UPM

WE CREATE A FUTURE BEYOND FOSSILS

HALF YEAR FINANCIAL REPORT 2021

UPM Half Year Financial Report 2021:

Earnings improved rapidly, UPM is fit for future growth

UPM

Q2 2021 highlights

- Sales increased by 15% to EUR 2,384 million (2,077 million in Q2 2020)
- Comparable EBIT increased by 51% to EUR 307 million, 12.9% of sales (203 million, 9.8%)
- Operating cash flow increased to EUR 308 million (156 million)
- Demand for UPM's products was strong, and overall, price increases more than offset rising input costs
- Following the timely actions taken in H2 2020 costs were competitive and asset utilisation good
- UPM signed an agreement to sell the UPM Shotton newsprint mill in the UK

H1 2021 highlights

- Sales increased by 6% to EUR 4,618 million (4,364 million in H1 2020)
- Comparable EBIT increased by 22% to EUR 586 million (482 million), and was 12.7% (11.0%) of sales
- Operating cash flow was EUR 526 million (293 million)
- UPM's transformative growth projects proceed on budget and on schedule
- Net debt increased to EUR 750 million (301 million) and net debt to EBITDA ratio was 0.49 (0.19)
- Cash funds and unused committed credit facilities totalled EUR 2.5 billion at the end of June
- 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

	Q2/2021	Q2/2020	Q1/2021	Q1–Q2/2021	Q1–Q2/2020	Q1–Q4/2020
Sales, EURm	2,384	2,077	2,234	4,618	4,364	8,580
Comparable EBITDA, EURm	426	320	389	816	719	1,442
% of sales	17.9	15.4	17.4	17.7	16.5	16.8
Operating profit, EURm	304	148	279	583	391	761
Comparable EBIT, EURm	307	203	279	586	482	948
% of sales	12.9	9.8	12.5	12.7	11.0	11.1
Profit before tax, EURm	298	138	272	570	378	737
Comparable profit before tax, EURm	301	193	272	573	469	924
Profit for the period, EURm	243	103	227	470	295	568
Comparable profit for the period, EURm	246	157	228	473	388	737
Earnings per share (EPS), EUR	0.45	0.19	0.42	0.87	0.55	1.05
Comparable EPS, EUR	0.45	0.29	0.42	0.87	0.72	1.37
Return on equity (ROE), %	10.3	4.3	9.7	9.8	6.0	5.8
Comparable ROE, %	10.4	6.6	9.7	9.9	7.9	7.5
Return on capital employed (ROCE), %	10.1	5.4	9.5	9.8	7.2	6.7
Comparable ROCE, %	10.2	7.5	9.5	9.9	8.8	8.3
Operating cash flow, EURm	308	156	217	526	293	1,005
Operating cash flow per share, EUR	0.58	0.29	0.41	0.99	0.55	1.89
Equity per share at the end of period, EUR	17.62	17.50	17.06	17.62	17.50	17.53
Capital employed at the end of period, EURm	12,226	10,767	11,933	12,226	10,767	11,555
Net debt at the end of period, EURm	750	301	83	750	301	56
Net debt to EBITDA (last 12 months)	0.49	0.19	0.06	0.49	0.19	0.04
Personnel at the end of period	17,874	19,029	17,670	17,874	19,029	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 Q2 results:

"UPM delivered a very good second quarter, and rapid recovery of our earnings continued. In the exceptional economic environment, demand for UPM's products was strong, and overall, our price increases more than offset rising input costs. At the same time, our transformative growth projects continued on schedule and on budget, and we are in an excellent position going forwards.

Our Q2 sales increased by 15% to EUR 2,384 million, and comparable EBIT was up by 51% rising to EUR 307 million from the lockdown affected Q2 of last year. Operating cash flow increased to EUR 308 million. Net debt at the end of June was EUR 750 million, and our financial position remains strong with EUR 2.5 billion in cash funds and unused committed credit facilities.

The most notable improvement was seen in UPM Biorefining, where pulp and sawn timber prices soared, and the business area made its best second quarter ever. Result was held back by the scheduled maintenance shutdown at the Fray Bentos pulp mill in Uruguay, and a shutdown due to a fire at the Lappeenranta biorefinery in Finland.

Strong markets and good profitability continued for UPM Raflatac and UPM Specialty Papers as recent trends in consumer behaviour, e-commerce and retail prevailed. Labelling materials and specialty papers comprise nearly a third of our sales. Once again, UPM Raflatac had a great quarter, despite exceptional pressure on input costs. These excellent results are not only due to strong market demand but also agile margin and mix management, as well as unrelenting focus on efficiency.

Demand for graphic papers in Europe increased 28% compared to Q2 of last year, which was affected by lockdowns. Strong demand and the timely efficiency measures taken last year resulted in good asset utilisation rates. In terms of profit the quarter was very challenging for UPM Communication Papers due to rapidly rising input costs and market prices for publication papers based on January contracts. The sale of the UPM Shotton paper mill was announced in May and will be completed during Q3.

The markets for UPM Energy remained good and profitability improved due to higher electricity sales prices. Hydropower generation remained on a good level, but nuclear generation was lower due to the maintenance shutdown at the Olkiluoto nuclear power plant. The Olkiluoto 3 reactor project is in its final stages and will be connected to the national grid for test runs during Q4. When in commercial operation, the unit will significantly increase the CO2-free electricity in the Finnish markets.

Profitability at UPM Plywood increased primarily due to increased delivery volumes and high operational efficiency. Demand for plywood remained strong in construction related end-uses and improved in industrial applications.

UPM's transformative growth projects advanced according to plan. In Uruguay, there are now 5,000 workers on our construction sites. In Paso de los Toros, construction is progressing well in all main areas, and the Montevideo port terminal is close to completion. In Leuna, Germany, our biochemicals investment is proceeding well both at the construction site and in business preparation.

UPM is committed to providing solutions for mitigating global climate challenge. The most efficient way to mitigate climate change is to reduce the use of fossil energy and raw materials. We are contributing through sustainable forest management and innovative climate positive products, thereby enabling more sustainable consumption. We are also committed to cutting our CO2 emissions by 65%t by 2030, faster than the EU target. Our industrial scale initiatives in biochemicals and biofuels are tangible examples of our purpose to create a future beyond fossils.

All in all, throughout Q2 we were able to run our businesses successfully in the rapidly changing market environment, marked by rising prices and demand. More importantly, I am confident that our Biofore strategy is creating long-term value in a world where consumers, businesses and governments are actively looking for sustainable solutions."

Outlook for 2021

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

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

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

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

UPM's comparable EBIT is expected to increase both in H2 2021 compared with H1 2021 and increase clearly in the full year 2021 compared with 2020.

Impact of the 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. During 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 and long-lasting the following recovery will be. Despite progress with 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 the progression 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, the related lockdown measures, or the following economic recovery. In these circumstances some units may 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's 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. However, even in these businesses, demand is influenced by general economic activity.

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 being 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. In Q2 2021, as economies in Europe started to gradually open, graphic paper demand increased by 28% from the low comparison base in previous 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 has 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. Demand for self-adhesive labels in Europe increased in Q1 2021 by 1% and in Q2 2021, growth is estimated to have continued from the good level of last year.

Adjusting to different scenarios
The potential impacts on UPM are likely to differ by business and phase of the pandemic, lockdown measures, changes in consumer behaviour, and 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 challenges 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 and costs of the projects are possible during the pandemic and the related containment measures. Currently the projects are proceeding according to the planned start-up timeline and budget.

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.

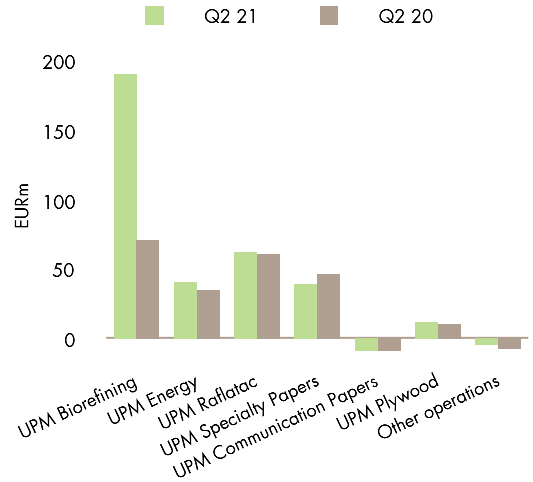
UPM rescheduled two pulp mill maintenance shutdowns from Q2 2020 to Q4 2020 due to the pandemic. Both shutdowns were successfully completed in Q4 with strict health and safety controls. For 2021, UPM has rescheduled the maintenance shutdown at the UPM Kymi pulp mill from Q2 2021 to Q4 2021.

Timing of significant maintenance shutdowns in 2021

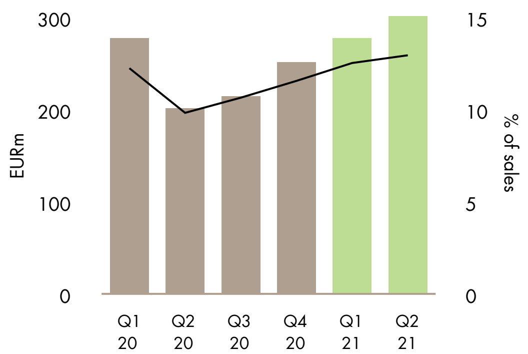
TIMING	UNIT
Q2/2020	Olkiluoto nuclear power plant
Q4/2020	Kaukas pulp mill
	Pietarsaari pulp mill
Q2/2021	Olkiluoto nuclear power plant
	Fray Bentos pulp mill
Q4/2021	Kymi pulp mill

Financing
UPM’s financial position is strong. UPM's net debt was EUR 750 million at the end of Q2 2021. Cash funds and unused committed credit facilities totalled EUR 2.5 billion at the end of Q2 2021. This includes the sustainability-linked EUR 750 million committed syndicated revolving credit facility of which EUR 50 million is maturing in 2025 and EUR 700 million is maturing in 2026 and EUR 158 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.

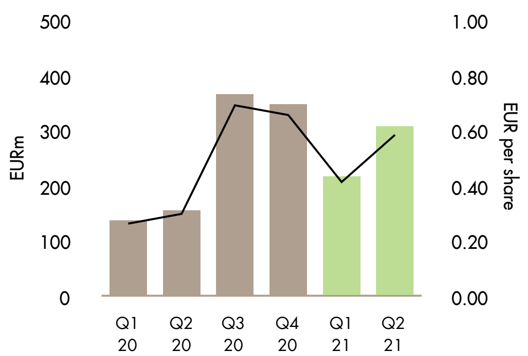
Comparable EBIT



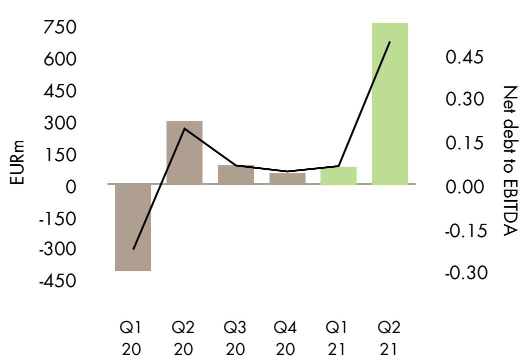
Comparable EBIT



Operating cash flow



Net debt and net debt to EBITDA



Results

Q2 2021 compared with Q2 2020

Q2 2021 sales were EUR 2,384 million, 15% higher than the EUR 2,077 million in Q2 2020. Sales increased in all business areas, driven by higher delivery volumes and sales prices in most businesses. Changes in currencies had a negative impact on sales.

Comparable EBIT increased by 51% to EUR 307 million, which was 12.9% of sales (203 million, 9.8%).

Sales prices increased for UPM Biorefining, UPM Specialty Papers, UPM Energy, UPM Raflatac and UPM Plywood and decreased for UPM Communication Papers.

Variable costs increased in all business areas. At the group level, the positive impact of higher sales prices was larger than the negative impact of higher variable costs.

Delivery volumes increased from the low comparison period especially in UPM Communication Papers. Fixed costs increased by EUR 16 million due to scheduled maintenance activity.

Depreciation, excluding items affecting comparability, totalled EUR 118 million (119 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 -2 million (1 million).

Operating profit was EUR 304 million (148 million). Items affecting comparability in operating profit totalled EUR -3 million in the period (-55 million). In 2020, items affecting comparability included charges related to the closure of UPM Chapelle paper mill and Jyväskylä plywood mill.

Net interest and other finance income and costs were EUR -6 million (-9 million). Exchange rate and fair value gains and losses were EUR 0 million (-1 million). Income taxes were EUR 55 million (34 million). Items affecting comparability in taxes totalled EUR 1 million (1 million).

Profit for Q2 2021 was EUR 243 million (103 million), and comparable profit was EUR 246 million (157 million).

Q2 2021 compared with Q1 2021

Comparable EBIT increased by 10% to EUR 307 million, which was 12.9% of sales (279 million, 12.5%). Sales prices increased in most business areas, particularly for UPM Biorefining and UPM Specialty Papers. Delivery volumes were higher in UPM Communication Papers and UPM Raflatac.

Variable costs increased in most business areas. At the group level, the positive impact of higher sales prices was larger than the negative impact of higher variable costs.

Fixed costs increased by EUR 30 million mainly due to scheduled maintenance activity and seasonal reasons.

Depreciation, excluding items affecting comparability, totalled EUR 118 million (116 million). The change in the fair value of forest assets net of wood harvested was EUR -2 million (5 million).

Operating profit was EUR 304 million (279 million)

January–June 2021 compared with January–June 2020

H1 2021 sales were EUR 4,618 million, 6% higher than the EUR 4,364 million for H1 2020. Sales increased in UPM Biorefining, UPM Specialty Papers, UPM Energy and UPM Plywood and decreased in UPM Communication Papers and UPM Raflatac. Changes in currencies had a negative impact on sales.

Comparable EBIT increased by 22% to EUR 586 million, 12.7% of sales (482 million, 11.0%).

Sales prices increased mostly for UPM Biorefining and UPM Energy and decreased for UPM Communication Papers.

Delivery volumes were higher in UPM Communication Papers, UPM Specialty Papers, UPM Plywood and UPM Raflatac.

Fixed costs decreased by EUR 6 million. Scheduled maintenance activity increased costs in the reporting period, whereas costs in the comparison period were reduced by temporary measures to adjust to the COVID-19 pandemic. The industry-wide strike in Finland impacted both delivery volumes and fixed costs in Q1 2020.

Depreciation, excluding items affecting comparability, totalled EUR 234 million (238 million) including depreciation of leased assets totalling EUR 36 million (37 million). The change in the fair value of forest assets net of wood harvested was EUR 3 million (0 million).

Operating profit totalled EUR 583 million (391 million). Items affecting comparability in operating profit totalled EUR -3 million in the period (-91 million). In 2020 items affecting comparability included charges related to the closure of UPM Chapelle paper mill and Jyväskylä plywood mill.

Net interest and other finance costs were EUR -12 million (-13 million). The exchange rate and fair value gains and losses were EUR 0 million (0 million). Income taxes totalled EUR -100 million (-83 million).

Profit for H1 2021 was EUR 470 million (295 million), and comparable profit was EUR 473 million (388 million).

Financing and cash flow

In H1 2021 cash flow from operating activities before capital expenditure and financing totalled EUR 526 million (293 million). Working capital increased by EUR 194 million (287 million).

Net debt was EUR 750 million at the end of Q2 2021 (301 million). The gearing ratio as of 30 June 2021 was 8% (3%). The net debt to EBITDA ratio, based on the last 12 month's EBITDA, was 0.49 at the end of the period (0.19).

On 30 June 2021 UPM's cash funds and unused committed credit facilities totalled EUR 2.5 billion. This includes the sustainability-linked five-year EUR 750 million revolving credit facility signed in Q1 2020 and the EUR 158 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 H1 2021, capital expenditure totalled EUR 627 million, which was 13.6% of sales (337 million, 7.7% 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, 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 January–June 2021, UPM had an average of 17,781 employees (18,726). At the beginning of the year, the number of employees was 18,014 and at the end of Q2 2021 it was 17,874.

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, 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 modernisation and port terminal construction.

The Public-Private-Partnership agreement between the government and the construction company for the construction of the central railway was signed in May 2019. Works on the central railway are proceeding, 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 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. The works at Paso de los Toros construction site and Montevideo port terminal are progressing well despite the COVID-19 situation and some labour disputes.

Approximately 5,000 people are currently working on the project at the various construction sites. Due to the continued challenging COVID-19 situation in Uruguay, strict protocols have been maintained at all UPM’s construction sites.

At the pulp mill site in Paso de los Toros, the assembly phase with mechanical erection continues to progress in all main process areas. Parts of the civil work have been completed.

Large scale cargo transfers from the UPM Fray Bentos port to the new mill site continue on a weekly basis 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 has been completed.

At the pulp terminal in Montevideo, works are progressing as planned, and a large part of the pulp terminal area has been completed, including the structure and roofing of the pulp warehouse – an area of 50,000 square metres. The unloading line for the railway was also completed, whereas work continues on the port basin.

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 up 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 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, both utility connections and foundations are being built. The delivery of equipment for the over-ground structures is ongoing. Commercial activities have further continued well and without interruptions. Concrete customer cases are advancing in all main product streams and different value chains. We have started the hiring process for the operations teams whose onboarding will be supported by a state-of-the-art digital environment building on a digital twin of the refinery.

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 the 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 started 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 27 March 2021, TVO announced 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.

As announced by TVO earlier, Areva, the Supplier party, has been preparing a financial solution to ensure necessary funding to complete the OL3 project. TVO and Supplier have also negotiated on the terms of completing the OL3 project. On 17 May 2021 TVO announced that TVO and Supplier have reached a consensus in their negotiations regarding the main principles of the OL3 project completion.

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 CO_2 -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.

On 14 April, UPM announced that it aims to increase the efficiency of its global functions by reorganising and streamlining operations in Finland, Germany, and Austria. The employee consultation process in Finland was completed in June and in Germany and Austria in July. As a result, the number of employments will decrease by 35.

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.

On 14 May UPM announced that is has signed an agreement to sell its Shotton newsprint mill site in North Wales, United Kingdom and all related assets to Eren Paper Ltd. The closing of the transaction is planned for late Q3 2021.

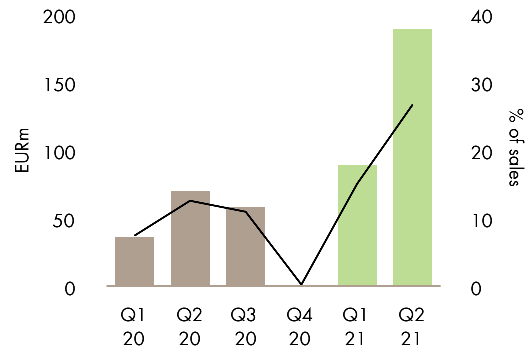
On June 29 UPM announced that UPM Raflatac has completed employee consultation processes. As a result, the number of positions at UPM Raflatac will decrease by 129.

Events after the balance sheet date

The group's management is not aware of any significant events occurring after 30 June 2021.

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.



	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	714	606	569	541	563	509	1,320	1,072	2,183
Comparable EBITDA, EURm	239	137	50	104	113	81	377	194	348
% of sales	33.5	22.6	8.7	19.2	20.1	15.9	28.5	18.1	15.9
Change in fair value of forest assets and wood harvested, EURm	-1	0	-6	-2	0	-1	-1	0	-8
Share of results of associated companies and joint ventures, EURm	0	0	1	0	1	1	1	1	2
Depreciation, amortisation and impairment charges, EURm	-49	-47	-44	-44	-44	-44	-96	-88	-176
Operating profit, EURm	190	90	0	58	70	37	280	107	166
% of sales	26.6	14.9	0.1	10.8	12.4	7.3	21.2	10.0	7.6
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—	—	—	—
Comparable EBIT, EURm	190	90	0	58	70	37	280	107	166
% of sales	26.6	14.9	0.1	10.8	12.4	7.3	21.2	10.0	7.6
Capital employed (average), EURm	4,201	3,910	3,664	3,592	3,664	3,561	4,055	3,612	3,620
Comparable ROCE, %	18.1	9.2	0.1	6.5	7.6	4.2	13.8	5.9	4.6
Pulp deliveries, 1000 t	884	952	925	932	943	864	1,836	1,806	3,664

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

- Heavily increasing pulp prices
- Strong increase in sawn timber market prices
- Scheduled maintenance shutdown at UPM Fray Bentos
- Fire at UPM Lappeenranta biorefinery

Results

Q2 2021 compared with Q2 2020

Comparable EBIT for UPM Biorefining increased due to significantly higher pulp and timber sales prices. Changes in currencies were unfavourable. Fixed costs were higher due to higher maintenance activity.

The average price in euro for UPM's pulp deliveries increased by 29%.

Q2 2021 compared with Q1 2021

Comparable EBIT increased due to significantly higher pulp and timber sales prices. Fixed costs were higher due to higher maintenance activity.

The average price in euro for UPM's pulp deliveries increased by 32%.

January–June 2021 compared with January–June 2020

Comparable EBIT increased due to higher pulp and timber sales prices. Changes in currencies were unfavourable. Fixed costs were higher due to the scheduled maintenance shutdown at UPM Fray Bentos in Q2 2021.

The average price in euro for UPM's pulp deliveries increased by 14%.

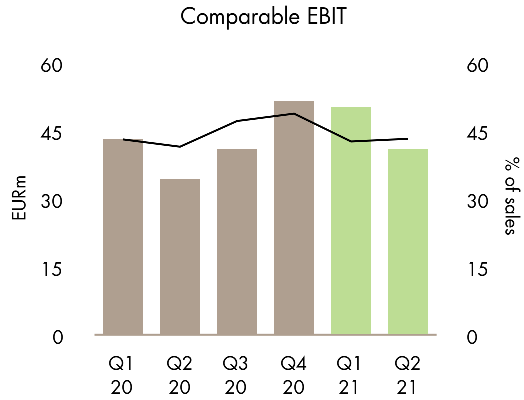
Market environment

- In China, chemical pulp demand growth was slowing down in the first half of 2021. In Europe, demand remained good.
- In Europe, the market price for both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased in Q2 2021 compared with Q1 2021.
- In China, the market price for both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased in Q2 2021 compared with Q1 2021.
- In Q2 2021, the average European market price in euro was 29% higher for NBSK and 35% higher for BHKP, compared with Q2 2020. In China, the average market price in US dollars was 69% higher for NBSK and 66% higher for BHKP, compared with Q2 2020.
- Strong demand for advanced renewable diesel and naphtha.
- Demand for sawn timber was strong in Q2 2021. Market prices were at a high level.

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.



	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	95	119	107	88	83	101	214	184	379
Comparable EBITDA, EURm	43	52	54	43	36	45	95	82	178
% of sales	44.7	43.9	50.3	48.8	43.6	44.8	44.3	44.3	47.0
Depreciation, amortisation and impairment charges, EURm	-2	-2	-5	-2	-2	-2	-3	-4	-10
Operating profit, EURm	41	50	49	58	34	43	91	78	184
% of sales	43.0	42.4	45.7	66.1	41.2	42.9	42.7	42.1	48.7
Items affecting comparability in operating profit, EURm [1]	—	—	-3	17	—	—	—	—	14
Comparable EBIT, EURm	41	50	52	41	34	43	91	78	171
% of sales	43.0	42.4	48.5	46.9	41.2	42.9	42.7	42.1	45.0
Capital employed (average), EURm	2,278	2,231	2,253	2,229	2,336	2,434	2,255	2,385	2,313
Comparable ROCE, %	7.2	9.0	9.2	7.4	5.9	7.1	8.1	6.5	7.4
Electricity deliveries, GWh	2,150	2,411	2,437	2,082	2,162	2,487	4,561	4,649	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.

- Maintenance shutdown at the Olkiluoto power plant

Results

Q2 2021 compared with Q2 2020

Comparable EBIT for UPM Energy increased due to higher electricity sales prices. Hydropower generation was at a good level. Nuclear generation was lower due to a longer maintenance shutdown at the Olkiluoto nuclear power plant.

UPM's average electricity sales price increased by 23% to EUR 41.2/MWh (34.3/MWh).

Q2 2021 compared with Q1 2021

Comparable EBIT decreased due to lower nuclear generation, impacted by the maintenance shutdown at the Olkiluoto nuclear power plant. Hydropower generation was at a good level due to flooding season.

UPM's average electricity sales price decreased by 2% to EUR 41.2/MWh (43.1/MWh).

January–June 2021 compared with January–June 2020

Comparable EBIT increased due to higher electricity sales prices.

UPM's average electricity sales price increased by 22% to EUR 42.2/MWh (34.7/MWh).

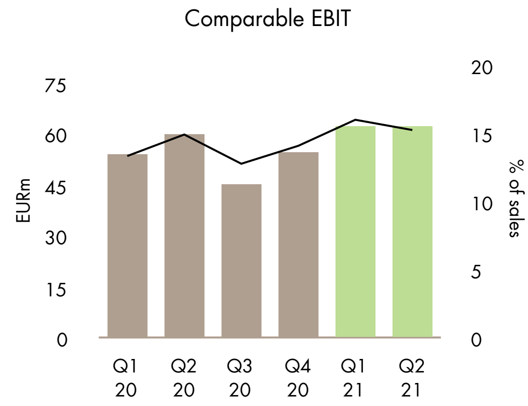
Market environment

- The Nordic hydrological balance was close to normal at the end of June. In Finland, the hydrological situation was good.
- The CO_2 emission allowance price of EUR 56.4/tonne at the end of Q2 2021 was significantly higher than at the end of Q2 2020 (EUR 27.0/tonne).
- The average Finnish area spot price on the Nordic electricity exchange in Q2 2021 was EUR 46.3/MWh, 5% lower than in Q1 2021 (48.6/MWh) and 106% higher than in Q2 2020 (22.5/MWh).
- The front-year forward electricity price for the Finnish area closed at EUR 38.7/MWh in June, 11% higher than at the end of Q1 2021 (34.8/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.



	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	413	391	390	358	403	408	804	812	1,560
Comparable EBITDA, EURm	72	71	64	55	70	64	143	133	252
% of sales	17.3	18.2	16.4	15.3	17.2	15.6	17.8	16.4	16.2
Depreciation, amortisation and impairment charges, EURm	-9	-9	-9	-9	-10	-10	-18	-20	-39
Operating profit, EURm	61	62	48	45	60	51	124	111	205
% of sales	14.9	15.9	12.4	12.7	14.9	12.5	15.4	13.7	13.2
Items affecting comparability in operating profit, EURm [1]	-1	—	-6	—	—	-3	-1	-3	-9
Comparable EBIT, EURm	63	62	55	45	60	54	125	114	214
% of sales	15.2	15.9	14.0	12.7	14.8	13.3	15.5	14.0	13.7
Capital employed (average), EURm	549	523	526	532	560	549	536	554	542
Comparable ROCE, %	45.6	47.6	41.5	34.1	42.8	39.5	46.6	41.1	39.5

[1] Items affecting comparability relate to restructuring charges.

- Fixed costs reduction programme in various European countries completed
- Actions to mitigate significant raw material cost increases
- 6 % currency-neutral sales growth

Results

Q2 2021 compared with Q2 2020

Comparable EBIT for UPM Raflatac increased due to higher deliveries and lower fixed costs. Variable costs were significantly higher and more than offset the positive impact of higher sales prices.

Q2 2021 compared with Q1 2021

Comparable EBIT increased due to higher delivery volumes. Variable costs were significantly higher and more than offset the positive impact of higher sales prices and improved mix.

January–June 2021 compared with January–June 2020

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

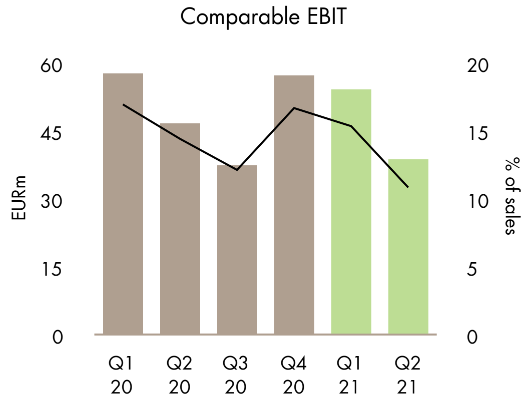
Market environment

- Global demand for self-adhesive label materials continued healthy in Q2 2021. Demand continued to be strong, especially 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.



	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	361	355	345	311	325	342	717	668	1,324
Comparable EBITDA, EURm	58	73	76	56	66	75	131	141	273
% of sales	16.0	20.6	22.0	18.0	20.3	21.8	18.3	21.1	20.6
Depreciation, amortisation and impairment charges, EURm	-19	-19	-19	-18	-19	-17	-38	-36	-73
Operating profit, EURm	39	54	57	40	50	58	93	108	206
% of sales	10.8	15.3	16.6	12.9	15.5	16.9	13.0	16.2	15.5
Items affecting comparability in operating profit, EURm [1]	—	—	—	3	4	—	—	4	6
Comparable EBIT, EURm	39	54	57	37	47	58	93	104	199
% of sales	10.8	15.3	16.6	12.0	14.3	16.9	13.0	15.6	15.0
Capital employed (average), EURm	853	870	880	871	900	937	862	919	897
Comparable ROCE, %	18.2	24.9	26.0	17.2	20.7	24.7	21.6	22.7	22.2
Paper deliveries, 1000 t	414	434	430	397	382	387	849	769	1,596

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

- Well managed cost mitigation
- Successful implementation of price increases
- Product development continued for specialty grades
- UPM Nordland impacting positively on volumes

Results

Q2 2021 compared with Q2 2020
Comparable EBIT for UPM Specialty Papers decreased due to higher input costs. Sales prices increased and delivery volumes were higher.

Q2 2021 compared with Q1 2021
Comparable EBIT decreased due to higher input costs. Sales prices increased.

January–June 2021 compared with January–June 2020
Comparable EBIT decreased due to higher input costs. Delivery volumes were higher.

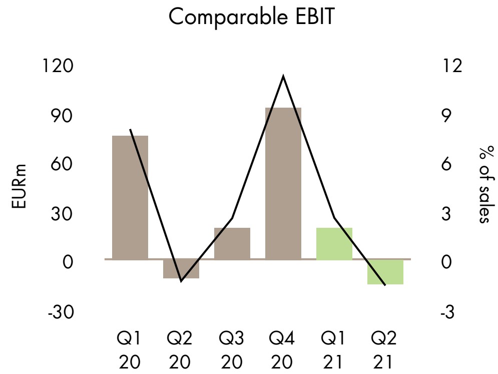
Market environment

- In Q2 2021, fine paper demand in the Asia-Pacific region was strong, though turned seasonally softer towards the end of the quarter.
- In Q2 2021, fine paper market prices increased in the Asia-Pacific region from the previous quarter.
- Demand growth for label, release and packaging paper was solid in Q2 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.



	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	867	815	842	784	741	966	1,681	1,707	3,333
Comparable EBITDA, EURm	12	47	121	48	21	110	59	131	300
% of sales	1.4	5.7	14.4	6.1	2.9	11.4	3.5	7.7	9.0
Share of results of associated companies and joint ventures, EURm	0	0	0	1	-1	0	0	-1	0
Depreciation, amortisation and impairment charges, EURm	-27	-27	-22	-82	-42	-34	-54	-75	-179
Operating profit, EURm	-14	23	110	-95	-37	31	9	-6	9
% of sales	-1.6	2.8	13.1	-12.1	-5.0	3.2	0.6	-0.3	0.3
Items affecting comparability in operating profit, EURm [1]	0	2	16	-114	-27	-45	3	-72	-170
Comparable EBIT, EURm	-14	20	94	19	-10	76	6	67	180
% of sales	-1.6	2.5	11.1	2.5	-1.3	7.9	0.4	3.9	5.4
Capital employed (average), EURm	1,239	1,340	1,367	1,413	1,473	1,529	1,289	1,501	1,446
Comparable ROCE, %	-4.5	6.1	27.4	5.5	-2.7	20.0	1.0	8.9	12.4
Paper deliveries, 1000 t	1,495	1,396	1,443	1,320	1,188	1,515	2,890	2,703	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.

- Good market demand in Europe
- Significant input cost increases
- UPM signed an agreement to sell UPM Shotton newsprint mill

Results

Q2 2021 compared with Q2 2020

Comparable EBIT for UPM Communication Papers decreased due to lower sales prices and higher variable costs. Delivery and production volumes were higher as the comparison period was impacted by the COVID-19 pandemic and the related lockdown measures. Fixed costs decreased.

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

Q2 2021 compared with Q1 2021

Comparable EBIT decreased due to higher variable costs. Production and delivery volumes were higher.

The average price in euro for UPM's paper deliveries remained unchanged.

January–June 2021 compared with January–June 2020

Comparable EBIT decreased due to lower sales prices. Fixed costs decreased. Delivery volumes were higher.

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

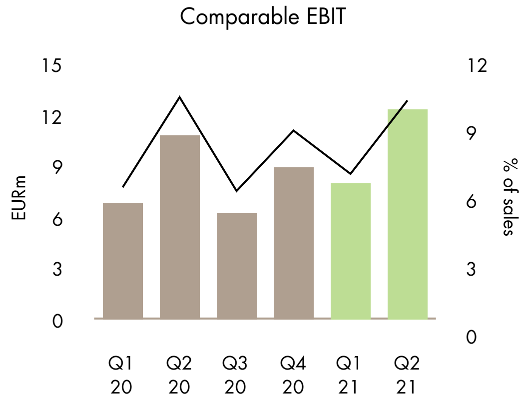
Market environment

- In the first half of 2021, demand for graphic papers in Europe was 3% higher than in the first half of 2020. Newsprint demand decreased by 2%, magazine papers increased by 1% and fine papers increased by 9% compared to the first half of 2020.
- In Q2 2021, demand for graphic papers in Europe was 28% higher than in Q2 2020. Newsprint demand increased by 18%, magazine papers by 23% and fine papers by 41% compared with Q2 2020.
- In Q2 2021, publication paper prices in Europe remained unchanged compared with Q1 2021. Compared with Q2 2020 publication paper prices were 11% lower. In Q2 2021, fine paper prices in Europe were 3% higher than in the previous quarter. Compared with Q2 2020, fine paper prices were 3% lower.
- In the first five months of 2021, demand for magazine papers in North America decreased by 11%, compared with the same period last year. The average price in US dollars for magazine papers in Q2 2021 increased by 6% compared with Q1 2021 and by 6% compared with Q2 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.



	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	119	112	99	98	104	105	231	208	405
Comparable EBITDA, EURm	19	14	15	13	18	14	33	31	59
% of sales	15.8	12.9	15.6	12.9	17.1	13.0	14.4	15.0	14.6
Depreciation, amortisation and impairment charges, EURm	-6	-6	-7	-6	-14	-7	-13	-21	-35
Operating profit, EURm	15	8	9	6	-12	7	23	-5	10
% of sales	13.0	7.1	8.8	6.3	-11.1	6.5	10.2	-2.3	2.5
Items affecting comparability in operating profit, EURm [1)]	3	—	—	—	-22	—	3	-22	-23
Comparable EBIT, EURm	12	8	9	6	11	7	20	18	33
% of sales	10.3	7.1	9.0	6.3	10.4	6.5	8.7	8.4	8.0
Capital employed (average), EURm	282	287	280	284	298	307	284	303	292
Comparable ROCE, %	17.3	11.0	12.7	8.7	14.5	8.8	14.2	11.6	11.2
Plywood deliveries, 1000 m^3	198	191	169	168	173	173	388	347	683

[1)] In Q2 2021, items affecting comparability include reversals of restructuring charges related to Jyväskylä plywood mill closure in 2020. 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.

- Market demand improved both in spruce plywood and birch plywood
- High operational efficiency continued
- Raw material costs increased especially for chemicals and coating

Results

Q2 2021 compared with Q2 2020

Comparable EBIT for UPM Plywood increased mainly due to higher delivery volumes. Variable costs were higher and more than offset the positive impact of higher sales prices.

Q2 2021 compared with Q1 2021

Comparable EBIT increased due to higher sales prices. Variable costs increased.

January–June 2021 compared with January–June 2020

Comparable EBIT increased due to higher delivery volumes and sales prices. Variable and fixed costs were higher. The comparison period was impacted by a strike in Finland in Q1 2020.

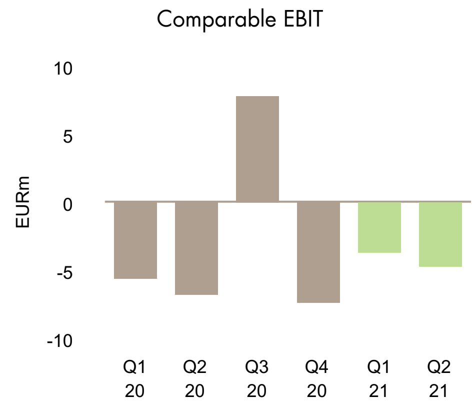
Market environment

- In the first half of 2021, demand for spruce plywood continued to be strong, driven by the building and construction industry.
- In the first half of 2021, demand for birch plywood was good 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.



	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	82	58	58	57	60	50	140	110	225
Comparable EBITDA, EURm	2	-2	19	15	-1	1	0	0	34
Change in fair value of forest assets and wood harvested, EURm	-1	5	-18	1	0	0	4	0	-17
Share of results of associated companies and joint ventures, EURm	0	0	0	0	1	0	0	1	1
Depreciation, amortisation and impairment charges, EURm	-6	-6	-9	-8	-7	-6	-13	-13	-30
Operating profit, EURm	-5	-3	-9	7	-7	-6	-9	-12	-15
Items affecting comparability in operating profit, EURm [1]	-1	—	-2	-1	—	—	—	—	-3
Comparable EBIT, EURm	-5	-4	-7	8	-7	-6	-8	-12	-12
Capital employed (average), EURm	1,987	1,944	1,899	1,908	1,916	1,879	1,965	1,897	1,901
Comparable ROCE, %	-1.0	-0.8	-1.5	1.6	-1.4	-1.2	-0.9	-1.3	-0.6

[1] Items affecting comparability relate to restructuring charges.

Results

Q2 2021 compared with Q2 2020

Comparable EBIT for other operations increased slightly. The change in the fair value of forest assets net of wood harvested was EUR -1 million (0 million). The increase in the fair value of forest assets was EUR 15 million (14 million). The cost of wood harvested from UPM forests was EUR 16 million (14 million).

Q2 2021 compared with Q1 2021

Comparable EBIT decreased slightly. The change in the fair value of forest assets net of wood harvested was EUR -1 million (5 million). The increase in the fair value of forest assets was EUR 15 million (16 million). The cost of wood harvested from UPM forests was EUR 16 million (10 million).

January–June 2021 compared with January–June 2020

Comparable EBIT increased. The change in the fair value of forest assets net of wood harvested was EUR 4 million (0 million). The increase in the fair value of forest assets was EUR 31 million (30 million). The cost of wood harvested from UPM forests was EUR 27 million (30 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.

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 impacts on global economy 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, which concerns the completion of the OL3 project and related disputes 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 the International Chamber of Commerce (ICC) rules with respect to costs and losses incurred in relation to delays in the construction of the OL3 project. In July 2018, TVO announced that, in June 2018 the ICC tribunal 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 Q2 2021 interim report that the fund has been replenished during the 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 400 million compensation decreases the historical costs of the property, plant and equipment in TVO's balance sheet.

TVO announced on 27 March 2021 that the fuel loading of OL3 had started. Fuel loading was completed in April. According to TVO, as announced earlier, electricity production at OL3 is expected to start in October 2021, and regular electricity production in February 2022.

As announced by TVO earlier, Areva, the Supplier party, has been preparing a financial solution to ensure necessary funding to complete the OL3. TVO and Supplier have also been negotiating on the terms of completing the OL3 project. On 17 May 2021 TVO announced that TVO and Supplier have reached a consensus in their negotiations regarding the main principles of the OL3 project completion, and the key matters are:

- Areva companies' trust mechanism, set up in the global settlement agreement of 2018, is to be replenished with approximately EUR 600 million as of the beginning of January 2021.
- Both TVO and Supplier are to cover their own costs as of July 2021 until end of February 2022.
- In the case that the Supplier consortium companies would not complete the OL3 project until the end of February 2022, they would pay additional compensation for delays, depending on the date of completion.

On 3 June 2021 TVO announced that it had signed agreements regarding amendments to the global settlement agreement of 2018 with Supplier consortium companies and Areva Group parent company Areva SA. For the agreements to enter into force, certain conditions have to be fulfilled. The agreements regarding the amendments to the global settlement agreement of 2018 entered into force on 13 July, 2021, when all of the related conditions were fulfilled.

The COVID-19 pandemic may have significantly added uncertainty to the progress of the project. According to TVO, divergent procedures due to the COVID-19 pandemic have been continued at Olkiluoto. 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 the Annual Report 2020. Risks and opportunities are discussed on pages 36–37, and risks and risk management are presented on pages 129–133.

Shares

In H1 2021 UPM shares worth a total of EUR 4,548 million (5,223 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 30 June 2021 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 June 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 at the end of Q2 2021.

Helsinki, 22 July 2021

UPM-Kymmene Corporation
Board of Directors

Financial statement information

Consolidated income statement

EURm	Q2/2021	Q2/2020	Q1–Q2/2021	Q1–Q2/2020	Q1–Q4/2020
Sales (Note 3)	2,384	2,077	4,618	4,364	8,580
Other operating income	22	24	43	66	116
Costs and expenses	-1,982	-1,816	-3,847	-3,783	-7,371
Change in fair value of forest assets and wood harvested	-2	1	3	0	-25
Share of results of associated companies and joint ventures	1	1	1	2	3
Depreciation, amortisation and impairment charges	-118	-138	-235	-258	-541
Operating profit	304	148	583	391	761
Exchange rate and fair value gains and losses	0	-1	0	0	2
Interest and other finance costs, net	-6	-9	-12	-13	-26
Profit before tax	298	138	570	378	737
Income taxes	-55	-34	-100	-83	-169
Profit for the period	243	103	470	295	568
Attributable to:					
Owners of the parent company	239	101	463	292	560
Non-controlling interests	4	2	7	4	8
	243	103	470	295	568
Earnings per share for profit attributable to owners of the parent company					
Basic earnings per share, EUR	0.45	0.19	0.87	0.55	1.05
Diluted earnings per share, EUR	0.45	0.19	0.87	0.55	1.05

Consolidated statement of comprehensive income

EURm	Q2/2021	Q2/2020	Q1–Q2/2021	Q1–Q2/2020	Q1–Q4/2020
Profit for the period	243	103	470	295	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	55	-128	111	-15	-36
Changes in fair value of energy shareholdings	19	-157	71	-212	-251
Items that may be reclassified subsequently to income statement:					
Translation differences	-31	-51	131	-44	-262
Net investment hedge	-1	2	-8	-3	5
Cash flow hedges	10	10	-10	-39	-24
Other comprehensive income for the period, net of tax	53	-325	294	-312	-569
Total comprehensive income for the period	296	-222	764	-17	0
Total comprehensive income attributable to:					
Owners of the parent company	294	-220	754	-20	-7
Non-controlling interests	2	-2	10	3	6
	296	-222	764	-17	0

Consolidated balance sheet

EURm	30 JUN 2021	30 JUN 2020	31 DEC 2020
ASSETS			
Goodwill	232	238	229
Other intangible assets	326	364	363
Property, plant and equipment (Note 4)	4,813	4,161	4,316
Leased assets	572	579	561
Forest assets	2,139	2,135	2,077
Energy shareholdings (Note 5)	2,007	1,927	1,936
Other non-current financial assets	146	201	166
Deferred tax assets	380	427	421
Net retirement benefit assets	101	17	26
Investments in associates and joint ventures	33	34	33
Other non-current assets	20	22	21
Non-current assets	10,768	10,105	10,149
Inventories	1,351	1,348	1,285
Trade and other receivables	1,897	1,599	1,534
Other current financial assets	51	66	136
Income tax receivables	21	40	34
Cash and cash equivalents	1,578	729	1,720
Current assets	4,898	3,782	4,709
Assets classified as held for sale (Note 9)	16	16	—
Assets	15,683	13,903	14,858
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	-2	-2	-2
Translation reserve	143	232	25
Other reserves	1,485	1,452	1,430
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	5,611	5,488	5,735
Equity attributable to owners of the parent company	9,399	9,332	9,351
Non-controlling interests	208	125	162
Equity	9,607	9,457	9,513
Deferred tax liabilities	541	577	564
Net retirement benefit liabilities	688	747	771
Provisions (Note 8)	185	188	222
Non-current debt	2,542	1,205	1,952
Other non-current financial liabilities	99	97	97
Non-current liabilities	4,056	2,814	3,606
Current debt	77	96	90
Trade and other payables	1,828	1,441	1,571
Other current financial liabilities	49	50	48
Income tax payables	66	35	30
Current liabilities	2,019	1,623	1,740
Liabilities related to assets classified as held for sale (Note 9)	—	9	—
Liabilities	6,075	4,446	5,345
Equity and liabilities	15,683	13,903	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	—	—	—	—	—	463	463	7	470
Translation differences	—	—	126	—	—	—	126	5	131
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	-3	—	—	-3	—	-3
Cash flow hedges - reclassified to PPE	—	—	—	-10	—	—	-10	-1	-11
Cash flow hedges - changes in fair value, net of tax	—	—	—	5	—	—	5	-1	4
Net investment hedge, net of tax	—	—	-8	—	—	—	-8	—	-8
Energy shareholdings - changes in fair value, net of tax	—	—	—	71	—	—	71	—	71
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	111	111	—	111
Total comprehensive income for the period	—	—	118	62	—	574	754	10	764
Share-based payments, net of tax	—	—	—	-8	—	-6	-13	—	-13
Dividend distribution	—	—	—	—	—	-693	-693	-12	-706
Other items	—	—	—	—	—	1	1	-1	—
Contributions by non-controlling interests	—	—	—	—	—		—	49	49
Total transactions with owners for the period	—	—	—	-8	—	-698	-706	36	-670
Value at 30 June 2021	890	-2	143	1,485	1,273	5,611	9,399	208	9,607
Value at 1 January 2020	890	-2	278	1,711	1,273	5,912	10,062	113	10,175
Profit for the period	—	—	—	—	—	292	292	4	295
Translation differences	—	—	-43	—	—	—	-43	—	-44
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	-7	—	—	-7	—	-7
Cash flow hedges - changes in fair value, net of tax	—	—	—	-31	—	—	-31	-1	-32
Net investment hedge, net of tax	—	—	-3	—	—	—	-3	—	-3
Energy shareholdings - changes in fair value, net of tax	—	—	—	-214	—	1	-212	—	-212
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	-15	-15	—	-15
Total comprehensive income for the period	—	—	-46	-252	—	278	-20	3	-17
Share-based payments, net of tax	—	—	—	-8	—	-9	-17	—	-17
Dividend distribution	—	—	—	—	—	-693	-693	-23	-716
Contributions by non-controlling interests	—	—	—	—	—	—	—	32	32
Total transactions with owners for the period	—	—	—	-8	—	-702	-710	9	-700
Value at 30 June 2020	890	-2	232	1,452	1,273	5,488	9,332	125	9,457

Consolidated cash flow statement

EURm	Q2/2021	Q2/2020	Q1–Q2/2021	Q1–Q2/2020	Q1–Q4/2020
Cash flows from operating activities					
Profit for the period	243	103	470	295	568
Adjustments [1)]	181	187	335	376	721
Interest received	0	1	1	2	3
Interest paid	-3	-9	-15	-14	-37
Dividends received	1	0	1	1	3
Other financial items, net	-4	-7	-4	-9	-14
Income taxes paid	-38	-44	-68	-71	-145
Change in working capital	-72	-75	-194	-287	-93
Operating cash flow	308	156	526	293	1,005
Cash flows from investing activities					
Capital expenditure	-369	-183	-635	-343	-818
Additions to forest assets	-41	-13	-48	-39	-57
Investments in energy shareholdings	0	0	0	0	-47
Proceeds from sale of property, plant and equipment and intangible assets, net of tax	5	34	7	35	23
Proceeds from sale of forest assets, net of tax	0	1	6	1	3
Advances received from disposal of businesses and subsidiaries	81	0	81	0	0
Proceeds from disposal of energy shareholdings	0	0	0	2	2
Proceeds from disposal of joint operations	0	0	0	0	17
Net cash flows from net investment hedges	12	-5	12	-5	-4
Change in other non-current assets	0	1	5	3	3
Investing cash flow	-310	-166	-573	-346	-879
Cash flows from financing activities					
Proceeds from non-current debt	0	11	600	11	861
Payments of non-current debt	-1	-15	-12	-17	-31
Lease repayments	-20	-19	-43	-45	-86
Change in current liabilities	0	-3	-1	0	-2
Net cash flows from derivatives	5	-3	17	-12	-17
Dividends paid to owners of the parent company	-693	-693	-693	-693	-693
Dividends paid to non-controlling interests	-12	-23	-12	-23	-23
Contributions paid by non-controlling interests	20	27	50	32	67
Other financing cash flow	-2	0	-3	0	-4
Financing cash flow	-704	-719	-97	-748	71
Change in cash and cash equivalents	-706	-728	-144	-801	197
Cash and cash equivalents at the beginning of the period	2,284	1,460	1,720	1,536	1,536
Exchange rate effect on cash and cash equivalents	0	-3	2	-6	-13
Change in cash and cash equivalents	-706	-728	-144	-801	197
Cash and cash equivalents at the end of the period	1,578	729	1,578	729	1,720

[1)] Adjustments

EURm	Q2/2021	Q2/2020	Q1–Q2/2021	Q1–Q2/2020	Q1–Q4/2020
Change in fair value of forest assets and wood harvested	2	-1	-3	0	25
Share of results of associated companies and joint ventures	-1	-1	-1	-2	-3
Depreciation, amortisation and impairment charges	118	138	235	258	541
Capital gains and losses on sale of non-current assets	-2	-9	-3	-9	-25
Financial income and expenses	6	10	13	13	24
Income taxes	55	34	100	83	169
Utilised provisions	-15	-5	-45	-20	-55
Non-cash changes in provisions	0	30	-3	70	130
Other adjustments	18	-11	43	-16	-86
Total	181	187	335	376	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 750 million on 30 June 2021.Cash funds and unused committed credit facilities amounted to EUR 2.5 billion. The facilities and UPM's outstanding debt have no financial covenants.

2 Quarterly information by business area

EURm, OR AS INDICATED	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales									
UPM Biorefining	714	606	569	541	563	509	1,320	1,072	2,183
UPM Energy	95	119	107	88	83	101	214	184	379
UPM Raflatac	413	391	390	358	403	408	804	812	1,560
UPM Specialty Papers	361	355	345	311	325	342	717	668	1,324
UPM Communication Papers	867	815	842	784	741	966	1,681	1,707	3,333
UPM Plywood	119	112	99	98	104	105	231	208	405
Other operations	82	58	58	57	60	50	140	110	225
Internal sales	-268	-224	-223	-208	-202	-194	-493	-396	-827
Eliminations and reconciliation	1	2	1	-1	-1	0	3	-2	-1
Sales, total	2,384	2,234	2,188	2,028	2,077	2,287	4,618	4,364	8,580
Comparable EBITDA									
UPM Biorefining	239	137	50	104	113	81	377	194	348
UPM Energy	43	52	54	43	36	45	95	82	178
UPM Raflatac	72	71	64	55	70	64	143	133	252
UPM Specialty Papers	58	73	76	56	66	75	131	141	273
UPM Communication Papers	12	47	121	48	21	110	59	131	300
UPM Plywood	19	14	15	13	18	14	33	31	59
Other operations	2	-2	19	15	-1	1	0	0	34
Eliminations and reconciliation	-18	-3	-8	-1	-2	9	-22	7	-2
Comparable EBITDA, total	426	389	392	331	320	398	816	719	1,442
Operating profit									
UPM Biorefining	190	90	0	58	70	37	280	107	166
UPM Energy	41	50	49	58	34	43	91	78	184
UPM Raflatac	61	62	48	45	60	51	124	111	205
UPM Specialty Papers	39	54	57	40	50	58	93	108	206
UPM Communication Papers	-14	23	110	-95	-37	31	9	-6	9
UPM Plywood	15	8	9	6	-12	7	23	-5	10
Other operations	-5	-3	-9	7	-7	-6	-9	-12	-15
Eliminations and reconciliation	-23	-6	-11	-3	-12	21	-29	9	-4
Operating profit, total	304	279	253	117	148	243	583	391	761
% of sales	12.8	12.5	11.6	5.8	7.1	10.6	12.6	9.0	8.9
Items affecting comparability									
UPM Biorefining	—	—	—	—	—	—	—	—	—
UPM Energy	—	—	-3	17	—	—	—	—	14
UPM Raflatac	-1	—	-6	—	—	-3	-1	-3	-9
UPM Specialty Papers	—	—	—	3	4	—	—	4	6
UPM Communication Papers	—	2	16	-114	-27	-45	3	-72	-170
UPM Plywood	3	—	—	—	-22	—	3	-22	-23
Other operations	-1	—	-2	-1	—	—	—	—	-3
Eliminations and reconciliation [1)]	-5	-3	-3	-2	-9	12	-8	3	-3
Items affecting comparability in operating profit, total	-3	0	2	-98	-55	-36	-3	-91	-187
Comparable EBIT									
UPM Biorefining	190	90	0	58	70	37	280	107	166
UPM Energy	41	50	52	41	34	43	91	78	171
UPM Raflatac	63	62	55	45	60	54	125	114	214
UPM Specialty Papers	39	54	57	37	47	58	93	104	199
UPM Communication Papers	-14	20	94	19	-10	76	6	67	180
UPM Plywood	12	8	9	6	11	7	20	18	33
Other operations	-5	-4	-7	8	-7	-6	-8	-12	-12
Eliminations and reconciliation	-18	-3	-8	-1	-2	9	-22	7	-2
Comparable EBIT, total	307	279	252	215	203	279	586	482	948
% of sales	12.9	12.5	11.5	10.6	9.8	12.2	12.7	11.0	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 January–June 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	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Comparable profit for the period	246	228	191	158	157	231	473	388	737
Items affecting comparability									
Impairment charges	0	-1	2	-53	-19	0	-1	-19	-70
Restructuring charges	2	4	3	-57	-34	-48	6	-83	-137
Change in fair value of unrealised cash flow and commodity hedges	-5	-3	-3	-2	-9	12	-8	3	-3
Capital gains and losses on sale of non-current assets	0	0	0	14	8	0	0	8	23
Total items affecting comparability in operating profit	-3	0	2	-98	-55	-36	-3	-91	-187
Changes in tax rates	0	0	0	0	-4	0	0	-4	-3
Taxes relating to items affecting comparability	1	0	-3	22	4	-2	0	2	21
Items affecting comparability in taxes	1	0	-2	22	1	-2	0	-2	18
Items affecting comparability, total	-3	0	-1	-75	-54	-39	-3	-93	-169
Profit for the period	243	227	190	83	103	192	470	295	568

3 External sales by major products

BUSINESS AREA	BUSINESS	Q2/2021	Q2/2020	Q1–Q2/2021	Q1–Q2/2020	Q1–Q4/2020
EURm						
UPM Biorefining	UPM Pulp UPM Biofuels UPM Timber	552	445	1,035	852	1,720
UPM Energy	UPM Energy	54	61	131	132	252
UPM Raflatac	UPM Raflatac	413	403	804	812	1,560
UPM Specialty Papers	UPM Specialty Papers	314	279	625	574	1,148
UPM Communication Papers	UPM Communication Papers	857	732	1,663	1,689	3,296
UPM Plywood	UPM Plywood	114	98	221	198	385
Other operations	UPM Forest UPM Biochemicals UPM Biomedicals UPM Biocomposites	80	59	136	108	221
Eliminations and reconciliations		1	-1	3	-2	-1
Total		2,384	2,077	4,618	4,364	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–Q2/2021	Q1–Q2/2020	Q1–Q4/2020
Book value at beginning of period	4,316	4,083	4,083
Reclassification to assets held for sale, net	-13	-2	-2
Capital expenditure	624	316	829
Decreases	-3	-1	-7
Depreciation	-186	-196	-383
Impairment charges	-3	-19	-70
Impairment reversal	1	0	0
Translation difference and other changes	78	-21	-135
Book value at end of period	4,813	4,161	4,316

Capital expenditure in Q1-Q2 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	30 JUN 2021				30 JUN 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	—	17	—	17	—	25	—	25	—	32	—	32
Derivatives under hedge accounting	5	164	—	168	17	205	—	222	2	252	—	254
Energy shareholdings	—	—	2,007	2,007	—	—	1,927	1,927	—	—	1,936	1,936
Total	5	180	2,007	2,192	17	231	1,927	2,174	2	284	1,936	2,222
Financial liabilities												
Derivatives non-qualifying hedges	—	23	—	23	—	10	—	10	—	27	—	27
Derivatives under hedge accounting	2	46	—	48	16	28	—	43	2	27	—	29
Total	2	70	—	72	16	38	—	53	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–Q2/2021	Q1–Q2/2020	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	70	-217	-207
Book value at end of period	2,007	1,927	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 340 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 290 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 reporting period was mainly due to the increase in electricity forward rates.

Fair value of financial assets and liabilities measured at amortised cost

EURm	30 JUN 2021 Carrying amount	30 JUN 2021 Fair value	30 JUN 2020 Carrying amount	30 JUN 2020 Fair value	31 DEC 2020 Carrying amount	31 DEC 2020 Fair value
Bonds	1,625	1,633	465	411	1,153	1,164
Other non-current debt excl. derivative financial instruments and lease liabilities	422	440	247	261	331	345
Total	2,047	2,073	712	672	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	30 JUN 2021	30 JUN 2020	31 DEC 2020
On behalf of others			
Guarantees	2	2	2
Other own commitments			
Commitments related to off-balance sheet short-term leases	4	4	6
Other commitments	214	101	214
Total	220	108	223

The lease commitments for leases not commenced on 30 June 2021 amounted to EUR 400 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, wastewater treatment and other utilities in Leuna, Germany.

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2020	Q1–Q2/2021	AFTER 30 JUN 2021
New biorefinery / Germany	Q4 2022	550	79	53	419
CHP power plant / Germany	Q3 2022	95	28	12	54
New pulp mill / Uruguay	Q3 2022	2,730	591	451	1,688
Renovation and modernisation / Kuusankoski hydro power plant	Q4 2022	22	6	3	13

7 Notional amounts of derivative financial instruments

EURm	30 JUN 2021	30 JUN 2020	31 DEC 2020
Interest rate futures	3,766	1,216	2,391
Interest rate swaps	1,066	335	1,056
Forward foreign exchange contracts	3,891	2,747	3,992
Currency options, bought	—	—	10
Currency options, written	—	—	10
Cross currency swaps	160	174	166
Commodity contracts	955	727	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	1	4	0	34	1	40
Provisions utilised during the year	-10	-31	0	-21	-4	-66
Unused provisions reversed	-3	-5	0	-1	-1	-10
Reclassifications	0	0	0	0	0	0
Value at 30 June 2021	40	59	29	33	24	185

9 Assets and liabilities classified as held for sale

Assets classified as held for sale as at 30 June 2021 relate to Shotton paper mill assets located in United Kingdom. The group has received an advance payment related to the transaction amounting to EUR 81 million in May 2021.

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

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.

	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Sales EURm	2,384	2,234	2,188	2,028	2,077	2,287	4,618	4,364	8,580
Comparable EBITDA, EURm	426	389	392	331	320	398	816	719	1,442
% of sales	17.9	17.4	17.9	16.3	15.4	17.4	17.7	16.5	16.8
Comparable EBIT, EURm	307	279	252	215	203	279	586	482	948
% of sales	12.9	12.5	11.5	10.6	9.8	12.2	12.7	11.0	11.1
Comparable profit before tax, EURm	301	272	248	207	193	276	573	469	924
Capital employed (average, EURm)	12,080	11,744	11,138	10,744	10,888	11,241	11,891	11,120	11,514
Comparable ROCE, %	10.2	9.5	9.1	7.9	7.5	10.2	9.9	8.8	8.3
Comparable profit for the period, EURm	246	228	191	158	157	231	473	388	737
Total equity, average, EURm	9,454	9,407	9,496	9,468	9,564	9,923	9,560	9,816	9,844
Comparable ROE, %	10.4	9.7	8.0	6.7	6.6	9.3	9.9	7.9	7.5
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.45	0.42	0.35	0.29	0.29	0.43	0.87	0.72	1.37
Items affecting comparability in operating profit, EURm	-3	0	2	-98	-55	-36	-3	-91	-187
Items affecting comparability in financial items, EURm	—	—	—	—	—	—	—	—	—
Items affecting comparability in taxes, EURm	1	0	-2	22	1	-2	0	-2	18
Operating cash flow, EURm	308	217	347	365	156	137	526	293	1,005
Operating cash flow per share, EUR	0.58	0.41	0.65	0.69	0.29	0.26	0.99	0.55	1.89
Net debt at the end of period, EURm	750	83	56	89	301	-405	750	301	56
Net debt to EBITDA (last 12 m.)	0.49	0.06	0.04	0.06	0.19	-0.23	0.49	0.19	0.04
Gearing ratio, %	8	1	1	1	3	-4	8	3	1
Equity per share at the end of period, EUR	17.62	17.06	17.53	17.54	17.50	17.90	17.62	17.50	17.53
Capital expenditure, EURm	375	252	365	201	173	165	627	337	903
Capital expenditure excluding acquisitions, EURm	374	246	364	201	173	165	621	337	902
Equity to assets ratio, %	61.7	58.5	64.1	68.4	68.3	64.8	61.7	68.3	64.1
Personnel at the end of period	17,874	17,670	18,014	18,349	19,029	18,573	17,874	19,029	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	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q1–Q2/21	Q1–Q2/20	Q1–Q4/20
Items affecting comparability									
Impairment charges	0	-1	2	-53	-19	0	-1	-19	-70
Restructuring charges	2	4	3	-57	-34	-48	6	-83	-137
Change in fair value of unrealised cash flow and commodity hedges	-5	-3	-3	-2	-9	12	-8	3	-3
Capital gains and losses on sale of non-current assets	0	0	0	14	8	0	0	8	23
Total items affecting comparability in operating profit	-3	0	2	-98	-55	-36	-3	-91	-187
Changes in tax rates	0	0	0	0	-4	0	0	-4	-3
Taxes relating to items affecting comparability	1	0	-3	22	4	-2	0	2	21
Items affecting comparability in taxes	1	0	-2	22	1	-2	0	-2	18
Items affecting comparability, total	-3	0	-1	-75	-54	-39	-3	-93	-169
Comparable EBITDA									
Operating profit	304	279	253	117	148	243	583	391	761
Depreciation, amortisation and impairment charges excluding items affecting comparability	118	116	116	117	119	120	234	238	471
Change in fair value of forest assets and wood harvested excluding items affecting comparability	2	-5	24	1	-1	1	-3	0	25
Share of result of associates and joint ventures	-1	0	0	-1	-1	-1	-1	-2	-3
Items affecting comparability in operating profit	3	0	-2	98	55	36	3	91	187
Comparable EBITDA	426	389	392	331	320	398	816	719	1,442
% of sales	17.9	17.4	17.9	16.3	15.4	17.4	17.7	16.5	16.8
Comparable EBIT									
Operating profit	304	279	253	117	148	243	583	391	761
Items affecting comparability in operating profit	3	0	-2	98	55	36	3	91	187
Comparable EBIT	307	279	252	215	203	279	586	482	948
% of sales	12.9	12.5	11.5	10.6	9.8	12.2	12.7	11.0	11.1
Comparable profit before tax									
Profit before tax	298	272	250	109	138	240	570	378	737
Items affecting comparability in operating profit	3	0	-2	98	55	36	3	91	187
Comparable profit before tax	301	272	248	207	193	276	573	469	924
Comparable ROCE, %									
Comparable profit before tax	301	272	248	207	193	276	573	469	924
Interest expenses and other financial expenses	7	7	4	7	10	11	15	22	33
	308	280	253	213	203	288	588	490	957
Capital employed, average	12,080	11,744	11,138	10,744	10,888	11,241	11,891	11,120	11,514
Comparable ROCE, %	10.2	9.5	9.1	7.9	7.5	10.2	9.9	8.8	8.3
Comparable profit for the period									
Profit for the period	243	227	190	83	103	192	470	295	568
Items affecting comparability, total	3	0	1	75	54	39	3	93	169
Comparable profit for the period	246	228	191	158	157	231	473	388	737
Comparable EPS, EUR									
Comparable profit for the period	246	228	191	158	157	231	473	388	737
Profit attributable to non-controlling interest	-4	-3	-3	-1	-2	-2	-7	-4	-8
	242	224	188	157	155	229	466	384	729
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.45	0.42	0.35	0.29	0.29	0.43	0.87	0.72	1.37
Comparable ROE, %									
Comparable profit for the period	246	228	191	158	157	231	473	388	737
Total equity, average	9,454	9,407	9,496	9,468	9,564	9,923	9,560	9,816	9,844
Comparable ROE, %	10.4	9.7	8.0	6.7	6.6	9.3	9.9	7.9	7.5
Net debt									
Non-current debt	2,542	2,556	1,952	1,154	1,205	1,234	2,542	1,205	1,952
Current debt	77	76	90	88	104	105	77	104	90
Total debt	2,619	2,632	2,042	1,242	1,309	1,338	2,619	1,309	2,042
Non-current interest-bearing assets	160	161	181	198	213	219	160	213	181
Cash and cash equivalents	1,578	2,284	1,720	886	729	1,460	1,578	729	1,720
Other current interest-bearing assets	130	104	86	68	66	65	130	66	86
Total interest-bearing assets	1,869	2,550	1,986	1,152	1,008	1,744	1,869	1,008	1,986
Net debt	750	83	56	89	301	-405	750	301	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.

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