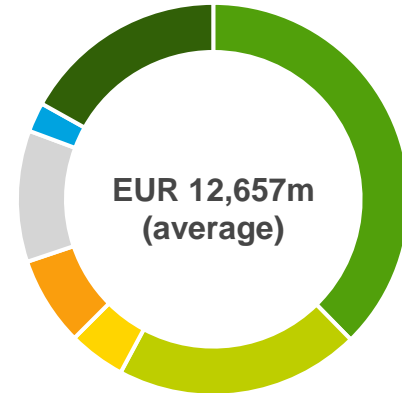
Sales



Comparable EBIT



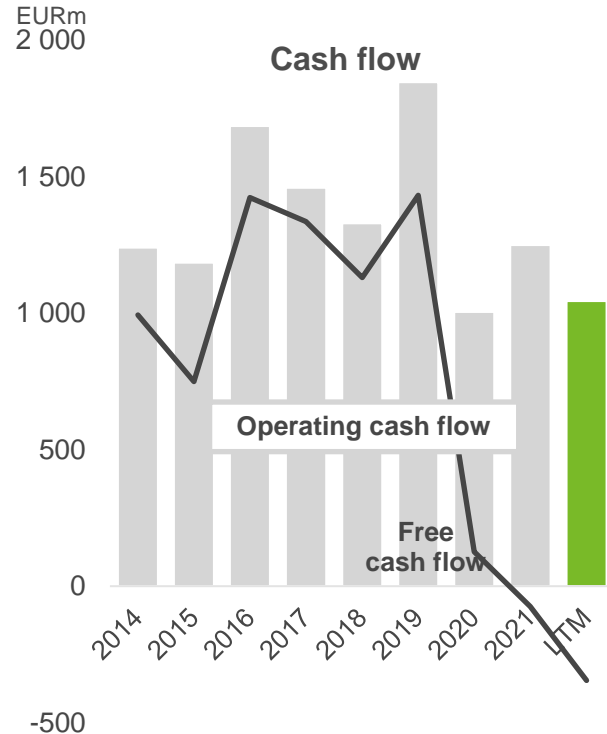
Capital employed



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

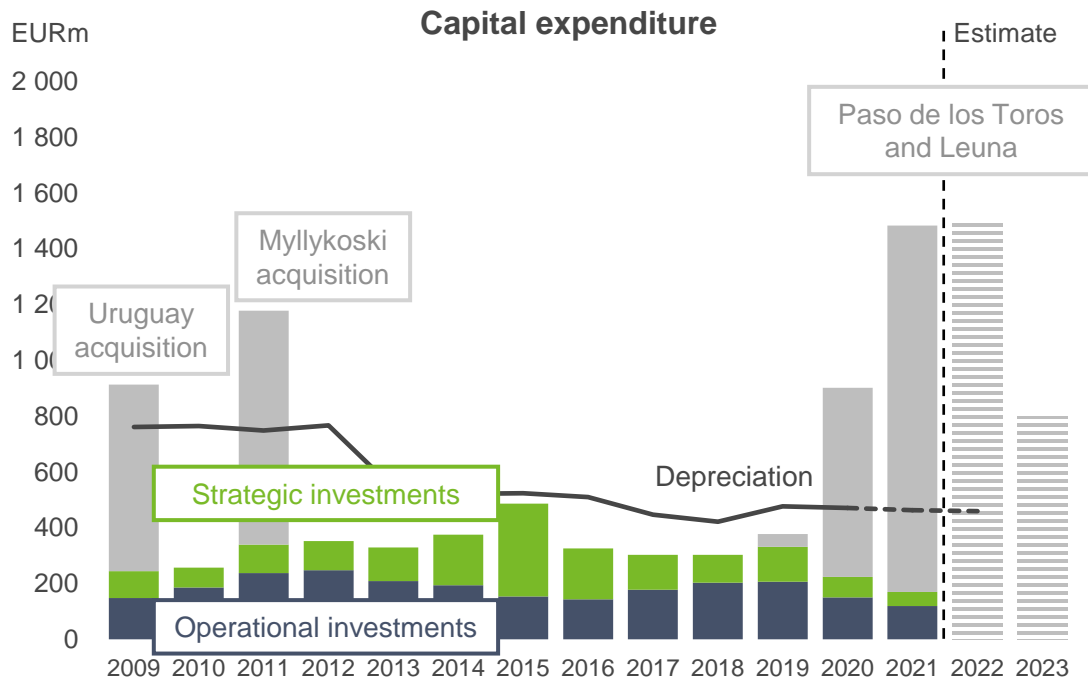


# Cash flow impacted by higher working capital



- Q1 2022 operating cash flow was EUR 12m (217m in Q1 2021)
- Working capital increased by EUR 258m (increased by 122m in Q1 2021), impacted by inflation and energy-related items

# Transformative growth projects in the most intensive phase in 2021-2022

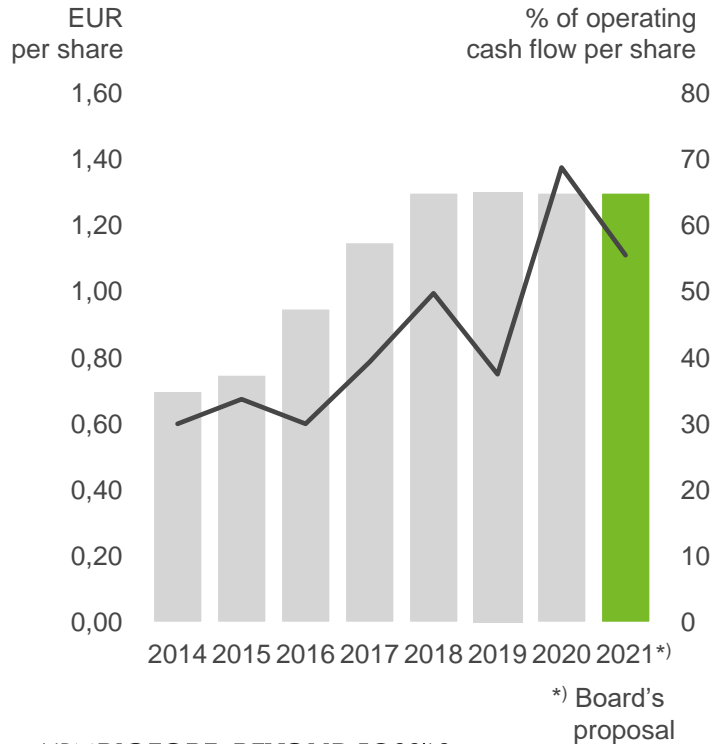


## Capex estimate for 2022

- 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



# Dividend: EUR 1.30 per share



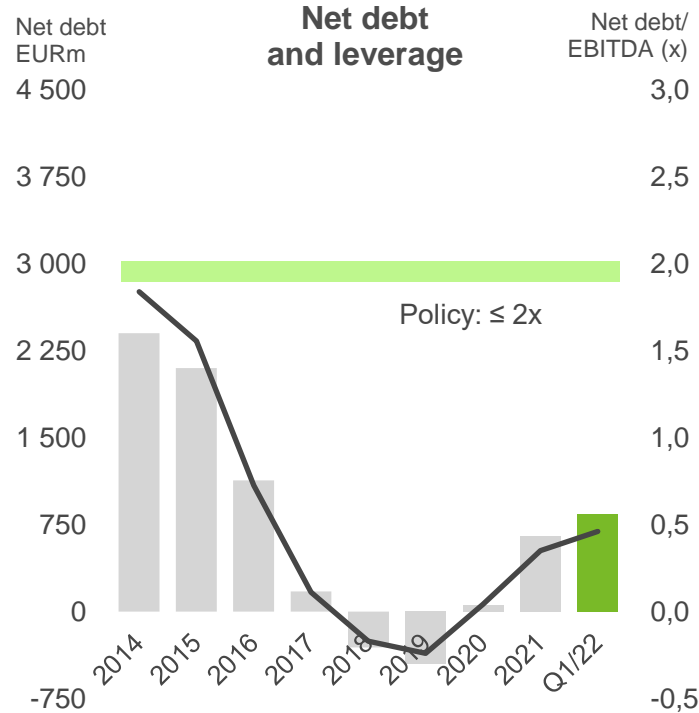
## Long term dividend policy

- UPM aims to pay an attractive dividend, 30–40% of operating cash flow per share

## Dividend for 2021

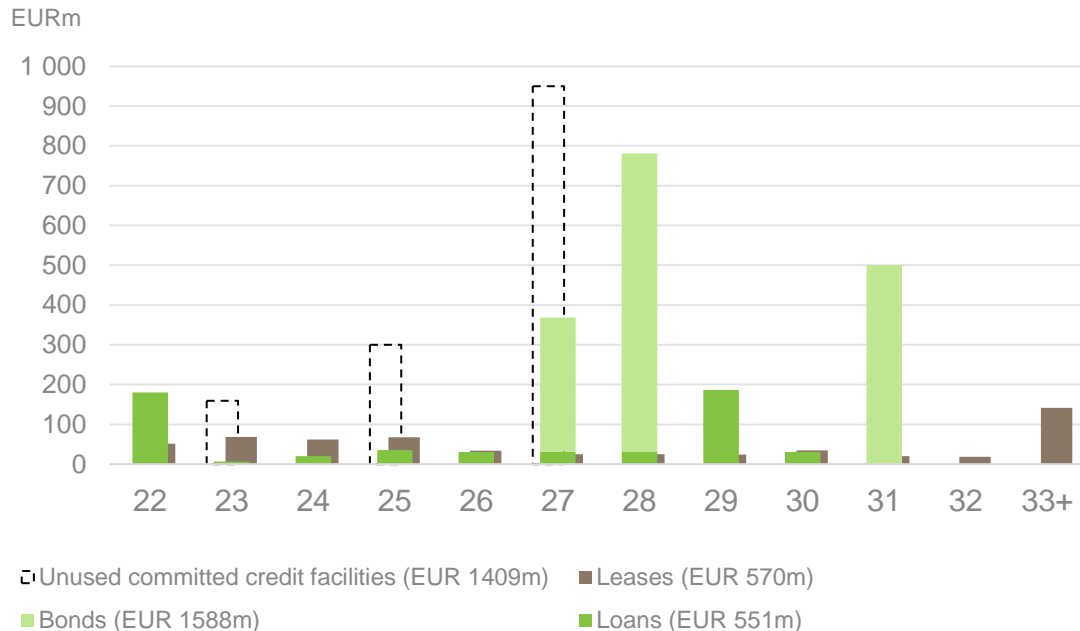
- EUR 1.30 (1.30) per share, totalling EUR 693m
- 55% of 2021 operating cash flow

# Strong financial position



- Net debt EUR 837m at the end of Q1 2022
- Cash funds and committed credit facilities EUR 2.9bn at the end of Q1 2022
- No financial covenants

# Maturity profile and liquidity



Liquidity on 31 March 2022 was EUR 2.9bn (cash, funds and unused committed credit facilities)

UPM's committed credit facilities:

- EUR 159m rolling committed overdraft facility maturing 2023
- EUR 500m bilateral revolving credit facilities (EUR 300m maturing 2025 and EUR 200m maturing 2027)
- EUR 750m committed syndicated revolving credit facility maturing 2027

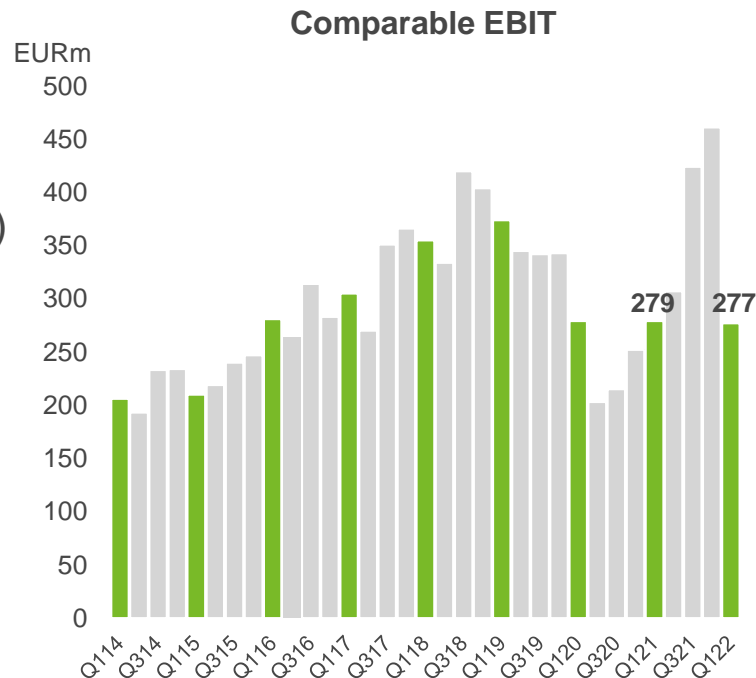
No financial covenants



# Q1 2022: Strong performance supported by tight markets

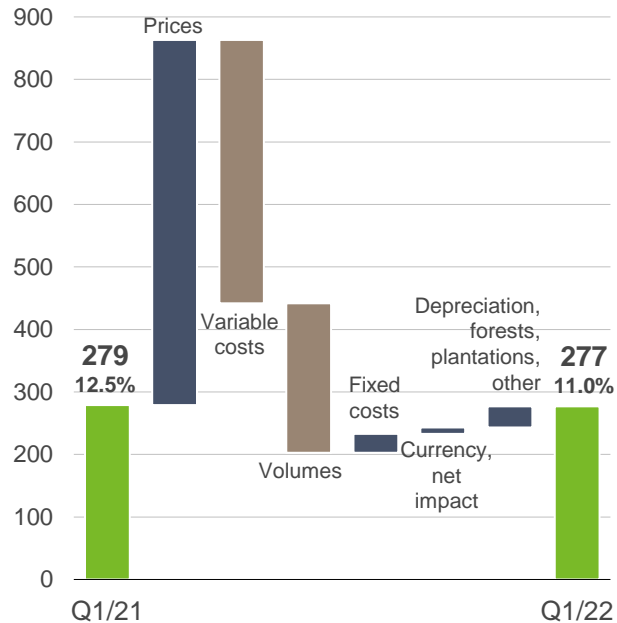


- Sales increased by 12% to EUR 2,507m (2,234m in Q1 2021)
- Comparable EBIT was in line with last year at EUR 277 million, 11.0% of sales (279m, 12.5%)
- Sales prices increase in all business areas and more than offset the negative impact of higher variable costs
- The strike in Finland affected production and delivery volumes especially in pulp and paper
- Transformative growth projects in Uruguay and in Germany proceed well

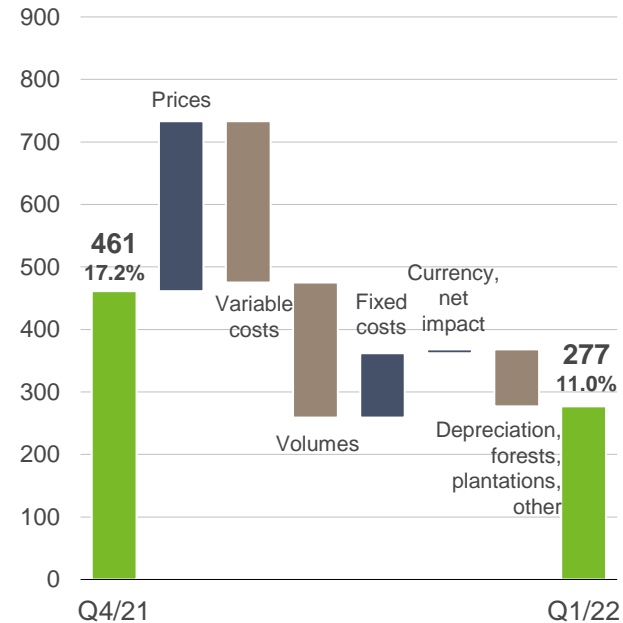


# Comparable EBIT in Q1 2022

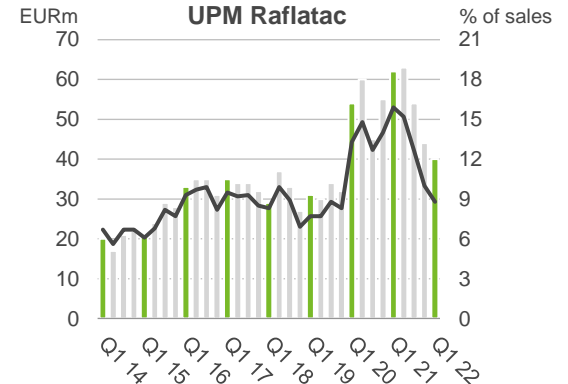
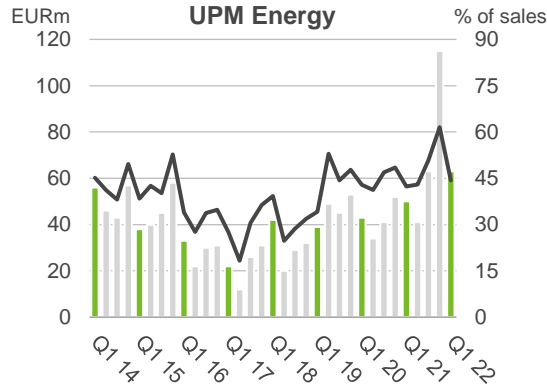
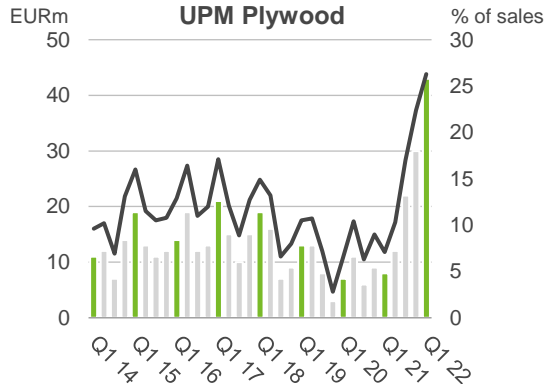
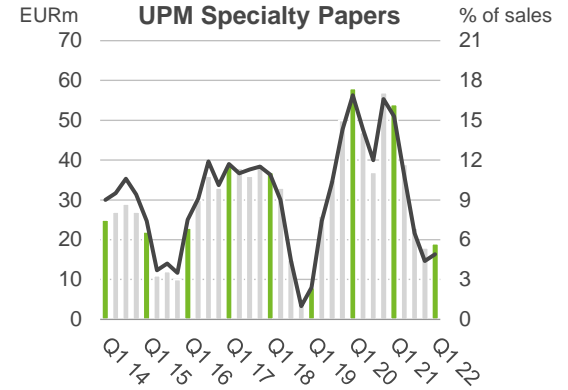
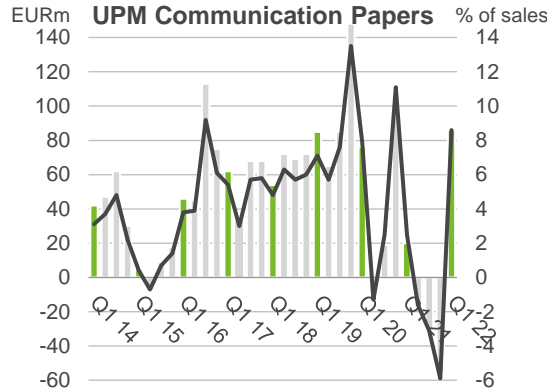
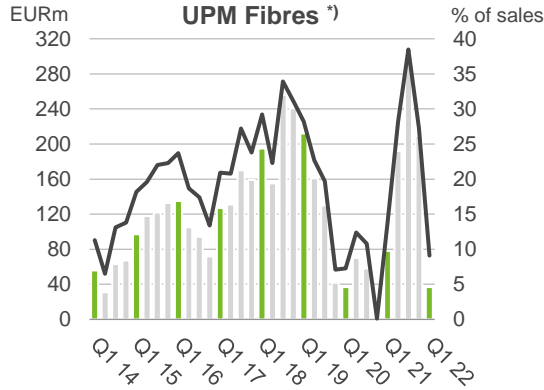
EURm



EURm



# Comparable EBIT by business area





# 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 war in Ukraine, the ongoing pandemic, growth in the European and global economy, the energy market situation in Europe and the tight raw material and logistics markets.
- Good demand is expected to continue for most UPM products in 2022. In the first half 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, and the two scheduled pulp mill maintenance shutdowns in Finland in Q2.
- Sales prices and variable costs are expected to increase in most of UPM businesses in H1 2022. 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. Comparable EBIT in the full year 2022 is expected to be on similar level or higher than in 2021.

# UPM impacts of Russia's war in Ukraine

We have started providing humanitarian and material support to Ukraine

UPM Raflatac's distribution terminal in the Kyiv region has been closed until further notice

For the time being, UPM has decided to suspend:

- its deliveries to Russia
- purchasing of wood in and from Russia
- operations at its Chudovo plywood mill

In 2021, UPM's sales to Russia and Ukraine combined was approx. 2%

Assets in Russia were less than 1%

Less than 10% of UPM's wood sourcing to Finland originated from Russia

Q1/22 items affecting comparability: EUR 95m impairment charges

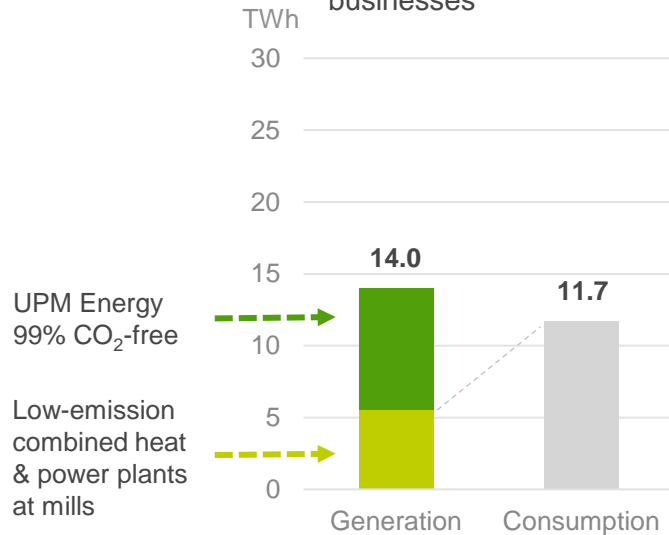
Q1/22 comparable EBIT: EUR 17m provision on expected credit losses

# UPM is a large producer and consumer of energy



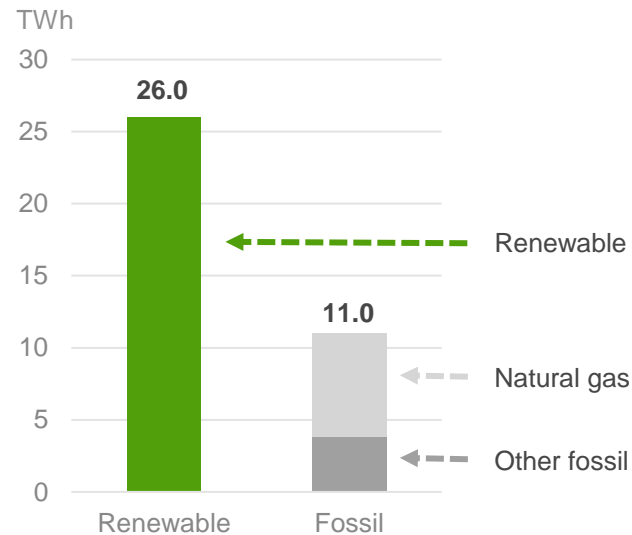
## Electricity

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



## Fuels

70% of all fuels are renewable, from the industrial processes



## Hedging

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

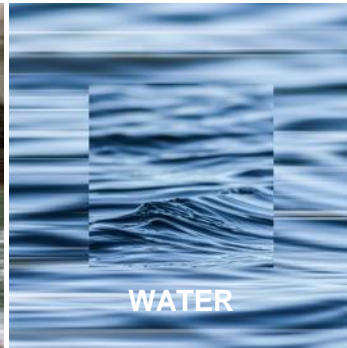
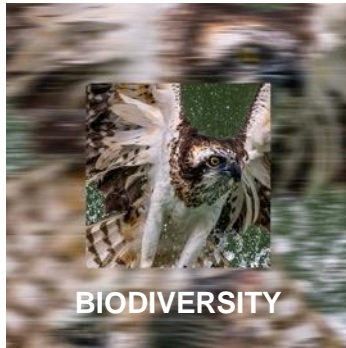
## CO<sub>2</sub>

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



# FOREST **ACTION**

The **UPM Forest Action** programme takes a holistic view,  
covering the five fundamentals of responsible forestry:

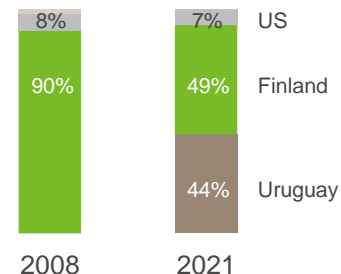


# Developing our forest assets

## UPM forests and plantations

	2008	2021
Forest and plantation land (own and leased) (1,000 ha)	1,012	1,057
Forest growth (million m <sup>3</sup> )	4.3	8.8
Wood sourced from UPM forests and plantations (million m <sup>3</sup> )	2.2	3.6
Value of forests and plantations, including land (EURm)	1,270	3,241

## Area distribution



Investing in strategic forest assets in Uruguay  
 Releasing capital from forests far from our mills  
 Productivity with active management and nurseries  
 Strong commitment to sustainability

# New business in wood-based biochemicals

Responding to strongly growing demand for sustainable solutions



Industrial scale 100 % wood-based biorefinery in Leuna, Germany



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



EUR 750 million investment  
Total annual capacity of 220,000 tonnes



Scheduled to start up by the end of 2023



# 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



# Renewable product range



- **Bio-monoethylene glycol (bMEG)**  
for textiles, PET bottles, packaging, deicing fluids
- **Renewable functional fillers**  
for rubber applications as a sustainable, light-weight and high-purity alternative to carbon black and silica
- **Bio-monopropylene glycol (bMPG)**  
for composites, pharma, cosmetics, detergents
- **Industrial sugars**  
for various applications in chemicals industry



# Large growth markets – unique sustainability value



- The global glycols market is more than 30 million tonnes, with expected annual growth of approx. 4%
- The global market of carbon black and silica is more than 15 million tonnes, with expected annual growth of approx. 3%
- Current market supply based on non-renewable raw materials
- Customers increasingly committed to sustainable solutions
- UPM's renewable raw material and new technologies provide significant reduction in carbon footprint
- UPM biochemicals fit directly into customers' processes and the existing recycling infrastructure

UPM Fibres

# UPM Paso de los Toros – World-class pulp mill

Highly competitive cash cost of  
USD 280 per delivered tonne of pulp



Pulp mill and deep seaport  
terminal in Montevideo  
Jobs and other opportunities  
for the residents of the region



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



USD 3.47 billion investment  
Total annual capacity  
of 2.1 million tonnes of  
eucalyptus pulp



Scheduled to start  
up in Q1 2023

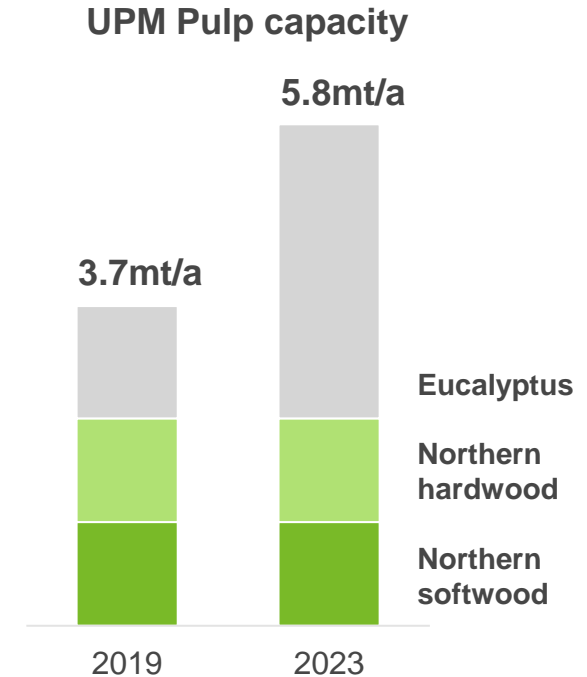




# Transformative step in UPM's pulp business and in UPM's future earnings



- 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<sup>(\*)</sup>
  - 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



# State of the art mill design



Initial production capacity of 2.1 million tonnes of eucalyptus pulp, with further potential

World-class single line pulp mill and Best Available Techniques (BAT)

- Excellent safety

- Proven high environmental performance

- High availability and maintainability

- High energy output, surplus renewable electricity 110 MW

- Low costs



# Competitive wood supply



Eucalyptus availability secured through UPM's own and leased plantations and wood sourcing agreements with private partners

UPM's own and leased plantations in Uruguay cover 500,098 hectares, supplying both UPM Fray Bentos and the new mill near Paso de los Toros

30 years experience of sustainably managed and productive plantations



# Efficient logistics set-up



UPM will invest USD 280 million to construct a deep sea pulp terminal in Montevideo port

Direct rail access from the mill to a modern port terminal creates an efficient supply chain to world markets

Synergies with the UPM Fray Bentos mill

Agreed railway modernisation

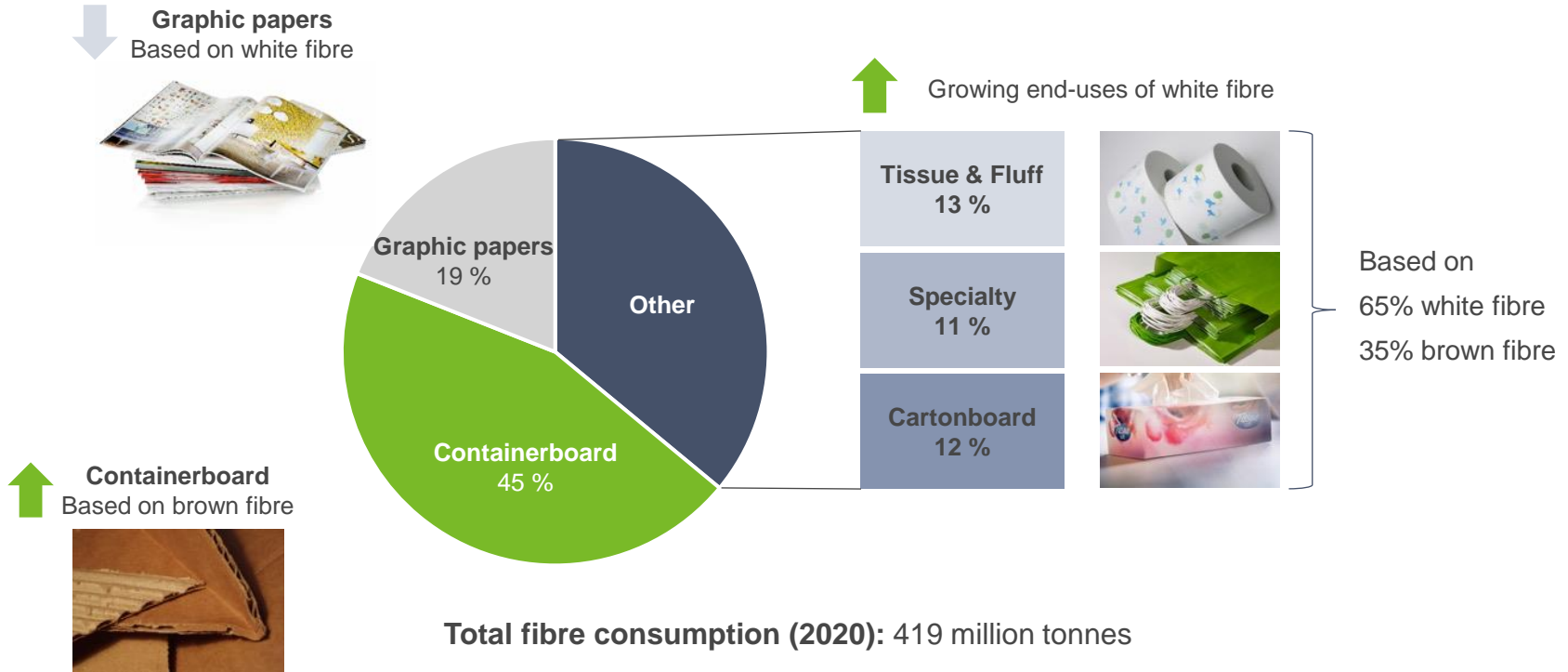
Public-private-partnership agreement between the government and the construction company

Agreed road improvements





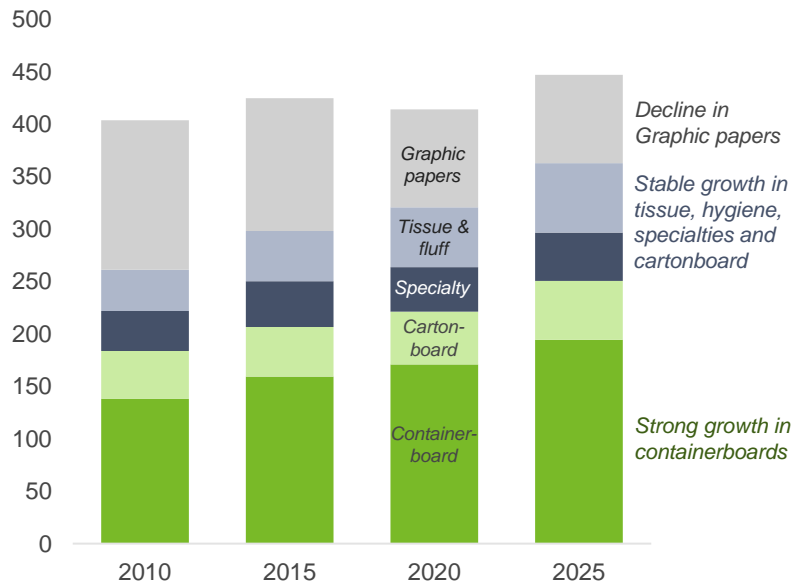
# Market pulp consumed in growing end-uses – alternative white fibre demand overcoming graphical paper decline



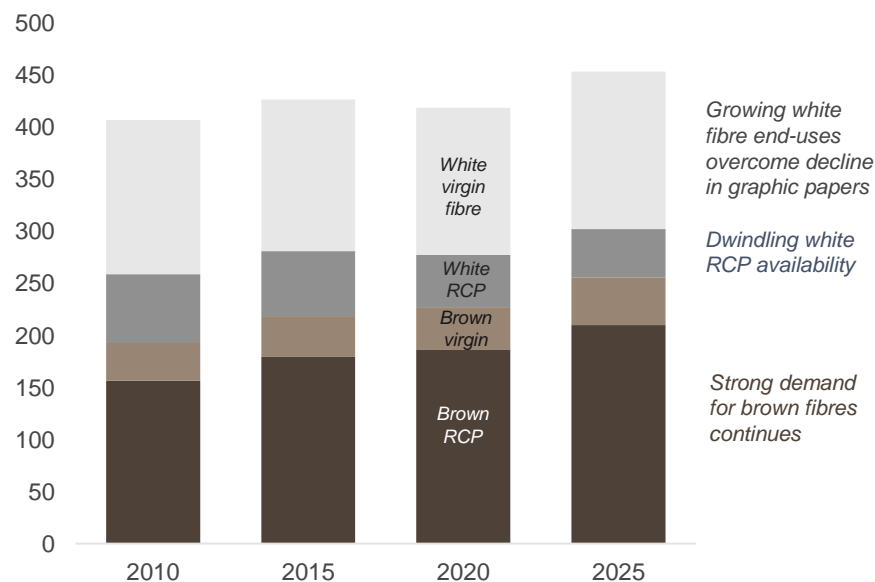
# Pulp demand outlook



**Global consumption of end-uses**  
in million tonnes



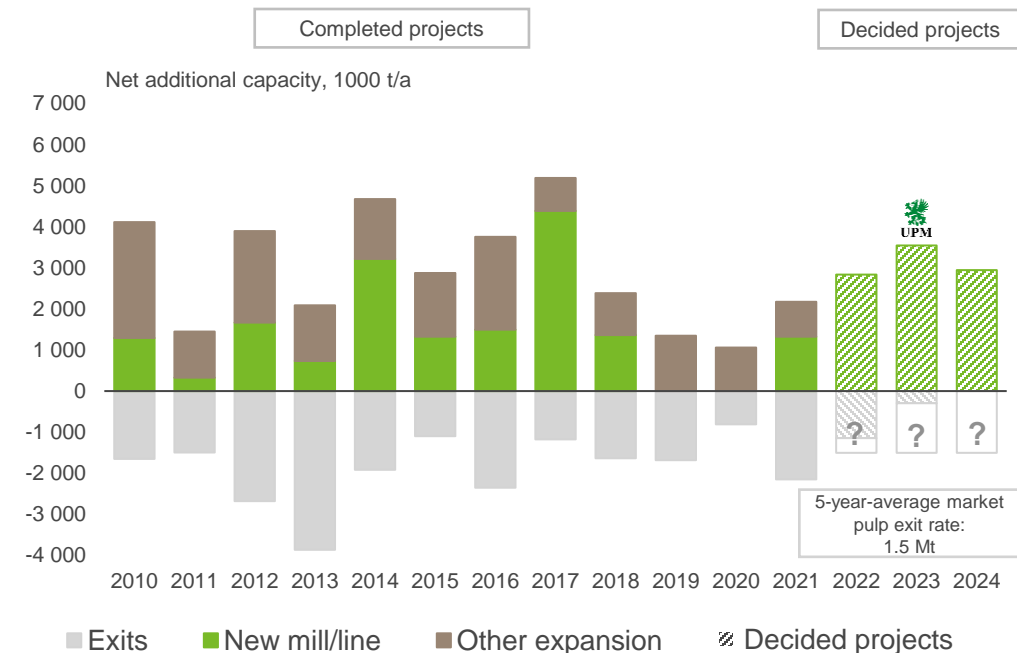
**Global consumption of fibres**  
in million tonnes



# Moderate numbers of decided projects in the short-term



## Entry of market bleached pulp capacity

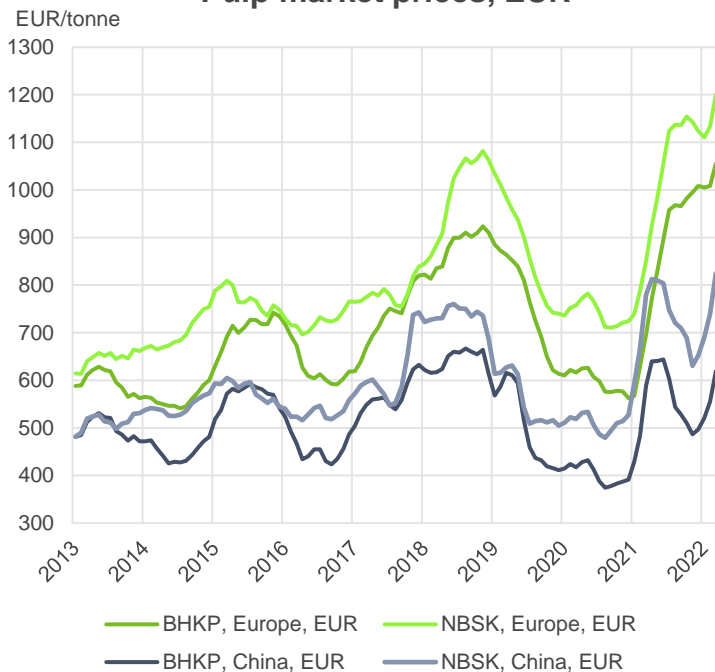


Note: including BHKP, BSKP, excluding fluff and dissolving

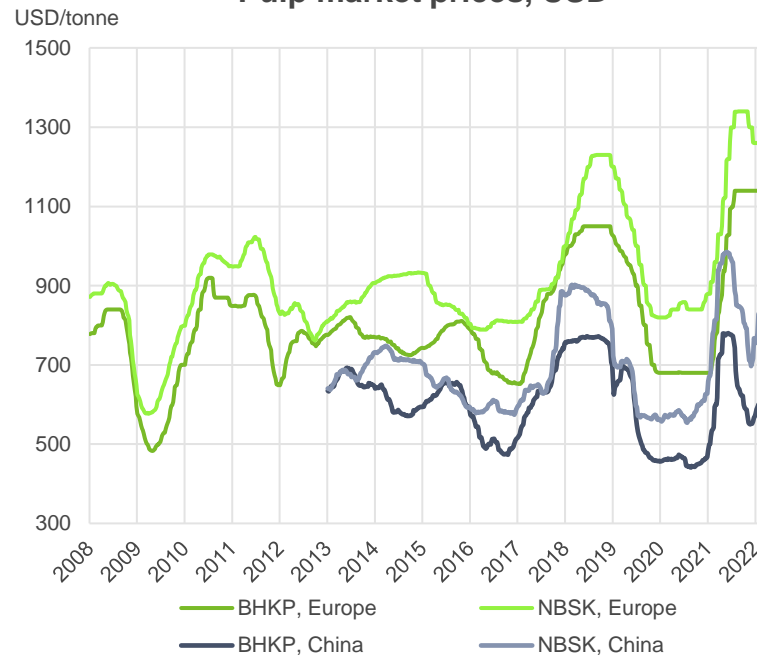
# Chemical pulp market prices



Pulp market prices, EUR



Pulp market prices, USD



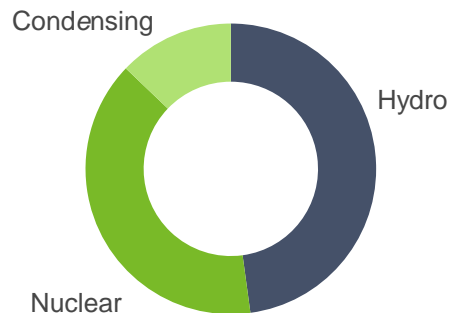
Source: FOEX Indexes Ltd



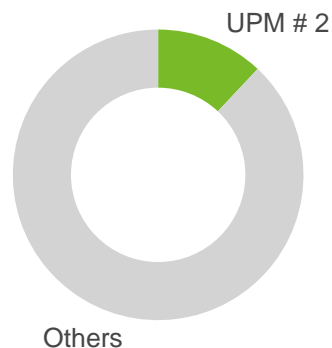
# UPM's power generation – competitive in all market conditions



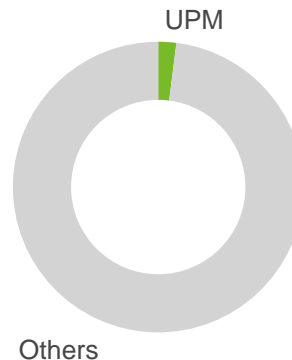
UPM's power  
generation assets



UPM in Finland



UPM in Nordics

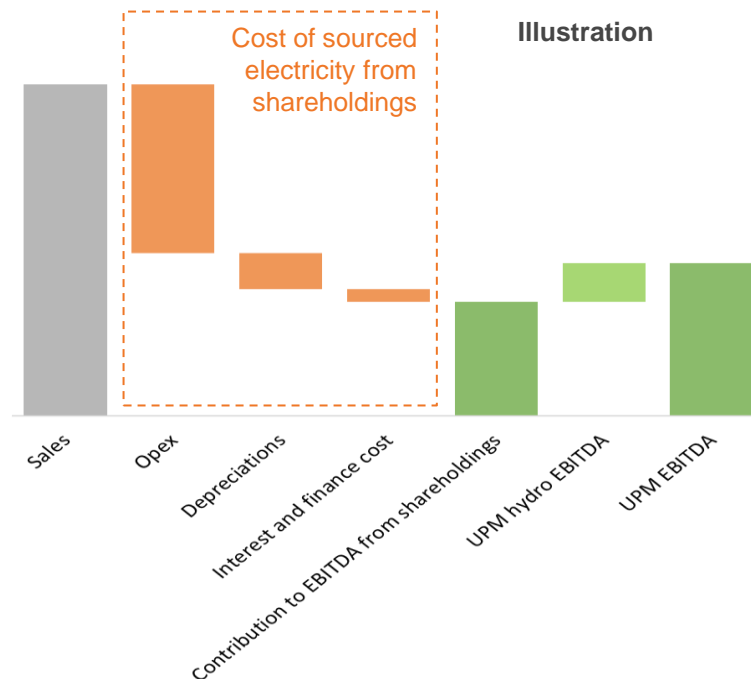


# UPM Energy

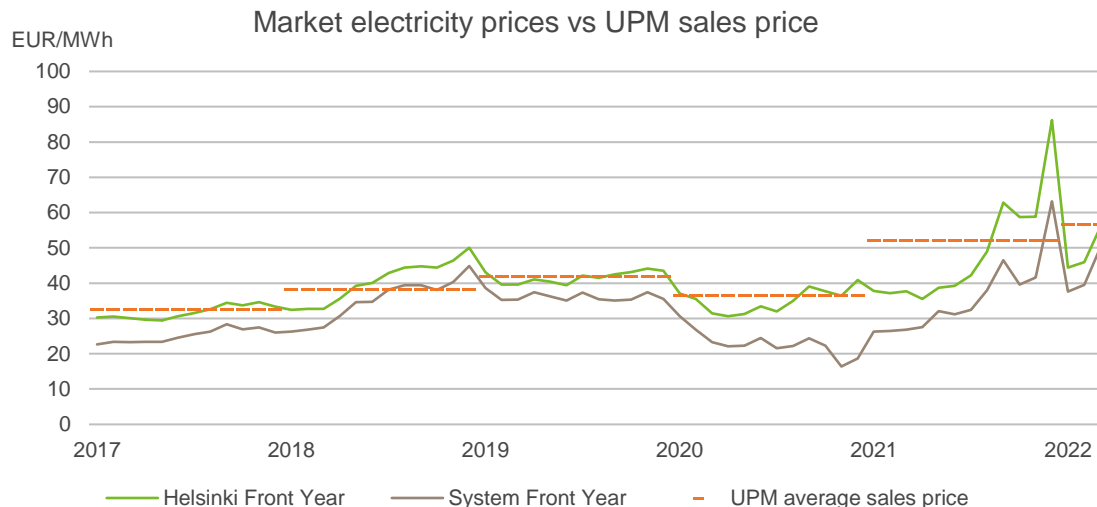


UPM Energy's power generation	MW	EURm
Hydropower holdings	560	930
Nuclear power OL1 and OL2	588	1,219
Nuclear power OL3 (PTO 07/2022)	494	424
Thermal power	154	1
UPM Energy's shareholdings in total, valued at fair value	1,796	2,574
UPM own hydropower assets	166	
UPM Energy's in total (incl. OL3)	1,962	
UPM Energy capital employed		2,764

UPM Energy sources electricity from part owned energy companies at full cost (cost-price principle, mankala principle)



# Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2017	2018	2019	2020	2021	Q1/2022
Comparable EBIT, EURm	91	123	185	171	270	63
% of sales	32.7	28.8	31.5	44.4	45.0	44.3

# UPM Raflatac

## Self-adhesive labels in end-use



**Pharmaceuticals**



**Wine, spirits & craft beverage**



**Food**



**Personal care**



**Home care**



**Durables**



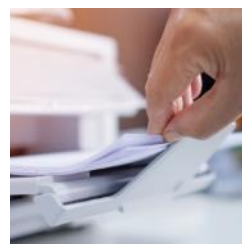
**Transport & logistics**



**Industrial Chemical**



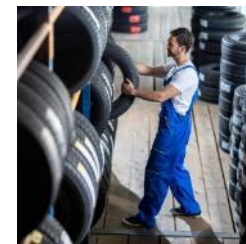
**Retail**



**A4 & cut-size**



**Security & brand protection**



**Tyre**



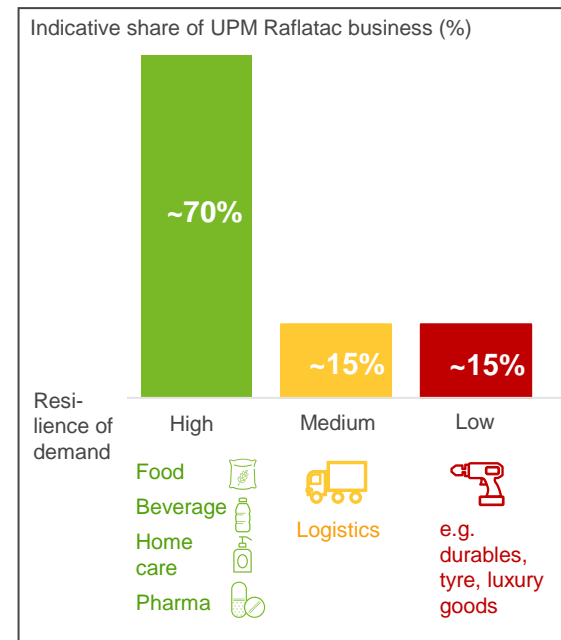
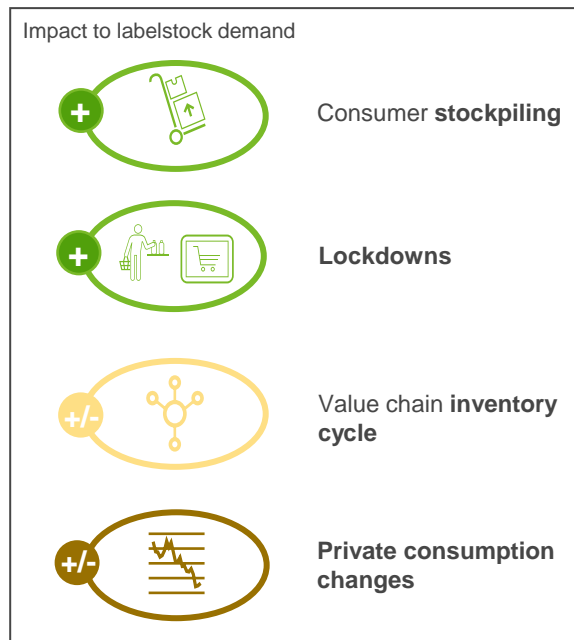
# The labelstock markets have solid long term demand growth trends – short term can be more volatile



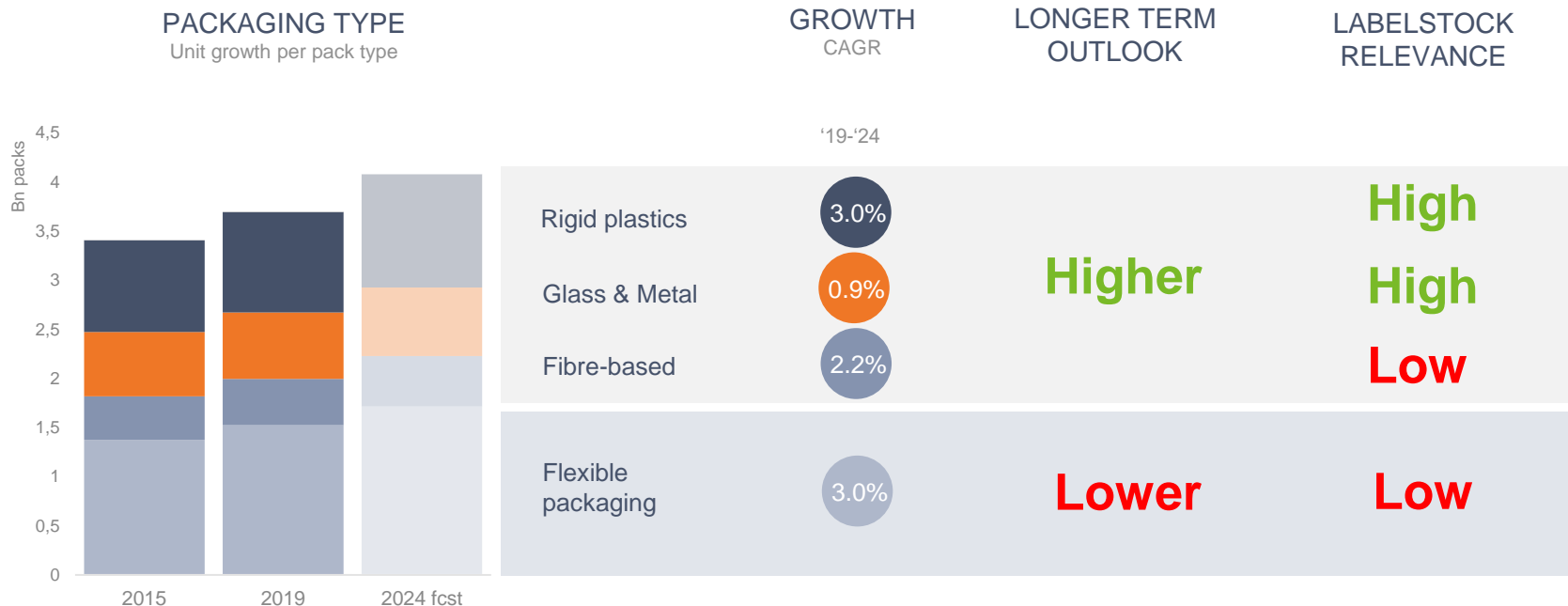
The long term demand growth outlook remains a solid 3-4% p.a.

However in the short term the demand changes can be more dynamic

The demand of UPM Raflatac's end use portfolio is relatively resilient



# Early signs of recycling impacts: Packaging decisions to favour labelstock



Source: Euromonitor September 2020; UPM Raflatrac perspective

# Focus on global Labelling materials, Packaging in Europe and Office paper in APAC



## LABELLING MATERIAL



## PACKAGING



## OFFICE PAPER APAC



# UPM Specialty Papers is well positioned for growth in the selected markets



## LABEL & RELEASE

Leading position in growing global label and release paper markets



## PACKAGING PAPERS

Selective approach in consumer packaging area. Well positioned for future growth.



## APAC FINE PAPERS

One of the leading players in office papers, focused niche player in graphic papers



Market growth forecast, CAGR 2020-2025

Global  
release liner  
**3-4%**

Global  
flexible  
packaging  
**2-4%**

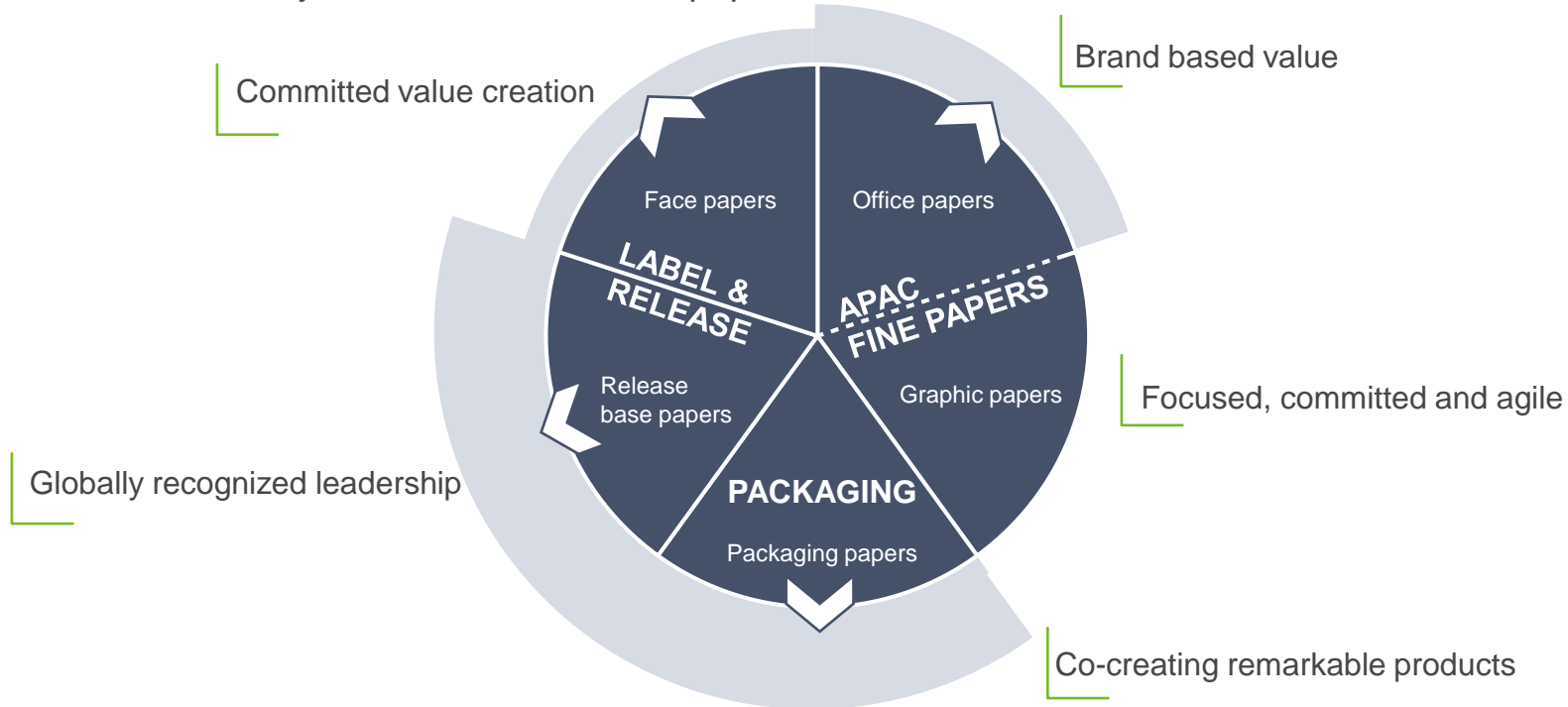
Paper



APAC office  
papers  
**1-2%**

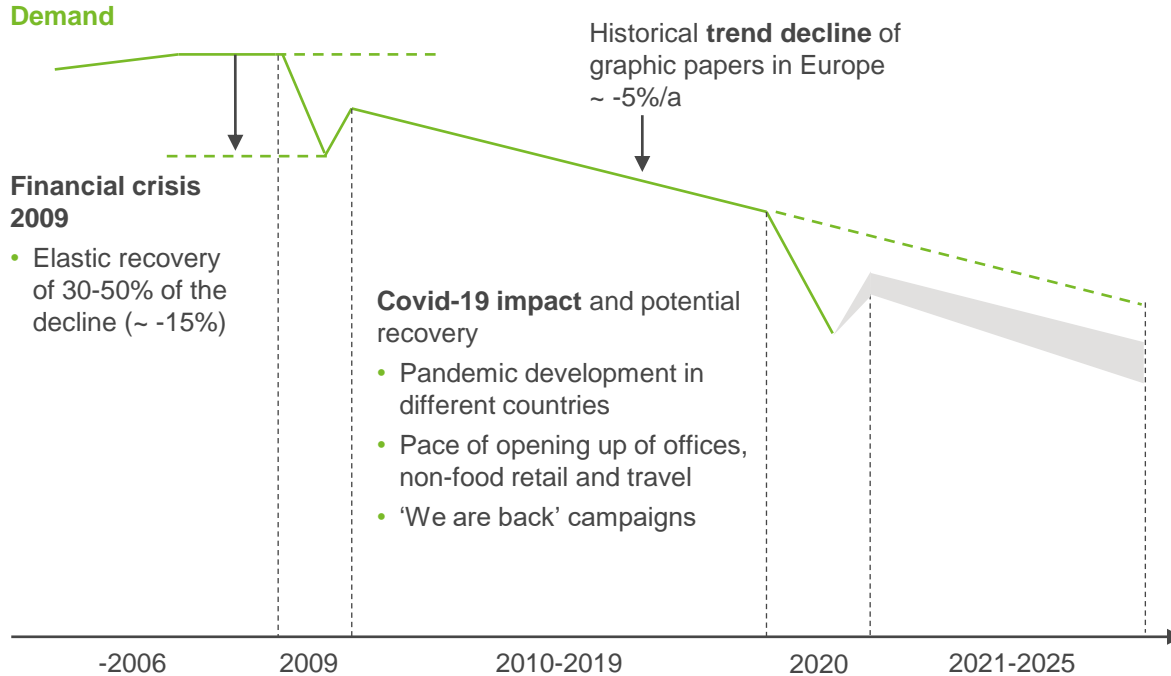
# UPM Specialty Papers **GROWTH STRATEGY**

We co-create a future beyond fossils with renewable, recyclable and remarkable papers





# Paper demand impacted by the lockdowns, economic activity and structural changes\*)

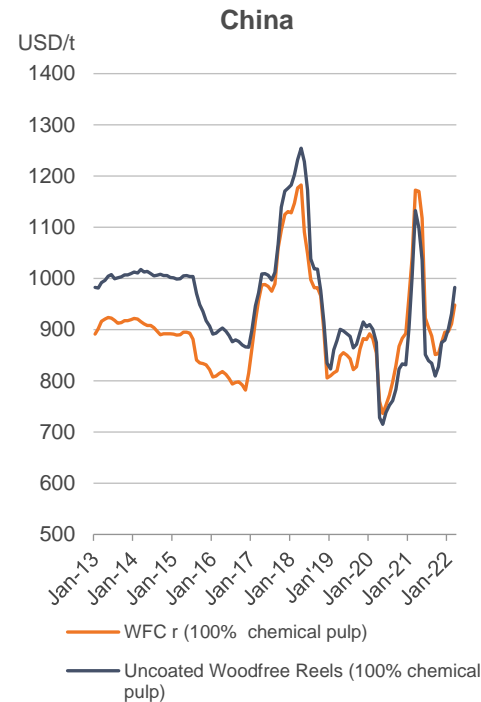
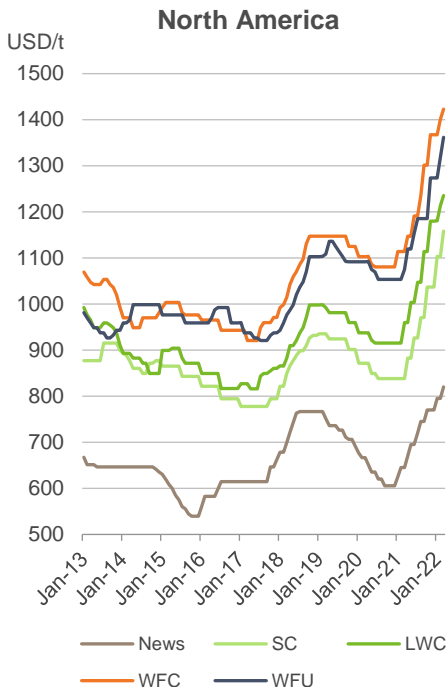
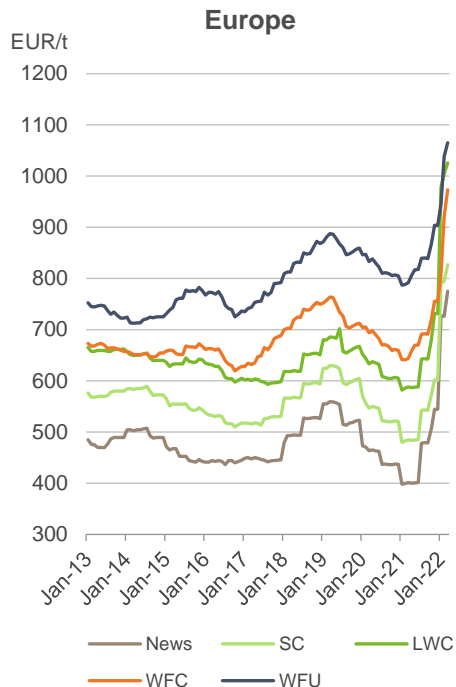


## Uncertainties for demand recovery and drivers in demand decline trend

- Uncertain economic recovery
- Perpetuation of “new” consumption and digitalization trends
- Trend towards digital publishing and subscription models, cost of distribution
- Growth of e-commerce, digital customer engagement and promo in retail
- Adaption of digital records and workflows in administration, business and education
- Paper as ‘chill media’ for healthy offline time
- Trust in media, effectiveness of print promo

# UPM Communication Papers

## Graphic paper prices

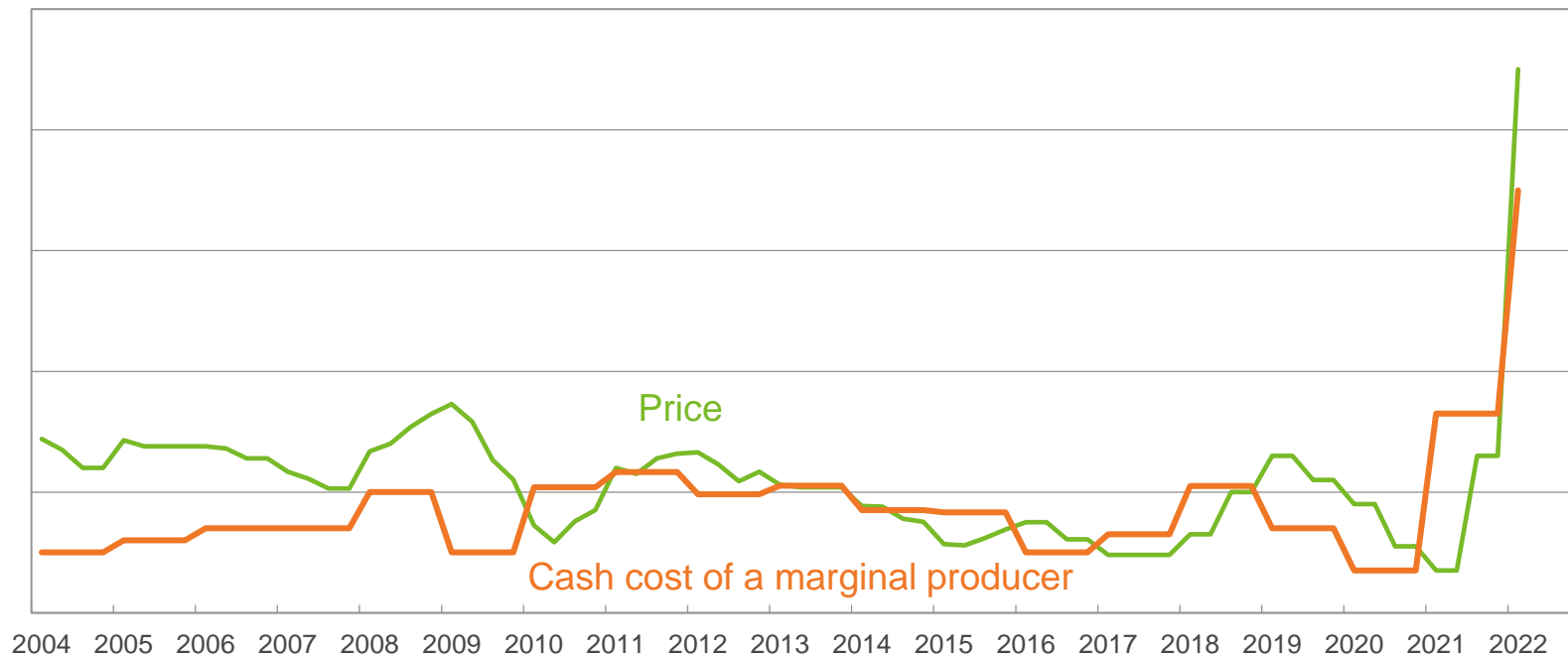


Sources: PPI, RISI

# Paper price vs. cash cost of marginal cost producer



EUR/t



Sources: PPI, RISI, Pöyry

# UPM Plywood focuses on three end use segments



## Construction



### UPM's position and direction

- Leading position in high and medium range standard products in Europe through well established distribution network providing easy access to WISA® plywood
- Uncompromised sustainability, certified products and operations
- New growth sought by strengthening position in selected emerging markets

## Vehicle flooring



### UPM's position and direction

- Leading position in Europe
- Competitive edge built on smoothly running operations and needs-based product design creating value to both vehicle manufacturers and operators
- Growth sought by expanding to new markets and related end use segments

## LNG shipbuilding



### UPM's position and direction

- Leading supplier in LNG plywood
- Competitive edge based on right quality and accurate on-time deliveries
- Long term commitment and benchmark service level
- Focus to secure leading position in LNG carriers and to extend offering into related applications using the same technologies (e.g. land storage tanks)

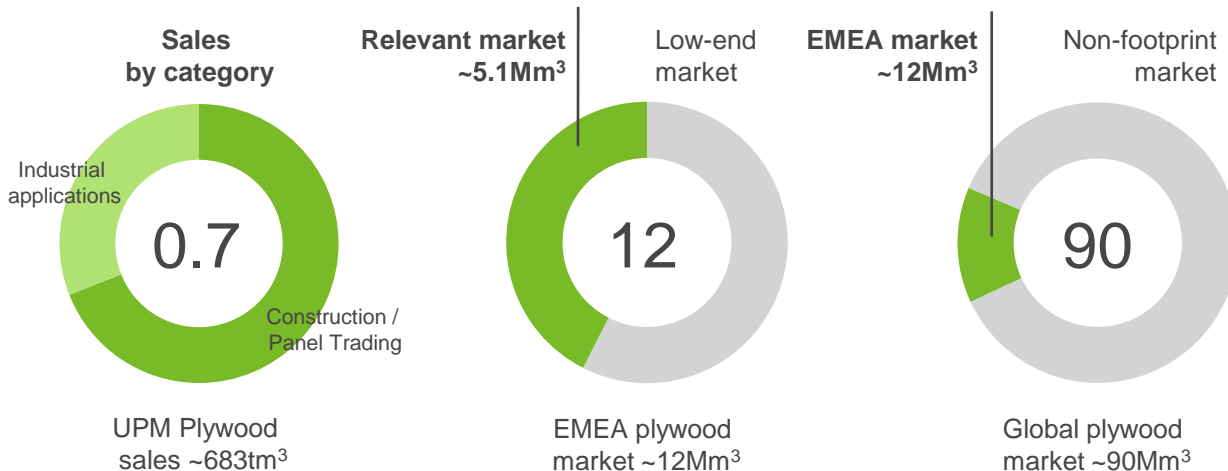


# UPM's key markets are in the high and mid segments primarily in EMEA region



## Strategic choices

1. Demanding industrial applications
2. High and medium range standard products
3. Selected customers
4. EMEA region and LNG business globally



# Moving forward with biofuels growth plans

## Basic engineering phase of a next generation biorefinery



Potential industrial scale biofuels biorefinery



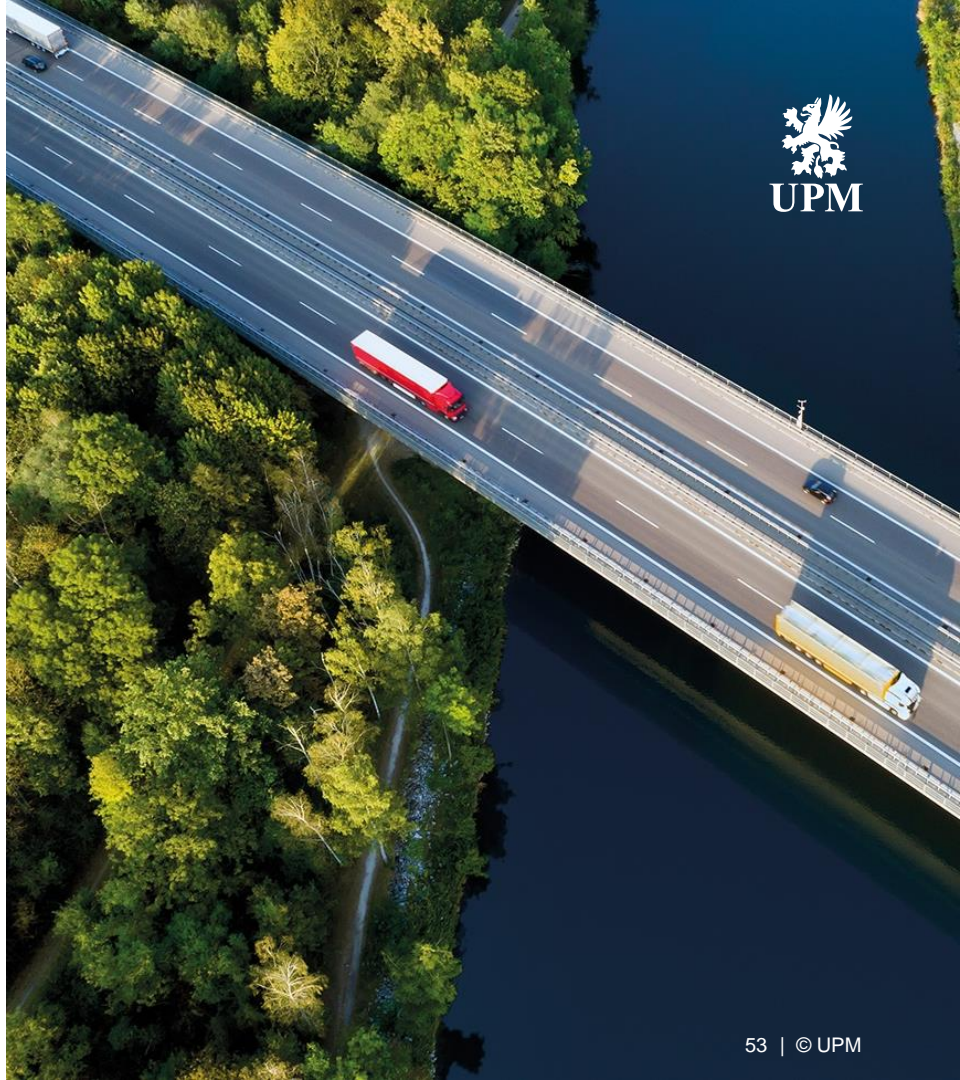
Products would significantly reduce carbon footprint in the road transport and aviation



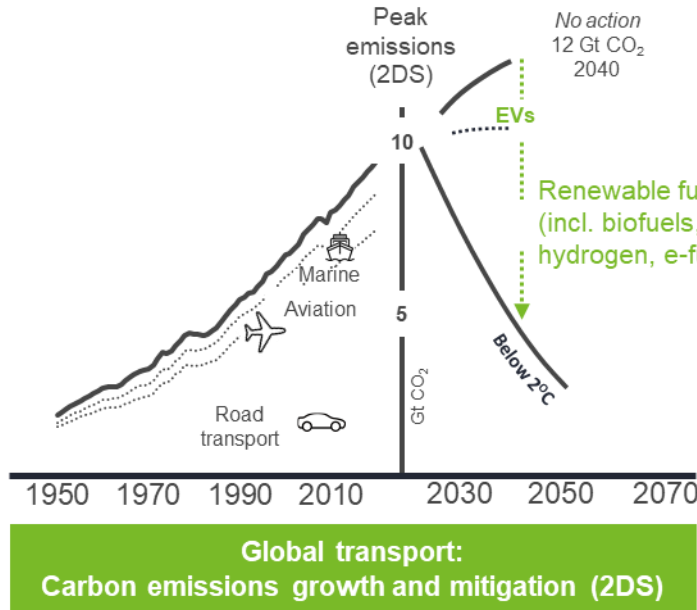
Capacity would be 500,000t of renewable fuels incl. sustainable jet fuel



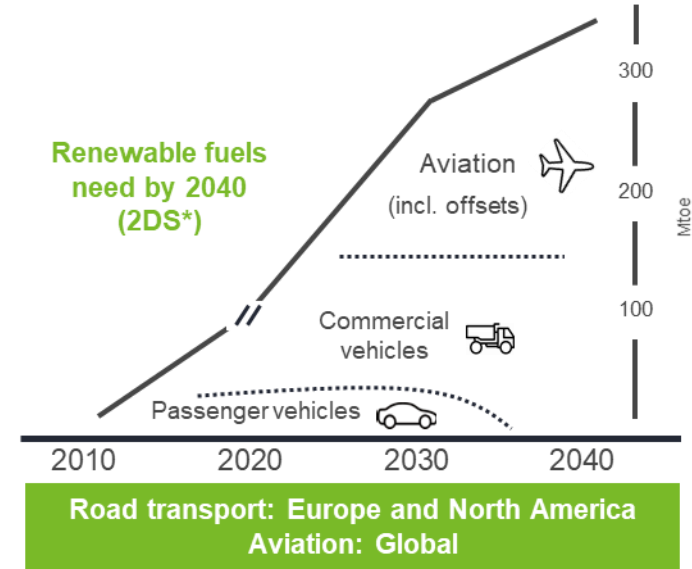
Potential investment in Rotterdam, the Netherlands



# Carbon mitigation in transport is dependent on renewable fuels despite recent decline in fuel consumption



Source: UPM based on IEA, EIA, Bloomberg



\*The two degree scenario (2DS) is calculated vs. 2005 reference per sector (-30% 2030, -40% 2040, -50% 2050)

Source: UPM based on WoodMackenzie, Bloomberg, ICAO, EIA

# UPM Biofuels' competitive edge to be built on resilient ecosystem and agility to select markets



## NEW SUSTAINABLE BIOMASS

Sustainable and uniquely upstream integrated feedstock pool

- Additionality
- Climate positive land use



Carbon stored to soil in each cycle

## CLIMATE-POSITIVE FUELS

Efficient carbon neutral production



Cellulosic fuels

Renewable diesel, gasoline and jet

E-fuels future potential

## DECARBONIZED TRANSPORT AND PETROCHEMICALS

Flexibility to create maximum value from several end uses and market geographies





UPM **BIOFORE**  
**BEYOND** FOSSILS

