



UPM



Interim Report Q1 2023

Jussi Pesonen
President and CEO
25 April 2023

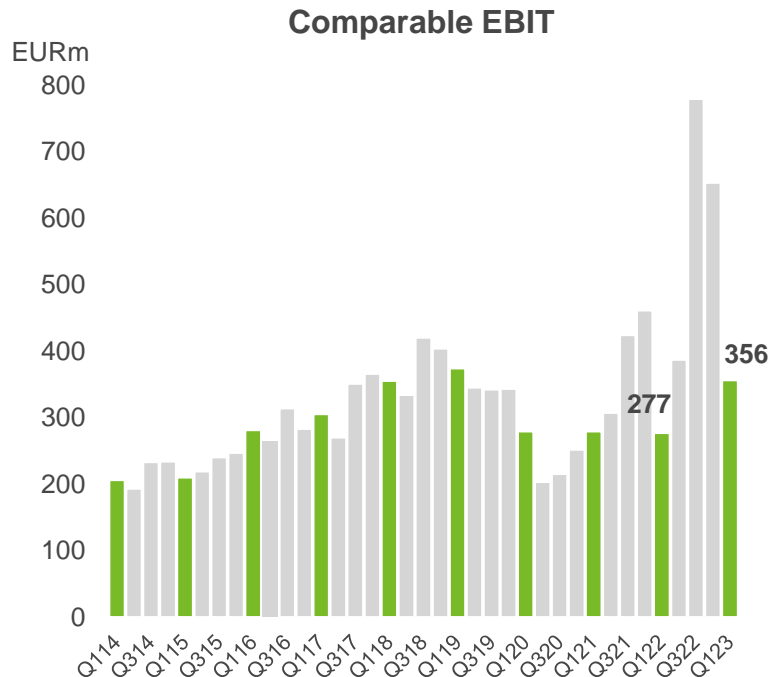
UPM **BIOFORE** - BEYOND FOSSILS



Q1 2023: solid Q1 result underpinned by strong margins, two transformative projects completed



- Sales increased by 11% to EUR 2,787m (2,507m in Q1 2022)
- Comparable EBIT grew by 29% to EUR 356m, 12.8% of sales (277m, 11.0%)
- Operating cash flow was EUR 714m (12m), supported by cash inflow from energy hedges
- Unit margins on high level – delivery volumes impacted by destocking in various product value chains
- UPM Paso de los Toros started production, OL3 nuclear power plant unit started regular electricity production

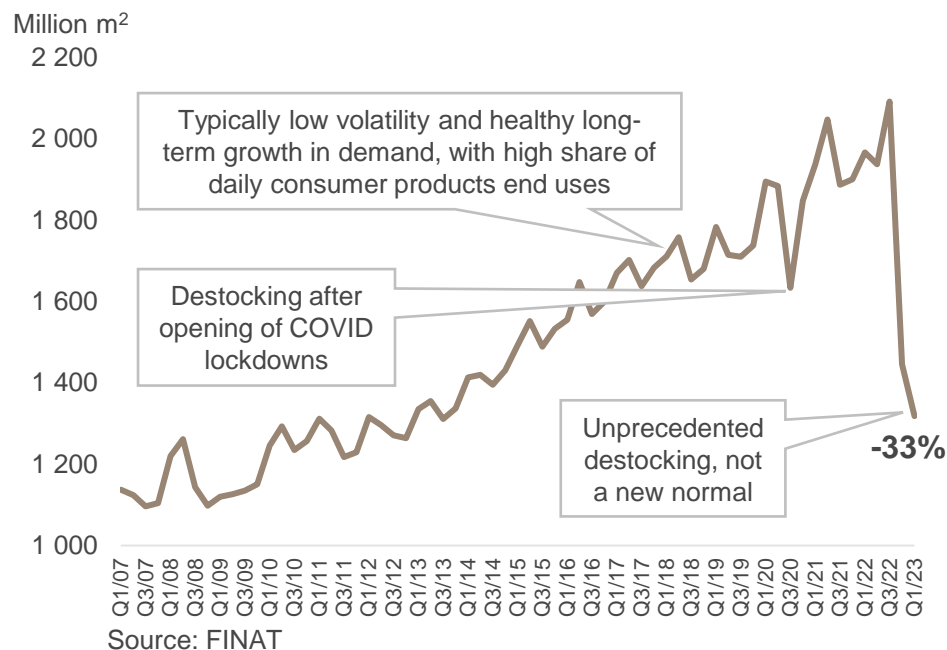


Focus on margin management during short-term lack of volumes

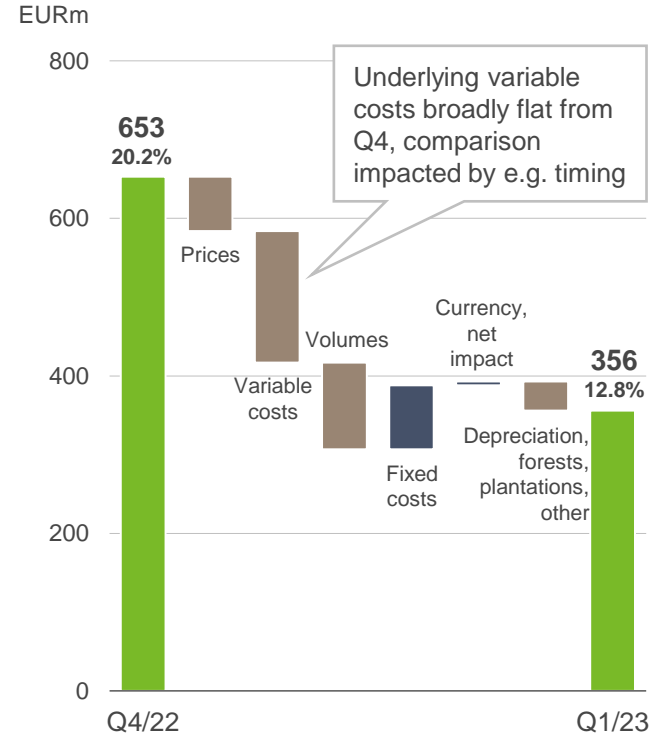
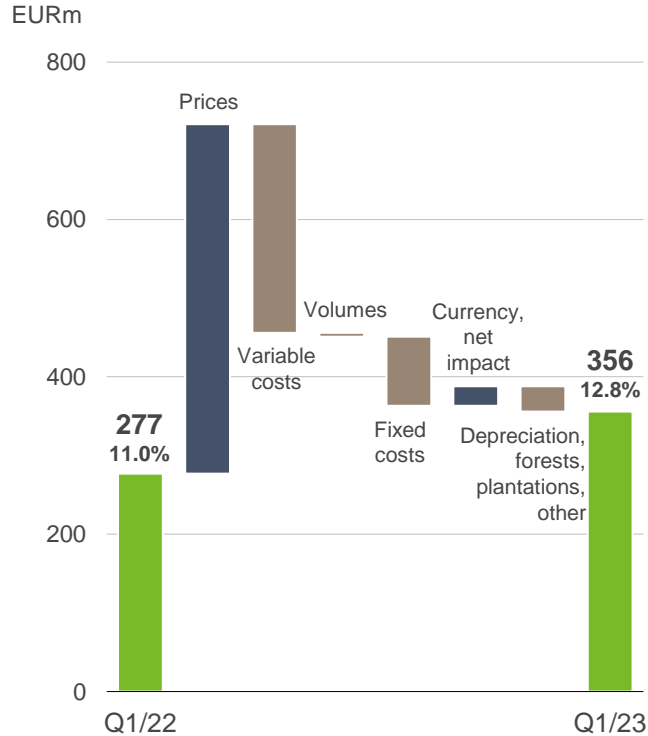


- Q1 market shipments in most products substantially below long-term trends due to destocking in the value chains
- UPM weighted average deliveries / capacity was about 70% in Q1 2023
- The impact of destocking is expected to phase out in the coming months
- The long-term growth prospects remain unchanged and attractive
- We continue to focus on margins
- Many variable costs have passed their peak but the benefit is yet to materialise in our results

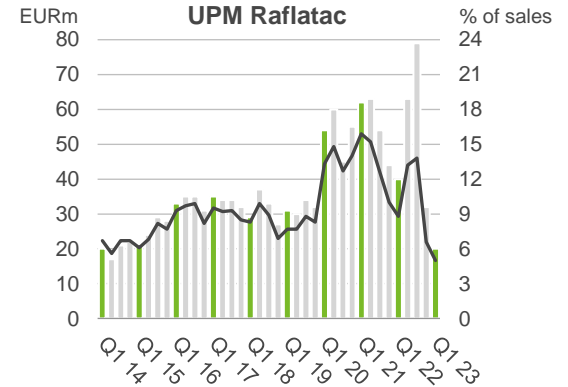
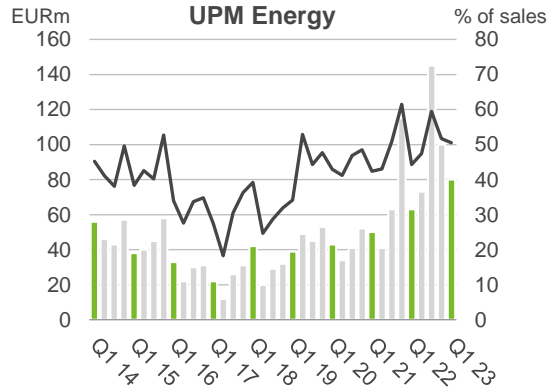
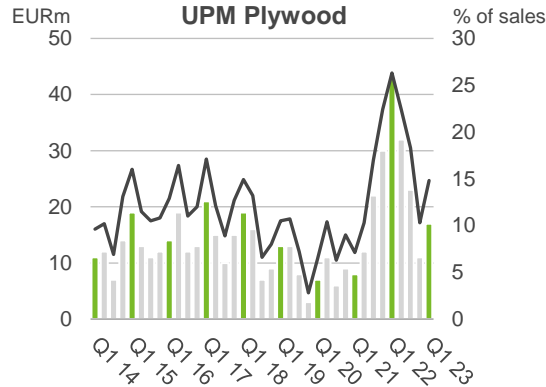
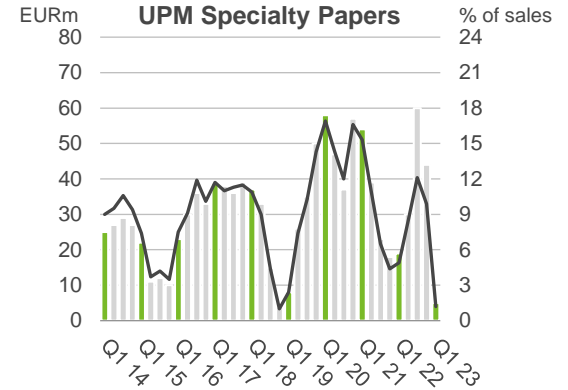
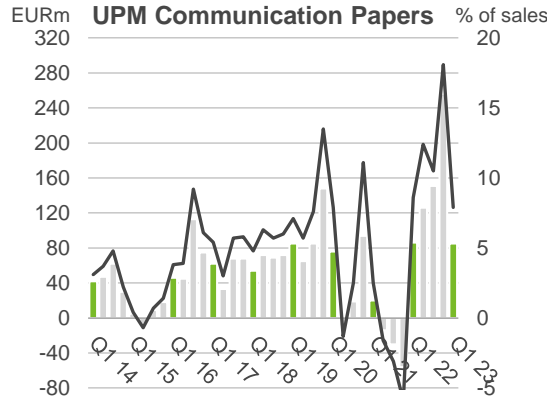
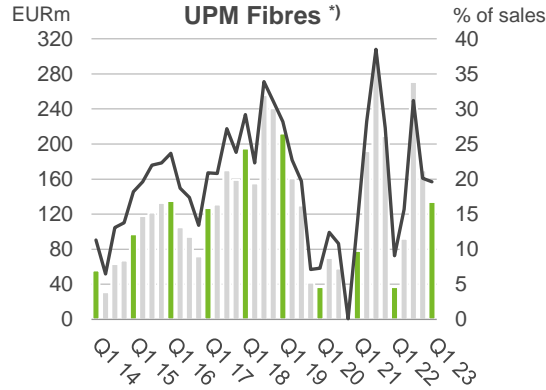
Example: market shipments of self-adhesive label materials in Europe impacted by destocking



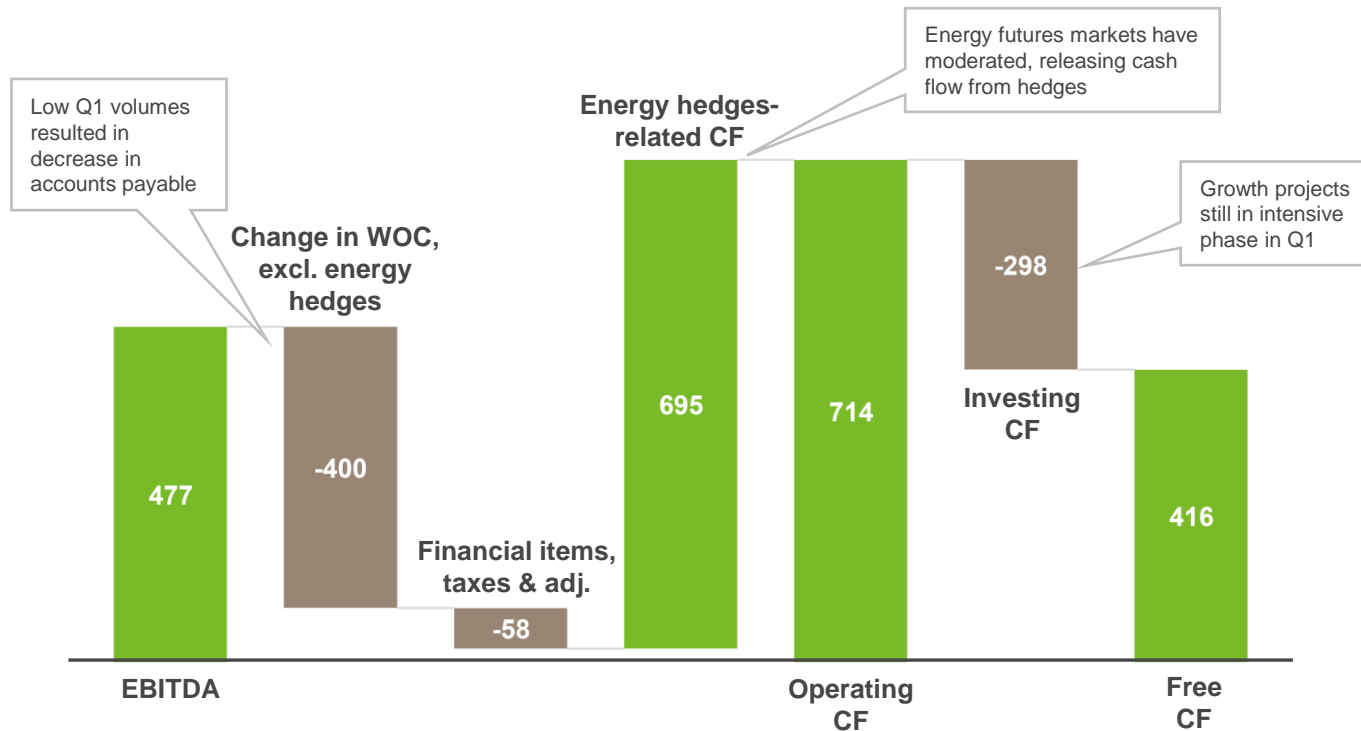
Comparable EBIT in Q1 2023



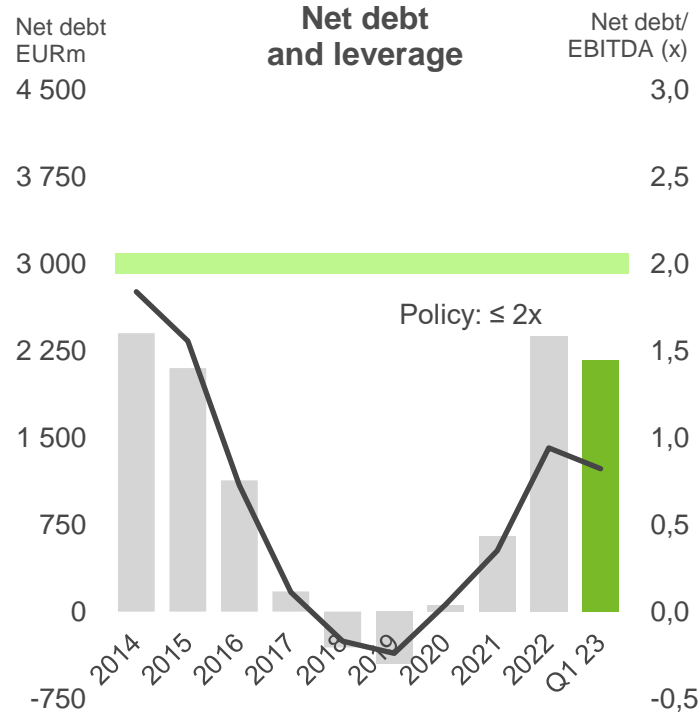
Comparable EBIT by business area



Cash flow supported by inflow from energy hedges, working capital temporarily impacted by low volumes



Strong financial position



- Net debt EUR 2,167m at the end of Q1 2023
- Net debt / EBITDA 0.82
- Cash funds and committed credit facilities EUR 6.7bn at the end of Q1 2023
- No financial covenants

Outlook for 2023



- UPM reached record earnings in 2022, and 2023 is expected to be another year of strong financial performance. UPM's comparable EBIT is expected to increase in H1 2023 from H1 2022.
- In 2023, UPM's delivery volumes are expected to benefit from the ramp up of the UPM Paso de los Toros pulp mill and the OL3 nuclear power plant unit. In H1 2023, however, demand for many UPM products is expected to be held back by destocking in various product value chains. The opening of the Chinese economy from the COVID lockdowns and easing inflation in other key economies represent potential for increasing demand as the year progresses.
- Year 2023 is starting with high cost level for many inputs, while the lower demand is exerting pressure on product prices. However, several input costs have also progressed past their peak. UPM will continue to manage margins with product pricing, by optimising its product and market mix and by taking measures to improve variable and fixed cost efficiency.
- There are significant uncertainties, both positive and negative, in the outlook for 2023, related to the European, Chinese and global economy, Russia's war in Ukraine, the remaining effects of the pandemic, energy prices and related regulation in Europe, and the ramp-up of the OL3 power plant unit.

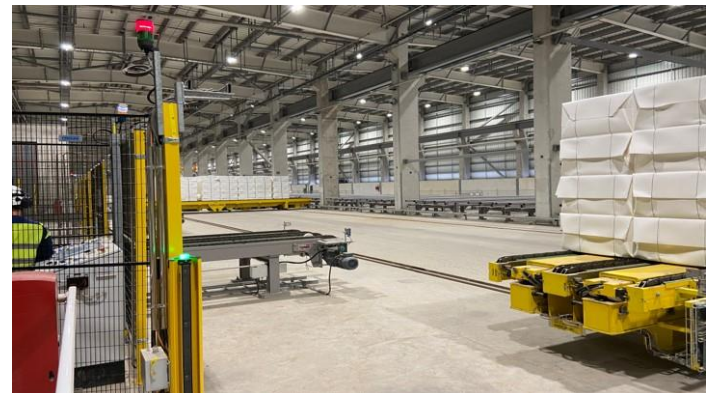
UPM Paso de los Toros is ramping up production



UPM Paso de los Toros is part of a highly competitive growth platform in Uruguay



- Will grow our pulp business by more than 50%
- Highly competitive cash costs of about USD 280 per delivered tonne
- Creates wellbeing in the surrounding communities and benefits the whole Uruguayan economy
- Plantation-based model enables further biomaterials growth opportunities in a competitive and sustainable way
 - Establishing additional forests, climate positive forestry, biodiversity
 - High productivity and continuous productivity improvement



OL3 started regular electricity production

We create a future beyond fossils: OL3 will grow UPM Energy's carbon free electricity generation by nearly 50%

Reliable CO₂-free baseload energy to support the electrification of the society

Finland's electricity self-sufficiency significantly improved, carbon neutral generation to about 90%

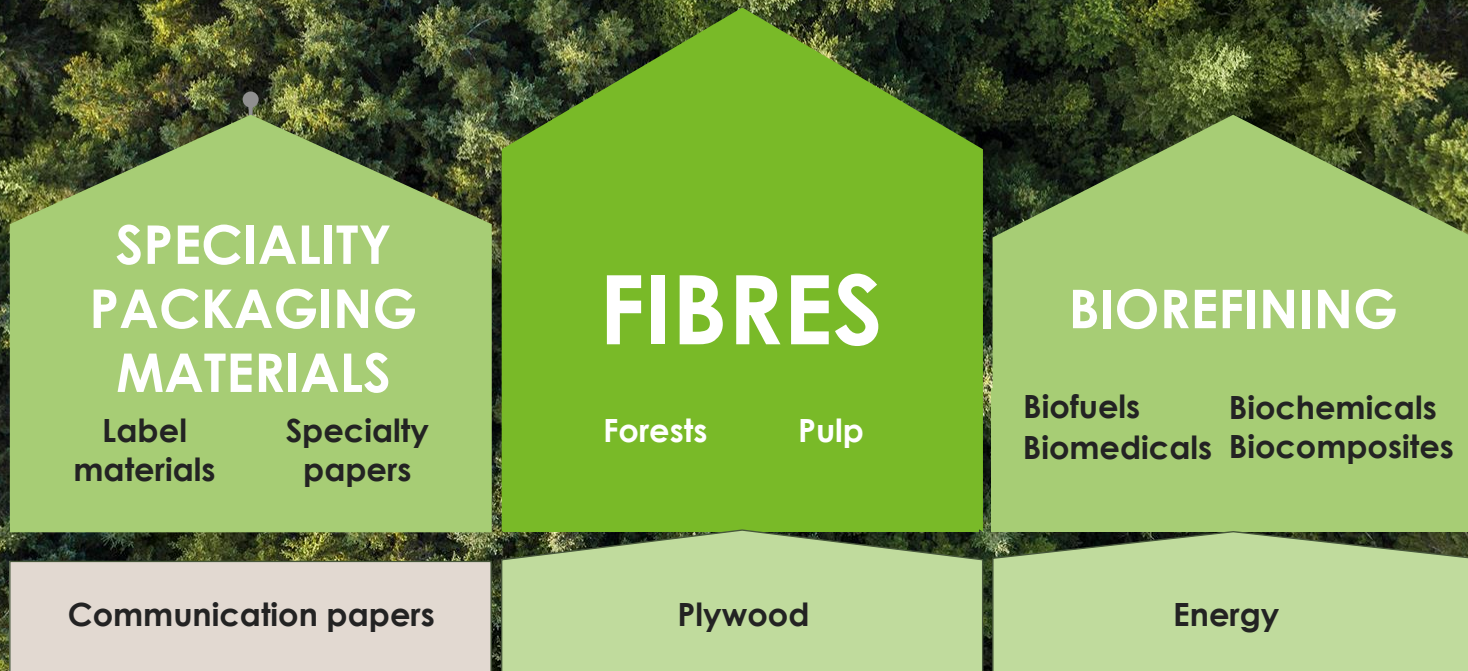
UPM's agile and competitive energy business platform opens growth opportunities in the green transition



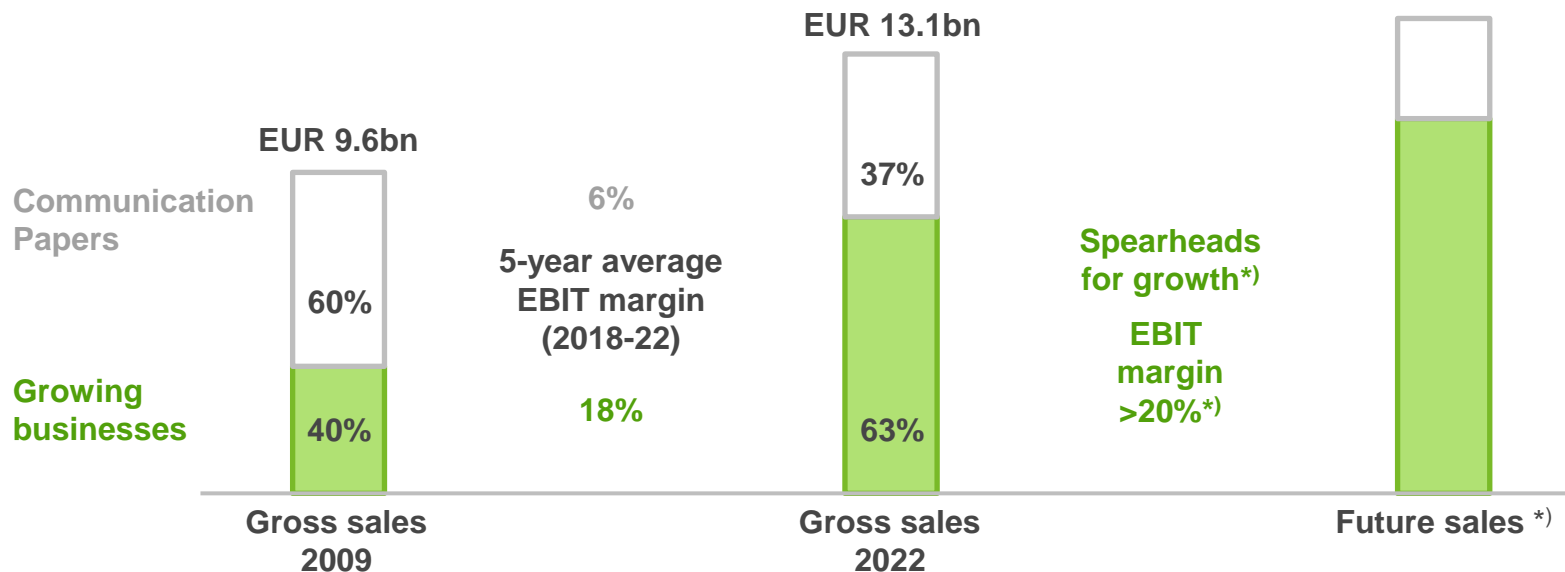
UPM Leuna biochemical refinery taking shape



Long-term value creation driven by our spearheads for growth



Transformation in growth phase – business mix drives earnings and shareholder value



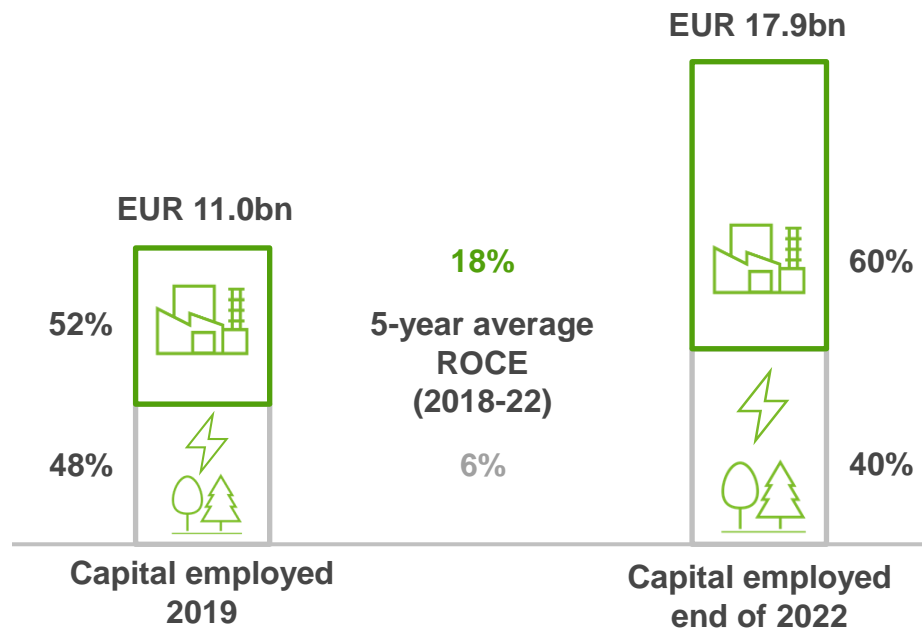
*) This is an illustration, not a forecast

Growth investments have increased capital employed, significant earnings potential as they start to contribute

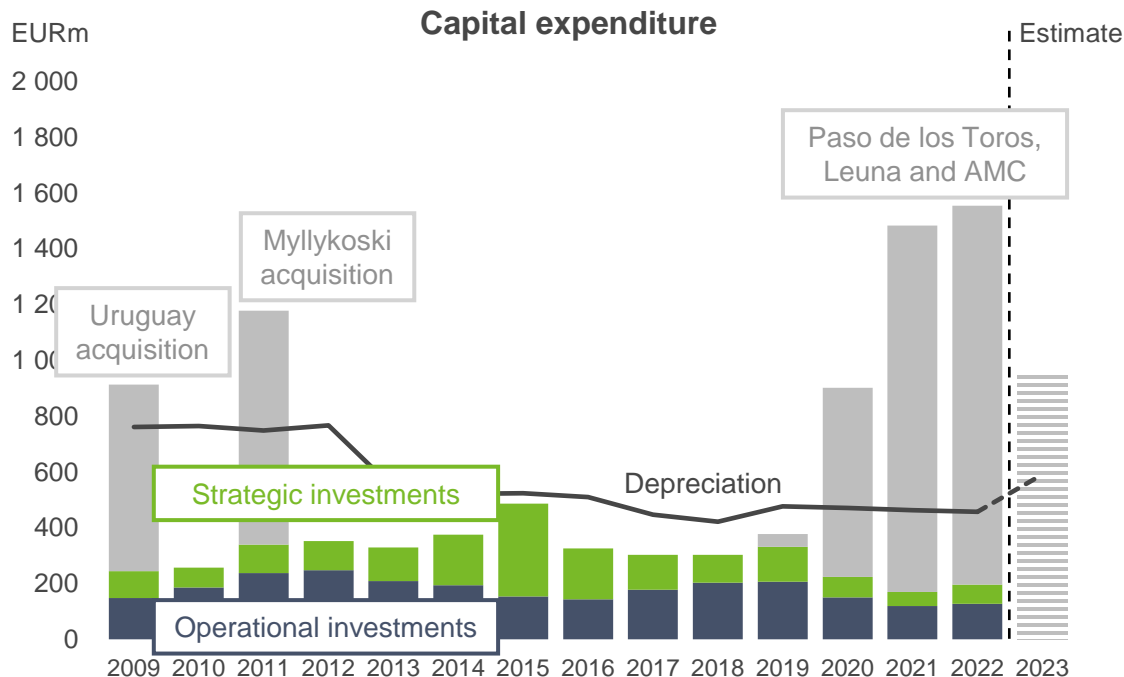


Industrial operations:
Further growth,
attractive return targets

Forest and energy assets:
Sustainable value creation



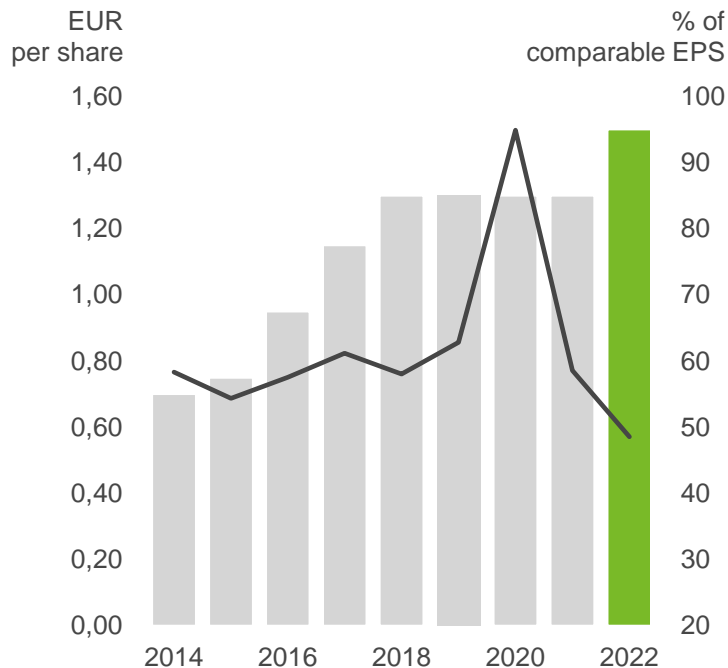
Transformative growth projects in the most intensive phase in 2021-2022



Capex estimate for 2023

- Total EUR 950m
- Includes EUR 750m on the transformative growth projects, pulp in Uruguay and biochemicals in Germany
- Operational investment needs consistently low

Dividend: 15% increase to EUR 1.50 per share



Dividend policy

- UPM aims to pay attractive dividends, targeting at least half of the comparable earnings per share over time

Dividend for 2022

- EUR 1.50 (1.30) per share, totalling EUR 800m
- 49% of 2022 comparable EPS

Summary



- Second best Q1 result in more than 20 years, comparable EBIT grew by 29% y-o-y
 - Unit margins on attractive level in most businesses
 - Intense destocking in the product value chains hold back deliveries during H1 2023
- Two transformative growth projects completed and in production: UPM Paso de los Toros and the OL3 nuclear power plant unit
 - Represent about 50% growth in the respective businesses
 - The competitive plantation-based business platform in Uruguay and the agile energy business platform enable further growth opportunities in bio- and synthetic materials in the future
- UPM Leuna biochemicals refinery continues to take shape – keen customer interest

UPM **BIOFORE**
BEYOND FOSSILS



Biofore strategy drives our transformation as the frontrunner of biomaterials

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

Our climate commitment



WE ACT THROUGH FORESTS

Committed to climate-positive forestry and enhancing biodiversity



WE ACT THROUGH EMISSION REDUCTIONS

-65% from own CO₂ emissions
-30% from CO₂ emissions of supply chain



WE ACT THROUGH PRODUCTS

Innovative products
Scientifically verifying the climate impact of all our products



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

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

Towards net-zero emissions (UPM 2022)



WE ACT THROUGH FORESTS

-2,3

MtCO₂eq

Carbon sink

Trees and soil

**Long-term
carbon storage**

Trees and soil

WE ACT THROUGH EMISSION REDUCTIONS

+4,5

MtCO₂

**Own
emissions**

Scope 1 ja 2

+5,0

MtCO₂

**Value chain
emissions**

Scope 3

WE ACT THROUGH PRODUCTS

-2,0

MtCO₂

**Fossil
energy
substitution**

+1,6

MtCO₂

**Temporary
carbon storage**

Wood-based
products

-5,8

MtCO₂

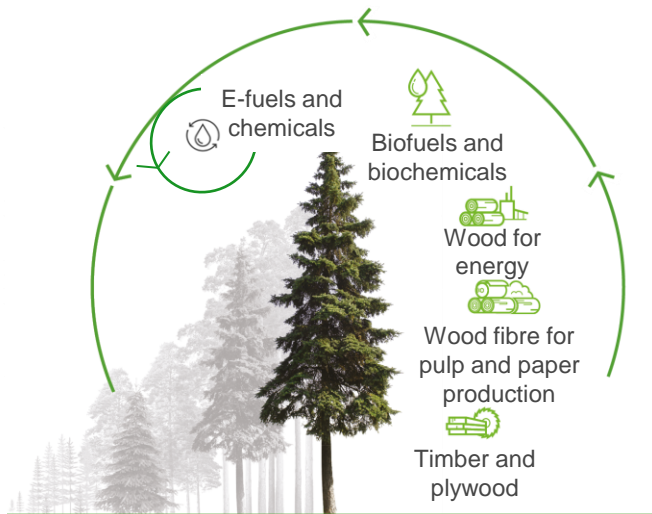
**Fossil-based
products
substitution**

BIO

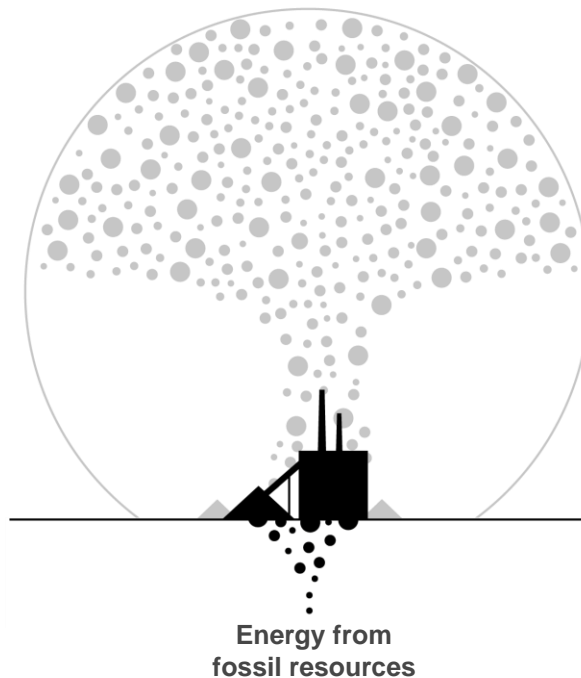
Bioeconomy offers a sustainable alternative to fossil-based economy



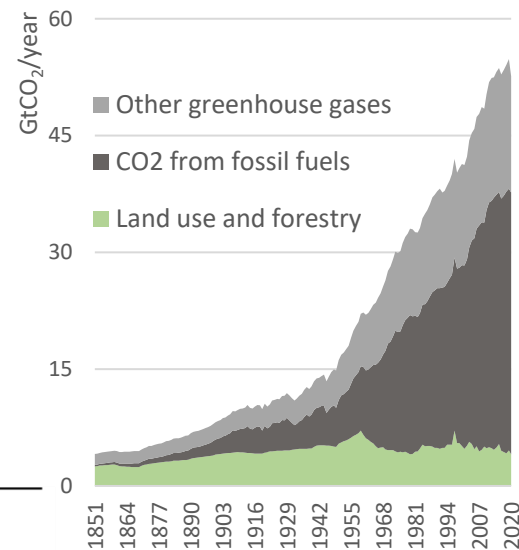
Biomass use is not increasing
CO₂ to carbon cycle



Use of fossil resources
increases CO₂ amount



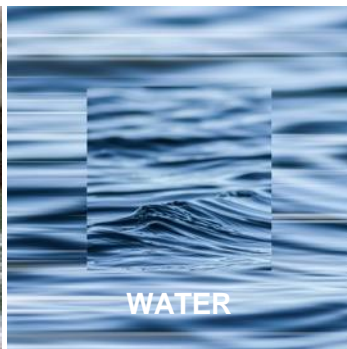
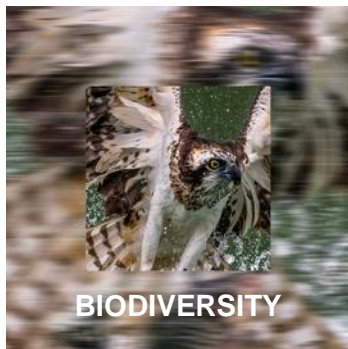
Use of fossils has increased
global CO₂-emissions



Source: IEA, Our World in Data

FOREST **ACTION**

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



Leader in responsibility

Member of
**Dow Jones
Sustainability Indices**
Powered by the S&P Global CSA

MSCI
ESG RATINGS



CCC B BB BBB A AA **AAA**



UPM Paso de los Toros will grow UPM Pulp by over 50%

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



Started up in April



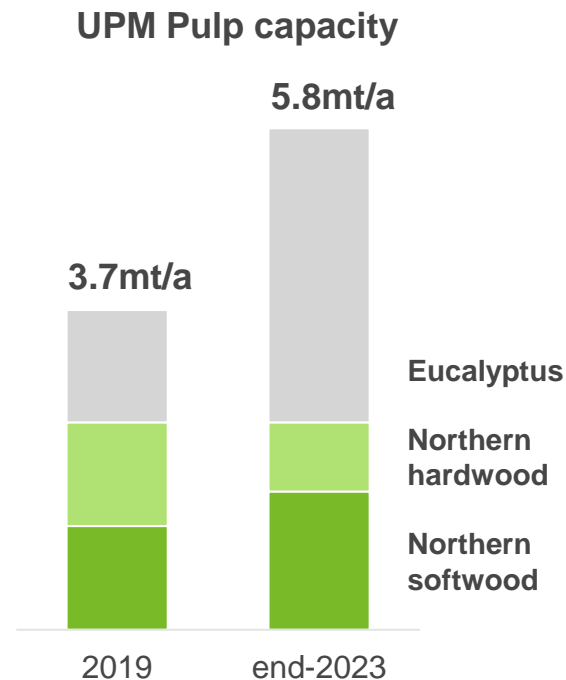
UPM Paso de los Toros



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



New business in wood-based biochemicals

Responding to strongly growing demand for sustainable solutions



Industrial scale 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 optimised



Moving forward with biofuels growth plans

Basic engineering phase of a next generation biorefinery



Potential industrial scale biofuels biorefinery



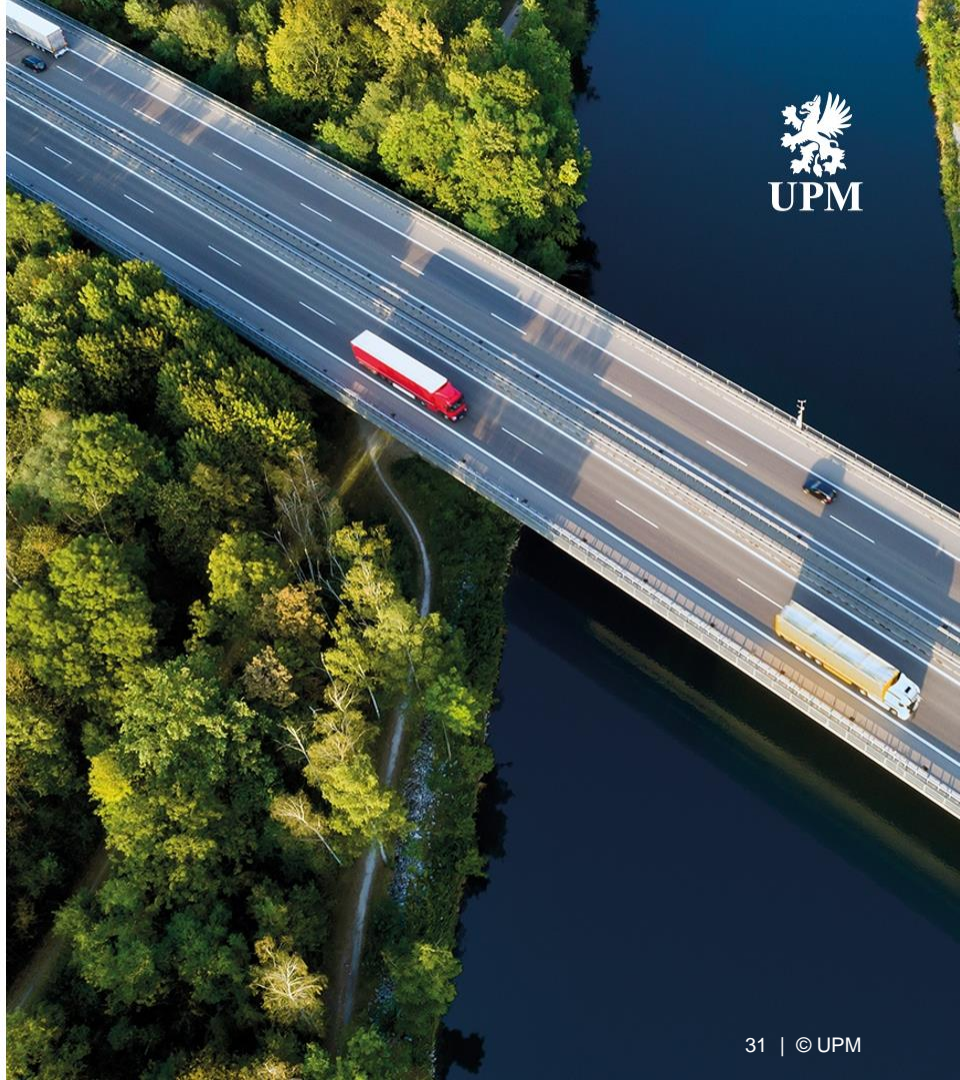
Products would significantly reduce carbon footprint in the road transport and aviation



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

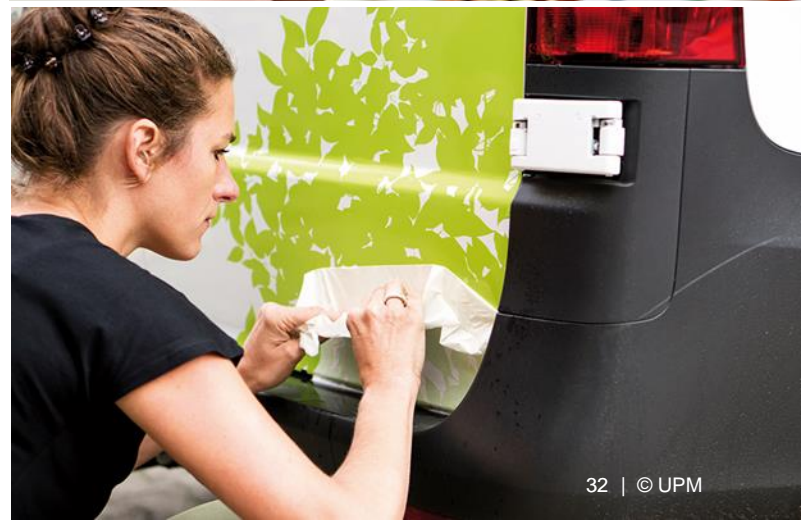


Potential investment in Rotterdam, the Netherlands.

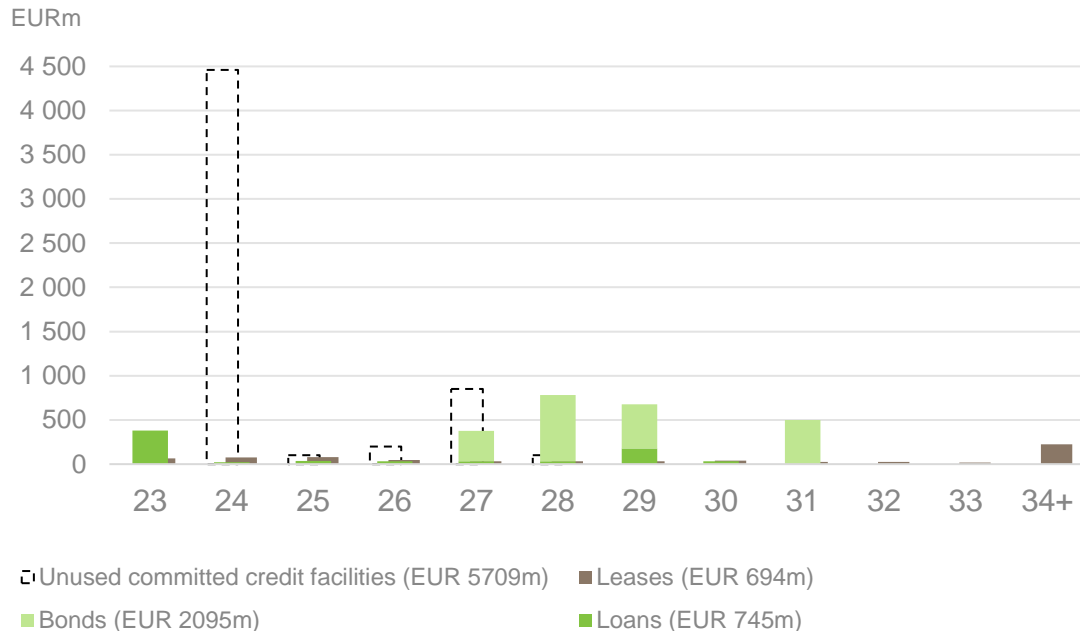


AMC AG acquisition to accelerate UPM Raflatac growth

- Extends product offering to new high value product categories
- Strengthens position in Central Europe
- Professional team with strong technical know-how
- Operational synergies



Maturity profile and liquidity



Liquidity on 31 March 2023 was EUR 6.7bn (cash funds and unused committed credit facilities)

UPM's committed credit facilities:

- EUR 159m rolling committed overdraft facility maturing 2024
- EUR 500m bilateral revolving credit facilities (EUR 100m maturing 2025, EUR 200m maturing 2026, EUR 100m maturing 2027 and EUR 100m maturing 2028)
- EUR 4 300m committed syndicated revolving credit facility maturing 2024
- EUR 750m committed syndicated revolving credit facility maturing 2027

No financial covenants

Maintenance shutdowns in 2022 and 2023

Significant maintenance shutdowns
in 2022 and 2023

Timing	Unit
Q2 22	Olkiluoto nuclear power plant UPM Kaukas pulp mill UPM Pietarsaari pulp mill
Q4 22	UPM Fray Bentos pulp mill UPM Lappeenranta Biorefinery (maintenance)
Q2 23	Olkiluoto nuclear power plant UPM Lappeenranta Biorefinery (turnaround) UPM Kymi pulp mill
Q3 23	UPM Kaukas 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

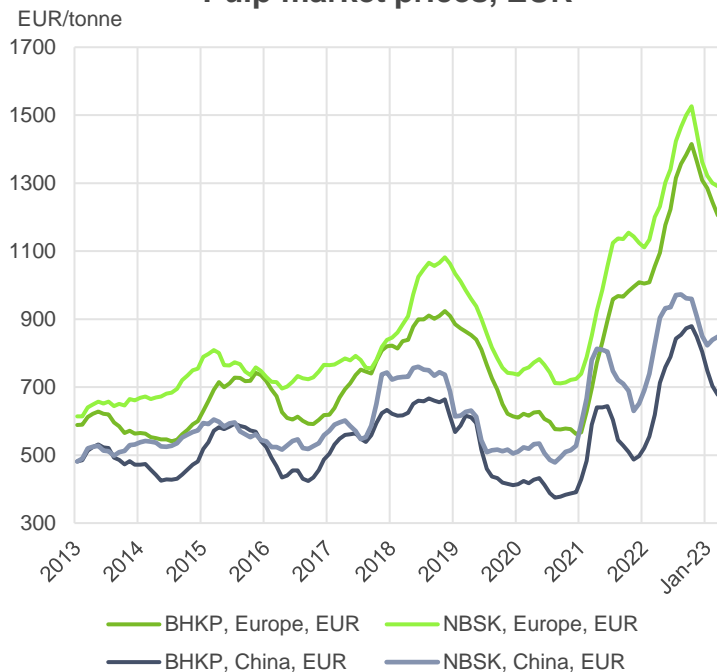
Estimated annual foreign currency net cash flow, before hedging

	USD	GBP	JPY	Others
EURm	1,610	320	150	110

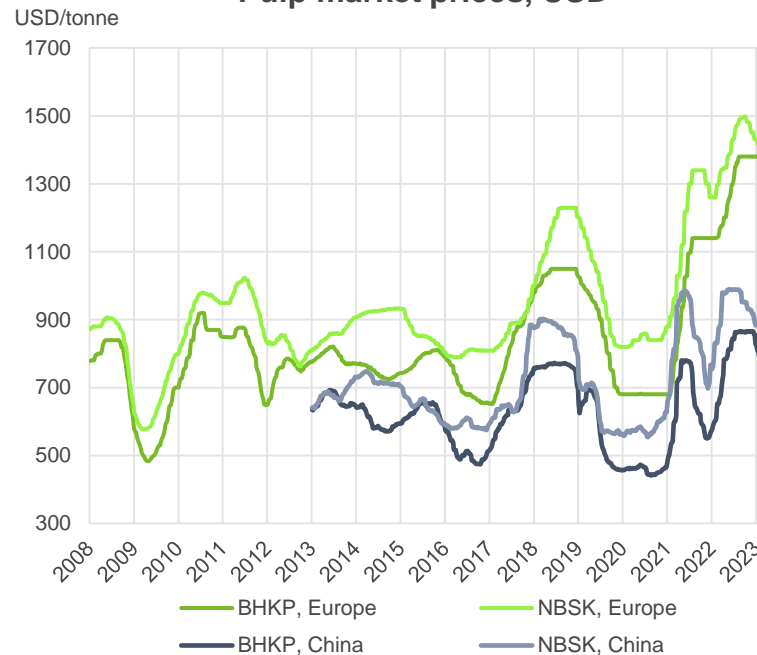
Chemical pulp market prices



Pulp market prices, EUR

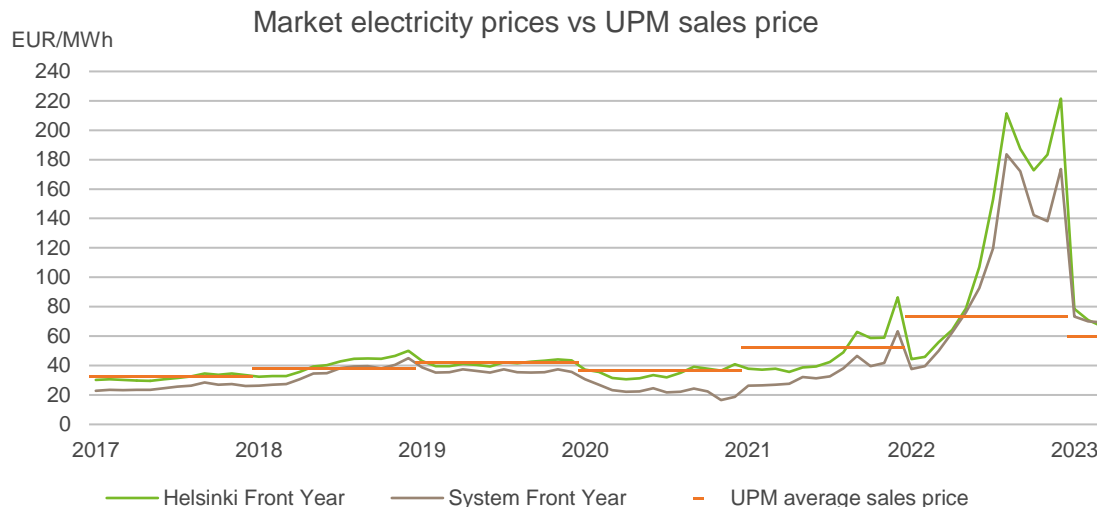


Pulp market prices, USD



Source: FOEX Indexes Ltd

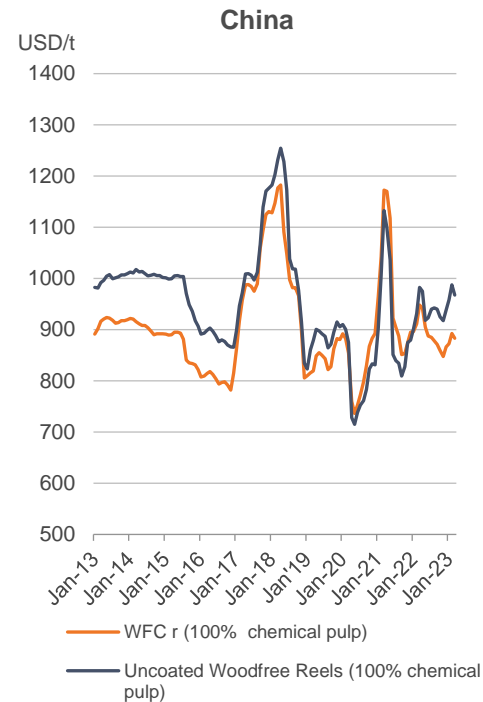
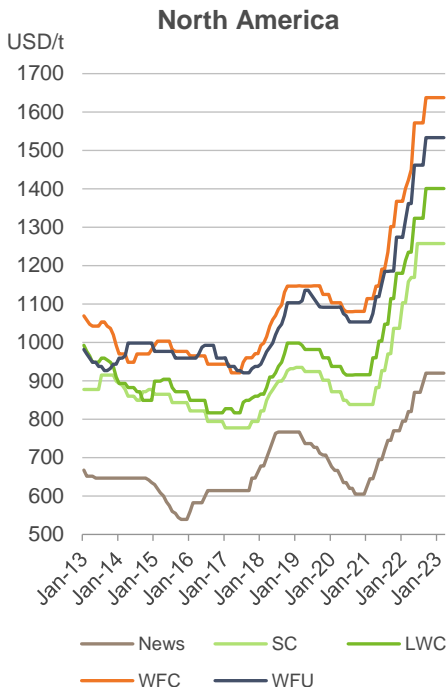
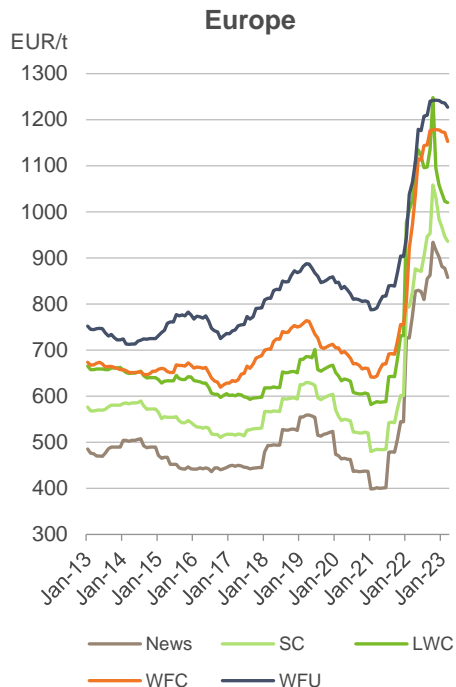
Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2018	2019	2020	2021	2022	Q123
Comparable EBIT, EURm	123	185	171	270	381	80
% of sales	31.5	44.4	45.0	51.3	52.0	50.5

UPM Communication Papers

Graphic paper prices

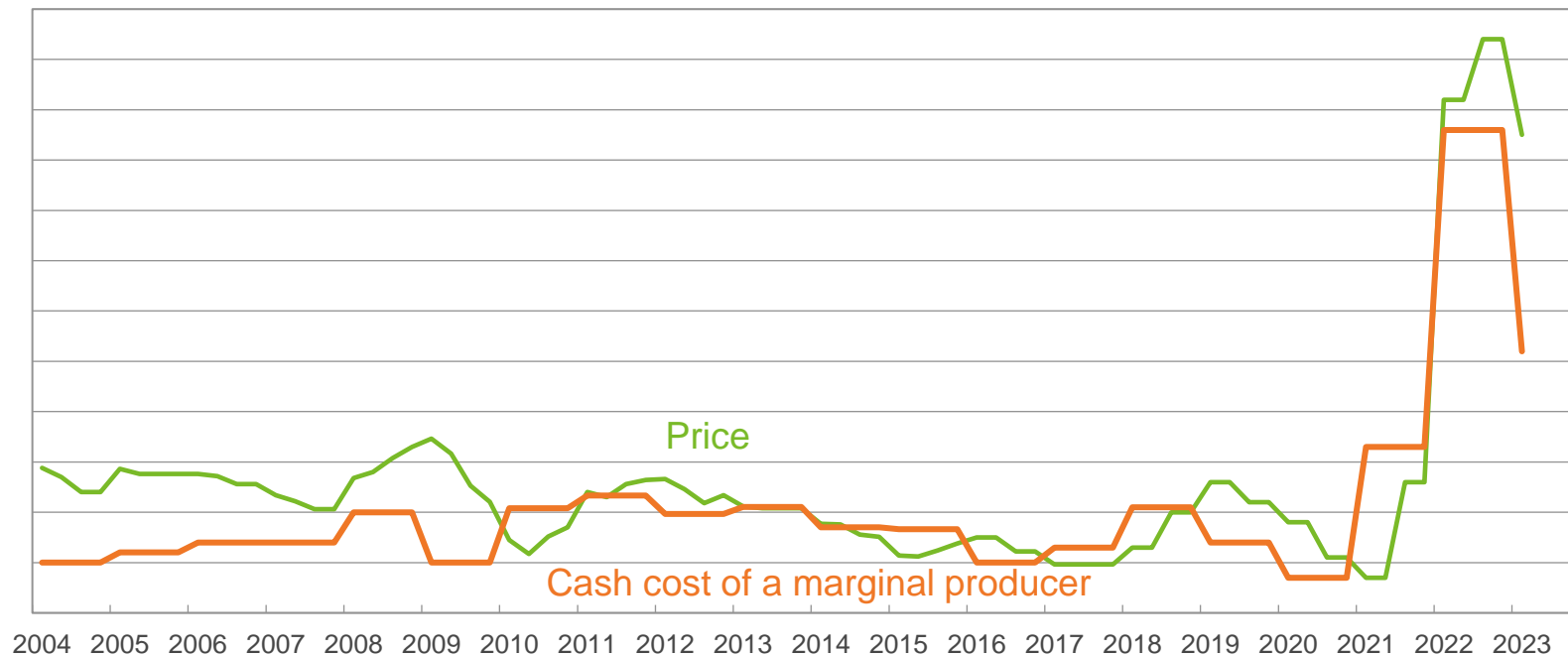


Sources: PPI, RISI

Paper price vs. cash cost of marginal cost producer



EUR/t



Sources: PPI, RISI, Pöyry

UPM **BIOFORE**
BEYOND FOSSILS

