Q1 2021: market turn and efficiency improvement boost UPM’s earnings

- Sales decreased by 2% to EUR 2,234m (2,287m in Q1 2020)
- Comparable EBIT was EUR 279m, 12.5% of sales, in line with last year (279m, 12.2%)
- Good demand for almost all UPM products, rapidly increasing pulp prices
- Competitive costs and good asset utilisation following the timely actions taken in H2 2020
- Transformative growth projects on schedule and on budget.
Our focus areas

ENSURING PERFORMANCE

TRANSFORMATIVE GROWTH PROJECTS
Improving markets with mixed COVID-19-related demand impacts

• UPM Raflatac and UPM Specialty Papers benefit from strong demand for daily consumer goods and growth in e-commerce
  – Q1 2021 demand for self-adhesive labels in Europe +1% y-o-y
  – 2020: +7% in Q1, +9% in Q2, -4% in Q3 and +6% in Q4
• Strong pulp demand, supported by good demand for tissue and many packaging and specialty paper products
• Strong demand for plywood and timber in construction end uses, improving demand in industrial end uses
• UPM Communication Papers’ market demand affected by lockdowns and other containment measures
  – Q1 2021 demand for graphic papers in Europe -14% y-o-y
  – 2020: -8% in Q1, -32% in Q2, -18% in Q3 and -14% in Q4
Comparable EBIT in Q1 2021

Paper prices decreased, outweighing the impact of lower variable costs. Most businesses grew deliveries, whereas Communication Paper deliveries decreased.

Fixed costs lower.

Prices and volumes increased. Variable costs increased partly seasonally. Fixed costs significantly lower due to high maintenance activity in the comparison period, and seasonal reasons.
Comparable EBIT by business area
Strong performance in the specialty packaging materials businesses

- Growing markets in the packaging value chain, driven by global megatrends, sustainability and e-commerce
- Innovation-driven, technically demanding segments, where UPM has strong position and expertise
- UPM Raflatac and UPM Specialty papers represent 31% of UPM’s Q1 2021 sales
  - Comparable EBIT margins over 15% in Q1 2021
  - Attractive ROCE, Raflatac 48%, Specialty Papers 25%
- Focused investments: UPM Nordland PM2 conversion, UPM Changshu expansion, linerless labelstock expansion
Timely action to ensure performance

- Competitive costs and good asset utilisation following the timely actions taken in H2 2020
  - Closures of UPM Jyväskylä, UPM Chapelle, UPM Kaipola, conversion of UPM Nordland PM2, planned sale of UPM Shotton
  - Streamlining and cost efficiency actions in UPM Biorefining, UPM Specialty Papers, UPM Raflatac and global functions
- Total graphic papers capacity reduction 1.4 million tonnes
- Total annual cost savings of approx. EUR 130 million
Robust cash flow

• Q1 2021 operating cash flow was EUR 217m (137m in Q1 2020)
• Working capital increased seasonally by EUR 122m (increased by 212m in Q1 2020)
Strong financial position

- Net debt EUR 83m at the end of Q1 2021
- Cash funds and committed credit facilities EUR 3.2bn at the end of Q1 2021
- UPM issued a EUR 500m Green Bond in Q1 2021
- No financial covenants
Outlook for 2021

• The global economy is expected to start recovering in 2021 from the deep downturn experienced in 2020. World regions will progress at different pace, and China is leading this development. Demand for most UPM products is influenced by overall economic activity and hence, depends on the shape and rate of the economic recovery.

• The COVID-19 pandemic continues to cause uncertainty in 2021. In 2020, lockdowns had a significant negative impact on graphic paper demand but supported the strong demand for self-adhesive labelling materials and specialty papers. Opening of the economies is likely to allow for some normalisation of these demand impacts.

• Pulp demand has continued to be good and pulp prices have increased rapidly. At the same time, strong markets have continued for labelling materials, specialty papers and energy. Demand and pricing for communication papers have materialised as expected, decreasing from the comparison periods.

• With improving global economy, many variable cost items are expected to increase in 2021. UPM will continue to manage margins with product pricing, optimising its product and market mix, efficient use of assets as well as by taking measures to improve variable and fixed cost efficiency.

• UPM’s comparable EBIT is expected to increase both in H1 2021 compared with H1 2020, and in the full year 2021 compared with 2020.
Our focus areas in the coming quarters

ENSURING PERFORMANCE

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

- Operating model: 60% (EUR 9.6bn) vs. 40% (EUR 9.4bn)
- Performance: 35% (EUR 9.4bn) vs. 65% (EUR 9.4bn)
- Balance sheet: 5% (EUR 9.4bn) vs. 16% (EUR 9.4bn)

*This is an illustration, not a forecast*
Transformation is visible in earnings and balance sheet

**Comparable EBIT**

- Target: EBIT growth

**Comparable ROE**

- Target: 10%

**Net debt and leverage**

- Target: EBIT growth
- Policy: ≤ 2x
- Net debt/EBITDA (x)
Transformative growth projects in the most intensive phase in 2021

Capex estimate for 2021

- Total EUR 2,000m
- Includes EUR 1,800m on the transformative growth projects, pulp in Uruguay and biochemicals in Germany
- Operational investment needs consistently low

**Operational investments**

**Strategic investments**

**Uruguay acquisition**

**Myllykoski acquisition**

**Paso de los Toros and Leuna**

**Depreciation**

**Capital expenditure**

- Estimate
- Total EUR 2,000m
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**Operational investments**

**Strategic investments**

**Uruguay acquisition**

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**Capital expenditure**

- Estimate
- Total EUR 2,000m
- Includes EUR 1,800m on the transformative growth projects, pulp in Uruguay and biochemicals in Germany
- Operational investment needs consistently low
Progress in UPM Paso de los Toros and the Montevideo port
Progress in UPM Leuna
Growth plans in biofuels progress to the next stage

Basic engineering phase of new biorefinery ongoing

Potential next generation biofuels biorefinery

Products would significantly reduce carbon footprint in the road transport and aviation

Capacity would be 500,000t of renewable fuels incl. sustainable jet fuel

Potential location in Kotka, Finland or Rotterdam, the Netherlands.
Long-term value creation driven by our spearheads for growth
We deliver positive impact to mitigate climate change and to create long-term value

WE ACT THROUGH FORESTS
We are committed to climate-positive forestry and enhancing biodiversity.

WE ACT THROUGH EFFICIENCY AND EMISSIONS
Our target is to reduce our CO₂ emissions by 65%.

WE ACT THROUGH PRODUCTS
We innovate novel products to provide ever more sustainable alternatives for fossil-based materials.

BUSINESS AMBITION FOR 1.5°C OUR ONLY FUTURE
Summary

• UPM entered 2021 well prepared, having taken timely actions during H2 2020
• Q1 2021 showed good demand for almost all products and rapidly increasing pulp prices
• Q1 2021 earnings recovered to the pre-pandemic level
• UPM’s comparable EBIT is expected to increase in 2021 from 2020
• UPM’s financial standing is very strong
• Transformative growth projects progress on schedule and on budget
Biofore strategy drives our transformation as the frontrunner of bioeconomy

A FUTURE BEYOND FOSSILS

GROWTH
- We respond to megatrends and meet customers’ changing needs
  - Creating new markets and enabling sustainable choices

PERFORMANCE
- Continuous improvement
- Agile operating model

INNOVATION
- Creating new business and competitive advantage
  - Replacing fossils with biomaterials

RESPONSIBILITY
- Renewable & sustainable solutions
- Responsible operations and value chain

PORTFOLIO
- Investing in businesses with strong long-term fundamentals for growth and high barriers to entry
  - Effective capital allocation
Our positive impact receives recognition

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA
UPM invests in a world class pulp mill in Uruguay

• A highly competitive new pulp mill with annual production capacity of 2.1 million tonnes of eucalyptus pulp

• Mill investment of USD 2.7 billion

• Investments in port operations in Montevideo, local facilities in Paso de los Toros of USD 350 million

• Scheduled start-up in H2 2022

• Industry-leading safety and sustainability performance of the value chain from plantations to customers
Transformative step in UPM’s pulp business and in UPM’s future earnings

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

• Step change in UPM’s pulp business

* including variable and fixed costs of plantation operations, wood sourcing, mill operations and logistics delivered to the main markets
UPM invests in next generation biochemicals

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

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

NEW SUSTAINABLE BIOMASS
Sustainable and uniquely upstream integrated feedstock pool
- Additionality
- Climate-positive land use

CLIMATE-POSITIVE FUELS
Efficient carbon neutral production

DECARBONIZED TRANSPORT AND PETROCHEMICALS
Flexibility to create maximum value from several end uses and market geographies

Carbon stored to soil in each cycle

Cellulosic fuels
Renewable diesel, gasoline and jet fuel
E-fuels future potential
UPM announces its plans to become a significant producer of advanced biofuels. First investment decision UPM Lappeenranta Biorefinery. Renewable diesel made from crude tall oil. UPM Lappeenranta Biorefinery starts commercial production. Sales of UPM BioVerno launched in Finland. Feasibility study. EIA-study of a possible new biorefinery at Kotka. Basic engineering starts. Two alternative sites: Kotka and Rotterdam. Several technical scopes.
Liquidity on 31 March 2021 was EUR 3.2bn (cash and unused credit facilities)

UPM’s committed facilities:
- EUR 159m rolling credit facility maturing 2022
- EUR 750m syndicated facility of which EUR 50m maturing 2025 and EUR 700m maturing 2026

No financial covenants
Maintenance shutdowns in 2020 and 2021

Significant maintenance shutdowns in 2020 and 2021

<table>
<thead>
<tr>
<th>Timing</th>
<th>Unit</th>
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<tbody>
<tr>
<td>Q2 20</td>
<td>Olkiluoto nuclear power plant</td>
</tr>
<tr>
<td>Q4 20</td>
<td>Kaukas pulp mill</td>
</tr>
<tr>
<td></td>
<td>Pietarsaari pulp mill</td>
</tr>
<tr>
<td>Q2 21</td>
<td>Olkiluoto nuclear power plant</td>
</tr>
<tr>
<td>Q4 21</td>
<td>Fray Bentos pulp mill</td>
</tr>
<tr>
<td></td>
<td>Kymi pulp mill</td>
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Maintenance shutdowns have an impact on
• Maintenance costs
• Production volumes
• Operational efficiency
UPM’s main currency exposures

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

Estimated annual foreign currency net cash flow, before hedging

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
<th>GBP</th>
<th>JPY</th>
<th>Others</th>
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<tbody>
<tr>
<td>EURm</td>
<td>850</td>
<td>220</td>
<td>180</td>
<td>280</td>
</tr>
</tbody>
</table>
UPM Biorefining
Chemical pulp market prices

Pulp market prices, EUR

Pulp market prices, USD

Source: FOEX Indexes Ltd
Cost efficient generation enables robust profitability in changing market environment

Market electricity prices vs UPM sales price

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<tr>
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<tbody>
<tr>
<td>Comparable EBIT, EURm</td>
<td>116</td>
<td>91</td>
<td>123</td>
<td>185</td>
<td>171</td>
<td>50</td>
</tr>
<tr>
<td>% of sales</td>
<td>32.7</td>
<td>28.8</td>
<td>31.5</td>
<td>44.4</td>
<td>45.0</td>
<td>42.4</td>
</tr>
</tbody>
</table>
Graphic paper prices

Europe

North America

China

Sources: PPI, RISI
Paper price vs. cash cost of marginal cost producer

Sources: PPI, RISI, AFRY