

# Value from responsibility

2020

# Content

## Why responsibility matters?

### Our response

- Compliance
- Responsible operations and value chain
- Sustainable and safe products
- Value based leadership

### Our commitment to mitigate climate change



# Why responsibility matters?



# Future beyond fossils is a key driver for UPM going forward



## MEGATRENDS

- Population growth
- Urbanisation
- Higher living standards
- Digitalisation

**2**  
**billion**  
middle class  
consumers  
in Asia

## UPM SOLUTIONS

- Sustainable forestry and land use
- Resource efficiency
- Circular economy
- Responsible business conduct
- Renewable materials
- Replacing fossil-based materials



The UN Sustainable Development Goals (SDGs) are an urgent call for action by all countries to promote sustainability in a global partnership.





# Black Rock CEO's letter to CEOs January 14, 2020



*“Given... the growing investment risks surrounding sustainability, we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.”*



# Our response



# Value from responsibility

Creating value for society, both as a company and through our sustainable and safe products and solutions, is an integral part of our Biofore strategy.



# Biofore strategy

We create value by seizing the limitless potential of bioeconomy

Strong long-term fundamentals for demand growth and high barriers to entry



**PERFORMANCE**



**INNOVATION**



**GROWTH**



**RESPONSIBILITY**



**PORTFOLIO**



# Biofore strategy guides us in achieving our responsibility targets for 2030



- Focus areas: economic, social and environmental with respective targets and key performance indicators reviewed annually based on a materiality analysis.
- Our responsibility targets contribute positively to UN Sustainable Development Goals.
- In 2019, the fossil CO<sub>2</sub> emission target of our own operations was tightened, and a new target for CO<sub>2</sub> emissions of sourced materials and logistics was launched.
- We also launched new targets for ensuring climate-positive land use and a climate-positive product portfolio.

# Our responsibility agenda is guided by the Biofore strategy and contributes to UN's SDGs



Goals where we can have the biggest positive impact through our operation, products and solutions, or where we aim to minimise our negative impact.





# Ensuring responsible business conduct



- Compliance
- Responsible operations and value chain
- Sustainable and safe products
- Value based leadership



# Compliance



# Respecting international agreements

- Responsible business practises throughout our value chain and compliance in all activities
  - Global Compact Ten Principles (United Nations)
  - UN Guiding Principles for Business and Human Rights (UN)
  - The ILO Declaration on Fundamental Principles and Rights at Work
  - OECD Guidelines for Multinational Enterprises



# UPM Code of Conduct

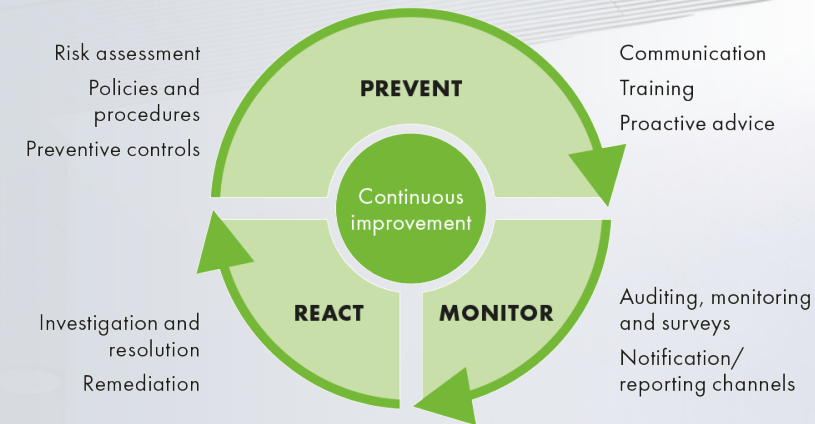
## Making the right choices



### UPM COMPLIANCE SYSTEM

#### Company performance

Corporate reputation, financial performance, operational excellence



#### Culture of integrity

**96%**  
of employees have  
completed the UPM  
Code of Conduct training



# Responsible business conduct is a basis for everything we do



- Our Code of Conduct and Supplier and Third-Party Code provide a foundation for responsible business conduct and continuous improvement
- Corporate responsibility is managed by the Board of Directors and the Group Executive Team, as well as by businesses and functions
- Our sites and also our wood-sourcing operations are covered by environmental, quality and occupational health and safety systems certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001/ISO45001 standards.



# Our focus is on transparency and efficiency



We provide comprehensive, third party-assured environmental information on all aspects of our business from corporate level down to individual mills and products.

Our stakeholders have access to reliable information through our eco-labelled products, product declarations and certified operations.





# Responsible operations and value chain



# UPM's Responsible Sourcing Principles



**UPM Code  
of Conduct**



**Transparent supplier  
requirements**



**TOGETHER FOR  
SUSTAINABILITY**



**Systematic risk  
assessment**



**Continuous  
supplier  
development**



# Holistic approach to sustainable forestry everywhere we operate



**100% traceability** with 3<sup>rd</sup> party verification

**Target of 100% of FSC and PEFC certification** – already today over 80%

**100% regeneration**

- 50 million new trees planted every year, 100 per minute

**No deforestation, ever.** No use of rainforests.

**Sustainable harvesting practices**

**Preservation of all forest ecosystem services**



# Committed to net-positive biodiversity

- Committed to net-positive biodiversity in our own forests in Finland.
- Indicators and measures based on the comparison of natural and commercial forests and the gap analysis identifying the key differences between these two.
- The status of forest nature monitored by using selected biodiversity indicators: Tree species, forest age, forest structure, protected areas, valuable habitats, habitat restoration, species and habitat projects and indicator development.





# Committed to net-positive biodiversity



We are one of the first companies who has linked the pricing mechanism of a syndicated revolving credit facility (RCF) to both biodiversity and climate targets.



# Circular economy thinking in the core of everything



- Innovating ways to reduce and recover waste and to use residues and sidestreams.
- Making use of recovered materials.
- Collaborating with industries, research institutes and universities.

30%

of fibre raw material  
we use in paper  
production come from  
recycled sources

89%

of our process  
waste is recycled  
or recovered

0

solid waste  
to landfill by  
2030





# Responsible water use

- Operating in areas with sufficient water resources
- Using appropriate recycling techniques
- Treating used water according to the BAT (Best Available Techniques)
- Minimizing the impact of our hydropower facilities on watercourses
- Compliant with the WBCSD WASH Pledge (Access to safe water, sanitation and hygiene)
- Co-operating with local stakeholders to minimize negative impacts and ensure availability of water for everyone



# Sustainable and safe products





# Lifelong product stewardship



- Recyclable products made of renewable and bio-degradable wood raw materials
- Ecodesign approach – minimising environmental impacts from design stage to end-use
- Product safety
- Co-operation across the value chain
- Open and transparent product information
- Strong commitment to long-term customer relationships



# We act through products

## Lifelong product stewardship



We ensure that the chemicals we use meet all regulatory and product specific requirements.

# 83%

of UPM sales was eligible for ecolabelling





# Value based leadership

# Strengthening our safety culture



- Our proactive safety culture is based on UPM Code of Conduct and UPM Safety Rules.
- Strong focus on life-saving standards and identification of major risks.
- Working closely with employees and external OHS organisations to provide a safe and healthy working environment and foster the wellbeing of employees and contractors.
- Zero accident mindset and continuous target recognised through company-wide safety awards.

## 51,000

safety-related near-miss and safety observation reports recorded in 2019

## 34,000

Safety walks and discussions in 2019





# Focus on people and respecting human rights



...of our employees



...of our suppliers  
& contractors



...of the communities  
where we operate



# We have already taken many steps in respecting human rights





# Our approach to human rights

We have set up a due diligence process for human rights that includes

- Expressing our commitment in a form of **policy** and providing **trainings** to ensure it is understood by relevant experts
- Having a **continuous practise for assessing potential human rights risks** across UPM's businesses in order to prevent harm to people
- **Remediating** possible harm caused or contributed to

# Enabling people growth

- Building Aiming Higher culture to succeed in today's rapidly changing world.
- Leading according to our values and with integrity.
- Developing an inclusive and diverse work environment.
- Engaging employees.
- Enabling performance with agile goal setting and feedback culture.
- Investing in growth of our people and develop new competences.



# Engaging with communities through donations, sponsorships and employee volunteering



**BIOFORE**  
SHARE AND CARE



Reading  
& learning



Engaging with  
communities



Responsible  
water use



Boosting  
bioinnovation

# We are committed to the UN Global Compact's Business Ambition for 1.5°C

**BUSINESS**  
AMBITION FOR **1.5°C**   **OUR ONLY  
FUTURE**



# Climate change: one of the biggest challenges of our time

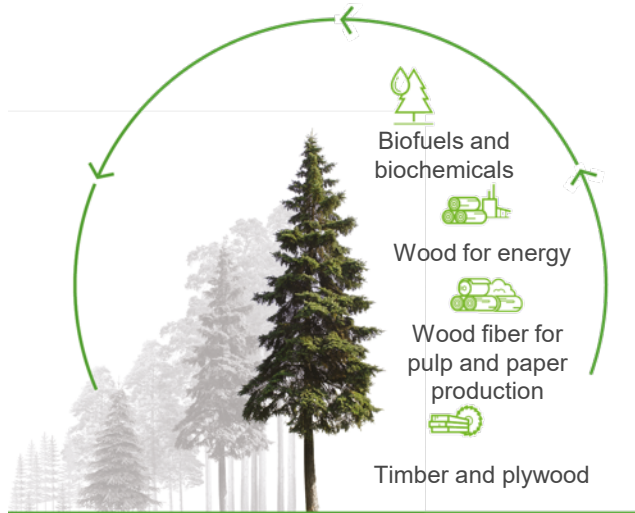
Mitigating climate crisis requires decisive actions:

- Reducing emissions
- Finding alternatives for fossil-based materials
- Serving the needs of a growing population with circular economy and renewable materials

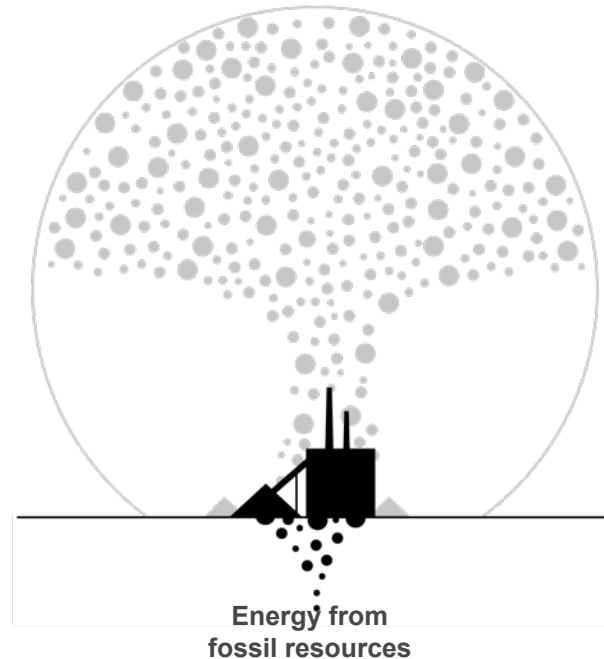
# Bioeconomy offers a sustainable alternative to fossil-based economy



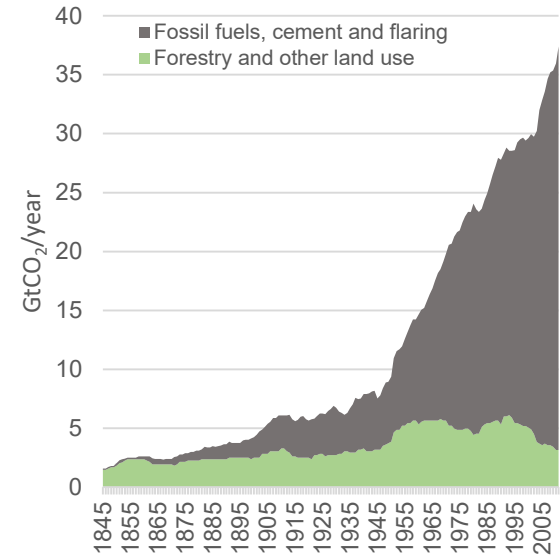
Biomass use is not increasing  
 $\text{CO}_2$  to carbon cycle



Use of fossil resources  
increases  $\text{CO}_2$  amount



Use of fossils has increased  
global  $\text{CO}_2$  -emissions



Source: IPCC AR5



# Our thinking

- There is a growing need for consistent, scientific and forward-looking information on climate change and its impacts on environment and societies.
- It's crucial to understand how our business model, operations and assets can be affected by physical climate change and by transitional aspects such as policies, regulation, technologies and market behavior.
- Understanding the exposures to risks and opportunities of changing climate helps us in building the response and taking actions that help adaptation to possible future scenarios.
- To get the best possible information relying on the latest scientific knowledge, we engaged with the Finnish Meteorological Institute (FMI) to study the physical impacts of climate change in our main areas of operations.

# Driving long-term value creation – mitigating climate change



## UPM **BIOFORE-BEYOND** FOSSILS



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



*We act through* **EMISSIONS**  
**65% less CO<sub>2</sub> emissions**



*We act through* **PRODUCTS**  
**Innovate novel products**

**BUSINESS AMBITION FOR 1.5°C**   **OUR ONLY FUTURE**





# We act through FORESTS



- We will ensure that we always grow more forests than we harvest.
- We will work to improve our forests' growth and ability to absorb more carbon.
- In the future, we will annually report the carbon sink levels of our forests, and the reporting system will be developed further.





We act through FORESTS

# Sustainably managed forests grow more, while taking care of biodiversity and carbon sinks



We plant over **100** trees per minute.

Annual growth in Finland from

**50** million to **108**  
million m<sup>3</sup> since 1960's

From

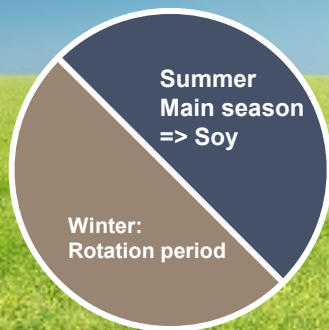
**0** to **1,000,000**  
ha in 30 years in Uruguay





# Brassica Carinata in Uruguay by UPM

## Carbon farming for climate positive fuels



- Second crop and income source for farmers
- Increases soil carbon
- No effect on food production

# Comprehensive approach to climate change mitigation

## FORESTS



**Carbon sinks and storages**  
maintenance, forestation,  
renewal

## EMISSIONS



**CO<sub>2</sub> emissions**  
low emission energy,  
energy efficiency





# We act through EMISSIONS

Decreasing the use of fossil fuels is the most important way to mitigate climate change.

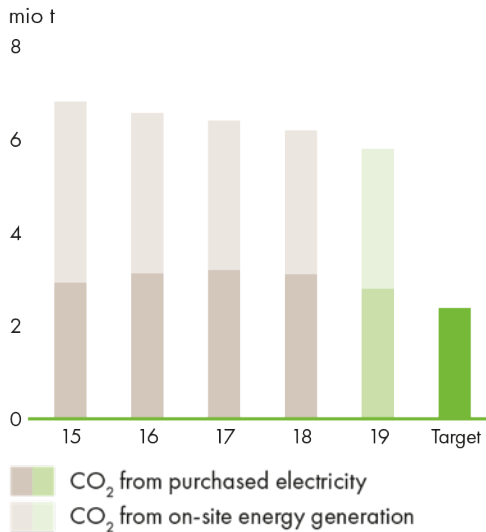
- We have made a systematic global review of our opportunities for reducing emissions using existing technologies.
- We have analysed the financial impact of each carbon action.
- We use three-level-carbon accounting: corporate-level, site level and product level. The corporate-level carbon footprint indicates the impact of our activities as a whole and takes all sites into account.



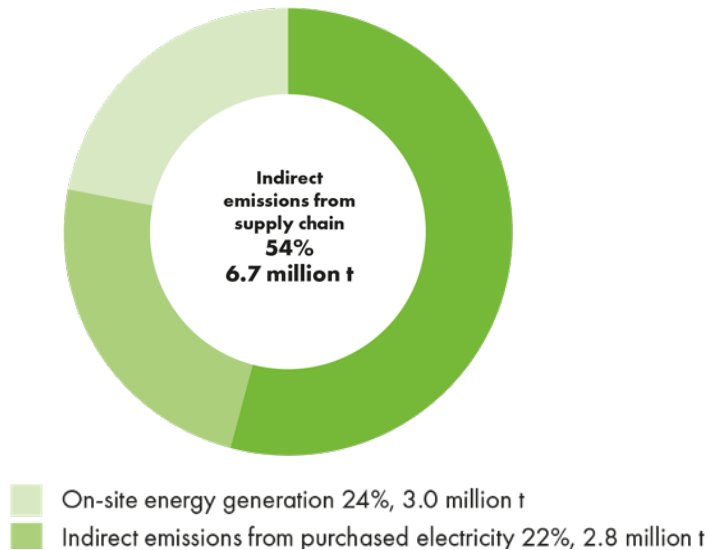
# Our fossil CO<sub>2</sub> emissions are constantly decreasing



## Fossil CO<sub>2</sub> emissions



## Sources of UPM's fossil carbon dioxide emissions 2019





# We act through EMISSIONS

- Our target is to reduce CO<sub>2</sub> emissions significantly according to Science Based Targets (SBT).
- Our target is also to reduce the CO<sub>2</sub> emissions related materials and logistics.

**–65%** reduction from CO<sub>2</sub> emissions from the 2015 levels by 2030 \*

**–30%** reduction of emission levels of our supply chain from the 2018 level by 2030.





# We act through EMISSIONS

- We favor renewable and other carbon-neutral energy sources
- We always favor fossil carbon-free energy sources: hydropower, nuclear power and efficient combined heat and power (CHP) from biomass.

UPM Energy

**97%**

CO<sub>2</sub> free



# Comprehensive approach to climate change mitigation



## FORESTS



**Carbon sinks and storages**  
maintenance, forestation,  
renewal

## EMISSIONS



**CO<sub>2</sub> emissions**  
low emission energy,  
energy efficiency

## PRODUCTS



**Product substitution**  
replacing fossils,  
recyclability, carbon  
storages



# We act through PRODUCTS

## Innovating novel, climate-positive products



- Developing safe and sustainable products and offer alternatives to fossil materials
  - Reusing materials and products
  - Using waste, residues and sidestreams as a resource
  - Recycling to new and similar products
- Many of our products are already proven to be climate-positive
  - In the future, we aim to scientifically verify the climate impacts of all its products
  - We are committed to innovate climate positive products





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



**INSPIRED** by the limitless opportunities of bioeconomy  
**DELIVERING** renewable and responsible solutions  
**INNOVATING** for a future beyond fossils



# Industry leader in responsibility



MEMBER OF

**Dow Jones  
Sustainability Indices**

In Collaboration with RobecoSAM 



Global Compact  
**LEAD**  
2019 PARTICIPANT

**MSCI**  
ESG RATINGS

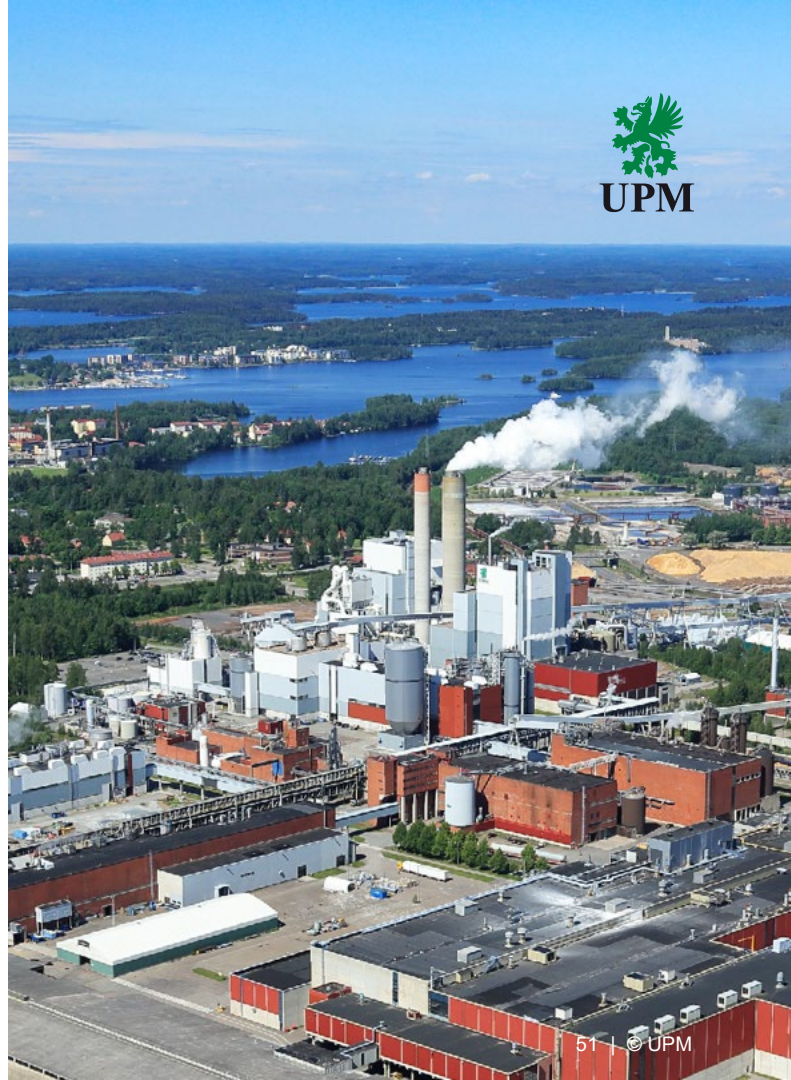


CCC	B	BB	BBB	A	AA	AAA
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**Sustainability Award**  
**Gold Class 2020**

UPM **BIOFORE-BEYOND** FOSSILS





# UPM 2030 responsibility targets

## Economic



UPM RESPONSIBILITY FOCUS AREA	2030 TARGET	2030 FOLLOW-UP / 2019 RESULTS
<b>ECONOMIC</b>		
<b>Profit</b> Creating value to shareholders	<ul style="list-style-type: none"> <li>• Comparable EBIT growth through focused top-line growth and margin expansion</li> <li>• Comparable ROE: 10%</li> <li>• Net debt/EBITDA: 2 times or less</li> </ul>	<ul style="list-style-type: none"> <li>• Comparable EBIT decreased by 7% to EUR 1,404 million (1,513 million)</li> <li>• Comparable ROE was 11.2% (12.9%)</li> <li>• Net debt/EBITDA was -0.24 times (-0.17)</li> </ul>
<b>Governance</b> Ensuring accountability and compliance	<ul style="list-style-type: none"> <li>• 100% coverage of participation to UPM Code of Conduct training (continuous)</li> </ul>	<ul style="list-style-type: none"> <li>• 96% (99%) of active employees completed the trainings for the updated Code of Conduct. Training started in September 2019.</li> </ul>
<b>Responsible sourcing</b> Adding value through responsible business practices	<ul style="list-style-type: none"> <li>• 80% of UPM spend qualified against UPM Supplier and Third Party Code (continuous)</li> <li>• 100% of UPM raw material spend qualified against UPM Supplier and Third Party Code by 2030 <sup>1)</sup></li> <li>• Continuous supplier auditing based on systematic risk assessment practices</li> <li>• 30% reduction of CO<sub>2</sub> emissions from materials and logistics (scope 3) <sup>2)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• 84% (83%) of supplier spend qualified against UPM Supplier and Third Party Code</li> <li>• 94% (94%) of raw material spend qualified against UPM Supplier and Third Party Code</li> <li>• 185 supplier audits were conducted based on identified risks. 300 contractor reviews were also carried out with focus on working conditions.</li> <li>• Target launched end of 2019</li> </ul>

# UPM 2030 responsibility targets

## Social



UPM RESPONSIBILITY FOCUS AREA	2030 TARGET	2030 FOLLOW-UP / 2019 RESULTS
<b>SOCIAL</b>		
<b>Diversity and inclusion</b> Developing organisational culture and local conditions to ensure diverse and inclusive working environment for business success	<ul style="list-style-type: none"> <li>• People feel that UPM values and promotes diversity. People are treated fairly in their work environment and can advance regardless of personal background or characteristics. 95% favourable in the Employee Engagement Survey Diversity and Inclusion index by 2030.</li> <li>• Diversity and inclusion initiative (continuous)</li> </ul>	<ul style="list-style-type: none"> <li>• Responses to the Employee Engagement Survey's Diversity and Inclusion index 70% (68%) favourable</li> <li>• UPM started a dialogue with key management teams on developing inclusive leadership</li> </ul>
<b>Continuous learning and development</b> Ensuring high performance for business success and continuous professional development for future employability	<ul style="list-style-type: none"> <li>• Goal setting discussions are held and development plans are created for employees, completion rate 100% by 2030</li> <li>• Employees perceive good opportunities for learning and development at UPM, 80% favourable in Employee Engagement Survey by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• 88% (89%) of employees had completed individual goal setting or annual discussion. 65% (61%) of employees had a development plan documented</li> <li>• Responses to Employee Engagement Survey's question regarding learning and development were 68% (66%) favourable</li> </ul>
<b>Responsible leadership</b> Emphasising value-based and inspiring leadership and integrity. Continuous development of working environment	<ul style="list-style-type: none"> <li>• Employee engagement and enablement indices with favourable score clearly above external high-performing norm by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• Employee engagement index 71% (71%) favourable. This is 3 pp below the external high-performing norm. Employee enablement index 74% (72%) favourable. This is on par with the external high-performing norm</li> </ul>
<b>Working conditions</b> Ensuring safe and healthy working environment and wellbeing of employees	<ul style="list-style-type: none"> <li>• No fatalities or serious accidents in UPM operations</li> <li>• Continuous improvement in safety: Last time accident frequency (LTAF) &lt;1 and Total recordable injury frequency (TRIF) &lt;2 levels permanently reached (including contractors)</li> <li>• All operations have certified OHS system by 2030</li> <li>• Health Promotion Programme is in use at all UPM sites and businesses by 2030</li> <li>• Absenteeism rate &lt;2% in all organisations by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• One fatal accident in 2019, three serious accidents</li> <li>• LTAF was 2.9 (2.7) for UPM workforce and 3.3 (2.9) including contractors, TRIF was 7.1 (6.9) for UPM workforce and 6.8 (6.6) including contractors</li> <li>• All production sites have an OHS management system in place. 49% of the sites have external certification of their OHS system.</li> <li>• A majority of the sites with Health Promotion initiatives</li> <li>• The absenteeism rate was 4.0% (3.9%)</li> </ul>
<b>Community involvement</b> Ensuring local commitment	<ul style="list-style-type: none"> <li>• Continuous development of strategic sustainability initiatives with leading NGOs</li> <li>• Continuous sharing of best practices of stakeholder initiatives</li> <li>• UPM's Biofore Share and Care programme brings significant added value</li> </ul>	<ul style="list-style-type: none"> <li>• UPM started co-operation with WWF Finland. Co-operation continued with Vida Silvestre and Osprey Foundation, for example.</li> <li>• Sharing of best practices ensured through well-established operational stakeholder forums, for example</li> <li>• Over 500 employees with over 3,000 hours volunteered in local communities</li> </ul>



# UPM 2030 responsibility targets

## Environmental



UPM RESPONSIBILITY FOCUS AREA	2030 TARGET	2030 FOLLOW-UP / 2019 RESULTS
<b>ENVIRONMENTAL</b>		
<b>Product stewardship</b> Taking care of the entire lifecycle	<ul style="list-style-type: none"> <li>Climate-positive product portfolio (continuous)</li> <li>Development of new products and services with contribution to the UN Sustainable Development Goals (continuous)</li> <li>All applicable products eligible for ecolabelling by 2030</li> </ul>	<ul style="list-style-type: none"> <li>Target launched end of 2019</li> <li>Target launched end of 2019</li> <li>83% (85%) of UPM sales was eligible for ecolabelling</li> </ul>
<b>Waste</b> Promoting material efficiency and circular economy – reduce, reuse and recycle	<ul style="list-style-type: none"> <li>No process waste sent to landfills or to incineration without energy recovery by 2030</li> </ul>	<ul style="list-style-type: none"> <li>89% (90%) of UPM's total process waste was recovered or recycled. The total amount of waste to landfills decreased by 2% compared to 2018.</li> </ul>
<b>Climate</b> Creating climate solutions and working towards carbon neutrality	<ul style="list-style-type: none"> <li>Fossil CO<sub>2</sub> emissions from our own combustion and purchased electricity (Scope 1 and 2) reduced by 65% by 2030 <sup>3)</sup></li> <li>Maximise the business benefits of greenhouse gas claims (continuous)</li> <li>Improve energy efficiency annually by 1% (continuous)</li> <li>70% share of renewable fuels (continuous)</li> <li>Acidifying flue gases (NO<sub>x</sub>/SO<sub>2</sub>) reduced 20% by 2030 <sup>3)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Fossil CO<sub>2</sub> emissions reduced by 15% compared to 2015 and 6% compared to 2018</li> <li>UPM sold greenhouse gas claims worth nearly 1.1 million CO<sub>2</sub> tonnes</li> <li>Energy efficiency target was not achieved</li> <li>Level of 70% (70%) reached in the use of renewable fuels</li> <li>12% reduction achieved since 2015 for the UPM average product</li> </ul>
<b>Water</b> Using water responsibly	<ul style="list-style-type: none"> <li>Effluent load (COD) reduced by 40% by 2030 <sup>4)</sup></li> <li>Wastewater volume reduced by 30% by 2030 <sup>4)</sup></li> <li>100% of nutrients used at effluent treatment from recycled sources by 2030 <sup>4)</sup></li> </ul>	<ul style="list-style-type: none"> <li>31% reduction in effluent load achieved since 2008 for the UPM average product</li> <li>10% reduction in wastewater volume achieved since 2008 for the UPM average product</li> <li>31% of nutrients from recycled resources</li> </ul>
<b>Forests and biodiversity</b> Ensuring sustainable land use and keeping forests full of life	<ul style="list-style-type: none"> <li>Climate-positive land use (continuous)</li> <li>All fibre certified by 2030 <sup>5)</sup></li> <li>Positive impact on biodiversity (continuous): implementing biodiversity programme and developing monitoring system <sup>6)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Target launched end of 2019</li> <li>82% (81%) of all wood used by UPM is sourced from certified forests</li> <li>Indicators and methods to measure biodiversity were developed and monitoring started</li> </ul>

<sup>1)</sup> Covers all UPM raw material spend including wood and wood-based biomass sourcing and excluding energy

<sup>2)</sup> From 2018 level

<sup>3)</sup> From 2015 level

<sup>4)</sup> From 2008 level, relevant for pulp and paper production

<sup>5)</sup> Forest management certification

<sup>6)</sup> Covers UPM own forests in Finland

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

