

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, the level of director remuneration in peer companies, Board and committee duties and responsibilities, and ability to attract competent and diverse talent to the Board. The committee has underlined the importance of aligning the interests of directors with those of shareholders and has preferred payment of the Board's annual base fees in the form of shares and cash. The cash portion of the remuneration is meant to cover withholding tax. The Board members do not receive any other financial benefits for their Board or committee membership in addition to the annual base and committee fees. The committee fees are paid in cash.

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 2018, 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 2017, 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 2017-2018	
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.

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 or group and 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 on the following page. 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 2013-2015	PSP 2014-2016	PSP 2015-2017	PSP 2016-2018	PSP 2017-2019	PSP 2018-2020
No. of participants (31 Dec. 2017) *)	33	24	24	24	26	32
Actual achievement	90.4%	100%	100%	-	-	-
Max no. of shares to be delivered **:)						
to the President and CEO	197,976	116,785	107,196	112,500	92,500	84,100
to other members of GET	397,760	352,689	325,876	360,000	308,500	280,400
to other key individuals	402,280	280,284	252,980	263,000	240,000	239,000
Total max no. of shares to be delivered	998,016	749,758	686,052	735,500	641,000	603,500
Share delivery (year)	2016	2017	2018	2019	2020	2021
Earning criteria (weighting)	Operating cash flow (60%) and EPS (40%)	Total shareholder return (100%)	Total shareholder return (100%)	Total shareholder return (100%)	Total shareholder return (100%)	Total shareholder return (100%)

*) For PSP 2018-2020, number of participants at grant.

***) PSP 2013-2015, PSP 2014-2016 and PSP 2015-2017, the gross number of shares actually earned.

DEFERRED BONUS PLAN

DEFERRED BONUS PLANS	DBP 2013	DBP 2014	DBP 2015	DBP 2016	DBP 2017	DBP 2018
No. of participants (at grant)	560	395	350	340	360	370
No. of participants (31 Dec. 2017)	505	367	321	323	350	–
Max. no. of shares to be delivered (at grant)	1,640,000	950,000	800,000	770,000	525,000	450,000
Estimated no. of shares to be delivered as at 31 Dec. 2017 *)	255,451	317,125	382,497	363,851	334,986	–
Share delivery (year)	2016	2017	2018	2019	2020	2021
Earning criteria	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA

*) For DBP 2013, DBP 2014 and DBP 2015, the gross number of shares actually 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 2017 decided to raise the annual Board fees, which had remained the same since 2007. It also adopted annual committee fees, which had not been paid earlier. The Nomination and Governance Committee proposed the adjustment of the fees due to the increased workload of the Board and its committees – as a result of expansive regulatory requirements and UPM’s ongoing transformation

– combined with the need to enhance the Board’s ability to attract competent and diverse talent. The adjusted fees and each director’s annual remuneration and the number of purchased shares are presented in the tables below. No annual fees are paid to the President and CEO for his role as a member of the Board.

BOARD REMUNERATION AND PAYMENT MECHANISM

ANNUAL BASE FEE (EUR)	2016	2017	PAYMENT MECHANISM
Chairman	175,000	190,000	40% in company shares, 60% in cash to cover taxes
Deputy Chairman	120,000	135,000	
Audit Committee Chairman	120,000	–	Two-year lock-up period
Members	95,000	110,000	

ANNUAL COMMITTEE FEES 2017 (EUR)	CHAIRMAN	MEMBERS	PAYMENT MECHANISM
Audit Committee	35,000	15,000	Cash
Remuneration Committee	20,000	10,000	
Nomination and Governance Committee	20,000	10,000	

BOARD REMUNERATION IN 2017

DIRECTOR	ANNUAL BASE FEE (EUR)	40% FOR SHARES (EUR)	60% IN CASH (EUR)	ANNUAL COMMITTEE FEE	NO. OF PURCHASED SHARES	UPM SHARES 31 DEC. 2017
Björn Wahlroos	190,000	76,000	114,000	20,000	3,067	259,744
Berndt Brunow	135,000	54,000	81,000	10,000	2,179	308,661
Henrik Ehrnrooth	110,000	44,000	66,000	10,000	1,776	6,351
Piia-Noora Kauppi	110,000	44,000	66,000	35,000	1,776	16,236
Wendy E. Lane	110,000	44,000	66,000	15,000	1,776	37,000
Jussi Pesonen	–	–	–	–	–	353,491
Ari Puheloinen	110,000	44,000	66,000	10,000	1,776	8,376
Veli-Matti Reinikkala	110,000	44,000	66,000	20,000	1,776	41,172
Suzanne Thoma	110,000	44,000	66,000	10,000	1,776	6,351
Kim Wahl	110,000	44,000	66,000	15,000	1,776	18,150
Total	1,095,000	438,000	657,000	145,000	17,678	1,055,532

Board members did not receive any financial benefits for their Board or committee membership other than their annual base and committee fees. Shares purchased for Board members in 2017 may not be transferred within two years from the purchase date (26 April 2017) or until the director’s Board membership ends, whichever occurs first.

The payment of board remuneration in shares and cash has long been a practice at UPM. Board members are encouraged to own company shares on a long-term basis and most of them have substantial holdings, indicating a close alignment of directors’ interests with those of shareholders.

Proposal for Board remuneration in 2018

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 5 April 2018. According to this proposal, the remuneration of the Board of Directors remain unchanged 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 annual committee fees remain unchanged and that the members of the Board of Director’s committees be paid annual fees as follows:

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

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.

President and CEO

The annual salary and other financial benefits of the President and CEO in 2017 are shown in the table below.

REMUNERATION OF THE PRESIDENT AND CEO

SALARIES AND BENEFITS (EUR 1,000)	2017	2016
Salary	1,049	1,049
Short-term incentives	1,119	888
Share rewards	2,656	3,098
Benefits	31	30
Total	4,854	5,065
Personal income tax withholding in Finland *)	2,380	2,592

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

In 2017, costs under the Finnish statutory pension scheme for the President and CEO amounted to EUR 413,000 (EUR 370,000 in 2016), and payments under the voluntary pension plan to EUR 1,170,000 (EUR 1,000,000).

GET members' shareholdings

Shareholdings of the President and CEO and other GET members at the end of 2017 are presented in the table below.

SHAREHOLDINGS OF GET MEMBERS IN 2017

GET MEMBER	POSITION	UPM SHARES 31 DEC. 2017	UPM SHARES 31 DEC. 2016
Jussi Pesonen	President and CEO	353,491	304,064
Bernd Eikens	EVP UPM Specialty Papers	47,050	26,686
Pirkko Harrela	EVP Stakeholder Relations	69,949	58,087
Antti Jääskeläinen	EVP UPM Raflatac	6,920	–
Tapio Korpeinen	CFO and EVP UPM Energy	107,103	85,355
Juha Mäkelä	General Counsel	51,579	39,717
Jyrki Ovaska	EVP Technology	76,739	64,877
Riitta Savonlahti	EVP Human Resources	13,420	15,420
Winfried Schaur	EVP UPM Paper ENA	13,695	322
Mika Sillanpää	EVP UPM Plywood	26,685	12,845
Kari Ståhlberg	EVP Strategy	19,656	16,794
Heikki Vappula	EVP UPM Biorefining	37,861	40,067
Total		824,148	664,234

GET members

The annual salaries and other financial benefits of GET members (excluding the President and CEO) in 2017 are shown in the table below.

REMUNERATION OF GET MEMBERS

SALARIES AND BENEFITS (EUR 1,000)	2017	2016
Salaries	3,934	3,564
Short-term incentives	2,088	1,779
Share rewards	8,174	6,269
Benefits	251	231
Total	14,446	11,843

In 2017, costs under the Finnish and German statutory pension schemes for GET members (excluding the President and CEO) amounted to EUR 899,000 (EUR 881,000 in 2016) and payments under the voluntary pension plan were EUR 850,000 (EUR 818,000).