UPM

WE CREATE A FUTURE BEYOND FOSSILS

UPM INTERIM REPORT JANUARY-MARCH 2021

UPM Interim Report Q1 2021:

Market turn and efficiency improvement boost UPM's earnings – growth projects progress as planned

Q1 2021 highlights

- Sales decreased by 2% to EUR 2,234 million (2,287 million in Q1 2020) mainly due to lower prices of graphic papers and unfavourable changes in currencies
- Comparable EBIT was EUR 279 million, 12.5% of sales (279 million, 12.2%), in line with last year
- Pulp demand continued to be good and pulp prices increased rapidly. Strong markets continued for labelling materials, specialty papers and energy
- Following the timely actions taken in H2 2020 costs were competitive and asset utilisation good
- Operating cash flow increased to EUR 217 million (137 million)
- Strong financial position continues. Net debt was EUR 83 million (-405) and cash funds and unused committed credit facilities totalled EUR 3.2 billion at the end of Q1 2021
- UPM issued a EUR 500 million Green Bond under the EMTN programme in March
- Transformative growth projects proceed on budget and on schedule
- UPM started the basic engineering phase of a next-generation biofuels refinery in January
- UPM joined The Climate Pledge in February, committed to reach the targets of the Paris Agreement 10 years in advance

Key figures

	Q1/2021	Q1/2020	Q4/2020	Q1–Q4/2020
Sales, EURm	2,234	2,287	2,188	8,580
Comparable EBITDA, EURm	389	398	392	1,442
% of sales	17.4	17.4	17.9	16.8
Operating profit, EURm	279	243	253	761
Comparable EBIT, EURm	279	279	252	948
% of sales	12.5	12.2	11.5	11.1
Profit before tax, EURm	272	240	250	737
Comparable profit before tax, EURm	272	276	248	924
Profit for the period, EURm	227	192	190	568
Comparable profit for the period, EURm	228	231	191	737
Earnings per share (EPS), EUR	0.42	0.36	0.35	1.05
Comparable EPS, EUR	0.42	0.43	0.35	1.37
Return on equity (ROE), %	9.7	7.7	8.0	5.8
Comparable ROE, %	9.7	9.3	8.0	7.5
Return on capital employed (ROCE), %	9.5	8.9	9.1	6.7
Comparable ROCE, %	9.5	10.2	9.1	8.3
Operating cash flow, EURm	217	137	347	1,005
Operating cash flow per share, EUR	0.41	0.26	0.65	1.89
Equity per share at the end of period, EUR	17.06	17.90	17.53	17.53
Capital employed at the end of period, EURm	11,933	11,009	11,555	11,555
Net debt at the end of period, EURm	83	-405	56	56
Net debt to EBITDA (last 12 months)	0.06	-0.23	0.04	0.04
Personnel at the end of period	17,670	18,573	18,014	18,014

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 2020*

Jussi Pesonen, President and CEO, comments on the Q1 results:

"UPM entered the year well prepared for the turn in the markets, which is also evident in our first quarter results. We took timely actions last year, and now that the world economy is recovering, there is a good momentum going forward.

The year began with good demand for almost all UPM products. Pulp prices increased rapidly, while UPM Raflatac, UPM Specialty Papers and UPM Energy continued to perform strongly. In addition, UPM Communications Papers achieved satisfactory results in the difficult market environment. Our earnings recovered to pre-pandemic levels, and our transformative growth projects continued on schedule and on budget. All in all, a good start to the year.

Our sales decreased by 2% to EUR 2,234 million, and comparable EBIT reached EUR 279 million, in line with the corresponding quarter of last year and higher than the three preceding quarters. Operating cash flow increased to EUR 217 million. Our financial position remains strong with a net debt of EUR 83 million and cash funds and unused committed credit facilities totalling EUR 3.2 billion at the end of Q1 2021.

The biggest improvement in earnings came from UPM Biorefining. Demand for pulp, timber and biofuels was good and pulp prices increased faster than expected. At the same time, strong markets continued for labelling materials and specialty papers. Demand trends in consumer behaviour, e-commerce and retail, accelerated by the pandemic, carried UPM Raflatac and UPM Specialty Papers to excellent results again. For UPM Raflatac, the quarter was its best-ever.

Demand and pricing for communication papers decreased from the comparison periods, as expected. Despite difficult market conditions UPM Communication Papers achieved a clearly positive comparable EBIT due to efficient operations, satisfactory asset utilisation rates and commercial success. This would not have been possible without the timely measures taken last year.

Profitability of UPM Energy continued on an excellent level. Electricity sales prices were clearly higher than on comparison periods, and UPM succeeded in optimising the use of its assets in volatile markets. Hydropower generation decreased but was on a good level.

UPM Plywood delivered steady results. Demand continued to be good in construction end uses, and started to improve in industrial end uses, such as panel trading and vehicle flooring.

In the recovering world economy, China is leading the development. The pick-up in business activity is driving demand for many of our products, but it is simultaneously pushing commodity and raw material prices higher. We are aiming to capture opportunities in the recovering markets by efficient margin management and optimising our product and market mix. At the same time, we will continue to take measures to offset cost pressures and to maintain cost efficiency in all our businesses and functions. I believe UPM's operating model will again help us in steering the businesses in the rapidly changing market circumstances.

We are in a very exciting and intensive phase in UPM's transformation. I am proud of both of our strategic growth projects, which proceed on schedule and on budget in these exceptional times. In Uruguay, we have now 4,000 workers on our construction sites in Paso de los Toros and Montevideo, and the number will rise to 6,000 later this year. UPM has implemented strict COVID-19 prevention measures to protect workers and to ensure the progress of this strategic project. In Leuna, Germany our biochemicals investment is progressing at full speed in terms of construction, business preparations and concrete customer cases.

In January we announced the start of the basic engineering phase of a potential next-generation biorefinery with an annual capacity of 500,000 tonnes of renewable fuels. As primary locations, we will review Kotka, Finland and Rotterdam, the Netherlands. This basic engineering phase is estimated to last at least 12 months before our standard procedure of analysing and preparing an investment decision can be initiated.

Our ambition is high when we develop business opportunities related to mitigating climate change. We strive to innovate climate-positive products that allow our customers and end-users to make more sustainable choices. Our growth plans in biochemicals and biofuels are prominent examples of this, taking place right now. Furthermore, we have ambitious long-term climate targets, including significant reduction of our CO2 emissions. During the first quarter, we joined the Climate Pledge, aiming to reach the Paris Agreement targets 10 years in advance. We have also committed to the UN Global Compact Business Ambition for 1.5°C and science-based measures to mitigate climate change.

We are continuing to demonstrate our aim for sustainable growth and long-term value creation in our actions. Our purpose is to create a future beyond fossils."

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.

Impact of COVID-19 pandemic

The COVID-19 pandemic and the related containment measures around the world continue to represent significant uncertainty in 2021.

Global economy
The COVID-19 pandemic and the related containment measures resulted in a sharp decline in the global economy in 2020. In the first phase of the recession, the pandemic containment measures and lockdowns around the world severely limited or temporarily stopped significant parts of the economy. It is uncertain how potent the following recovery will be and how long it will take for the world economy to reach the pre-pandemic level of activity. Despite the start of vaccinations, additional waves of the epidemic in different parts of the world remain possible.

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 have therefore seen resilient demand during the crisis. These products include pulp, specialty papers and self-adhesive label materials. Even in these businesses, demand is influenced by general economic activity, however.

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

The lockdowns and the level of economic activity may also influence demand for electricity, plywood and sawn timber.

In Q2 2020, graphic paper demand in Europe decreased by 32% from the previous year, as particularly advertising-driven paper consumption and office paper demand were impacted by the lockdowns across Europe. These impacts moderated to some extent as the year progressed, and graphic paper demand decreased by 18% in Q3 2020 and by 14% in Q4 2020 year-on-year. During Q1 2021 the pandemic and the related containment measures continued to impact the business environment, and graphic paper demand decreased by 14% from last year.

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

Demand for self-adhesive label materials and specialty papers have grown during the pandemic, as consumers have shifted some of their spending from away-from-home categories to packaged daily consumer goods. E-commerce has continued to grow, supporting some labelling and specialty paper applications. Demand for self-adhesive labels in Europe grew by 7% in Q1 2020 and 9% in Q2 2020 year-on-year, decreased by 4% in Q3 2020 due to destocking in the customer value chain, and resumed growth at 6% in Q4 2020. In Q1 2021, demand for self-adhesive labels in Europe increased by 1% from the good level of Q1 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, changes in consumer behaviour, the recession and recovery thereof. UPM has used shift arrangements, temporary layoffs, or reduced working hours as required to adjust its operations in different scenarios. During Q3 2020, the company also announced plans to permanently reduce graphic paper production capacity and other plans to improve cost efficiency in different businesses and functions. The UPM Kaipola paper mill was closed in January 2021.

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.

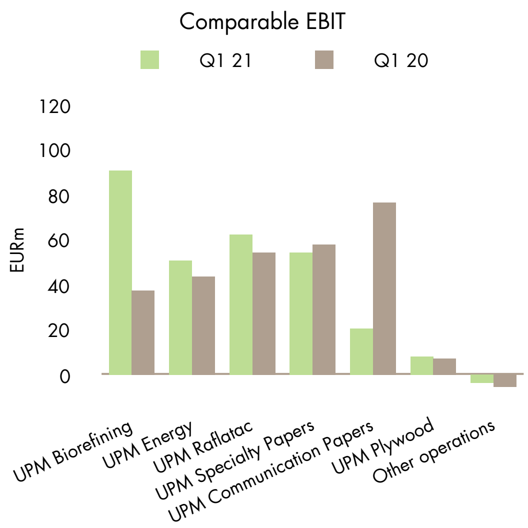
In April 2020 TVO announced that fuel loading into the OL3 reactor would not happen as originally planned in June 2020. TVO announced an updated schedule in August 2020, and the fuel loading was completed in April 2021.

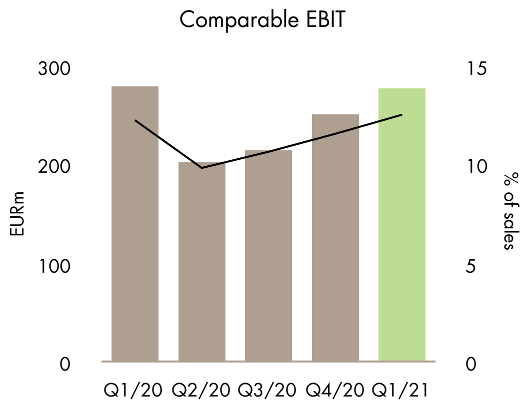
UPM rescheduled two pulp mill maintenance shutdowns from Q2 2020 to Q4 2020 due to the pandemic. Both shutdowns were successfully completed in Q4 with strict health and safety controls. In 2021, UPM has rescheduled the maintenance shutdown at the UPM Kymi pulp mill from Q2 2021 to Q4 2021.

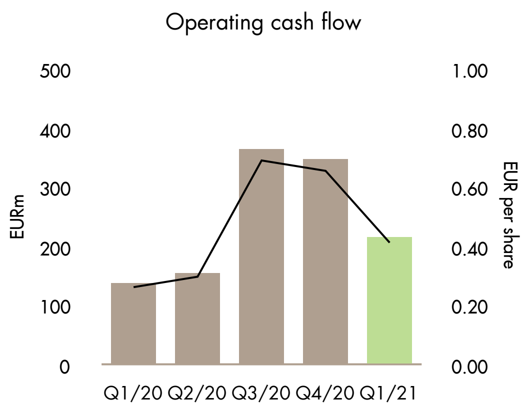
Timing of significant maintenance shutdowns in 2021

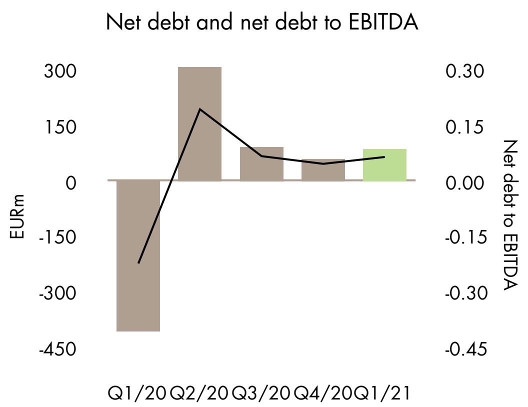
TIMING	UNIT
Q2/2020	Olkiluoto nuclear power plant
Q4/2020	Kaukas pulp mill
	Pietarsaari pulp mill
Q2/2021	Olkiluoto nuclear power plant
	Fray Bentos pulp mill
Q4/2021	Kymi pulp mill

Financing
UPM's financial position is strong. UPM's net debt was EUR 83 million at the end of Q1 2021. Cash funds and unused committed credit facilities totalled EUR 3.2 billion at the end of Q1 2021. This includes the sustainability-linked five-year EUR 750 million revolving credit facility signed during Q1 2020 and EUR 159 million equivalent rolling overdraft facility. During Q4 2020, UPM successfully issued a EUR 750 million Green Bond under its EMTN (Euro Medium Term Note). A second EUR 500 million Green Bond was issued in Q1 2021. The facilities and UPM's outstanding debt have no financial covenants.









Results

Q1 2021 compared with Q1 2020

Q1 2021 sales were EUR 2,234 million, 2% lower than the EUR 2,287 million for Q1 2020. Lower sales were mainly due to lower prices of graphic papers and unfavourable changes in currencies. Sales decreased in UPM Communication Papers and UPM Raflatac, and increased in UPM Biorefining, UPM Energy, UPM Specialty Papers and UPM Plywood.

Comparable EBIT remained unchanged at EUR 279 million, 12.5% of sales (279 million, 12.2%).

Sales prices decreased for UPM Communication Papers and UPM Specialty Papers. At the group level, the negative impact of lower sales prices was larger than the positive impact of decreased variable costs.

Fixed costs decreased by EUR 22 million. Delivery volumes increased slightly.

Depreciation, excluding items affecting comparability, totalled EUR 116 million (120 million), including depreciation of leased assets totalling EUR 18 million (19 million). The change in the fair value of forest assets net of wood harvested was EUR 5 million (-1 million).

Operating profit was EUR 279 million (243 million). Items affecting comparability in operating profit totalled EUR 0 million in the period (-36 million).

Net interest and other finance income and costs were EUR -6 million (-4 million). Exchange rate and fair value gains and losses were EUR 0 million (1 million). Income taxes were EUR 45 million (48 million). Items affecting comparability in taxes totalled EUR 0 million (-2 million).

Profit for Q1 2021 was EUR 227 million (192 million), and comparable profit was EUR 228 million (231 million).

Q1 2021 compared with Q4 2020

Comparable EBIT increased by 11% to EUR 279 million, which was 12.5% of sales (252 million, 11.5%). Sales prices increased mostly for UPM Biorefining and UPM Energy. Delivery volumes were higher in most of UPM's business areas.

Variable costs were higher, partly due to seasonal factors in energy costs.

Fixed costs decreased by EUR 80 million mainly due to seasonal factors and scheduled maintenance shutdowns at the UPM Kaukas and UPM Pietarsaari pulp mills during the comparison period.

Depreciation, excluding items affecting comparability, totalled EUR 116 million (116 million). The change in the fair value of forest assets net of wood harvested was EUR 5 million (-24 million).

Operating profit was EUR 279 million (253 million).

Financing and cash flow

In Q1 2021 cash flow from operating activities before capital expenditure and financing totalled EUR 217 million (137 million). Working capital increased by EUR 122 million (212 million).

Net debt was EUR 83 million at the end of Q1 2021 (-405 million). The gearing ratio as of 31 March 2021 was 1% (-4%). The net debt to EBITDA ratio, based on the last 12 month's EBITDA, was 0.06 at the end of the period (-0.23).

On 31 March 2021 UPM's cash funds and unused committed credit facilities totalled EUR 3.2 billion. This includes the sustainability-linked five-year EUR 750 million revolving credit facility signed in Q1 2020 and the EUR 159 million equivalent rolling overdraft facility.

On 13 November 2020 UPM issued a EUR 750 million Green Bond and on 15 March 2021 a EUR 500 million

Green Bond under its EMTN (Euro Medium Term Note) programme.

A dividend of EUR 1,30 per share (totalling EUR 693 million) was paid on 12 April 2021 for the 2020 financial year.

Capital expenditure

In Q1 2021, capital expenditure totalled EUR 252 million, which was 11.3% of sales (165 million, 7.2% of sales). Capital expenditure does not include additions to leased assets.

In 2021, UPM's total capital expenditure, excluding investments in shares, is expected to be about EUR 2,000 million, which includes estimated capital expenditure of approximately EUR 1,800 million in transformative projects. Transformative projects consist of the new pulp mill, port operations, local investments outside the mill fence in Uruguay and the biochemicals biorefinery in Germany.

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 in 2023. The investment is estimated to decrease UPM's CO_2-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 in Leuna, Germany. The facility is scheduled to start up by the end of 2022.

Personnel

In Q1 2021, UPM had an average of 17,704 employees (18,553). At the beginning of the year, the number of employees was 18,014 and at the end of Q1 2021 it was 17,670.

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 434,000 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 the 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 modernization 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, but the overall rail project is delayed, and the railway is scheduled to start operations in May 2023. UPM has a contingency plan in place to ensure logistics with truck transportation during this delay.

UPM is proceeding with the construction of a deep-sea pulp terminal at 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 signed an agreement on rail logistics services in October 2020. Both agreements are considered in accordance with 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. The mill's value chain is expected to contribute USD 170 million in annual taxes and social security payments and to 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. Approximately 4,000 people are currently working on the project at the various construction sites. Due to the current challenging COVID-19 situation in Uruguay, strict protocols have been further reinforced at all UPM's construction sites.

At the pulp mill site in Paso de los Toros, civil works continue to progress in all main process areas. The mechanical erection phase that started in January 2021 is progressing.

Large scale cargo transfers started in February 2021 from the UPM Fray Bentos port to the new mill site, including the transports of machinery, equipment and structures necessary for the construction of the UPM Paso de los Toros mill.

The temporary and permanent housing construction are also proceeding in the final stages.

At the pulp terminal in Montevideo, works are progressing as planned, and a large part of the pulp terminal area is completed. Works continue on the unloading area and the port dock while construction of the main pier and tank area is proceeding.

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 2020 UPM announced that it would invest EUR 550 million in a 220,000 tonnes next-generation biochemicals refinery in Leuna, Germany. The biorefinery 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.

The 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 optimized, it is expected to achieve the ROCE target of 14%.

A combination of sustainable wood supply, a unique technology concept, integration into existing infrastructure at Leuna as well as the proximity to customers will ensure the 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 logistics arrangements and infrastructure for various services and utilities. In October 2020, UPM entered into service agreements with InfraLeuna GmbH related to wood handling, wastewater treatment and other utilities, which will be recognised as lease assets and liabilities under IFRS 16 Leases upon the commencement date. The total amount of such lease assets and liabilities is estimated to be EUR 100 million.

Construction of the biorefinery at Leuna has commenced. Permitting has proceeded in accordance with German legislation and the first partial permits have been received as planned. Detailed engineering and procurement activities are proceeding at full speed. At the site, excavation works have started and preparations for laying foundations and connection to utility supplies are under way. Commercial activities have also continued well and without interruptions. Concrete customer cases are advancing in all main product streams and different value chains.

Biofuels business development

In January 2021, UPM announced that it moves forward with biofuels growth plans and starts the basic engineering phase of a next generation biorefinery. The potential biorefinery would have an annual capacity of 500,000 tonnes of high-quality renewable fuels including sustainable jet fuel. The products would significantly reduce carbon footprint of road transport and aviation, as well as replace fossil raw materials with renewable alternatives in chemicals and bioplastics. In the feedstocks, UPM's wood biomass-based residues and side streams play a substantial role. In addition, it would use sustainable liquid waste and residue raw materials.

UPM is proceeding with a detailed commercial and basic engineering study to define the business case, select innovative technology option and estimate the investment need. During the study UPM will also review the operating environment primarily in two locations: Kotka, Finland and Rotterdam, the Netherlands.

The basic engineering phase has begun well and is proceeding at full speed. The biofuels growth organisation has been strengthened with hires mainly to process design.

The estimated duration of this basic engineering phase is a minimum of 12 months. If all preparations are concluded successfully, UPM would initiate the company's standard procedure of analysing and preparing an investment decision.

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 August 2020 having received an updated re-baseline schedule on the commissioning of OL3 from Supplier.

On 26 March 2021 TVO announced that the Radiation and Nuclear Safety Authority (STUK) had given a fuel loading permit for OL3. Further, TVO announced on 27 March that fuel loading of OL3 had started. Fuel loading was completed in early April. As announced by TVO, electricity production of OL3 is expected to start in October 2021, and regular electricity production in February 2022.

The new management of Areva, the Supplier party, is preparing a financial solution to complete the OL3 project by the end of the guarantee period. TVO is also negotiating with Supplier on the terms of completing the 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 the Mankala-principle electricity and/or heat is supplied to shareholders in proportion to 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 CO2 -free and TVO will have a secure solution for the final disposal of used fuel.

Events during the reporting period

On 19 January, UPM announced that it would invest EUR 13 million in UPM Raflatac's new production line in Nowa Wieś, Poland. The investment will increase UPM Raflatac's Direct Thermal (DT) Linerless annual production capacity by 100 million m^2. The new production line is expected to be operational at the end of 2021.

On 28 January, UPM announced that it moves forward with biofuels growth plans and starts the basic engineering phase of a next generation biorefinery.

On 17 February, UPM announced that it has joined The Climate Pledge, a cross-sector community of world-class companies working together to crack the climate crisis and to decarbonise our economy. These companies are committed to reach the targets of the Paris Agreement well in advance.

On 15 March, UPM announced that it has issued a new EUR 500 million Green Bond under its EMTN (Euro Medium Term Note) programme and its Green Finance Framework. The bond matures in March 2031 and pays a fixed coupon of 0.50%.

On 19 March, UPM announced that it has applied for listing of a EUR 500 million Green Bond under its Euro Medium Term Note (EMTN) programme on the Irish Stock Exchange plc, trading as Euronext Dublin.

On 25 March, UPM announced that UPM Timber has completed the employee consultation process that started in early February regarding its plans to improve profitability and strengthen competitiveness. Based on the negotiations, the number of positions at UPM Timber will decrease by 43. In addition, the small log line at the Kaukas sawmill will be closed by the end of June 2021 and the operating model of the Korkeakoski sawmill will be optimised.

On 26 March, the Radiation and Nuclear Safety Authority (STUK) gave a fuel loading permit for the OL3 EPR unit.

On 27 March, the fuel loading of the OL3 EPR unit started.

On 30 March, UPM held its Annual General Meeting. The decisions of the AGM are presented elsewhere in this report.

Events after the balance sheet date

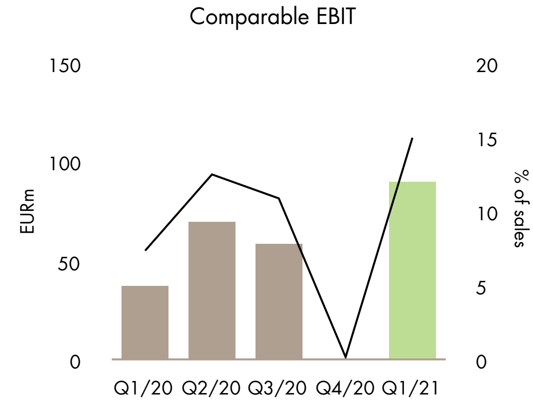
On 14 April, UPM announced that it aims to increase efficiency of its global functions by reorganising and streamlining operations in Finland, Germany, and Austria. If implemented, the plans would decrease the number of employments in the functions by up to 51.

On 15 April, UPM announced that it has improved its outlook for 2021.

On 27 April, Emma FitzGerald was appointed as the fourth member of UPM's Audit Committee.

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. UPM Timber offers certified sawn timber and 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. UPM has three pulp mills in Finland and one mill and plantation operations in Uruguay. UPM operates four sawmills and one biorefinery in Finland.



	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	606	569	541	563	509	2,183
Comparable EBITDA, EURm	137	50	104	113	81	348
% of sales	22.6	8.7	19.2	20.1	15.9	15.9
Change in fair value of forest assets and wood harvested, EURm	0	-6	-2	0	-1	-8
Share of results of associated companies and joint ventures, EURm	0	1	0	1	1	2
Depreciation, amortisation and impairment charges, EURm	-47	-44	-44	-44	-44	-176
Operating profit, EURm	90	0	58	70	37	166
% of sales	14.9	0.1	10.8	12.4	7.3	7.6
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—
Comparable EBIT, EURm	90	0	58	70	37	166
% of sales	14.9	0.1	10.8	12.4	7.3	7.6
Capital employed (average), EURm	3,910	3,664	3,592	3,664	3,561	3,620
Comparable ROCE, %	9.2	0.1	6.5	7.6	4.2	4.6
Pulp deliveries, 1000 t	952	925	932	943	864	3,664

Pulp mill maintenance shutdowns: Q4 2020 UPM Kaukas, UPM Pietarsaari.

- Strong pulp market with rising prices
- Actions to improve profitability and strengthen competitiveness in UPM Timber

Results

Q1 2021 compared with Q1 2020

Comparable EBIT for UPM Biorefining increased due to higher pulp sales prices. Variable costs were lower. Changes in currencies were unfavourable.

The average price in euro for UPM's pulp deliveries increased by 1%.

Q1 2021 compared with Q4 2020

Comparable EBIT increased due to higher pulp sales prices and scheduled maintenance shutdowns at the UPM Kaukas and UPM Pietarsaari pulp mills that impacted the comparison period.

The average price in euro for UPM's pulp deliveries increased by 8%.

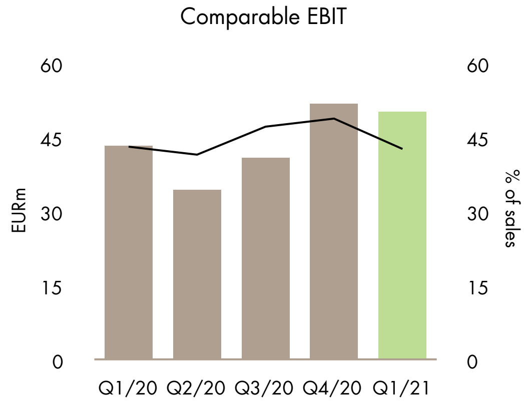
Market environment

- Global chemical pulp demand was strong in Q1 2021.
- In Europe, the market price for both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased in Q1 2021 compared with Q4 2020.
- In China, the market price for both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased in Q1 2021 compared with Q4 2020.
- In Q1 2021, the average European market price in euro was 16% higher for NBSK and 6% higher for BHKP, compared with Q1 2020. In China the average market price in US dollars was 32% higher for NBSK and 13% higher for BHKP, compared with Q1 2020.
- Strong demand for advanced renewable diesel and naphtha.
- Demand for sawn timber was strong in Q1 2021. Market prices were good.

Sources: FOEX, UPM

UPM Energy

UPM Energy generates cost competitive, zero-carbon electricity. Operations also include physical electricity and financial portfolio management as well as services to industrial electricity consumers. UPM Energy is the second largest electricity producer in Finland. UPM's power generation capacity consists of hydropower, nuclear power and thermal power.



	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	119	107	88	83	101	379
Comparable EBITDA, EURm	52	54	43	36	45	178
% of sales	43.9	50.3	48.8	43.6	44.8	47.0
Depreciation, amortisation and impairment charges, EURm	-2	-5	-2	-2	-2	-10
Operating profit, EURm	50	49	58	34	43	184
% of sales	42.4	45.7	66.1	41.2	42.9	48.7
Items affecting comparability in operating profit, EURm [1]	—	-3	17	—	—	14
Comparable EBIT, EURm	50	52	41	34	43	171
% of sales	42.4	48.5	46.9	41.2	42.9	45.0
Capital employed (average), EURm	2,231	2,253	2,229	2,336	2,434	2,313
Comparable ROCE, %	9.0	9.2	7.4	5.9	7.1	7.4
Electricity deliveries, GWh	2,411	2,437	2,082	2,162	2,487	9,168

[1] In Q4 2020, items affecting comparability relate to restructuring of ownership in Alholmens Kraft. In Q3 2020, items affecting comparability include EUR 12 million gain on sale of group's share in Kainuun Voima Oy and EUR 5 million income relating to reversal of unused restructuring provisions.

- The Radiation and Nuclear Safety Authority (STUK) gave the fuel loading permit for the OL3 EPR unit in March. The fuel loading was completed in early April.

Results

Q1 2021 compared with Q1 2020

Comparable EBIT for UPM Energy increased due to higher electricity sales prices. Hydropower generation decreased, but was on a good level.

UPM's average electricity sales price increased by 23% to EUR 43.1/MWh (34.9/MWh).

Q1 2021 compared with Q4 2020

Comparable EBIT decreased slightly. Hydropower generation decreased, but was on a good level. Electricity sales prices were higher.

UPM's average electricity sales price increased by 13% to EUR 43.1/MWh (38.2MWh).

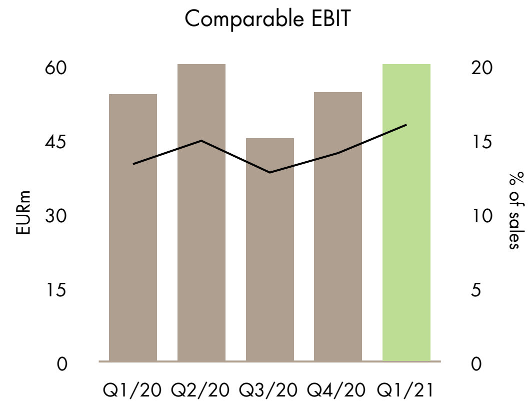
Market environment

- The Nordic hydrological balance was above normal at the end of March. In Finland, the hydrological situation was good.
- The CO_2 emission allowance price of EUR 42.5/tonne at the end of Q1 2021 was significantly higher than at the end of Q1 2020 (EUR 17.7/tonne).
- The average Finnish area spot price on the Nordic electricity exchange in Q1 2021 was EUR 48.6/MWh, 49% higher than in Q4 2020 (32.7/MWh) and 103% higher than in Q1 2020 (24.0/MWh).
- The front-year forward electricity price for the Finnish area closed at EUR 34.8/MWh in March, 20% lower than at the end of Q4 2020 (43.5/MWh).

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

UPM Raflatac

UPM Raflatac offers innovative and sustainable self-adhesive label materials for branding and promotion, information and functional labelling in the food, beverage, personal care, pharmaceutical and logistic segments, for example. UPM Raflatac is the second-largest producer of self-adhesive label materials worldwide.



	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	391	390	358	403	408	1,560
Comparable EBITDA, EURm	71	64	55	70	64	252
% of sales	18.2	16.4	15.3	17.2	15.6	16.2
Depreciation, amortisation and impairment charges, EURm	-9	-9	-9	-10	-10	-39
Operating profit, EURm	62	48	45	60	51	205
% of sales	15.9	12.4	12.7	14.9	12.5	13.2
Items affecting comparability in operating profit, EURm [1)]	—	-6	—	—	-3	-9
Comparable EBIT, EURm	62	55	45	60	54	214
% of sales	15.9	14.0	12.7	14.8	13.3	13.7
Capital employed (average), EURm	523	526	532	560	549	542
Comparable ROCE, %	47.6	41.5	34.1	42.8	39.5	39.5

[1)] In Q4 2020 and Q1 2020, items affecting comparability relate to restructuring charges.

- Investment to scale up the Linerless labelstock business with a new production line in Poland
- High efficiency and successful mix and margin management continued
- Actions to mitigate raw material cost inflation

Results

Q1 2021 compared with Q1 2020

Comparable EBIT for UPM Raflatac increased, mainly due to lower fixed costs. Mix improvement actions offset the negative currency impacts and lower sales prices.

Q1 2021 compared with Q4 2020

Comparable EBIT increased due to lower fixed costs and improved mix and margin management.

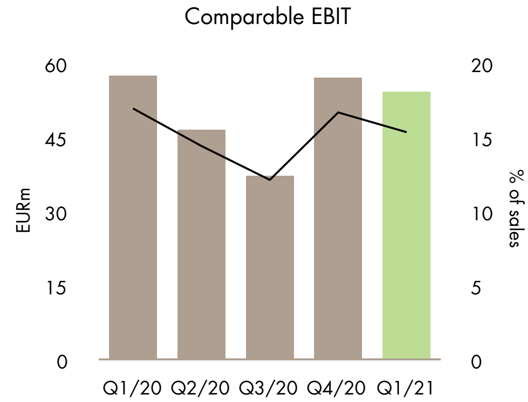
Market environment

- In Q1 2021, demand continued at a good level in Europe and the Americas and was particularly strong in Asia.

Sources: UPM, FINAT, TLMI

UPM Specialty Papers

UPM Specialty Papers offers labelling and packaging materials 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.



	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	355	345	311	325	342	1,324
Comparable EBITDA, EURm	73	76	56	66	75	273
% of sales	20.6	22.0	18.0	20.3	21.8	20.6
Depreciation, amortisation and impairment charges, EURm	-19	-19	-18	-19	-17	-73
Operating profit, EURm	54	57	40	50	58	206
% of sales	15.3	16.6	12.9	15.5	16.9	15.5
Items affecting comparability in operating profit, EURm [1)]	—	—	3	4	—	6
Comparable EBIT, EURm	54	57	37	47	58	199
% of sales	15.3	16.6	12.0	14.3	16.9	15.0
Capital employed (average), EURm	870	880	871	900	937	897
Comparable ROCE, %	24.9	26.0	17.2	20.7	24.7	22.2
Paper deliveries, 1000 t	434	430	397	382	387	1,596

1) In Q3 and Q2 2020, items affecting comparability include gains on sale of non-current assets.

- Good profitability continued
- Strong global demand for specialty grades
- Ramp-up at UPM Nordland continued

Results

Q1 2021 compared with Q1 2020

Comparable EBIT for UPM Specialty Papers decreased slightly. Sales prices were lower, which more than offset the positive impact of higher delivery volumes.

Q1 2021 compared with Q4 2020

Comparable EBIT decreased slightly due to higher input costs. Sales prices increased. Fixed costs were lower.

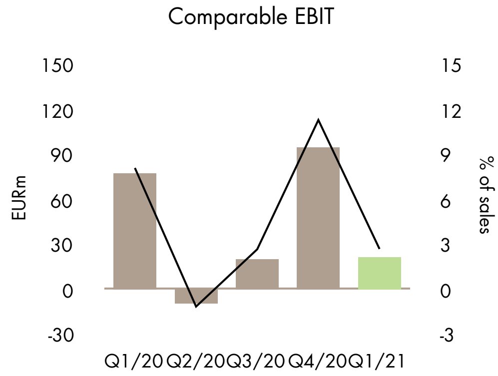
Market environment

- In Q1 2021, solid fine paper demand in the Asia-Pacific region.
- In Q1 2021, fine paper market prices continued to increase.
- Demand growth for label, release and packaging paper was strong in Q1 2021. Demand was driven by consumable goods and e-commerce.

Sources: UPM, RISI, AFRY, AWA

UPM Communication Papers

UPM Communication Papers offers an extensive product range of sustainably produced graphic papers for advertising and publishing as well as home and office uses. The business has extensive low-cost operations consisting of 14 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.



	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	815	842	784	741	966	3,333
Comparable EBITDA, EURm	47	121	48	21	110	300
% of sales	5.7	14.4	6.1	2.9	11.4	9.0
Share of results of associated companies and joint ventures, EURm	0	0	1	-1	0	0
Depreciation, amortisation and impairment charges, EURm	-27	-22	-82	-42	-34	-179
Operating profit, EURm	23	110	-95	-37	31	9
% of sales	2.8	13.1	-12.1	-5.0	3.2	0.3
Items affecting comparability in operating profit, EURm [1)]	2	16	-114	-27	-45	-170
Comparable EBIT, EURm	20	94	19	-10	76	180
% of sales	2.5	11.1	2.5	-1.3	7.9	5.4
Capital employed (average), EURm	1,340	1,367	1,413	1,473	1,529	1,446
Comparable ROCE, %	6.1	27.4	5.5	-2.7	20.0	12.4
Paper deliveries, 1000 t	1,396	1,443	1,320	1,188	1,515	5,466

[1)] In Q1 2021, items affecting comparability relate to prior capacity closures. In Q4 2020, items affecting comparability include EUR 5 million restructuring charges reversals related to Chapelle mill and Kaipola mill closure as well as business functions' restructurings, EUR 6 million impairment charges reversals and EUR 5 million income related to prior capacity closures. In Q3 2020, items affecting comparability include EUR 46 million restructuring charges and EUR 53 million impairment charges related to closure of UPM Kaipola mill and EUR 15 million charges related to business functions' restructuring. 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.

- Growing market position in coated grades and good business retention after UPM Kaipola closure
- Strict control of fixed costs continued
- Satisfactory asset utilisation

Results

Q1 2021 compared with Q1 2020

Comparable EBIT for UPM Communication Papers decreased due to lower sales prices. Delivery and production volumes were lower. Fixed costs decreased.

The average price in euro for UPM's paper deliveries decreased by 10%.

Q1 2021 compared with Q4 2020

Comparable EBIT decreased. Variable costs were higher, partly seasonally, due to recognition of energy-related refunds in Europe in the comparison period. Sales prices decreased. Fixed costs decreased.

Sales prices were lower in all grades. However, the mix impacted average price in euro for UPM's paper deliveries remained unchanged.

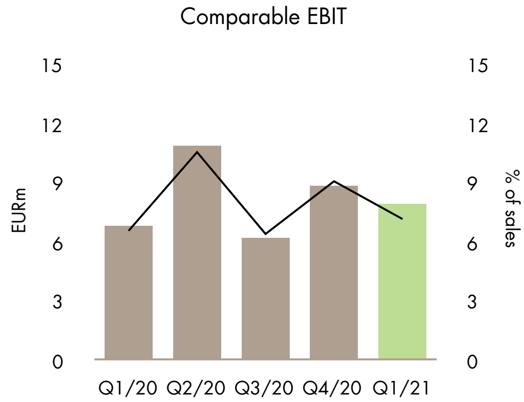
Market environment

- In Q1 2021, demand for graphic papers in Europe was 14% lower than in Q1 2020. Newsprint demand decreased by 16%, magazine papers by 14% and fine papers by 11% compared with Q1 2020.
- In Q1 2021, publication paper prices in Europe decreased by 6% compared with Q4 2020. Compared with Q1 2020 publication paper prices were 12% lower. In Q1 2021, fine paper prices in Europe were 2% lower than in the previous quarter. Compared with Q1 2020, fine paper prices were 7% lower.
- In Q1 2021, demand for magazine papers in North America decreased by 24%, compared with Q1 2020. The average price in US dollars for magazine papers in Q1 2021 increased by 2% compared to Q4 2020 and decreased by 1% compared with Q1 2020.

Sources: PPI/RISI, Euro-Graph, PPPC

UPM Plywood

UPM Plywood offers high quality WISA® plywood and veneer products for construction, vehicle flooring, LNG shipbuilding, parquet manufacturing and other industrial applications. Production facilities are located in Finland, Estonia and Russia.



	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	112	99	98	104	105	405
Comparable EBITDA, EURm	14	15	13	18	14	59
% of sales	12.9	15.6	12.9	17.1	13.0	14.6
Depreciation, amortisation and impairment charges, EURm	-6	-7	-6	-14	-7	-35
Operating profit, EURm	8	9	6	-12	7	10
% of sales	7.1	8.8	6.3	-11.1	6.5	2.5
Items affecting comparability in operating profit, EURm 1)	—	—	—	-22	—	-23
Comparable EBIT, EURm	8	9	6	11	7	33
% of sales	7.1	9.0	6.3	10.4	6.5	8.0
Capital employed (average), EURm	287	280	284	298	307	292
Comparable ROCE, %	11.0	12.7	8.7	14.5	8.8	11.2
Plywood deliveries, 1000 m^3	191	169	168	173	173	683

1) 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.

- High operational efficiency
- Panel trading and vehicle flooring demand improved
- Expansion project ramp-up at UPM Chudovo continued successfully with new production record

Results

Q1 2021 compared with Q1 2020

Comparable EBIT for UPM Plywood increased slightly mainly due to higher production and delivery volumes. Variable costs were lower. Fixed costs were higher mainly due to a strike in the comparison period.

Q1 2021 compared with Q4 2020

Comparable EBIT decreased slightly. Variable costs were higher and offset the positive impact of higher delivery volumes and sales prices.

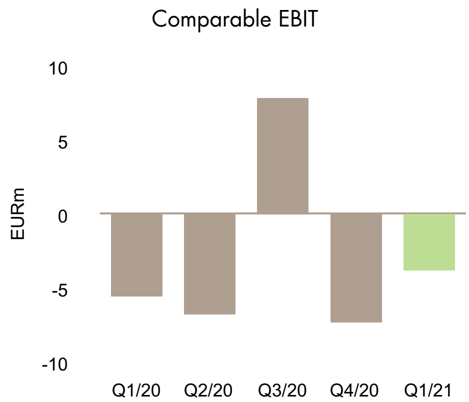
Market environment

- In Q1 2021, demand for spruce plywood continued to be strong, driven by the building and construction industry.
- In Q1 2021, demand for birch plywood improved mainly in panel trading, vehicle flooring and construction-related industrial applications.

Source: UPM

Other operations

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



	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	58	58	57	60	50	225
Comparable EBITDA, EURm	-2	19	15	-1	1	34
Change in fair value of forest assets and wood harvested, EURm	5	-18	1	0	0	-17
Share of results of associated companies and joint ventures, EURm	0	0	0	1	0	1
Depreciation, amortisation and impairment charges, EURm	-6	-9	-8	-7	-6	-30
Operating profit, EURm	-3	-9	7	-7	-6	-15
Items affecting comparability in operating profit, EURm [1]	—	-2	-1	—	—	-3
Comparable EBIT, EURm	-4	-7	8	-7	-6	-12
Capital employed (average), EURm	1,944	1,899	1,908	1,916	1,879	1,901
Comparable ROCE, %	-0.8	-1.5	1.6	-1.4	-1.2	-0.6

[1] In Q4 2020 and Q3 2020, items affecting comparability relate to restructuring charges.

- UPM Biomedicals announced a collaboration with bioconvergence company CELLINK for development of 3D bioprinting

Results

Q1 2021 compared with Q1 2020

Comparable EBIT for other operations increased. The change in the fair value of forest assets net of wood harvested was EUR 5 million (0 million). The increase in the fair value of forest assets was EUR 16 million (16 million). The cost of wood harvested from UPM forests was EUR 10 million (16 million).

Q1 2021 compared with Q4 2020

Comparable EBIT increased. The change in the fair value of forest assets net of wood harvested was EUR 5 million (-18 million). The increase in the fair value of forest assets was EUR 16 million (17 million). The cost of wood harvested from UPM forests was EUR 10 million (35 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 continues to cause significant uncertainty. The pandemic resulted in a severe global recession, which impacted practically all parts of the world. The duration of the pandemic and the duration and shape of the recession and the following recovery 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.

Many global commodity prices have recently increased. This, combined with recovering global economy and possible supply restrictions could have an increasing impact on UPM's raw material cost items.

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). As stipulated in the plant contract, the consortium companies have joint and several liability for the contractual obligations.

Originally commercial electricity production at OL3 was scheduled to start in April 2009. However, completion of the project has been delayed. Supplier has updated the schedule for the commissioning of OL3 several times.

In March 2018 TVO announced that it had signed a global settlement agreement with Supplier and the Areva Group parent company, Areva SA, a company wholly owned by the French state. The global 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 global settlement agreement, TVO and Supplier jointly withdrew the pending arbitration proceedings under 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 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.

In the global settlement agreement, the Supplier consortium companies committed to ensuring that the funds dedicated to the completion of the OL3 project are sufficient and cover all applicable guarantee periods. Consequently, a trust mechanism was set up funded by Areva companies to secure the funds required to cover Areva's costs for the completion of the OL3 project. TVO announced in its annual report of 2020 that the fund has been replenished during the accounting period according to the terms of the agreement, and that TVO has recognized receivables from Supplier amounting to the accumulated compensation in accordance with the global settlement agreement. The EUR 240 million compensation decreases the historical costs of property, plant and equipment in TVO's balance sheet.

TVO announced on 26 March 2021 that the Radiation and Nuclear Safety Authority (STUK) had given a fuel loading permit for OL3. Further, TVO announced on 27 March that fuel loading of OL3 had started. Fuel loading was completed in April. According to TVO, as announced earlier, electricity production of OL3 is expected to start in October 2021, and regular electricity production in February 2022.

As announced by TVO, the new management of Areva, the Supplier party, is preparing a financial solution to complete the OL3 project until the end of the guarantee period. TVO is also negotiating with Supplier on the terms of completing the OL3 project.

The COVID 19 pandemic may have significantly added uncertainty to the progress of the project. According to TVO, significant arrangements have been made at the OL3 site preventing the COVID-19 infections. Despite COVID-19-related restrictions, work has been able to continue under special arrangements.

On 16 December 2020, TVO announced that the shareholders of TVO, including PVO, have signed an additional shareholder loan commitment, comprising a total of EUR 400 million new subordinated shareholder loan agreements. According to TVO with the new shareholder loan commitment, TVO is preparing to maintain a sufficient liquidity buffer and equity ratio to complete the OL3.

TVO announced on 1 April, 2021 that S&P Global Ratings affirmed its long-term credit rating "BB" and changed the outlook from negative to positive.

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 may be higher than the market price of electricity at that time.

The recent development of Renewable Energy Sources Act (EEG) related lawsuits in Germany for alleged non-payment of EEG based surcharges may have an adverse impact on UPM, albeit UPM is not currently a party to any such lawsuits.

The main earnings sensitivities and the group's cost structure are presented on pages 160–161 of Annual Report 2020. Risks and opportunities are discussed on pages 36–37, and risks and risk management are presented on pages 129–133.

Annual General Meeting

The Annual General Meeting held on 30 March 2021 decided that a dividend of EUR 1.30 per share (totalling EUR 693 million) would be paid in respect of the 2020 financial year. The dividend record date was 1 April and the dividend was paid on 12 April 2021.

The Board of Directors was authorised to decide on the issuance of new shares, transfer of treasury shares and issuance of special rights entitling to shares in proportion to shareholders' existing holdings in the Company, or in a directed share issue, deviating from the shareholder's pre-emptive 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 also 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.

The Board of Directors was authorised to decide on the repurchase of a maximum of 50,000,000 of the Company's own shares at market price in public trading using the

Company's unrestricted shareholders' equity. The authorisation also includes the right to accept the Company's own shares as a pledge. The authorisation will be valid for 18 months from the date of the AGM resolution and it revoked the repurchase authorisation granted by the previous AGM.

Board of Directors

At the Annual General Meeting held on 30 March 2021, the number of members of the Board of Directors was confirmed as nine instead of the previous ten, and Berndt Brunow, Henrik Ehrnrooth, Emma FitzGerald, Piia-Noora Kauppi, Marjan Oudeman, Martin à Porta, Kim Wahl and Björn Wahlroos were re-elected to the Board. Jari Gustafsson was elected as a new director to the Board. The directors' term of office will end upon the closure of the next AGM.

Björn Wahlroos was re-elected as Chair, and Berndt Brunow as Deputy Chair of the Board of Directors of UPM-Kymmene Corporation at the Board of Directors' constitutive meeting that took place following the Annual General Meeting.

In addition, the Board of Directors elected the chairs and other members to the Board committees from among its members. Kim Wahl was elected to chair the Audit Committee, and Jari Gustafsson and Marjan Oudeman were elected as other committee members. Henrik Ehrnrooth was elected to chair the Remuneration Committee, and Emma FitzGerald and Martin à Porta were elected as other committee members. Björn Wahlroos was re-elected to chair the Nomination and Governance Committee, and Berndt Brunow and Piia-Noora Kauppi were elected as other committee members.

Shares

In Q1 2021 UPM shares worth a total of EUR 2,562 million (2,977 million) were traded on the Nasdaq Helsinki stock exchange. This is estimated to represent more than 70% of the total trading volume in UPM shares. The highest listing was EUR 33.58 in March and the lowest was EUR 29.11 in January.

The Annual General Meeting held on 30 March 2021 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 30 March 2021 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 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 authorization to issue shares, convertible bonds or share options.

The number of shares entered in the Trade Register on 31 March 2021 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 March 2021, 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 the end of Q1 2021.

Helsinki, 27 April 2021

UPM-Kymmene Corporation
Board of Directors

Financial statement information

Consolidated income statement

EURm	Q1/2021	Q1/2020	Q1–Q4/2020
Sales (Note 3)	2,234	2,287	8,580
Other operating income	21	42	116
Costs and expenses	-1,865	-1,967	-7,371
Change in fair value of forest assets and wood harvested	5	-1	-25
Share of results of associated companies and joint ventures	0	1	3
Depreciation, amortisation and impairment charges	-117	-120	-541
Operating profit	279	243	761
Exchange rate and fair value gains and losses	0	1	2
Interest and other finance costs, net	-6	-4	-26
Profit before tax	272	240	737
Income taxes	-45	-48	-169
Profit for the period	227	192	568
Attributable to:			
Owners of the parent company	224	190	560
Non-controlling interests	3	2	8
	227	192	568
Earnings per share for profit attributable to owners of the parent company			
Basic earnings per share, EUR	0.42	0.36	1.05
Diluted earnings per share, EUR	0.42	0.36	1.05

Consolidated statement of comprehensive income

EURm	Q1/2021	Q1/2020	Q1–Q4/2020
Profit for the period	227	192	568
Other comprehensive income for the period, net of tax			
Items that will not be reclassified to income statement:			
Actuarial gains and losses on defined benefit obligations	56	114	-36
Changes in fair value of energy shareholdings	51	-55	-251
Items that may be reclassified subsequently to income statement:			
Translation differences	161	8	-262
Net investment hedge	-7	-5	5
Cash flow hedges	-20	-48	-24
Other comprehensive income for the period, net of tax	241	13	-569
Total comprehensive income for the period	469	205	0
Total comprehensive income attributable to:			
Owners of the parent company	461	201	-7
Non-controlling interests	8	4	6
	469	205	0

Consolidated balance sheet

EURm	31 MAR 2021	31 MAR 2020	31 DEC 2020
ASSETS			
Goodwill	233	240	229
Other intangible assets	349	366	363
Property, plant and equipment (Note 4)	4,571	4,154	4,316
Leased assets	577	579	561
Forest assets	2,109	2,134	2,077
Energy shareholdings (Note 5)	1,990	2,088	1,936
Other non-current financial assets	147	209	166
Deferred tax assets	415	403	421
Net retirement benefit assets	67	85	26
Investments in associates and joint ventures	33	33	33
Other non-current assets	20	22	21
Non-current assets	10,511	10,315	10,149
Inventories	1,327	1,391	1,285
Trade and other receivables	1,721	1,653	1,534
Other current financial assets	82	86	136
Income tax receivables	20	28	34
Cash and cash equivalents	2,284	1,460	1,720
Current assets	5,434	4,619	4,709
Assets classified as held for sale (Note 9)	—	18	—
Assets	15,944	14,951	14,858
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	-2	-2	-2
Translation reserve	173	276	25
Other reserves	1,452	1,597	1,430
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	5,316	5,515	5,735
Equity attributable to owners of the parent company	9,101	9,549	9,351
Non-controlling interests	200	122	162
Equity	9,301	9,671	9,513
Deferred tax liabilities	578	606	564
Net retirement benefit liabilities	729	645	771
Provisions (Note 8)	196	168	222
Non-current debt	2,556	1,234	1,952
Other non-current financial liabilities	100	83	97
Non-current liabilities	4,160	2,736	3,606
Current debt	76	105	90
Trade and other payables	2,325	2,308	1,571
Other current financial liabilities	50	102	48
Income tax payables	32	30	30
Current liabilities	2,484	2,544	1,740
Liabilities	6,644	5,280	5,345
Equity and liabilities	15,944	14,951	14,858

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
Value at 1 January 2021	890	-2	25	1,430	1,273	5,735	9,351	162	9,513
Profit for the period	—	—	—	—	—	224	224	3	227
Translation differences	—	—	155	—	—	—	155	7	161
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	3	—	—	3	—	3
Cash flow hedges - reclassified to PPE	—	—	—	-7	—	—	-7	-1	-7
Cash flow hedges - changes in fair value, net of tax	—	—	—	-14	—	—	-14	-2	-16
Net investment hedge, net of tax	—	—	-7	—	—	—	-7	—	-7
Energy shareholdings - changes in fair value, net of tax	—	—	—	51	—	—	51	—	51
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	56	56	—	56
Total comprehensive income for the period	—	—	148	33	—	280	461	8	469
Share-based payments, net of tax	—	—	—	-11	—	-6	-17	—	-17
Dividend distribution	—	—	—	—	—	-693	-693	—	-693
Contributions by non-controlling interests	—	—	—	—	—	—	—	30	30
Total transactions with owners for the period	—	—	—	-11	—	-699	-710	30	-681
Value at 31 March 2021	890	-2	173	1,452	1,273	5,316	9,101	200	9,301
Value at 1 January 2020	890	-2	278	1,711	1,273	5,912	10,062	113	10,175
Profit for the period	—	—	—	—	—	190	190	2	192
Translation differences	—	—	3	—	—	—	3	4	8
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	-6	—	—	-6	—	-6
Cash flow hedges - changes in fair value, net of tax	—	—	—	-40	—	—	-40	-2	-42
Net investment hedge, net of tax	—	—	-5	—	—	—	-5	—	-5
Energy shareholdings - changes in fair value, net of tax	—	—	—	-57	—	2	-55	—	-55
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	114	114	—	114
Total comprehensive income for the period	—	—	-2	-103	—	305	201	4	205
Share-based payments, net of tax	—	—	—	-11	—	-9	-20	—	-20
Dividend distribution	—	—	—	—	—	-693	-693	—	-693
Contributions by non-controlling interests	—	—	—	—	—	—	—	5	5
Total transactions with owners for the period	—	—	—	-11	—	-702	-713	5	-708
Value at 31 March 2020	890	-2	276	1,597	1,273	5,515	9,549	122	9,671

Consolidated cash flow statement

EURm	Q1/2021	Q1/2020	Q1–Q4/2020
Cash flows from operating activities			
Profit for the period	227	192	568
Adjustments [1)]	154	190	721
Interest received	0	1	3
Interest paid	-12	-5	-37
Dividends received	0	1	3
Other financial items, net	1	-3	-14
Income taxes paid	-30	-27	-145
Change in working capital	-122	-212	-93
Operating cash flow	217	137	1,005
Cash flows from investing activities			
Capital expenditure	-267	-160	-818
Additions to forest assets	-7	-26	-57
Investments in energy shareholdings	0	0	-47
Proceeds from sale of property, plant and equipment and intangible assets, net of tax	1	1	23
Proceeds from sale of forest assets, net of tax	5	1	3
Proceeds from disposal of energy shareholdings	0	2	2
Proceeds from disposal of joint operations	0	0	17
Net cash flows from net investment hedges	0	0	-4
Change in other non-current assets	5	2	3
Investing cash flow	-262	-180	-879
Cash flows from financing activities			
Proceeds from non-current debt	600	0	861
Payments of non-current debt	-11	-2	-31
Lease repayments	-22	-26	-86
Change in current liabilities	-1	3	-2
Net cash flows from derivatives	12	-9	-17
Dividends paid to owners of the parent company	0	0	-693
Dividends paid to non-controlling interests	0	0	-23
Contributions paid by non-controlling interests	30	5	67
Other financing cash flow	-1	0	-4
Financing cash flow	606	-29	71
Change in cash and cash equivalents	561	-72	197
Cash and cash equivalents at the beginning of the period	1,720	1,536	1,536
Exchange rate effect on cash and cash equivalents	2	-3	-13
Change in cash and cash equivalents	561	-72	197
Cash and cash equivalents at the end of the period	2,284	1,460	1,720

[1)] **Adjustments**

EURm	Q1/2021	Q1/2020	Q1–Q4/2020
Change in fair value of forest assets and wood harvested	-5	1	25
Share of results of associated companies and joint ventures	0	-1	-3
Depreciation, amortisation and impairment charges	117	120	541
Capital gains and losses on sale of non-current assets	-1	0	-25
Financial income and expenses	6	3	24
Income taxes	45	48	169
Utilised provisions	-31	-15	-55
Non-cash changes in provisions	-3	40	130
Other adjustments	25	-5	-86
Total	154	190	721

Notes to the financial statements

1 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 2020.

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 valuating 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 83 million on 31 March 2021.Cash funds and unused committed credit facilities amounted to EUR 3.2 billion. The facilities and UPM's outstanding debt have no financial covenants.

2 Quarterly information by business area

EURm, OR AS INDICATED	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales						
UPM Biorefining	606	569	541	563	509	2,183
UPM Energy	119	107	88	83	101	379
UPM Raflatac	391	390	358	403	408	1,560
UPM Specialty Papers	355	345	311	325	342	1,324
UPM Communication Papers	815	842	784	741	966	3,333
UPM Plywood	112	99	98	104	105	405
Other operations	58	58	57	60	50	225
Internal sales	-224	-223	-208	-202	-194	-827
Eliminations and reconciliation	2	1	-1	-1	0	-1
Sales, total	2,234	2,188	2,028	2,077	2,287	8,580
Comparable EBITDA						
UPM Biorefining	137	50	104	113	81	348
UPM Energy	52	54	43	36	45	178
UPM Raflatac	71	64	55	70	64	252
UPM Specialty Papers	73	76	56	66	75	273
UPM Communication Papers	47	121	48	21	110	300
UPM Plywood	14	15	13	18	14	59
Other operations	-2	19	15	-1	1	34
Eliminations and reconciliation	-3	-8	-1	-2	9	-2
Comparable EBITDA, total	389	392	331	320	398	1,442
Operating profit						
UPM Biorefining	90	0	58	70	37	166
UPM Energy	50	49	58	34	43	184
UPM Raflatac	62	48	45	60	51	205
UPM Specialty Papers	54	57	40	50	58	206
UPM Communication Papers	23	110	-95	-37	31	9
UPM Plywood	8	9	6	-12	7	10
Other operations	-3	-9	7	-7	-6	-15
Eliminations and reconciliation	-6	-11	-3	-12	21	-4
Operating profit, total	279	253	117	148	243	761
% of sales	12.5	11.6	5.8	7.1	10.6	8.9
Items affecting comparability						
UPM Biorefining	—	—	—	—	—	—
UPM Energy	—	-3	17	—	—	14
UPM Raflatac	—	-6	—	—	-3	-9
UPM Specialty Papers	—	—	3	4	—	6
UPM Communication Papers	2	16	-114	-27	-45	-170
UPM Plywood	—	—	—	-22	—	-23
Other operations	—	-2	-1	—	—	-3
Eliminations and reconciliation [1)]	-3	-3	-2	-9	12	-3
Items affecting comparability in operating profit, total	0	2	-98	-55	-36	-187
Comparable EBIT						
UPM Biorefining	90	0	58	70	37	166
UPM Energy	50	52	41	34	43	171
UPM Raflatac	62	55	45	60	54	214
UPM Specialty Papers	54	57	37	47	58	199
UPM Communication Papers	20	94	19	-10	76	180
UPM Plywood	8	9	6	11	7	33
Other operations	-4	-7	8	-7	-6	-12
Eliminations and reconciliation	-3	-8	-1	-2	9	-2
Comparable EBIT, total	279	252	215	203	279	948
% of sales	12.5	11.5	10.6	9.8	12.2	11.1

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

Items affecting comparability

Certain non-operational or non-cash valuation transactions with significant income statement impact are considered as items affecting comparability and reported separately to reflect the underlying business performance and to enhance comparability from period to period. In Q1 2021, no significant items affecting comparability were recognised. In 2020, items affecting comparability in UPM Communication Papers business area mainly relate to restructuring charges and impairment charges due to closure of UPM Chapelle paper mill and UPM Kaipola paper mill. In Plywood business area, items affecting comparability relate to restructuring charges from the closure of Jyväskylä plywood mill.

EURm	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Comparable profit for the period	228	191	158	157	231	737
Items affecting comparability						
Impairment charges	-1	2	-53	-19	0	-70
Restructuring charges	4	3	-57	-34	-48	-137
Change in fair value of unrealised cash flow and commodity hedges	-3	-3	-2	-9	12	-3
Capital gains and losses on sale of non-current assets	0	0	14	8	0	23
Total items affecting comparability in operating profit	0	2	-98	-55	-36	-187
Changes in tax rates	0	0	0	-4	0	-3
Taxes relating to items affecting comparability	0	-3	22	4	-2	21
Items affecting comparability in taxes	0	-2	22	1	-2	18
Items affecting comparability, total	0	-1	-75	-54	-39	-169
Profit for the period	227	190	83	103	192	568

3 External sales by major products

BUSINESS AREA	BUSINESS	Q1/2021	Q1/2020	Q1–Q4/2020
EURm				
UPM Biorefining	UPM Pulp UPM Biofuels UPM Timber	483	407	1,720
UPM Energy	UPM Energy	77	71	252
UPM Raflatac	UPM Raflatac	391	408	1,560
UPM Specialty Papers	UPM Specialty Papers	311	295	1,148
UPM Communication Papers	UPM Communication Papers	807	957	3,296
UPM Plywood	UPM Plywood	107	100	385
Other operations	UPM Forest UPM Biochemicals UPM Biomedicals UPM Biocomposites	56	48	221
Eliminations and reconciliations		2	0	-1
Total		2,234	2,287	8,580

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

4 Changes in property, plant and equipment

EURm	Q1/21	Q1/20	Q1–Q4/2020
Book value at beginning of period	4,316	4,083	4,083
Reclassification to assets held for sale, net	—	—	-2
Capital expenditure	252	158	829
Decreases	—	—	-7
Depreciation	-92	-97	-383
Impairment charges	-2	0	-70
Impairment reversal	1	0	0
Translation difference and other changes	97	10	-135
Book value at end of period	4,571	4,154	4,316

Capital expenditure in Q1 2021 and in 2020 mainly relate to the construction of the new pulp mill in Uruguay and the construction of the new biorefinery on Germany. Impairment charges in 2020 mainly relate to closure of UPM Chapelle paper mill in France and UPM Kaipola paper mill in Finland and closure of Jyväskylä plywood mill.

5 Financial assets and liabilities

Financial assets and liabilities measured at fair value

EURm	31 MAR 2021				31 MAR 2020				31 DEC 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Derivatives non-qualifying hedges	—	36	—	36	—	50	—	50	—	32	—	32
Derivatives under hedge accounting	3	179	—	182	16	209	—	225	2	252	—	254
Energy shareholdings	—	—	1,990	1,990	—	—	2,088	2,088	—	—	1,936	1,936
Total	3	215	1,990	2,208	16	259	2,088	2,363	2	284	1,936	2,222
Financial liabilities												
Derivatives non-qualifying hedges	—	20	—	20	—	11	—	11	—	27	—	27
Derivatives under hedge accounting	1	47	—	48	23	72	—	95	2	27	—	29
Total	1	67	—	68	23	83	—	106	2	54	—	56

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

	ENERGY SHAREHOLDINGS		
EURm	Q1/21	Q1/20	Q1–Q4/2020
Book value at beginning of period	1,936	2,145	2,145
Disposals	0	-2	-2
Fair value changes recognised in other comprehensive income	53	-56	-207
Book value at end of period	1,990	2,088	1,936

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 5.47% used in the valuation model is determined using the weighted average cost of capital method. A change of 0.5 percentage points 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. In Q4 2020, UPM granted EUR 47 million shareholder loan to PVO to complete the Olkiluoto 3 EPR. In addition, Teollisuuden Voima Oyj (TVO) shareholders signed the addition to the agreement and commitment concerning the shareholder loan arrangement. UPM's share of this commitment amounts to EUR 123 million.

The increase in fair value during Q1 2021 was mainly due to the increase in electricity forward rates and long-term electricity price estimates.

Fair value of financial assets and liabilities measured at amortised cost

EURm	31 MAR 2021 Carrying amount	31 MAR 2021 Fair value	31 MAR 2020 Carrying amount	31 MAR 2020 Fair value	31 DEC 2020 Carrying amount	31 DEC 2020 Fair value
Bonds	1,631	1,678	475	421	1,153	1,164
Other non-current debt excl. derivative financial instruments and lease liabilities	426	444	265	274	331	345
Total	2,057	2,122	740	695	1,484	1,509

The carrying amounts are not significantly different from fair values due to hedges. The fair values of all other financial assets and liabilities approximate their carrying amount.

6 Commitments and contingencies

EURm	31 MAR 2021	31 MAR 2020	31 DEC 2020
Own commitments			
Mortgages	—	1	0
On behalf of others			
Guarantees	2	2	2
Other own commitments			
Commitments related to off-balance sheet short-term leases	5	5	6
Other commitments	210	98	214
Total	218	107	223

The lease commitments for leases not commenced on 31 March 2021 amounted to EUR 399 million (EUR 412 million on 31.12.2020) and related to long-term charter agreements, railway service agreement in Uruguay and service agreements related to wood handling, waste water treatment and other utilities in Leuna, Germany.

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2020	Q1/21	AFTER 31 MAR 2021
New biorefinery / Germany	Q4 2022	550	79	16	455
CHP power plant / Germany	Q3 2022	95	28	5	61
New pulp mill / Uruguay	Q3 2022	2,730	591	186	1,953
Renovation and modernisation / Kuusankoski hydro power plant	Q4 2022	22	6	2	14

7 Notional amounts of derivative financial instruments

EURm	31 MAR 2021	31 MAR 2020	31 DEC 2020
Interest rate futures	993	2,374	2,391
Interest rate swaps	1,070	342	1,056
Forward foreign exchange contracts	3,880	2,865	3,992
Currency options, bought	5	10	10
Currency options, written	10	9	10
Cross currency swaps	162	177	166
Commodity contracts	787	641	791

8 Provisions

EURm	RESTRUCTURING	TERMINATION	ENVIRONMENTAL	EMISSIONS	OTHER	TOTAL
Value at 1 January 2021	52	91	29	21	28	222
Provisions made during the year	2	1	0	15	0	18
Provisions utilised during the year	-6	-20	0	-7	-4	-38
Unused provisions reversed	0	-5	0	0	-1	-6
Reclassifications	0	0	0	0	0	0
Value at 31 March 2021	47	67	29	29	23	196

9 Assets and liabilities classified as held for sale

Assets classified as held for sale as at 31.3.2020 relate to UPM Chapelle paper mill assets located in France.

Alternative performance measures

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.

	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Sales EURm	2,234	2,188	2,028	2,077	2,287	8,580
Comparable EBITDA, EURm	389	392	331	320	398	1,442
% of sales	17.4	17.9	16.3	15.4	17.4	16.8
Comparable EBIT, EURm	279	252	215	203	279	948
% of sales	12.5	11.5	10.6	9.8	12.2	11.1
Comparable profit before tax, EURm	272	248	207	193	276	924
Capital employed (average, EURm)	11,744	11,138	10,744	10,888	11,241	11,514
Comparable ROCE, %	9.5	9.1	7.9	7.5	10.2	8.3
Comparable profit for the period, EURm	228	191	158	157	231	737
Total equity, average, EURm	9,407	9,496	9,468	9,564	9,923	9,844
Comparable ROE, %	9.7	8.0	6.7	6.6	9.3	7.5
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.42	0.35	0.29	0.29	0.43	1.37
Items affecting comparability in operating profit, EURm	0	2	-98	-55	-36	-187
Items affecting comparability in financial items, EURm	0	0	0	0	0	0
Items affecting comparability in taxes, EURm	0	-2	22	1	-2	18
Operating cash flow, EURm	217	347	365	156	137	1,005
Operating cash flow per share, EUR	0.41	0.65	0.69	0.29	0.26	1.89
Net debt at the end of period, EURm	83	56	89	301	-405	56
Net debt to EBITDA (last 12 m.)	0.06	0.04	0.06	0.19	-0.23	0.04
Gearing ratio, %	1	1	1	3	-4	1
Equity per share at the end of period, EUR	17.06	17.53	17.54	17.50	17.90	17.53
Capital expenditure, EURm	252	365	201	173	165	903
Capital expenditure excluding acquisitions, EURm	246	364	201	173	165	902
Equity to assets ratio, %	58.5	64.1	68.4	68.3	64.8	64.1
Personnel at the end of period	17,670	18,014	18,349	19,029	18,573	18,014

The definitions of alternative performance measures are presented in other financial information in ***» UPM Annual Report 2020***

Reconciliation of key figures to IFRS

EURm, OR AS INDICATED	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q4/20
Items affecting comparability						
Impairment charges	-1	2	-53	-19	0	-70
Restructuring charges	4	3	-57	-34	-48	-137
Change in fair value of unrealised cash flow and commodity hedges	-3	-3	-2	-9	12	-3
Capital gains and losses on sale of non-current assets	0	0	14	8	0	23
Total items affecting comparability in operating profit	0	2	-98	-55	-36	-187
Changes in tax rates	0	0	0	-4	0	-3
Taxes relating to items affecting comparability	0	-3	22	4	-2	21
Items affecting comparability in taxes	0	-2	22	1	-2	18
Items affecting comparability, total	0	-1	-75	-54	-39	-169
Comparable EBITDA						
Operating profit	279	253	117	148	243	761
Depreciation, amortisation and impairment charges excluding items affecting comparability	116	116	117	119	120	471
Change in fair value of forest assets and wood harvested excluding items affecting comparability	-5	24	1	-1	1	25
Share of result of associates and joint ventures	0	0	-1	-1	-1	-3
Items affecting comparability in operating profit	0	-2	98	55	36	187
Comparable EBITDA	389	392	331	320	398	1,442
% of sales	17.4	17.9	16.3	15.4	17.4	16.8
Comparable EBIT						
Operating profit	279	253	117	148	243	761
Items affecting comparability in operating profit	0	-2	98	55	36	187
Comparable EBIT	279	252	215	203	279	948
% of sales	12.5	11.5	10.6	9.8	12.2	11.1
Comparable profit before tax						
Profit before tax	272	250	109	138	240	737
Items affecting comparability in operating profit	0	-2	98	55	36	187
Comparable profit before tax	272	248	207	193	276	924
Comparable ROCE, %						
Comparable profit before tax	272	248	207	193	276	924
Interest expenses and other financial expenses	7	4	7	10	11	33
	280	253	213	203	288	957
Capital employed, average	11,744	11,138	10,744	10,888	11,241	11,514
Comparable ROCE, %	9.5	9.1	7.9	7.5	10.2	8.3
Comparable profit for the period						
Profit for the period	227	190	83	103	192	568
Items affecting comparability, total	0	1	75	54	39	169
Comparable profit for the period	228	191	158	157	231	737
Comparable EPS, EUR						
Comparable profit for the period	228	191	158	157	231	737
Profit attributable to non-controlling interest	-3	-3	-1	-2	-2	-8
	224	188	157	155	229	729
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.42	0.35	0.29	0.29	0.43	1.37
Comparable ROE, %						
Comparable profit for the period	228	191	158	157	231	737
Total equity, average	9,407	9,496	9,468	9,564	9,923	9,844
Comparable ROE, %	9.7	8.0	6.7	6.6	9.3	7.5
Net debt						
Non-current debt	2,556	1,952	1,154	1,205	1,234	1,952
Current debt	76	90	88	104	105	90
Total debt	2,632	2,042	1,242	1,309	1,338	2,042
Non-current interest-bearing assets	161	181	198	213	219	181
Cash and cash equivalents	2,284	1,720	886	729	1,460	1,720
Other current interest-bearing assets	104	86	68	66	65	86
Total interest-bearing assets	2,550	1,986	1,152	1,008	1,744	1,986
Net debt	83	56	89	301	-405	56

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 2020 Annual Report. Risks and opportunities are discussed on pages 36–37 and risks and risk management are presented on pages 129–133 of the report.

UPM

UPM-Kymmene Corporation
Alvar Aallon katu 1
PO Box 380
FI-00101 Helsinki, Finland
Tel. +358 2041 5111
Fax +358 2041 5110

ir@upm.com