UPM Half Year Financial Report 2021

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President and CEO
22 July 2021
Q2 2021: earnings improved rapidly, UPM is fit for future growth

• Sales grew by 15% to EUR 2,384m (2,077m in Q2 2020)
• Comparable EBIT increased by 51% to EUR 307m, 12.9% of sales (203m, 9.8%)
• Demand for UPM’s products was strong and overall, price increases more than offset rising input costs
• Following the timely actions taken in H2 2020 costs were competitive and asset utilisation good
• Transformative growth projects on schedule and on budget
Our focus areas

ENSURING PERFORMANCE

TRANSFORMATIVE GROWTH PROJECTS
Strong market demand for most UPM products, with mixed COVID-19-related impacts

- UPM Raflatac and UPM Specialty Papers benefit from strong demand for daily consumer goods and growth in e-commerce
  - 2021: self-adhesive label demand growth in Europe is estimated to have continued in Q2 from last year’s good level, +1% in Q1
  - 2020: +7% in Q1, +9% in Q2, -4% in Q3 and +6% in Q4
- Good pulp demand in Europe, slowing demand growth in China in H1 2021, after strong year 2020
- Strong demand for plywood and timber in construction end uses, improving demand in industrial applications
- UPM Communication Papers’ market demand was good
  - 2021 graphic paper demand in Europe: +28% in Q2, -14% in Q1
  - 2020: -8% in Q1, -32% in Q2, -18% in Q3 and -14% in Q4
Comparable EBIT in Q2 2021

<table>
<thead>
<tr>
<th>EURm</th>
<th>Q2/20</th>
<th>Q2/21</th>
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<tbody>
<tr>
<td>Prices</td>
<td>203</td>
<td>279</td>
</tr>
<tr>
<td>Variable costs</td>
<td>9.8%</td>
<td>12.5%</td>
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<tr>
<td>Volumes</td>
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<tr>
<td>Fixed costs</td>
<td></td>
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<td>Currency, net impact</td>
<td></td>
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<tr>
<td>Depreciation, forests, plantations, other</td>
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<table>
<thead>
<tr>
<th>EURm</th>
<th>Q1/21</th>
<th>Q2/21</th>
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<tbody>
<tr>
<td>Prices</td>
<td>307</td>
<td></td>
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<tr>
<td>Variable costs</td>
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</table>
Comparable EBIT by business area

- **UPM Biorefining**
  - EURm: 280
  - % of sales: 35

- **UPM Communication Papers**
  - EURm: 140
  - % of sales: 14

- **UPM Energy**
  - EURm: 70
  - % of sales: 70

- **UPM Specialty Papers**
  - EURm: 70
  - % of sales: 21

- **UPM Plywood**
  - EURm: 30
  - % of sales: 21

- **UPM Raflatac**
  - EURm: 70
  - % of sales: 21
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
  – Streamlining and cost efficiency actions in UPM Communication Papers, UPM Biorefining, UPM Specialty Papers, UPM Raflatac and global functions
  – Upcoming sale of UPM Shotton by the end of Q3 2021
• Total graphic papers capacity reduction 1.4 million tonnes
• Total annual cost savings impact of approx. EUR 160 million, of which approx. 75% had been realised in Q2 2021
Robust cash flow

- Q2 2021 operating cash flow was EUR 308m (156m in Q2 2020)
- Working capital increased seasonally by EUR 72m (increased by 75m in Q2 2020)
Strong financial position

- Net debt EUR 750m at the end of Q2 2021
- Cash funds and committed credit facilities EUR 2.5bn at the end of Q2 2021
- UPM issued a EUR 500m Green Bond in Q1 2021
- No financial covenants
Outlook for 2021

- The global economy has started recovering in 2021 from the deep downturn experienced in 2020. World regions will progress at different pace, and China has led 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.

- Sales prices for many UPM products are expected to increase in H2 2021 from H1 2021, including graphic paper prices in Europe. Pulp sales prices increased rapidly in H1 2021 and are expected to be higher on average in H2 2021 than in H1 2021.

- 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 H2 2021 compared with H1 2021 and increase clearly in the full year 2021 compared with 2020.
Our focus areas in the coming quarters

ENSURING PERFORMANCE

TRANSFORMATIVE GROWTH PROJECTS
Long-term value creation driven by our spearheads for growth

SPECIALTY PACKAGING MATERIALS
- Label materials
- Specialty papers

HIGH VALUE FIBRE
- Forests
- Pulp

MOLECULAR BIOPRODUCTS
- Biofuels
- Biochemicals

Communication papers
Plywood
Energy
Spearheads for growth – improving business mix drives earnings, cash flow and shareholder value.

- Operating model: 60% (65%) - 40%
- Performance: 35% (5%) - 65%
- Balance sheet: 6-year average EBIT margin (2015-20) >20%*
- Focused growth: Innovation

Future sales: EUR 9.6bn EUR 9.4bn

Growing businesses

Communication Papers

*) 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

2x H121
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
Progress in UPM Paso de los Toros and the Montevideo port
Progress in UPM Leuna
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 comprise 31% of UPM’s H1 2021 sales and 37% of comparable EBIT
  - Comparable EBIT margins of 16% and 13% in H1 2021
  - Attractive ROCE, Raflatac 47%, Specialty Papers 22%
- Focused investments: UPM Nordland PM2 conversion, UPM Changshu expansion, linerless labelstock expansion
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.
Summary

• UPM improved its earnings rapidly in Q2 2021 – comparable EBIT is expected to increase clearly in 2021 from 2020
• Q2 2021 showed strong demand for most UPM products
• Overall, price increases more than offset rising input costs
• Competitive costs and good asset utilisation following the timely actions taken in H2 2020
• Transformative growth projects progress on schedule and on budget
• UPM is committed to providing solutions for mitigating climate change
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

USD 3 billion investment in Uruguay

Pulp mill in Paso de los Toros, deep sea port terminal in Montevideo and local community

Pulp is used in tissue, specialty and packaging papers, for example

Total annual capacity of 2.1 million tonnes of eucalyptus pulp

Scheduled to start up in H2 2022
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 at Leuna, Germany

Industrial scale biorefinery

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
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
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.
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

CO₂
UPM announces its plans to become a significant producer of advanced biofuels.

**2006**
- First investment decision UPM Lappeenranta Biorefinery
- Renewable diesel made from crude tall oil

**2012**
- UPM Lappeenranta Biorefinery starts commercial production
- Sales of UPM BioVerno launched in Finland

**2015**
- Feasibility study EIA-study of a possible new biorefinery at Kotka

**2018**
- Basic engineering starts
  - Two alternative sites: Kotka and Rotterdam
  - Several technical scopes

**2021**
Maturity profile and liquidity

Liquidity on 30 June 2021 was EUR 2.5bn (cash and unused committed credit facilities)

UPM’s committed credit facilities:
- EUR 158m rolling committed overdraft facility maturing 2022
- EUR 750m committed syndicated revolving credit 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>Olkihuoto 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>Olkihuoto 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>905</td>
<td>300</td>
<td>180</td>
<td>270</td>
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</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](chart)

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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>91</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>42.7</td>
</tr>
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</table>
UPM Communication Papers
Graphic paper prices

Europe

North America

China

UPM Communication Papers
Graphic paper prices

EUROPE

North America

China

Sources: PPI, RISI

UPM Communication Papers
Graphic paper prices

EUROPE

North America

China

Sources: PPI, RISI

UPM Communication Papers
Graphic paper prices

EUROPE

North America

China

Sources: PPI, RISI
UPM Communication Papers

Paper price vs. cash cost of marginal cost producer

Sources: PPI, RISI, AFRY