



# UPM Half Year Financial Report 2023

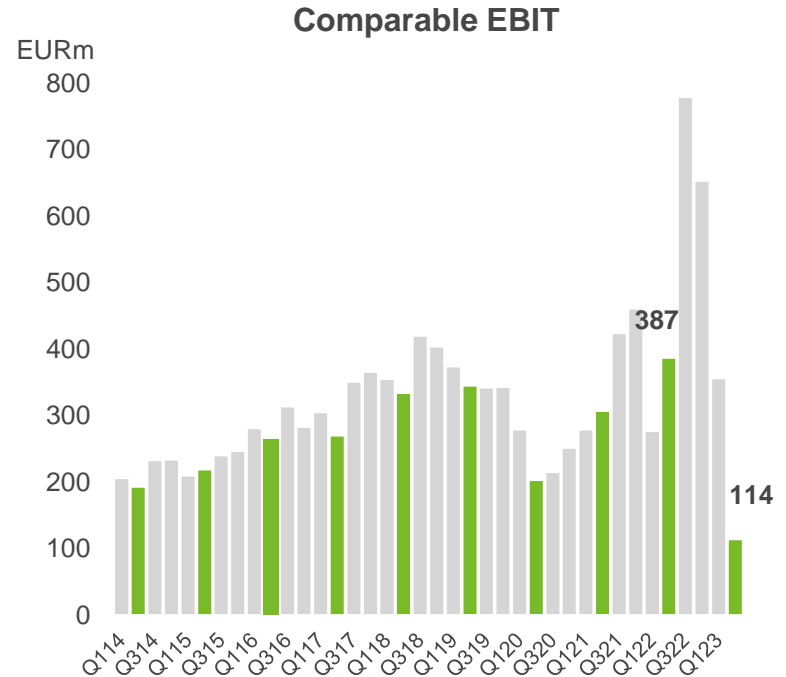
Jussi Pesonen  
President and CEO  
25 July 2023

UPM **BIOFORE** - BEYOND FOSSILS

# Q2 2023: Strong downturn in markets pushed Q2 results to exceptional lows – transformation continues



- Sales were EUR 2,558m (2,562m in Q2 2022)
- Comparable EBIT decreased by 71% to EUR 114m, 4.5% of sales (387m, 15.1%)
- Delivery volumes impacted by destocking in various product value chains
- Pulp and energy prices decreased to cyclical bottom levels
- Operating cash flow was EUR 459m (-879m), supported by cash inflow from energy hedges
- UPM Paso de los Toros pulp mill in Uruguay ramping up production according to the plan
- The OL3 nuclear power plant unit began regular commercial electricity production

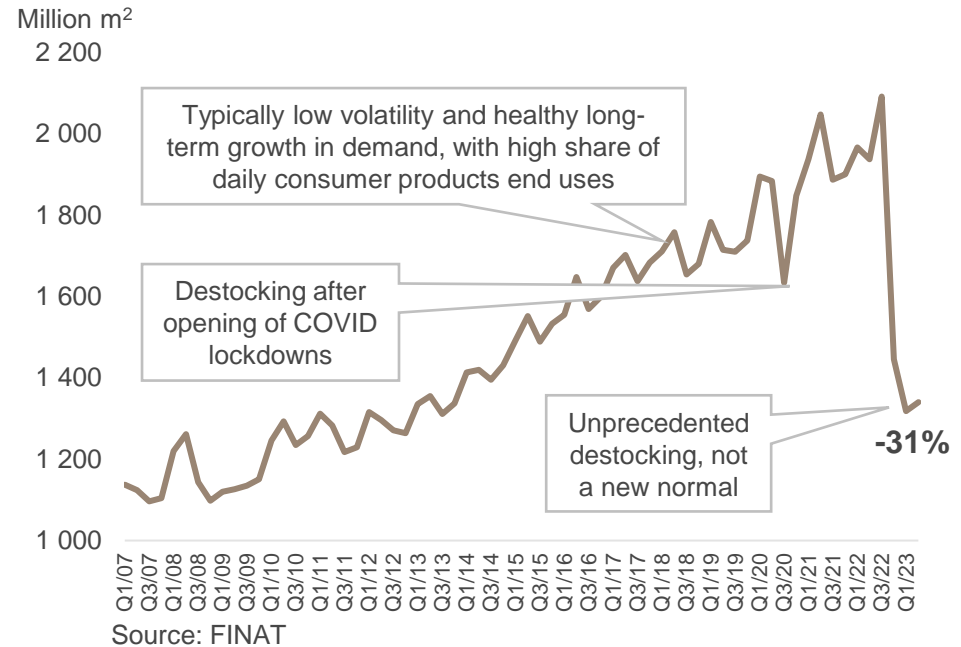


# Focus on margin management during exceptionally low volumes

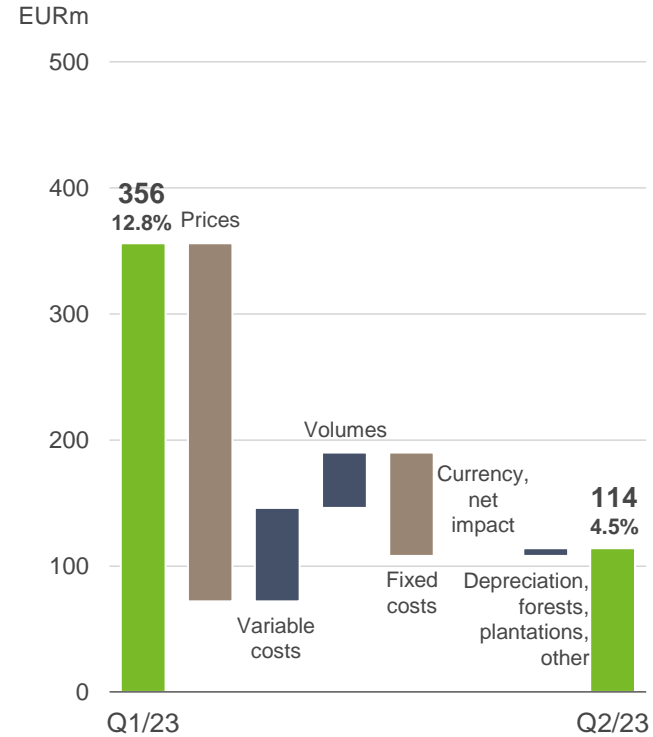
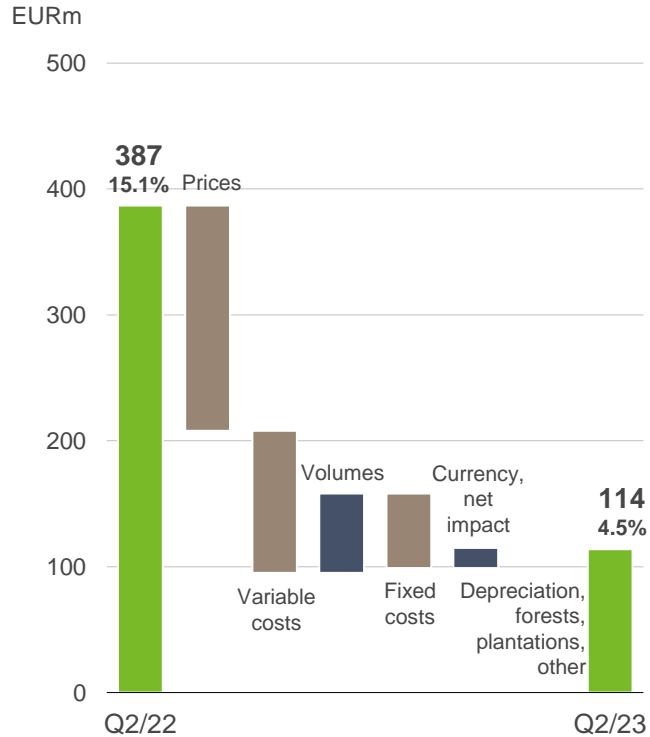


- H1 market shipments in most products well below end-use demand and long-term trends due to destocking
- Consumers impacted by inflation, interest rates and uncertainty, affecting underlying end use-demand
- The impact of destocking is expected to gradually phase out during H2 2023
- The long-term growth prospects remain intact and attractive
- Variable costs are expected to decrease in H2 2023 compared to H1 2023.

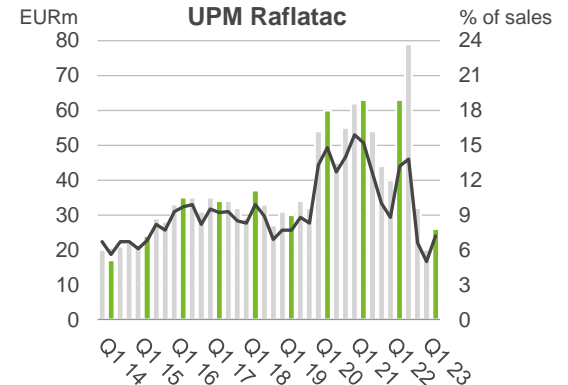
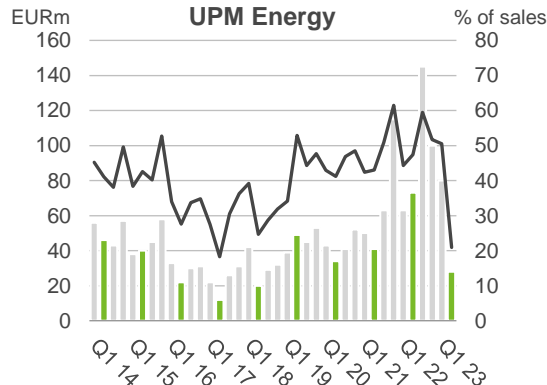
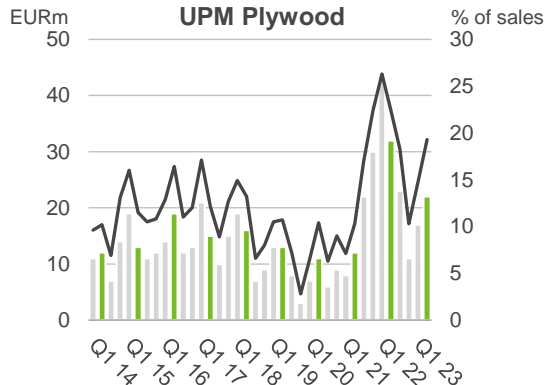
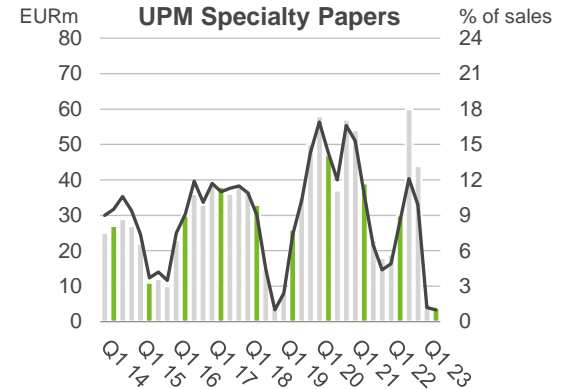
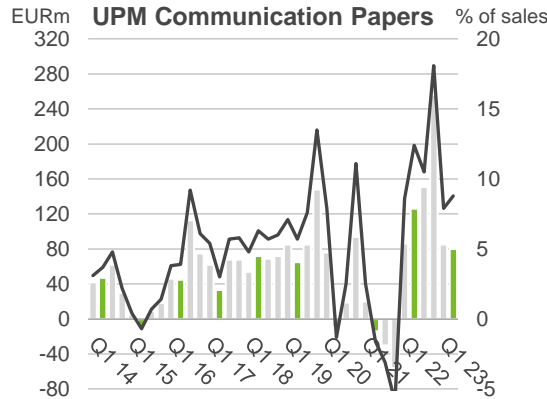
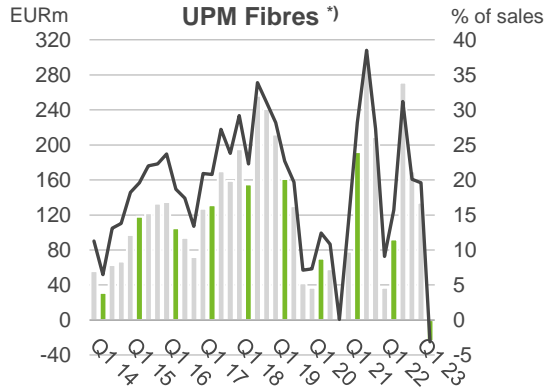
## Example: market shipments of self-adhesive label materials in Europe impacted by destocking



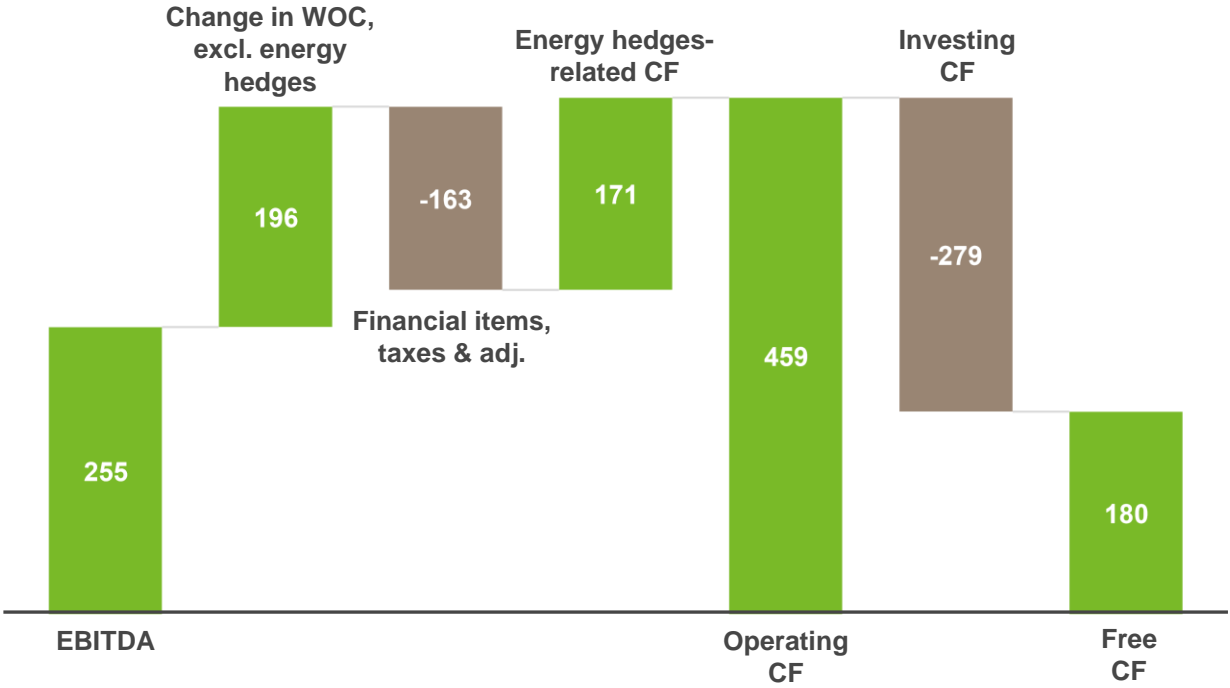
# Comparable EBIT in Q2 2023



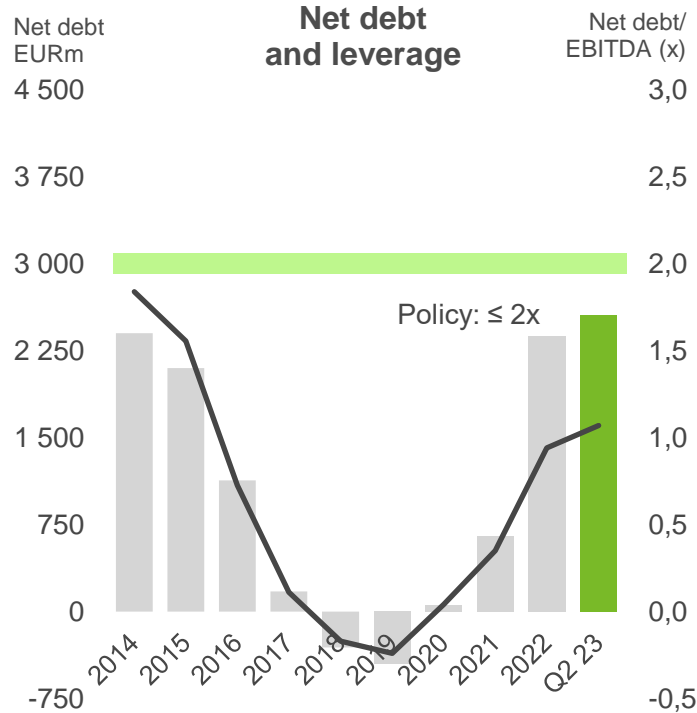
# Comparable EBIT by business area



# Q2 2023 cash flow supported by working capital release and inflow from energy hedges



# Strong financial position



- Net debt EUR 2,557m at the end of Q2 2023
- Net debt / EBITDA 1.07
- Cash funds and committed credit facilities EUR 6.4bn at the end of Q2 2023
- No financial covenants

# Outlook for 2023



- Full-year 2023 comparable EBIT is expected to decrease from 2022. UPM's comparable EBIT in H2 2023 is expected to be on similar level or increase compared to H1 2023.
- UPM's delivery volumes are expected to increase in H2 2023 from H1 2023. Deliveries were unusually low during H1 2023, held back by significant destocking in the various product value chains. Destocking is expected to gradually phase out during H2 2023, enabling UPM's deliveries to recover towards the underlying end-use demand. The production ramp-up of the UPM Paso de los Toros pulp mill and the OL3 nuclear power plant unit will add to UPM's deliveries in H2 2023.
- Chemical pulp and electricity market prices were historically high during H2 2022 and declined rapidly to estimated bottom-of-the-cycle levels during H1 2023. H2 2023 starts with low pulp and electricity prices, impacting these commodity price-driven businesses. In the other businesses UPM continues to manage margins.
- Variable costs are expected to decrease in H2 2023 compared to H1 2023. In addition, UPM is implementing measures to reduce fixed and variable costs.



# UPM Paso de los Toros ramp-up proceeding well



# UPM Paso de los Toros ramp-up proceeding well



- First customer deliveries shipped in May
- Production reaching 70% run-rate in July
- Expected to be EBITDA positive in Q3 even with the current bottom-of-the-cycle pulp prices
- Highly competitive cash costs of about USD 280 per delivered tonne once in full production and optimised
- Will grow our pulp business by more than 50%
- About 60% of UPM's pulp capacity in Uruguay
- Plantation-based model enables further biomaterials growth opportunities in a competitive and sustainable way



# OL3 in regular commercial electricity production

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

Reliable CO<sub>2</sub>-free baseload energy to support the electrification of the society

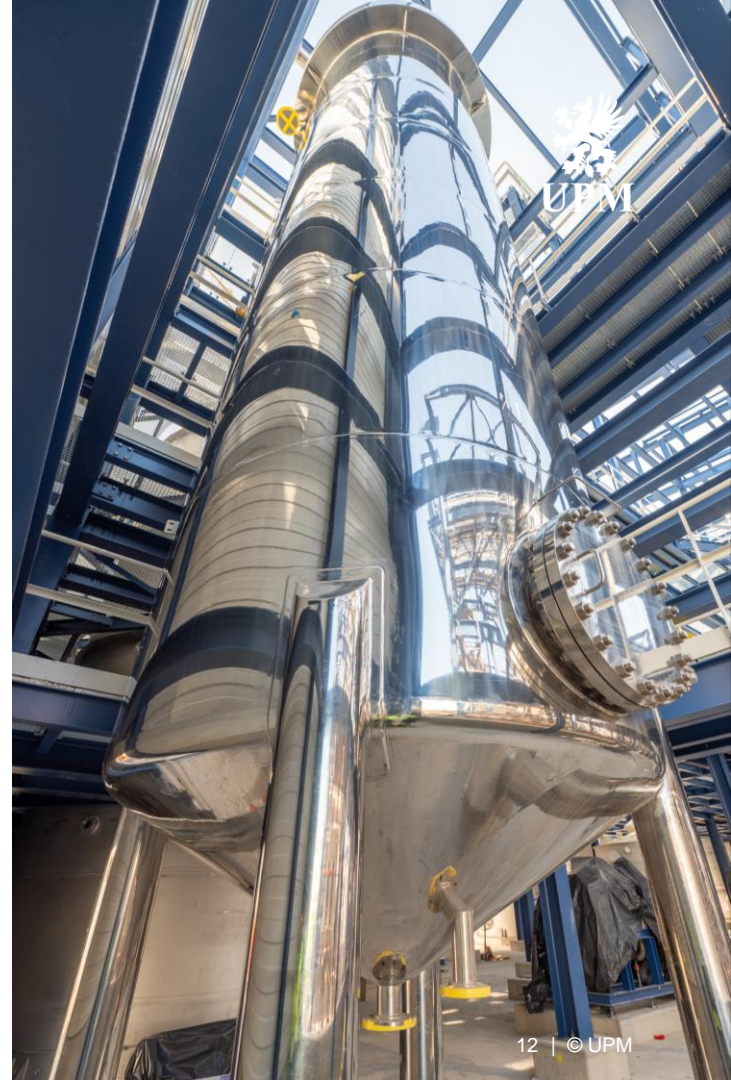
Finland's electricity self-sufficiency significantly improved, carbon neutral generation to about 90%

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



# UPM Leuna biochemicals refinery project schedule and capex updated

- Operating permit obtained in May
- The civil construction on the site will be completed in Q3 2023
- The commissioning will be implemented in phases starting in Q4 2023
- Start-up expected by the end of 2024
- Investment estimate is EUR 1,180 million
- We have full confidence in profitable biochemicals business, and the technologies used in UPM Leuna
- Interest for our renewable products replacing fossil materials has proven to be high



# UPM Leuna biochemicals refinery is progressing



# Capacity adjustments in UPM Communication Papers

- Consistently adjusting to meet profitable customer demand in line with long-term market outlook
- Completed permanent closures of PM6 at UPM Schongau (165kt of uncoated publication papers), Germany and PM4 at UPM Steyrermühl (320kt of newsprint), Austria at the end of June
- Planned permanent closure of UPM Plattling mill (380kt of uncoated publication paper, 215kt of coated publication paper), Germany by the end of 2023
- Total capacity reduction of 18%, annual fixed cost savings of approx. EUR 100m

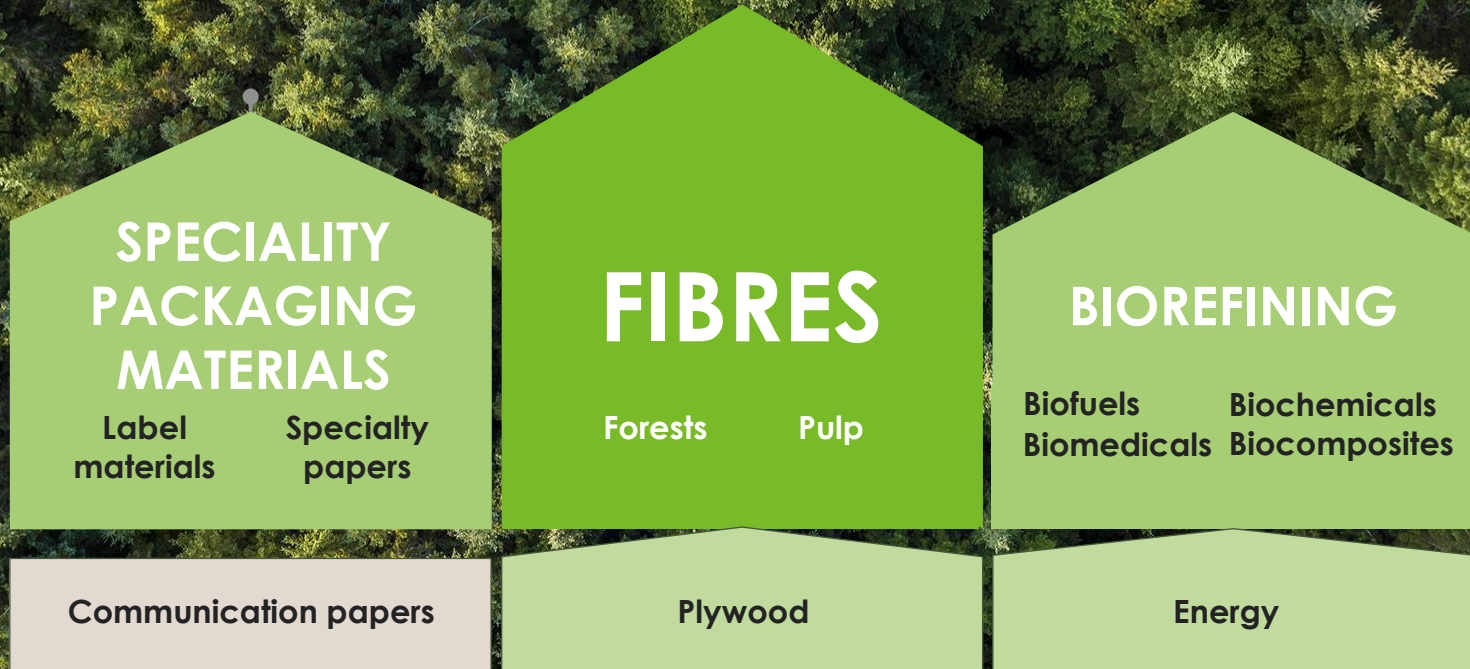


# UPM's unique operating model enables consistent and timely actions to ensure competitiveness

- Agile margin management
- Swift cost cutting measures
  - Cuts in operative costs across businesses and functions
  - Restructuring actions
  - Temporary layoffs and flexible working hours
  - Decided actions since autumn 2022 reduce the number of employees by approx. 1,000 (excl. exit from Russia)
  - Planned closure of UPM Plattling would reduce the number of employees by approx. 400

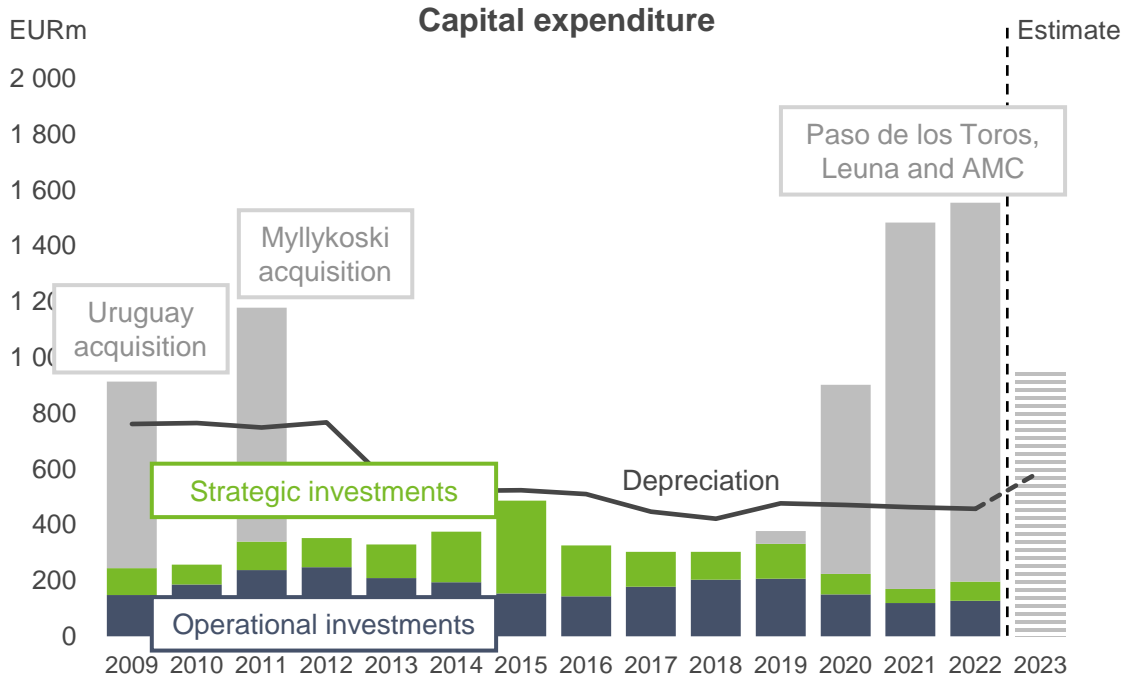


# Long-term value creation driven by our spearheads for growth





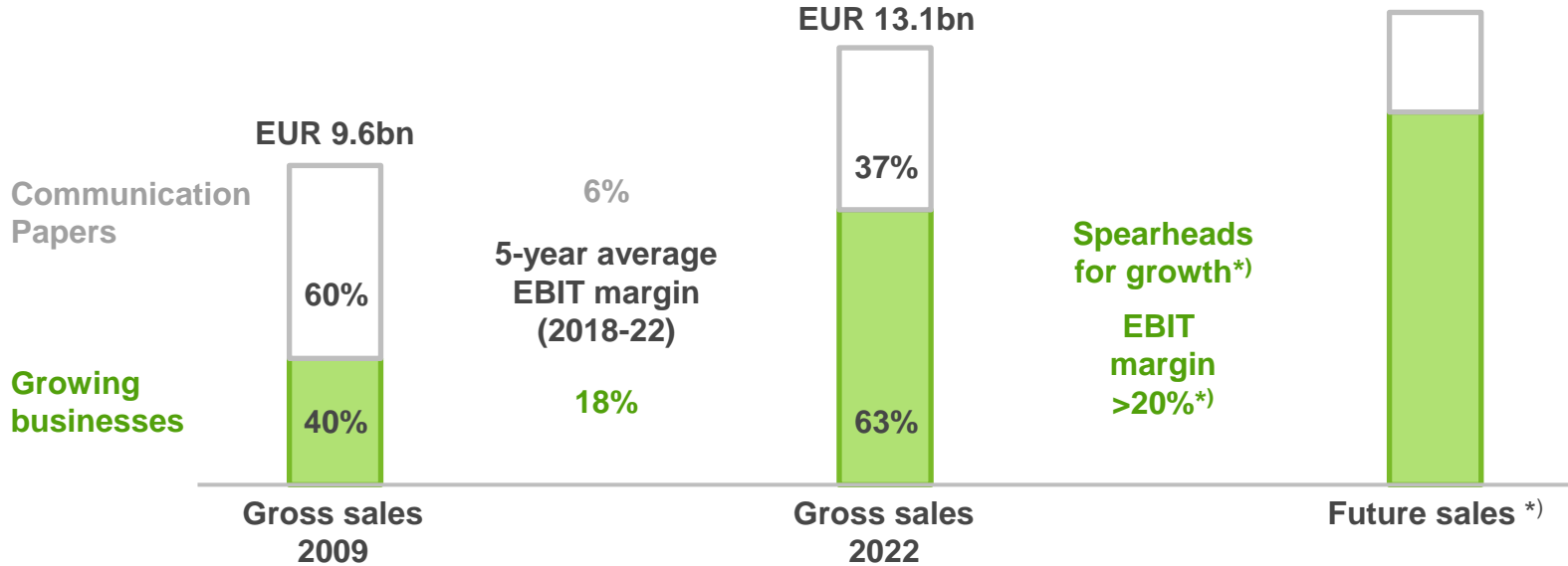
# Transformative growth projects in the most intensive phase in 2021-2022



## 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

# Transformation continues – business mix drives earnings and shareholder value



\*) This is an illustration, not a forecast

# Summary

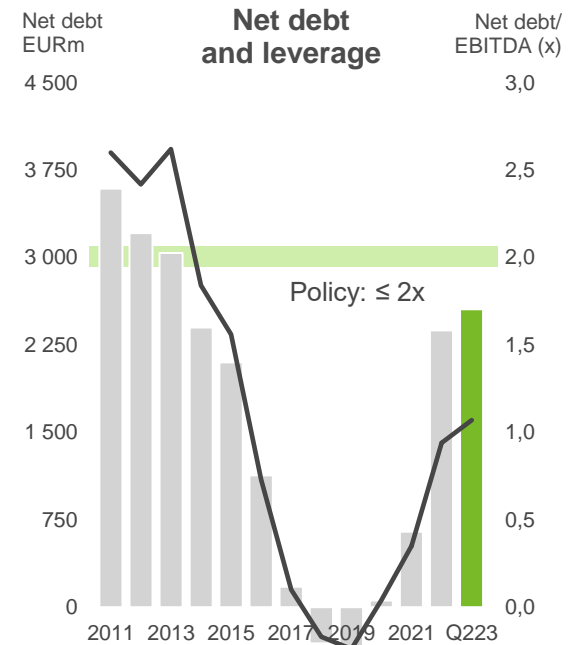
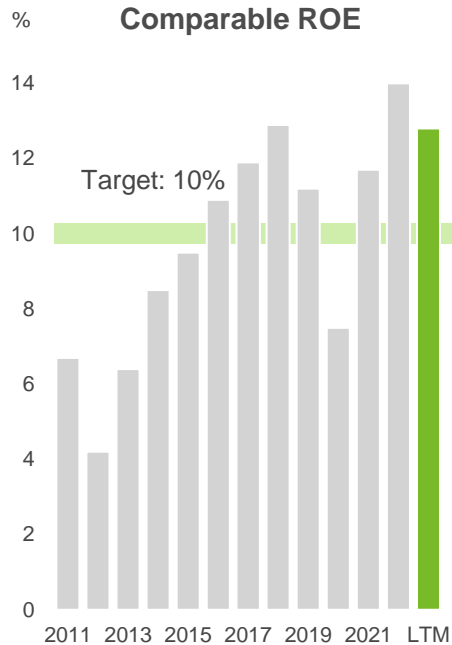
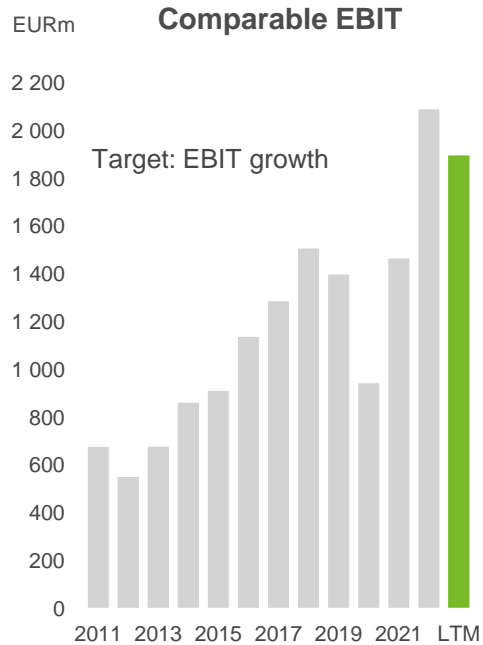


- Strong downturn in markets pushed Q2 results to exceptional lows, comparable EBIT decreased by 71% to EUR 114m
- Delivery volumes impacted by destocking in various product value chains
- Pulp and energy prices decreased to cyclical bottom levels
- UPM Paso de los Toros is ramping up production according to the plan
- OL3 nuclear power plant unit started commercial production
- UPM Leuna biochemicals refinery project schedule and capex updated – we have full confidence in profitable biochemicals business and customer interest has proven to be high
- The positive long-term drivers and growth prospects for UPM are intact and exciting

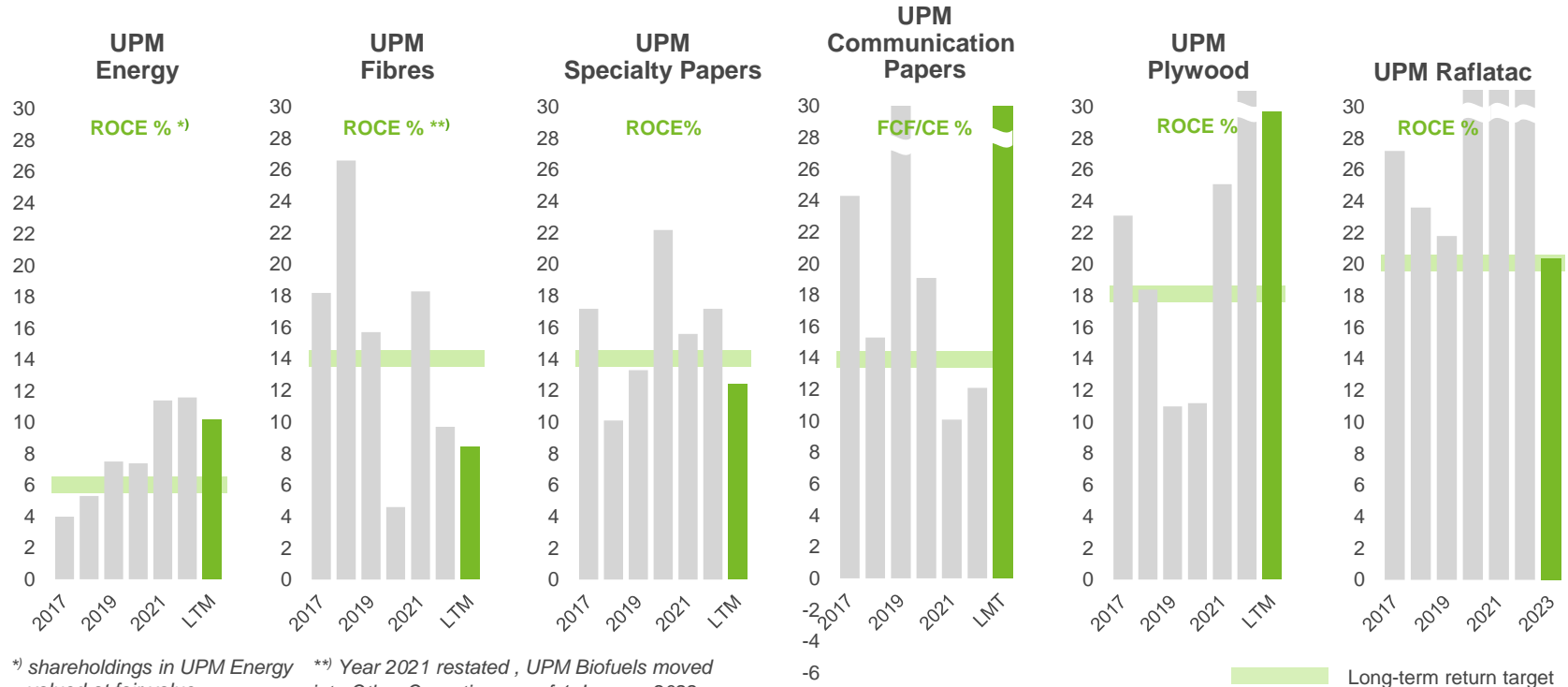
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**BEYOND** FOSSILS



# Group financial targets



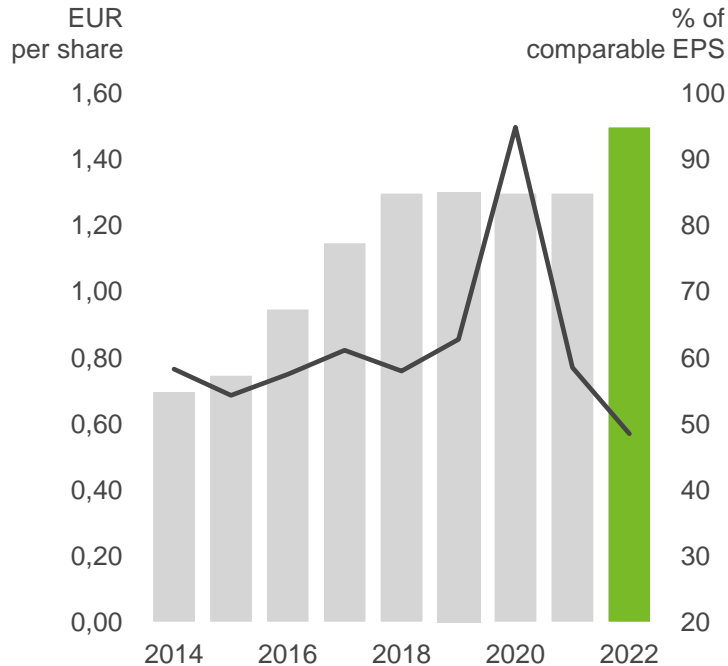
# Business area long-term return targets



\*) shareholdings in UPM Energy valued at fair value

\*\*) Year 2021 restated, UPM Biofuels moved into Other Operations as of 1 January 2022.

# 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

# We create a future beyond fossils

Biofore strategy drives stakeholder value creation and our transformation as the frontrunner of bioeconomy



## Growth

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

## Performance

- Continuous improvement
- Agile operating model
- Corporate synergies

## Innovation

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

## Responsibility

- Renewable & sustainable solutions
- Responsible operations and value chain

## Portfolio choices

- Strategic access to sustainable renewable raw materials
- Investing in businesses with strong long-term fundamentals for growth and high barriers to entry
- Effective capital allocation with attractive returns



# 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



**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**

MtCO<sub>2</sub>eq

**Carbon sink**

Trees and soil

**Long-term  
carbon storage**

Trees and soil

## WE ACT THROUGH EMISSION REDUCTIONS

**+4,5**

MtCO<sub>2</sub>

**Own  
emissions**

Scope 1 ja 2

**+5,0**

MtCO<sub>2</sub>

**Value chain  
emissions**

Scope 3

## WE ACT THROUGH PRODUCTS

**-2,0**

MtCO<sub>2</sub>

**Fossil  
energy  
substitution**

**+1,6**

MtCO<sub>2</sub>

**Temporary  
carbon storage**

Wood-based  
products

**-5,8**

MtCO<sub>2</sub>

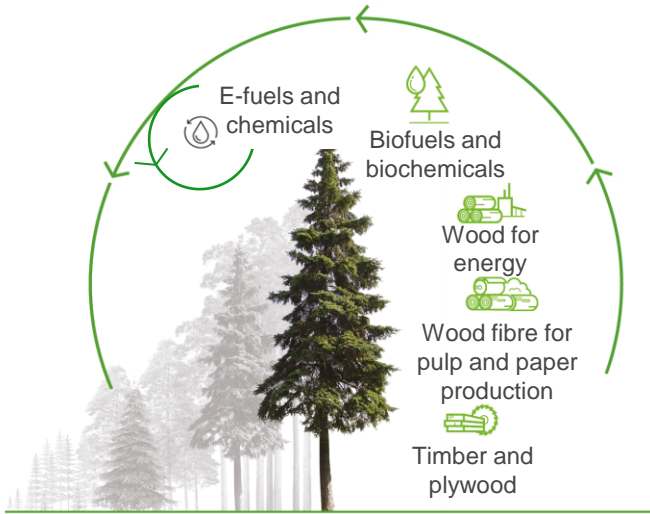
**Fossil-based  
products  
substitution**

BIO

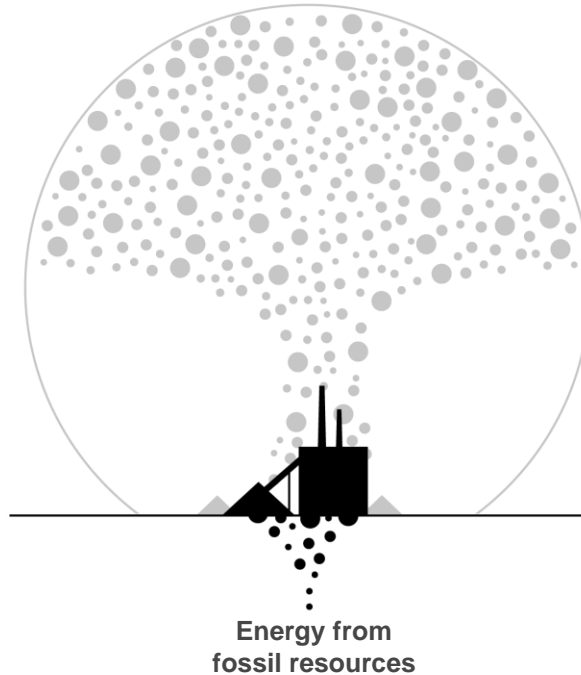
# Bioeconomy offers a sustainable alternative to fossil-based economy



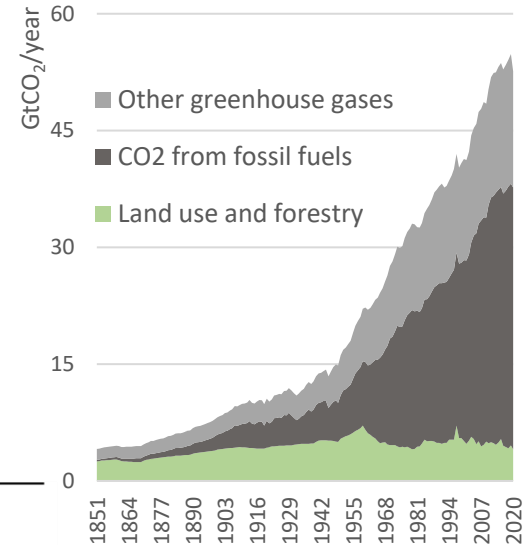
Biomass use is not increasing  
CO<sub>2</sub> to carbon cycle



Use of fossil resources  
increases CO<sub>2</sub> amount



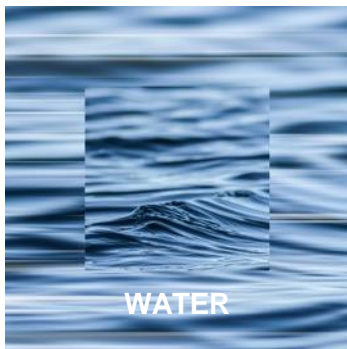
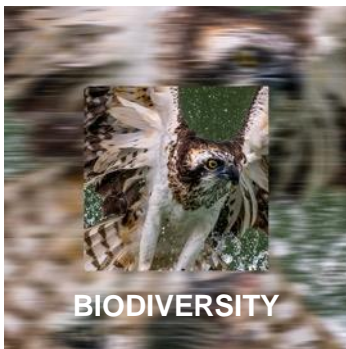
Use of fossils has increased  
global CO<sub>2</sub> -emissions



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

AAA

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



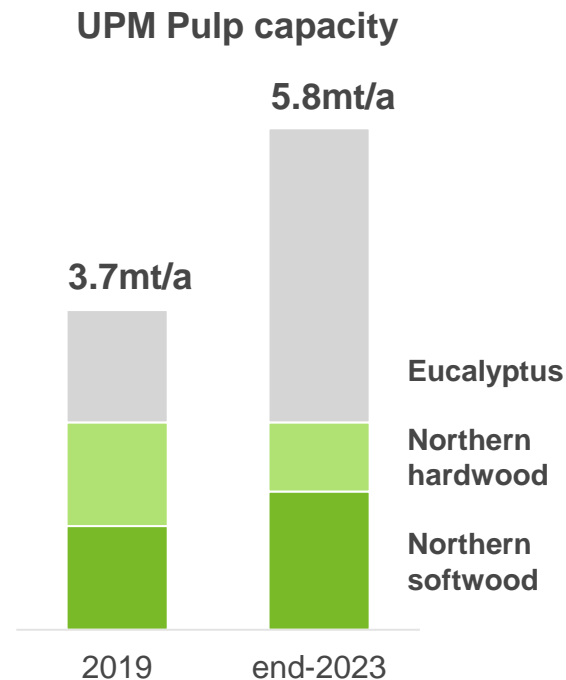
Started up in April



# 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 1,180 million investment  
Total annual capacity of 220,000 tonnes



Scheduled to start up by the end of 2024





# 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
- ROCE target of 14% for UPM Biochemicals business



# Moving forward with biofuels growth plans

## Basic engineering phase of a next generation biorefinery



Potential industrial scale biofuels biorefinery



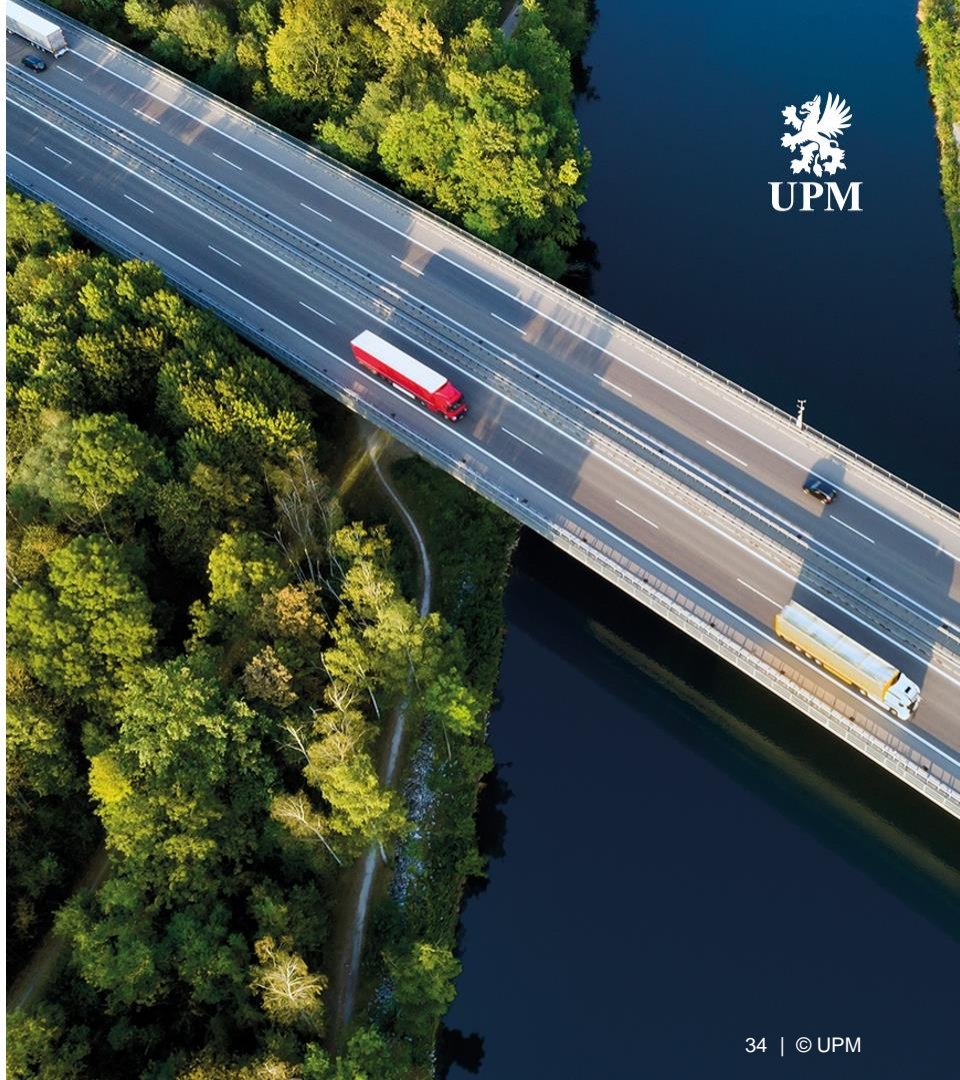
Products would significantly reduce carbon footprint in the road transport and aviation



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

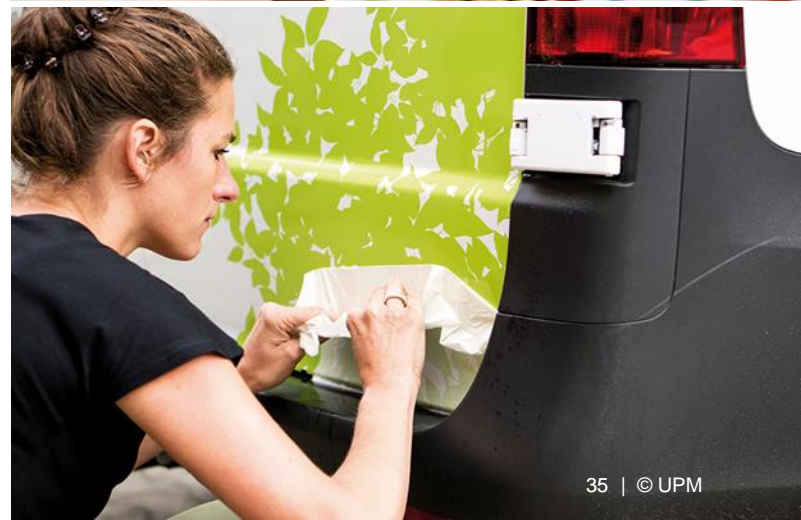


Potential investment in Rotterdam, the Netherlands.

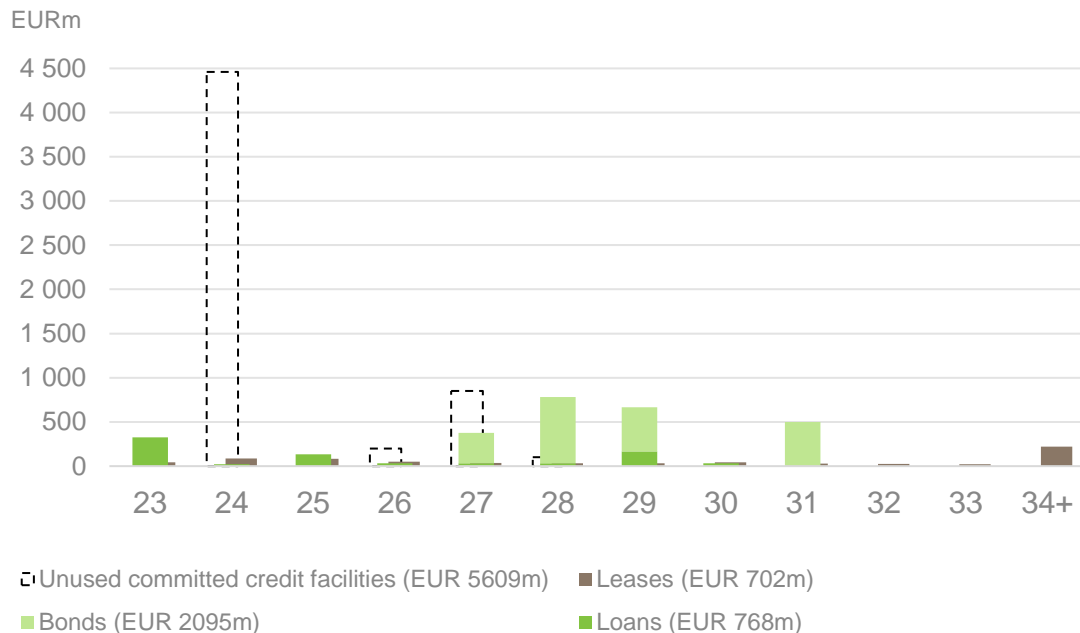


# AMC AG acquisition to accelerate UPM Raflatac growth

- 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 30 June 2023 was EUR 6.4bn (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 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-Q4 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

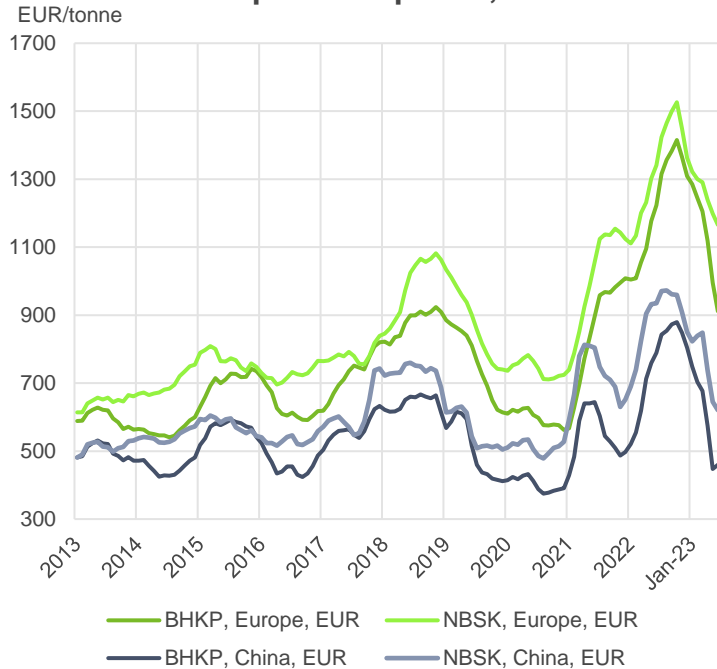
	USD	GBP	JPY	Others
EURm	1,385	270	140	25

# UPM Fibres

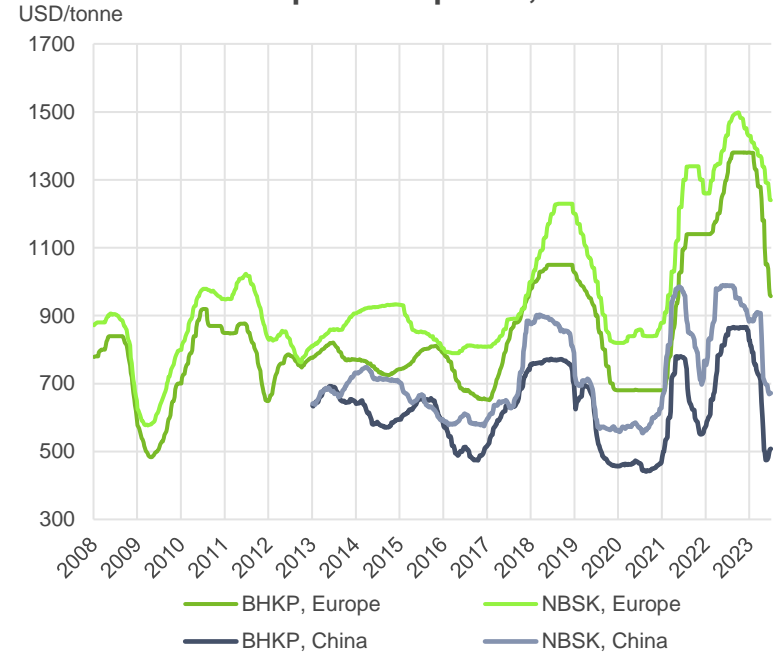
## Chemical pulp market prices



### Pulp market prices, EUR

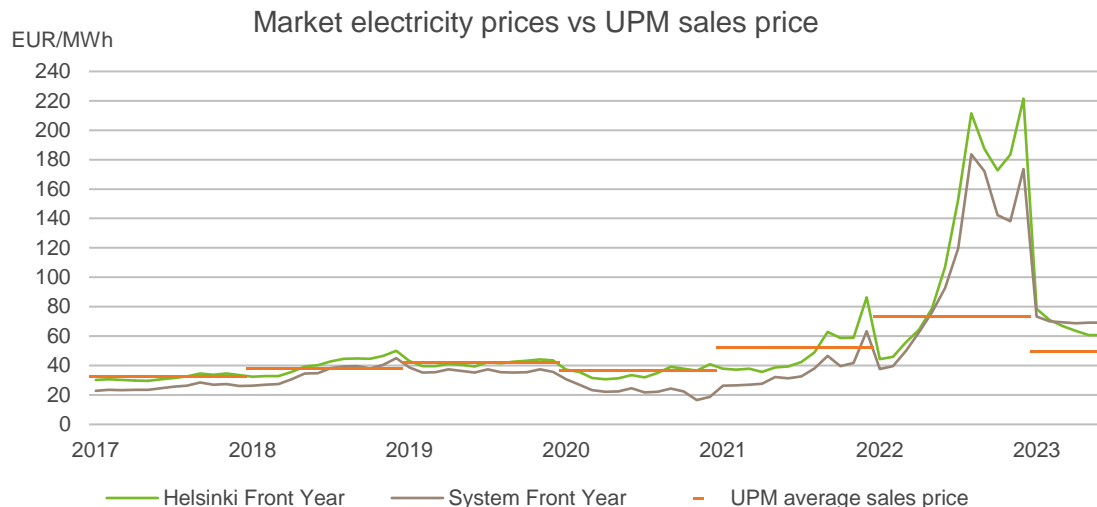


### Pulp market prices, USD



Source: FOEX Indexes Ltd

# Cost efficient generation enables robust profitability in changing market environment

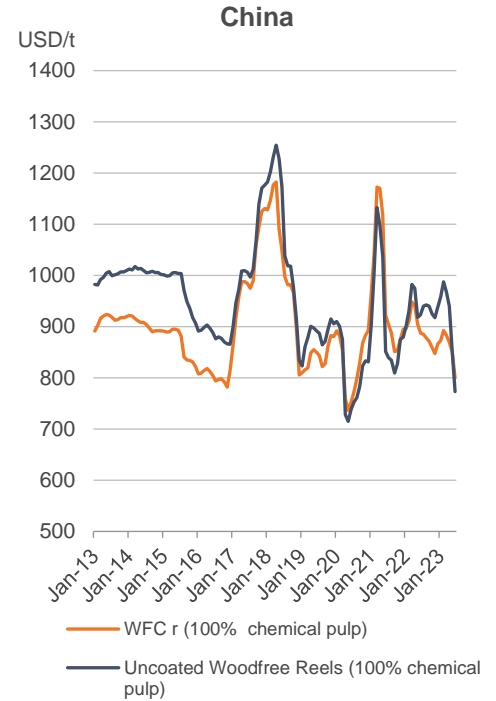
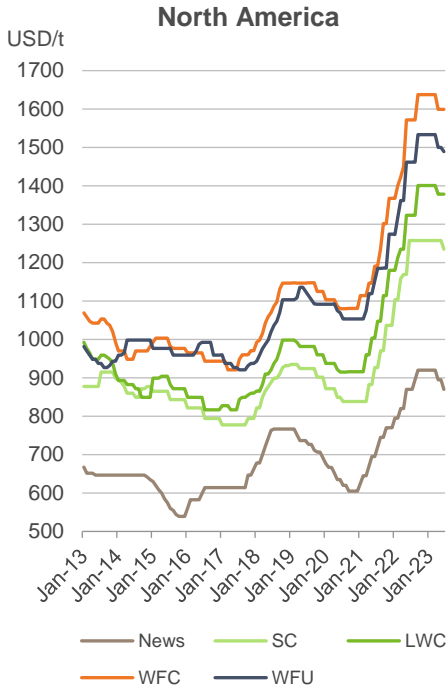
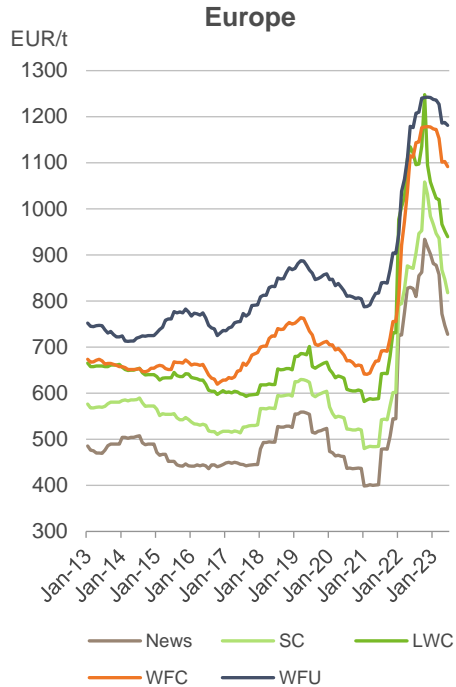


UPM Energy profitability	2018	2019	2020	2021	2022	H123
Comparable EBIT, EURm	123	185	171	270	381	108
% of sales	31.5	44.4	45.0	51.3	52.0	37.0



# UPM Communication Papers

## Graphic paper prices

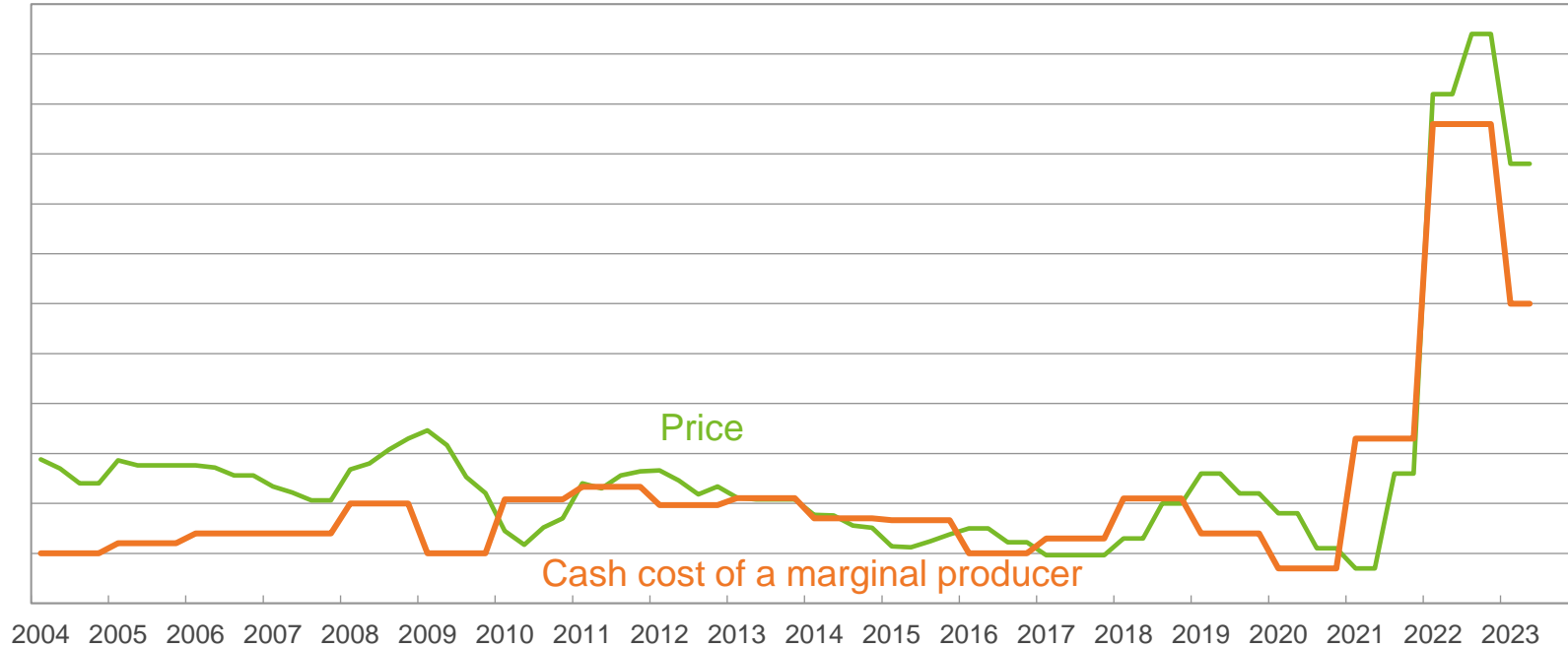


Sources: PPI, RISI

# Paper price vs. cash cost of marginal cost producer



EUR/t



Sources: PPI, RISI, AFRY

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