

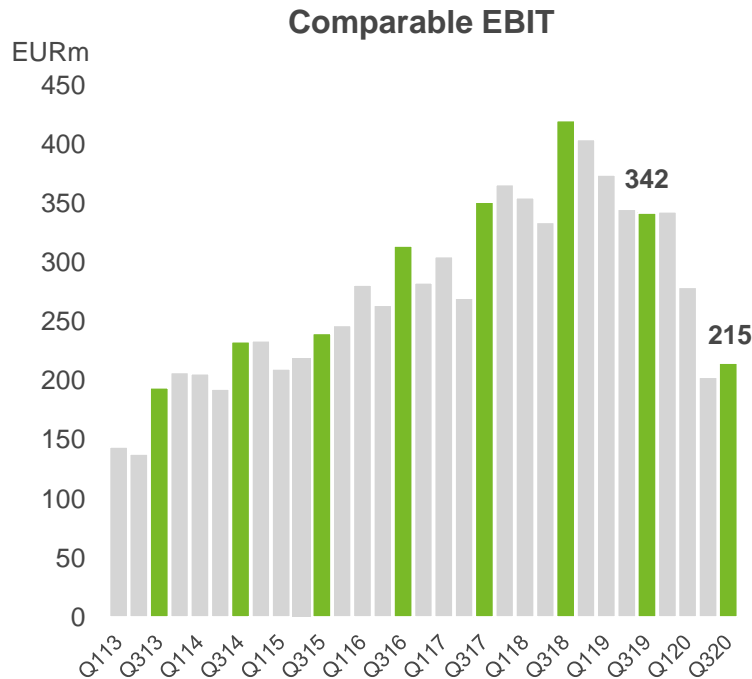
UPM Interim Report Q3 2020

Jussi Pesonen
President and CEO
27 October 2020

Q3 2020: driving performance and transformative projects under highly exceptional circumstances



- Sales decreased by 19% to EUR 2,028m (2,493m in Q3 2019)
- Comparable EBIT was EUR 215m, 10.6% of sales, down 37% from last year (342m)
- Uninterrupted business operations and progress in transformative growth projects
- Some normalization of the COVID-19-related demand impacts, both positive and negative
- Closures of UPM Chappelle paper mill and UPM Jyväskylä plywood mill
- Announced the closure of UPM Kaipola paper mill, plans for selling UPM Shotton, streamlining



Uninterrupted business operations and progress in transformative growth projects



- UPM has implemented extensive precautions to protect the health and safety of its employees and to ensure business continuity and progress of the growth projects.
- So far, the number of infections has been low in UPM and our business operations have been uninterrupted.
- Uruguay has continued its stringent COVID-19 measures and managed to keep the overall level of infections low. With UPM's safety processes, this has kept our sites in the country free of COVID-19 cases.
- UPM's transformative pulp project in Uruguay and biochemicals project in Germany are well on track with the planned start-up timeline.



Some normalization of the COVID-19-related demand impacts

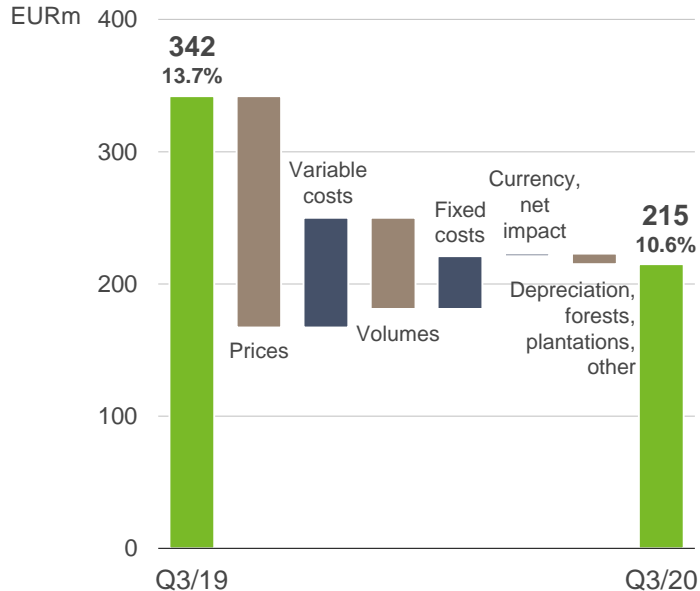


- UPM Communication Papers' market demand most affected by lockdowns and other containment measures.
 - Demand in Europe -8% in Q1, -32% in Q2 and -18% in Q3 from last year.
- UPM Raflatac and UPM Specialty Papers have benefited from strong demand for daily consumer goods and growth in e-commerce.
 - Demand for self-adhesive labels in Europe +7% in Q1, +10% in Q2 and -3% in Q3, impacted by destocking.
- 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.

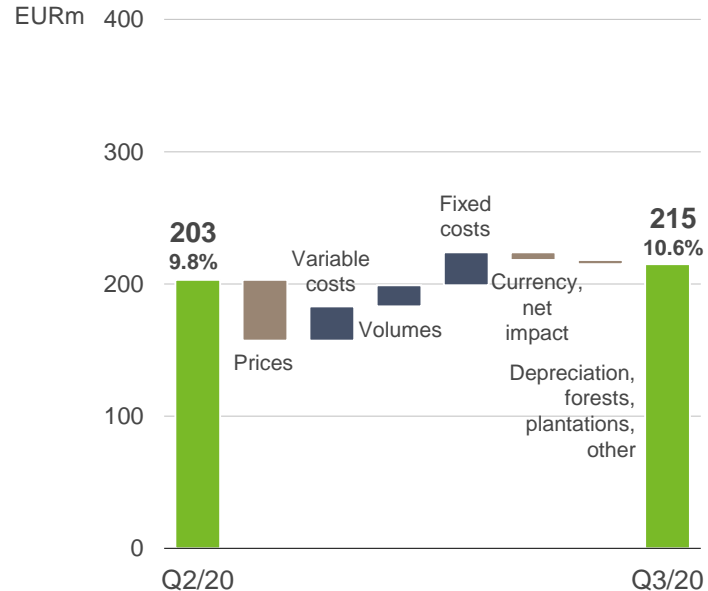


Comparable EBIT in Q3 2020

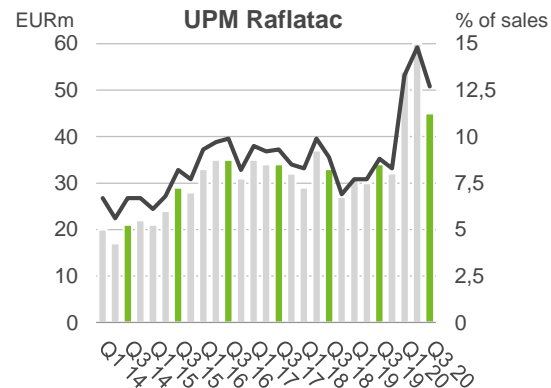
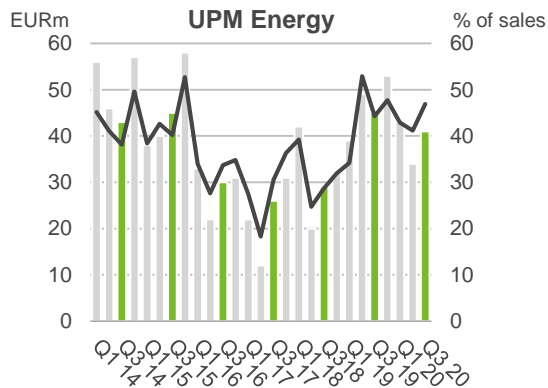
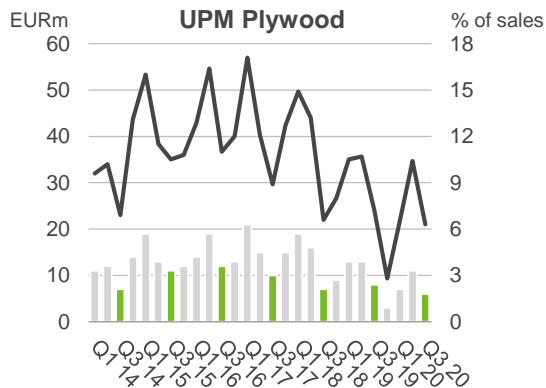
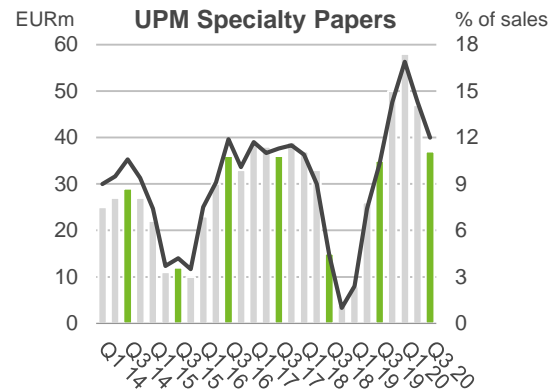
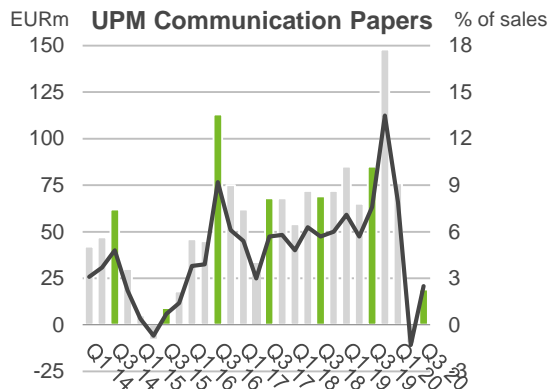
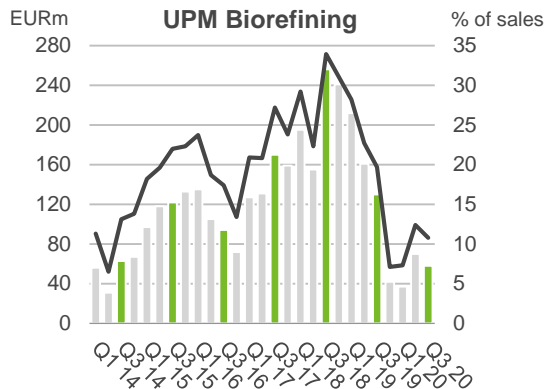
Sales prices decreased, clearly outweighing the impact of lower variable costs. Graphic paper deliveries were lower. Fixed costs decreased.



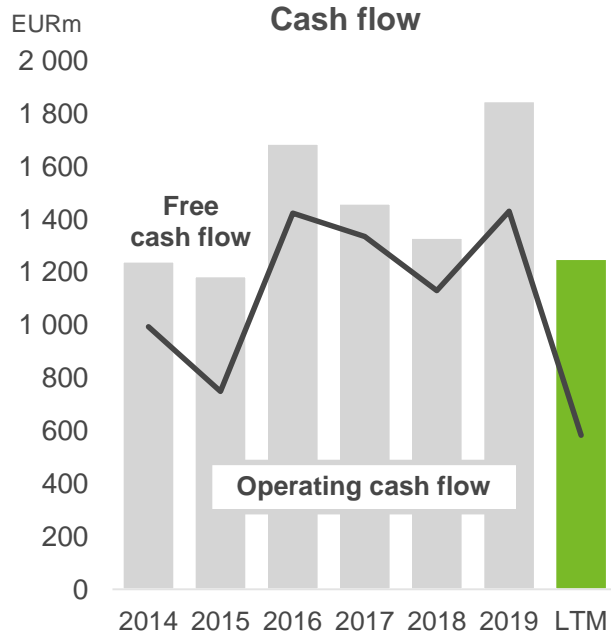
Sales prices decreased.
Variable and fixed costs were lower.
Graphic paper deliveries increased.



Comparable EBIT by business area

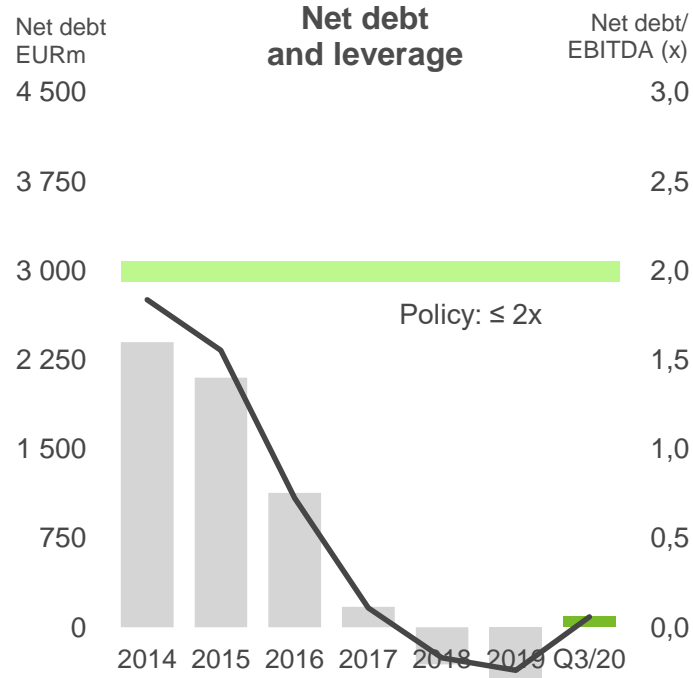


Robust cash flow



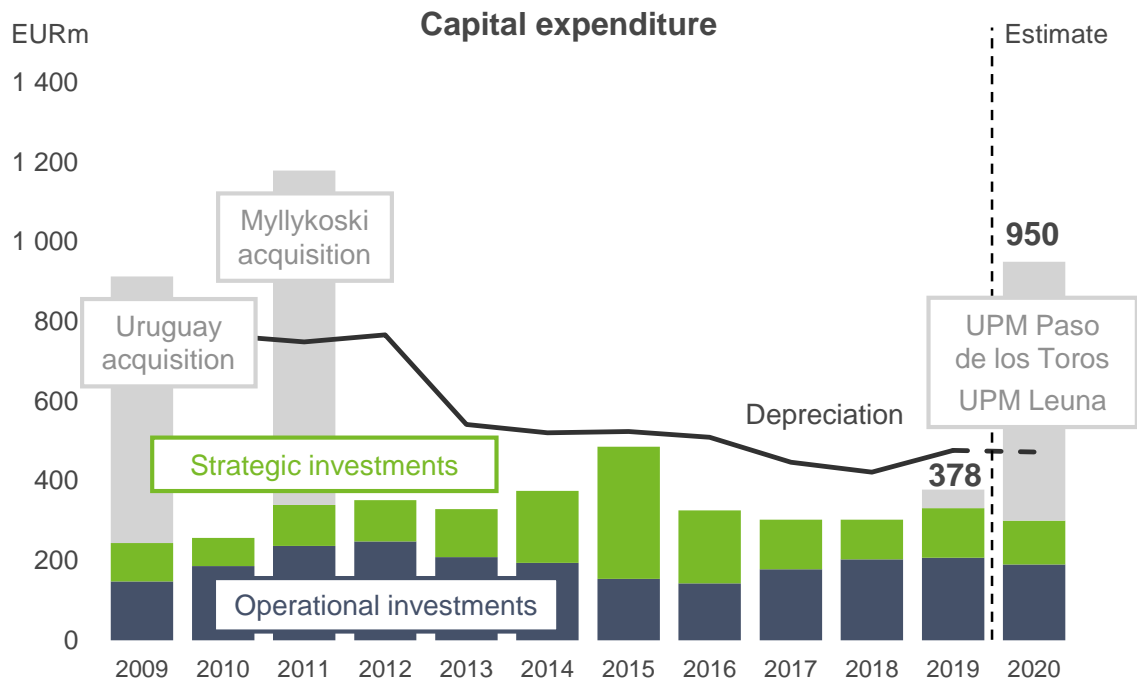
- Q3/20: operating cash flow was EUR 365m (500m in Q3/19)
- Working capital decreased by EUR 122m (decreased by 112m in Q3/19, increased by EUR 75m in Q2/20)

Strong financial position



- Net debt EUR 89m at the end of Q3
- Cash funds and committed credit facilities EUR 2.3bn at the end of Q3
- 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 operational investment needs



Capex estimate for 2020

- Total EUR 950m
- Includes EUR 650m on the transformative growth projects, pulp in Uruguay and biochemicals in 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 self-adhesive labelling materials and specialty papers in H1 2020. In Q3 2020 there was some normalization of these demand impacts, both positive and negative. However, the development going forward remains uncertain and is likely to be gradual, depending on the pandemic, the related 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.

In Q4 there will be significantly more maintenance activity than in the earlier quarters of 2020, as 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



Taking action to ensure performance – expected annual cost savings of approx. EUR 130 million



- UPM Jyväskylä (plywood)
closed in Q3 2020
 - UPM Chapelle (newsprint)
-240kt, closed in Q3 2020
 - UPM Kaipola (newsprint, LWC)
-720kt, to be closed in Q4 2020
 - UPM Shotton (newsprint)
-250kt, planned sale
 - Planned streamlining and cost efficiency actions in UPM Biorefining, UPM Specialty Papers, UPM Raflatac and global functions
-
- Growth investment: UPM Nordland PM2 (fine)
-200kt, conversion to release liner in Q1 2020



Progress in UPM Paso de los Toros and the Montevideo port



Groundbreaking ceremony of UPM's innovative biochemicals refinery in Leuna, Germany



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

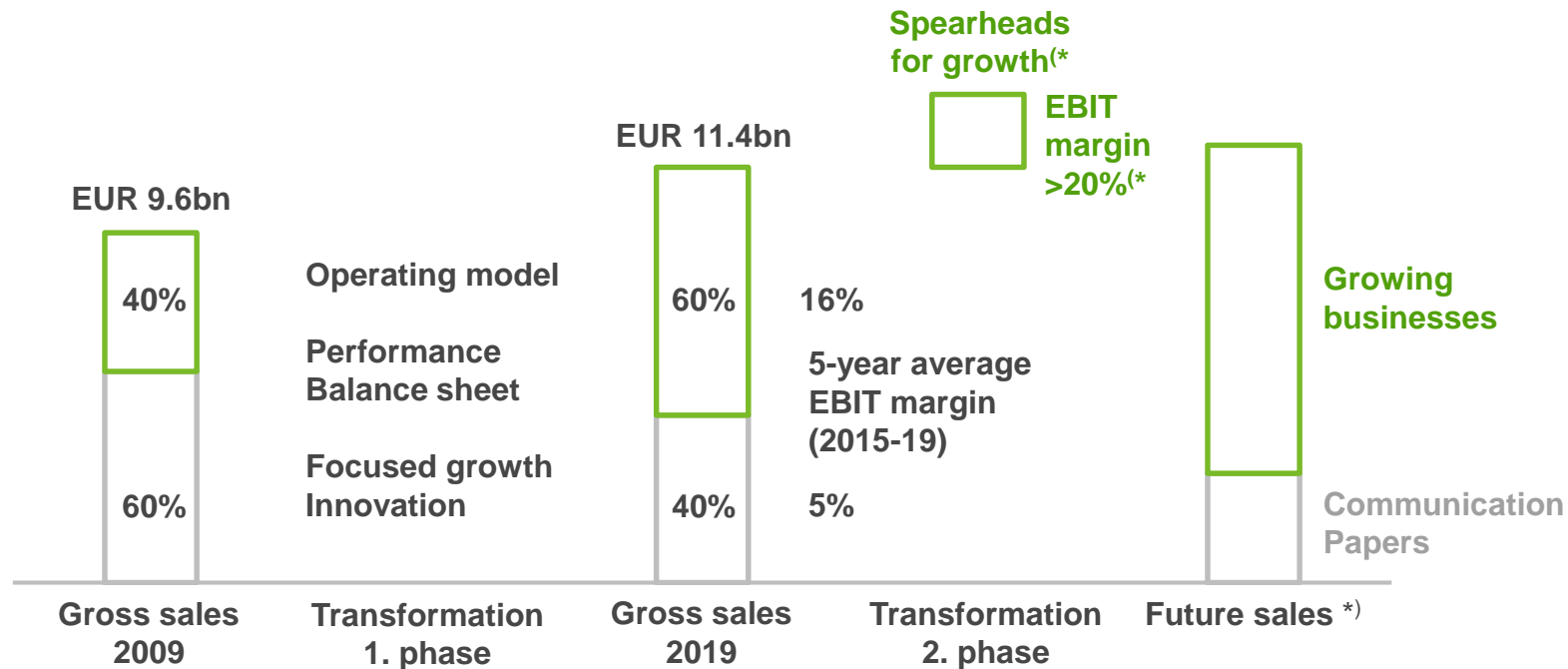
MOLECULAR BIOPRODUCTS

Biofuels

Biochemicals

Energy

Spearheads for growth – improving business mix drives earnings, cash flow and shareholder value



^(*) This is an illustration, not a forecast

A leader in responsibility – external recognitions



MEMBER OF
**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM



Global Compact
LEAD
2020 PARTICIPANT

MSCI
ESG RATINGS



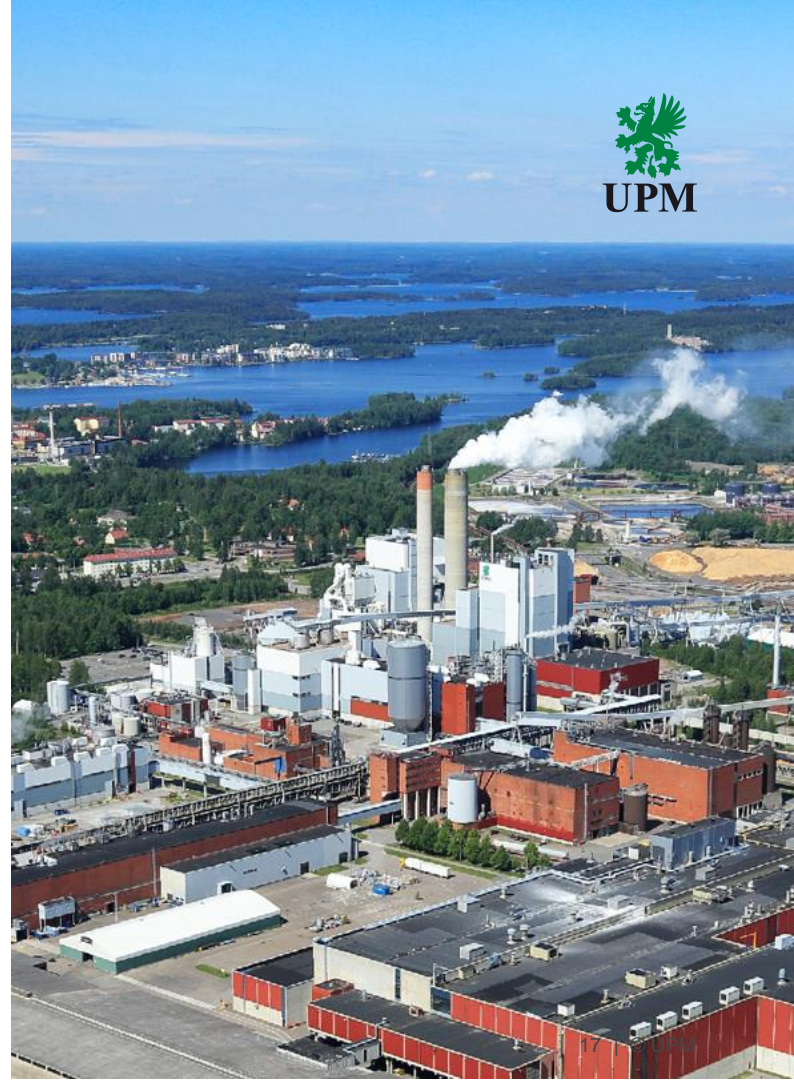
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<https://www.msci.com/documents/1296102/1523388/6/How-to-Reference-an-MSCI-ESG-Rating-Final.pdf>



Sustainability Award
Gold Class 2020

UPM **BIOFORE-BEYOND** FOSSILS



Summary



- UPM is taking action to ensure competitiveness, and businesses delivered satisfactory performance under the highly exceptional circumstances
- Some normalization of the COVID-19 pandemic-related demand impacts during Q3.
- 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



Driving long-term value creation – UPM's climate commitment



UPM **BIOFORE-BEYOND** FOSSILS



We act through **FORESTS**
Climate-positive forestry



We act through **EMISSIONS**
65% less CO₂ emissions



We act through **PRODUCTS**
Innovate novel products

**BUSINESS
AMBITION FOR**

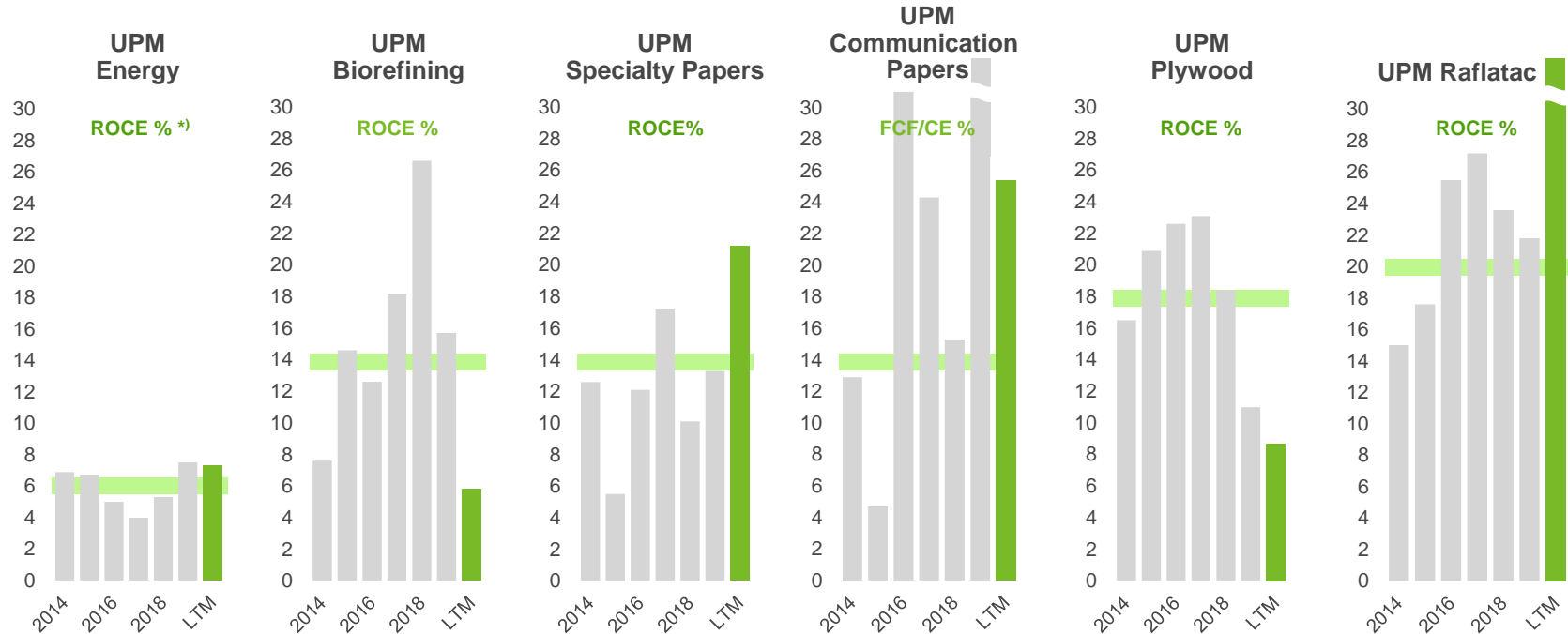
1.5°C



**OUR ONLY
FUTURE**

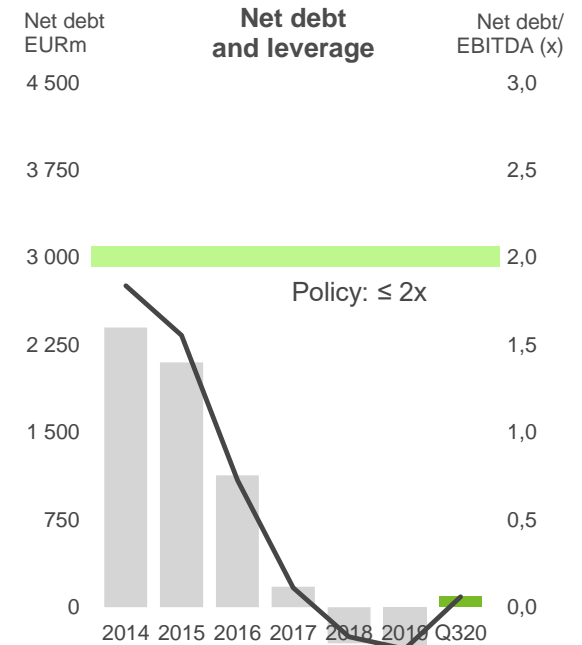
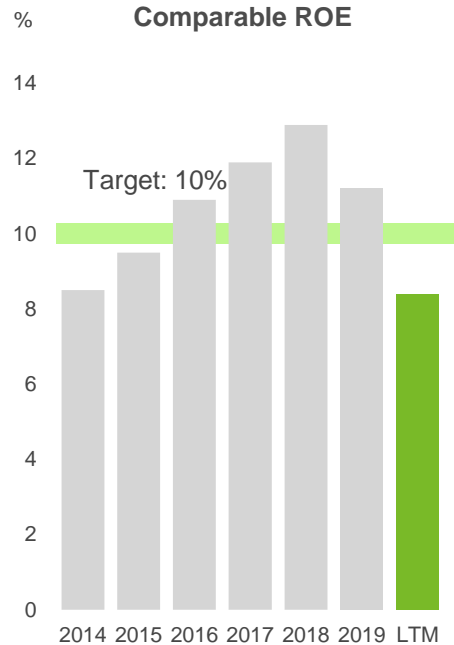
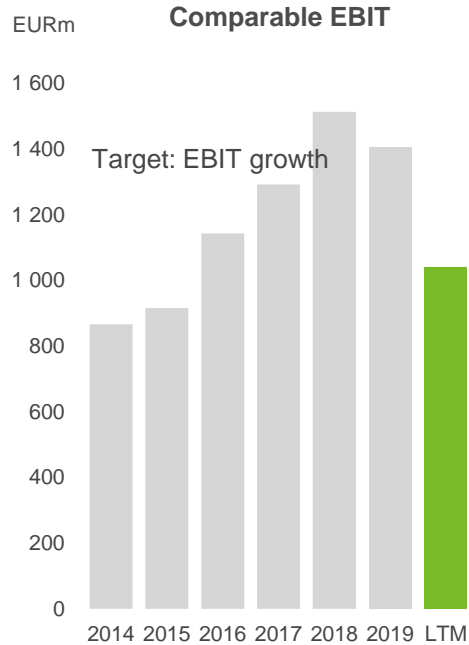


Business area returns and long-term targets



*) shareholdings in UPM Energy
valued at fair value

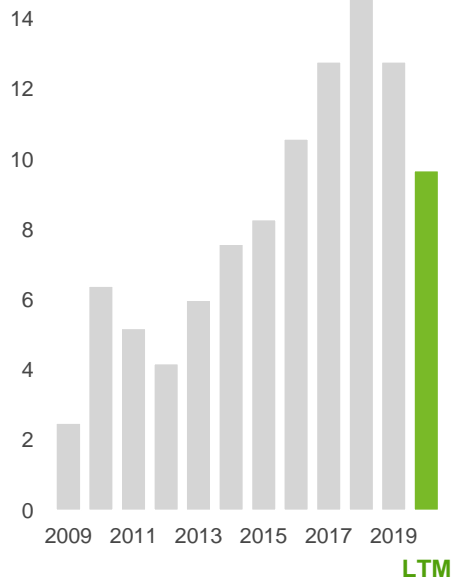
Group financial performance



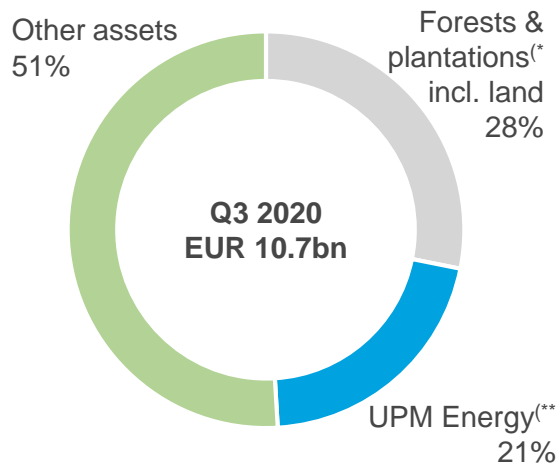
Group returns influenced by forests, plantations, energy assets and debt-free balance sheet



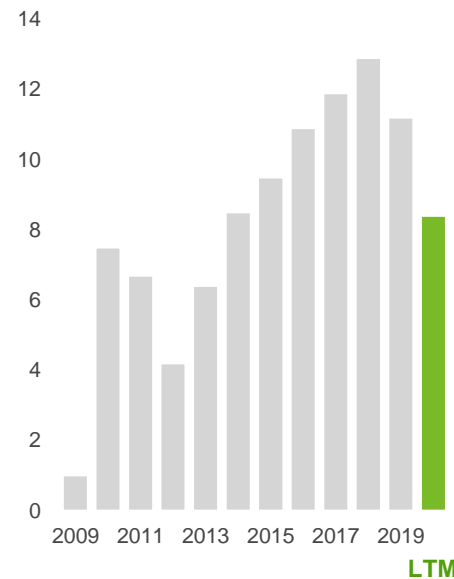
% Comparable ROCE



Capital employed



% Comparable ROE



*) growing trees valued at fair value

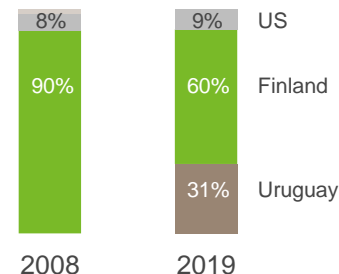
**) energy shareholdings valued at fair value

Developing our forest assets

UPM forests and plantations

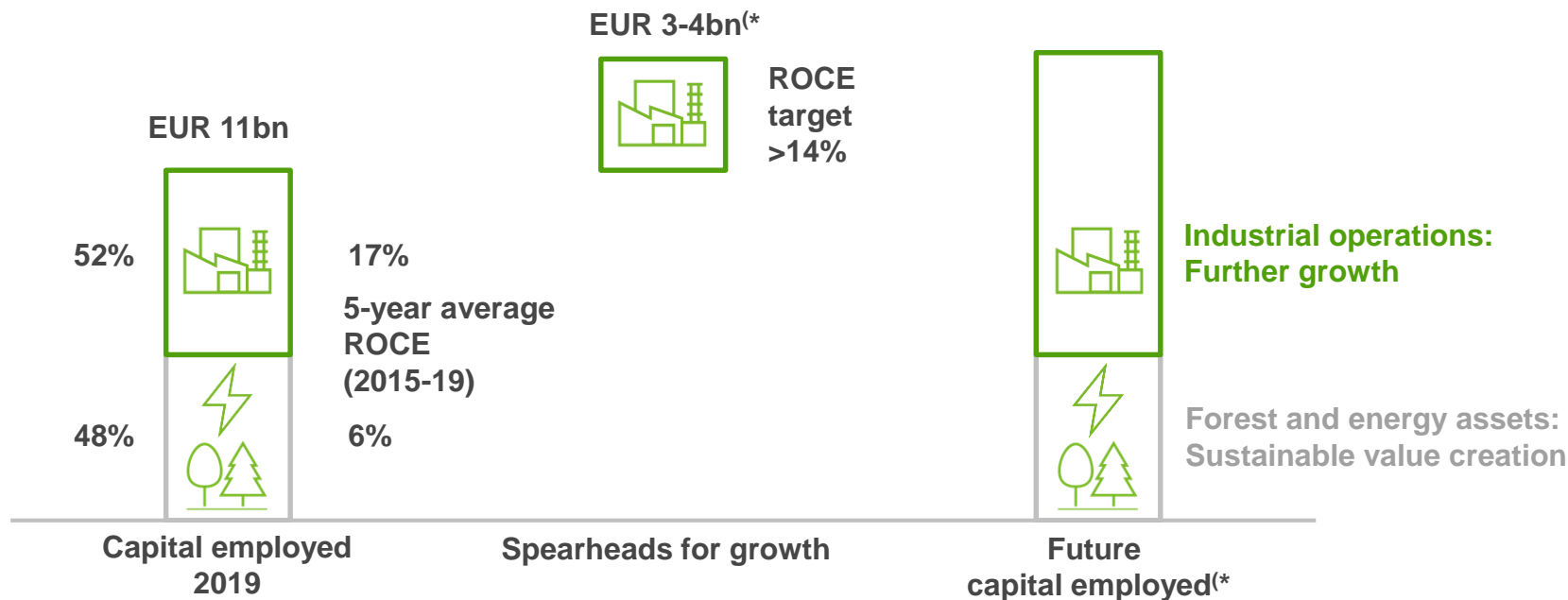
	2008	2019
Forest and plantation land (own and rented) (1,000 ha)	1,012	991
Forest growth (million m ³)	4.3	8.9
Wood sourced from UPM forests and plantations (million m ³)	2.2	3.7
Value of forests and plantations, including land (EURm)	1,270	2,864

Area distribution



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

Transformation improves UPM's asset mix, driving returns



*) This is an illustration, not a forecast

UPM invests in a world class pulp mill in Uruguay



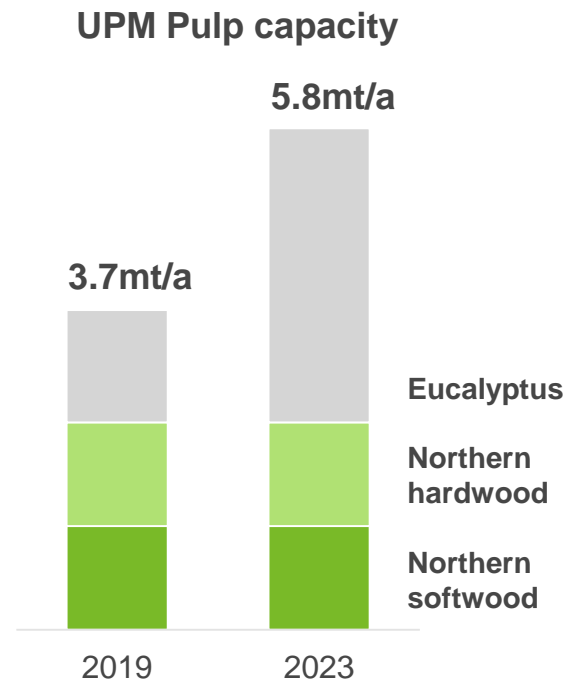
- A highly competitive new pulp mill with annual production capacity of 2.1 million tonnes of eucalyptus pulp
- Mill investment of USD 2.7 billion
- Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million
- Scheduled start-up in H2 2022
- Industry-leading 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

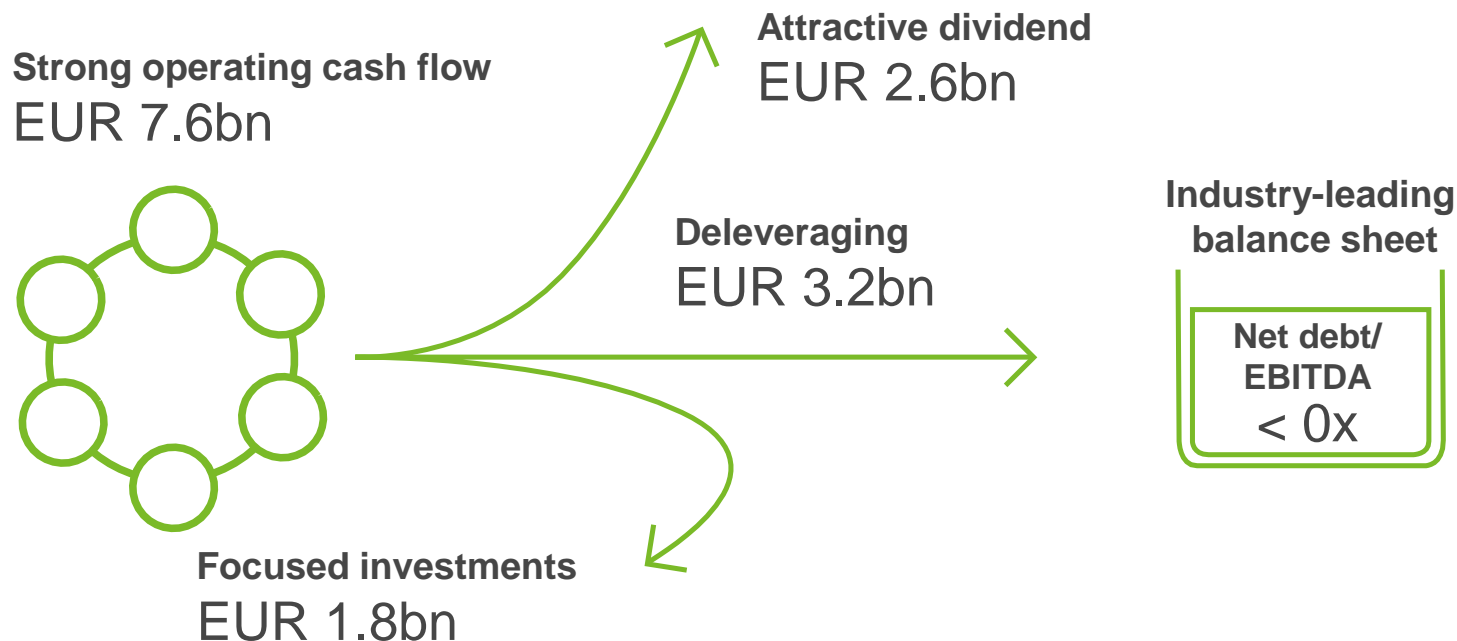
UPM creates a totally new sustainable business with large growth potential



- 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



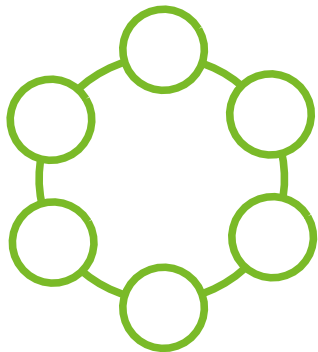
5-year cumulative cash flow (2015–2019) – efficient capital allocation in action



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

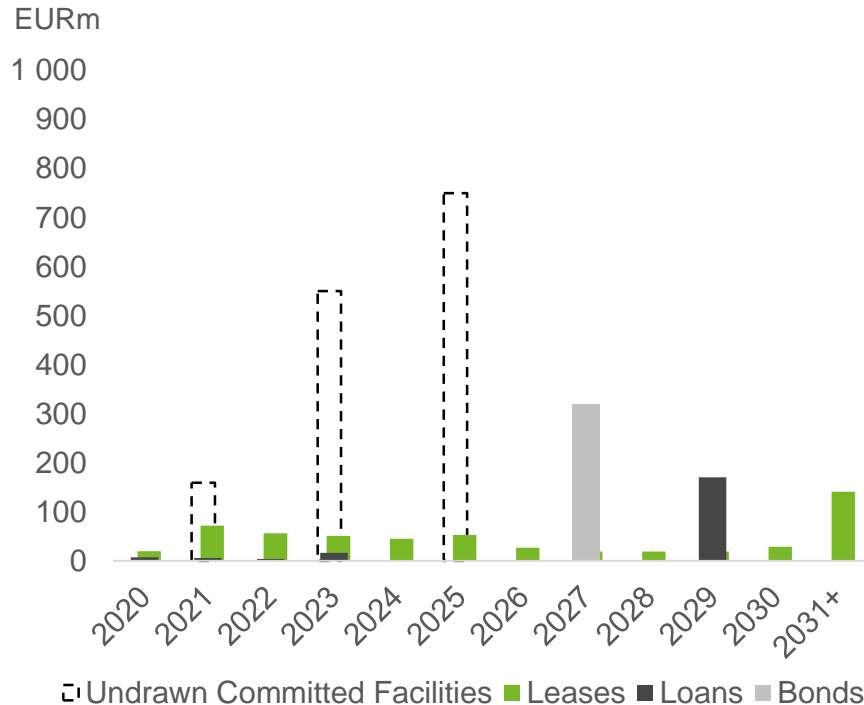
Industry-leading
balance sheet

Net debt/
EBITDA
< 2x

Maintain headroom

^{*)} This is not a forecast

Maturity profile and liquidity



Liquidity on 30 September 2020 was
EUR 2.3bn (cash and unused credit facilities)

UPM's committed facilities:

- EUR 159m rolling credit facility maturing 2021
- EUR 550m bilateral facilities maturing 2023
- EUR 750m syndicated facility maturing 2025

No financial covenants

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

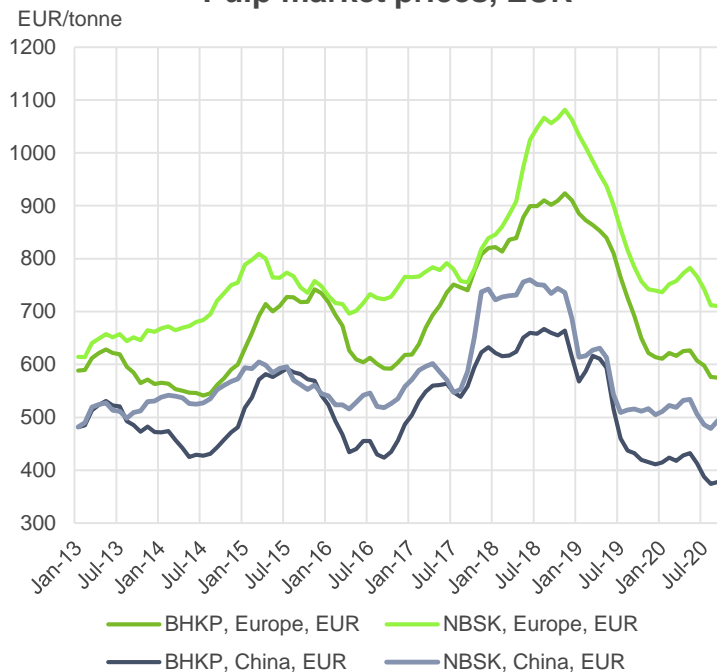
	USD	GBP	JPY	Others
EURm	800	190	185	270

UPM Biorefining

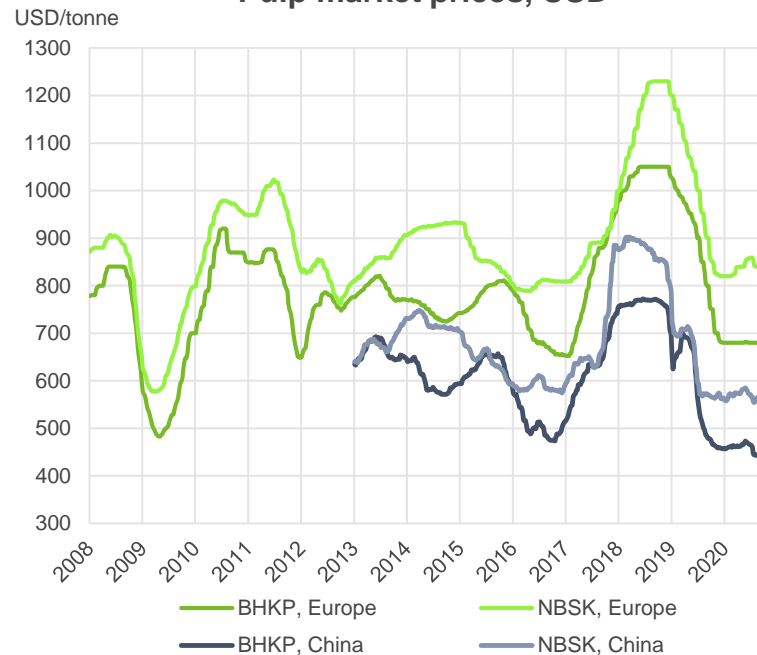
Chemical pulp market prices



Pulp market prices, EUR

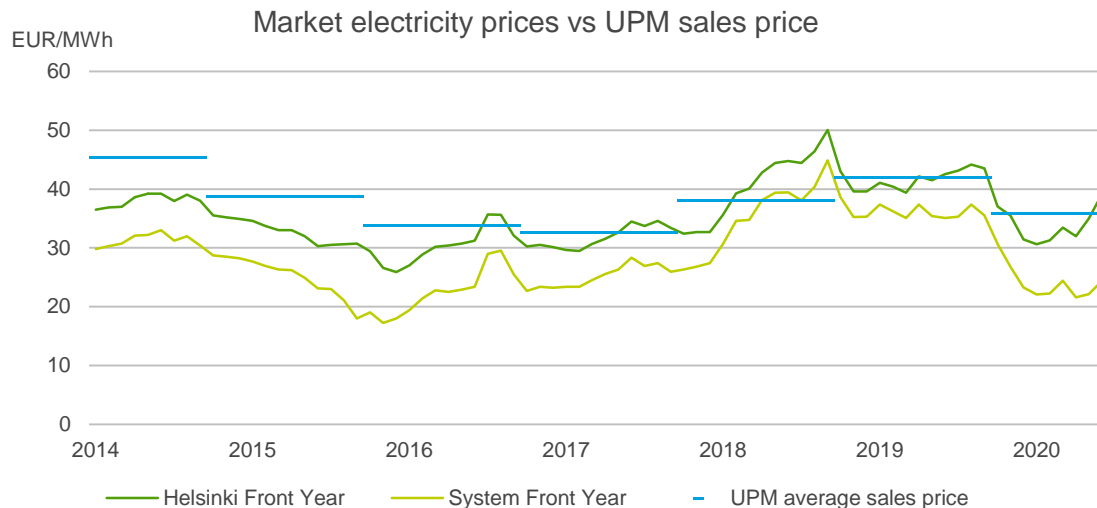


Pulp market prices, USD



Source: FOEX Indexes Ltd

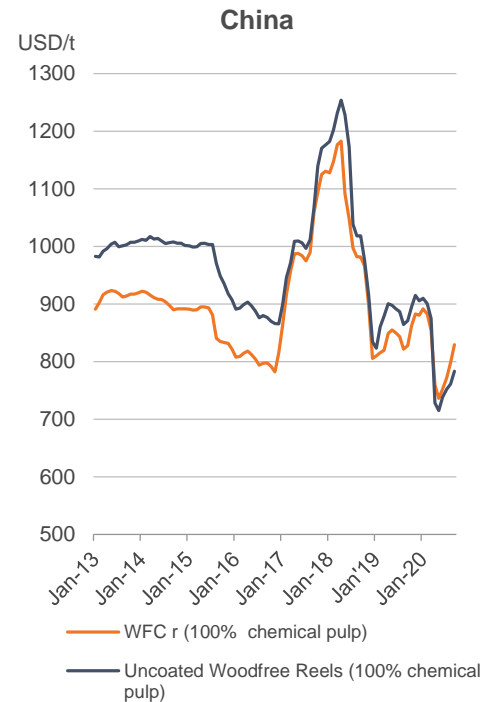
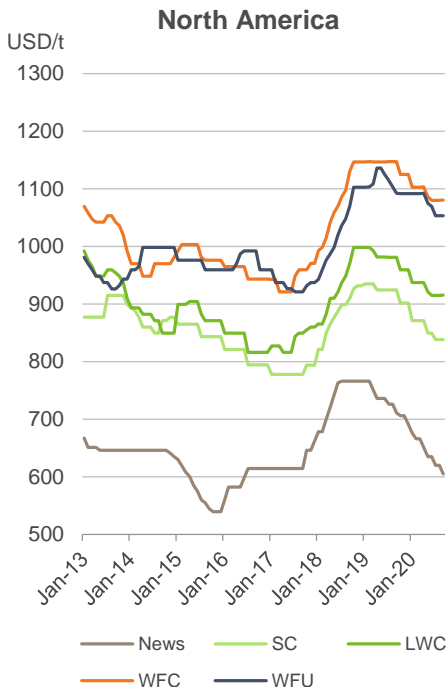
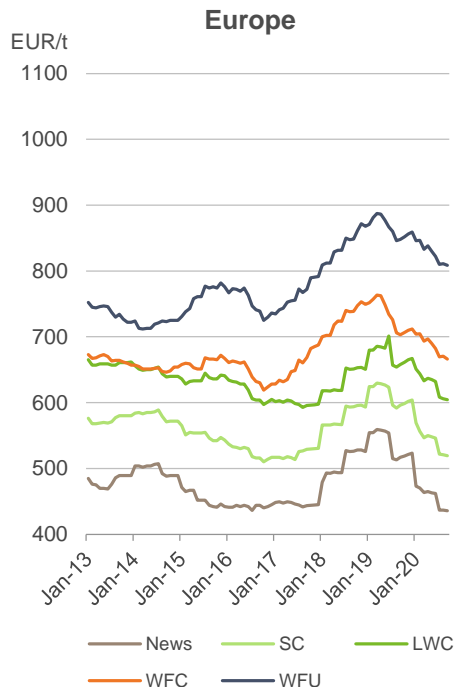
Cost efficient generation enables robust profitability in changing market environment



UPM Energy profitability	2015	2016	2017	2018	2019	Q1-Q3/2020
Comparable EBIT, EURm	181	116	91	123	185	119
% of sales	43.6	32.7	28.8	31.5	44.4	43.7

UPM Communication Papers

Graphic paper prices

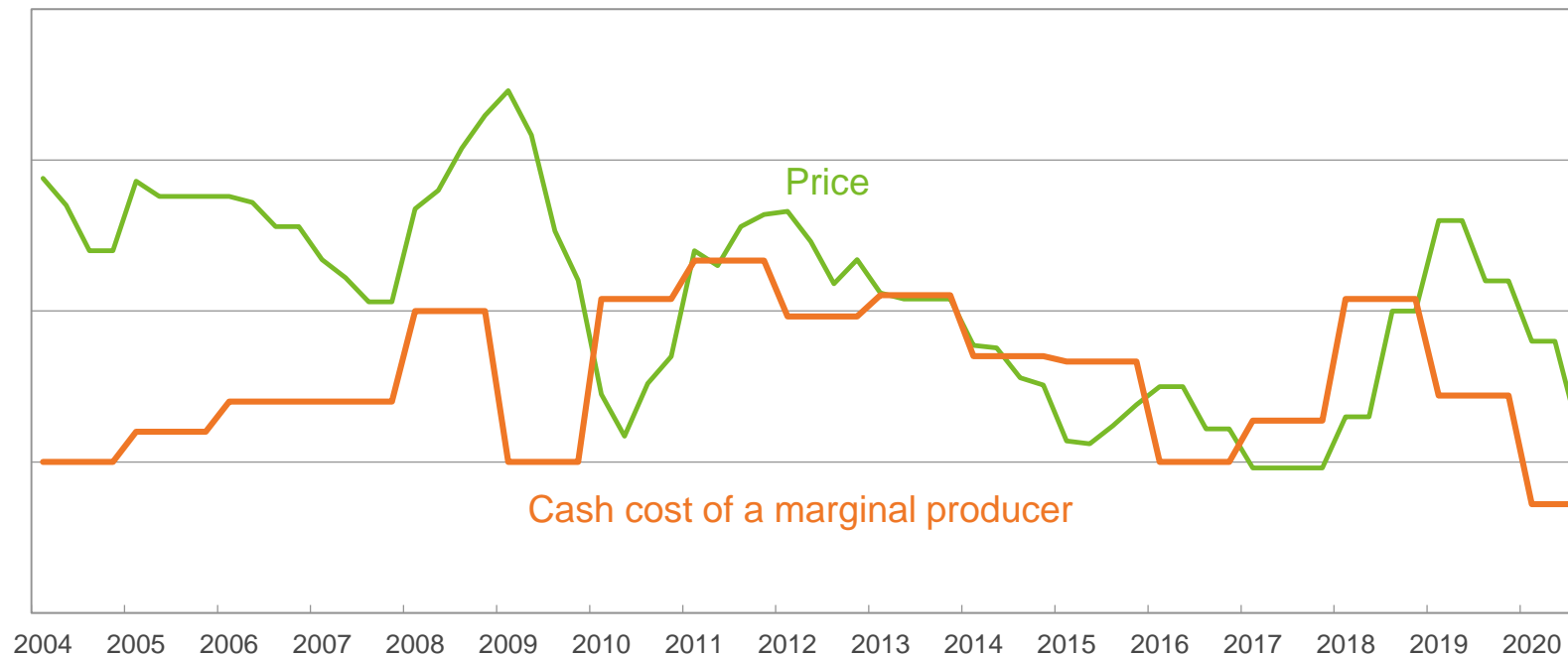


Sources: PPI, RISI

Paper price vs. cash cost of marginal cost producer



EUR/t



Sources: PPI, RISI, Pöyry

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