



GREEN FINANCE FRAMEWORK

NOVEMBER 2020



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INTRODUCTION

Our purpose is to create value by seizing the limitless potential of bioeconomy. We make efficient use of wood fibres, molecules and residues to create sustainable, fossil-free alternatives in a variety of end-uses to meet growing global consumer demand.

UPM-Kymmene Corporation was established in autumn 1995 when Kymmene Corporation and Repola Ltd together with its subsidiary United Paper Mills Ltd announced their merger. The new company, UPM-Kymmene, officially started business on 1 May 1996.

UPM is leading the forest-based bioindustry into a sustainable, innovation-driven, exciting future across six business areas. We hold a strong market position in competitive business areas and we are leaders in financial and sustainability performance. Five of these business areas are currently witnessing healthy market growth.

In addition to our established business areas, UPM is also active in the emergent fields of biochemicals, biomedical products and biocomposites.

We invest in businesses that offer attractive, long-term potential for profitability and growth, as well as opportunities to achieve a sustainable competitive advantage. In the coming years UPM aims to seek significant growth in high-value fibre, specialty packaging materials and molecular bioproducts. All three of these spearhead industries hold significant growth potential and offer a competitive advantage thanks to our deep knowhow and high market entry barriers to new entrants. Innovation is at the core of our strategy, and it will drive our future growth.

Our future direction 'UPM Biofore - Beyond fossils' is a natural expression of our drive to create value from the limitless opportunities of the bioeconomy.



UPM BIOREFINING

- Pulp
- Plantations
- Biofuels
- Sawmills
- Wood Sourcing and Forestry



UPM ENERGY

- Hydro-, nuclear- and thermal power (incl. shares in energy companies)
- Electricity generation and trading
- Optimisation services



UPM RAFLATAC

- Label materials for branding and promotion, informational labels, and labels with functionality



UPM SPECIALTY PAPERS

- Labelling materials, release liners, flexible packaging papers, office and graphic papers



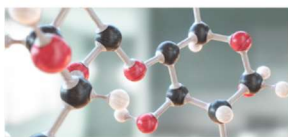
UPM COMMUNICATION PAPERS

- Extensive product range of graphic papers for advertising and publishing as well as home and office uses



UPM PLYWOOD

- WISA® Plywood and veneer products for construction and industrial applications



UPM BIOCHEMICALS

- Wood-based biochemicals for variety of industrial uses



UPM BIOMEDICALS

- Wood-based products for biomedical applications



UPM BIOCOMPOSITES

- UPM ProFi decking products and UPM Formi granules

UPM Biofore - Beyond Fossils

We believe in a future beyond fossils. Climate change will significantly impact our business environment through physical as well as transitional risks. Moving towards a bioeconomy therefore offers a sustainable alternative to the fossil-based economy. UPM is well positioned for this change thanks to our sustainable raw materials – renewable forest biomass – as well as our good potential to lower our emissions. What is more, many of our products already offer sustainable alternatives to fossil-based materials.

Wood fibres, molecules, residues, and side streams are the building blocks of the future, and UPM has already been using them for decades to produce renewable and responsible products.

We were among the first global forest industry companies to commit to the UN's Business Ambition for 1.5°C and take tangible actions to mitigate climate change. The 1.5°C ambition is a response to increasing concern about the severe consequences of climate change.

UPM **BIOFORE – BEYOND** FOSSILS



We act through
FORESTS

Climate-positive forestry

We act through
EMISSIONS

65% less CO₂ emissions

We act through
PRODUCTS

Innovate novel products



We act through forests

Operating efficiently not only reduces costs, but also minimises negative environmental impacts. By managing our forests sustainably, we safeguard the availability of wood, protect biodiversity and mitigate climate change. We take a holistic approach to sustainable forestry wherever we operate, adhering to the following commitments:

UPM's forests are valuable carbon sinks, and we will work to continually improve their growth and ability to absorb more carbon. We will ensure that we always plant more forest than we harvest, and we commit to annual reporting on the carbon sequestration levels of our forests.

- Third party-verified and credible certification systems for all our forests
- Third party-verified and certified chain of custody systems to ensure 100% wood traceability
- A strict ban on the use of wood from tropical rainforests and natural forests converted to plantations
- A strict ban on operations in areas where the rights of indigenous peoples are endangered
- A strict ban on plantations in water stressed areas
- Efforts to increase positive impacts on biodiversity

We act through emissions

Reduction of fossil fuel consumption is the most important way to mitigate climate change. We have completed a systematic global review of our opportunities for reducing emissions using existing technologies and have analysed the financial impact of each action. Our fossil carbon dioxide emissions are constantly decreasing, and going forward we aim to continue reducing emissions significantly in line with Science Based Targets (SBT).

These targets are being met through the use of renewable and other carbon-neutral energy sources, improved resource efficiency in our production, through emission-reducing investments such as Combined-Heat-Power (CHP) plants as well as through partnerships.

We aim to achieve:

- a 65% reduction in fossil CO₂ emissions from our own operations from 2015 levels by 2030
- a 30% reduction in fossil CO₂ emissions from our supply chain from 2018 levels by 2030



We act through products

Ecodesign is an integral part of our product development in our businesses. Starting from the very first stages of the design process, we aim to minimise the environmental impact of our raw materials and manufacturing processes across the entire value chain. We provide open and transparent product communication through ecolabels, certificates and product declarations, and all data is transparent and easily available.

Guided by the goal of innovating for a future beyond fossils, we develop safe, sustainable products and offer alternatives to fossil materials. Many of our products are already verifiably climate-positive and in the future we aim to scientifically verify the climate impacts of all our products.

Biofuels

Renewable and sustainable products for the transport and petrochemical industries



Biochemicals

Replacing fossil-based materials



Biomedicals

Biobased products and applications made from wood



Biocomposites

Replacing fossil-based materials



Value from responsibility

Responsibility is integrated into our Biofore strategy as a solid foundation for long-term value creation, with emphasis on adherence to responsible business practices across our entire value chain.

Minimising our impact on water resources is our key priority. We focus on circular economy solutions such as the reuse of materials and products, reduction of solid waste and increased recycling and recovery.

We respect human rights both in own operations and across our entire supply chain, and we assess critical issues on a continuous basis. We are signatories to the UN Global Compact and respect international agreements such as the ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises.

Our 2030 responsibility agenda is based on economic, social, and environmental targets and performance indicators which are reviewed annually. Our progress is reported in our Annual Report in line with GRI standards, TCFD recommendations and other market standards.

We are also strongly committed to supporting the UN's Sustainable Development Goals. We have identified the goals and targets where we can have the biggest positive impact through our operations, products and solutions, or where we aim to minimise our negative impact. Our stakeholders have contributed to helping us select the topics and SDGs of the greatest immediate relevance to our company.

Sustainability ratings and recognition

Our committed work has brought us recognition as an industry leader in international indices assessing various aspects of responsibility.

UPM has been recognised as a Global Compact LEAD Participant since 2016 for its commitment to defining and fostering leadership practice aligned with the UN Global Compact's Ten Principles and the Sustainable Development Goals. We are one of only 41 global companies to receive this recognition, the only representative of the forestry industry, and the only company from Finland.

In February 2020 CDP recognised UPM as one of the only six Triple A List companies globally for our significant actions to mitigate climate risk, prevent deforestation and enhance water stewardship. UPM also sustained its rating of AAA in the MSCI ESG Ratings assessment and leadership position on the Dow Jones Sustainability Index, and received a Platinum level sustainability rating from Ecovadis.



Sustainable finance at UPM

UPM is one of the first companies to link the pricing mechanism of a syndicated revolving credit facility (RCF) to both biodiversity and climate targets. The margin of the RCF is tied to two key performance indicators (KPIs):

- a net positive impact on biodiversity in company-owned forests in Finland
- 65% reduction in fossil CO₂ emissions from fuels and purchased electricity by 2030 from 2015 levels, in line with UPM's commitment to UN Business Ambition for 1.5°C

'Use-of-proceeds'-based financing such as loans and bonds form an additional part of our sustainable finance strategy. This Green Finance Framework is based on the 2018 version of the Green Bond Principles published by the International Capital Markets Association (ICMA) and the 2020 version of the Green Loan Principles, published by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA) respectively.

UPM GREEN FINANCE FRAMEWORK

Use of proceeds




The net proceeds of the Green Finance Instruments raised by UPM will be used to finance or re-finance Eligible Assets and Projects that have been evaluated and selected by UPM in accordance with this Green Finance Framework. Refinancing of Eligible operating expenditures will have a look-back period of no longer than 3 years from the time of issuance. Green assets shall qualify without a specific look-back period provided that at the time of issuance they follow the eligibility criteria listed below.





Eligible Green Assets and Projects

Green Eligible Assets and Projects include expenditures for the following Eligible Categories. The Use of Proceeds is described for each category.

1. Sustainable forest management
2. Climate positive products and solutions
3. Pollution prevention and control, including waste management
4. Water and wastewater management
5. Energy efficiency initiatives
6. Renewable energy

UPM is fully committed to transparency and best market practices. To make sure that investors find the Eligible Assets and Projects relevant and clear, UPM has decided to exclude certain otherwise Eligible Assets and Projects. The reason for such exclusion is the risk of double counting for leased forest land, leased Green buildings and other projects where the risk of uncertainty and confusion is present. In addition, UPM excludes investments directly related to fossil fuels and site that uses coal as energy source.

| We Act Through | ICMA 2018 GBP Categories | Description of projects | SDG mapping |
|--|---|--|---|
| <p>FORESTS <i>Climate-positive forestry</i></p> | <p>Environmentally sustainable management of living natural resources and land use</p> | <p>Sustainable forest management Proceeds will be used to finance the acquisition, maintenance and management of forests certified under the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC)</p> <p>Eligible Assets and Projects include, but are not limited to:</p> <ul style="list-style-type: none"> • Sustainable certified forest The holding value of forest areas certified by FSC, and PEFC in Finland • Sustainable forest management Maintenance and establishment of nurseries, new planting activities as well as maintenance and harvesting of sustainably managed certified forest |  |
| <p>PRODUCTS <i>Innovate novel products</i></p> | <p>Eco-efficient and/or circular economy adapted products, production technologies and processes</p> | <p>Climate positive products and solutions Proceeds will be used to finance the development, operations, maintenance and expansion of the production of climate positive products and solutions</p> <p>Eligible Assets and Projects include, but are not limited to:</p> <ul style="list-style-type: none"> • Development of Beyond fossils R&D investments to develop next-generation biochemicals and biofuels • Biorefineries Our biorefinery will produce a range of 100% wood-based biochemicals which enable a transition from fossil raw materials to sustainable alternatives in various consumer-driven applications |  |
| | <p>Pollution prevention and control</p> | <p>Pollution prevention and control, including waste management Proceeds will be used to finance the reduction of UPM's environmental impact and improvement of the environmental performance of UPM's operations</p> <p>Eligible Assets and Projects include, but are not limited to:</p> <ul style="list-style-type: none"> • Air and waste management Investments related to reduction of air (NOx, SO₂) emissions and waste management • R&D investments Financing initiatives targeting circular economy and eco-labelled products, as well as projects that explores new sustainable, wood-based alternatives such as biocomposites and biomedical |  |

| | | | |
|---|---|--|--|
| | <p>Sustainable water and wastewater management</p> | <p>Water and wastewater management Proceeds will finance the reduction of water use and management of wastewater from UPM's operations</p> <p>Eligible Assets and Projects include, but are not limited to:</p> <ul style="list-style-type: none"> • Water treatment plants Investments and management of effluent treatment systems, wastewater treatment plants and protection of soil/groundwater projects • Restoration of aquatic ecosystems Migrating fish programs to restore the natural reproduction cycle of migratory fish stocks in watercourses including practical local projects and research activities to promote fish migration. |  |
| | <p>Energy efficiency</p> | <p>Energy efficiency initiatives Proceeds will be used to finance energy efficiency projects with a minimum improvement of 25%</p> <p>Eligible Assets and Projects include, but are not limited to:</p> <ul style="list-style-type: none"> • Various initiatives and projects Projects, initiatives and processes such as lighting, new technologies, efficient management systems and more |  |
| <p>EMISSIONS 65% less CO₂ emissions</p> | <p>Renewable energy</p> | <p>Renewable energy Proceeds will be used for development, operations and maintenance of renewable energy solutions</p> <p>Eligible Assets and Projects include, but are not limited to:</p> <ul style="list-style-type: none"> • Renewable energy boilers Investments in renewable energy boilers utilizing wood waste, e.g. bark, from FSC (PEFC in Finland) certified forests and other mill residues as feedstock • Excess energy from pulp mills Distribution of surplus energy generated from fossil-free feedstock • Hydro and solar power The acquisition, maintenance and refurbishment of hydro and solar power plants owned and operated by UPM Energy |   |

Process for project evaluation and selection

UPM has designed and implemented a process to ensure that only projects aligned with the criteria set out above will be selected as Eligible Assets and Projects for its Green Finance Instruments. To oversee this process, a Green Finance Committee has been established including members from the treasury, responsibility, investor relations and finance teams. The treasury representative is the chair of the committee and the responsibility representative holds a veto. The Green Finance Committee will meet at least on an annual basis.

The Green Finance Committee follows the below process when selecting and evaluating Eligible Assets and Projects. UPM Finance together with Investment Management proposes potential projects.

1. UPM Responsibility evaluates eligibility of proposals according to the eligibility criteria specified in the above table and removes assets and projects that do not meet the criteria.
2. UPM Treasury verifies eligibility and presents the potential Green assets and projects to the Green Finance Committee for final approval.

Management of proceeds

UPM will establish a Green Finance Register for Green Finance Instruments issued by UPM for the purpose of monitoring the Eligible Assets and Projects and the allocation of net proceeds from Green Finance Instruments to Eligible Assets and Projects.

UPM will over the duration of the outstanding Green Finance Instruments build up and maintain an aggregate amount of Assets and Projects in the Green Finance Register that is at least equal to the aggregate net proceeds of all outstanding UPM Green Finance Instruments. There may be periods when the total outstanding net proceeds of the Green Finance Instruments exceed the value of the Eligible Assets and Projects in the Green Finance Register. Any such portion will be held in accordance with UPM's normal liquidity management policy.

The Green Finance Register will form the basis for impact reporting.

Reporting

UPM will annually publish a report on the allocation and impact of Green Bonds issued under this framework. Where relevant UPM will seek to align the reporting with the latest standards and practices as identified by ICMA and the guidelines in the Nordic Public Sector Issuer's Position Paper on Green Bond Impact Reporting. The impact report will, to the extent feasible, also include a section with methodology, baselines and assumptions used in impact calculations.

Allocation Report

The allocation report will, to the extent feasible, include the following components:

- A list of all Eligible Assets and Projects funded including amounts allocated
 - Detailed descriptions and case studies of selected Eligible Assets and Projects financed
 - Amounts invested in each category as defined in the Use of Proceeds section and the relative share of new financing versus refinancing
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Impact Report

UPM will strive to report on the actual environmental impact of the investments financed by Green Bonds. If/when actual impact for some reason is not observable, or proves unreasonably difficult to establish, the estimated impact will be reported.

The impact indicators may vary with the investment category, as defined in this Green Finance Framework. The impact metrics selected may include the following:

- Environmentally sustainable management of living natural resources and land use
 - Area of sustainable managed forest (hectares)
- Eco-efficient and/or circular economy adapted products, production technologies and processes
 - Number of projects initiated
 - Number of filed patent applications
 - Annual GHG emissions reduced/avoided through Beyond fossils projects (tCO₂e)
 - Capacity of plants built (production capacity in units)
- Pollution prevention and control
 - Number of R&D projects initiated
 - Annual air emissions reduced/avoided (t NO_x, SO₂)
 - Waste recovered (t)
- Sustainable water and wastewater management
 - Annual water savings (m³)
 - Annual volume of wastewater treated (m³)
 - Emission reduction based on selected indicator (COD)
 - Number of migratory fish projects
- Energy efficiency
 - Reduction in energy use (%)
 - Annual energy reduced/avoided (MWh)
 - Annual GHG emissions reduced/avoided (tCO₂e)
- Renewable energy
 - Annual renewable energy generation (MWh)
 - Annual GHG emissions reduced/avoided (tCO₂e)



UPM may choose to report the impact and allocation of other Green Finance Instruments directly, and non-publicly, to the lenders or counterparts. For the avoidance of doubt UPM will clarify, and specifically outline, if an Eligible Asset or Project has been financed by several Green Finance Instruments.

External reviews

UPM has engaged CICERO Shades of Green to act as an external verifier of this Green Finance Framework and the Eligible Assets and Projects. The Second Party Opinion is publicly available on UPM website, www.upm.com. A Third Party Audit may also be made available on the website, www.upm.com.