

Remuneration Statement

This Remuneration Statement has been prepared according to the remuneration reporting section of the Finnish Corporate Governance Code.

Decision-making procedure concerning remuneration

The remuneration of the members of the Board of Directors is resolved by the Annual General Meeting based on the proposal prepared by the Board of Directors' Nomination and Governance Committee.

The Board of Directors resolves on the remuneration of the President and CEO based on the proposal by the Board of Directors' Remuneration Committee.

The Board of Directors also resolves on the remuneration of the company's other executives, i.e. the members of the Group Executive Team (GET members). The President and CEO presents a proposal

for the remuneration of GET members to the Remuneration Committee, which prepares a proposal to the Board of Directors for resolution.

The Board of Directors has an authorisation from the Annual General Meeting to issue 25 million shares or special rights entitling to shares and an authorisation to decide on the repurchase of a maximum of 50 million of the company's own shares. Both of these authorisations include the right to use the shares as a part of the company's incentive plans. The Board of Directors has not exercised these authorisations.

Main principles of remuneration

Members of the Board of Directors

When preparing its proposal to the Annual General Meeting regarding the remuneration of the members of the Board of Directors, the Nomination and Governance Committee considers the development of the directors' annual fees and the level of director remuneration in peer companies. The committee has underlined the importance of aligning the interests of directors with those of shareholders and has preferred payment of the Board remuneration in the form of shares and cash. The cash portion of the remuneration is meant to cover withholding tax. The Board members have not received any other financial benefits for their Board or committee membership in addition to the annual fees.

According to the Board charter, Board members are encouraged to own company shares on a long-term basis.

President and CEO and GET members

The aim of the company's management remuneration is to promote the company's long-term financial success, competitiveness and favourable development of shareholder value. The remuneration comprises non-variable and variable components. The variable

components are linked to predetermined and measurable performance and results criteria, and maximum levels have been set for the variable components of the remuneration.

The remuneration of the President and CEO and other GET members consists of the base salary and fringe benefits, performance-based short- and long-term incentives, and pension benefits. The Board of Directors reviews the total remuneration annually with the assistance of the Remuneration Committee. The review includes benchmarking the different components of total remuneration to market practices in corresponding positions. The Board of Directors approves the terms and conditions of short- and long-term incentive plans prepared by the Remuneration Committee. When preparing long-term incentive plans, the committee consults independent advisors.

The President and CEO and GET members participate in the company's Short Term Incentive Plan and in the Performance Share Plan (PSP). In addition to PSP, there are no other long-term, share-based incentive plans in place for the President and CEO and GET members.

COMPONENTS OF MANAGEMENT REMUNERATION

COMPONENT	PAYABLE IN	PAYABLE ON THE BASIS OF	TIME OF PAYMENT
Base salary	Cash	Executive contract	Monthly
Fringe benefits	E.g. company car and phone	Executive contract	Monthly
Short-term incentives	Cash	Short Term Incentive Plan	Annually
Long-term incentives	Shares	Performance Share Plan	Annually following a three-year earning period

Short-term incentives

Short-term incentives are based on the company's Short Term Incentive Plan and they are paid annually in cash. The amount of the incentive is linked to the executive's position and achievement of annually set targets.

In 2017, the short-term incentive plan for the President and CEO and other GET members is linked to the achievement of predetermined financial targets of the group or business area as well as individual targets of the executive. Financial targets amount to 80% of the short-term incentive plan structure and individual targets to 20%. The main financial targets used are EBITDA and cash flow. In 2016, the short-term incentive plan structure was the same.

The maximum incentive levels for the President and CEO and other GET members are presented in the table below. The maximum levels are presented as percentage of the annual base salary.

MAXIMUM INCENTIVE LEVELS 2016–2017	
President and CEO	150%
Business Area Executives	100%
Other members of GET	70%

Long-term incentives

The company's long-term incentives consist of the Performance Share Plan (PSP) for senior executives and the Deferred Bonus Plan (DBP) for other key employees. In both PSP and DBP, earning of shares is subject to the achievement of predetermined earning criteria. PSP and DBP share deliveries are executed by using already existing shares and the plans, therefore, have no dilutive effect.

The Performance Share Plan consists of annually commencing three-year plans. The plan is targeted at GET members and other selected members of the management. The earned shares are delivered after the three-year earning period has ended. Under the ongoing plans, UPM shares are awarded based on total shareholder return during a three-year earning period. The total shareholder return takes into account share price appreciation and paid dividends. The number of shares earned under the performance share plans as well as other key figures of the plans are presented in the table below. The indicated actuals and estimates of the share rewards represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants.

PERFORMANCE SHARE PLAN

PERFORMANCE SHARE PLANS	PSP 2012–2014	PSP 2013–2015	PSP 2014–2016	PSP 2015–2017	PSP 2016–2018	PSP 2017–2019
No. of participants (31 Dec. 2016)*)	32	33	24	24	24	26
Actual achievement	22.3%	90.4%	100%	–	–	–
Max no. of shares to be delivered**):						
to the President and CEO	48,837	197,976	116,785	125,000	112,500	92,500
to other members of GET	103,695	397,760	352,689	380,000	360,000	308,500
to other key individuals	85,855	402,280	280,284	295,000	263,000	240,000
Total max no. of shares to be delivered	238,387	998,016	749,758	800,000	735,500	641,000
Share delivery (year)	2015	2016	2017	2018	2019	2020
Earning criteria (weighting)	Operating cash flow (60%) and EPS (40%)	Operating cash flow (60%) and EPS (40%)	Total shareholder return (100%)	Total shareholder return (100%)	Total shareholder return (100%)	Total shareholder return (100%)

*) For PSP 2017–2019, number of participants at grant.

**) For PSP 2012–2014, PSP 2013–2015 and PSP 2014–2016, the gross value of the actual no. of shares earned.

The Deferred Bonus Plan is targeted at other selected key employees of the group and it consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. UPM shares are awarded based on achievement of group and/or business area EBITDA targets. Prior to share delivery, the share rewards earned are adjusted with dividends and other capital

distribution, if any, paid to all shareholders during the restriction period. Key figures related to the deferred bonus plans are presented in the table below. The indicated actuals and estimates of the share rewards represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants.

DEFERRED BONUS PLAN

DEFERRED BONUS PLANS	DBP 2012	DBP 2013	DBP 2014	DBP 2015	DBP 2016	DBP 2017
No. of participants (at grant)	580	560	395	350	340	360
No. of participants (31 Dec. 2016)	489	505	367	339	335	–
Max. no. of shares to be delivered (at grant)	1,800,000	1,640,000	950,000	800,000	770,000	525,000
Estimated no. of shares to be delivered as at 31 Dec. 2016 ^{*)}	616,584	255,451	317,125	386,432	323,017	–
Share delivery (year)	2015	2016	2017	2018	2019	2020
Earning criteria	Financial STI targets	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA

^{*)} For DBP 2012, DBP 2013 and DBP 2014, the gross value of the actual no. of shares earned.

Ownership recommendation to GET members

The Board encourages GET members to have direct share ownership in the company. It is recommended that the President and CEO maintains a share ownership of UPM shares corresponding to a two-year gross base salary and other GET members a share ownership corresponding to a one-year gross base salary. Until the share ownership recommendation is fulfilled, GET members shall retain 50% of the net shares received under the PSP.

President and CEO's pension benefits and severance pay

In accordance with the executive contract, the retirement age of the President and CEO Jussi Pesonen is 60. The target pension is 60% of the average indexed earnings from the last 10 years of employment calculated according to the Finnish statutory pension scheme. The cost of lowering the retirement age to 60 is covered by supplementing the statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company before reaching the age of 60, an immediate vesting right corresponding to 100% of the earned pension (pro rata) will be applied.

If notice of termination is given to the President and CEO, severance pay of 24 months' base salary will be paid in addition to the salary for the six-month notice period. Should the President and CEO give notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period.

If there is a change of control in the company, the President and CEO may terminate his executive contract within three months from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months' base salary.

GET members' pension benefits and severance pay

GET members are covered by the statutory pension plan in the country of residence, supplemented by voluntary defined contribution pension plans. The retirement age is 63. Executives belonging to GET before 1 January 2010 have fully vested rights corresponding to 100% of the accumulated account. Executives who have become GET members after 1 January 2010 are entitled to fully vested rights five years after becoming a member.

For GET members, the period for severance pay is 12 months, in addition to the six months' salary for the notice period, unless notice is given for reasons that are solely attributable to the executive. Should a GET member give notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period.

If there is a change of control in the company, each GET member may terminate his/her executive contract within one month from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months' base salary.

PAYMENTS DUE TO TERMINATION OF EXECUTIVE CONTRACT

BASIS OF PAYMENT	PRESIDENT AND CEO	GET MEMBER
Salary for the notice period	6-month base salary	6-month base salary
Severance pay (notice given by the company)	24-month base salary	12-month base salary
Severance pay (notice given by the executive)	–	–
Severance pay due to change of control (notice given by the executive)	24-month base salary	24-month base salary

The President and CEO's and other GET members' right to short- and long-term incentives in case their executive contract is terminated depends on the terms and conditions of the incentive plans and on the date of notice of termination. As a general rule, the right to incentives requires a valid contract.

Remuneration report

Board of Directors

The Annual General Meeting 2016 resolved that the annual fee to the Board Chairman is EUR 175,000, to the Board Deputy Chairman and Chairman of the Audit Committee EUR 120,000, and to the other members of the Board EUR 95,000. The annual fee was decided to be paid in the company shares and cash so that 40% of the fee was to be paid in shares to be acquired on the Board members' behalf, and the rest in cash to cover withholding tax. The company paid costs and transfer tax

related to the acquisition of the company shares. No annual fee was paid to the President and CEO for his role as a member of the Board.

The Board members' annual fees, the number of acquired shares and the number of UPM shares held by the members at the end of 2016 are presented in the table below. The annual fees have remained the same since 2007.

BOARD REMUNERATION AND SHAREHOLDINGS IN 2016

BOARD MEMBER	POSITION	ANNUAL FEE (EUR)	40% FOR SHARES (EUR)	60% IN CASH (EUR)	NO. OF ACQUIRED SHARES	SHARE-HOLDINGS ON 31 DEC. 2016
Björn Wahlroos	Chairman	175,000	70,000	105,000	4,235	256,677
Berndt Brunow	Deputy Chairman	120,000	48,000	72,000	2,904	306,482
Henrik Ehrnrooth	Member	95,000	38,000	57,000	2,299	4,575
Piia-Noora Kauppi	Member, Audit Committee Chairman	120,000	48,000	72,000	2,904	14,460
Wendy E. Lane	Member	95,000	38,000	57,000	2,299	35,224
Jussi Pesonen	Member, President and CEO	–	–	–	–	304,064
Ari Puheloinen	Member	95,000	38,000	57,000	2,299	6,600
Veli-Matti Reinikkala	Member	95,000	38,000	57,000	2,299	38,396
Suzanne Thoma	Member	95,000	38,000	57,000	2,299	4,575
Kim Wahl	Member	95,000	38,000	57,000	2,299	16,374
Total		985,000	394,000	591,000	23,837	987,427

The Board of Directors' Nomination and Governance Committee has prepared a proposal for the remuneration of the Board of Directors to the Annual General Meeting to be held on 29 March 2017. According to this proposal, the remuneration of the Board of Directors would be raised, as it has remained unchanged since 2007, and the Chairman of the Board of Directors is proposed to be paid an annual base fee of EUR 190,000, Deputy Chairman of the Board EUR 135,000 and other members of the Board EUR 110,000.

The Nomination and Governance Committee further proposes that the following annual committee fees would be paid to the members of the Board committees:

- Nomination and Governance Committee:
Chairman EUR 20,000 and members EUR 10,000
- Audit Committee:
Chairman EUR 35,000 and members EUR 15,000
- Remuneration Committee:
Chairman EUR 20,000 and members EUR 10,000

President and CEO

The annual salary and other financial benefits of the President and CEO in 2016 are shown in the table below.

REMUNERATION OF THE PRESIDENT AND CEO

SALARIES AND BENEFITS (EUR 1,000)	2016	2015
Salary	1,049	1,052
Short-term incentives	888	856
Share rewards	3,098	824
Benefits	30	27
Total	5,065	2,759
Personal income tax withholding in Finland*)	2,592	1,381

*) Income taxes withheld from salaries and benefits and remitted to tax authorities by UPM.

In 2016, costs under the Finnish statutory pension scheme for the President and CEO amounted to EUR 370,000 (EUR 353,000 in 2015), and payments under the voluntary pension plan to EUR 1,000,000 (EUR 1,000,000).

No annual fees shall be paid to a member of the Board of Directors belonging to the executive management of the company.

The annual base fee is proposed to be paid in company shares and cash so that 40% will be payable in the company shares to be purchased on the Board members' behalf, and the rest in cash. The company will pay any costs and transfer tax related to the purchase of the company shares. Shares thus purchased may not be transferred within two years from the purchase date or until the director's membership in the Board has ended, whichever occurs first. The annual committee fees are proposed to be paid in cash.

GET members

The annual salaries and other financial benefits of GET members (excluding the President and CEO) in 2016 are shown in the table below.

REMUNERATION OF GET MEMBERS

SALARIES AND BENEFITS (EUR 1,000)	2016	2015
Salaries	3,564	3,455
Short-term incentives	1,779	1,733
Share rewards	6,269	1,805
Benefits	231	238
Total	11,843	7,231

In 2016, costs under the Finnish and German statutory pension schemes for GET members (excluding the President and CEO) amounted to EUR 881,000 (EUR 900,000 in 2015) and payments under the voluntary pension plan were EUR 818,000 (EUR 651,000).

GET members' shareholdings

Shareholdings of the President and CEO and other GET members at the end of 2016 are presented in the table below.

SHAREHOLDINGS OF GET MEMBERS IN 2016

GET MEMBER	POSITION	SHAREHOLDINGS ON 31 DEC. 2016	SHAREHOLDINGS ON 31 DEC. 2015
Jussi Pesonen	President and CEO	304,064	220,275
Bernd Eikens ^{*)}	EVP UPM Specialty Papers	26,686	13,747
Pirkko Harrela	EVP Stakeholder Relations	58,087	40,870
Antti Jääskeläinen ^{**)}	EVP UPM Raflatac	-	
Tapio Korpeinen	CFO and EVP UPM Energy	85,355	54,747
Juha Mäkelä	General Counsel	39,717	37,500
Jyrki Ovaska	EVP Technology	64,877	74,269
Riitta Savonlahti	EVP Human Resources	15,420	17,803
Winfried Schaur ^{***)}	EVP UPM Paper ENA	322	
Mika Sillanpää	EVP UPM Plywood	12,845	11,883
Kari Ståhlberg	EVP Strategy	16,794	7,229
Heikki Vappula	EVP UPM Biorefining	40,067	17,111
Total		664,234	495,434

^{*)} EVP of UPM Paper ENA until 31 January 2016.

^{**)} GET member as of 1 July 2016.

^{***)} GET member as of 8 February 2016.