

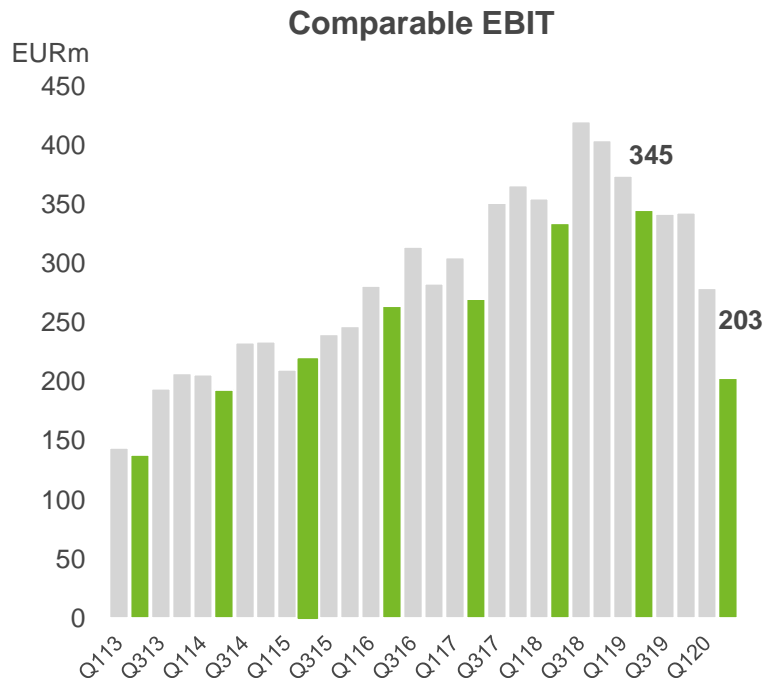
UPM Half Year Financial Report 2020

Jussi Pesonen
President and CEO
23 July 2020

Q2 2020 impacted by lockdowns, transformative growth projects on track



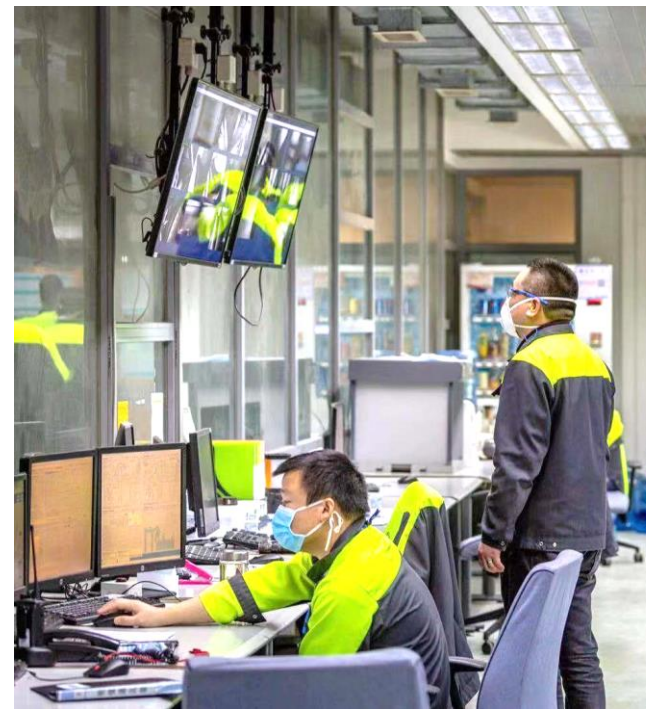
- Sales decreased by 20% to EUR 2,077m (2,605m in Q2 2019)
- Comparable EBIT decreased by 41% to EUR 203m (345m), and was 9.8% of sales
- The COVID-19 lockdowns significantly decreased demand for graphic papers
- Demand for labelling materials and specialty papers increased during the lockdowns
- UPM's transformative pulp project in Uruguay and biochemicals project in Germany are well on track



Safety and business continuity during the COVID-19 pandemic



- UPM has implemented extensive precautions to protect the health and safety of its employees and to ensure business continuity and progress of its strategic growth projects.
- So far, few UPM employees have been infected and we have been able to serve our customers uninterrupted.



Demand impacts from the COVID-19 lockdowns

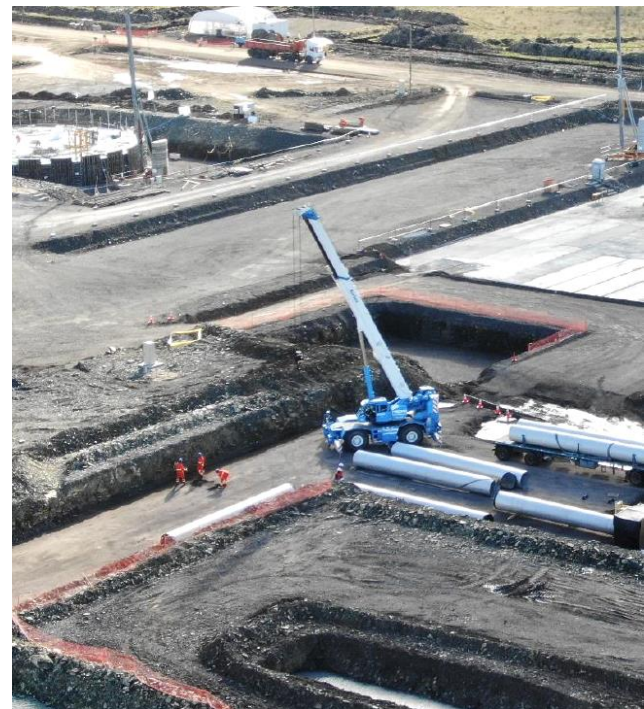
- Lockdown of businesses, offices and schools caused a decline in printed advertising and use of office papers.
 - In Europe, Q2 graphic paper demand decreased by 32% from last year.
- UPM Raflatac and UPM Specialty Papers benefited from strong demand for daily consumer goods and growth in e-commerce during the lockdowns.
 - In Europe, Q2 demand for self-adhesive labels grew by 10% from last year.
- Pulp demand held up relatively well, supported by good demand for tissue and many packaging and specialty paper products. Pulp consumption in graphic paper production decreased.



Transformative growth projects well on track with the planned start-up timeline



- Uruguay has taken stringent COVID-19 measures and managed to keep the overall level of infections very low throughout country. This, combined with UPM's own safety processes, has kept our sites in the country free of COVID-19 cases.
- In Paso de los Toros, the mill foundation works have started and housing is getting ready to accommodate the increasing number of workers entering the site during the autumn.
- In the biochemicals project in Germany, the planning has proceeded well, and we are starting work on site at Leuna.



UPM Paso de los Toros, housing and the Montevideo port



Our focus areas for the coming quarters



ENSURING PERFORMANCE

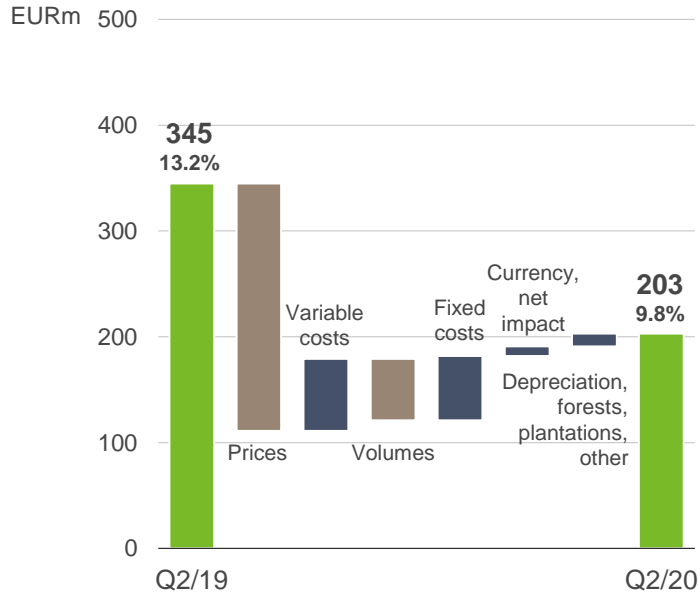


TRANSFORMATIVE GROWTH PROJECTS

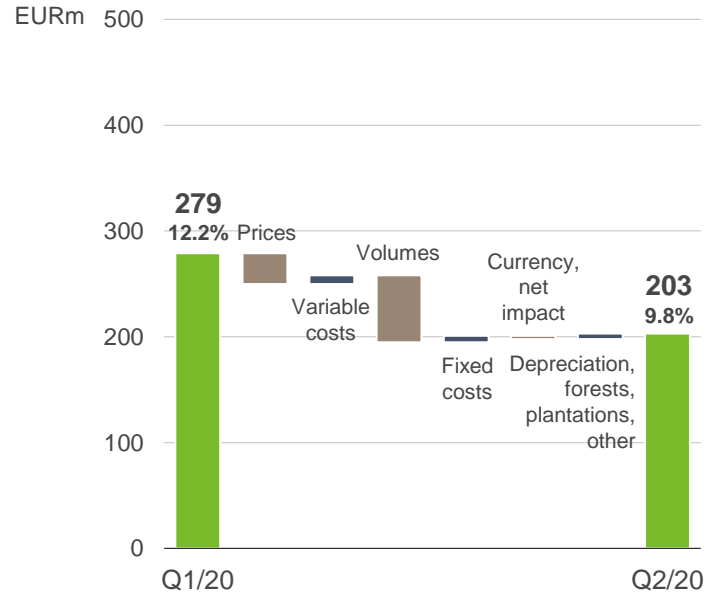


Comparable EBIT in Q2 2020

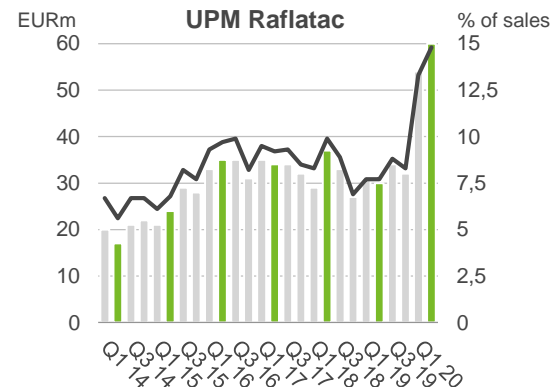
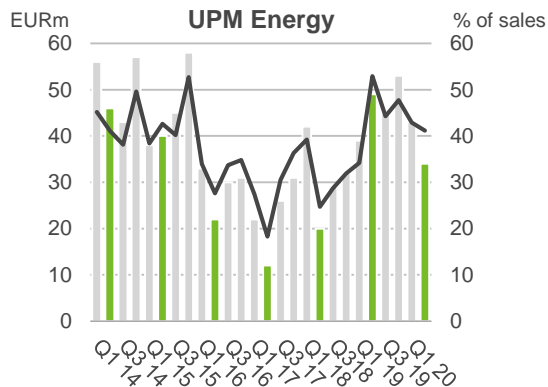
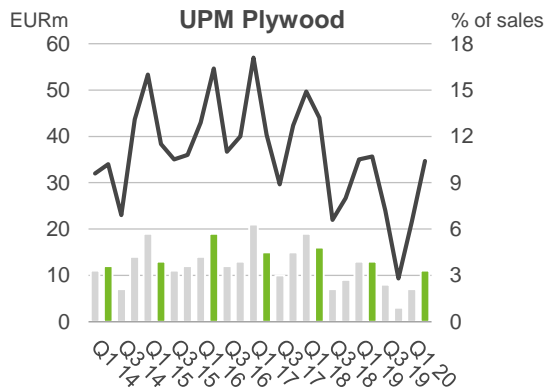
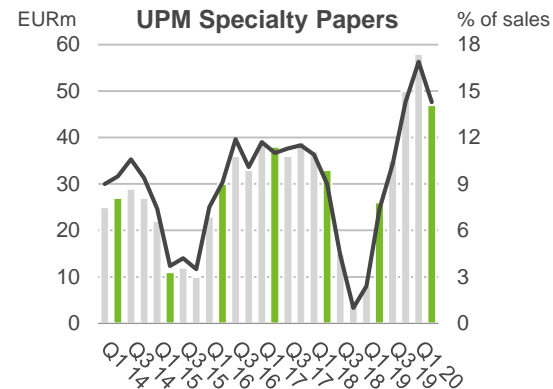
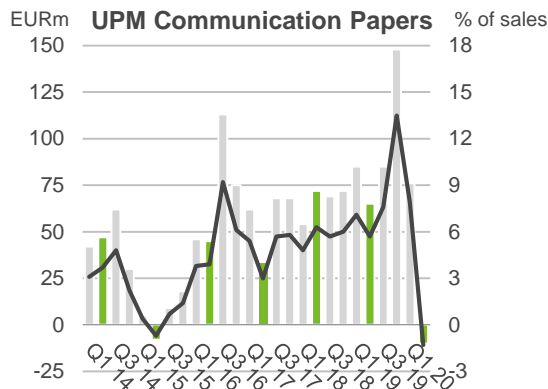
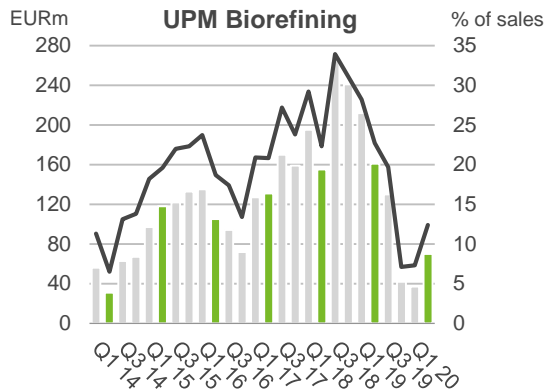
Sales prices decreased, clearly outweighing the impact of lower variable costs.
Fixed costs decreased, offsetting lower deliveries.



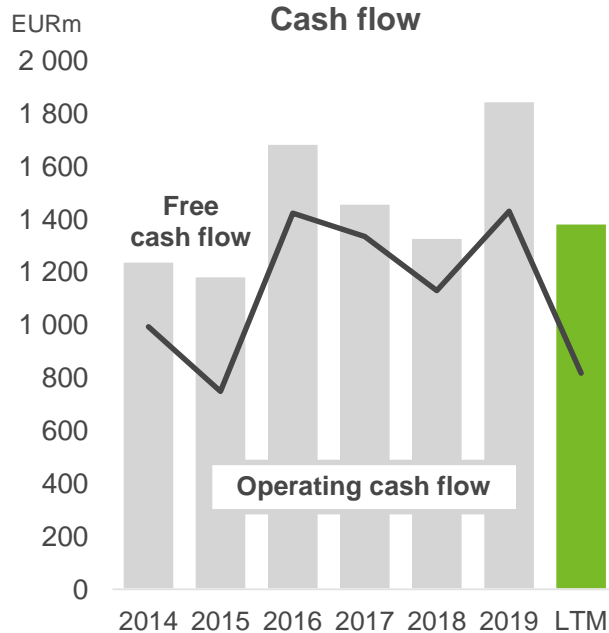
Sales prices decreased slightly.
Deliveries of graphic papers decreased significantly.



Comparable EBIT by business area

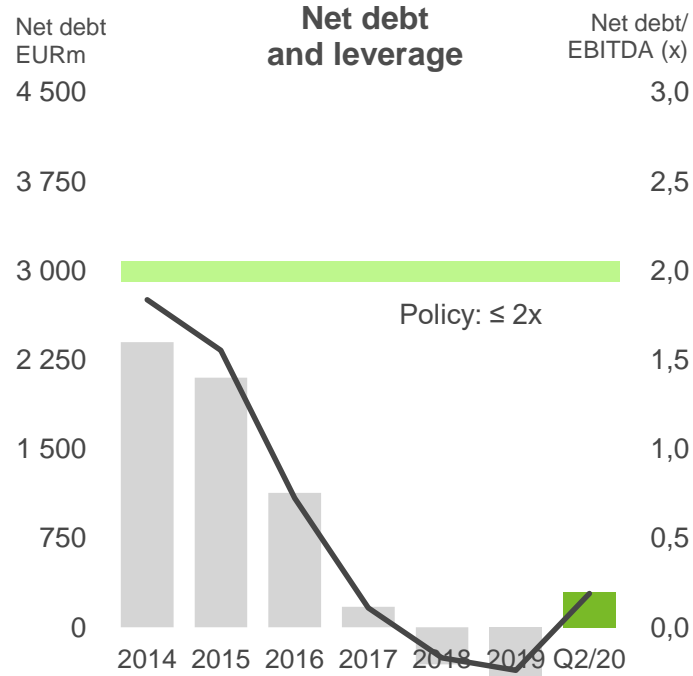


Consistent cash flow



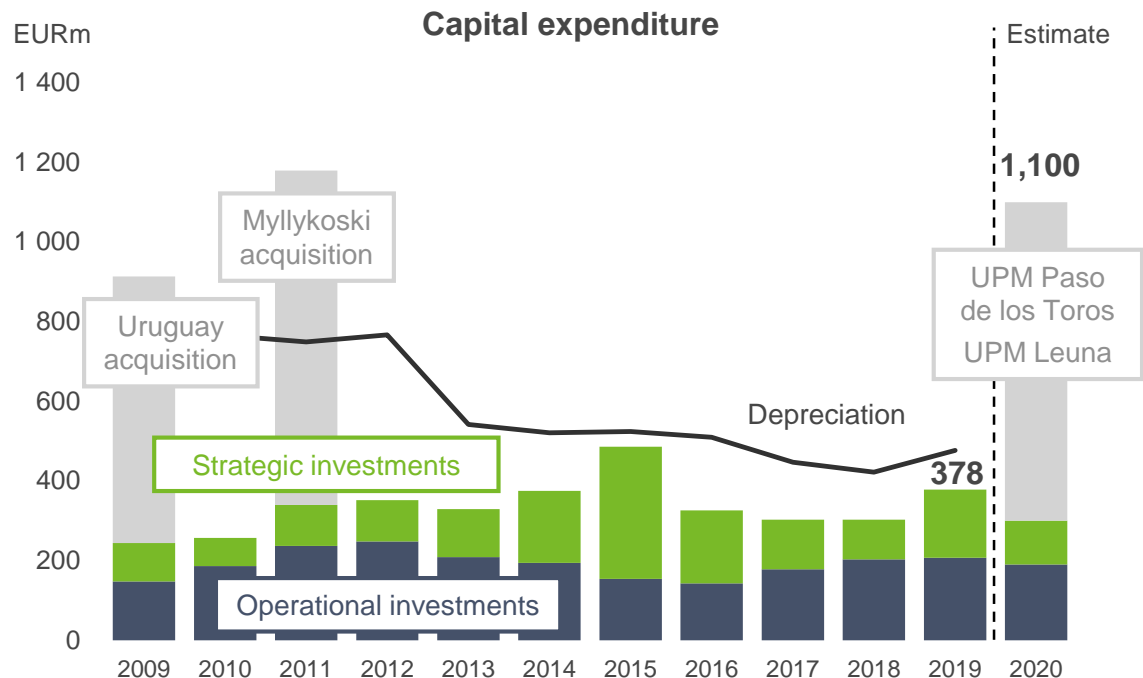
- Q2/20: operating cash flow was EUR 156m (436m in Q2/19)
- Working capital increased by EUR 75m (decreased by 48m in Q2/19, increased by EUR 212m in Q1/20)

Strong financial position



- Net debt EUR 301m at the end of Q2
- Cash funds and committed credit facilities EUR 2.0bn at the end of Q2
- Includes a EUR 750m sustainability-linked revolving credit facility signed in Q1 and bilateral committed credit facilities totalling EUR 550m signed in Q2
- No financial covenants

Transformative growth projects in pulp and biochemicals, low investment needs in existing assets



Capex estimate for 2020

- Total EUR 1,100m
- Includes EUR 800m on the transformational growth projects in Uruguay and Germany
- Operational investment needs consistently low

Outlook for 2020



The COVID-19 pandemic, the related containment measures and the economic downturn continue to cause high uncertainty for H2 2020.

The COVID-19 lockdowns had a significant negative impact on graphic paper demand. The lockdowns also supported the strong demand for some self-adhesive labelling materials and specialty papers in H1 2020. There are early signs of some normalisation of these temporary demand impacts, both positive and negative. However, the development is uncertain and likely to be gradual, depending on the easing of lockdowns and changes in consumer reactions.

Demand for most UPM products is influenced by overall economic activity and hence, also depends on the shape and rate of the economic recovery.

Paper prices are expected to decrease moderately in H2 2020 compared with H1 2020. Pulp sales prices are starting H2 2020 at a low level.

There will be more maintenance activity in H2 2020 than in H1 2020, particularly as the two pulp mill maintenance shutdowns were rescheduled from Q2 2020 to Q4 2020.

UPM will continue to implement measures to decrease fixed and variable costs.

UPM's comparable EBIT is expected to be significantly lower in 2020 than in 2019.

Our focus areas for the coming quarters

ENSURING PERFORMANCE



TRANSFORMATIVE GROWTH PROJECTS



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



**SPECIALTY
PACKAGING
MATERIALS**

**Label
materials**

**Specialty
papers**

Communication papers

**HIGH
VALUE
FIBRE**

Forests

Pulp

Plywood

**MOLECULAR
BIOPRODUCTS**

Biofuels

Biochemicals

Energy



Welcome to UPM's Capital Markets Day

webcast on 9 September 2020

Spearheads for growth
Sustainability as a value driver
Ensuring performance

Summary



- COVID-19 lockdowns clearly impacted demand in Q2. There are early signs of some normalisation of these temporary demand impacts, both positive and negative.
- The transformative growth projects in Uruguay and in Germany are well on track
- UPM's financial standing is very strong
- Focus in the coming quarters:
 - Ensure good performance in all our businesses
 - Successfully implement the transformative growth projects
- We are confident with our Biofore-strategy and committed to grow businesses for a future beyond fossils.

UPM **BIOFORE**
BEYOND FOSSILS



UPM invests in a world class pulp mill in Uruguay

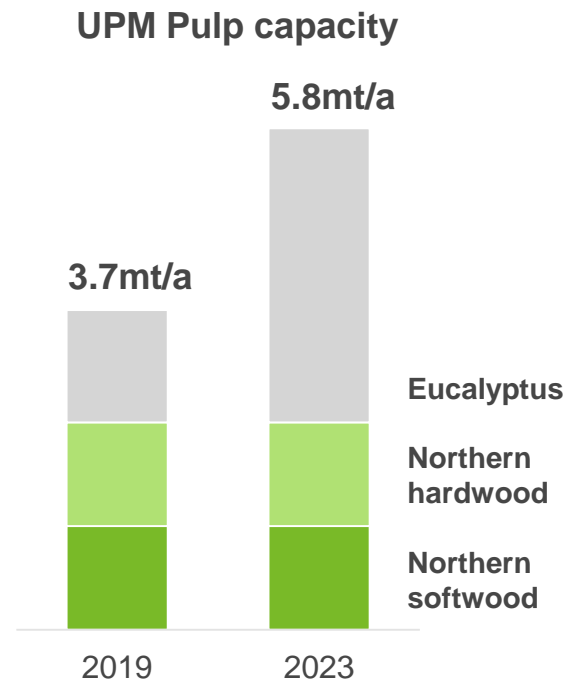
- A highly competitive new pulp mill with annual production capacity of 2.1 million tonnes of eucalyptus pulp
- Mill investment of USD 2.7 billion
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million
- Scheduled start-up in H2 2022
- Industry-leading safety and sustainability performance of the value chain from plantations to customers



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



- Significant step for UPM's future earnings
 - One of the most competitive mills in the world
 - Expected cash cost level of USD 280 per delivered tonne of pulp^(*)
 - Attractive returns in various market scenarios
 - Carefully prepared to ensure long-term competitiveness and to minimise risks both in the project phase and during continuous operations
- Step change in UPM's pulp business



UPM invests in next generation biochemicals

- EUR 550 million investment in an industrial scale biorefinery at Leuna, Germany
- 100% wood-based biochemicals provide alternatives to fossil materials in various consumer-driven end-uses
- Total annual capacity of 220,000 tonnes
- Scheduled to start up by the end of 2022
- Safety and sustainability of the value chain based on UPM's high standards

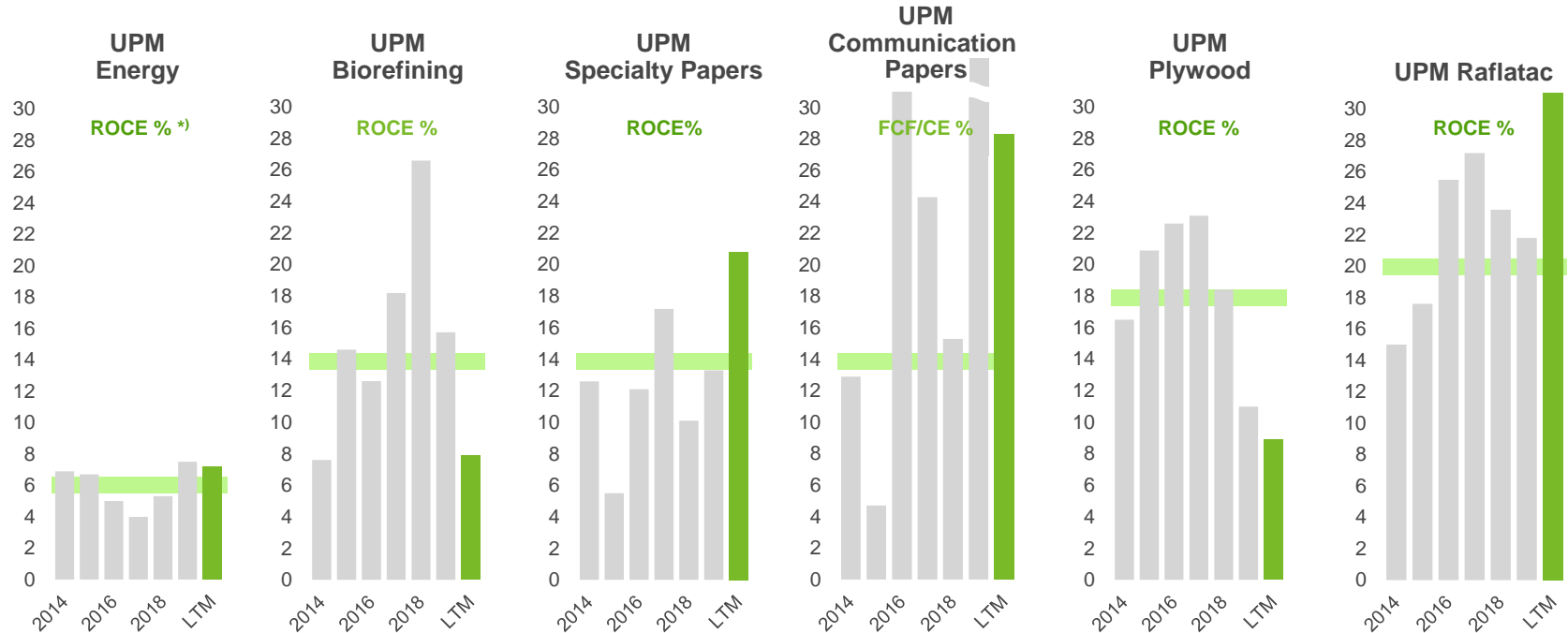
UPM creates a totally new sustainable business with large growth potential



- Major milestone in UPM's transformation
- UPM biochemicals respond to the customers' increasing needs for renewable alternatives
- Current supply is limited and high-quality biochemicals are priced at a premium
- Sustainable wood supply, unique technology, existing infrastructure and proximity to customers enables a good cost position
- Attractive returns: ROCE target of 14% once the facility is fully ramped up and optimised

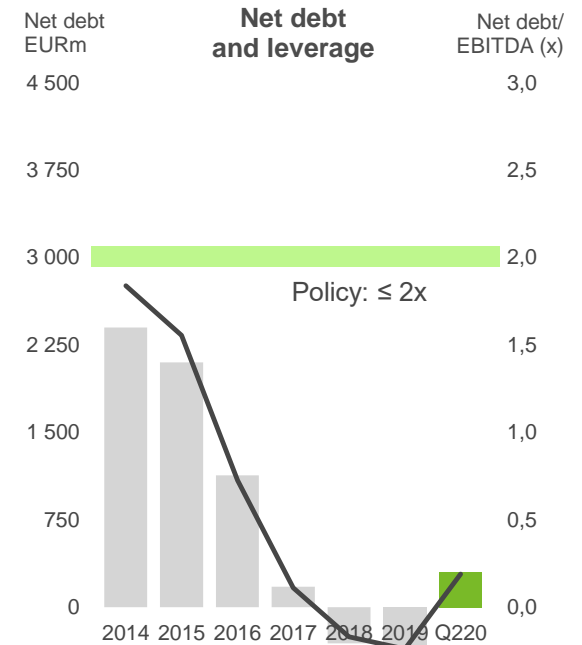
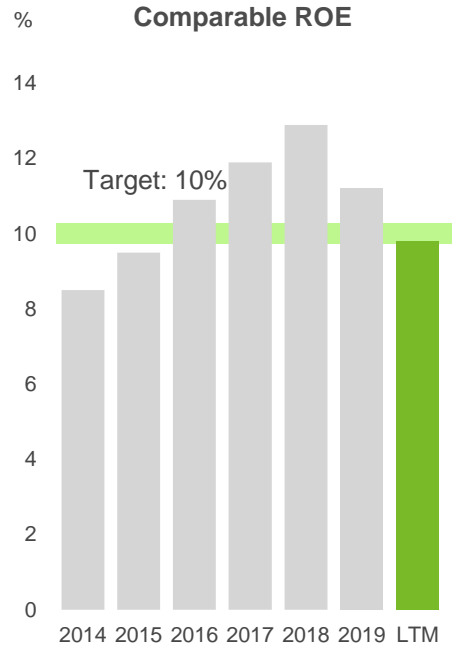
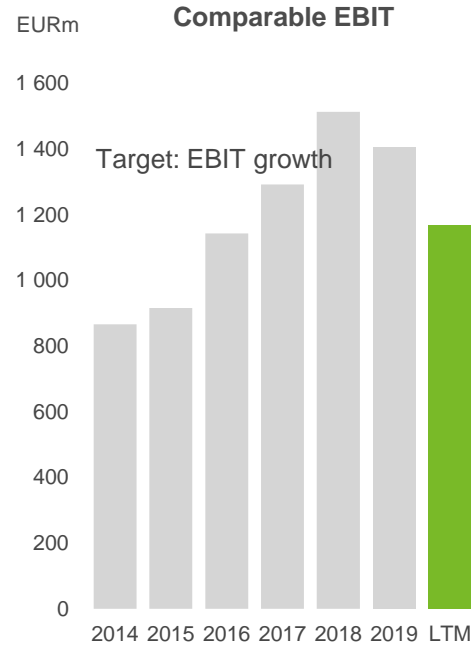


Business area returns and long-term targets



*) shareholdings in UPM Energy
valued at fair value

Group financial performance

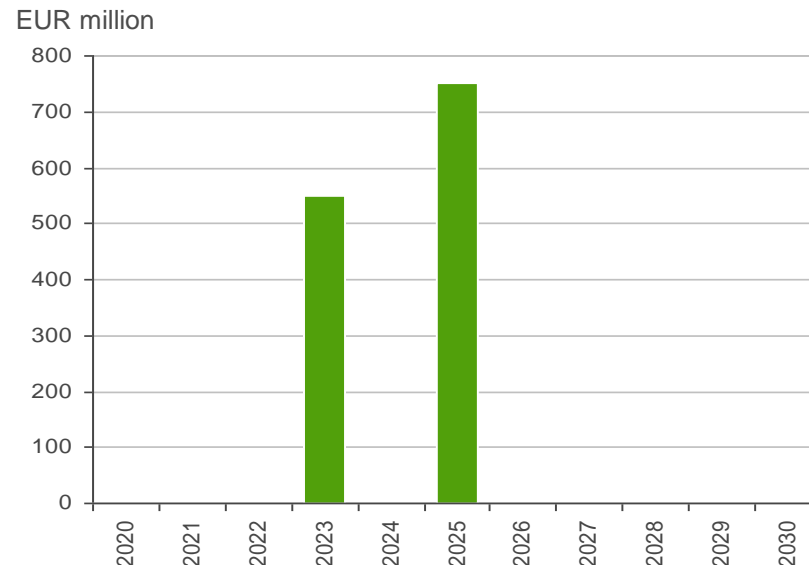
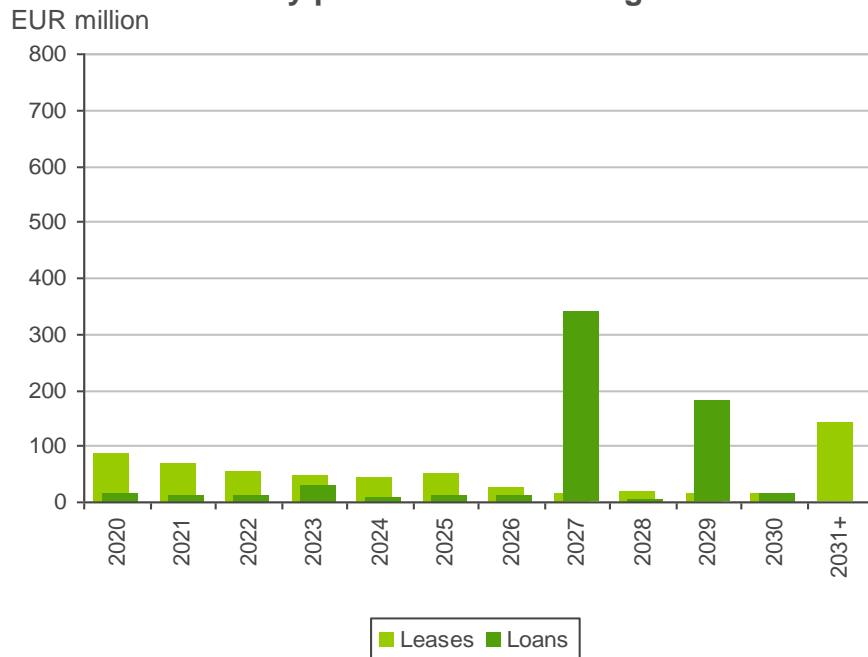


Maturity profile and liquidity

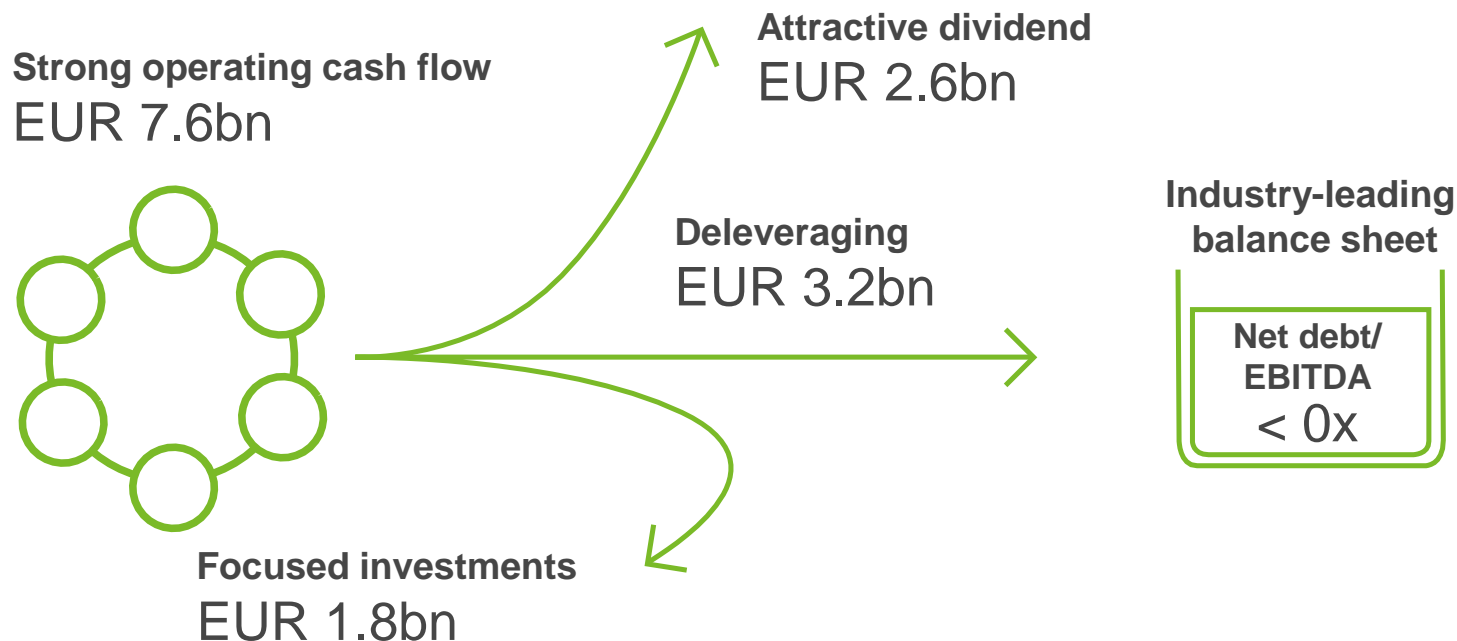
Liquidity on 30 June 2020 was EUR 2.0bn
(cash and unused credit facilities)

UPM has bilateral committed facilities totaling to
EUR 550 million maturing 2023 and syndicated
committed facility EUR 750 million maturing 2025

Maturity profile of outstanding debt

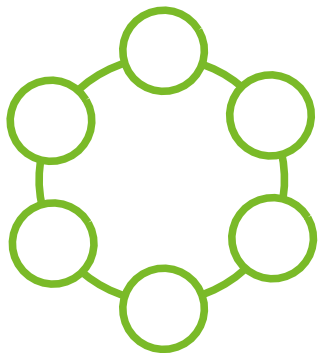


5-year cumulative cash flow (2015–2019) – efficient capital allocation in action



Illustrative capital allocation ^{*)} for the next 5 years

Performance focus
Strong cash flow



Attractive dividend
EUR ~3.5–4bn

High return
investments

EUR ~4–4.5bn

Industry-leading
balance sheet

Net debt/
EBITDA
< 2x

Maintain headroom

^{*)} This is not a forecast

UPM current investment portfolio for earnings growth

Focused investments

- Nordland PM2 conversion to release liner +110kt in Q1 2020, Germany
- New power plant in Nordland in Q3 2022, Germany
- Kuusankoski hydropower refurbishment in Q4 2022, Finland

Transformative prospects

New 2.1mt eucalyptus pulp mill

- Mill investment of USD 2.7bn, Uruguay
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350m
- Scheduled start-up in H2 2022

Molecular bioproducts

- Next generation biochemicals refinery in Germany. Annual capacity of 220kt of wood-based biochemicals, investment of EUR 550m. Scheduled start-up by the end of 2022.
- Environmental impact study completed for a potential 500kt biofuels refinery in Finland. Ambition to scale-up with a next generation biorefinery, development ongoing.

Continuously taking action to ensure competitiveness

UPM Communication Papers

- UPM Plattling PM 10 (LWC)
-155kt closed down in Q3 2019
- UPM Rauma PM 2 (SC)
-265kt, closed down in Q4 2019
- UPM Nordland PM2 (fine)
-200kt, conversion to release liner in Q1 2020
- UPM Chapelle (newsprint)
-240kt, closed down in Q3 2020
- New power plant in UPM Nordland
in Q3 2022

All business areas and functions

- UPM Jyväskylä plywood mill closure
- Continuous improvement programmes
Variable costs, working capital, commercial strategies, maintenance and site costs, safety, environmental performance
- Efficient use of assets
- Fixed cost reduction
- Product and mix development
- Digitalisation
Customer interface, planning, data analytics

Maintenance shutdowns in 2019 and 2020

Significant maintenance shutdowns
in 2019 and 2020

Timing	Unit
Q2 19	Kymi pulp mill Olkiluoto nuclear power plant
Q4 19	Fray Bentos pulp mill
Q2 20	Olkiluoto nuclear power plant
Q4 20	Kaukas pulp mill Pietarsaari pulp mill

Maintenance shutdowns have an impact on

- Maintenance costs
- Production volumes
- Operational efficiency

UPM's main currency exposures

- Key currency exposures USD, GBP and JPY
- Policy to hedge an average of 50% of the estimated net currency cash flow for the next 12 months

Estimated annual foreign currency net cash flow, before hedging

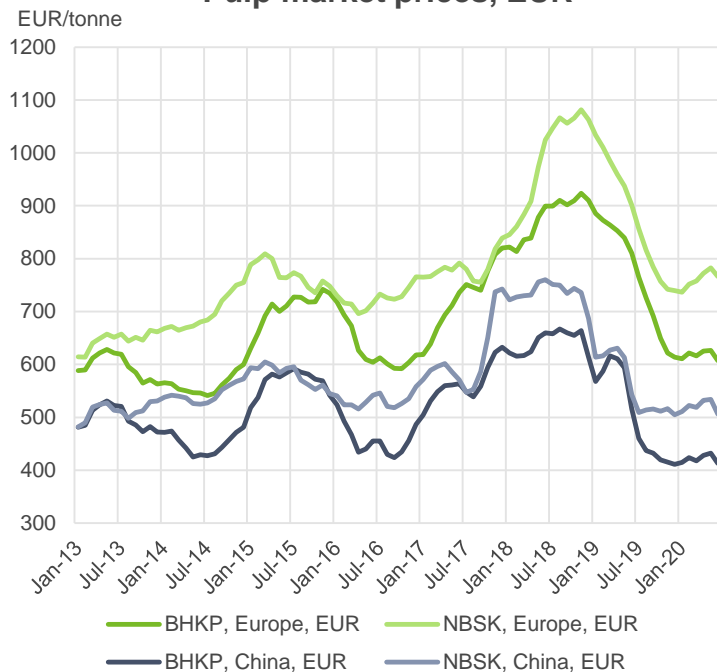
	USD	GBP	JPY	Others
EURm	1,050	130	180	190

UPM Biorefining

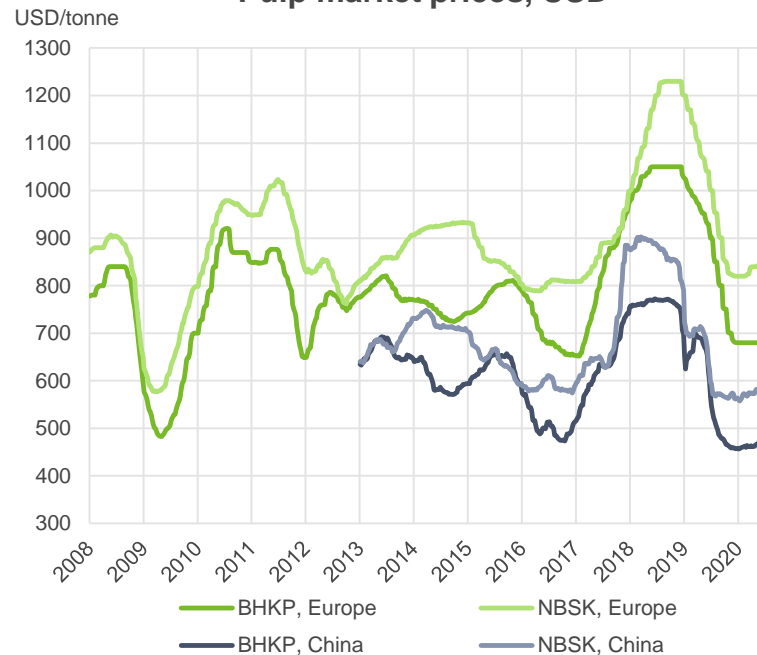
Chemical pulp market prices



Pulp market prices, EUR

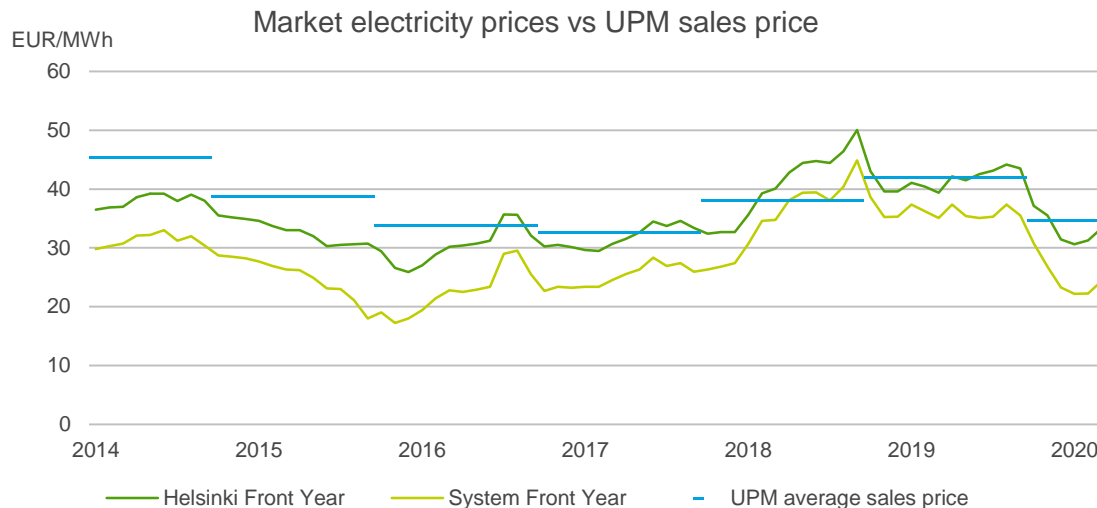


Pulp market prices, USD



Source: FOEX Indexes Ltd

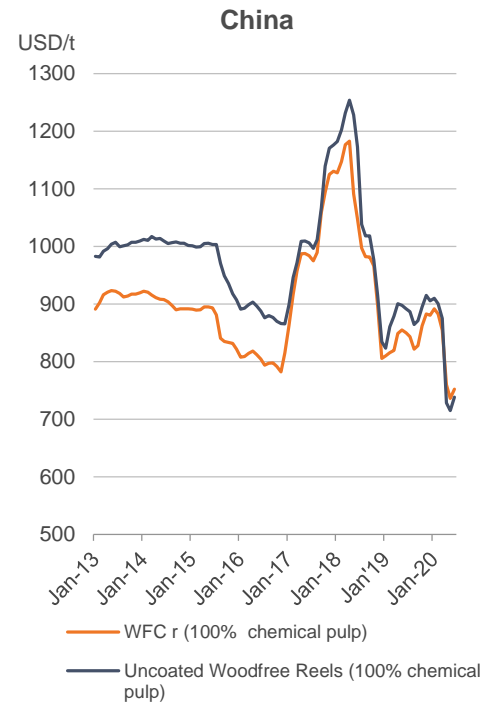
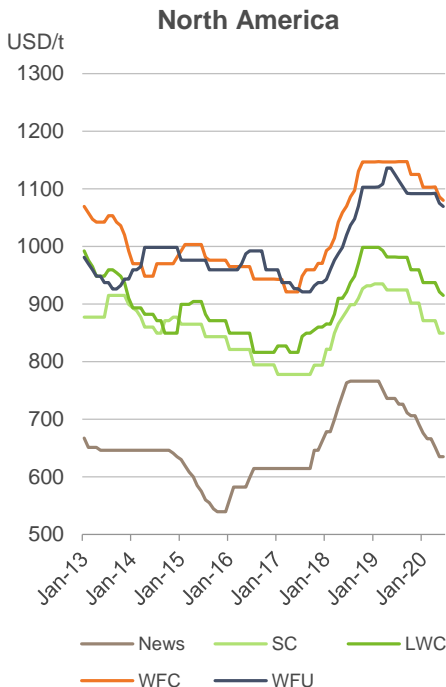
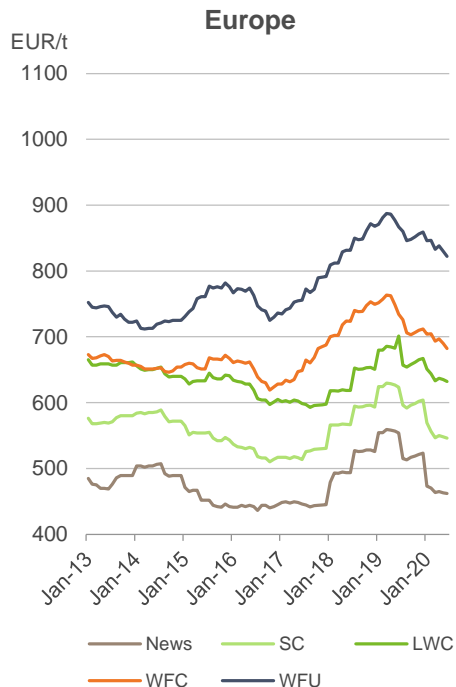
Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2015	2016	2017	2018	2019	H1 2020
Comparable EBIT, EURm	181	116	91	123	185	78
% of sales	43.6	32.7	28.8	31.5	44.4	42.1

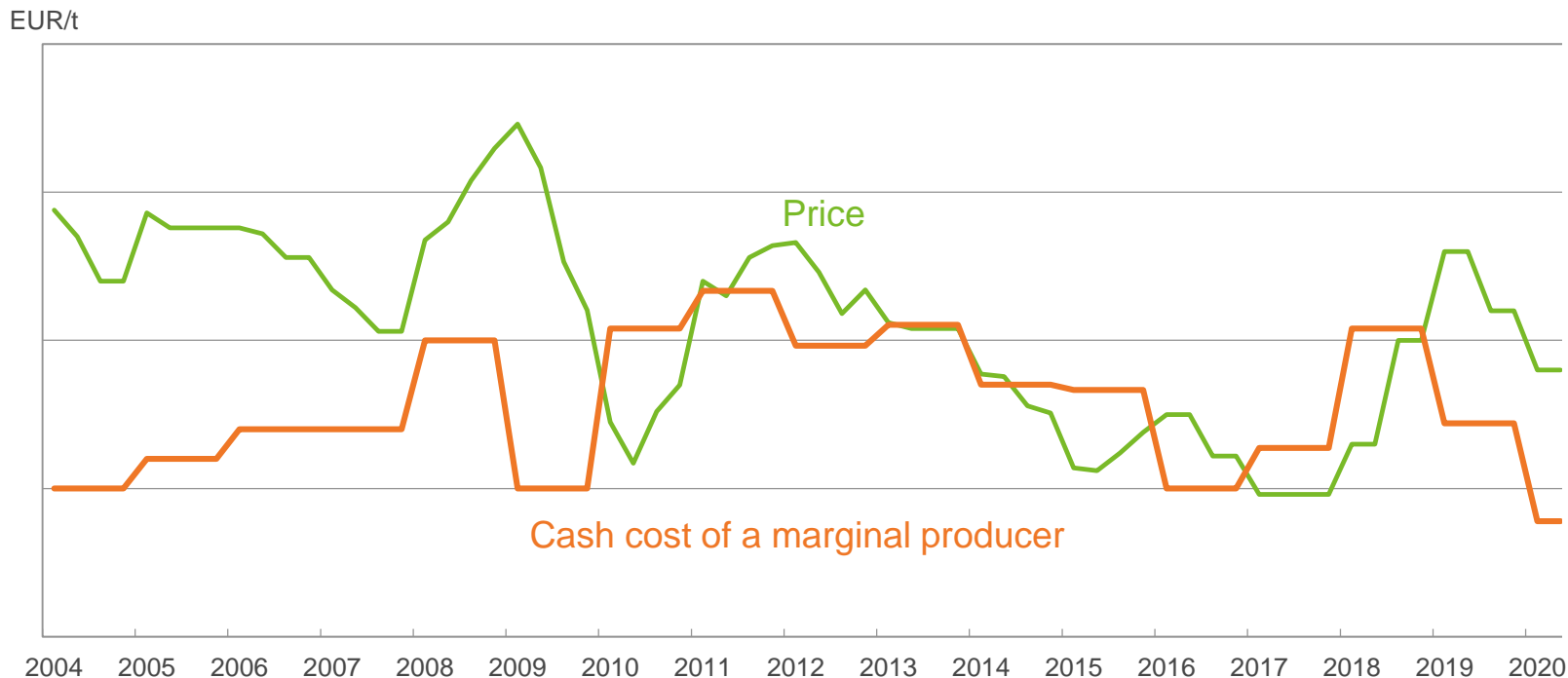
UPM Communication Papers

Graphic paper prices



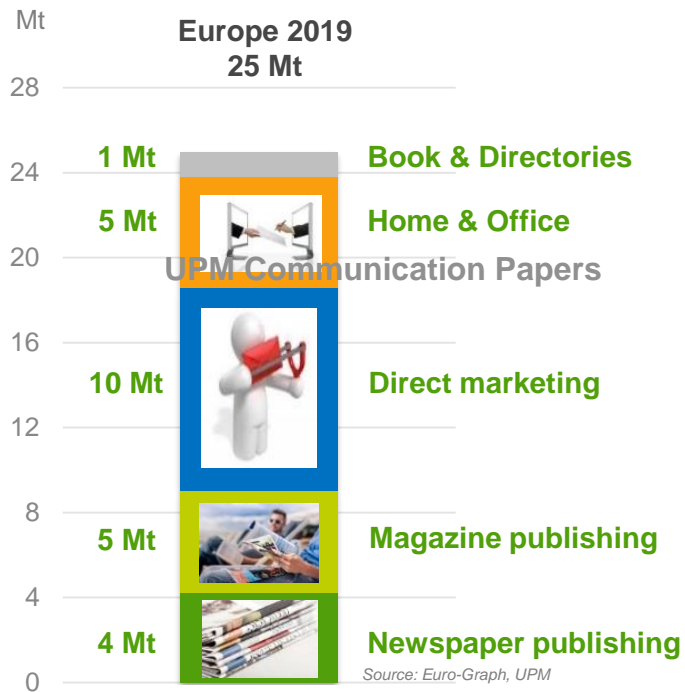
Sources: PPI, RISI

Paper price vs. cash cost of marginal cost producer



Sources: PPI, RISI, Pöyry

Paper demand by end use



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