



# UPM **BIOFORE** **BEYOND FOSSILS**

HALF YEAR FINANCIAL REPORT 2020

# UPM Half Year Financial Report 2020:

## Q2 impacted by lockdowns, transformative growth projects on track



### Q2 2020 highlights

- Sales decreased by 20% to EUR 2,077 million (2,605 million in Q2 2019) due to lower deliveries of graphic papers and lower pulp and paper sales prices
- Comparable EBIT decreased by 41% to EUR 203 million (345 million), and was 9.8% (13.2%) of sales
- The COVID-19 lockdowns significantly decreased demand for graphic papers
- Demand for labelling materials and specialty papers increased during the lockdowns
- Operating cash flow was EUR 156 million (436 million)
- Closures of UPM Chappelle paper mill and UPM Jyväskylä plywood mill

### H1 2020 highlights

- Sales decreased by 18% to EUR 4,364 million (5,298 million in H1 2019) due to lower deliveries of graphic papers and lower pulp and paper sales prices
- Comparable EBIT decreased by 33% to EUR 482 million (719 million), and was 11.0% (13.6%) of sales
- UPM's transformative pulp project in Uruguay and biochemicals project in Germany are well on track with the planned start-up timeline
- Operating cash flow was EUR 293 million (756 million)
- Net debt decreased to EUR 301 million (366 million)
- Cash funds and unused committed credit facilities totalled EUR 2.0 billion at the end of June

### Key figures

	Q2/2020	Q2/2019	Q1/2020	Q1-Q2/2020	Q1-Q2/2019	Q1-Q4/2019
Sales, EURm	2,077	2,605	2,287	4,364	5,298	10,238
Comparable EBITDA, EURm	320	466	398	719	954	1,851
% of sales	15.4	17.9	17.4	16.5	18.0	18.1
Operating profit, EURm	148	319	243	391	692	1,344
Comparable EBIT, EURm	203	345	279	482	719	1,404
% of sales	9.8	13.2	12.2	11.0	13.6	13.7
Profit before tax, EURm	138	300	240	378	664	1,307
Comparable profit before tax, EURm	193	325	276	469	691	1,367
Profit for the period, EURm	103	245	192	295	549	1,073
Comparable profit for the period, EURm	157	271	231	388	576	1,119
Earnings per share (EPS), EUR	0.19	0.46	0.36	0.55	1.03	1.99
Comparable EPS, EUR	0.29	0.51	0.43	0.72	1.08	2.07
Return on equity (ROE), %	4.3	10.0	7.7	6.0	11.4	10.7
Comparable ROE, %	6.6	11.1	9.3	7.9	11.9	11.2
Return on capital employed (ROCE), %	5.4	11.2	8.9	7.2	12.8	12.3
Comparable ROCE, %	7.5	12.2	10.2	8.8	13.3	12.8
Operating cash flow, EURm	156	436	137	293	756	1,847
Operating cash flow per share, EUR	0.29	0.82	0.26	0.55	1.42	3.46
Equity per share at the end of period, EUR	17.50	17.91	17.90	17.50	17.91	18.87
Capital employed at the end of period, EURm	10,767	10,820	11,009	10,767	10,820	11,474
Net debt at the end of period, EURm	301	366	-405	301	366	-453
Net debt to EBITDA (last 12 months)	0.19	0.19	-0.23	0.19	0.19	-0.24
Personnel at the end of period	19,029	19,760	18,573	19,029	19,760	18,742

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 2019](#)

## Jussi Pesonen, President and CEO, comments on the Q2 2020 results:

"In the second quarter of 2020 people and businesses around the world felt the impact of the COVID-19 pandemic and the related lockdowns. For UPM the impact was divided. Demand for graphic papers seriously suffered as a result of lockdowns, whereas labels and specialty papers saw strong demand and delivered excellent results. Our financial standing remains strong, and our strategic growth projects continue as planned.

We have taken proactive and extensive precautions to ensure the safety of our employees and continuity of our operations. Consequently, few UPM employees have been infected and we have been able to serve our customers without interruption. This is a great achievement and has enabled satisfactory results in highly exceptional circumstances.

Our sales decreased by 20% to EUR 2,077 million and comparable EBIT by 41% to EUR 203 million. Operating cash flow was EUR 156 million. Net debt decreased from last year to EUR 301 million and liquidity totalling EUR 2.0 billion.

The lockdown of businesses, offices and schools caused a drastic decline in printed advertising and use of office papers. In Europe, Q2 demand for graphic papers decreased by 32% from last year. We achieved significant savings in fixed costs, but this could not offset the headwind from the markets. UPM Communication Papers' quarterly EBIT was negative for the first time in five years.

At the same time lockdowns had a positive impact on some of UPM's businesses. UPM Raflatac and UPM Specialty Papers benefited from strong demand for daily consumer goods and growth in e-commerce, increasing the need for labelling and packaging solutions. In Europe, Q2 demand for self-adhesive labels grew by 10% compared to last year. The favourable markets combined with long-term efforts to improve margins resulted in excellent profits in both business areas.

In UPM Biorefining, pulp deliveries were strong in Q2. Due to the pandemic, maintenance shutdowns were postponed until Q4 and our pulp mills were running at full capacity. However, prices remain low and the results leave room for improvement.

UPM Energy achieved good results despite lower prices in highly volatile markets. UPM Plywood had a relatively solid quarter, but the market for birch plywood remains weak.

In the coming quarters, we will focus on two main topics. First, we will ensure good performance in all our businesses through these exceptional times. Second, we will implement our transformative growth projects in Uruguay and Germany with determination.

During the current uncertainty, we have adjusted our operations using measures such as temporary lay-offs and shift arrangements. In addition, we have taken action and will continue to take action to ensure the profitability and competitiveness of our operations both during the current downturn and in the long term. Last week we announced the closure of UPM Chapelle mill, which will reduce our newsprint capacity by 240,000 tonnes. This week we decided to permanently close the UPM Jyväskylä plywood mill.

I am happy to say that our growth projects are well on track. Unlike many Latin American countries, Uruguay has taken stringent COVID-19 measures and managed to keep the overall level of infections very low throughout the 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's value creation today and in the future is based on offering sustainable products and solutions to consumers and businesses. We are confident with our Biofore strategy and committed to growing businesses for a future beyond fossils."

## 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. 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.

## Impact of COVID-19 pandemic

The COVID-19 pandemic and the related containment measures around the world continue to represent significant uncertainty for the rest of the year.

### *Global economy*

Economists expect a severe global recession in 2020. In the first phase of the recession, the pandemic containment measures and lockdowns around the world severely limit or temporarily stop significant parts of the economy. Once the lockdowns can be eased, it is uncertain how potent the

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following recovery will be and how long it will take for the world economy to reach the pre-pandemic level of activity. Additional waves of the epidemic in different parts of the world are possible and represent further uncertainty.

#### *Safety and business continuity*

UPM has implemented extensive precautions to protect the health and safety of its employees and to ensure business continuity and progress of its strategic projects during the pandemic. Despite these efforts, the operation of one or more units or the supply chain and logistics could be temporarily disrupted during the pandemic and the related lockdown measures. In these circumstances some units would need to limit operations or be temporarily shut down.

So far UPM has been able to protect its employees and business continuity well.

#### *Demand for UPM products*

Many of UPM products serve essential everyday needs and may therefore see relatively resilient demand during the crisis. These products include pulp, speciality papers and self-adhesive label materials. Even in these businesses, demand is influenced by general economic activity, however.

Demand for graphic papers, plywood and timber is more prone to be impacted by the lockdowns and the recession. The lockdowns during the first phase of the crisis limit a wide range of consumer-driven services and retail, as well as work at the office. This has a negative impact on printed advertising and graphic paper demand during the lockdowns.

The lockdowns are also likely to temporarily affect demand for electricity.

In Q2 2020, graphic paper demand in Europe decreased by 32% from last year, as particularly advertising-driven paper consumption and office paper demand were impacted by the lockdowns across Europe.

Pulp demand held up relatively well, supported by good demand for tissue and hygiene products as well as for some packaging and speciality paper products. Pulp consumption in graphic paper production decreased.

Demand grew for self-adhesive label materials during the lockdowns, as consumers shifted some of their spending from away-from-home categories to packaged daily consumer goods. E-commerce continued to grow, supporting some labelling applications. In Q2, demand for self-adhesive labels in Europe grew by 10% from last year. The same drivers supported demand for UPM's speciality papers during Q2 2020.

#### *Adjusting to different scenarios*

The potential impacts to UPM are likely to differ by business and by the phase of the pandemic, lockdown measures, the recession and recovery. UPM is using shift arrangements, temporary layoffs, or reduced working hours as required to adjust its operations in different scenarios.

#### *Projects and maintenance shutdowns*

The pandemic and the required health and safety measures add challenge to large investment projects and maintenance shutdowns. UPM's transformative pulp project in Uruguay and biochemicals project in Germany are proceeding with strict health and safety controls. Despite these efforts, some changes to the detailed timeline of the projects are possible during the pandemic and the related containment measures. Currently the projects proceed in line with the planned start-up timeline.

In April TVO announced that due to the COVID-19 pandemic, fuel loading into the OL3 reactor will not happen as planned in June 2020, and it is possible that the regular electricity production would be delayed respectively.

UPM has rescheduled two pulp mill maintenance shutdowns from Q2 2020 to Q4 2020.

## Timing of significant maintenance shutdowns in 2020

TIMING	UNIT
Q2/2019	Kymi pulp mill Olkiluoto nuclear power plant
Q4/2019	Fray Bentos pulp mill
Q2/2020	Olkiluoto nuclear power plant
Q4/2020	Kaukas pulp mill Pietarsaari pulp mill

#### *Financing*

UPM's financial position is strong. UPM's net debt was EUR 301 million at the end of Q2 2020, after paying the dividend of EUR 693 million during the quarter. Cash funds and unused committed credit facilities totalled EUR 2.0 billion at the end of Q2 2020. This includes the sustainability-linked five-year EUR 750 million revolving credit facility signed during Q1 2020, and the EUR 550 million of bilateral committed credit facilities signed during Q2 2020. The facilities and UPM's outstanding debt have no financial covenants.

## Results

### Q2 2020 compared with Q2 2019

Q2 2020 sales were EUR 2,077 million, 20% lower than the EUR 2,605 million for Q2 2019. The decrease in sales was due to lower deliveries of graphic papers and lower pulp and paper sales prices. Sales decreased in UPM Communication Papers, UPM Biorefining, UPM Specialty Papers, UPM Plywood and UPM Energy, and increased in UPM Raflatac.

Comparable EBIT decreased by 41% to EUR 203 million, which was 9.8% of sales (345 million, 13.2%).

Sales prices decreased in all UPM's business areas. At the group level, the negative impact of lower sales prices was clearly larger than the positive impact of decreased variable costs.

Fixed costs decreased by EUR 61 million, about half of which was due to temporary measures to adjust to the COVID-19 pandemic. In addition, there was one pulp mill maintenance shutdown in the comparison period. Lower fixed costs offset the negative impact of lower delivery and production volumes. Delivery and production volumes were lower especially in UPM Communication Papers.

Depreciation, excluding items affecting comparability, totalled EUR 119 million (118 million), including depreciation of leased assets totaling EUR 19 million (18 million). The change in the fair value of forest assets net of wood harvested was EUR 1 million (-3 million).

Operating profit was EUR 148 million (319 million). Items affecting comparability in operating profit totalled EUR -55 million in the period (-26 million) including EUR 33 million charges related to the closure of UPM Chapelle paper mill and EUR 22 million restructuring charges related to the closure of UPM Jyväskylä plywood mill.

Net interest and other finance income and costs were EUR -9 million (-19 million). Exchange rate and fair value gains and losses were EUR -1 million (-1 million). Income taxes were EUR 34 million (55 million). Items affecting comparability in taxes totalled EUR 1 million (-1 million).

Profit for Q2 2020 was EUR 103 million (245 million), and comparable profit was EUR 157 million (271 million).

### Q2 2020 compared with Q1 2020

Comparable EBIT decreased by 27% to EUR 203 million, 9.8% of sales (279 million, 12.2%), mainly due to lower production and delivery volumes in UPM Communication Papers.

Sales prices were lower. Sales prices decreased mostly in UPM Communication Papers and UPM Specialty Papers.

Fixed costs decreased by EUR 6 million. Variable costs decreased slightly. Delivery volumes were lower especially in UPM Communication Papers.

Depreciation, excluding items affecting comparability, totalled EUR 119 million (120 million). The change in the fair value of forest assets net of wood harvested was EUR 1 million (-1 million).

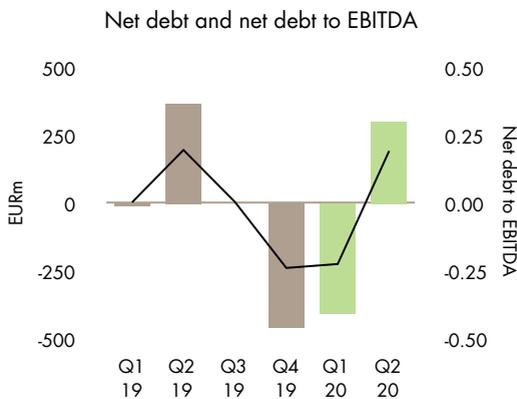
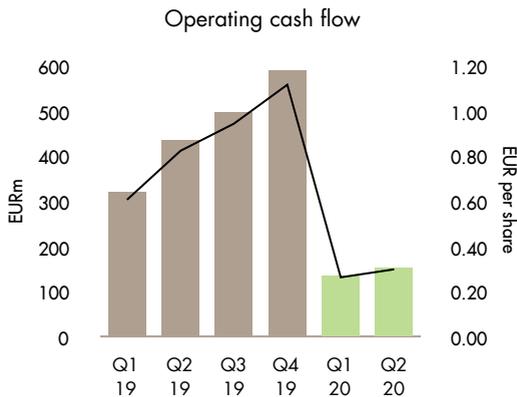
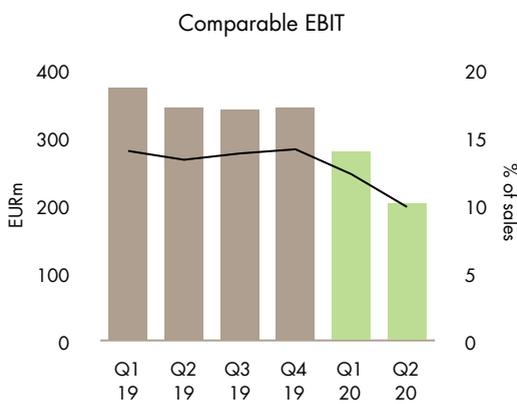
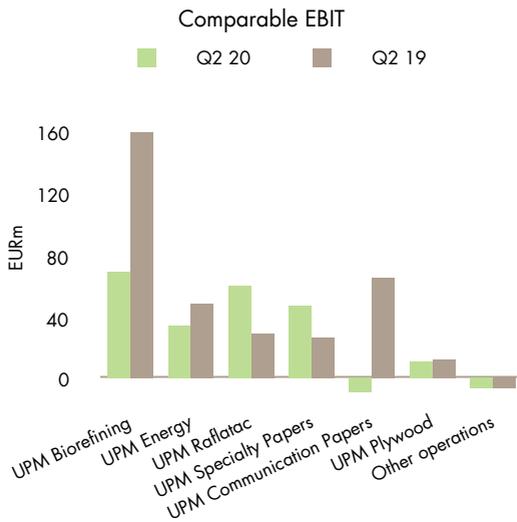
Operating profit was EUR 148 million (243 million).

### January–June 2020 compared with January–June 2019

H1 2020 sales were EUR 4,364 million, 18% lower than the EUR 5,298 million for H1 2019. Sales decreased in UPM Communication Papers, UPM Biorefining, UPM Specialty Papers, UPM Plywood and UPM Energy, and increased in UPM Raflatac.

Comparable EBIT decreased by 33% to EUR 482 million, 11.0% of sales (719 million, 13.6%).

Sales prices decreased in all UPM's business areas, mostly in UPM Biorefining and in UPM Communication Papers. At the



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group level, the negative impact of lower sales prices was clearly larger than the positive impact of decreased variable costs.

Fixed costs decreased by EUR 94 million, partly due to temporary measures to adjust to the COVID-19 pandemic. Delivery and production volumes were lower, especially in UPM Communication Papers, due to COVID-19. The industry-wide strike in Finland impacted both delivery volumes and fixed costs in the first quarter of 2020.

Depreciation, excluding items affecting comparability, totalled EUR 238 million (238 million) including depreciation of leased assets totalling EUR 37 million (35 million). The change in the fair value of forest assets net of wood harvested was EUR 0 million (2 million).

Operating profit totalled EUR 391 million (692 million). Items affecting comparability in operating profit totalled EUR -91 million in the period (-27 million) including charges related to the closure of UPM Chapelle paper mill EUR 78 million and restructuring charges related to the closure of Jyväskylä plywood mill EUR 22 million.

Net interest and other finance costs were EUR 13 million (28 million). The exchange rate and fair value gains and losses were EUR 0 million (-1 million). Income taxes totalled EUR -83 million (-115 million).

Profit for H1 2020 was EUR 295 million (549 million), and comparable profit was EUR 388 million (576 million).

## Financing and cash flow

In H1 2020 cash flow from operating activities before capital expenditure and financing totalled EUR 293 million (756 million). Working capital increased by EUR 287 million during the period (increased by 64 million), mainly due to seasonal reasons.

Net debt decreased to EUR 301 million at the end of Q2 2020 (366 million). The gearing ratio as of 30 June 2020 was 3% (4%). The net debt to EBITDA ratio, based on the latest 12 month's EBITDA, was 0.19 at the end of the period (0.19).

On 30 June 2020 UPM's cash funds and unused committed credit facilities totalled EUR 2.0 billion.

A dividend of EUR 1.30 per share (totalled EUR 693 million) was paid on 16 April 2020 in respect of 2019 financial year.

## Capital expenditure

In H1 2020, capital expenditure totalled EUR 337 million, 7.7% of sales (133 million, 2.5% of sales). Capital expenditure does not include additions to leased assets.

In 2020, UPM's total capital expenditure, excluding investments in shares, is expected to be about EUR 1,100 million. This includes estimated capital expenditure of approximately EUR 700 million (USD 800 million) in Uruguay for the pulp mill, port operations and local investments outside the mill fence.

In April 2018, UPM announced that it would rebuild paper machine 2 at its Nordland mill in Dörpen, Germany, and convert it from fine paper to glassine paper production. The machine has been equipped with new finishing equipment and started producing glassine paper in Q1 2020. The capacity after the rebuild is 110,000 tonnes per year. The total investment in Nordland was EUR 124 million.

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 will be completed by the end of 2022.

In July 2019, UPM announced that it would invest USD 2.7 billion in a 2.1 million tonne greenfield eucalyptus pulp mill near Paso de los Toros in central Uruguay. Additionally, UPM will 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. The mill is scheduled to start up in the second half of 2022.

In October 2019, UPM announced that it would invest EUR 95 million in a Combined Heat and Power (CHP) plant at the UPM Nordland paper mill in Germany. The plant is planned to go on grid in Q3 2022. The annual cost savings of more than EUR 10 million will begin as of 2023. The investment is estimated to decrease UPM's CO<sub>2</sub>-footprint by 300,000 tonnes.

In January 2020, UPM announced that it would invest EUR 550 million in a 220,000 tonnes next-generation biochemicals biorefinery at Leuna, Germany. The facility is scheduled to start up by the end of 2022.

## Personnel

In H1 2020, UPM had an average of 18,726 employees (19,262). At the beginning of the year, the number of employees was 18,742 and at the end of Q2 2020 it was 19,029.

## Uruguay pulp mill investment

On 23 July 2019, UPM announced that it would invest USD 2.7 billion in a 2.1 million tonne greenfield eucalyptus pulp mill near Paso de los Toros in central Uruguay. Additionally, UPM will 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. The mill is scheduled to start up in the second half of 2022.

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 and leases in Uruguay cover 420,000 hectares. They will supply the current UPM Fray Bentos mill and the new mill near Paso de los Toros.

### 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 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 the strict Uruguayan environmental regulations as well as international standards and recommendations for modern mills, including the use of 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 with earth moving and levelling.

UPM is proceeding with the construction of a deep-sea pulp terminal in Montevideo port with an investment of approximately USD 280 million. Direct rail access from the mill to a modern deep-sea port terminal creates an efficient supply chain to world markets. The Montevideo deep-sea port also enables synergies in ocean logistics with UPM's existing Uruguay operations.

UPM has entered into a port terminal concession agreement in 2019 and plans to enter into rail logistic services agreements both being under 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 socioeconomic 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 6,000 people will be working on the site. 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 per annum. The mill's value chain is expected to contribute USD 170 million in annual taxes and social security payments and contribute USD 200 million annually in wages and salaries.

### Project schedule and capital outflow

The mill is expected to start up in the second half of 2022. The project is proceeding according to the planned schedule. At the pulp mill site in Paso de los Toros, earth and road works are continuing. Civil construction works started as planned and are proceeding. Construction of the chimney is progressing as are the foundations for the other process buildings. The project offices, canteen and sick bay are also advancing.

At the pulp terminal in Montevideo, pier and tank area construction is advancing while the construction of the pulp warehouse has started with piling works.

The outside fence investments in Paso de los Toros i.e. temporary and permanent housing construction are also proceeding as planned.

The main part of the total capital expenditure of USD 3 billion will take place in 2020-2022. 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 UPM announced that it would invest EUR 550 million in a 220,000 tonnes next-generation biochemicals refinery at Leuna, Germany. The facility is scheduled to start up by the end of 2022.

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 totally new markets for UPM, with large growth potential for the future.

An industrial scale biorefinery will convert solid wood into next generation biochemicals: bio-monoethylene glycol (BioMEG) and lignin-based 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 sustainable wood supply, unique technology concept, integration into existing infrastructure at Leuna as well as the proximity to customers will ensure 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 existing permitting processes, logistics arrangements and infrastructure for various services and utilities. UPM plans to enter into service agreements related to wood handling, waste water treatment and other utilities, which will be recognised as lease assets and liabilities under IFRS 16 Leases. Depending on the final agreement the total amount of such lease assets and liabilities is estimated to be EUR 40-100 million.

Engineering and planning are ongoing and the tendering for the main equipment, recruitment for the project and permitting process have started. Permitting will proceed parallel to the investment project in line with German legislation.

## 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.

The start of regular electricity production, originally scheduled for April 2009, has been revised several times by the Supplier. TVO announced in December 2019, that TVO had received from Supplier information, that nuclear fuel will be loaded into the reactor in June 2020 and regular electricity generation at OL3 would commence in March 2021. In April 2020, Olkiluoto 3 ERP unit nuclear fuel loading permission application was submitted. On same date TVO also announced, that due to the COVID-19 pandemic, fuel loading into the reactor will not happen as planned in June 2020, and it is possible that the regular electricity production will be delayed respectively.

After the period under review TVO announced on 2 July 2020 having received interim information of the rebaseline schedule for the commissioning of OL3 from Supplier. The schedule work is estimated to be completed in August 2020. The new management of Areva, the supplier party, is preparing a financial solution to complete OL3 project according to an upcoming schedule. TVO is also negotiating with the supplier on the terms of completing OL3 project.

When completed, OL3 will supply electricity to its shareholders on a cost-price principle (Mankala-principle) which is widely applied in the Finnish energy industry. Under

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the Mankala-principle electricity and/or heat is supplied to the shareholders in proportion to their 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<sub>2</sub>-free and Olkiluoto will have a secure solution for the final disposal of used fuel.

## Events during H1 2020

On 27 January several Finnish labour unions began extensive labour actions in the Finnish forestry industry.

On 27 January UPM announced its commitment to the United Nations Global Compact's Business Ambition for 1.5°C, joining leading companies in a promise to pursue science-based measures to limit the global temperature rise to 1.5°C. UPM will strive to mitigate climate change and drive value creation through innovating novel products, committing to a 65% CO<sub>2</sub> emission reduction from the 2015 levels by 2030 and by practicing sustainable forestry.

On 28 January UPM announced that it has started the employee consultation processes for the potential closure of the UPM Chapelle newsprint mill in Grand-Couronne, France.

On 30 January UPM announced that it would invest EUR 550 million in a 220,000 tonnes next generation biochemicals refinery at Leuna, Germany. The facility is scheduled to start up by the end of 2022.

On 30 March UPM withdrew its outlook for 2020, due to the uncertainty caused by the COVID-19 pandemic for the rest of the year.

On 8 April Olkiluoto 3 ERP unit nuclear fuel loading permission application was submitted. TVO also announced, that due to the COVID-19 pandemic, fuel loading into the reactor will not happen as planned in June 2020, and it is possible that the regular electricity production will be delayed respectively.

On 15 May UPM announced that UPM and the new Government of Uruguay have signed a memorandum of understanding on pending items related to UPM's growth project in Uruguay. UPM will accelerate the earlier planned USD 60 million financing of the road infrastructure development and invest USD 68 million in electrical grid reinforcement.

On 18 May UPM announced that it would sell its 50% share in Kainuun Voima Oy to Kajaanin Energiatuotanto Oy, owned by city of Kajaani. In addition, the city of Kajaani will acquire five properties owned by UPM. The total amount of share and real estate transactions is EUR 19 million. The transaction was completed on 1 July.

On 2 June UPM announced the plan that it has started a consultation process of potential closure of UPM Jyväskylä plywood mill in Finland. The plywood mill is producing spruce and birch plywood and it employs 167 people. UPM has recognised restructuring charges of EUR 22 million as items affecting comparability in its Q2 2020 results. The planned actions would result in annual savings of approximately EUR 11 million.

## Events after the balance sheet date

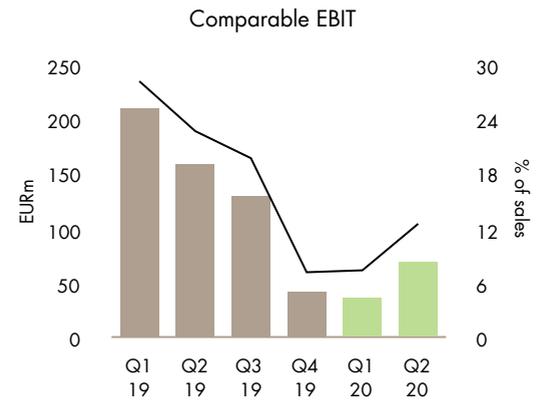
On 2 July TVO announced that it had received interim information from Areva-Siemens Consortium of the rebaseline schedule for the commissioning of the OL3 EPR plant unit. The schedule work is estimated to be completed in August 2020.

On 16 July UPM announced the decision to permanently close UPM Chapelle newsprint mill in France, reducing annual capacity of newsprint by 240,000 tonnes. The number of persons affected is 228. UPM recognizes restructuring charges in total of EUR 78 million, whereof EUR 61 million as cash costs. EUR 45 million was booked as items affecting comparability in Q1 2020 and EUR 33 million in Q2 2020. The action will result in annual savings of approximately EUR 30 million.

On 21 July UPM announced the decision to permanently close UPM Jyväskylä plywood mill. The reduction of personnel is 147 people.

# UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses. UPM Pulp offers a versatile range of responsibly-produced pulp grades suitable for a wide range of end-uses such as tissue, specialty paper, graphic papers and board. UPM Timber offers certified sawn timber for construction, joinery and furniture. 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, for example. UPM has three pulp mills in Finland and one mill and plantation operations in Uruguay. UPM operates four sawmills and one biorefinery in Finland.



	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1-Q2/20	Q1-Q2/19	Q1-Q4/19
Sales EURm	563	509	592	660	708	753	1,072	1,461	2,712
Comparable EBITDA, EURm	113	81	96	171	203	254	194	457	724
% of sales	20.1	15.9	16.3	25.9	28.6	33.8	18.1	31.3	26.7
Change in fair value of forest assets and wood harvested, EURm	0	-1	-11	1	-1	-1	0	-1	-11
Share of results of associated companies and joint ventures, EURm	1	1	1	1	1	1	1	1	2
Depreciation, amortisation and impairment charges, EURm	-44	-44	-44	-43	-42	-42	-88	-84	-171
Operating profit, EURm	70	37	42	130	161	212	107	373	544
% of sales	12.4	7.3	7.1	19.7	22.7	28.2	10.0	25.5	20.1
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—	—	—	—
Comparable EBIT, EURm	70	37	42	130	161	212	107	373	544
% of sales	12.4	7.3	7.1	19.7	22.7	28.2	10.0	25.5	20.1
Capital employed (average), EURm	3,664	3,561	3,436	3,468	3,491	3,481	3,612	3,486	3,469
Comparable ROCE, %	7.6	4.2	4.9	15.0	18.4	24.4	5.9	21.4	15.7
Pulp deliveries, 1000 t	943	864	943	979	877	915	1,806	1,793	3,715

Pulp mill maintenance shutdowns: Q4 2019 UPM Fray Bentos, Q2 2019 Kymi.

- Good pulp production and deliveries despite COVID-19
- Scheduled maintenance shutdown at UPM Biofuels biorefinery

## Results

### Q2 2020 compared with Q2 2019

Comparable EBIT for UPM Biorefining decreased due to lower pulp sales prices. Fixed costs were lower mainly due to scheduled maintenance shutdown at UPM Kymi pulp mill in the comparison period. Wood and other variable costs were lower. Delivery volumes increased.

The average price in euro for UPM's pulp deliveries decreased by 26%.

### Q2 2020 compared with Q1 2020

Comparable EBIT increased mainly due to higher production volumes and lower variable costs. Delivery volumes were higher and were impacted by the strike in Finland in the comparison period.

The average price in euro for UPM's pulp deliveries increased by 3%.

### January–June 2020 compared with January–June 2019

Comparable EBIT for UPM Biorefining decreased due to lower pulp sales prices. Fixed costs were lower mainly due to scheduled maintenance shutdown at UPM Kymi pulp mill in the second quarter of 2019. Wood and other variable costs were lower. Delivery volumes were slightly higher and were impacted by the strike in Finland in the first quarter of 2020.

The average price in euro for UPM's pulp deliveries decreased by 30%.

## Market environment

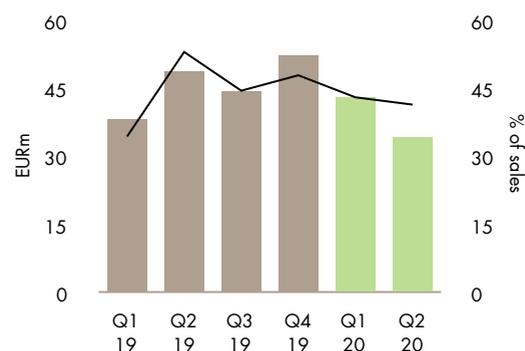
- Global chemical pulp demand was good in the first half of 2020. Global shipments of market pulp improved from the weak comparison period in 2019.
- In Europe and China, the market price for northern bleached softwood kraft (NBSK) pulp increased in the second quarter of 2020 compared to Q1 2020. The market price for bleached hardwood kraft pulp (BHKP) increased in Europe and in China compared to the previous quarter.
- In the first half of 2020, the average European market price in euro was 22% lower for NBSK and 28% lower for BHKP, compared to the first half of 2019. In China the average market price in US dollars was 17% lower for NBSK and 30% lower for BHKP, compared to last year.
- Demand for advanced renewable diesel and naphtha remained good.
- Demand for sawn timber remained low. Market prices increased slightly during Q2 2020.

Sources: FOEX, UPM

# UPM Energy

UPM Energy creates value through cost competitive, low-emission electricity generation and through physical and financial electricity trading as well as energy optimisation services for industrial consumers. UPM Energy is the second largest electricity producer in Finland. UPM's power generation capacity consists of hydropower, nuclear power and condensing power.

Comparable EBIT



	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1- Q2/20	Q1- Q2/19	Q1- Q4/19
Sales EURm	83	101	110	101	93	113	184	206	417
Comparable EBITDA, EURm	36	45	55	48	51	41	82	92	195
% of sales	43.6	44.8	49.7	47.5	55.1	36.0	44.3	44.7	46.7
Depreciation, amortisation and impairment charges, EURm	-2	-2	-2	-3	-2	-2	-4	-4	-9
Operating profit, EURm	34	43	53	45	49	39	78	87	184
% of sales	41.2	42.9	47.7	44.3	52.2	34.2	42.1	42.3	44.2
Items affecting comparability in operating profit, EURm <sup>1)</sup>	—	—	—	—	-1	—	—	-1	-1
Comparable EBIT, EURm	34	43	53	45	49	39	78	88	185
% of sales	41.2	42.9	47.7	44.3	52.9	34.2	42.1	42.6	44.4
Capital employed (average), EURm	2,336	2,434	2,441	2,452	2,460	2,463	2,385	2,462	2,454
Comparable ROCE, %	5.9	7.1	8.6	7.3	8.0	6.3	6.5	7.1	7.5
Electricity deliveries, GWh	2,162	2,487	2,285	2,040	2,121	2,173	4,649	4,294	8,619

<sup>1)</sup> In Q2 2019, items affecting comparability relate to restructuring of ownership in Meri-Pori power plant

- UPM announced it would sell its 50% share in Kainuun Voima to Kajaanin Energiatutanto Oy
- Maintenance shutdown at the Olkiluoto nuclear power plant

## Results

### Q2 2020 compared with Q2 2019

Comparable EBIT for UPM Energy decreased due to lower electricity sales prices. Fixed costs for nuclear were higher than in the particularly low comparison period.

UPM's average electricity sales price decreased by 12% to EUR 34.3/MWh (38.9/MWh).

### Q2 2020 compared with Q1 2020

Comparable EBIT decreased due to lower nuclear generation, which was impacted by the maintenance shutdown at the Olkiluoto nuclear power plant.

UPM's average electricity sales price decreased by 2% to EUR 34.3/MWh (34.9/MWh).

### January–June 2020 compared with January–June 2019

Comparable EBIT for UPM Energy decreased due to lower electricity sales prices. Hydropower generation was higher. Fixed costs for nuclear were higher due to low comparison period.

UPM's average electricity sales price decreased by 16% to EUR 34.7/MWh (41.3/MWh).

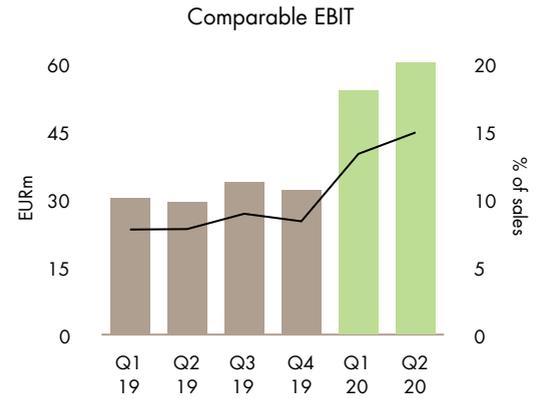
## Market environment

- The Nordic hydrological balance was above normal in the first half of 2020. In Finland, the hydrological situation normalised towards the end of the second quarter 2020 after and exceptionally strong first quarter 2020.
- Coal prices in Q2 2020 decreased compared to the same period last year. The CO<sub>2</sub> emission allowance price of EUR 26.9/tonne at the end of Q2 2020 was slightly higher than in Q2 2019 (EUR 26.3/tonne).
- The average Finnish area spot price on the Nordic electricity exchange in the first half of 2020 was EUR 23.2/MWh, 45% lower than in the same period last year (42.4/MWh).
- The front-year forward electricity price for the Finnish area closed at EUR 33.7/MWh in June, 23% higher than at the end of Q1 2020 (27.4/MWh).

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

# UPM Raflatac

UPM Raflatac manufactures self-adhesive label materials for product and information labelling in the food, beverage, personal care, pharmaceutical and retail segments, for example. UPM Raflatac is the second-largest producer of self-adhesive label materials worldwide.



	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1- Q2/20	Q1- Q2/19	Q1- Q4/19
Sales EURm	403	408	389	382	385	398	812	783	1,555
Comparable EBITDA, EURm	70	64	43	44	40	40	133	80	166
% of sales	17.2	15.6	10.9	11.4	10.3	10.1	16.4	10.2	10.7
Depreciation, amortisation and impairment charges, EURm	-10	-10	-10	-10	-10	-10	-20	-20	-40
Operating profit, EURm	60	51	33	36	30	26	111	56	124
% of sales	14.9	12.5	8.4	9.3	7.8	6.5	13.7	7.1	8.0
Items affecting comparability in operating profit, EURm <sup>1)</sup>	—	-3	1	2	—	-5	-3	-5	-2
Comparable EBIT, EURm	60	54	32	34	30	31	114	60	126
% of sales	14.8	13.3	8.3	8.8	7.7	7.7	14.0	7.7	8.1
Capital employed (average), EURm	560	549	563	578	590	586	554	588	579
Comparable ROCE, %	42.8	39.5	22.9	23.4	20.1	20.9	41.1	20.5	21.8

<sup>1)</sup> In Q1 2020 and Q4 2019, items affecting comparability relate to restructuring charges. In Q3 2019, items affecting comparability include gains on sale of non-current assets. In Q1 2019, items affecting comparability relate to restructuring charges.

- Record profitability
- Actions to secure business continuity and resilience during COVID-19 pandemic
- Continued fixed costs reduction
- Mix improvement actions and continued launch of new sustainable products

## Results

### Q2 2020 compared with Q2 2019

Comparable EBIT for UPM Raflatac increased mainly due to improved mix and margin management. Delivery volumes were higher and fixed costs were lower.

### Q2 2020 compared with Q1 2020

Comparable EBIT increased due to lower fixed costs and improved mix and margin management. Delivery volumes were slightly lower.

### January–June 2020 compared with January–June 2019

Comparable EBIT for UPM Raflatac increased mainly due to improved mix and margin management. Delivery volumes were higher.

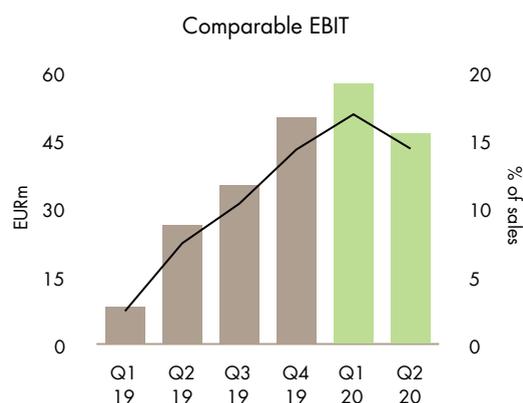
## Market environment

- Global demand for self-adhesive label materials continued to grow in the second quarter of 2020. Demand was strong especially in food packaging related consumer products.

Sources: UPM, FINAT, TLMI

# UPM Specialty Papers

UPM Specialty Papers offers labelling materials and release liner base papers, flexible packaging papers 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.



	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1-Q2/20	Q1-Q2/19	Q1-Q4/19
Sales EURm	325	342	353	344	359	357	668	716	1,412
Comparable EBITDA, EURm	66	75	67	53	45	29	141	74	194
% of sales	20.3	21.8	18.9	15.4	12.5	8.2	21.1	10.4	13.7
Depreciation, amortisation and impairment charges, EURm	-19	-17	-16	-18	-19	-21	-36	-39	-74
Operating profit, EURm	50	58	50	35	26	8	108	35	120
% of sales	15.5	16.9	14.3	10.3	7.4	2.4	16.2	4.9	8.5
Items affecting comparability in operating profit, EURm <sup>1)</sup>	4	—	—	—	—	—	4	—	—
Comparable EBIT, EURm	47	58	50	35	26	8	104	35	120
% of sales	14.3	16.9	14.3	10.3	7.4	2.4	15.6	4.9	8.5
Capital employed (average), EURm	900	937	920	895	892	908	919	900	904
Comparable ROCE, %	20.7	24.7	21.9	15.8	11.8	3.7	22.7	7.7	13.3
Paper deliveries, 1000 t	382	387	394	383	390	386	769	776	1,552

<sup>1)</sup> In Q2 2020, items affecting comparability include gains on sale of non-current assets.

- Flexible production platform showed its strength during the period of high demand for specialty grades
- Focus on defencing prices of fine papers in Asia-Pacific
- Product development initiatives continued

## Results

### Q2 2020 compared with Q2 2019

Comparable EBIT for UPM Specialty Papers increased mainly due to significantly lower pulp costs. Sales prices were lower.

### Q2 2020 compared with Q1 2020

Comparable EBIT decreased. Lower fine paper sales prices more than offset the positive impact of lower input costs.

### January–June 2020 compared with January–June 2019

Comparable EBIT for UPM Specialty Papers increased due to lower input costs especially in pulp. Sales prices were lower.

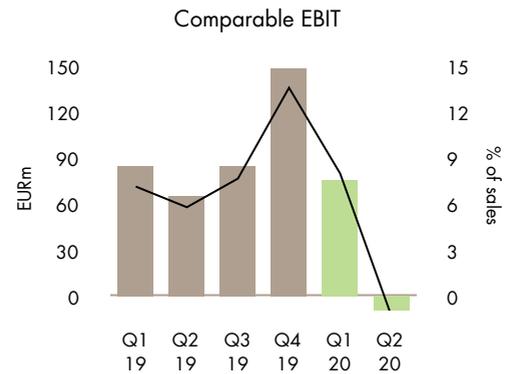
## Market environment

- In the Asia-Pacific region, fine paper demand weakened the second quarter of 2020.
- China fine paper market prices decreased the second quarter of 2020.
- Demand growth for label, release and packaging paper was strong in the first half of 2020 especially in Europe and North America. Demand was driven by consumable goods and e-commerce as demand for durable goods was negatively impacted by COVID-19 and uncertainties in economy. Sales prices remained stable in the second quarter of 2020.

Sources: UPM, RISI, Pöyry, AWA

# UPM Communication Papers

UPM Communication Papers offers an extensive product range of graphic papers for advertising and publishing as well as home and office uses. The business has extensive low-cost operations consisting of 15 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.



	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1–Q2/20	Q1–Q2/19	Q1–Q4/19
Sales EURm	741	966	1,098	1,116	1,138	1,200	1,707	2,338	4,552
Comparable EBITDA, EURm	21	110	181	117	98	118	131	215	513
% of sales	2.9	11.4	16.4	10.5	8.6	9.8	7.7	9.2	11.3
Share of results of associated companies and joint ventures, EURm	-1	0	1	0	0	0	-1	0	1
Depreciation, amortisation and impairment charges, EURm	-42	-34	-34	-43	-34	-33	-75	-67	-145
Operating profit, EURm	-37	31	147	57	36	85	-6	121	324
% of sales	-5.0	3.2	13.3	5.1	3.2	7.1	-0.3	5.2	7.1
Items affecting comparability in operating profit, EURm <sup>1)</sup>	-27	-45	-2	-28	-29	—	-72	-29	-58
Comparable EBIT, EURm	-10	76	148	85	65	85	67	150	383
% of sales	-1.3	7.9	13.5	7.6	5.7	7.1	3.9	6.4	8.4
Capital employed (average), EURm	1,473	1,529	1,541	1,627	1,663	1,759	1,501	1,711	1,647
Comparable ROCE, %	-2.7	20.0	38.5	20.8	15.6	19.3	8.9	17.5	23.2
Paper deliveries, 1000 t	1,188	1,515	1,681	1,681	1,666	1,746	2,703	3,412	6,774

<sup>1)</sup> In Q2 2020, items affecting comparability include EUR 33 million charges related to closure of UPM Chapelle newsprint mill in France, EUR 5 million gains on sale of non-current assets and EUR 1 million income relating to prior capacity closures. Q1 2020 items affecting comparability relate to closure of UPM Chapelle. Q4 2019 items relate to prior capacity closures. Q3 2019 items include EUR 17 million restructuring charges and EUR 11 million impairment charges related to closure of paper machine 2 at UPM Rauma mill, Finland. Q2 2019 items include EUR 28 million restructuring charges and EUR 1 million impairment charges related to closure of paper machine 10 at UPM Plattling mill, Germany.

- Demand significantly impacted by COVID-19 and the related lockdown measures
- Market related downtimes and temporary lay-offs
- Closure of UPM Chapelle newsprint mill in France

## Results

### Q2 2020 compared with Q2 2019

Comparable EBIT for UPM Communication Papers decreased due to 29% lower delivery volumes, as graphic papers demand was impacted by the COVID-19 pandemic and the related lockdown measures. Fixed costs decreased significantly but compensated only part of the negative impact of lower deliveries. Sales prices were lower, which was offset by the positive impact of lower fibre costs.

The average price in euro for UPM's paper deliveries decreased by 9%.

### Q2 2020 compared with Q1 2020

Comparable EBIT decreased due to lower production and delivery volumes. Sales prices were lower and offset the positive impact of lower variable costs. Fixed costs decreased.

The average price in euro for UPM's paper deliveries decreased by 2%.

### January–June 2020 compared with January–June 2019

Comparable EBIT for UPM Communication Papers decreased due to lower delivery volumes. The COVID-19 pandemic and the related lockdown measures impacted graphic papers demand during Q2 2020, while the strike in Finland impacted production in the first quarter of 2020. Sales prices were lower and offset the positive impact of lower fibre costs. Fixed costs decreased significantly.

The average price in euro for UPM's paper deliveries decreased by 8%.

## Market environment

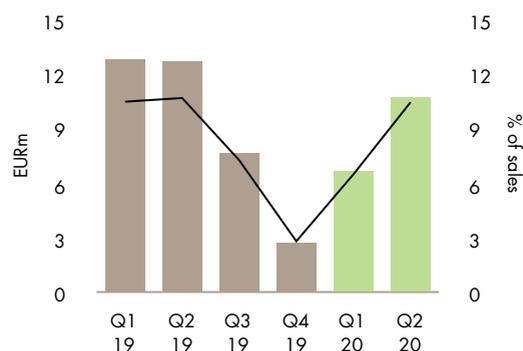
- In the first half of 2020, demand for graphic papers in Europe was 20% lower than in the first half of 2019. Newsprint demand decreased by 19%, magazine papers by 19% and fine papers by 21% compared to the first half of 2019.
- In Q2 2020, demand for graphic papers in Europe was 32% lower than in the second quarter 2019. Newsprint demand decreased by 28%, magazine papers by 31% and fine papers by 37% compared to the second quarter 2019.
- In Q2 2020 publication paper prices in Europe were 1% lower than in the first quarter 2020. Compared to Q2 2019 publication paper prices were 12% lower. In Q2 2020, fine paper prices in Europe were 2% lower than in the previous quarter. Compared to Q2 2019, fine paper prices were 7% lower on average.
- In the first half of 2020, demand for magazine papers in North America decreased by 22%, compared to the same period last year. The average price in US dollars for magazine papers in Q2 2020 decreased by 1% compared to Q1 2020 and by 6% compared to Q2 2019.

Sources: PPI/RISI, Euro-Graph, PPPC

# UPM Plywood

UPM Plywood offers plywood and veneer products, mainly for construction, vehicle flooring and LNG shipbuilding, as well as other industrial applications. Production facilities are located in Finland, Estonia and Russia.

Comparable EBIT



	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1- Q2/20	Q1- Q2/19	Q1- Q4/19
Sales EURm	104	105	101	106	120	123	208	243	450
Comparable EBITDA, EURm	18	14	9	14	19	19	31	38	61
% of sales	17.1	13.0	9.4	13.0	15.6	15.3	15.0	15.5	13.5
Depreciation, amortisation and impairment charges, EURm	-14	-7	-7	-6	-6	-6	-21	-12	-25
Operating profit, EURm	-12	7	3	8	13	13	-5	26	36
% of sales	-11.1	6.5	2.8	7.2	10.7	10.5	-2.3	10.6	8.0
Items affecting comparability in operating profit, EURm <sup>1)</sup>	-22	—	—	—	—	—	-22	—	—
Comparable EBIT, EURm	11	7	3	8	13	13	18	26	36
% of sales	10.4	6.5	2.8	7.2	10.7	10.5	8.4	10.6	8.0
Capital employed (average), EURm	298	307	328	332	336	321	303	328	329
Comparable ROCE, %	14.5	8.8	3.4	9.3	15.2	16.1	11.6	15.6	11.0
Plywood deliveries, 1000 m <sup>3</sup>	173	173	169	181	193	196	347	389	739

<sup>1)</sup> In Q2 2020, items affecting comparability include EUR 15 million restructuring charges and EUR 8 million impairment charges related to closure of Jyväskylä plywood mill in Finland.

- Closure of UPM Jyväskylä plywood mill in Finland
- Secured business continuity during COVID-19 pandemic
- Efficient fixed costs management
- New water repellent WISA-SpruceWR plywood launched

## Results

### Q2 2020 compared with Q2 2019

Comparable EBIT for UPM Plywood decreased slightly due to lower delivery volumes and sales prices. Fixed and variable costs were lower.

### Q2 2020 compared with Q1 2020

Comparable EBIT increased due to higher production volumes and improved efficiency. The comparison period was impacted by the four-week strike in Finland. Variable costs were lower. Fixed costs were higher.

### January–June 2020 compared with January–June 2019

Comparable EBIT for UPM Plywood decreased due to lower delivery volumes and sales prices. Delivery volumes were impacted by the strike in Finland in the first quarter of 2020. Fixed costs were significantly lower.

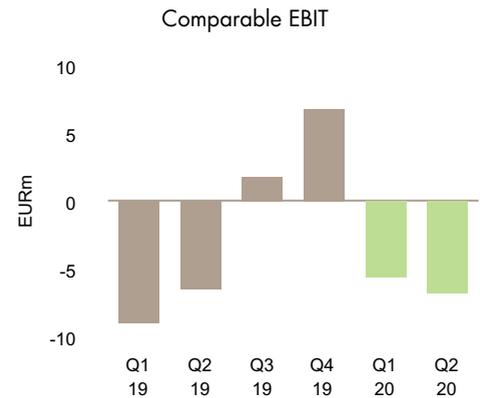
## Market environment

- Modest market demand continued in the first half of 2020. Demand for spruce plywood was solid. Demand for birch plywood-related industrial applications was negatively impacted by COVID-19 and competition tightened. Demand for construction-driven end-uses was stable.

Source: UPM

## Other operations

UPM Forest secures competitive wood and biomass for UPM businesses and manages UPM-owned and privately-owned forests in North Europe. In addition, UPM offers forestry services to forest owners and forest investors. UPM Biochemicals, UPM Biocomposites and UPM Biomedicals business units as well as group services are also included in Other operations.



	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1- Q2/20	Q1- Q2/19	Q1- Q4/19
Sales EURm	60	50	62	63	72	68	110	140	264
Comparable EBITDA, EURm	-1	1	-17	4	3	-8	0	-5	-18
Change in fair value of forest assets and wood harvested, EURm	0	0	31	4	-3	6	0	3	38
Share of results of associated companies and joint ventures, EURm	1	0	0	0	0	0	1	0	0
Depreciation, amortisation and impairment charges, EURm	-7	-6	-7	-6	-7	-6	-13	-13	-27
Operating profit, EURm	-7	-6	7	1	-9	-9	-12	-18	-10
Items affecting comparability in operating profit, EURm <sup>1)</sup>	—	—	—	-1	-2	—	—	-2	-4
Comparable EBIT, EURm	-7	-6	7	2	-6	-9	-12	-15	-7
Capital employed (average), EURm	1,916	1,879	1,864	1,823	1,807	1,801	1,897	1,804	1,824
Comparable ROCE, %	-1.4	-1.2	1.4	0.4	-1.4	-2.0	-1.3	-1.7	-0.4

<sup>1)</sup> In Q3 2019, items affecting comparability relate to restructuring charges and in Q2 2019 to capital loss on sale of Voikkaa mill site in Finland.

## Results

### Q2 2020 compared with Q2 2019

Comparable EBIT for other operations decreased slightly. The change in the fair value of forest assets net of wood harvested was EUR 0 million (-3 million). The increase in the fair value of forest assets was EUR 14 million (13 million). The cost of wood harvested from UPM forests was EUR 14 million (15 million).

### Q2 2020 compared with Q1 2020

Comparable EBIT decreased slightly. The change in the fair value of forest assets net of wood harvested was EUR 0 million (0 million). The increase in the fair value of forest assets was EUR 14 million (16 million). The cost of wood harvested from UPM forests was EUR 14 million (16 million).

### January–June 2020 compared with January–June 2019

Comparable EBIT for other operations increased. The change in the fair value of forest assets net of wood harvested was EUR 0 million (3 million). The increase in the fair value of forest assets was EUR 30 million (28 million). The cost of wood harvested from UPM forests was EUR 30 million (25 million).

## 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 to changes to the main input cost items and currency exchange rates. Most of these items depend on general economic developments.

Currently the COVID-19 pandemic is causing significant uncertainty. Economists expect a global recession, which may be more severe than the global financial crisis, and which is impacting practically all parts of the world. The duration of the pandemic and duration and shape of the recession are uncertain. The pandemic itself, the lockdowns and containment measures and the resulting global recession may all impact UPM's operations and supply chain or the demand, supply and pricing of UPM's products and inputs. The COVID-19 pandemic and related issues are discussed earlier in this report.

Once the recovery from the current crisis starts, global trade tensions between major economic regions, e.g. the US and China, as well as political uncertainties in several countries will remain. The nature of the relationship between the EU and the UK after Brexit remains undefined as well.

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 (Supplier). The consortium companies have under the plant contract joint and several liability for the contractual obligations.

Originally the commercial electricity production of OL3 was scheduled to start in April 2009. However, the completion of the project has been delayed. Supplier has updated the schedule for the commissioning of OL3 several times. TVO announced in December 2019, that according to the information received from Supplier, nuclear fuel would be loaded into the reactor in June 2020 and regular electricity generation at the plant unit would commence in March 2021. As announced by TVO in April 2020, according to the information given to TVO by Supplier, the fuel will not be loaded into the reactor as planned in June 2020, and it is possible that the regular electricity production will be delayed respectively.

In March 2018 TVO announced it had signed a comprehensive settlement agreement with Supplier and Areva Group parent company, Areva SA, a company wholly owned by the French State. The settlement agreement concerns the completion of the OL3 project and related disputes and entered into force in late March 2018. According to TVO, pursuant to the settlement agreement TVO and Supplier jointly withdrew the pending arbitration proceedings under the International Chamber of Commerce (ICC) rules with respect to costs and losses incurred in relation to delays in the construction of the OL3 project.

In July 2018 TVO announced that in June 2018 the ICC tribunal had confirmed the arbitration settlement by a consent award, and the arbitration proceedings had been terminated. The parties also withdrew the pending appeals in the General Court of the European Union.

According to TVO the settlement agreement stipulates as follows:

- To provide and maintain adequate and competent technical and human resources for the completion of the OL3 project, Areva will source the necessary additional

resources from Framatome S.A.S., whose majority owner is EDF.

- The supplier consortium companies undertake that the funds dedicated to the completion of the OL3 project will be adequate and will cover all applicable guarantee periods, including setting up a trust mechanism funded by Areva companies to secure the financing of the costs of completion of the OL3 project.
- The turnkey principle of the OL3 plant contract and the joint and several liability of the supplier consortium companies remain in full force.
- The agreement also noted Supplier's schedule at the time the agreement was signed, according to which regular electricity production in the unit would have commenced in May 2019.
- The ICC arbitration concerning the costs and losses caused by the delay of the OL3 project is settled by financial compensation of EUR 450 million to be paid to TVO in two instalments by Supplier.
- The parties withdraw all on-going legal actions related to OL3, including the ICC Arbitration and appeals in the General Court of the European Union.
- The Supplier consortium companies are entitled to receive an incentive payment, in a maximum amount of EUR 150 million, upon timely completion of the OL3 project. In the event that the Supplier consortium companies fail to complete the OL3 project by the end of 2019, the Supplier consortium companies will pay a penalty to TVO for such delay in an amount which will depend on the actual time of completion of the OL3 project and may not exceed EUR 400 million.

In April 2020 TVO announced that it has submitted a permission application to the Finnish Radiation and Nuclear Safety Authority (STUK) for nuclear fuel loading of the Olkiluoto 3 nuclear power plant unit. TVO estimates that it will take a few months to obtain the permit.

In April 2020 TVO also announced that works at OL3 site have not completely proceeded as planned. There has been a significant amount of measures taken to prevent the spreading of the coronavirus epidemic (COVID-19) in order to minimise the effects of pandemic risk to the OL3 project. The coronavirus pandemic may have significantly added uncertainty to the progress of the project.

After the period under review TVO announced on 2 July 2020 that TVO has received interim information of the rebaseline schedule for the commissioning of OL3 from supplier. The schedule work is estimated to be completed in August 2020. The new management of Areva, the supplier party, is preparing a financial solution to complete OL3 project according to an upcoming schedule. TVO is also negotiating with the supplier on the terms of completing OL3 project.

As announced by TVO the trust set up by Areva companies to finance the completion costs of the OL3 project has been replenished in accordance with the terms of the settlement agreement. Further, as announced by TVO, TVO has recognized receivables amounted to the accumulated compensation by the end of Q1 2020 agreed in the comprehensive settlement agreement from supplier. The compensation decreases the historical costs of property, plant and equipment in TVO's balance sheet.

As announced by TVO due to COVID-19 related delay in OL3 fuel loading Standard & Poor's (S&P) has 15 April 2020 downgraded TVO's long term credit rating from BB+ to BB; outlook negative.

Further delays to the OL3 project could have an adverse impact on PVO's business and financial position, the fair value of UPM's energy shareholdings in PVO and/or the cost of energy sourced from OL3 when completed. It is possible that the cost of energy sourced from OL3 at the time when it starts

regular electricity production will be higher than the market price of electricity at that time.

The main earnings sensitivities and the group's cost structure are presented on pages 160–161 of the Annual Report 2019. Risks and opportunities are discussed on pages 28–29, and risks and risk management are presented on pages 129–131.

## Shares

In H1 2020 UPM shares worth a total of EUR 5,223 million (4,828 million) were traded on the NASDAQ Helsinki stock exchange. This is estimated to represent more than 50% of the total trading volume in UPM shares. The highest listing was EUR 31.50 in January and the lowest was EUR 20.31 in March.

The Annual General Meeting held on 31 March 2020 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 resolution.

The Annual General Meeting held on 31 March 2020 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 the 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 30 June 2020 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 June 2020, 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.

## Litigation

The group's management is not aware of any significant litigation in H1 2020.

Helsinki, 23 July 2020

**UPM-Kymmene Corporation**  
Board of Directors

# Financial information

## Consolidated income statement

EURm	Q2/2020	Q2/2019	Q1-Q2/2020	Q1-Q2/2019	Q1-Q4/2019
<b>Sales</b>	2,077	2,605	4,364	5,298	10,238
Other operating income	24	33	66	52	97
Costs and expenses	-1,816	-2,196	-3,783	-4,421	-8,531
Change in fair value of forest assets and wood harvested	1	-3	0	2	26
Share of results of associated companies and joint ventures	1	1	2	1	3
Depreciation, amortisation and impairment charges	-138	-120	-258	-239	-490
<b>Operating profit</b>	148	319	391	692	1,344
Exchange rate and fair value gains and losses	-1	-1	0	-1	0
Interest and other finance costs, net	-9	-19	-13	-28	-38
<b>Profit before tax</b>	138	300	378	664	1,307
Income taxes	-34	-55	-83	-115	-234
<b>Profit for the period</b>	103	245	295	549	1,073
<b>Attributable to:</b>					
Owners of the parent company	101	245	292	549	1,061
Non-controlling interests	2	0	4	0	12
	103	245	295	549	1,073
<b>Earnings per share for profit attributable to owners of the parent company</b>					
Basic earnings per share, EUR	0.19	0.46	0.55	1.03	1.99
Diluted earnings per share, EUR	0.19	0.46	0.55	1.03	1.99

## Consolidated statement of comprehensive income

EURm	Q2/2020	Q2/2019	Q1-Q2/2020	Q1-Q2/2019	Q1-Q4/2019
<b>Profit for the period</b>	103	245	295	549	1,073
<b>Other comprehensive income for the period, net of tax</b>					
<b>Items that will not be reclassified to income statement:</b>					
Actuarial gains and losses on defined benefit obligations	-128	-3	-15	-71	-58
Changes in fair value of energy shareholdings	-157	-18	-212	-17	-13
<b>Items that may be reclassified subsequently to income statement:</b>					
Translation differences	-51	-46	-44	36	67
Net investment hedge	2	4	-3	-3	-6
Cash flow hedges	10	16	-39	-17	-50
<b>Other comprehensive income for the period, net of tax</b>	-325	-48	-312	-73	-58
<b>Total comprehensive income for the period</b>	-222	197	-17	477	1,014
<b>Total comprehensive income attributable to:</b>					
Owners of the parent company	-220	197	-20	476	987
Non-controlling interests	-2	0	3	0	27
	-222	197	-17	477	1,014

## Consolidated balance sheet

EURm	30 JUN 2020	30 JUN 2019	31 DEC 2019
<b>ASSETS</b>			
Goodwill	238	236	238
Other intangible assets	364	326	326
Property, plant and equipment	4,161	4,033	4,083
Leased assets	579	580	590
Forest assets	2,135	1,972	2,097
Energy shareholdings	1,927	2,139	2,145
Other non-current financial assets	201	186	170
Deferred tax assets	427	404	395
Net retirement benefit assets	17	11	38
Investments in associates and joint ventures	34	33	33
Other non-current assets	22	23	23
<b>Non-current assets</b>	<b>10,105</b>	<b>9,942</b>	<b>10,140</b>
Inventories	1,348	1,542	1,367
Trade and other receivables	1,599	1,798	1,576
Other current financial assets	66	91	59
Income tax receivables	40	48	26
Cash and cash equivalents	729	678	1,536
<b>Current assets</b>	<b>3,782</b>	<b>4,156</b>	<b>4,565</b>
Assets classified as held for sale	16	—	18
<b>Assets</b>	<b>13,903</b>	<b>14,098</b>	<b>14,722</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	890	890	890
Treasury shares	-2	-2	-2
Translation reserve	232	265	278
Other reserves	1,452	1,733	1,711
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	5,488	5,394	5,912
<b>Equity attributable to owners of the parent company</b>	<b>9,332</b>	<b>9,552</b>	<b>10,062</b>
<b>Non-controlling interests</b>	<b>125</b>	<b>5</b>	<b>113</b>
<b>Equity</b>	<b>9,457</b>	<b>9,556</b>	<b>10,175</b>
Deferred tax liabilities	577	543	549
Net retirement benefit liabilities	747	739	759
Provisions	188	141	144
Non-current debt	1,205	1,126	1,195
Other non-current financial liabilities	97	74	83
<b>Non-current liabilities</b>	<b>2,814</b>	<b>2,623</b>	<b>2,730</b>
Current debt	96	138	104
Trade and other payables	1,441	1,721	1,654
Other current financial liabilities	50	31	33
Income tax payables	35	30	27
<b>Current liabilities</b>	<b>1,623</b>	<b>1,919</b>	<b>1,818</b>
Liabilities related to assets classified as held for sale	9	—	—
<b>Liabilities</b>	<b>4,446</b>	<b>4,542</b>	<b>4,548</b>
<b>Equity and liabilities</b>	<b>13,903</b>	<b>14,098</b>	<b>14,722</b>

## 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
<b>Value at 1 January 2020</b>	890	-2	278	1,711	1,273	5,912	10,062	113	10,175
Profit for the period	—	—	—	—	—	292	292	4	295
Translation differences	—	—	-43	—	—	—	-43	—	-44
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	-7	—	—	-7	—	-7
Cash flow hedges - changes in fair value, net of tax	—	—	—	-31	—	—	-31	-1	-32
Net investment hedge, net of tax	—	—	-3	—	—	—	-3	—	-3
Energy shareholdings - changes in fair value, net of tax	—	—	—	-214	—	1	-212	—	-212
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	-15	-15	—	-15
<b>Total comprehensive income for the period</b>	—	—	-46	-252	—	278	-20	3	-17
Share-based payments, net of tax	—	—	—	-8	—	-9	-17	—	-17
Dividend distribution	—	—	—	—	—	-693	-693	-23	-716
Contributions by non-controlling interests	—	—	—	—	—	—	—	32	32
<b>Total transactions with owners for the period</b>	—	—	—	-8	—	-702	-710	9	-700
<b>Value at 30 June 2020</b>	890	-2	232	1,452	1,273	5,488	9,332	125	9,457
<b>Value at 1 January 2019</b>	890	-2	232	1,778	1,273	5,617	9,786	5	9,791
Profit for the period	—	—	—	—	—	549	549	—	549
Translation differences	—	—	36	—	—	—	36	—	36
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	3	—	—	3	—	3
Cash flow hedges - changes in fair value, net of tax	—	—	—	-20	—	—	-20	—	-20
Net investment hedge, net of tax	—	—	-3	—	—	—	-3	—	-3
Energy shareholdings - changes in fair value, net of tax	—	—	—	-18	—	1	-17	—	-17
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	-71	-71	—	-71
<b>Total comprehensive income for the period</b>	—	—	33	-35	—	479	476	—	477
Share-based payments, net of tax	—	—	—	-10	—	-8	-18	—	-18
Dividend distribution	—	—	—	—	—	-693	-693	—	-693
<b>Total transactions with owners for the period</b>	—	—	—	-10	—	-702	-711	—	-711
<b>Value at 30 June 2019</b>	890	-2	265	1,733	1,273	5,394	9,552	5	9,556

## Condensed consolidated cash flow statement

EURm	Q1-Q2/2020	Q1-Q2/2019	Q1-Q4/2019
<b>Cash flows from operating activities</b>			
Profit for the period	295	549	1,073
Adjustments	376	387	719
Change in working capital	-287	-64	276
Finance costs, net	-21	-24	-45
Income taxes paid	-71	-92	-176
<b>Operating cash flow</b>	<b>293</b>	<b>756</b>	<b>1,847</b>
<b>Cash flows from investing activities</b>			
Capital expenditure	-343	-143	-359
Additions to forest assets	-39	-24	-44
Asset sales and other investing cash flow	36	-26	-12
<b>Investing cash flow</b>	<b>-346</b>	<b>-193</b>	<b>-415</b>
<b>Cash flows from financing activities</b>			
Change in loans and other financial items	-18	-40	-29
Lease repayments	-45	-41	-82
Dividends paid to owners of the parent company	-693	-693	-693
Dividends paid to non-controlling interests	-23	—	—
Contributions paid by non-controlling interests	32	—	21
<b>Financing cash flow</b>	<b>-748</b>	<b>-774</b>	<b>-783</b>
<b>Change in cash and cash equivalents</b>	<b>-801</b>	<b>-211</b>	<b>649</b>
Cash and cash equivalents at beginning of period	1,536	888	888
Exchange rate effect on cash and cash equivalents	-6	0	-1
Change in cash and cash equivalents	-801	-211	649
<b>Cash and cash equivalents at end of period</b>	<b>729</b>	<b>678</b>	<b>1,536</b>

## 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.

	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1- Q2/20	Q1- Q2/19	Q1- Q4/19
Sales EURm	2,077	2,287	2,447	2,493	2,605	2,693	4,364	5,298	10,238
Comparable EBITDA, EURm	320	398	442	455	466	488	719	954	1,851
% of sales	15.4	17.4	18.1	18.2	17.9	18.1	16.5	18.0	18.1
Comparable EBIT, EURm	203	279	343	342	345	374	482	719	1,404
% of sales	9.8	12.2	14.0	13.7	13.2	13.9	11.0	13.6	13.7
Comparable profit before tax, EURm	193	276	331	345	325	366	469	691	1,367
Capital employed (average, EURm)	10,888	11,241	11,323	10,996	11,069	10,946	11,120	10,698	11,024
Comparable ROCE, %	7.5	10.2	12.2	12.9	12.2	13.7	8.8	13.3	12.8
Comparable profit for the period, EURm	157	231	261	281	271	305	388	576	1,119
Total equity, average, EURm	9,564	9,923	10,015	9,706	9,804	9,924	9,816	9,677	9,986
Comparable ROE, %	6.6	9.3	10.4	11.6	11.1	12.3	7.9	11.9	11.2
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.29	0.43	0.49	0.50	0.51	0.57	0.72	1.08	2.07
Items affecting comparability in operating profit, EURm	-55	-36	-7	-26	-26	-1	-91	-27	-60
Items affecting comparability in financial items, EURm	0	0	0	0	0	0	0	0	0
Items affecting comparability in taxes, EURm	1	-2	10	5	-1	0	-2	0	14
Operating cash flow, EURm	156	137	592	500	436	320	293	756	1,847
Operating cash flow per share, EUR	0.29	0.26	1.11	0.94	0.82	0.60	0.55	1.42	3.46
Net debt at the end of period, EURm	301	-405	-453	-2	366	-5	301	366	-453
Net debt to EBITDA (last 12 m.)	0.19	-0.23	-0.24	0.00	0.19	0.00	0.19	0.19	-0.24
Gearing ratio, %	3	-4	-4	0	4	0	3	4	-4
Equity per share at the end of period, EUR	17.50	17.90	18.87	18.28	17.91	18.84	17.50	17.91	18.87
Capital expenditure, EURm	173	165	166	79	71	62	337	133	378
Capital expenditure excluding acquisitions, EURm	173	165	166	79	71	62	337	133	378
Equity to assets ratio, %	68.3	64.8	69.2	68.3	67.9	68.1	68.3	67.9	69.2
Personnel at the end of period	19,029	18,573	18,742	19,020	19,760	19,008	19,029	19,760	18,742

The definitions of alternative performance measures are presented in other financial information in » [UPM Annual Report 2019](#)

## Reconciliation of key figures to IFRS

EURm, OR AS INDICATED	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1- Q2/20	Q1- Q2/19	Q1- Q4/19
<b>Items affecting comparability</b>									
Impairment charges	-19	0	-1	-11	-1	0	-19	-1	-13
Restructuring charges	-34	-48	0	-18	-28	-5	-83	-33	-52
Change in fair value of unrealised cash flow and commodity hedges	-9	12	-6	1	6	4	3	10	5
Capital gains and losses on sale of non-current assets	8	0	0	2	-2	0	8	-2	0
<b>Total items affecting comparability in operating profit</b>	<b>-55</b>	<b>-36</b>	<b>-7</b>	<b>-26</b>	<b>-26</b>	<b>-1</b>	<b>-91</b>	<b>-27</b>	<b>-60</b>
Items affecting comparability in taxes	1	-2	10	5	-1	0	-2	0	14
<b>Items affecting comparability, total</b>	<b>-54</b>	<b>-39</b>	<b>2</b>	<b>-21</b>	<b>-26</b>	<b>-1</b>	<b>-93</b>	<b>-27</b>	<b>-46</b>
<b>Comparable EBITDA</b>									
Operating profit	148	243	336	316	319	373	391	692	1,344
Depreciation, amortisation and impairment charges excluding items affecting comparability	119	120	120	119	118	120	238	238	477
Change in fair value of forest assets and wood harvested excluding items affecting comparability	-1	1	-19	-5	3	-5	0	-2	-26
Share of result of associates and joint ventures	-1	-1	-1	-1	-1	-1	-2	-1	-3
Items affecting comparability in operating profit	55	36	7	26	26	1	91	27	60
<b>Comparable EBITDA</b>	<b>320</b>	<b>398</b>	<b>442</b>	<b>455</b>	<b>466</b>	<b>488</b>	<b>719</b>	<b>954</b>	<b>1,851</b>
% of sales	15.4	17.4	18.1	18.2	17.9	18.1	16.5	18.0	18.1
<b>Comparable EBIT</b>									
Operating profit	148	243	336	316	319	373	391	692	1,344
Items affecting comparability in operating profit	55	36	7	26	26	1	91	27	60
<b>Comparable EBIT</b>	<b>203</b>	<b>279</b>	<b>343</b>	<b>342</b>	<b>345</b>	<b>374</b>	<b>482</b>	<b>719</b>	<b>1,404</b>
% of sales	9.8	12.2	14.0	13.7	13.2	13.9	11.0	13.6	13.7
<b>Comparable profit before tax</b>									
Profit before tax	138	240	324	319	300	364	378	664	1,307
Items affecting comparability in operating profit	55	36	7	26	26	1	91	27	60
<b>Comparable profit before tax</b>	<b>193</b>	<b>276</b>	<b>331</b>	<b>345</b>	<b>325</b>	<b>366</b>	<b>469</b>	<b>691</b>	<b>1,367</b>
<b>Comparable ROCE, %</b>									
Comparable profit before tax	193	276	331	345	325	366	469	691	1,367
Interest expenses and other financial expenses	10	11	14	10	11	8	22	20	44
Capital employed, average	203	288	346	355	337	374	490	711	1,411
<b>Comparable ROCE, %</b>	<b>7.5</b>	<b>10.2</b>	<b>12.2</b>	<b>12.9</b>	<b>12.2</b>	<b>13.7</b>	<b>8.8</b>	<b>13.3</b>	<b>12.8</b>
<b>Comparable profit for the period</b>									
Profit for the period	103	192	263	260	245	304	295	549	1,073
Items affecting comparability, total	54	39	-2	21	26	1	93	27	46
<b>Comparable profit for the period</b>	<b>157</b>	<b>231</b>	<b>261</b>	<b>281</b>	<b>271</b>	<b>305</b>	<b>388</b>	<b>576</b>	<b>1,119</b>
<b>Comparable EPS, EUR</b>									
Comparable profit for the period	157	231	261	281	271	305	388	576	1,119
Profit attributable to non-controlling interest	-2	-2	2	-14	0	0	-4	0	-12
Average number of shares basic (1,000)	155	229	263	267	271	305	384	576	1,106
<b>Comparable EPS, EUR</b>	<b>0.29</b>	<b>0.43</b>	<b>0.49</b>	<b>0.50</b>	<b>0.51</b>	<b>0.57</b>	<b>0.72</b>	<b>1.08</b>	<b>2.07</b>
<b>Comparable ROE, %</b>									
Comparable profit for the period	157	231	261	281	271	305	388	576	1,119
Total equity, average	9,564	9,923	10,015	9,706	9,804	9,924	9,816	9,677	9,986
<b>Comparable ROE, %</b>	<b>6.6</b>	<b>9.3</b>	<b>10.4</b>	<b>11.6</b>	<b>11.1</b>	<b>12.3</b>	<b>7.9</b>	<b>11.9</b>	<b>11.2</b>
<b>Net debt</b>									
Non-current debt	1,205	1,234	1,195	1,179	1,126	1,139	1,205	1,126	1,195
Current debt	104	105	104	137	138	127	104	138	104
<b>Total debt</b>	<b>1,309</b>	<b>1,338</b>	<b>1,299</b>	<b>1,316</b>	<b>1,264</b>	<b>1,267</b>	<b>1,309</b>	<b>1,264</b>	<b>1,299</b>
Non-current interest-bearing assets	213	219	180	201	184	177	213	184	180
Cash and cash equivalents	729	1,460	1,536	1,080	678	1,064	729	678	1,536
Other current interest-bearing assets	66	65	35	38	36	31	66	36	35
<b>Total interest-bearing assets</b>	<b>1,008</b>	<b>1,744</b>	<b>1,752</b>	<b>1,318</b>	<b>898</b>	<b>1,272</b>	<b>1,008</b>	<b>898</b>	<b>1,752</b>
<b>Net debt</b>	<b>301</b>	<b>-405</b>	<b>-453</b>	<b>-2</b>	<b>366</b>	<b>-5</b>	<b>301</b>	<b>366</b>	<b>-453</b>

## Quarterly information by business area

EURm, OR AS INDICATED	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1-Q2/20	Q1-Q2/19	Q1-Q4/19
<b>Sales</b>									
UPM Biorefining	563	509	592	660	708	753	1,072	1,461	2,712
UPM Energy	83	101	110	101	93	113	184	206	417
UPM Raflatac	403	408	389	382	385	398	812	783	1,555
UPM Specialty Papers	325	342	353	344	359	357	668	716	1,412
UPM Communication Papers	741	966	1,098	1,116	1,138	1,200	1,707	2,338	4,552
UPM Plywood	104	105	101	106	120	123	208	243	450
Other operations	60	50	62	63	72	68	110	140	264
Internal sales	-202	-194	-259	-280	-269	-320	-396	-590	-1,129
Eliminations and reconciliation	-1	0	1	1	1	2	-2	2	4
<b>Sales, total</b>	<b>2,077</b>	<b>2,287</b>	<b>2,447</b>	<b>2,493</b>	<b>2,605</b>	<b>2,693</b>	<b>4,364</b>	<b>5,298</b>	<b>10,238</b>
<b>Comparable EBITDA</b>									
UPM Biorefining	113	81	96	171	203	254	194	457	724
UPM Energy	36	45	55	48	51	41	82	92	195
UPM Raflatac	70	64	43	44	40	40	133	80	166
UPM Specialty Papers	66	75	67	53	45	29	141	74	194
UPM Communication Papers	21	110	181	117	98	118	131	215	513
UPM Plywood	18	14	9	14	19	19	31	38	61
Other operations	-1	1	-17	4	3	-8	0	-5	-18
Eliminations and reconciliation	-2	9	8	4	8	-4	7	4	17
<b>Comparable EBITDA, total</b>	<b>320</b>	<b>398</b>	<b>442</b>	<b>455</b>	<b>466</b>	<b>488</b>	<b>719</b>	<b>954</b>	<b>1,851</b>
<b>Operating profit</b>									
UPM Biorefining	70	37	42	130	161	212	107	373	544
UPM Energy	34	43	53	45	49	39	78	87	184
UPM Raflatac	60	51	33	36	30	26	111	56	124
UPM Specialty Papers	50	58	50	35	26	8	108	35	120
UPM Communication Papers	-37	31	147	57	36	85	-6	121	324
UPM Plywood	-12	7	3	8	13	13	-5	26	36
Other operations	-7	-6	7	1	-9	-9	-12	-18	-10
Eliminations and reconciliation	-12	21	2	5	14	0	9	14	21
<b>Operating profit, total</b>	<b>148</b>	<b>243</b>	<b>336</b>	<b>316</b>	<b>319</b>	<b>373</b>	<b>391</b>	<b>692</b>	<b>1,344</b>
% of sales	7.1	10.6	13.7	12.7	12.3	13.9	9.0	13.1	13.1
<b>Items affecting comparability in operating profit</b>									
UPM Biorefining	—	—	—	—	—	—	—	—	—
UPM Energy	—	—	—	—	-1	—	—	-1	-1
UPM Raflatac	—	-3	1	2	—	-5	-3	-5	-2
UPM Specialty Papers	4	—	—	—	—	—	4	—	—
UPM Communication Papers	-27	-45	-2	-28	-29	—	-72	-29	-58
UPM Plywood	-22	—	—	—	—	—	-22	—	—
Other operations	—	—	—	-1	-2	—	—	-2	-4
Eliminations and reconciliation <sup>1)</sup>	-9	12	-6	1	6	4	3	10	5
<b>Items affecting comparability in operating profit, total</b>	<b>-55</b>	<b>-36</b>	<b>-7</b>	<b>-26</b>	<b>-26</b>	<b>-1</b>	<b>-91</b>	<b>-27</b>	<b>-60</b>
<b>Comparable EBIT</b>									
UPM Biorefining	70	37	42	130	161	212	107	373	544
UPM Energy	34	43	53	45	49	39	78	88	185
UPM Raflatac	60	54	32	34	30	31	114	60	126
UPM Specialty Papers	47	58	50	35	26	8	104	35	120
UPM Communication Papers	-10	76	148	85	65	85	67	150	383
UPM Plywood	11	7	3	8	13	13	18	26	36
Other operations	-7	-6	7	2	-6	-9	-12	-15	-7
Eliminations and reconciliation	-2	9	8	4	8	-4	7	4	17
<b>Comparable EBIT, total</b>	<b>203</b>	<b>279</b>	<b>343</b>	<b>342</b>	<b>345</b>	<b>374</b>	<b>482</b>	<b>719</b>	<b>1,404</b>
% of sales	9.8	12.2	14.0	13.7	13.2	13.9	11.0	13.6	13.7

<sup>1)</sup> Eliminations and reconciliations includes changes in fair value of unrealised cash flow and commodity hedges.

## External sales by major products

BUSINESS AREA	BUSINESS	Q2/2020	Q2/2019	Q1- Q2/2020	Q1- Q2/2019	Q1- Q4/2019
EURm						
UPM Biorefining	UPM Pulp UPM Biofuels UPM Timber	445	554	852	1,135	2,096
UPM Energy	UPM Energy	61	45	132	89	180
UPM Raflatac	UPM Raflatac	403	385	812	783	1,555
UPM Specialty Papers	UPM Specialty Papers	279	309	574	605	1,203
UPM Communication Papers	UPM Communication Papers	732	1,128	1,689	2,318	4,516
UPM Plywood	UPM Plywood	98	113	198	230	427
Other operations	UPM Forest UPM Biochemicals UPM Biomedicals UPM Biocomposites	59	70	108	136	258
Eliminations and reconciliations		-1	1	-2	2	4
<b>Total</b>		<b>2,077</b>	<b>2,605</b>	<b>4,364</b>	<b>5,298</b>	<b>10,238</b>

BUSINESS	PRODUCT RANGE
UPM Pulp	Softwood, birch and eucalyptus pulp
UPM Biofuels	Wood-based renewable diesel for transport and renewable naphtha for transport and petrochemicals
UPM Timber	Standard and special sawn timber
UPM Energy	Electricity and related services
UPM Raflatac	Self-adhesive paper and film label stock
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 Biochemicals	Lignin products for industrial use
UPM Biomedicals	Wood-based products for biomedical applications
UPM Biocomposites	UPM ProFi decking products and UPM Formi granules

## Changes in property, plant and equipment

EURm	Q1-Q2/2020	Q1-Q2/2019	Q1-Q4/2019
Book value at beginning of period	4,083	4,186	4,186
Reclassification to leased assets (IFRS 16)	—	-91	-71
Reclassification to assets held for sale	-2	0	-11
Capital expenditure	316	121	351
Decreases	-1	-3	-6
Depreciation	-196	-197	-392
Impairment charges	-19	-1	-13
Translation difference and other changes	-21	19	41
<b>Book value at end of period</b>	<b>4,161</b>	<b>4,033</b>	<b>4,083</b>

## Financial assets and liabilities measured at fair value

EURm	30 JUN 2020				30 JUN 2019				31 DEC 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>												
Derivatives non-qualifying hedges	—	25	—	25	—	28	—	28	—	17	—	17
Derivatives under hedge accounting	17	205	—	222	46	174	—	220	23	166	—	189
Energy shareholdings	—	—	1,927	1,927	—	—	2,139	2,139	—	—	2,145	2,145
<b>Total</b>	<b>17</b>	<b>231</b>	<b>1,927</b>	<b>2,174</b>	<b>46</b>	<b>201</b>	<b>2,139</b>	<b>2,387</b>	<b>23</b>	<b>183</b>	<b>2,145</b>	<b>2,351</b>
<b>Financial liabilities</b>												
Derivatives non-qualifying hedges	—	10	—	10	—	8	—	8	—	7	—	7
Derivatives under hedge accounting	16	28	—	43	4	21	—	25	7	22	—	28
<b>Total</b>	<b>16</b>	<b>38</b>	<b>—</b>	<b>53</b>	<b>4</b>	<b>28</b>	<b>—</b>	<b>33</b>	<b>7</b>	<b>29</b>	<b>—</b>	<b>36</b>

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.

## Fair value measurements using significant unobservable inputs, Level 3

EURm	ENERGY SHAREHOLDINGS		
	Q1-Q2/2020	Q1-Q2/2019	Q1-Q4/2019
Book value at beginning of period	2,145	2,159	2,159
Disposals	-2	-1	-1
Fair value changes recognised in other comprehensive income	-217	-19	-13
<b>Book value at end of period</b>	<b>1,927</b>	<b>2,139</b>	<b>2,145</b>

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 fundamental 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 million.

The discount rate of 5.39% used in the valuation model is determined using the weighted average cost of capital method. A change of 0.5% in the discount rate would change the total value of the assets by approximately EUR 300 million.

Other uncertainties and risk factors in the value of the assets relate to start-up schedule of the fixed price turn-key Olkiluoto 3 EPR nuclear power plant project. UPM's indirect share of the capacity of Olkiluoto 3 EPR is approximately 31%, through its PVO B2 shares.

During Q2 2020, economic outlook has deteriorated due to COVID-19 pandemic and following containment measures. Possible changes in the outlook might impact power demand expectations and energy commodity prices, and thus could have an impact on the value of energy shares. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

## Fair value of financial assets and liabilities measured at carrying amount

EURm	30 JUN 2020	30 JUN 2019	31 DEC 2019
Non-current debt excl. derivative financial instruments and lease liabilities	672	676	682

The fair values of all other financial assets and liabilities approximate their carrying amount.

## Commitments and contingencies

EURm	30 JUN 2020	30 JUN 2019	31 DEC 2019
<b>Own commitments</b>			
Mortgages	—	1	1
<b>On behalf of others</b>			
Guarantees	2	2	2
<b>Other own commitments</b>			
Leasing commitments for the next 12 months in accordance with IFRS 16	4	5	6
Other commitments	101	73	104
<b>Total</b>	<b>108</b>	<b>81</b>	<b>113</b>

The lease commitments for leases not commenced at the end of reporting period totals approximately EUR 130 million, which are mostly related to long-term charter agreements.

## Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2019	Q1–Q2/2020	AFTER 30 JUN 2020
New biorefinery / Germany	Q4 2022	550	—	24	526
CHP power plant / Germany	Q3 2022	95	—	12	83
New pulp mill / Uruguay	Q3 2022	2,730	46	168	2,516
Renovation and modernisation / Kuusankoski hydro power plant	Q4 2022	22	3	1	18

## Notional amounts of derivative financial instruments

EURm	30 JUN 2020	30 JUN 2019	31 DEC 2019
Interest rate forward contracts	1,216	1,623	1,729
Interest rate swaps	335	330	334
Forward foreign exchange contracts	2,747	2,684	2,491
Currency options, bought	—	3	14
Currency options, written	—	6	10
Cross currency swaps	174	171	172
Commodity contracts	727	921	913

## Assets and liabilities classified as held for sale

Assets and liabilities classified as held for sale at 30 June 2020 relate to sale of group's share in Kainuun Voima Oy to Kajaanin Energiantuotanto Oy. The sale has realised in July 2020.

Assets classified as held for sale at the end of 2019 relate to UPM Chapelle paper mill assets located in France.

This half year financial report is unaudited

## **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 2019.

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.

## **Impact of COVID-19 on the financial statements**

The impact of COVID-19 on UPM financial statements has so far been relatively limited. The group uses estimates and makes significant judgements when valuing certain assets and liabilities, including energy shareholdings, forest assets, retirement benefit obligations and provisions. The group has assessed the impact of COVID-19 to balance sheet items by considering indicators of impairment of goodwill and other intangible assets, recoverable amount of property, plant and equipment, recoverability of deferred tax assets, valuation of inventories, and collectability of trade receivables. The expectations of future cash flows, discount rates and other significant valuation inputs were revised to reflect changed economic environment. Based on these assessments, no significant adjustments to the carrying amounts of said assets were made due to COVID-19. However, the increased uncertainty in the economic environment can lead to significant adjustments to the carrying amount of assets.

The group expects that it will continue to operate and meet its liabilities as they fall due. UPM has a strong financial position. Net debt in the balance sheet amounted to EUR 301 million on 30 June 2020, after paying the dividend of EUR 693 million in Q2 2020. Cash funds and unused committed credit facilities amounted to EUR 2.0 billion. This includes the sustainability-linked five-year EUR 750 million revolving credit facility signed during Q1 2020 and the EUR 550 million of bilateral committed credit facilities signed during Q2 2020. The facilities and UPM's outstanding debt have no financial covenants.

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 160–161 of the 2019 Annual Report. Risks and opportunities are discussed on pages 28–29 and risks and risk management are presented on pages 129–131 of the report.



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