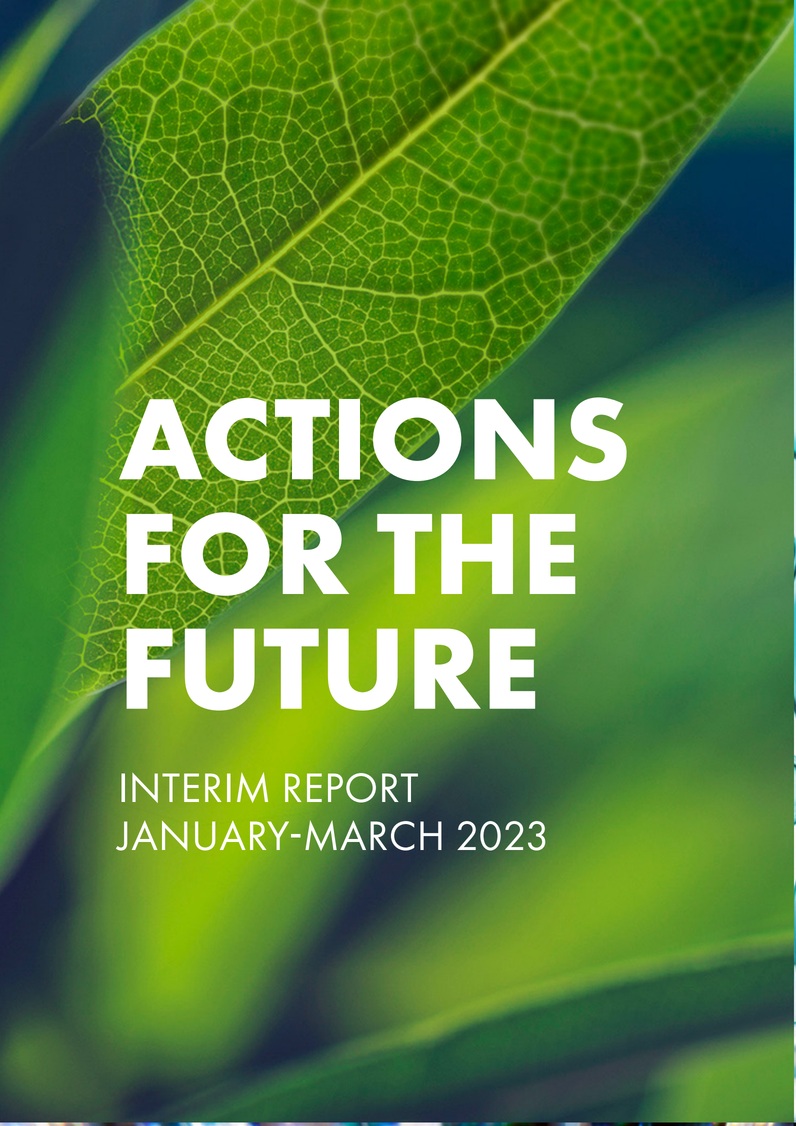
ACTIONS FOR THE FUTURE

INTERIM REPORT
JANUARY-MARCH 2023



UPM Interim Report Q1 2023:

Solid Q1 result underpinned by strong margins, two transformative projects completed

Q1 2023 highlights

- Sales increased by 11% to EUR 2,787 million (2,507 million in Q1 2022)
- Comparable EBIT grew by 29% to EUR 356 million, 12.8% of sales (277 million, 11.0%)
- Delivery volumes were impacted by destocking in various product value chains
- Successful margin management
- Operating cash flow was EUR 714 million (12 million), supported by cash inflow from energy hedges
- Net debt increased to EUR 2,167 million (837 million) and the net debt to EBITDA ratio was 0.82 (0.46)
- Cash funds and unused committed credit facilities totalled EUR 6.7 billion at the end of Q1 2023
- UPM Paso de los Toros pulp mill in Uruguay started up production on 15 April
- The OL3 nuclear power plant unit began regular electricity production on 16 April and Teollisuuden Voima Oyj (TVO) submitted to the OL3 plant supplier the Provisional Takeover Certificate on 20 April
- UPM finalised its full exit from Russia
- UPM announced a plan to permanently close paper machine 6 at UPM Schongau in Germany and to accelerate the earlier announced stop of production at the Steyrermühl mill in Austria by the end of Q2 2023

Key figures

	Q1/2023	Q1/2022	Q4/2022	Q1–Q4/2022
Sales, EURm	2,787	2,507	3,231	11,720
Comparable EBITDA, EURm	477	377	759	2,536
% of sales	17.1	15.0	23.5	21.6
Operating profit, EURm	318	183	675	1,974
Comparable EBIT, EURm	356	277	653	2,096
% of sales	12.8	11.0	20.2	17.9
Profit before tax, EURm	239	179	638	1,944
Comparable profit before tax, EURm	344	273	616	2,066
Profit for the period, EURm	183	139	503	1,556
Comparable profit for the period, EURm	281	232	489	1,679
Earnings per share (EPS), EUR	0.33	0.25	0.93	2.86
Comparable EPS, EUR	0.51	0.42	0.91	3.09
Return on equity (ROE), %	5.7	5.0	16.0	13.0
Comparable ROE, %	8.7	8.4	15.5	14.0
Return on capital employed (ROCE), %	6.0	5.8	15.0	12.8
Comparable ROCE, %	8.4	8.5	14.5	13.6
Operating cash flow, EURm	714	12	1,576	508
Operating cash flow per share, EUR	1.34	0.02	2.95	0.95
Equity per share at the end of period, EUR	23.42	20.11	23.44	23.44
Capital employed at the end of period, EURm	16,478	13,840	17,913	17,913
Net debt at the end of period, EURm	2,167	837	2,374	2,374
Net debt to EBITDA (last 12 months)	0.82	0.46	0.94	0.94
Personnel at the end of period	16,985	16,843	17,236	17,236

UPM presents certain measures of performance, financial position and cash flows, which are alternative performance measures in accordance with the guidance issued by the European Securities and Markets Authority (ESMA). The definitions of alternative performance measures are presented in ***» UPM Annual Report 2022***

Jussi Pesonen, President and CEO, comments on the results:

"We delivered our second-best Q1 result in more than 20 years, even though it was held back by a short-term lack of volumes. After a year of rapid inflation and scarcity of goods, 2023 began with intense destocking in most product value chains. We succeeded in managing margins and adapting our operations to the situation. Sales increased by 11% and comparable EBIT grew by 29% over last year. Our operating cash flow was impressive at EUR 714 million.

What makes me particularly excited is that we have just reached two strategic milestones. Our transformative growth projects in UPM Fibres and UPM Energy have been completed: The UPM Paso de los Toros pulp mill in Uruguay is ramping up and the OL3 nuclear power plant unit has started regular commercial electricity production. Both investments will contribute to UPM's results and future opportunities for decades to come, and I would like to thank all UPMers who have contributed to these major projects over the years.

Looking at our Q1 business performance, market shipments in most products were substantially below the long-term averages due to destocking in the value chains. UPM Communication Papers, UPM Energy and UPM Plywood achieved good results in the low-volume environment. UPM Fibres continued to deliver satisfactory results and the business was getting ready to start up UPM Paso de los Toros. UPM Raflatac and UPM Specialty Papers managed to maintain healthy unit margins, but the results in both businesses leave room for improvement as delivery volumes recover.

Despite the short-term turbulence, the long-term growth prospects remain unchanged and attractive. We continue to focus on managing margins. We expect the impact of destocking to phase out in the coming months. Moreover, many variable costs have already passed their peak but the benefit to UPM businesses is yet to materialise in our results.

In UPM Communication Papers, we decided to stop production at UPM Steyrermühl Austria by the end of Q2, six months earlier than planned. Paper machine 6 at UPM Schongau, Germany, is planned to be closed permanently by the end of Q2.

We continue to build our attractive growth platforms for various biomaterials businesses:

UPM Paso de los Toros will supply sustainable products to meet global consumer demand and grow our pulp business by over 50%. The cash cost level of approximately USD 280 per delivered tonne of pulp makes it one of the most competitive pulp mills in the world. The COVID-19 pandemic and the global economic circumstances brought unforeseen challenges to the project, but UPMers managed them with great professionalism, which makes me very proud of the entire project team. The total investment of USD 3.47 billion will create wellbeing in the surrounding communities and benefit the whole Uruguayan economy. For UPM, the plantation-based business platform offers further growth opportunities in various biomaterials in the long term.

The OL3 nuclear power plant unit increases UPM Energy's CO2-free electricity output by nearly 50%. It is an excellent example of how we are living up to our ambitious purpose of creating a future beyond fossils. OL3 promotes the electrification of society, increases Finnish electricity self-sufficiency and provides a much-needed response to the energy crisis in Finland. In the long term, our competitive and agile energy business platform will open up growth opportunities for UPM in the green transition, e.g. in synthetic fuels and materials.

Customers' keen interest in the biochemical products of our new biorefinery currently under construction in Leuna, Germany, confirms the business case and growth strategy to replace fossil-based materials with renewable alternatives in numerous end uses. Detailed commercial and basic engineering studies of the potential biofuels refinery in Rotterdam continue at an intense pace.

With UPM Paso de los Toros and OL3 now in production and a portfolio of ground-breaking projects under way, I look to the future with confidence and excitement."

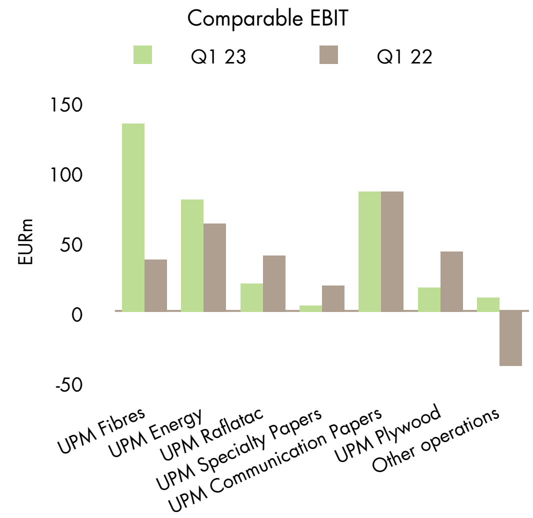
Outlook for 2023

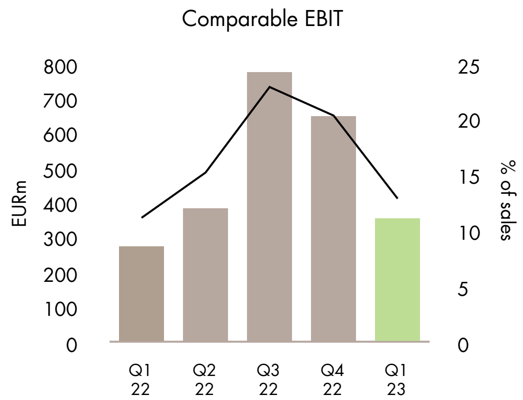
UPM reached record earnings in 2022, and 2023 is expected to be another year of strong financial performance. UPM's comparable EBIT is expected to increase in H1 2023 from H1 2022.

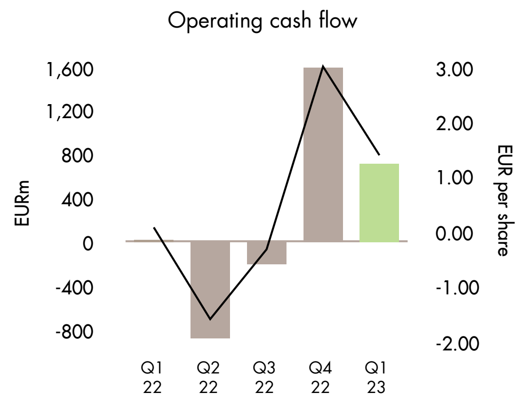
In 2023, UPM's delivery volumes are expected to benefit from the ramp up of the UPM Paso de los Toros pulp mill and the OL3 nuclear power plant unit. In H1 2023, however, demand for many UPM products is expected to be held back by destocking in various product value chains. The opening of the Chinese economy from the COVID lockdowns and easing inflation in other key economies represent potential for increasing demand as the year progresses.

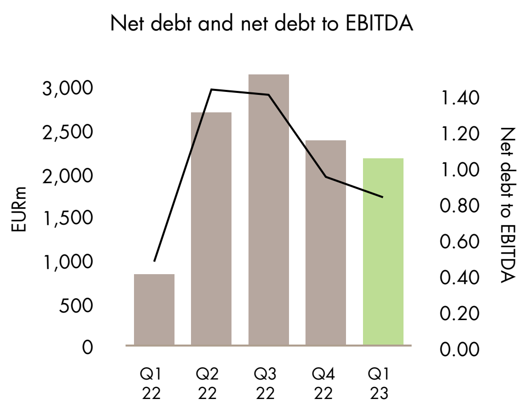
Year 2023 is starting with high cost level for many inputs, while the lower demand is exerting pressure on product prices. However, several input costs have also progressed past their peak. UPM will continue to manage margins with product pricing, by optimising its product and market mix and by taking 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.









Results

Q1 2023 compared with Q1 2022

Q1 2023 sales were EUR 2,787 million, 11% higher than the EUR 2,507 million in Q1 2022. Sales increased in UPM Fibres, UPM Communication Papers, UPM Specialty Papers, UPM Energy business areas and Other operations, driven mainly by higher sales prices. Sales decreased in UPM Raflatac and UPM Plywood.

Comparable EBIT increased by 29% to EUR 356 million, which was 12.8% of sales (277 million, 11.0%).

Sales prices increased in all business areas, with the largest impact in UPM Communication Papers.

Variable costs increased in all business areas, especially in UPM Communication Papers. At Group level, the positive impact of higher sales prices was larger than the negative impact of higher variable costs.

Delivery volumes decreased in most business areas and increased in UPM Fibres and UPM Biofuels. Fixed costs increased by EUR 88 million. Delivery volumes were held back by significant destocking in the various product value chains. The comparison period was impacted by the strike in Finland.

Depreciation, excluding items affecting comparability, totalled EUR 114 million (111 million), including depreciation of leased assets totalling EUR 21 million (19 million). The change in the fair value of forest assets net of wood harvested was EUR -5 million (12 million).

Operating profit was EUR 318 million (183 million). Items affecting comparability in operating profit totalled EUR -38 million in the period (-94 million). In Q1 2023, items affecting comparability include EUR 26 million restructuring charges relating to the planned closure of paper machine 6 at UPM Schongau mill in Germany, EUR 9 million charges related to the planned sale of the Steyrermühl site in Austria and EUR 6 million capital loss resulting from the sale of Russian operations. In Q1 2022, items affecting comparability include EUR 95 million impairment charges of assets impacted by Russia's war in Ukraine.

Net interest and other finance income and costs were EUR -6 million (-5 million). The exchange rate and fair value gains and losses were EUR -73 million (1 million). Items affecting comparability in finance costs totalled EUR -67 million including EUR 72 million exchange rate losses relating to the sale of Russian operations. Income taxes were EUR -56 million (-40 million). Items affecting comparability in taxes totalled EUR 8 million (1 million).

Profit for Q1 2023 was EUR 183 million (139 million), and comparable profit was EUR 281 million (232 million).

Q1 2023 compared with Q4 2022

Comparable EBIT decreased by 46% to EUR 356 million, which was 12.8% of sales (653 million, 20.2%). Delivery volumes were held back by destocking in the various product value chains, and decreased in all business areas with the exception of UPM Energy. Sales prices decreased for UPM Energy, UPM Fibres, UPM Communication Papers and UPM Specialty Papers, and increased for UPM Raflatac and UPM Plywood.

Variable costs increased in UPM Communication Papers, UPM Specialty Papers, UPM Raflatac and Other operations.

Fixed costs decreased by EUR 81 million mainly due to the scheduled maintenance activity in the comparison period and other seasonal variations.

Depreciation, excluding items affecting comparability, totalled EUR 114 million (119 million). The change in the fair value of forest assets net of wood harvested was EUR -5 million (12 million).

Operating profit was EUR 318 million (675 million).

Financing and cash flow

In Q1 2023 cash flow from operating activities before capital expenditure and financing totalled EUR 714 million (12 million). Working capital increased by EUR 216 million (258 million). In 2022, the energy futures markets experienced an unprecedented rise in futures prices. Due to this, the cash outflow of UPM's unrealised energy hedges totalled EUR -0.9 billion in 2022, whereas cash inflow totalled EUR 0.7 billion in Q1 2023.

Net debt was EUR 2,167 million at the end of Q1 2023 (837 million). The gearing ratio as of 31 March 2023 was 17% (8%). The net debt to EBITDA ratio, based on the last 12 month's EBITDA, was 0.82 at the end of the period (0.46).

On 31 March 2023 UPM's cash funds and unused committed credit facilities totalled EUR 6.7 billion. The total amount of committed credit facilities was EUR 5.7 billion of which EUR 4.5 billion maturing in 2024, EUR 100 million maturing in 2025 and EUR 1.2 billion maturing in 2026 or beyond.

For the 2022 financial year, the dividend of EUR 1.50 per share is paid in two equal instalments. The first instalment of EUR 0.75 per share (totalling EUR 400 million) was paid on 21 April 2023 and the second instalment of EUR 0.75 per share will be paid on 2 November 2023.

Capital expenditure

In Q1 2023, capital expenditure totalled EUR 270 million, which was 9.7% of sales (256 million, 10.2% of sales). Capital expenditure does not include additions to leased assets.

In 2023, UPM's total capital expenditure, excluding investments in shares, is expected to be about EUR 950 million, which includes estimated capital expenditure of approximately EUR 750 million in transformative projects. Transformative projects consist of the new pulp mill in Uruguay and the biochemicals biorefinery in Germany.

In January 2019, UPM announced that it would invest in the refurbishment of the Kuusankoski hydropower plant in Finland. The average annual production of the Kuusankoski plant is expected to increase from the current 180 GWh to 195 GWh. The investment was completed in Q1 2023.

In July 2019, UPM announced that it would invest in a 2.1 million tonne greenfield eucalyptus pulp mill near Paso de los Toros, central Uruguay. Additionally, UPM will invest in port operations in Montevideo and in local investments outside the mill fence. The mill started operations on !5 April 2023 after the final operating authorisation was granted, and the total investment estimate is USD 3.47 billion.

In January 2020, UPM announced that it would invest in a 220,000 tonnes next-generation biochemicals biorefinery in Leuna, Germany. The facility is scheduled to start up by the end of 2023, and the total investment estimate is EUR 750 million.

In December 2021, UPM announced that it would invest EUR 10 million in the development of UPM Plywood's plywood mill in Joensuu, Finland. The investment includes new production lines, new workspaces and 720 square metres of completely new production space. The investment will be completed by the end of 2023.

Personnel

In Q1 2023, UPM had an average of 17,152 employees (16,815). At the beginning of the year, the number of employees was 17,236 and at the end of Q1 2023 it was 16,985.

Uruguay pulp mill investment

On 23 July 2019, UPM announced that it would invest USD 2.72 billion in a 2.1 million tonne greenfield eucalyptus pulp mill near Paso de los Toros, central Uruguay. Additionally, UPM would invest approximately USD 280 million in port operations in Montevideo and USD 70 million in local investments outside the mill fence, including a new residential area in Paso de los Toros. In May 2020, an electrical grid reinforcement investment of USD 70 million was added to the scope of the project to fully utilise and sell the surplus energy of the mill.

The investment will grow UPM's current pulp capacity by more than 50%, resulting in a step change in the scale of UPM's pulp business as well as in UPM's future earnings.

With a combination of competitive wood supply, scale, best available techniques and efficient logistics, the mill is expected to reach a highly competitive cash cost level of approximately USD 280 per delivered tonne of pulp. This figure includes the variable and fixed costs of plantation operations, wood sourcing, mill operations and logistics delivered to the main markets. Furthermore, the safety and sustainability performance of the value chain from plantations to customer delivery is expected to be on an industry-leading level.

Competitive wood supply

Eucalyptus availability for the mill is secured through UPM’s own and leased plantations, as well as through wood sourcing agreements with private partners. The plantations that UPM owns, leases or manages in Uruguay cover 504,773 hectares. They will supply the current UPM Fray Bentos mill and the new Paso de los Toros mill.

State of the art mill design

The pulp mill has been designed as an efficient single-line operation. The machines, materials, level of automation and standards enable a high operating rate and maintainability, as well as a high energy output. This ensures excellent safety, high environmental performance, and low operating costs during the long lifecycle of the mill.

The mill is designed to fully meet strict Uruguayan environmental regulations, as well as international standards and recommendations for modern mills, including the use of the latest and best available technology (BAT). The mill's environmental performance will be verified through comprehensive and transparent monitoring.

The mill's initial annual production capacity is 2.1 million tonnes, and the environmental permits enable further capacity potential. When in operation, the mill generates more than 110 MW surplus of renewable electricity.

Efficient logistics set-up

An efficient logistics chain will be secured by the agreed road improvements, extensive railway modernisation and port terminal construction.

The Public-Private-Partnership agreement between the government and the construction company for the construction of the central railway was signed in May 2019. Works on the central railway are proceeding, but the overall rail project is delayed, and the railway is scheduled to start operations in May 2023. UPM has a contingency plan in place to ensure logistics with truck transportation before the rail logistics are commissioned.

UPM has completed the construction of a deep-sea pulp terminal at Montevideo port with an investment of approximately USD 240 million. Direct rail access from the mill to a modern deep-sea port terminal will create an efficient supply chain to world markets. The Montevideo deep-sea port also enables synergies in ocean logistics with UPM's existing Uruguayan operations.

UPM entered into a port terminal concession agreement in 2019 and signed an agreement on rail logistics services in October 2020. Both agreements are considered in accordance with IFRS 16 Leases. The total amount of such lease payments is expected to be USD 200 million.

Significant impact on the Uruguayan economy

Based on independent socio-economic impact studies, the mill is estimated to increase Uruguay's gross national product by about 2% and the annual value of Uruguay's exports by approximately 12% after completion.

In the most intensive construction phase, more than 7,000 people have been working on the site. In total, over 20,000 people have been involved in the various construction sites related to the project.

When completed, approximately 10,000 permanent jobs are estimated to be created in the Uruguayan economy of which approximately 4,000 would involve direct employment by UPM and its subcontractors. About 600 companies are estimated to be working in the value chain.

The mill will be located in one of Uruguay's many free trade zones and will pay a fixed annual tax of USD 7 million. The mill's value chain is expected to contribute USD 170 million in annual taxes and social security payments and to contribute USD 200 million annually in wages and salaries.

Project schedule and capital outflow

On 31 March, UPM announced that it has reached technical readiness to begin operations and received approval from the environmental authorities for all the procedures, systems and technologies that are required to fulfil the mill's environmental permit. This acceptance preceded the final operating authorisation that was granted on 14 April. The start-up of the mill commenced immediately. The first customer deliveries are expected to be shipped in in May. The nominal capacity of the mill is expected to be reached within the first year.

The mill has gone through a comprehensive and thorough permitting process. The Uruguayan environmental authority has monitored the construction of the mill on site throughout the project. The operating authorisation process has included several inspections by the authorities, as well as third party audits by industry experts. UPM has an extensive environmental monitoring programme covering water and biota, air, soil, noise, and socio-economic aspects.

In connection with reaching the technical readiness to start operations, UPM confirmed the expected cash cost level of approximately USD 280 per delivered tonne of pulp. This positions the UPM Paso de los Toros mill among the most competitive pulp mills in the world, with attractive returns on investment in various market scenarios.

The pulp terminal in the port of Montevideo is operational. The Central Railroad works are still in progress.

The total capital expenditure of USD 3.47 billion will take place in 2019-2023, with 2021 and 2022 being the most intensive years. UPM will hold 91% ownership of the project and a local long-term partner which has also been involved in UPM Fray Bentos, owns 9%. UPM's investment will mainly be financed from operating cash flow complemented by regular group financing activities.

Biochemicals refinery investment

On 30 January 2020 UPM announced that it would invest EUR 550 million in a 220,000 tonnes next-generation biochemicals refinery in Leuna, Germany. Originally, the biorefinery was scheduled to start up by the end of 2022. However, the pandemic has slowed down the completion of the detailed engineering in Leuna. Disruptions to global supply chains have affected both the availability and costs of critical construction materials. Hence the start-up schedule has been updated to take place by the end of 2023. The capital expenditure estimate has been increased to EUR 750 million.

The biorefinery will produce a range of 100% wood-based biochemicals, which will enable a switch from fossil raw materials to sustainable alternatives in various consumer-driven end-uses. The investment opens up totally new markets for UPM, with large growth potential for the future.

The industrial scale biorefinery will convert solid wood into next generation biochemicals: bio-monoethylene glycol (BioMEG) and renewable functional fillers. In addition, the biorefinery will produce bio-monopropylene glycol (BioMPG) and industrial sugars. Once the facility is fully ramped up and optimised, it is expected to achieve the ROCE target of 14%.

A combination of a sustainable wood supply, a unique technology concept, integration into existing infrastructure at Leuna and the proximity to customers will ensure the competitiveness of operations. The safety and sustainability of the value chain will be based on UPM's high standards.

InfraLeuna GmbH, in the state of Saxony-Anhalt, offers very competitive conditions for constructing a biorefinery with its logistics arrangements and infrastructure for various services and utilities. In October 2020, UPM entered into service agreements with InfraLeuna GmbH related to wood handling, wastewater treatment and other utilities, which will be recognised as lease assets and liabilities under IFRS 16 Leases upon the commencement date. The total amount of such lease assets and liabilities is estimated to be EUR 120 million.

Construction at the biorefinery-site in Leuna continues with visible progress. Major structures and equipments have been installed. Piping, electrification, instrumentation, smaller equipment installations and activities in the infrastructure are progressing with good speed.

The business foundation has been strengthened further. Business function teams are in place and hiring the operations staff has progressed enabling entering to concrete start- and ramp-up preparations from training through process development and concrete operations planning. Also, the research and analytics laboratories are established in Leuna and the teams are staffed and working – an important step towards quality assurance, process optimisation and to define future development options.

Commercial activities have continued to proceed positively in different product and application areas. After the launch of UPM BioMotion™ Renewable Functional Fillers (RFF) in October 2021, joint product development activities with potential customers in the rubber value chain have progressed further as have discussions with OEMs, especially in the automotive sector, with good results regarding both the technical and commercial viability of the product. We made further progress in taking renewable bio-monoethylene glycols (bMEG) to market, advancing sales capabilities and extending pre-commercial discussions with potential customers, as well as end-users in the packaging, textile and automotive end-uses.

The environmental benefits of the biorefinery and the UPM Biochemicals portfolio continue to be publicly acknowledged with nominations as finalist in the Packaging Europe's "Renewables, Pre Commercialized" category and first position in the sustainability ranking in the European Rubber Journal.

Biofuels business development

In January 2021, UPM announced that it moves forward with biofuels growth plans and starts the basic engineering phase of a next generation biorefinery. The potential biorefinery would have a maximum annual capacity of 500,000 tonnes of high-quality renewable fuels including sustainable jet fuel. The products would significantly reduce the carbon footprint of road transport and aviation, as well as replace fossil raw materials with renewable alternatives in chemicals and bioplastics. Feedstock sourcing will focus on UPM integrated feedstocks from the company's own ecosystem and wood-based residues play a substantial role. In addition, the biorefinery would use sustainable liquid waste and residue raw materials.

UPM is proceeding with a detailed commercial and basic engineering study to define the business case, select an innovative technology option and sustainable feedstock mix and estimate the investment need.

The site assessment of the potential biofuels refinery was completed in January 2022 and Rotterdam in the Netherlands has been selected as the optimal location.

If all preparations are concluded successfully, UPM would initiate the company's standard procedure of analysing and preparing an investment decision.

OL3 power plant project

Teollisuuden Voima Oyj (TVO) is in the process of constructing a third nuclear power plant unit, OL3 EPR, at the Olkiluoto site (OL3). UPM participates in OL3 through its shareholding in Pohjolan Voima Oyj (PVO), which is the majority shareholder in TVO. UPM's indirect share of OL3 is approximately 31%. The OL3 plant supplier, a consortium consisting of AREVA GmbH, AREVA NP SAS and Siemens AG (Supplier), is constructing OL3 as a turnkey project.

According to TVO, under the plant contract, electricity production of OL3 was scheduled to start at the end of April 2009. The completion of the project, however, has been delayed. TVO announced in its Annual Report 2022 that OL3's regular electricity production will commence in March 2023.

OL3 was connected to the national grid on 12 March 2022 and reached its full power level for the first time on 30 September 2022. During test production in 2022, OL3 produced 1.9 TWh of electricity. During 2022, OL3's test production gradually proceeded to tests at full reactor capacity.

TVO announced on 4 January 2023 that after the production tests, production at the plant unit was to be discontinued in January 2023 for planned inspections of the feedwater pumps impellers.

On 20 January 2023, TVO announced that the OL3 feedwater pump impellers were to be replaced with impellers with more robust measurements during the ongoing production break. Regular electricity production was expected to start in March 2023.

On 16 February 2023, TVO announced that in connection with the start-up of OL3 was found a defect in the pressurizer safety valve intended for overpressure protection, and test period will continue after the valve maintenance outage.

On 15 March 2023, TVO announced that test production continued. Moreover, on 27 March 2023, was announced that the 10-day-long uninterrupted operation tests were completed.

After the end of the reporting period, on 13 April 2023, TVO informed that the test period tests were over. On 16 April 2023 TVO announced that OL3 was ready. Test production has been completed and regular electricity production began on 16 April 2023. On 20 April TVO announced that the commercial operation of the plant starts at 1 May 2023. This means among others, that the capitalisation of project costs ends, and the recognition of depreciation commences. The shareholders' right to the electricity produced by OL3 and their liability for the annual costs of electricity production are determined in compliance with TVO's Articles of Association.

OL3 will supply electricity to its shareholders on a cost-price principle (Mankala-principle), which is widely applied in the Finnish energy industry. Under the Mankala-principle electricity and/or heat is supplied to shareholders in proportion to ownership, and each shareholder is, pursuant to the specific stipulations of the respective articles of association, severally responsible for its respective share of the production costs of the energy company concerned.

OL3 will increase UPM Energy's electricity generation capacity significantly. The new power plant unit is expected to be highly efficient and meet the highest safety standards. Its power generation will be CO_2 -free and TVO will have a secure solution for the final disposal of used fuel.

Events during the reporting period

On 2 February, UPM's Board of Directors revised the company's dividend policy to be based on earnings instead of cash flow. This aligns the dividend policy with the company's transformative growth strategy. According to the new policy, UPM aims to pay attractive dividends, targeting at least half of the comparable earnings per share over time.

On 22 March, UPM announced that is plans to permanently close paper machine 6 at UPM Schongau, Germany, reducing the annual capacity of uncoated publication papers by 165,000 tonnes by the end of Q2 2023. UPM also announced that it accelerates the earlier announced stop of production at its Steyrermühl mill by six months. The exit of a total annual capacity of 320,000 tonnes of newsprint will take place already by the end of Q2 2023.

On 31 March, UPM announced that the UPM Paso de los Toros pulp mill has reached the technical readiness to start operations. UPM has also received the environmental authorities' acceptance of all the procedures, systems and technologies that are required to fulfil the environmental permit of the mill. This approval precedes the final operating authorisation.

In March, UPM sold all its business operations in Russia to Gungnir Wooden Products Trading.

Events after the balance sheet date

On 12 April, UPM held its Annual General Meeting. The decisions of the AGM are presented elsewhere in this report.

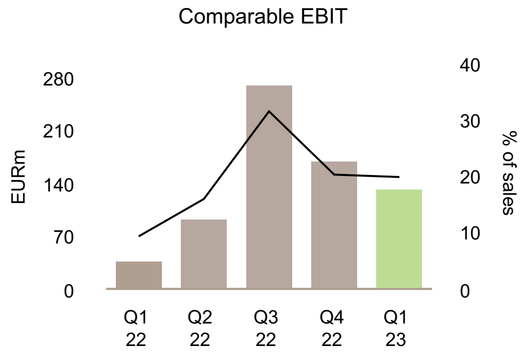
On 15 April, UPM announced that UPM Paso de los Toros pulp mill begins operations, and first customer deliveries are expected to ship in May.

Timing of significant maintenance shutdowns in 2023

TIMING	UNIT
Q2/2022	Olkiluoto nuclear power plant
	UPM Kaukas pulp mill
	UPM Pietarsaari pulp mill
Q4/2022	UPM Fray Bentos pulp mill
	UPM Lappeenranta Biorefinery maintenance
Q2/2023	Olkiluoto nuclear power plant
	UPM Lappeenranta Biorefinery turnaround
	UPM Kymi pulp mill
Q3/2023	UPM Kaukas pulp mill

UPM Fibres

UPM Fibres consists of pulp and timber businesses. UPM Pulp offers a versatile range of responsibly-produced pulp grades suitable for a wide range of end-uses. UPM Timber offers certified sawn timber. UPM has three pulp mills in Finland, two mills and plantation operations in Uruguay and operates four sawmills in Finland.



	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	683	850	866	584	404	2,704
Comparable EBITDA, EURm	188	213	313	139	78	743
% of sales	27.5	25.1	36.2	23.7	19.3	27.5
Change in fair value of forest assets and wood harvested, EURm	-6	5	3	1	2	11
Share of results of associated companies and joint ventures, EURm	0	0	1	1	0	3
Depreciation, amortisation and impairment charges, EURm	-48	-48	-47	-49	-44	-187
Operating profit, EURm	134	177	271	32	37	517
% of sales	19.6	20.8	31.3	5.5	9.1	19.1
Items affecting comparability in operating profit, EURm [1)]	—	7	—	-60	—	-53
Comparable EBIT, EURm	134	170	271	92	37	570
% of sales	19.6	20.1	31.3	15.7	9.1	21.1
Capital employed (average), EURm	6,571	6,404	6,290	5,615	5,158	5,867
Comparable ROCE, %	8.2	10.6	17.2	6.5	2.9	9.7
Pulp deliveries, 1000 t	692	832	859	609	461	2,761

Pulp mill maintenance shutdowns: Q4 2022 UPM Fray Bentos, Q2 2022 UPM Kaukas and UPM Pietarsaari.
[1)] In Q4 2022, items affecting comparability include EUR 5 million settlement adjustment resulting from replacement of defined benefit pension plan with defined contribution plan in Finland and EUR 2 million reversal of environmental provisions related to prior capacity closures. In Q2 2022, items affecting comparability include settlement loss resulting from replacement of defined benefit pension plan in Finland with defined contribution plan.

- UPM Paso de los Toros pulp mill has begun operations, with the first customer deliveries expected to ship in May

Results

Q1 2023 compared with Q1 2022

Comparable EBIT for UPM Fibres increased due to higher production and delivery volumes. Pulp sales prices were higher. The comparison period was impacted by the strike in Finland.

The average price in euro for UPM's pulp deliveries increased by 28%.

Q1 2023 compared with Q4 2022

Comparable EBIT decreased due to lower sales prices and delivery volumes. Fixed costs were lower due to the scheduled maintenance shutdown at the UPM Fray Bentos pulp mill during the comparison period.

The average price in euro for UPM's pulp deliveries decreased by 13%.

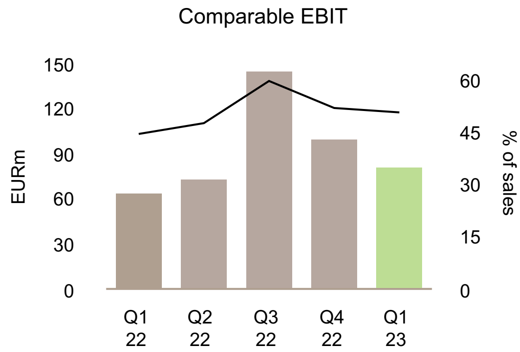
Market environment

- In Q1 2023, global chemical pulp demand growth was solid. In China, chemical pulp demand varied depending on the end-uses. In Europe, chemical pulp demand was weak.
- In Europe, the market price both for northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) decreased in Q1 2023 compared with Q4 2022.
- In China, the market price both for northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) decreased in Q1 2023 compared with Q4 2022.
- In Q1 2023, the average European market price in euro was 13% higher for NBSK and 22% higher for BHKP, compared with Q1 2022. In China, the average market price in US dollars was 6% higher for NBSK and 20% higher for BHKP, compared with Q1 2022.
- In Q1 2023, demand for sawn timber was stable and market prices decreased slightly.

Sources: FOEX, UPM

UPM Energy

UPM Energy generates cost competitive, zero-carbon electricity. Operations also include physical electricity and financial portfolio management as well as services to industrial electricity consumers. UPM Energy is the second largest electricity producer in Finland. UPM's power generation capacity consists of hydropower, nuclear power and thermal power.



	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	159	193	244	154	143	734
Comparable EBITDA, EURm	82	102	147	75	65	388
% of sales	51.6	52.7	60.2	48.5	45.4	52.9
Depreciation, amortisation and impairment charges, EURm	-2	-2	-2	-2	-2	-7
Operating profit, EURm	80	100	145	73	63	381
% of sales	50.5	51.7	59.5	47.4	44.3	52.0
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—
Comparable EBIT, EURm	80	100	145	73	63	381
% of sales	50.5	51.7	59.5	47.4	44.3	52.0
Capital employed (average), EURm	3,640	3,727	3,423	3,148	2,848	3,286
Comparable ROCE, %	8.8	10.7	16.9	9.3	8.9	11.6
Electricity deliveries, GWh	2,504	2,354	2,380	2,373	2,335	9,442

- Regular electricity production of OL3 began 16 April 2023

Results

Q1 2023 compared with Q1 2022

Comparable EBIT for UPM Energy increased mainly due to higher electricity sales price.

UPM's average electricity sales price increased by 5% to EUR 59.5/MWh (56.7/MWh).

Q1 2023 compared with Q4 2022

Comparable EBIT decreased due to lower energy sales price.

UPM's average electricity sales price decreased by 23% to EUR 59.5/MWh (77.2/MWh).

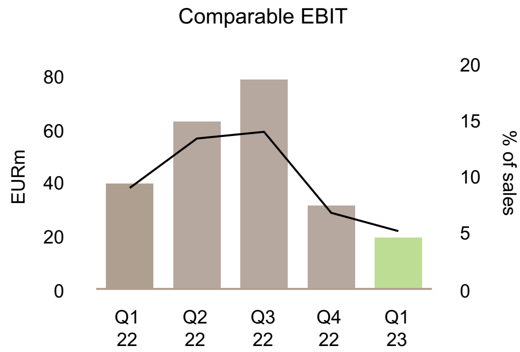
Market environment

- The Nordic hydrological balance was slightly below the long-term average at the end of March. In Finland, the hydrological situation was close to normal.
- The CO_2 emission allowance price of EUR 91.8/tonne at the end of Q1 2023 was higher than at the end of Q1 2022 (EUR 77.1/tonne).
- The average Finnish area spot price on the Nordic electricity exchange in Q1 2023 was EUR 77.6/MWh, 58% lower than in Q4 2022 (185.0/MWh) and 15% lower than in Q1 2022 (91.7/MWh).
- The front-year forward electricity price for the Finnish area closed at EUR 63.0/MWh in March, 62% lower than at the end of Q4 2022 (165.3/MWh).

Sources: The Norwegian Water Resources and Energy Directorate, Svensk Energi, Finnish Environment Institute, Nord Pool, NASDAQ OMX, Bloomberg, UPM

UPM Raflatac

UPM Raflatac offers high-quality self-adhesive paper and film products including label materials, graphics solutions and removable self-adhesive products. UPM Raflatac is the second-largest producer of self-adhesive label materials world-wide.



	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	395	479	573	479	451	1,982
Comparable EBITDA, EURm	30	42	89	72	49	251
% of sales	7.7	8.8	15.5	15.0	10.8	12.7
Depreciation, amortisation and impairment charges, EURm	-10	-10	-10	-9	-12	-41
Operating profit, EURm	19	31	77	61	33	203
% of sales	4.8	6.5	13.5	12.8	7.4	10.3
Items affecting comparability in operating profit, EURm [1)]	-1	-1	-2	-2	-7	-11
Comparable EBIT, EURm	20	32	79	63	40	214
% of sales	5.0	6.6	13.8	13.2	8.8	10.8
Capital employed (average), EURm	784	823	719	599	581	681
Comparable ROCE, %	10.1	15.5	44.0	42.3	27.5	31.5

[1)] In Q1 2023 and Q4 2022, items affecting comparability relate to restructuring costs. In Q3 2022, items affecting comparability include EUR 2 million of AMC acquisition-related costs. In Q2 and Q1 2022 items affecting comparability relate mainly to impairment charges of assets impacted by Russia´s war in Ukraine.

- Significant destocking continued in the value chain
- Sales prices increased with a focus on margin management
- Actions to improve variable and fixed cost efficiency
- UPM completed withdrawal of its business from Russia by selling all its Russian operations, including UPM Raflatac's distribution terminals

Results

Q1 2023 compared with Q1 2022

Comparable EBIT for UPM Raflatac decreased. The positive impact of higher sales prices did not offset the negative impact of higher variable costs and lower delivery volumes.

Q1 2023 compared with Q4 2022

Comparable EBIT decreased. The positive impact of higher sales prices did not offset the negative impact of lower delivery volumes and higher variable costs. Fixed costs were lower.

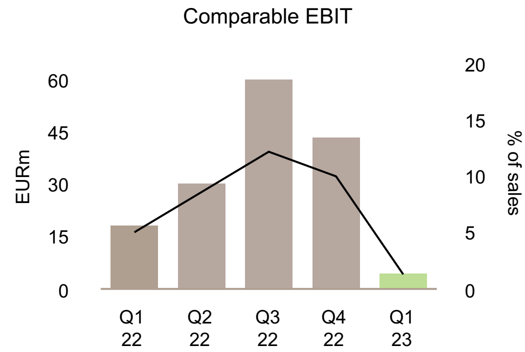
Market environment

- In Q1 2023, demand for self-adhesive label materials declined especially in Europe and North America due to significant destocking in the value chain. In Europe the market deliveries of self-adhesive label materials decreased by 33%.
- Demand in Asia was soft in Q1 2023.

Sources: UPM, FINAT, TLMI

UPM Specialty Papers

UPM Specialty Papers offers labelling and packaging materials as well as office and graphic papers for labelling, commercial siliconising, packaging, office use and printing. The production plants are located in China, Finland and Germany.



	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	404	441	502	357	377	1,677
Comparable EBITDA, EURm	24	62	81	50	38	230
% of sales	5.9	14.0	16.1	13.9	10.0	13.7
Depreciation, amortisation and impairment charges, EURm	-19	-18	-20	-19	-19	-77
Operating profit, EURm	5	44	60	30	19	153
% of sales	1.2	10.0	12.0	8.5	4.9	9.1
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—
Comparable EBIT, EURm	5	44	60	30	19	153
% of sales	1.2	9.9	12.1	8.5	4.9	9.1
Capital employed (average), EURm	954	933	895	843	884	889
Comparable ROCE, %	2.0	18.7	27.0	14.4	8.4	17.2
Paper deliveries, 1000 t	340	339	399	323	371	1,431

- Focus on efficient margin management
- Actions to mitigate high input costs
- Commercialisation and scaling the barrier paper portfolio continued

Results

Q1 2023 compared with Q1 2022

Comparable EBIT for UPM Specialty Papers decreased. The positive impact of higher sales prices and mix more than offset the negative impact of higher input costs. Fixed costs increased. Delivery volumes were lower.

Q1 2023 compared with Q4 2022

Comparable EBIT decreased due to higher input costs and lower sales prices. Delivery volumes were lower. Fixed costs were lower.

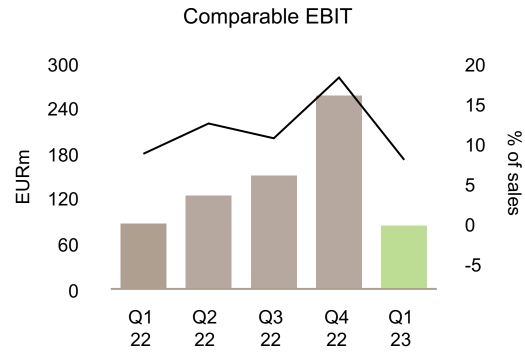
Market environment

- In Q1 2023, global demand for label, release base and packaging papers was softer and continued to be impacted by destocking in the value chain and lower consumer confidence, especially in Europe and Americas. Market prices decreased.
- Fine paper demand improved in China. However, fine paper demand remained softer in rest of the Asia-Pacific.
- In Q1 2023, fine paper market prices in the Asia-Pacific region decreased compared to Q4 2022.

Sources: UPM, RISI, AFRY, AWA

UPM Communication Papers

UPM Communication Papers offers an extensive product range of sustainably produced graphic papers for advertising and publishing as well as home and office uses. The business has extensive low-cost operations consisting of 13 efficient paper mills in Europe and the United States, a global sales network and an efficient logistic system. The main customers are publishers, cataloguers, retailers, printers and merchants.



	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	1,083	1,419	1,428	1,017	1,001	4,866
Comparable EBITDA, EURm	105	276	170	145	106	697
% of sales	9.7	19.5	11.9	14.3	10.6	14.3
Share of results of associated companies and joint ventures, EURm	0	1	1	1	0	3
Depreciation, amortisation and impairment charges, EURm	-20	-21	-20	-20	-20	-80
Operating profit, EURm	49	258	149	139	86	631
% of sales	4.6	18.2	10.4	13.6	8.6	13.0
Items affecting comparability in operating profit, EURm [1]	-36	1	-2	13	—	12
Comparable EBIT, EURm	85	256	151	126	86	619
% of sales	7.9	18.1	10.5	12.4	8.6	12.7
Capital employed (average), EURm	1,627	1,648	1,599	1,396	1,381	1,506
Comparable ROCE, %	20.9	62.2	37.7	36.1	25.0	41.1
Paper deliveries, 1000 t	947	1,233	1,356	1,001	1,113	4,703

[1] In Q1 2023, items affecting comparability include EUR 26 million restructuring charges related to planned closure of paper machine 6 at UPM Schongau mill in Germany, EUR 9 million charges related to planned sale of Steyrermühl site in Austria and EUR 1 million charges related to prior capacity closures. In Q4 2022, items affecting comparability include EUR 8 million gain on sale of other non-current assets and EUR 7 million restructuring charges. In Q3 2022, items affecting comparability include EUR 4 million of restructuring charges and EUR 2 million gain on sale of non-current assets. Q2 2022 includes EUR 11 million settlement loss resulting from replacement of a defined benefit pension plan in Finland with defined contribution plan, EUR 8 million capital gain on sale of Chapelle mill site in France, EUR 11 million reversal of restructuring provisions related to Chapelle paper mill, EUR 7 million gain on sale of non-current assets and EUR 3 million charges related to prior capacity closures. Q1 2022 includes EUR 1 million gain on sale of non-current assets and EUR 1million impairment charges related to assets impacted by Russia´s war in Ukraine.

- Plan to permanently close paper machine 6 at UPM Schongau and to accelerate the earlier announced stop of production at its Steyrermühl mill by Q2 2023
- Cost containment measures to mitigate cost increases

Results

Q1 2023 compared with Q1 2022

Comparable EBIT for UPM Communication Papers decreased. Positive impact of higher sales priced did not offset the negative impact of higher variable and fixed costs and lower deliveries.

The average price in euro for UPM's paper deliveries increased by 24%.

Q1 2023 compared with Q4 2022

Comparable EBIT decreased due to lower delivery volumes. Variable costs increased and sales prices were lower.

The average price in euro for UPM's paper deliveries decreased by 4%.

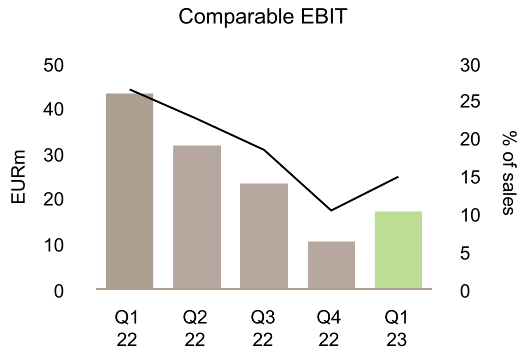
Market environment

- In Q1 2023, demand for graphic papers in Europe was 29% lower than in Q1 2022. Newsprint demand decreased by 25%, magazine papers by 28% and fine papers by 32% compared to Q1 2022.
- In Q1 2023, publication paper prices in Europe were 7% lower compared with Q4 2022. Compared with Q1 2022 publication paper prices were 12% higher. In Q1 2023, fine paper prices in Europe were 1% lower than in the previous quarter. Compared with Q1 2022, fine paper prices were 25% higher.
- In Q1 2023, demand for magazine papers in North America decreased by 24%, compared with Q1 2022. The average price in US dollars for magazine papers in Q1 2023 remained unchanged compared with Q4 2022 and increased by 15% compared with Q1 2022.

Sources: PPI/RISI, Euro-Graph, PPPC

UPM Plywood

UPM Plywood offers high quality WISA® plywood and veneer products for construction, vehicle flooring, LNG shipbuilding, parquet manufacturing and other industrial applications.



	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	118	104	127	143	164	539
Comparable EBITDA, EURm	23	17	29	37	50	133
% of sales	19.1	16.0	22.5	26.2	30.3	24.6
Depreciation, amortisation and impairment charges, EURm	-5	-4	-5	-5	-52	-67
Operating profit, EURm	12	5	26	33	-20	44
% of sales	10.3	4.8	20.6	23.0	-12.2	8.2
Items affecting comparability in operating profit, EURm [1)]	-5	-6	3	1	-63	-65
Comparable EBIT, EURm	17	11	23	32	43	109
% of sales	14.8	10.3	18.3	22.4	26.3	20.3
Capital employed (average), EURm	255	253	231	230	274	247
Comparable ROCE, %	27.4	17.0	40.5	55.8	63.1	44.3
Plywood deliveries, 1000 m^3	117	110	140	168	198	616

[1)] In Q1 2023, item affecting comparability include EUR 5 million capital loss resulting from sale of Russian operations. In Q4 2022, items affecting comparability include EUR 8 million addition to environmental provisions related to prior mill closures in Finland and EUR 2 million adjustment to impairment charges of assets impacted by Russia's war in Ukraine. In Q3, Q2 and Q1 2022 items affecting comparability relate mainly to impairment charges of assets impacted by Russia´s war in Ukraine.

- UPM completed withdrawal of its business from Russia by selling all its Russian operations, including UPM Chudovo plywood mill
- Sales prices continued to increase in some end-uses
- Demand in birch-related end-uses was strong
- Demand in spruce plywood and veneer was weak and temporary lay-offs were made to adjust the operations to the market demand

Results

Q1 2023 compared with Q1 2022

Comparable EBIT for UPM Plywood decreased due to lower delivery volumes. Higher sales prices offset the impact of increased variable costs.

Q1 2023 compared with Q4 2022

Comparable EBIT increased due to higher sales prices and delivery volumes. Variable costs were higher.

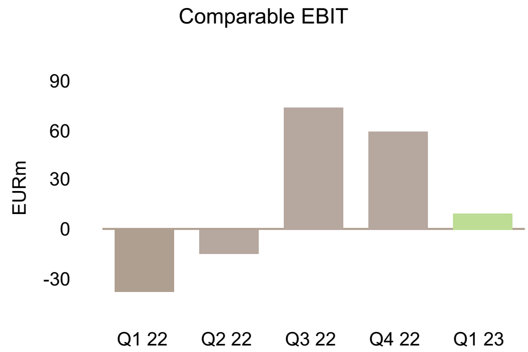
Market environment

- In Q1 2023, demand for spruce plywood was weak due to lower activity in the building and construction industry.
- In Q1 2023, demand for birch plywood was strong in panel trading and industrial applications.

Source: UPM

Other operations

Other Operations includes UPM Forest, UPM Biofuels, UPM Biochemicals, UPM Biomedicals and UPM Biocomposites business units as well as biofuels development and group services. UPM Forest secures competitive wood and biomass for UPM businesses and manages UPM-owned and privately-owned forests in North Europe. In addition, UPM Forest offers forestry services to forest owners and forest investors. UPM Biofuels produces wood-based renewable diesel for all diesel engines and renewable naphtha that can be used as a biocomponent for gasoline or for replacing fossil raw materials in petrochemical industry. UPM operates one biorefinery in Finland.



	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	200	218	236	110	70	634
Comparable EBITDA, EURm	21	66	90	4	-34	126
Change in fair value of forest assets and wood harvested, EURm	1	7	-6	-9	9	2
Share of results of associated companies and joint ventures, EURm	-2	-1	0	0	-1	-2
Depreciation, amortisation and impairment charges, EURm	-11	-14	-8	-9	-33	-64
Operating profit, EURm	8	65	74	-14	-61	64
Items affecting comparability in operating profit, EURm [1]	-1	6	—	1	-23	-16
Comparable EBIT, EURm	9	59	74	-14	-38	81
Capital employed (average), EURm	2,858	2,734	2,646	2,504	2,421	2,577
Comparable ROCE, %	1.3	8.7	11.2	-2.3	-6.3	3.1

[1] In Q1 2023, item affecting comparability include EUR 1 million capital loss resulting from sale of Russian operations. In Q4 2022, items affecting comparability include EUR 5 million gain on sale of other non-current assets and EUR 1 million adjustment to impairment charges of assets impacted by Russia's war in Ukraine. In Q3 2022, items affecting comparability include EUR 2 million of AMC acquisition-related costs and EUR 2 million of impairment reversals related to assets impacted by Russia's war in Ukraine. Q2 2022 includes settlement loss of EUR 3 million resulting from replacement of defined benefit pension plan in Finland with defined contribution plan and EUR 3 million capital gain on sale of non-current assets. Q1 2022 items affecting comparability mainly relate to impairment charges of assets impacted by Russia´s war in Ukraine.

Results

Q1 2023 compared with Q1 2022

Comparable EBIT for other operations increased. The change in the fair value of forest assets net of wood harvested was EUR 1 million (9 million). The increase in the fair value of forest assets was EUR 18 million (16 million). The cost of wood harvested from UPM forests was EUR 17 million (7 million).

Biofuels sales prices were significantly higher. In the comparison period, there was no biofuel production due to the strike in Finland.

Q1 2023 compared with Q4 2022

Comparable EBIT decreased. The change in the fair value of forest assets net of wood harvested was EUR 1 million (7 million). The increase in the fair value of forest assets was EUR 18 million (39 million). The cost of wood harvested from UPM forests was EUR 17 million (31 million).

Biofuels delivery volumes were at a good level. Variable costs increased.

Market environment

- Market demand for advanced renewable fuels softened during Q1 2023, due to inventory build-up and lower fossil diesel demand. As a consequence, market prices declined.
- In Q1 2023, interest for bio-based MEG and renewable functional fillers in Europe remained strong. Strong interest in more sustainable solutions from consumers, brand-owners and automotive OEMs, is driving demand for bio-based glycols and renewable functional fillers.
- In Q1 2023, market demand for biocomposites remained firm in Europe, driven by the continued demand for sustainable products. Delivered volumes and market prices were solid despite of the uncertain business environment. Input cost inflation has levelled off towards end of the quarter.
- In UPM Biomedicals, hydrogel demand for cell cultivation is driven by material shortages in the market. Hospitals continue to explore new sustainable advanced wound care dressings.

Source: UPM

Risks and near-term uncertainties

The main uncertainties in UPM's earnings relate to the sales prices and delivery volumes of the Group's products, as well as changes to the main input cost items and currency exchange rates. Most of these items depend on general economic developments.

In 2022 economies relevant to UPM were impacted by unusually high inflation, energy crisis particularly in Europe, rapidly rising interest rates and various supply chain and logistics bottlenecks. As the supply bottlenecks and inflation started to ease towards the end of the year, this resulted into unusually large destocking in the various product value chains. It is uncertain how long this destocking will last, holding back market demand for most UPM products.

Economic growth has slowed down in many areas, including Europe, and remains uncertain. As high inflation has affected consumer purchasing power and interest rates have increased, it is also possible that the underlying demand for many goods has decreased. In a lower-demand environment it is possible that pressure on unit margins would increase, impacting UPM's earnings.

Chinese economy was held back in 2022 by the strict COVID-19 policies. As these have been lifted, the Chinese economy is recovering. The strength and duration of this economic growth remains uncertain, and is an important driver for many product and raw material markets.

It is possible that new, more dangerous variant of COVID-19, or some other pandemic would re-emerge, impacting global economy and operating environment.

Russia's war in Ukraine has caused further uncertainty for the European and global economic outlook, growth and inflation. The sanctions by the EU and the US on Russia, escalated global geopolitical and trade tensions and the resulting impacts on the global economy may all affect UPM's operations and supply chain, the demand for, supply and pricing of UPM's products, inputs or resources, or progress of UPM's large investment projects.

The very tight energy market situation in Europe has added significantly to UPM's energy costs and represents further uncertainty in the coming months and quarters. In 2021–2022, this was mitigated at Group level by very strong performance in UPM Energy. However, this may not always be the case, due to geographical differences in UPM's energy sales and purchases. In addition to the high and uncertain cost of energy, Russia's war in Ukraine and related potential future sanctions and counter sanctions may affect the availability of certain forms of energy, e.g. natural gas.

The unprecedented increase in energy futures prices in 2022 impacted cash flows from energy hedges, temporarily tying up liquidity. Possible changes in futures prices continue to represent potential volatility in liquidity needs.

Many global commodity prices increased significantly during 2021 and 2022. This, combined with possible supply restrictions could have a further increasing impact on UPM's raw material cost items.

Bottlenecks in global logistics could re-emerge, representing challenges to delivering UPM products, sourcing raw materials for UPM businesses and delivering equipment to UPM's investments projects. The logistics chains may be further affected by Russia's war in Ukraine.

Changes to the monetary policies of major central banks may significantly impact various currencies that directly or indirectly affect UPM.

In Finland, UPM is participating in a project to construct a new nuclear power plant unit, Olkiluoto 3 EPR (OL3), through its shareholdings in Pohjolan Voima Oyj. Pohjolan Voima Oyj is a majority shareholder of Teollisuuden Voima Oyj (TVO), holding 58.5% of its shares. UPM's indirect share of OL3 is approximately 31%.

According to TVO, OL3 was procured as a fixed price turnkey project from a consortium formed by Areva GmbH, Areva NP SAS and Siemens AG (the Supplier). As stipulated in the plant contract, the consortium companies have joint and several liability for the contractual obligations.

According to TVO, under the plant contract, electricity production was scheduled to start at the end of April 2009. The completion of the project, however, has been delayed. TVO announced in its Annual Report 2022 that OL3's regular electricity production will commence in March 2023.

In March 2018, TVO announced that it had signed a Global Settlement Agreement (the GSA) with the Supplier and the Areva Group parent company, Areva SA, a company wholly owned by the French state. The Global Settlement Agreement, which concerns the completion of the OL3 project and related disputes entered into force in late March 2018. According to TVO's announcement, the GSA was amended with agreements signed in June 2021.

In the GSA, the Supplier consortium companies committed to ensuring that the funds dedicated to the completion of the OL3 project are sufficient and cover all the applicable guarantee periods. Consequently, a trust mechanism was set up funded by the Areva companies to secure the funds required to cover Areva's costs for the completion of the OL3 project.

Due to OL3 additional delay, TVO announced in its Annual Report 2022 that TVO had recorded short-term receivables of EUR 193.1 million and long-term receivables of EUR 56.7 million from the Supplier for the additional delay compensation accumulated by the end of 2022 in accordance with the amended GSA.

According to TVO, all payments related to the settlement compensations have been recorded in the consolidated balance sheet as property, plant and equipment.

TVO announced in its Annual Report 2022 that the trust, which was replenished in July 2021, has been used to cover costs incurred to Areva companies for the completion of the OL3 project in accordance with the GSA. In its Interim Report Q1 2023 TVO announced that TVO's right to terminate the plant contract in accordance with the GSA was postponed until 30 June 2023. In addition, the payment of approximately EUR 193.1 million of the delay compensation agreed in the GSA of 2018 was postponed until the completion of OL3, up to 30 June 2023 at the latest.

OL3 was connected to the national grid on 12 March 2022 and reached its full power level for the first time on 30 September 2022. During test production in 2022, OL3 produced 1.9 TWh of electricity. During 2022, OL3's test production gradually proceeded to tests at full reactor capacity.

TVO announced on 4 January 2023 that after the production tests, production at the plant unit was discontinued in January 2023 for planned inspections of the feedwater pump impellers.

On 20 January 2023, TVO announced that the OL3 feedwater pump impellers were to be replaced with impellers with more robust measurements during the ongoing production break. Regular electricity production was expected to start in March 2023.

On 16 February 2023, TVO announced that in connection with the start-up of OL3 was found a defect in the pressurizer safety valve intended for overpressure protection, and test period will continue after the valve maintenance outage.

On 15 March 2023, TVO announced that test production continued. Moreover, on 27 March 2023, was announced that the 10-day-long uninterrupted operation tests were completed.

After the end of the reporting period, on 13 April 2023, TVO informed that the test period tests were over. On 16 April 2023 TVO announced that OL3 is ready. Test production has been completed and regular electricity production began on 16 April 2023. On 20 April TVO announced that the commercial operation of the plant starts at 1 May 2023. This means among others, that the capitalisation of project costs ends and the recognition of depreciation commences. The shareholders' right to the electricity produced by OL3 and their liability for the annual costs of electricity production are determined in compliance with TVO's Articles of Association.

TVO announced in its Annual Report 2022 that according to the Supplier's latest project schedule, TVO's current cost estimate, and the effects of the GSA, TVO estimates that its total investment in the OL3 project will be approximately EUR 5.8 billion.

In the Annual Report 2022 TVO presented that TVO's major risks are related to the schedule of the OL3 project, the consortium company Areva's sufficient financial capacity to fulfil its obligations until the end of the guarantee period, and the profit-yielding capacity of the plant unit. The focus of risk management in the OL3 project has shifted to finalising the commissioning and moving on to the operational phase. In addition, if OL3 fails to reach the projected output level, load factor, or operating cost structure, or if the output level is restricted by Finland's main grid or it is not profitable to operate at full power due to costs arising to TVO from the system protection, there is a risk that the production cost will rise in comparison to the objective.

TVO also announced that during 2022, several risk management measures related to the OL3 project have been executed to improve TVO's readiness to commission the plant unit as well as to operate three nuclear power plant units. TVO closely monitors compliance of the conditions set in the GSA and the amendments to the agreement in June 2021 and ascertains that the commissioning of OL3 is executed according to the schedule provided by the Plant Supplier and that financial and technical resources are secured.

On 16 December 2020 TVO announced, that the shareholders of TVO, including PVO, had signed an additional shareholder loan commitment, comprising a total of EUR 400 million new subordinated shareholder loan agreements. According to TVO with the new shareholder loan commitment, TVO is preparing to maintain a sufficient liquidity buffer and equity ratio to complete OL3. On 30 November 2022, TVO announced that the shareholder loan commitment of EUR 400 million, originally agreed in December 2020, has been extended by one year until the end of 2023.

On 21 March 2022, TVO announced that S&P Global Ratings had upgraded its long-term credit rating from “BB” to “BB+” and affirmed its positive outlook.

. It is possible that the cost of energy sourced from OL3 at the time when it starts regular electricity production may be higher than the market price of electricity at that time.

The Renewable Energy Sources Act (EEG) related lawsuits in Germany for alleged non-payment of EEG based surcharges may have an adverse impact on UPM, albeit UPM is not currently party to any such lawsuits.

The main earnings sensitivities and the group's cost structure are presented on pages 173–174 of the Annual Report 2022. Risks and opportunities are discussed on pages 32–33, and risks and risk management are presented on pages 132–137.

Impact of Russia's war in Ukraine

In response to Russia´s attack on Ukraine, the European Union as well as the United States, the United Kingdom, and other countries have imposed extensive sanctions on Russia, the breakaway regions of Donetsk and Luhansk and the oblasts of Zaporizhzhia and Kherson, and Belarus. Since 21 February 2022, these measures include for example asset freezes and travel restrictions on individuals and entities, economic sanctions targeting sectors of the Russian and Belarusian economies, and diplomatic restrictions. Russia has also implemented several countermeasures affecting especially foreign companies' operations within Russia and with Russian counterparties. Further escalation of the conflict has involved Russia's attempted illegal annexation of four partially occupied regions in Ukraine based on sham referenda, mobilisation of military reservists in Russia, issuance of open nuclear threats and explosions in Russia-to-Germany gas pipelines under the Baltic Sea. This has increased geopolitical tensions between Russia and several other countries and triggered further sanctions packages against Russia.

Global economy

While the sanctions primarily target Russia's ability to finance its military operations in Ukraine and cause economic and political costs on the people responsible for them, economic and geopolitical uncertainty and inflation have accelerated around the world. Import bans on various goods categories may restrict the availability of raw materials and drive up costs and lead time increases in many supply chains that have been under increasing pressure during the COVID-19 pandemic. Export bans will impact industries dependent on Russian markets and shift delivery volumes and services to other markets. Fuel prices are exposed to geopolitical uncertainties. Because of Russia's attack on Ukraine, the sanctions imposed on the Russian energy sector and Russia's countermeasures on gas and electricity deliveries, energy price levels and volatility increased in 2022, especially in Europe.

Impact on UPM businesses

The EU has imposed export and import bans on several forest industry product categories, prohibitions on Russian transportation operators entering the EU and has sanctioned several Russian banks. Disruptions in international sales, purchases and payment flows involving Russian counterparties are inevitable. The EU has also imposed restrictions on Russian seaborne crude oil, certain petroleum products and oil transportation services and in December 2022 agreed to impose a cap of USD 60 per barrel on the price of Russian oil. Russia has also introduced legislation restricting non-Russian companies to repatriate dividends and loan payments and has caused friction in collecting customer payments from Russia. Russia has also restricted or suspended the flow of natural gas or electricity from Russia. These restrictions have impacted several European countries where UPM has production locations and caused increases in electricity and gas prices. The unprecedented increase in energy futures prices has impacted cash flows from energy hedges, temporarily tying up liquidity. EU energy ministers also adopted a new temporary regulation (applicable from 1 December 2022 to 30 June 2023) on the reduction of electricity use, the capping of revenues of electricity producers, and mandatory solidarity contributions from fossil fuel businesses. To implement the EU revenue cap of electricity producers Finnish parliament has finalized the legislation for an additional profit tax on energy companies, commonly referred to as the windfall tax. The final outcome is that the additional and temporary 30% tax would apply to Finnish electricity generating companies´ profits exceeding a 10% return on adjusted shareholder´s equity in the fiscal year 2023. Group internal electricity profits will not be taken into account when calculating the taxable net profit for the temporary profit tax and additionally equity in co-owned energy companies can partially be taken into account in adjusted equity. Final impact of the tax is dependent of 2023 profits. Major forest certification organisations (i.e. FSC™ and PEFC) have also excluded Russian and Belarusian wood from their certification systems.

UPM businesses have suspended deliveries to Russia as well as wood sourcing in and from Russia. UPM has completed the withdrawal of its businesses from Russia by selling all its Russian operations, including the Chudovo plywood mill**.** UPM's sales to Russia and Ukraine combined was in 2022 less than 1% (2.3%) of UPM's total sales. Assets in Russia were less than 1% of the group total assets. In 2022, 3% (less than 10%) of UPM's wood sourcing to Finland originated from Russia.

Adjusting to different scenarios

The full impact of current and possible new sanctions, counter-sanctions and market development will be known only as the situation evolves. UPM has implemented mitigation plans to contain and reduce the negative consequences for its employees, customers, vendors, and other stakeholders as well as for the operations affected by sanctions and the war in

Ukraine in general. The potential further impacts for UPM are likely to differ by business and by the pace, scope and duration of sanctions, market price reactions, development of supply chains, and the length of the war in Ukraine and whether any geographic escalation of the war develops. UPM is monitoring the situation closely and preparing plans to adjust its operations in different scenarios accordingly.

Annual General Meeting

The Annual General Meeting (AGM) held on 12 April 2023 decided that a dividend of EUR 1.50 per share is paid, as proposed by the Board of Directors. The dividend is paid in two instalments. The record date for the first dividend instalment of EUR 0.75 per share was on 14 April 2023, and the payment date was on 21 April 2023. The record date of the second dividend instalment is on 26 October 2023, and the payment date is on 2 November 2023.

The Board of Directors was authorised to resolve on the issuance of new shares, transfer of treasury shares and issuance of special rights entitling to shares in proportion to the shareholders' existing holdings in the Company, or in a directed share issue, deviating from the shareholder's pre-emptive subscription right. The Board of Directors may also decide on a share issue without payment to the Company itself. The aggregate maximum number of new shares that may be issued and treasury shares that may be transferred is 25,000,000 including also the number of shares that can be received on the basis of the special rights. The authorisation is valid for 18 months from the date of the AGM resolution.

The Board of Directors was authorised to resolve on the repurchase of a maximum of 50,000,000 of the Company's own shares at market price in public trading using the Company's unrestricted shareholders' equity. The authorisation also includes the right to accept the Company's own shares as a pledge. The authorisation is valid for 18 months from the date of the AGM resolution and it revoked the repurchase authorisation granted by the previous AGM.

Board of Directors

At the Annual General Meeting (AGM) held on 12 April 2023, the number of members of the Board of Directors was confirmed as nine, and Henrik Ehrnrooth, Emma FitzGerald, Jari Gustafsson, Piia-Noora Kauppi, Topi Manner, Marjan Oudeman, Martin à Porta and Kim Wahl were re-elected to the Board. Pia Aaltonen-Forsell was elected as a new director to the Board. The directors' term of office will end upon the closure of the next AGM.

Henrik Ehrnrooth was elected as Chair, and Kim Wahl as Deputy Chair of the Board of Directors of UPM-Kymmene Corporation at the Board of Directors' constitutive meeting that took place following the Annual General Meeting.

In addition, the Board of Directors elected the chairs and other members to the Board committees from among its members: Kim Wahl was re-elected to chair the Audit Committee, and Pia Aaltonen-Forsell and Marjan Oudeman were elected as other committee members. Martin à Porta was re-elected to chair the Remuneration Committee, and Emma FitzGerald and Topi Manner were elected as other committee members. Henrik Ehrnrooth was elected to chair the Nomination and Governance Committee, and Jari Gustafsson and Piia-Noora Kauppi were elected as other committee members.

Shares

In Q1 2023, UPM shares worth a total of EUR 2,566 million (2,742 million) were traded on the Nasdaq Helsinki stock exchange. This is estimated to represent almost 70% of the total trading volume in UPM shares. The highest listing was EUR 35.99 in January and the lowest was EUR 30.40 in March.

The Annual General Meeting held on 12 April 2023 authorised the Board of Directors to decide on the repurchase of a maximum of 50,000,000 of the Company's own shares. The authorisation will be valid for 18 months from the date of the AGM's resolution.

The Annual General Meeting held on 12 April 2023 authorised the Board of Directors to decide on the issuance of new shares, the transfer of treasury shares and the issuance of special rights entitling to shares in proportion to the shareholders' existing holdings in the Company, or in a directed share issue, deviating from the shareholder's preemptive subscription right. The Board of Directors may also decide on a share issue without payment to the Company itself. The aggregate maximum number of new shares that may be issued and treasury shares that may be transferred is 25,000,000, including the number of shares that can be received on the basis of special rights. The authorisation will be valid for 18 months from the date of the AGM resolution.

Aside from the above, the Board of Directors has no current authorisation to issue shares, convertible bonds or share options.

The number of shares entered in the Trade Register on 31 March 2023 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 March 2023, the Company held 411,653 of its own shares, representing approximately 0.08% of the total number of Company shares and voting rights. The Board of Directors may decide to retain, transfer or cancel the treasury shares.

Legal proceedings

The Group's management is not aware of any significant litigation at the end of Q1 2023.

In October 2021, the European Commission conducted an unannounced inspection at UPM's premises. According to the Commission's press release on 12 October 2021, the Commission has concerns that the inspected companies in the wood pulp sector may have violated EU antitrust rules that prohibit cartels and restrictive business practices. The Commission states that the unannounced inspections are a preliminary step in an investigation into suspected anticompetitive practices, and the fact that the Commission carries out such inspections does not mean that the companies are guilty of anti-competitive behaviour nor does it prejudge the outcome of the investigation itself. UPM takes any suspected violation of antitrust rules very seriously and has a compliance programme in place to mitigate the risk of such violations. For example, all employees and executives are required to take training on the UPM Code of Conduct, which includes a section regarding antitrust compliance. In addition, UPM has also in place a specific training programme regarding antitrust rules which covers approximately 3,000 employees and executives.

Helsinki,25 April 2023

UPM-Kymmene Corporation
Board of Directors

Financial statement information

Consolidated income statement

EURm	Q1/2023	Q1/2022	Q1–Q4/2022
Sales (Note 3)	2,787	2,507	11,720
Other operating income	46	72	231
Costs and expenses	-2,394	-2,225	-9,470
Change in fair value of forest assets and wood harvested	-5	12	12
Share of results of associated companies and joint ventures	-1	-1	4
Depreciation, amortisation and impairment charges	-115	-182	-522
Operating profit	318	183	1,974
Exchange rate and fair value gains and losses	-73	1	25
Interest and other finance costs, net	-6	-5	-55
Profit before tax	239	179	1,944
Income taxes	-56	-40	-388
Profit for the period	183	139	1,556
Attributable to:			
Owners of the parent company	176	133	1,526
Non-controlling interests	7	5	31
	183	139	1,556
Earnings per share for profit attributable to owners of the parent company			
Basic earnings per share, EUR	0.33	0.25	2.86
Diluted earnings per share, EUR	0.33	0.25	2.86

Consolidated statement of comprehensive income

EURm	Q1/2023	Q1/2022	Q1–Q4/2022
Profit for the period	183	139	1,556
Other comprehensive income for the period, net of tax			
Items that will not be reclassified to income statement:			
Actuarial gains and losses on defined benefit obligations	22	146	192
Changes in fair value of energy shareholdings	-641	192	1,051
Items that may be reclassified subsequently to income statement:			
Translation differences	-36	87	150
Net investment hedge	5	-4	-15
Cash flow hedges	461	44	-531
Other comprehensive income for the period, net of tax	-189	465	847
Total comprehensive income for the period	-6	604	2,403
Total comprehensive income attributable to:			
Owners of the parent company	-6	593	2,358
Non-controlling interests	1	11	45
	-6	604	2,403

Consolidated balance sheet

EURm	31 MAR 2023	31 MAR 2022	31 DEC 2022
ASSETS			
Goodwill	280	239	282
Other intangible assets	607	490	553
Property, plant and equipment (Note 4)	6,830	5,743	6,733
Leased assets	752	594	713
Forest assets	2,429	2,360	2,442
Energy shareholdings (Note 5)	2,997	2,772	3,652
Other non-current financial assets	80	105	70
Deferred tax assets	360	408	485
Net retirement benefit assets	1	188	1
Investments in associates and joint ventures	24	33	27
Other non-current assets	22	19	20
Non-current assets	14,382	12,951	14,977
Inventories	2,278	1,452	2,289
Trade and other receivables	2,199	2,028	2,696
Other current financial assets	128	194	118
Income tax receivables	52	56	61
Cash and cash equivalents	1,016	1,342	2,067
Current assets	5,673	5,072	7,230
Assets	20,055	18,023	22,207
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	-2	-2	-2
Translation reserve	425	406	449
Other reserves	2,284	2,165	2,460
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	7,620	5,996	7,433
Equity attributable to owners of the parent company	12,489	10,727	12,502
Non-controlling interests	398	310	376
Equity	12,887	11,037	12,879
Deferred tax liabilities	622	618	636
Net retirement benefit liabilities	495	581	527
Provisions (Note 8)	181	158	134
Non-current debt	3,098	2,534	4,476
Other non-current financial liabilities	95	111	103
Non-current liabilities	4,491	4,004	5,876
Current debt	493	269	558
Trade and other payables	2,046	2,546	2,720
Other current financial liabilities	59	126	102
Income tax payables	79	42	73
Current liabilities	2,678	2,983	3,452
Liabilities	7,168	6,987	9,329
Equity and liabilities	20,055	18,023	22,207

Consolidated statement of changes in equity

EURm	SHARE CAPITAL	TREASURY SHARES	TRANSLATION RESERVE	OTHER RESERVES	RESERVE FOR INVESTED NON-RESTRICTED EQUITY	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Value at 1 January 2023	890	-2	449	2,460	1,273	7,433	12,502	376	12,879
Profit for the period	—	—	—	—	—	176	176	7	183
Translation differences	—	—	-30	—	—	—	-30	-7	-36
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	33	—	—	33	—	33
Cash flow hedges - reclassified to PPE	—	—	—	—	—	—	—	—	—
Cash flow hedges - changes in fair value, net of tax	—	—	—	427	—	—	427	—	427
Net investment hedge, net of tax	—	—	5	—	—	—	5	—	5
Energy shareholdings - changes in fair value, net of tax	—	—	—	-641	—	—	-641	—	-641
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	22	22	—	22
Total comprehensive income for the period	—	—	-24	-180	—	198	-6	1	-6
Share-based payments, net of tax	—	—	—	4	—	-11	-7	—	-7
Dividend distribution	—	—	—	—	—	—	—	—	—
Other items	—	—	—	—	—	—	—	—	—
Contributions by non-controlling interests	—	—	—	—	—	—	—	21	21
Total transactions with owners for the period	—	—	—	4	—	-11	-7	21	14
Value at 31 March 2023	890	-2	425	2,284	1,273	7,620	12,489	398	12,887
Value at 1 January 2022	890	-2	329	1,938	1,273	6,419	10,846	261	11,106
Profit for the period	—	—	—	—	—	133	133	5	139
Translation differences	—	—	82	—	—	—	82	5	87
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	46	—	—	46	—	46
Cash flow hedges - reclassified to PPE	—	—	—	-2	—	—	-2	—	-2
Cash flow hedges - changes in fair value, net of tax	—	—	—	—	—	—	—	—	1
Net investment hedge, net of tax	—	—	-4	—	—	—	-4	—	-4
Energy shareholdings - changes in fair value, net of tax	—	—	—	191	—	1	192	—	192
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	146	146	—	146
Total comprehensive income for the period	—	—	77	235	—	281	593	11	604
Share-based payments, net of tax	—	—	—	-9	—	-10	-19	—	-19
Dividend distribution	—	—	—	—	—	-693	-693	—	-693
Other items	—	—	—	—	—	—	—	—	—
Contributions by non-controlling interests	—	—	—	—	—	—	—	39	39
Total transactions with owners for the period	—	—	—	-9	—	-704	-712	39	-674
Value at 31 March 2022	890	-2	406	2,165	1,273	5,996	10,727	310	11,037

Consolidated cash flow statement

EURm	Q1/2023	Q1/2022	Q1–Q4/2022
Cash flows from operating activities			
Profit for the period	183	139	1,556
Adjustments [1]	807	160	35
Interest received	9	0	8
Interest paid	-15	-10	-43
Dividends received	1	0	3
Other financial items, net	-18	8	-52
Income taxes paid	-38	-28	-313
Change in working capital	-216	-258	-687
Operating cash flow	714	12	508
Cash flows from investing activities			
Capital expenditure	-292	-325	-1,398
Additions to forest assets	-10	-8	-79
Acquisition of businesses and subsidiaries, net of cash acquired	0	0	-138
Proceeds from sale of property, plant and equipment and intangible assets, net of tax	0	2	41
Proceeds from sale of forest assets, net of tax	4	1	7
Proceeds from disposal of businesses and subsidiaries and advances received	0	0	15
Proceeds from disposal of shares in associates and joint ventures	0	0	11
Proceeds from disposal of energy shareholdings	0	1	2
Net cash flows from net investment hedges	0	0	-47
Change in other non-current assets	-1	0	3
Investing cash flow	-298	-329	-1,585
Cash flows from financing activities			
Proceeds from non-current debt	0	0	4,402
Payments of non-current debt	-1,389	-2	-2,550
Lease repayments	-25	-21	-91
Change in current liabilities	-70	174	439
Net cash flows from derivatives	3	9	20
Dividends paid to owners of the parent company	0	0	-693
Dividends paid to non-controlling interests	0	0	-27
Contributions paid by non-controlling interests	21	39	97
Change in investment funds	0	0	99
Other financing cash flow	-3	-1	-9
Financing cash flow	-1,463	198	1,687
Change in cash and cash equivalents	-1,047	-119	610
Cash and cash equivalents at the beginning of the period	2,067	1,460	1,460
Exchange rate effect on cash and cash equivalents	-3	1	-3
Change in cash and cash equivalents	-1,047	-119	610
Cash and cash equivalents at the end of the period	1,016	1,342	2,067

[1] **Adjustments**

EURm	Q1/2023	Q1/2022	Q1–Q4/2022
Change in fair value of forest assets and wood harvested	5	-12	-12
Share of results of associated companies and joint ventures	1	1	-4
Depreciation, amortisation and impairment charges	115	182	522
Capital gains and losses on sale of non-current assets	6	-1	-35
Financial income and expenses	79	4	30
Income taxes	56	40	388
Utilised provisions	-4	-23	-52
Non-cash changes in provisions	34	7	7
Other adjustments [2]	516	-37	-808
Total	807	160	35

[2] In 2023 and 2022, other adjustments include energy hedging derivative market value payments.

Notes to the financial statements

1 Basis of preparation and accounting policies

This unaudited interim report has been prepared in accordance with the accounting policies set out in International Accounting Standard 34 on Interim Financial Reporting and group's consolidated statements for 2022.

Alternative performance measures presented in this report should not be considered as a substitute for measures of performance in accordance with the IFRS and may not be comparable to similarly titled amounts used by other companies.

Figures presented in this report have been rounded and therefore the sum of individual figures might deviate from the presented total figure. Key figures have been calculated using exact figures.

IFRS 17 Insurance contracts

On 1 January 2023 the group implemented IFRS 17 Insurance contracts. The group has assessed the impact of the implementation of IFRS 17 and concluded that it has no effect on the group financial statements as of 1 January 2023.

2 Quarterly information by business area

EURm, OR AS INDICATED	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales						
UPM Fibres	683	850	866	584	404	2,704
UPM Energy	159	193	244	154	143	734
UPM Raflatac	395	479	573	479	451	1,982
UPM Specialty Papers	404	441	502	357	377	1,677
UPM Communication Papers	1,083	1,419	1,428	1,017	1,001	4,866
UPM Plywood	118	104	127	143	164	539
Other operations	200	218	236	110	70	634
Internal sales	-255	-472	-557	-286	-102	-1,416
Eliminations and reconciliation	1	-1	1	4	-1	2
Sales, total	2,787	3,231	3,420	2,562	2,507	11,720
Comparable EBITDA						
UPM Fibres	188	213	313	139	78	743
UPM Energy	82	102	147	75	65	388
UPM Raflatac	30	42	89	72	49	251
UPM Specialty Papers	24	62	81	50	38	230
UPM Communication Papers	105	276	170	145	106	697
UPM Plywood	23	17	29	37	50	133
Other operations	21	66	90	4	-34	126
Eliminations and reconciliation	5	-19	-24	-15	27	-31
Comparable EBITDA, total	477	759	894	506	377	2,536
Operating profit						
UPM Fibres	134	177	271	32	37	517
UPM Energy	80	100	145	73	63	381
UPM Raflatac	19	31	77	61	33	203
UPM Specialty Papers	5	44	60	30	19	153
UPM Communication Papers	49	258	149	139	86	631
UPM Plywood	12	5	26	33	-20	44
Other operations	8	65	74	-14	-61	64
Eliminations and reconciliation	10	-5	-20	-19	27	-18
Operating profit, total	318	675	781	335	183	1,974
% of sales	11.4	20.9	22.8	13.1	7.3	16.8
Items affecting comparability						
UPM Fibres	—	7	—	-60	—	-53
UPM Energy	—	—	—	—	—	—
UPM Raflatac	-1	-1	-2	-2	-7	-11
UPM Specialty Papers	—	—	—	—	—	—
UPM Communication Papers	-36	1	-2	13	—	12
UPM Plywood	-5	-6	3	1	-63	-65
Other operations	-1	6	—	1	-23	-16
Eliminations and reconciliation [1)]	5	14	3	-4	—	13
Items affecting comparability in operating profit, total	-38	22	2	-52	-94	-122
Comparable EBIT						
UPM Fibres	134	170	271	92	37	570
UPM Energy	80	100	145	73	63	381
UPM Raflatac	20	32	79	63	40	214
UPM Specialty Papers	5	44	60	30	19	153
UPM Communication Papers	85	256	151	126	86	619
UPM Plywood	17	11	23	32	43	109
Other operations	9	59	74	-14	-38	81
Eliminations and reconciliation	5	-19	-24	-15	27	-31
Comparable EBIT, total	356	653	779	387	277	2,096
% of sales	12.8	20.2	22.8	15.1	11.0	17.9

[1)] Eliminations and reconciliations includes changes in fair value of unrealised cash flow and commodity hedges.

Items affecting comparability

Certain non-operational or non-cash valuation transactions with significant income statement impact are considered as items affecting comparability and reported separately to reflect the underlying business performance and to enhance comparability from period to period. In Q1 2023, restructuring charges include EUR 26 million related to planned closure of paper machine 6 at UPM Schongau mill in Germany. Other non-operational items relate to planned sale of Steyrermühl site in Austria. Capital losses of EUR 6 million relate to sale of Russian operations. Items affecting comparability in financial items include EUR 72 million exchange rate losses relating to sale of Russian operations and EUR 5 million income on termination of lease agreement.

EURm	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Comparable profit for the period	281	489	629	329	232	1,679
Items affecting comparability						
Impairment charges	-1	5	7	4	-95	-80
Restructuring charges	-28	-15	-6	5	0	-15
Change in fair value of unrealised cash flow and commodity hedges	5	14	3	-4	0	13
Capital gains and losses on sale of non-current assets	-6	13	2	18	1	34
Other non-operational items	-9	5	-5	-74	0	-74
Total items affecting comparability in operating profit	-38	22	2	-52	-94	-122
Items affecting comparability in financial items	-67	0	0	0	0	0
Tax provisions	0	0	-10	0	0	-10
Taxes relating to items affecting comparability	8	-8	1	15	1	9
Items affecting comparability in taxes	8	-8	-9	15	1	-1
Items affecting comparability, total	-97	14	-7	-37	-93	-122
Profit for the period	183	503	622	292	139	1,556

3 External sales by major products

BUSINESS AREA	BUSINESS	Q1/2023	Q1/2022	Q1–Q4/2022
EURm				
UPM Fibres	UPM Pulp UPM Timber	540	390	2,052
UPM Energy	UPM Energy	122	132	343
UPM Raflatac	UPM Raflatac	395	451	1,981
UPM Specialty Papers	UPM Specialty Papers	354	322	1,423
UPM Communication Papers	UPM Communication Papers	1,071	987	4,792
UPM Plywood	UPM Plywood	113	159	518
Other operations	UPM Forest UPM Biofuels UPM Biochemicals UPM Biomedicals UPM Biocomposites	192	69	608
Eliminations and reconciliations		1	-1	2
Total		2,787	2,507	11,720

BUSINESS	PRODUCT RANGE
UPM Pulp	Softwood, birch and eucalyptus pulp
UPM Timber	Standard and special sawn timber
UPM Energy	Electricity and related services
UPM Raflatac	Self-adhesive paper, film and graphic materials
UPM Specialty Papers	Labelling materials, release base papers, flexible packaging materials, office papers, graphic papers
UPM Communication Papers	Graphic papers for various end uses
UPM Plywood	Plywood and veneer products
UPM Forest	Wood and wood-based biomass (logs, pulpwood, chips, forest residues etc.), full forestry service offering
UPM Biofuels	Wood-based renewable diesel for transport and renewable naphtha for transport and petrochemicals
UPM Biochemicals	Lignin products for industrial use
UPM Biomedicals	Wood-based products for biomedical applications
UPM Biocomposites	UPM ProFi decking products and UPM Formi granules

4 Changes in property, plant and equipment

EURm	Q1/2023	Q1/2022	Q1–Q4/2022
Book value at beginning of period	6,733	5,569	5,569
Reclassification to assets held for sale, net	—	—	—
Capital expenditure	265	255	1,366
Companies acquired	—	—	56
Decreases	—	—	-9
Depreciation	-87	-88	-357
Impairment charges	-1	-56	-54
Impairment reversal	0	1	1
Translation difference and other changes	-81	62	160
Book value at end of period	6,830	5,743	6,733

Capital expenditure in Q1 2023 and 2022 mainly relate to the construction of the new pulp mill in Uruguay and the construction of the new biorefinery in Germany. Companies acquired in 2022 relates to the acquisition of AMC. Impairment charges in 2022 relate to assets impacted by the Russia´s war in Ukraine.

5 Financial assets and liabilities

Financial assets and liabilities measured at fair value

EURm	31 MAR 2023				31 MAR 2022				31 DEC 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Investment funds	—	1	—	1	—	100	—	100	—	1	—	1
Derivatives non-qualifying hedges	—	13	—	13	—	30	—	30	—	17	—	17
Derivatives under hedge accounting	7	178	—	185	22	136	—	159	12	150	—	162
Energy shareholdings	—	—	2,997	2,997	—	—	2,772	2,772	—	—	3,652	3,652
Total	7	192	2,997	3,196	22	266	2,772	3,061	12	168	3,652	3,832
Financial liabilities												
Derivatives non-qualifying hedges	—	35	—	35	1	44	—	44	—	37	—	37
Derivatives under hedge accounting	38	144	—	182	13	160	—	174	46	192	—	238
Total	38	179	—	217	14	204	—	218	46	229	—	275

There have been no transfers between levels.

Specific valuation techniques used to value financial instruments at level 2 include the following methods:
Interest forward rate agreements (FRA) are fair valued based on quoted market rates on the balance sheet date. Forward foreign exchange contracts are fair valued based on the contract forward rates at the balance sheet date.
Foreign currency options are fair valued based on quoted market rates and market volatility rates on the balance sheet date by using the Black&Scholes option valuation model.

Interest and currency swap instruments are fair valued as present value of the estimated future cash flows based on observable yield curves. Commodity swaps are fair valued based on forward curve quotations received from service providers. Valuation of investment funds is based on quoted prices (unadjusted) for identical assets in markets that are not active.

Fair value measurements using significant unobservable inputs, Level 3

	ENERGY SHAREHOLDINGS		
EURm	Q1/2023	Q1/2022	Q1–Q4/2022
Book value at beginning of period	3,652	2,579	2,579
Disposals	0	-1	-2
Fair value changes recognised in other comprehensive income	-655	195	1,074
Book value at end of period	2,997	2,772	3,652

Fair valuation of energy shareholdings in UPM Energy (Pohjolan Voima Oyj's A, B, B2, C, C2, M and V-shares, Kemijoki Oy shares, and Länsi-Suomen Voima Oy shares) is based on discounted cash flows model. The electricity price estimate is based on future electricity forward prices and a simulation of the Finnish area electricity price. A change of 5% in the electricity price used in the model would change the total value of the assets by approximately EUR 350 (380 in Q1 2022) million.

The discount rate of 7.45% (5.08% in Q1 2022) used in the valuation model is determined using the weighted average cost of capital method. A change of 0.5 percentage points in the discount rate would change the total value of the assets by approximately EUR 230 (330 in Q1 2022) million.

UPM's indirect share of the capacity of Olkiluoto 3 EPR is approximately 31%, through its PVO B2 shares, and on 16 April 2023 TVO announced that OL 3 is ready. Test production has been completed and regular electricity production started on 16 April 2023.

The decrease in fair value during reporting period was mainly due to the decrease in electricity forward rates.

Fair value of financial assets and liabilities measured at amortised cost

EURm	31 MAR 2023 Carrying amount	31 MAR 2023 Fair value	31 MAR 2022 Carrying amount	31 MAR 2022 Fair value	31 DEC 2022 Carrying amount	31 DEC 2022 Fair value
Bonds	1,977	1,845	1,564	1,508	1,974	1,813
Other non-current debt excl. derivative financial instruments and lease liabilities	390	404	403	422	1,783	1,795
Total	2,367	2,249	1,967	1,930	3,756	3,607

The carrying amounts are not significantly different from fair values due to hedges. The fair values of all other financial assets and liabilities approximate their carrying amount.

6 Commitments and contingencies

EURm	31 MAR 2023	31 MAR 2022	31 DEC 2022
On behalf of others			
Guarantees	1	2	2
Other own commitments			
Commitments related to off-balance sheet short-term leases	2	3	2
Other commitments	216	205	219
Total	219	211	223

The lease commitments for leases not commenced on 31 March 2023 amounted to EUR 208 million (EUR 245 million on 31 December 2022) and are mainly related to railway service agreement in Uruguay and service agreements related to wastewater treatment and other utilities in Leuna, Germany.

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2022	Q1/2023	AFTER 31 MAR 2023
New biorefinery / Germany	Q4 2023	750	493	68	190
New pulp mill / Uruguay	Q2 2023	3,062	2,569	149	344
Mill development / Plywood Joensuu	Q4 2023	10	5	1	4

7 Notional amounts of derivative financial instruments

EURm	31 MAR 2023	31 MAR 2022	31 DEC 2022
Interest rate futures	665	1,903	1,969
Interest rate swaps	1,095	1,088	1,102
Forward foreign exchange contracts	3,468	4,255	3,913
Currency options, bought	—	—	—
Currency options, written	—	—	—
Cross currency swaps	145	155	149
Commodity contracts	1,059	1,673	1,744

8 Provisions

EURm	RESTRUCTURING	TERMINATION	ENVIRONMENTAL	EMISSIONS	OTHER	TOTAL
Value at 1 January 2023	14	22	29	53	15	134
Provisions made during the year	8	27	0	31	0	67
Provisions utilised during the year	-1	-3	0	-13	0	-17
Unused provisions reversed	-1	0	-1	-1	0	-3
Reclassifications	-2	0	2	0	0	0
Value at 31 March 2023	19	47	30	70	15	181

Alternative performance measures

Quarterly key figures

In addition to the conventional financial performance measures established by the IFRS, certain key figures (alternative performance measures) are presented to reflect the underlying business performance and enhance comparability from period to period.

	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Sales EURm	2,787	3,231	3,420	2,562	2,507	11,720
Comparable EBITDA, EURm	477	759	894	506	377	2,536
% of sales	17.1	23.5	26.1	19.7	15.0	21.6
Comparable EBIT, EURm	356	653	779	387	277	2,096
% of sales	12.8	20.2	22.8	15.1	11.0	17.9
Comparable profit before tax, EURm	344	616	764	413	273	2,066
Capital employed (average, EURm)	17,196	17,983	16,845	14,738	13,799	15,836
Comparable ROCE, %	8.4	14.5	18.6	11.5	8.5	13.6
Comparable profit for the period, EURm	281	489	629	329	232	1,679
Total equity, average, EURm	12,883	12,589	11,799	11,167	11,071	11,992
Comparable ROE, %	8.7	15.5	21.3	11.8	8.4	14.0
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.51	0.91	1.16	0.60	0.42	3.09
Items affecting comparability in operating profit, EURm	-38	22	2	-52	-94	-122
Items affecting comparability in taxes, EURm	8	-8	-9	15	1	-1
Operating cash flow, EURm	714	1,576	-201	-879	12	508
Operating cash flow per share, EUR	1.34	2.95	-0.38	-1.65	0.02	0.95
Net debt at the end of period, EURm	2,167	2,374	3,133	2,688	837	2,374
Net debt to EBITDA (last 12 m.)	0.82	0.94	1.39	1.42	0.46	0.94
Gearing ratio, %	17	18	25	24	8	18
Equity per share at the end of period, EUR	23.42	23.44	22.35	20.57	20.11	23.44
Capital expenditure, EURm	270	445	495	360	256	1,555
Capital expenditure excluding acquisitions, EURm	270	445	338	359	256	1,399
Equity to assets ratio, %	64.4	58.1	55.3	58.4	61.3	58.1
Personnel at the end of period	16,985	17,236	17,289	17,601	16,843	17,236

The definitions of alternative performance measures are presented in other financial information in *» UPM Annual Report 2022*

Reconciliation of key figures to IFRS

EURm, OR AS INDICATED	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q1–Q4/22
Items affecting comparability						
Impairment charges	-1	5	7	4	-95	-80
Restructuring charges	-28	-15	-6	5	0	-15
Change in fair value of unrealised cash flow and commodity hedges	5	14	3	-4	0	13
Capital gains and losses on sale of non-current assets	-6	13	2	18	1	34
Other non-operational items	-9	5	-5	-74	0	-74
Total items affecting comparability in operating profit	-38	22	2	-52	-94	-122
Items affecting comparability in financial items	-67	0	0	0	0	0
Tax provisions	—	—	-10	—	—	-10
Taxes relating to items affecting comparability	8	-8	1	15	1	9
Items affecting comparability in taxes	8	-8	-9	15	1	-1
Items affecting comparability, total	-97	14	-7	-37	-93	-122
Comparable EBITDA						
Operating profit	318	675	781	335	183	1,974
Depreciation, amortisation and impairment charges excluding items affecting comparability	114	119	114	113	111	457
Change in fair value of forest assets and wood harvested excluding items affecting comparability	5	-12	3	8	-12	-12
Share of result of associates and joint ventures	1	-1	-2	-2	1	-4
Items affecting comparability in operating profit	38	-22	-2	52	94	122
Comparable EBITDA	477	759	894	506	377	2,536
% of sales	17.1	23.5	26.1	19.7	15.0	21.6
Comparable EBIT						
Operating profit	318	675	781	335	183	1,974
Items affecting comparability in operating profit	38	-22	-2	52	94	122
Comparable EBIT	356	653	779	387	277	2,096
% of sales	12.8	20.2	22.8	15.1	11.0	17.9
Comparable profit before tax						
Profit before tax	239	638	766	361	179	1,944
Items affecting comparability in operating profit	38	-22	-2	52	94	122
Items affecting comparability in financial items	67	—	—	—	—	—
Comparable profit before tax	344	616	764	413	273	2,066
Comparable ROCE, %						
Comparable profit before tax	344	616	764	413	273	2,066
Interest expenses and other financial expenses	17	34	20	9	21	85
	361	651	784	422	294	2,151
Capital employed, average	17,196	17,983	16,845	14,738	13,799	15,836
Comparable ROCE, %	8.4	14.5	18.6	11.5	8.5	13.6
Comparable profit for the period						
Profit for the period	183	503	622	292	139	1,556
Items affecting comparability, total	97	-14	7	37	93	122
Comparable profit for the period	281	489	629	329	232	1,679
Comparable EPS, EUR						
Comparable profit for the period	281	489	629	329	232	1,679
Profit attributable to non-controlling interest	-7	-5	-11	-9	-5	-31
	273	484	618	320	226	1,648
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.51	0.91	1.16	0.60	0.42	3.09
Comparable ROE, %						
Comparable profit for the period	281	489	629	329	232	1,679
Total equity, average	12,883	12,589	11,799	11,167	11,071	11,992
Comparable ROE, %	8.7	15.5	21.3	11.8	8.4	14.0
Net debt						
Non-current debt	3,098	4,476	5,234	3,940	2,534	4,476
Current debt	493	558	520	399	269	558
Total debt	3,592	5,034	5,753	4,339	2,803	5,034
Non-current interest-bearing assets	88	84	96	112	120	84
Cash and cash equivalents	1,016	2,067	1,591	938	1,342	2,067
Other current interest-bearing assets	321	510	934	601	504	510
Total interest-bearing assets	1,424	2,660	2,620	1,650	1,966	2,660
Net debt	2,167	2,374	3,133	2,688	837	2,374

It should be noted that certain statements herein, which are not historical facts, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) **operating factors** such as continued success of manufacturing activities and the achievement of efficiencies therein including the availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) **industry conditions**, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) **general economic conditions,** such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates. The main earnings sensitivities and the group's cost structure are presented on pages 173-174 of the 2022 Annual Report. Risks and opportunities are discussed on pages 32–33 and risks and risk management are presented on pages 132–137 of the report.

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