The Biofore Company UPM

UPM FINANCIAL STATEMENTS RELEASE 2016

UPM financial statements release 2016:

UPM finishes a record-strong year with a good quarter

Q4 2016 highlights

- Comparable EBIT increased by 15% to EUR 283 million (247 million).
- High maintenance activity resulted in temporarily higher fixed costs and lower operational efficiency.
- Growth projects contributed significantly to earnings.
- Strong operating cash flow at EUR 405 million (390 million).
- The Otepää plywood mill expansion and UPM Kaukas pulp mill investment started production.
- In October, UPM announced a new self-adhesive label stock investment in Poland to meet the growing demand in Europe.
- In November, UPM announced plans to close 305,000 tonnes of SC paper capacity in Germany and Austria.

2016 highlights

- Comparable EBIT increased by 25% to EUR 1,143 million (916 million).
- Growth projects contributed significantly to earnings and cost efficiency measures continued on a strong track.
- Operating cash flow reached a record high of EUR 1,686 million (1,185 million).
- Net debt decreased to a record low of EUR 1,131 million (2,100 million).
- UPM closed the Madison Paper Industries in the US in May and sold the Schwedt newsprint mill in Germany in July.
- In July, UPM announced expansion of the UPM Kymi pulp mill capacity to 870,000 tonnes.
- The Board proposes a dividend of EUR 0.95 (0.75) per share, representing 30% of operating cash flow per share.

Key figures

	Q4/2016	Q4/2015	Q3/2016	Q1–Q4/2016	Q1–Q4/2015
Sales, EURm	2,476	2,574	2,445	9,812	10,138
Comparable EBITDA, EURm	349	363	423	1,560	1,350
% of sales	14.1	14.1	17.3	15.9	13.3
Operating profit, EURm	232	220	364	1,135	1,142
Comparable EBIT, EURm	283	247	314	1,143	916
% of sales	11.4	9.6	12.8	11.6	9.0
Profit before tax, EURm	231	214	336	1,080	1,075
Comparable profit before tax, EURm	282	241	288	1,089	849
Profit for the period, EURm	187	193	268	880	916
Comparable profit for the period, EURm	220	215	234	879	734
Earnings per share (EPS), EUR	0.35	0.36	0.50	1.65	1.72
Comparable EPS, EUR	0.41	0.41	0.44	1.65	1.38
Return on equity (ROE), %	9.3	9.7	13.8	10.9	11.9
Comparable ROE, %	10.9	10.8	12.1	10.9	9.5
Return on capital employed (ROCE), %	9.4	8.2	13.4	10.5	10.3
Comparable ROCE, %	11.4	9.2	11.5	10.6	8.3
Operating cash flow, EURm	405	390	506	1,686	1,185
Operating cash flow per share, EUR	0.76	0.73	0.95	3.16	2.22
Equity per share at end of period, EUR	15.43	14.89	14.75	15.43	14.89
Capital employed at end of period, EURm	10,657	11,010	10,463	10,657	11,010
Net interest-bearing liabilities at end of period, EURm	1,131	2,100	1,479	1,131	2,100
Gearing ratio at end of period, %	14	26	19	14	26
Personnel at end of period	19,310	19,578	19,559	19,310	19,578

From Q1 2016 UPM has relabeled the previously referenced "excluding special items" non-GAAP financial measures with "comparable" performance measures. These performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. More information on UPM's alternative performance measures is published in UPM's stock exchange release on 14 April 2016. The reconciliation of key figures to the most comparable IFRS measures is presented in Financial information.

As of 1 October 2016, UPM Paper Asia was renamed as UPM Specialty Papers. The change has no impact on reported figures.

Jussi Pesonen, President and CEO, comments on Q4 and full year 2016 results:

"Year 2016 was financially a record year. It demonstrates the results of our transformation and sets the stage for the future: Today's UPM is earnings growth oriented, capable and financially strong. Now we have the opportunity to seek new horizons and continue to aim higher.

We achieved a lot over the course of the year. We grew with our customers in many growth markets. In addition, our own cost-efficiency measures succeeded well. Our comparable EBIT increased by 25% and our operating cash flow was record strong at EUR 1,686 million. Our net debt was EUR 969 million lower than a year ago, reaching an industry-leading 0.73 times EBITDA. All of this was reflected in the positive share price performance during the year.

Our performance stayed at a good level also during the fourth quarter and comparable EBIT increased to EUR 283 million. As expected, the quarter was impacted by heavy maintenance activity, especially in UPM Biorefining, resulting in temporarily higher fixed costs and lower operational efficiency than in the comparison periods.

The growth projects proceeded well during the autumn. All the first wave growth investments are contributing to our earnings. With further potential, especially in the specialty paper machine in UPM Changshu and the Lappeenranta biorefinery, optimisation continues.

Further growth initiatives are ongoing. The Otepää plywood mill and UPM Kaukas pulp mill expansions started successfully in Q4. Construction of the UPM Kymi pulp mill expansion and UPM Raflatac factory investment in Poland are in full swing. Our discussions with the Government of Uruguay on the prerequisites for long-term industrial development in the country have proceeded in positive spirit. Many important topics are still under discussion, however.

We look confidently to the future. Our competitive position and market demand enable us to expand our growth businesses further and aim higher with our long-term earnings. Today, we have decided on new long-term financial targets reflecting our new ambition level.

UPM's Board of Directors has today proposed that the dividend for 2016 be increased to EUR 0.95 (0.75) per share, which is 30% of the operating cash flow per share".

Outlook for 2017

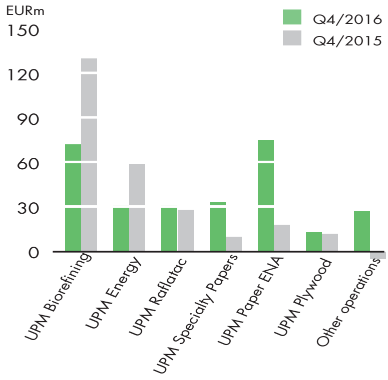
UPM's profitability improved significantly in 2016 and is expected to remain on a good level in 2017.

Demand growth is expected to continue for most of UPM's businesses, while demand decline is expected to continue for UPM Paper ENA. The focused growth projects continue to contribute gradually to UPM's performance.

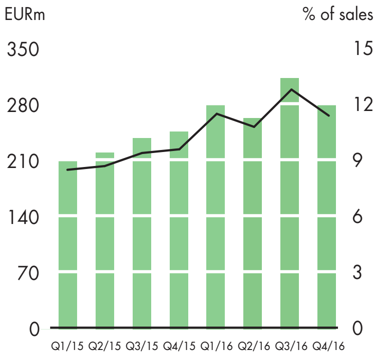
Following a deflationary environment in recent years, 2017 is expected to show modest input cost inflation. UPM will continue measures to reduce fixed and variable costs to mitigate this.

2017 starts with lower pulp prices and lower availability of hydropower than in the beginning of 2016.

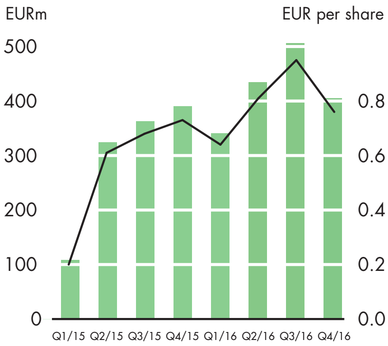
Comparable EBIT



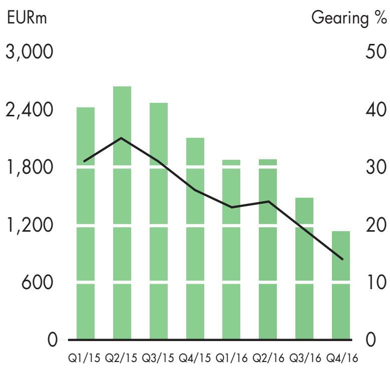
Comparable EBIT



Operating cash flow



Net interest-bearing debt



Results

Q4 2016 compared with Q4 2015

Q4 2016 sales were EUR 2,476 million, 4% lower than the EUR 2,574 million for Q4 2015, mainly due to lower sales prices in several businesses. Delivery volumes grew in UPM Specialty Papers, UPM Raflatac, UPM Biorefining and UPM Plywood, and decreased in UPM Paper ENA and UPM Energy.

Comparable EBIT increased by 15% to EUR 283 million, 11.4 % of sales (247 million, 9.6%). EBIT was negatively impacted by clearly higher maintenance activity, especially in UPM Biorefining, resulting in higher fixed costs and lower operational efficiency than in the comparison period. Changes in sales prices in UPM's product range had a clear negative net impact on the comparable EBIT. This was largely offset by a clear reduction in variable costs, partly driven by UPM's ongoing profit improvement measures. Energy costs increased in UPM Energy, partly due to lower availability of hydropower. Realised currency hedges had only a minor impact on Q4 2016 comparable EBIT, whereas they had a significant negative impact in the comparison period.

Depreciation, excluding items affecting comparability, totalled EUR 120 million (132 million). The increase in the fair value of biological assets net of wood harvested was EUR 53 million (16 million).

Operating profit totalled EUR 232 million (220 million). Items affecting comparability in operating profit totalled charges of EUR 51 million (27 million), including restructuring charges of EUR 49 million in UPM Paper ENA.

Net interest and other finance costs were EUR 16 million (17 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 16 million (11 million). Income taxes totalled EUR 44 million (21 million). Items affecting comparability in taxes totalled EUR 18 million (5 million).

Profit for Q4 2016 was EUR 187 million (193 million), and comparable profit was EUR 220 million (215 million).

Q4 2016 compared with Q3 2016

Comparable EBIT decreased by 10% to EUR 283 million, 11.4 % of sales (314 million, 12.8%). Fixed costs increased significantly and operational efficiency decreased slightly, due to seasonal reasons as well as clearly higher maintenance activity, particularly in UPM Biorefining and UPM Paper ENA.

The increase in the fair value of biological assets net of wood harvested was EUR 53 million (7 million). Depreciation, excluding items affecting comparability, totalled EUR 120 million (118 million).

Operating profit totalled EUR 232 million (364 million).

Full year 2016 compared with 2015

Sales for 2016 were EUR 9,812 million, 3% lower than the EUR 10,138 million in 2015, mainly due to lower sales prices in several businesses. Delivery volumes grew in UPM Biorefining, UPM Specialty Papers, UPM Raflatac and UPM Plywood, and decreased in UPM Paper ENA and UPM Energy. Sales were also impacted by the sale of Tilhill Forestry business in the UK in Q3 2015.

Comparable EBIT increased by 25% to EUR 1,143 million, 11.6 % of sales (916 million, 9.0%). Variable and fixed costs were significantly lower than in the comparison period, partly driven by UPM's ongoing profit improvement measures. The company's growth projects contributed positively to 2016 comparable EBIT, with pulp, renewable diesel, speciality paper and self-adhesive label material deliveries as well as fine papers in Asia increasing on the previous year. Realised currency hedges had only a minor impact on 2016 comparable EBIT, whereas they had a significant negative impact in the comparison period. Changes in sales prices in UPM's product range had a clear negative impact on the comparable EBIT.

Depreciation, excluding items affecting comparability, totalled EUR 510 million (524 million). The increase in the fair value of biological assets net of wood harvested, excluding items affecting comparability, was EUR 88 million (87 million).

Operating profit totalled EUR 1,135 million (1,142 million). Items affecting comparability in operating profit totalled net charges of EUR 7 million (gains of EUR 226 million). The sale of the Schwedt newsprint mill site and relevant assets resulted in a gain of EUR 47 million. Closure of the Madison Paper Industries joint operation resulted in charges of EUR 24 million (EUR 46 million in UPM Paper ENA and a corresponding elimination of EUR 22 million in eliminations and reconciliations). The planned closure of the two SC paper machines at UPM Steyrermühl in Austria and UPM Augsburg in Germany resulted in restructuring charges of EUR 64 million. The fair value change of unrealised cash flow and commodity hedges resulted in a gain of EUR 27 million.

Net interest and other finance costs were EUR 49 million (68 million). The exchange rate and fair value gains and losses resulted in a loss of EUR 7 million (gain of EUR 1 million). Income taxes totalled EUR 200 million (159 million). Items affecting comparability in taxes were EUR 11 million (EUR –44 million).

Profit for 2016 was EUR 880 million (916 million), and comparable profit was EUR 879 million (734 million).

Financing and cash flow

In 2016, cash flow from operating activities before capital expenditure and financing totalled EUR 1,686 million (1,185 million). Working capital decreased by EUR 195 million (increased by EUR 8 million) during the period.

A dividend of EUR 0.75 per share (totalling EUR 400 million) was paid on 21 April 2016, in accordance with the decision of the Annual General Meeting held on 7 April 2016.

Net interest-bearing liabilities decreased to EUR 1,131 million at the end of the period (2,100 million). The gearing ratio as of 31 December 2016 was 14% (26%).

On 31 December 2016, UPM's cash funds and unused committed credit facilities totalled EUR 1.6 billion.

Capital expenditure

In 2016, capital expenditure excluding investments in shares was EUR 325 million, 3.3% of sales (486 million, 4.8% of sales). Total capital expenditure, excluding investments in shares, in 2017 is estimated to be approximately EUR 350 million.

On 23 April 2015, UPM announced that it would strengthen its position as the leading plywood manufacturer in Europe by expanding the Otepää plywood mill in Estonia. The expansion almost doubled the mill's production to 90,000 m^3 per annum. In addition to the mill expansion, a new bio power plant was built at the mill site. The investment in Otepää totalled EUR 40 million and the expansion was completed during Q4 2016.

On 16 June 2015, UPM announced it would further strengthen the efficiency, competitiveness and optimisation of the Kaukas pulp mill in Lappeenranta, Finland. UPM invested EUR 50 million to modernise both the pulp-drying machines and installed a new baling line at the mill. The investment was completed during Q4 2016. The investment will benefit the entire Kaukas mill integrate thanks to increased resource efficiency and operational flexibility.

In June 2013, UPM announced that it was participating in the share issue from Pohjolan Voima Oy to finance the Olkiluoto 3 nuclear power plant project. UPM's share of the issue is EUR 119 million, of which EUR 93 million has been paid during the previous years. The remaining part of the share issue will be implemented in the coming years based on the financing needs of the project.

Personnel

In 2016, UPM had an average of 19,858 employees (20,246). At the beginning of the year, the number of employees was 19,578 and at the end of Q4 2016, it was 19,310.

Events during the year 2016

On 14 March, UPM announced the closure of Madison Paper Industries in the US. Madison Paper Industries was a joint operation between UPM-Kymmene Inc. and Northern SC Paper Corp., a subsidiary of the New York Times Company. The mill ceased production on 21 May. With the closure of the mill, UPM reduced its supercalendered paper capacity by 195,000 tonnes. The closure impacted 214 employees located at the mill site. Hydropower assets located at the mill site will be sold.

On 23 March, UPM announced that UPM Biochemicals will establish an innovation unit at the Biomedicum research and educational centre in Meilahti, Helsinki. The unit will focus on biomedical applications for the cellulose nanofibril technology developed by UPM.

On 26 April, UPM announced it had signed an agreement to sell its Schwedt newsprint mill site and relevant assets to LEIPA Georg Leinfelder GmbH with the aim of a conversion into liner production. The mill site and relevant assets were transferred from UPM to LEIPA Georg Leinfelder GmbH on 1 July 2016. The entire personnel of the mill transferred to LEIPA as old employees. The transaction price was EUR 70 million, and UPM recorded a gain of EUR 47 million as an item affecting comparability in its Q3 2016 results. As part of the transaction, the parties entered into a contract manufacturing agreement for newsprint for a transition period lasting at the latest until the end of 2017. The mill's annual capacity is 280,000 tonnes of newsprint.

On 26 May, UPM-Kymmene Corporation announced proceeding with its plan to change its corporate structure in Finland to better match its current business structure. The plan was originally announced on 10 December 2015. Three new subsidiaries were established in Finland: UPM Energy Oy, UPM Paper Asia Oy and UPM Paper ENA Oy. The personnel and assets of UPM Energy, UPM Specialty Papers and UPM Paper ENA (Europe & North America) in Finland were transferred to the new companies on 1 July 2016. UPM Raflatac and UPM Plywood already operated in their own subsidiaries in Finland. UPM Biorefining remains part of UPM-Kymmene Corporation.

On 4 July UPM announced it will invest EUR 98 million in UPM Kymi pulp mill in Finland to further strengthen its position as a supplier of bleached chemical pulp for growing consumer and industrial end-use segments like tissue and speciality paper, as well as packaging papers and board. Kymi's annual pulp production capacity is expected to increase to 870,000 tonnes of bleached northern softwood and birch pulp by the end of 2017. The investment will further improve UPM Kymi's cost-competitiveness and environmental performance.

On 11 October, UPM announced it will build a new coating line at its label stock factory in Wroclaw, Poland. By introducing a new coating line together with related reel handling and slitting capacity additions, UPM Raflatac aims to meet the increasing demand for self-adhesive label stock in Europe. Production of the new line is planned to commence in the first half of 2018. The investment will total approximately EUR 35 million.

On 3 November, UPM announced plans to permanently reduce its graphic paper capacity in Europe by 305,000 tonnes. The capacity reductions are planned to include SC paper machine 3 at UPM Steyrermühl, Austria and SC paper machine 2 at UPM Augsburg, Germany. The number of persons affected by the plan is estimated to be 150 for UPM Augsburg and 125 for UPM Steyrermühl. The plan would result in annual cost savings of approximately EUR 30 million. UPM booked charges of EUR 64 million as an item affecting comparability in Q4 2016.

Events after the balance sheet date

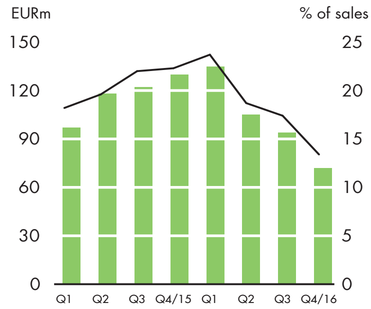
The group's management is not aware of any significant events occurring after 31 December 2016.

Dividend proposal for 2016

The Board of Directors proposes to the Annual General Meeting convening on 29 March 2017 that a dividend of EUR 0.95 per share be paid in respect of the 2016 financial year (0.75). The proposed dividend represents 30% of UPM's operating cash flow per share for the year 2016. It is proposed that the dividend be paid on 12 April 2017. On 31 December 2016, the distributable funds of the parent company were EUR 3,387.6 million.

UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses. UPM has three pulp mills in Finland and one mill and plantation operation in Uruguay. UPM operates four sawmills in Finland. UPM's biorefinery producing wood-based renewable diesel started up in early 2015. The main customers of UPM Biorefining are tissue, specialty paper and board producers in the pulp industry, fuel distributors in the biofuel industry and construction and joinery industries in the timber sector.



	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	533	541	563	568	584	554	601	533	2,206	2,272
Comparable EBITDA, EURm	101	132	140	175	166	161	153	134	548	614
% of sales	18.9	24.5	24.8	30.9	28.4	29.1	25.5	25.1	24.9	27.0
Change in fair value of biological assets and wood harvested, EURm	14	3	9	3	8	5	6	2	29	21
Share of results of associated companies and joint ventures, EURm	–	1	1	–	–	–	1	–	2	1
Depreciation, amortisation and impairment charges, EURm	–43	–42	–44	–44	–44	–44	–42	–39	–173	–169
Operating profit, EURm	72	94	105	135	129	122	118	97	406	466
% of sales	13.5	17.4	18.7	23.7	22.1	22.0	19.6	18.2	18.4	20.5
Items affecting comparability in operating profit, EURm [1]	–	–	–	–	–1	–	–	–	–	–1
Comparable EBIT, EURm	72	94	105	135	130	122	118	97	406	467
% of sales	13.4	17.4	18.7	23.7	22.3	22.0	19.6	18.2	18.4	20.6
Capital employed (average), EURm	3,292	3,230	3,185	3,217	3,203	3,164	3,205	3,193	3,231	3,191
Comparable ROCE, %	8.7	11.6	13.2	16.7	16.2	15.4	14.7	12.2	12.6	14.6
Pulp deliveries, 1,000 t	831	849	891	848	806	771	837	810	3,419	3,224

Pulp mill maintenance shutdowns: Q4 2016 UPM Fray Bentos, Q3 2016 UPM Kaukas, Q4 2015 UPM Fray Bentos, Q3 2015 UPM Pietarsaari and UPM Kymi, Q2 2015 UPM Kaukas.

[1] In Q4 2015, items affecting comparability include a charge of EUR 1 million relating to increase of pension obligations due to Finnish employee pension reform.

Actions

- Annual maintenance shutdown carried out at the UPM Fray Bentos pulp mill.
- Extended turbine revisions carried out at UPM Fray Bentos and UPM Kaukas pulp mills.
- Profitability in UPM Biofuels at a good level.

Results

Q4 2016 compared with Q4 2015

Comparable EBIT for UPM Biorefining decreased mainly due to lower pulp sales prices and higher maintenance activity.

The average price for UPM's pulp deliveries decreased by 12%.

Q4 2016 compared with Q3 2016

Comparable EBIT decreased mainly due to the negative impact of the scheduled maintenance shutdown at the UPM Fray Bentos pulp mill and turbine revisions at UPM Fray Bentos and UPM Kaukas pulp mills.

The average price for UPM's pulp deliveries remained stable.

Full year 2016 compared with 2015

Comparable EBIT for UPM Biorefining decreased. Higher pulp delivery volumes and lower variable costs partly offset the negative impact of lower pulp sales prices. The average price for UPM's pulp deliveries decreased by 10%. Production efficiency improved significantly at the Lappeenranta biorefinery and profitability was supported by the strong biofuel market. In sawmill operations profitability improved thanks to increased delivery volumes and improved production efficiency.

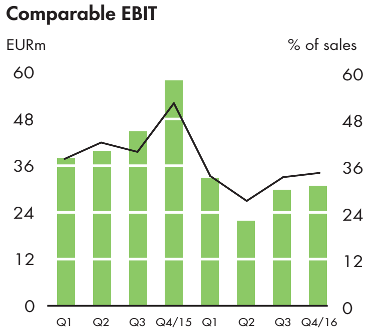
Market environment

- Chemical pulp demand continued to be strong. Demand growth was primarily recorded in Asia, particularly in China.
- In Europe in the fourth quarter, the market price of northern bleached softwood kraft (NBSK) pulp remained stable, while the market price of bleached hardwood kraft pulp (BHKP) decreased slightly compared to the previous quarter. In China the softwood pulp market price decreased while the hardwood pulp market price increased slightly compared to the previous quarter.
- In Europe in 2016, the average market price in euros of NBSK was 6% lower and the market price of BHKP was 11% lower than in 2015. In China, the average market price in USD of NBSK was 8% lower and BHKP was 19% lower than in 2015.
- Demand for advanced renewable diesel continued to be strong.
- Sawn timber demand was good, while market prices remained stable at low levels in the fourth quarter.

Sources: PPPC, FOEX

UPM Energy

UPM Energy creates value through cost competitive, low-emission electricity generation and through physical electricity and financial trading. UPM Energy is the second largest electricity producer in Finland. UPM's power generation capacity consists of hydropower, nuclear power and condensing power.



	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	90	89	81	97	110	112	94	99	357	415
Comparable EBITDA, EURm	34	32	25	36	62	47	43	40	126	192
% of sales	37.3	36.3	30.4	37.1	56.4	42.0	45.7	40.4	35.4	46.3
Share of results of associated companies and joint ventures, EURm	–	–	–	–1	–	–	–	–	–1	–
Depreciation, amortisation and impairment charges, EURm	–2	–2	–2	–2	–4	–2	–3	–2	–9	–11
Operating profit, EURm	31	30	22	33	51	45	21	38	116	155
% of sales	34.8	33.7	27.6	34.0	46.4	40.2	22.3	38.4	32.7	37.3
Items affecting comparability in operating profit, EURm [1]	–	–	–	–	–7	–	–19	–	–	–26
Comparable EBIT, EURm	31	30	22	33	58	45	40	38	116	181
% of sales	34.8	33.7	27.6	34.0	52.7	40.2	42.6	38.4	32.7	43.6
Capital employed (average), EURm	2,290	2,313	2,360	2,396	2,605	2,693	2,762	2,804	2,340	2,716
Comparable ROCE, %	5.5	5.2	3.8	5.5	8.9	6.7	5.8	5.4	5.0	6.7
Electricity deliveries, GWh	2,152	2,246	2,102	2,282	2,337	2,339	2,213	2,077	8,782	8,966

[1] In Q4 2015, items affecting comparability of EUR 7 million relate to restructuring charges regarding PVO Thermal closure. In Q2 2015, items affecting comparability of EUR 19 million relate to project expenses of Olkiluoto 4 nuclear power plant.

Actions

- Hydropower generation decreased and fell below the long-term average level.

Results

Q4 2016 compared with Q4 2015

Comparable EBIT for UPM Energy decreased due to lower hydropower generation, lower average electricity sales price and higher nuclear costs compared to the exceptionally low cost level in the comparison period.

UPM's average electricity sales price decreased by 8% to EUR 35.9/MWh (39.2/MWh).

Q4 2016 compared with Q3 2016

Comparable EBIT remained broadly stable. The negative impact of lower hydropower generation volumes was offset by higher average electricity sales price and lower nuclear costs.

UPM's average electricity sales price increased by 8% to EUR 35.9/MWh (33.2/MWh).

Full year 2016 compared with 2015

Comparable EBIT for UPM Energy decreased mainly due to the lower average electricity sales price, lower hydropower generation volumes and higher costs in partly owned energy companies.

UPM's average electricity sales price decreased by 12% to EUR 33.9/MWh (38.7/MWh).

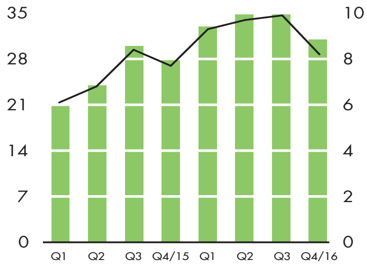
Market environment

- The Nordic hydrological balance deteriorated during the first nine months of 2016 from a large surplus at the beginning of the year to a deficit by October. During the fourth quarter the balance improved and was close to the long-term average level at year end.
- Coal prices increased during the course of the year, mainly due to output cuts. The CO_2 emission allowance price of EUR 5.1/tonne at the end of the year was lower than at the end of year 2015 (EUR 8.0/tonne).
- In the first half of 2016, electricity prices were impacted by good hydrological balance and low coal prices. The electricity market price increased during the course of the year, driven by the deteriorating hydrological balance and increasing coal prices. For the full year the average Finnish area spot price was EUR 32.5/MWh in 2016, 9% higher than in 2015 (EUR 29.7/MWh).
- The Finnish area front-year forward electricity price closed at EUR 35.0/MWh in December, 5% higher than at the end of Q3 2016 (33.5/MWh).

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

UPM Raflatac

UPM Raflatac manufactures self-adhesive label materials for product and information labelling for label printers and brand owners in the food, personal care, pharmaceutical and retail segments, for example. UPM Raflatac is the second-largest producer of self-adhesive label materials worldwide.



	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	372	355	360	351	363	353	351	342	1,437	1,409
Comparable EBITDA, EURm	39	43	43	41	36	39	33	29	166	137
% of sales	10.5	12.2	12.1	11.7	9.9	11.0	9.4	8.5	11.6	9.7
Depreciation, amortisation and impairment charges, EURm	–8	–8	–8	–8	–8	–10	–9	–8	–33	–35
Operating profit, EURm	31	36	35	33	28	30	20	21	134	99
% of sales	8.2	10.1	9.7	9.3	7.7	8.5	5.7	6.1	9.3	7.0
Items affecting comparability in operating profit, EURm [1]	–	–	–	–	–	1	–4	–	–	–3
Comparable EBIT, EURm	31	35	35	33	28	29	24	21	133	102
% of sales	8.2	9.9	9.7	9.3	7.7	8.2	6.8	6.1	9.3	7.2
Capital employed (average), EURm	513	516	524	540	574	576	595	580	524	581
Comparable ROCE, %	23.8	27.3	26.7	24.2	19.5	20.1	16.1	14.5	25.5	17.6

[1] In Q3 2015 and Q2 2015, items affecting comparability relate to restructurings.

Actions

- Solid deliveries of standard products and strong delivery growth in Asia.
- Commercial capabilities were further strengthened.
- Construction of the new coating line in full swing at the label stock factory in Wroclaw, Poland.

Results

Q4 2016 compared with Q4 2015
Comparable EBIT for UPM Raflatac increased due to the improved sales margins, partly due to a more favourable mix, and higher delivery volumes.

Q4 2016 compared with Q3 2016
Comparable EBIT decreased, mainly due to seasonally higher fixed costs.

Full year 2016 compared with 2015
Comparable EBIT for UPM Raflatac increased, mainly due to the improved sales margins and higher delivery volumes. Improved operational efficiency and a more favourable product mix enabled higher sales margins.

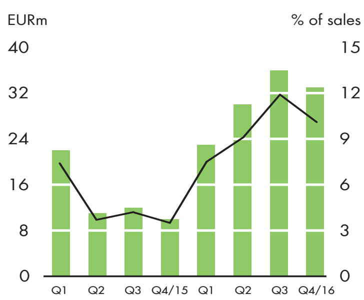
Market environment

- Global demand for self-adhesive label materials grew in 2016. In Europe, demand growth continued, albeit at a lower level than in the previous year. Growth remained stable in North America. In Asia, growth picked up, while in Latin America, demand growth started to recover from a low level.

Sources: FINAT, TLMI

UPM Specialty Papers

UPM Specialty Papers serves growing global markets with label papers and release liners, fine papers in Asia and flexible packaging in Europe. The operations consist of the UPM Changshu and UPM Tervasaari mills in China and Finland, as well as label and packaging papers production lines at the UPM Jämsänkoski mill in Finland. The main customers are retailers, printers, publishers, distributors and paper converters.



	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	329	305	327	312	284	286	300	298	1,273	1,168
Comparable EBITDA, EURm	54	58	53	48	31	35	32	43	214	141
% of sales	16.4	19.1	16.2	15.6	10.9	12.2	10.7	14.4	16.8	12.1
Depreciation, amortisation and impairment charges, EURm	–21	–22	–23	–25	–21	–23	–21	–21	–92	–86
Operating profit, EURm	33	36	30	23	10	12	11	22	123	55
% of sales	10.1	11.9	9.1	7.5	3.5	4.2	3.7	7.4	9.6	4.7
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	33	36	30	23	10	12	11	22	123	55
% of sales	10.1	11.9	9.1	7.5	3.5	4.2	3.7	7.4	9.6	4.7
Capital employed (average), EURm	984	987	1,027	1,051	1,068	1,013	983	986	1,012	1,012
Comparable ROCE, %	13.5	14.7	11.6	8.9	3.7	4.7	4.5	8.9	12.1	5.4
Paper deliveries, 1,000 t	397	374	407	379	342	349	361	349	1,556	1,401

As of 1 October 2016, UPM Paper Asia was renamed as UPM Specialty Papers. The change has no impact on reported figures.

Actions

- Production ramped up at the new specialty paper machine at the UPM Changshu mill in China, further optimisation of customer and product mix.
- Label and release paper sales was reinforced, deliveries reaching new records

Results

Q4 2016 compared with Q4 2015

Comparable EBIT for UPM Specialty Papers increased due to lower variable costs and higher delivery volumes, more than offsetting a less favourable sales mix and lower paper prices. Net change in currencies, including hedges, had a positive impact.

Q4 2016 compared with Q3 2016

Comparable EBIT decreased due to seasonally higher fixed costs.

Full year 2016 compared with 2015

Comparable EBIT for UPM Specialty Papers increased due to lower variable costs and higher delivery volumes, more than offsetting a less favourable sales mix and lower paper prices. Net change in currencies, including hedges, had a positive impact.

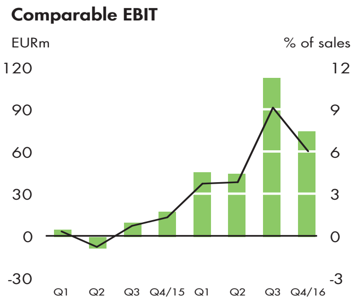
Market environment

- Fine paper demand remained stable in the Asia-Pacific region. The development varied by product and market segment. Growth continued in office paper demand. The average fine paper market price decreased slightly in Q4. In 2016, the average price was lower compared with 2015.
- Label and release paper demand increased globally. Price development varied between the regions and was on average stable in the fourth quarter compared to the previous quarter.

Sources: UPM, RISI, Pöyry, AWA

UPM Paper ENA

UPM Paper ENA offers graphic papers for advertising, magazines, newspapers and home and office. The business has extensive low-cost operations consisting of 15 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.



	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	1,228	1,234	1,155	1,202	1,311	1,279	1,210	1,256	4,818	5,056
Comparable EBITDA, EURm	111	148	93	96	64	55	38	56	448	213
% of sales	9.1	12.0	8.1	8.0	4.9	4.3	3.1	4.5	9.3	4.2
Share of results of associated companies and joint ventures, EURm	–	1	–	–	–	1	–	–	2	1
Depreciation, amortisation and impairment charges, EURm	–60	–35	–47	–72	–46	–47	–45	–52	–214	–190
Operating profit, EURm	26	160	47	–11	23	13	–9	5	223	32
% of sales	2.1	13.0	4.1	–0.9	1.8	1.0	–0.7	0.4	4.6	0.6
Items affecting comparability in operating profit, EURm [1]	–49	47	2	–57	5	4	–1	–	–57	8
Comparable EBIT, EURm	75	113	45	46	18	9	–8	5	280	24
% of sales	6.1	9.2	3.9	3.8	1.4	0.7	–0.7	0.4	5.8	0.5
Capital employed (average), EURm	1,855	1,915	1,988	2,098	2,258	2,294	2,301	2,302	1,964	2,289
Comparable ROCE, %	16.2	23.7	9.1	8.8	3.2	1.6	–1.4	0.9	14.3	1.0
Paper deliveries, 1,000 t	2,068	2,068	1,940	1,982	2,171	2,130	2,046	2,023	8,057	8,370

[1] In Q4 2016, items affecting comparability include impairment charges of EUR 23 million and restructuring charges of EUR 22 million related to the planned closure of Steyrermühl paper machine 3. In addition, EUR 1 million impairment charges and EUR 18 million restructuring charges related to the planned closure of Augsburg paper machine 2. Reversal of Madison mill closure related provision due to the sale of mill site amounted to EUR 9 million. EUR 4 million income related to reversal of prior capacity closures restructuring provisions and EUR 2 million related to sale of assets. In Q3 2016, items affecting comparability include gain amounting to EUR 47 million relating to Schwedt mill's sale. In Q2 2016, items affecting comparability include income amounting to EUR 2 million related to Madison mill closure and restructuring charges of EUR 2 million and impairment reversals of EUR 2 million related to prior capacity closures. In Q1 2016, items affecting comparability include impairment charges totalling EUR 22 million and restructuring charges totalling EUR 35 million related to the closure of Madison Paper Industries in the USA. In Q4 2015, items affecting comparability include an income of EUR 7 million relating to restructurings and a charge of EUR 2 million relating to increase of pension obligations due to Finnish employee pension reform. In Q3 2015 and Q2 2015, items affecting comparability relate to restructurings.

Actions

- Strong cash flow driven by profit improvement and reduction in working capital.
- Announced plan to reduce 305,000 tonnes of SC paper capacity.

Results

Q4 2016 compared with Q4 2015

Comparable EBIT increased significantly for UPM Paper ENA, mainly due to lower variable and fixed costs, more than offsetting the negative impacts of lower sales prices and delivery volumes. The decrease in variable and fixed costs was partly due to ongoing profit improvement measures. In the comparison period, realised currency hedges had a negative impact.

The average price for UPM's paper deliveries in euros decreased by 3% due to an unfavourable development outside the euro area. In the euro area, the average price of UPM's paper deliveries remained stable.

Q4 2016 compared with Q3 2016

Comparable EBIT decreased, mainly due to seasonally higher fixed costs. In the previous quarter cost efficiency was exceptionally strong due to high capacity utilisation, partly for seasonal reasons, and exceptionally low fixed costs.

The average price for UPM's paper deliveries decreased by 1%.

Full year 2016 compared with 2015

Comparable EBIT increased significantly for UPM Paper ENA, mainly due to lower variable and fixed costs, more than offsetting the negative impacts of lower sales prices and delivery volumes. The decrease in variable and fixed costs was partly due to ongoing profit improvement measures. In the comparison period, realised currency hedges had a negative impact.

The average price for UPM's paper deliveries in euros decreased by 2% due to an unfavourable development outside the euro area. In the euro area, the average price of UPM's paper deliveries increased by 1%.

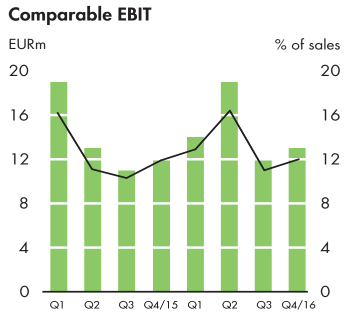
Market environment

- In 2016, demand for graphic papers in Europe was 4% lower than in the previous year. Newsprint demand decreased by 3%, magazine paper by 4% and fine paper by 6% compared with the previous year.
- In Q4, publication paper prices in Europe were on average at the same level as in Q3 2016. In 2016, publication paper prices were on average 4% lower than in 2015.
- In Q4, fine paper prices in Europe were on average 2% lower than in Q3. In 2016, fine paper prices were on average 2% lower than in 2015.
- In 2016, demand for magazine papers in North America decreased by 5% compared with the previous year. The average US dollar price for magazine papers in Q4 remained stable and was 5% lower than in 2015.

Sources: PPI/RISI, Euro-Graph, PPPC

UPM Plywood

UPM Plywood offers plywood and veneer products, mainly for construction, vehicle flooring and LNG shipbuilding, as well as other manufacturing industries. Production facilities are located in Finland, Estonia and Russia.



	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	109	106	119	110	102	105	113	119	444	439
Comparable EBITDA, EURm	19	17	25	20	18	17	18	25	80	78
% of sales	17.4	16.2	20.9	17.8	17.6	16.2	15.9	21.0	18.1	17.8
Depreciation, amortisation and impairment charges, EURm	–6	–5	–5	–5	–6	–6	–5	–6	–22	–23
Operating profit, EURm	13	12	19	14	10	11	13	19	58	53
% of sales	12.0	11.0	16.4	12.9	9.8	10.5	11.5	16.0	13.2	12.1
Items affecting comparability in operating profit, EURm [1)]	–	–	–	–	–2	–	–	–	–	–2
Comparable EBIT, EURm	13	12	19	14	12	11	13	19	58	55
% of sales	12.0	11.0	16.4	12.9	11.8	10.5	11.5	16.0	13.2	12.5
Capital employed (average), EURm	262	259	262	252	259	257	269	266	259	263
Comparable ROCE, %	20.0	18.0	29.7	22.6	18.5	17.1	19.3	28.6	22.6	20.9
Plywood deliveries, 1,000 m^3	185	184	206	189	169	179	193	199	764	740

[1)] In Q4 2015, items affecting comparability of EUR 2 million relate to Lahti estate restructuring charges.

Actions

- Inauguration of the expanded Otepää plywood mill in Estonia.
- Sales prices were increased in certain markets.

Results

Q4 2016 compared with Q4 2015
Comparable EBIT for UPM Plywood increased, mainly due to higher delivery volumes.

Q4 2016 compared with Q3 2016
Comparable EBIT increased, mainly due to lower variable costs and slightly higher delivery volumes.

Full year 2016 compared with 2015
Comparable EBIT for UPM Plywood increased due to higher delivery volumes and lower costs, partly supported by favourable currency impact, more than offsetting the negative impact of slightly lower sales prices.

Market environment

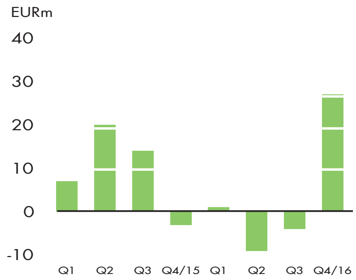
- Market environment improved gradually during 2016 in Europe, and demand is estimated to have increased from the previous year. Impact of low-priced imports in the beginning of the year eased in Q2, and since then, demand has picked up particularly in birch plywood-related industrial applications.
- Activity in the building and construction industry improved somewhat. Market prices decreased at the beginning of the year, but increased slightly during the second half of the year.

Source: UPM

Other operations

Other operations include wood sourcing and forestry, UPM Biocomposites and UPM Biochemicals business units and Group services.

Comparable EBIT



	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	72	65	76	73	76	97	119	114	285	406
Comparable EBITDA, EURm	–9	–7	–9	–10	–8	–4	–1	–3	–35	–16
Change in fair value of biological assets and wood harvested, EURm	40	4	2	13	8	284	25	14	59	331
Share of results of associated companies and joint ventures, EURm	–	1	1	1	–	1	–	–	3	1
Depreciation, amortisation and impairment charges, EURm	–4	–3	–3	–3	–4	–2	–4	–3	–13	–13
Operating profit, EURm	28	–4	–9	0	–3	280	23	6	15	306
Items affecting comparability in operating profit, EURm [1]	1	–	–	–	–	266	3	–1	1	268
Comparable EBIT, EURm	27	–4	–9	1	–3	14	20	7	14	38
Capital employed (average), EURm	1,506	1,532	1,553	1,571	1,614	1,469	1,417	1,433	1,541	1,483
Comparable ROCE, %	7.2	–1.2	–2.4	0.2	–0.7	3.8	5.6	2.0	0.9	2.6

[1] In Q4 2016, items affecting comparability related to restructuring charges. In Q3 2015, items affecting comparability include a capital gain of EUR 3 million from the sale of Tilhill Forestry Ltd shares, restructuring charges of EUR 2 million and a fair value increase of biological assets in Finland totalling EUR 265 million, due to adjusted long-term wood price estimates and a change in the discount rate. In Q2 2015, items affecting comparability of EUR 3 million mainly relate to capital gains from the sale of assets. In Q1 2015, items affecting comparability include cost of EUR 1 million relating to restructuring charges.

Results

Q4 2016 compared with Q4 2015

Comparable EBIT for Other operations increased. The increase in the fair value of biological assets net of wood harvested was EUR 40 million (8 million). The increase in the fair value of biological assets (growing trees) was EUR 52 million (19 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 12 million (11 million).

Q4 2016 compared with Q3 2016

Comparable EBIT increased. The increase in the fair value of biological assets net of wood harvested was EUR 40 million (4 million). The increase in the fair value of biological assets (growing trees) was EUR 52 million (20 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 12 million (16 million).

Full year 2016 compared with 2015

Comparable EBIT for Other operations decreased. The increase in the fair value of biological assets net of wood harvested, excluding items affecting comparability, was EUR 59 million (66 million). The increase in the fair value of biological assets (growing trees), excluding items affecting comparability, was EUR 113 million (112 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 54 million (46 million).

In 2016, UPM sold a total of 63,113 (63,669) hectares of forests.

Risks and near-term uncertainties

The main uncertainties in UPM's earnings relate to 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 UK's EU referendum was held on 23 June to decide whether the UK should leave or remain in the EU. The Leave side won the referendum. This has increased uncertainty and risks related to economic growth, especially in the UK and the EU. The EU is the most significant market for UPM, representing 59% of the company's sales in 2016. The UK represented 7% of UPM's sales.

Changes to the monetary policies of major central banks may significantly impact various currencies that directly or indirectly affect UPM. The UK's EU referendum has also increased uncertainty related to currencies.

There are uncertainties regarding developing economies, including China, which may significantly influence the overall global economy and many of UPM's product markets in particular.

In the global chemical pulp market, new production lines entering the market may have a clear negative impact on pulp prices.

The input cost environment has lately been benign for UPM. Recent changes in the price of oil and many other commodities indicate that there is a risk of cost inflation in the operating environment.

The main earnings sensitivities and the group's cost structure are presented on page 18 of the 2015 Annual Report. Risks and opportunities are discussed on pages 17–18, and risks and risk management are presented on pages 84–86.

Shares

In 2016, UPM shares worth EUR 6,749 million (7,469 million) in total were traded on the NASDAQ Helsinki stock exchange. This is estimated to represent two-thirds of all trading volumes in UPM shares. The highest listing was EUR 23.41 in December and the lowest was EUR 13.71 in February.

The company's ADSs are traded on the US over-the-counter (OTC) market under a Level 1-sponsored American Depositary Receipt programme.

The Annual General Meeting 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 Board of Directors was authorised to decide on the issuance of new shares, transfer of treasury shares and issuance of special rights entitling to shares in proportion to the shareholders' existing holdings in the Company, or in a directed share issue, deviating from the shareholders' pre-emptive subscription rights. The Board of Directors may also decide on a share issue without payment to the Company itself. The aggregate maximum number of new shares that may be issued and treasury shares that may be transferred is 25,000,000, including also the number of shares that can be received on the basis of the special rights. The authorisation will be valid for three years from the date of the AGM resolution.

Aside from the above, the Board of Directors has no current authorisation to issue shares, convertible bonds or share options.

The number of shares entered in the Trade Register on 31 December 2016 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 December 2016, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of company shares and voting rights.

Litigation

Group companies

In 2011, Metsähallitus (a Finnish state enterprise, which administers state-owned land) filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Finnish Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the Finnish roundwood market. In addition to Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amount of all of the claims after the District Court rejected some claims and after certain claimants waived their claims totals currently EUR 185 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 32 million in the aggregate. In addition to the claims on capital amounts, the claimants are also requesting compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims. On 22 June 2016 the District Court rendered a judgment whereby it rejected the damages claim of Metsähallitus against UPM, and the other two Finnish forest companies. The District Court ordered Metsähallitus to pay UPM compensation for legal expenses. The capital amount of Metsähallitus' claim was in total EUR 159 million, of which EUR 23 million was based on agreements between Metsähallitus and UPM. Metsähallitus has appealed the District Court judgment to the Court of Appeal.

In 2012, UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along right under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of shares in Metsä Fibre to Itochu Corporation. UPM claimed jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million. Metsäliitto and Metsä Board had sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto had exercised a call option to purchase UPM's remaining 11% shareholding in Metsä Fibre for EUR 150 million. The arbitral tribunal rendered its final decision (arbitral award) in February 2014 and ordered Metsäliitto and Metsä Board to pay UPM the capital amount of EUR 58.5 million and penalty interest and compensate UPM for its legal fees. As a result, UPM recorded an income of EUR 67 million as item affecting comparability in Q1 2014. In May 2014 Metsäliitto and Metsä Board commenced litigation proceedings in the Helsinki District Court challenging the arbitral award and requesting the District Court to set aside the arbitral award or to declare it null and void. In June 2015 the District Court rejected the actions by Metsäliitto and Metsä Board and following an appeal the Helsinki Court of Appeal rejected the actions by Metsäliitto and Metsä Board In October 2016. Metsäliitto and Metsä Board have filed a request for leave of appeal with the Supreme Court.

Other shareholdings

In Finland, UPM is participating in a project to construct a new nuclear power plant unit Olkiluoto 3 EPR (OL3 EPR) through its shareholdings in Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj (TVO), holding 58.5% of its shares. UPM's indirect share of OL3 is approximately 31%. Originally the commercial electricity production of the OL3 plant unit was scheduled to start in April 2009. The completion of the project, however, has been delayed. In September 2014 TVO announced that it had received additional information about the schedule for the OL3 EPR project from the Supplier consortium companies (AREVA GmbH, AREVA NP SAS and Siemens AG), which is constructing OL3 EPR as a fixed-price turnkey project. According to this information, the start of regular electricity production of the plant unit would take place in late 2018.

In December 2008 the Supplier initiated the International Chamber of Commerce (ICC) arbitration proceedings and submitted a claim concerning the delay at the OL3 EPR project and related costs. According to TVO, the Supplier's monetary claim, as updated in February 2016, is in total approximately EUR 3.52 billion. The sum is based on the Supplier's updated analysis of events occurred through September 2014, with certain claims quantified to December 31, 2014. The sum includes penalty interest (calculated to June 30, 2016) and payments allegedly delayed by TVO under the plant contract amounting to a combined total of approximately EUR 1.45 billion, as well as approximately EUR 135 million in alleged loss of profit.

According to TVO, the quantification estimate of its costs and losses related to its claim in the arbitration proceedings is approximately EUR 2.6 billion until the end of 2018, which is the estimated start of the regular electricity production of OL3 EPR according to the schedule submitted by the Supplier. TVO´s current estimate was submitted to the tribunal in the arbitration proceedings in July 2015.

According to TVO, TVO received a final and binding partial award in the arbitration proceeding In which the tribunal addressed the early period of the project (time schedule, licensing and licensability, and system design). This comprises many of the facts and matters that TVO relies upon in its main claims against the Supplier, as well as certain key matters that the Supplier relies upon in its claims against TVO. In doing so, the partial award has finally resolved the great majority of these facts and matters in favor of TVO, and conversely has rejected the great majority of the Supplier's contentions in this regard. The partial award does not take a position on the claimed monetary amounts. The arbitration proceeding is still going on with further partial awards to come before the final award where the tribunal will declare the liabilities of the parties to pay compensation.

TVO considers its claims to be well-founded and has considered and found the claims of the Supplier to be without merit. According to TVO the partial award provides material confirmation for this position.

The Supplier consortium companies are jointly and severally liable for the plant contract obligations. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

According to TVO, Areva Group announced in 2016 a restructuring of its business. The restructuring plan involves a transfer of the operations of Areva NP, excluding the OL3 EPR project and resources necessary for its completion, to a new company which is to be sold to a consortium led by EDF. According to Areva's announcement, the consummation of the restructuring is expected to take place during the second half of 2017. The implementation of the restructuring plan is subject to decisions and clearances. TVO requires that the restructuring ensures that the OL3 EPR project will be completed within the current schedule and that all obligations under the plant contract are fulfilled. TVO has sought to obtain more detailed information from Areva Group on its announced restructuring and its impacts on the OL3 EPR project with a view to securing the assurances that all the necessary financial and other resources, particularly in relation to the EPR technology capabilities, will be allocated for the completion and long-term operation of OL3 EPR and that the Supplier Areva-Siemens will meet all their contractual obligations.

Helsinki, 31 January 2017

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q4/2016	Q4/2015	Q1–Q4/2016	Q1–Q4/2015
Sales	2,476	2,574	9,812	10,138
Other operating income	48	–29	140	13
Costs and expenses	–2,202	–2,209	–8,365	–8,840
Change in fair value of biological assets and wood harvested	53	16	88	352
Share of results of associated companies and joint ventures	1	–	5	3
Depreciation, amortisation and impairment charges	–144	–132	–545	–524
Operating profit	232	220	1,135	1,142
Gains on available-for-sale investments, net	–	–	1	–
Exchange rate and fair value gains and losses	16	11	–7	1
Interest and other finance costs, net	–16	–17	–49	–68
Profit before tax	231	214	1,080	1,075
Income taxes	–44	–21	–200	–159
Profit for the period	187	193	880	916
Attributable to:				
Owners of the parent company	187	193	879	916
Non-controlling interests	–	–	1	–
	187	193	880	916
Earnings per share for profit attributable to owners of the parent company				
Basic earnings per share, EUR	0.35	0.36	1.65	1.72
Diluted earnings per share, EUR	0.35	0.36	1.65	1.72

Consolidated statement of comprehensive income

EURm	Q4/2016	Q4/2015	Q1–Q4/2016	Q1–Q4/2015
Profit for the period	187	193	880	916
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	95	90	–97	113
Items that may be reclassified subsequently to income statement:				
Translation differences	114	72	–14	221
Net investment hedge	–10	–43	–1	–28
Cash flow hedges	27	–4	73	24
Available-for-sale investments	–47	–307	–144	–405
	84	–282	–87	–188
Other comprehensive income for the period, net of tax	178	–192	–184	–75
Total comprehensive income for the period	366	1	696	841
Total comprehensive income attributable to:				
Owners of the parent company	366	1	695	841
Non-controlling interests	–	–	1	–
	366	1	696	841

Consolidated balance sheet

EURm	31 Dec 2016	31 Dec 2015
ASSETS		
Non-current assets		
Goodwill	245	241
Other intangible assets	301	329
Property, plant and equipment	4,657	4,895
Biological assets	1,734	1,738
Investments in associated companies and joint ventures	29	28
Available-for-sale investments	1,932	2,085
Other non-current financial assets	255	332
Deferred tax assets	446	466
Other non-current assets	117	145
	9,715	10,259
Current assets		
Inventories	1,346	1,376
Trade and other receivables	1,835	1,876
Income tax receivables	14	56
Cash and cash equivalents	992	626
	4,187	3,934
Assets classified as held for sale	8	–
Total assets	13,911	14,193
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent company		
Share capital	890	890
Treasury shares	–2	–2
Translation differences	433	449
Fair value and other reserves	1,416	1,486
Reserve for invested non-restricted equity	1,273	1,273
Retained earnings	4,225	3,846
	8,234	7,942
Non-controlling interests	3	2
Total equity	8,237	7,944
Non-current liabilities		
Deferred tax liabilities	457	456
Retirement benefit obligations	817	747
Provisions	145	154
Interest-bearing liabilities	1,835	2,797
Other liabilities	110	174
	3,364	4,328
Current liabilities		
Current interest-bearing liabilities	584	269
Trade and other payables	1,709	1,619
Income tax payables	16	33
	2,309	1,921
Liabilities related to assets classified as held for sale	–	–
Total liabilities	5,673	6,249
Total equity and liabilities	13,911	14,193

Consolidated statement of changes in equity

	ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY								
EURm	Share capital	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	890	–2	256	1,867	1,273	3,194	7,478	2	7,480
Profit for the period	–	–	–	–	–	916	916	–	916
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	113	113	–	113
Translation differences	–	–	221	–	–	–	221	–	221
Net investment hedge, net of tax	–	–	–28	–	–	–	–28	–	–28
Cash flow hedges, net of tax	–	–	–	24	–	–	24	–	24
Available-for-sale investments, net of tax	–	–	–	–405	–	–	–405	–	–405
Total comprehensive income for the period	–	–	193	–381	–	1,029	841	–	841
Share-based compensation, net of tax	–	–	–	–	–	–4	–4	–	–4
Dividend distribution	–	–	–	–	–	–373	–373	–	–373
Total transactions with owners for the period	–	–	–	–	–	–377	–377	–	–377
Balance at 31 December 2015	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Balance at 1 January 2016	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Profit for the period	–	–	–	–	–	879	879	1	880
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	–97	–97	–	–97
Translation differences	–	–	–14	–	–	–	–14	–	–14
Net investment hedge, net of tax	–	–	–1	–	–	–	–1	–	–1
Cash flow hedges, net of tax	–	–	–	73	–	–	73	–	73
Available-for-sale investments, net of tax	–	–	–	–144	–	–	–144	–	–144
Total comprehensive income for the period	–	–	–16	–72	–	782	695	1	696
Share-based compensation, net of tax	–	–	–	1	–	–3	–2	–	–2
Dividend distribution	–	–	–	–	–	–400	–400	–	–400
Total transactions with owners for the period	–	–	–	1	–	–403	–402	–	–402
Balance at 31 December 2016	890	–2	433	1,416	1,273	4,225	8,234	3	8,237

Consolidated cash flow statement

EURm	Q1–Q4/2016	Q1–Q4/2015
Cash flow from operating activities		
Profit for the period	880	916
Adjustments [1]	778	449
Interest received	6	6
Interest paid	–40	–22
Dividends received	4	1
Other financial items, net	8	–17
Income taxes paid	–145	–140
Change in working capital [2]	195	–8
Net cash generated from operating activities	1,686	1,185
Cash flow from investing activities		
Capital expenditure	–351	–432
Acquisition of shares in associated companies and joint ventures	–	–1
Acquisition of available-for-sale investments	–	–33
Proceeds from sale of tangible and intangible assets	93	26
Proceeds from disposal of subsidiaries	–	8
Proceeds from disposal of available-for-sale investments	6	35
Net cash flows from net investment hedges	–8	–43
Change in other non-current assets	–2	5
Net cash used in investing activities	–262	–435
Cash flow from financing activities		
Proceeds from non-current liabilities	1	22
Payments of non-current liabilities	–540	–519
Change in current liabilities	–77	22
Net cash flows from derivatives	–22	43
Dividends paid	–400	–373
Other financing cash flow	–19	–20
Net cash used in financing activities	–1,057	–825
Change in cash and cash equivalents	367	–75
Cash and cash equivalents at beginning of period	626	700
Foreign exchange effect on cash and cash equivalents	–1	1
Change in cash and cash equivalents	367	–75
Cash and cash equivalents at end of period	992	626

[1] **Adjustments**

EURm	Q1–Q4/2016	Q1–Q4/2015
Change in fair value of biological assets and wood harvested	–88	–352
Share of results of associated companies and joint ventures	–5	–3
Depreciation, amortisation and impairment charges	545	524
Capital gains on sale of non-current assets, net	–55	–18
Finance costs, net	56	67
Taxes	200	159
Change in restructuring provisions	2	–62
Other adjustments	123	134
Total	778	449

[2] **Change in working capital**

EURm	Q1–Q4/2016	Q1–Q4/2015
Inventories	41	15
Current receivables	22	–30
Current non-interest-bearing liabilities	132	7
Total	195	–8

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.

	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales, EURm	2,476	2,445	2,445	2,446	2,574	2,530	2,548	2,486	9,812	10,138
Comparable EBITDA, EURm	349	423	385	403	363	345	317	325	1,560	1,350
% of sales	14.1	17.3	15.8	16.5	14.1	13.6	12.4	13.1	15.9	13.3
Comparable EBIT, EURm	283	314	264	281	247	240	219	210	1,143	916
% of sales	11.4	12.8	10.8	11.5	9.6	9.5	8.6	8.4	11.6	9.0
Comparable profit before tax, EURm	282	288	252	267	241	225	195	188	1,089	849
Capital employed (average), EURm	10,560	10,433	10,701	11,005	11,079	11,080	11,059	11,025	10,833	10,977
Comparable ROCE, %	11.4	11.5	10.0	10.1	9.2	8.6	7.8	7.3	10.6	8.3
Comparable profit for the period, EURm	220	234	200	225	215	189	170	160	879	734
Total equity, average, EURm	8,054	7,767	7,819	7,959	7,944	7,788	7,718	7,642	8,091	7,712
Comparable ROE, %	10.9	12.1	10.2	11.3	10.8	9.7	8.8	8.4	10.9	9.5
Average number of shares basis (1,000)	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.41	0.44	0.37	0.42	0.41	0.35	0.32	0.30	1.65	1.38
Items affecting comparability in operating profit, EURm	–51	50	–2	–4	–27	273	–13	–7	–7	226
Items affecting comparability in financial items, EURm	–	–2	–	–	–	–	–	–	–2	–
Items affecting comparability in taxes, EURm	18	–14	–	6	5	–54	3	2	11	–44
Operating cash flow, EURm	405	506	434	341	390	363	324	108	1,686	1,185
Operating cash flow per share, EUR	0.76	0.95	0.81	0.64	0.73	0.68	0.61	0.20	3.16	2.22
Net interest-bearing liabilities at the end of period, EURm	1,131	1,479	1,876	1,873	2,100	2,465	2,635	2,419	1,131	2,100
Gearing ratio, %	14	19	24	23	26	31	35	31	14	26
Capital expenditure, EURm	94	98	85	47	188	132	126	74	325	520
Capital expenditure excluding acquisitions, EURm	94	98	85	47	157	132	123	74	325	486
Equity per share at the end of period, EUR	15.43	14.75	14.36	14.94	14.89	14.89	14.30	14.61	15.43	14.89
Personnel at the end of period	19,310	19,559	20,711	19,870	19,578	19,874	20,900	20,210	19,310	19,578

Formulae of key figures are presented at the end of this report.

Reconciliation of key figures to IFRS

EURm	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Items affecting comparability										
Impairment charges	–24	–	1	–12	–	–1	1	–	–35	–
Restructuring charges	–31	–	–	–18	–2	4	–6	–1	–48	–5
Change in fair value of unrealised cash flow and commodity hedges	2	3	–3	25	–22	2	8	–6	27	–18
Capital gains and losses on sale of non-current assets	2	47	–	–	–	3	3	–	49	6
Fair value changes of biological assets resulting from changes in estimates	–	–	–	–	–	265	–	–	–	265
Other non-operational items	–	–	–	–	–3	–	–19	–	–	–22
Total items affecting comparability in operating profit	–51	50	–2	–4	–27	273	–13	–7	–7	226
Items affecting comparability in financial items	–	–2	–	–	–	–	–	–	–2	–
Changes in tax rates	4	–	–	–	–	–	–	–	4	–
Taxes relating to items affecting comparability	14	–14	–	6	5	–54	3	2	7	–44
Items affecting comparability in taxes	18	–14	–	6	5	–54	3	2	11	–44
Items affecting comparability, total	–33	34	–2	2	–22	219	–10	–5	1	182
Comparable EBITDA										
Operating profit	232	364	262	277	220	513	206	203	1,135	1,142
Depreciation, amortisation and impairment charges 1)	120	118	134	138	132	131	130	131	510	524
Change in fair value of biological assets and wood harvested 1)	–53	–7	–11	–16	–16	–24	–31	–16	–88	–87
Share of result of associates and joint ventures	–1	–2	–2	–	–	–2	–1	–	–5	–3
Items affecting comparability in operating profit	51	–50	2	4	27	–273	13	7	7	–226
Comparable EBITDA	349	423	385	403	363	345	317	325	1,560	1,350
% of sales	14.1	17.3	15.8	16.5	14.1	13.6	12.4	13.1	15.9	13.3
1) exluding items affecting comparability										
Comparable EBIT										
Operating profit	232	364	262	277	220	513	206	203	1,135	1,142
Items affecting comparability in operating profit	51	–50	2	4	27	–273	13	7	7	–226
Comparable EBIT	283	314	264	281	247	240	219	210	1,143	916
% of sales	11.4	12.8	10.8	11.5	9.6	9.5	8.6	8.4	11.6	9.0
Comparable profit before tax										
Profit before tax	231	336	250	263	214	498	182	181	1,080	1,075
Items affecting comparability in operating profit	51	–50	2	4	27	–273	13	7	7	–226
Items affecting comparability in financial items	–	2	–	–	–	–	–	–	2	–
Comparable profit before tax	282	288	252	267	241	225	195	188	1,089	849
Interest expenses and other financial expenses	17	13	15	10	13	12	20	12	55	57
	300	301	266	277	254	237	215	200	1,144	906
Capital employed, average	10,560	10,433	11,701	11,005	11,079	11,080	11,059	11,025	10,833	10,977
Comparable ROCE, %	11.4	11.5	10.0	10.1	9.2	8.6	7.8	7.3	10.6	8.3
Comparable profit for the period										
Profit for the period	187	268	198	227	193	408	160	155	880	916
Items affecting comparability, total	33	–34	2	–2	22	–219	10	5	–1	–182
Comparable profit for the period	220	234	200	225	215	189	170	160	879	734
Profit attributable to non-controlling interest	–	–	–1	–	–	–	–	–	–1	–
	220	234	199	225	215	189	170	160	878	734
Average number of shares basic (1,000)	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.41	0.44	0.37	0.42	0.41	0.35	0.32	0.30	1.65	1.38
Total equity, average	8,054	7,767	7,819	7,959	7,944	7,788	7,718	7,642	8,091	7,712
Comparable ROE, %	10.9	12.1	10.2	11.3	10.8	9.7	8.8	8.4	10.9	9.5
Net interest-bearing liabilities										
Non-current interest-bearing liabilities	1,835	1,957	2,148	2,452	2,797	2,742	2,844	2,952	1,835	2,797
Current interest-bearing liabilities	585	636	592	574	269	461	537	350	585	269
Interest-bearing liabilities	2,419	2,593	2,740	3,025	3,066	3,203	3,381	3,302	2,419	3,066
Non-current interest-bearing financial assets	259	292	350	321	318	325	313	362	259	318
Cash and cash equivalents	992	771	459	803	626	394	409	469	992	626
Other current interest-bearing financial assets	38	50	55	29	22	19	24	52	38	22
Interest-bearing financial assets	1,289	1,114	864	1,153	966	738	746	883	1,289	966
Net interest-bearing liabilities	1,131	1,479	1,876	1,873	2,100	2,465	2,635	2,419	1,131	2,100

Quarterly segment information

EURm	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/16	Q1–Q4/15
Sales										
UPM Biorefining	533	541	563	568	584	554	601	533	2,206	2,272
UPM Energy	90	89	81	97	110	112	94	99	357	415
UPM Raflatac	372	355	360	351	363	353	351	342	1,437	1,409
UPM Specialty Papers	329	305	327	312	284	286	300	298	1,273	1,168
UPM Paper ENA	1,228	1,234	1,155	1,202	1,311	1,279	1,210	1,256	4,818	5,056
UPM Plywood	109	106	119	110	102	105	113	119	444	439
Other operations	72	65	76	73	76	97	119	114	285	406
Internal sales	–260	–246	–229	–233	–248	–239	–219	–267	–969	–973
Eliminations and reconciliations	2	–2	–6	–34	–8	–17	–21	–8	–40	–54
Sales, total	2,476	2,445	2,445	2,446	2,574	2,530	2,548	2,486	9,812	10,138
Comparable EBITDA										
UPM Biorefining	101	132	140	175	166	161	153	134	548	614
UPM Energy	34	32	25	36	62	47	43	40	126	192
UPM Raflatac	39	43	43	41	36	39	33	29	166	137
UPM Specialty Papers	54	58	53	48	31	35	32	43	214	141
UPM Paper ENA	111	148	93	96	64	55	38	56	448	213
UPM Plywood	19	17	25	20	18	17	18	25	80	78
Other operations	–9	–7	–9	–10	–8	–4	–1	–3	–35	–16
Eliminations and reconciliations	1	–2	16	–4	–6	–5	1	1	11	–9
Comparable EBITDA, total	349	423	385	403	363	345	317	325	1,560	1,350
Operating profit										
UPM Biorefining	72	94	105	135	129	122	118	97	406	466
UPM Energy	31	30	22	33	51	45	21	38	116	155
UPM Raflatac	31	36	35	33	28	30	20	21	134	99
UPM Specialty Papers	33	36	30	23	10	12	11	22	123	55
UPM Paper ENA	26	160	47	–11	23	13	–9	5	223	32
UPM Plywood	13	12	19	14	10	11	13	19	58	53
Other operations [1]	28	–4	–9	0	–3	280	23	6	15	306
Eliminations and reconciliations	–2	1	12	50	–28	–	9	–5	60	–24
Operating profit, total	232	364	262	277	220	513	206	203	1,135	1,142
% of sales	9.4	14.9	10.7	11.3	8.5	20.3	8.1	8.2	11.6	11.3
Items affecting comparability in operating profit										
UPM Biorefining	–	–	–	–	–1	–	–	–	–	–1
UPM Energy	–	–	–	–	–7	–	–19	–	–	–26
UPM Raflatac	–	–	–	–	–	1	–4	–	–	–3
UPM Specialty Papers	–	–	–	–	–	–	–	–	–	–
UPM Paper ENA	–49	47	2	–57	5	4	–1	–	–57	8
UPM Plywood	–	–	–	–	–2	–	–	–	–	–2
Other operations [1]	1	–	–	–	–	266	3	–1	1	268
Eliminations and reconciliations [2]	–3	3	–4	53	–22	2	8	–6	48	–18
Items affecting comparability in operating profit, total	–51	50	–2	–4	–27	273	–13	–7	–7	226
Comparable EBIT										
UPM Biorefining	72	94	105	135	130	122	118	97	406	467
UPM Energy	31	30	22	33	58	45	40	38	116	181
UPM Raflatac	31	35	35	33	28	29	24	21	133	102
UPM Specialty Papers	33	36	30	23	10	12	11	22	123	55
UPM Paper ENA	75	113	45	46	18	9	–8	5	280	24
UPM Plywood	13	12	19	14	12	11	13	19	58	55
Other operations	27	–4	–9	1	–3	14	20	7	14	38
Eliminations and reconciliations	1	–2	16	–3	–6	–2	1	1	12	–6
Comparable EBIT, total	283	314	264	281	247	240	219	210	1,143	916
% of sales	11.4	12.8	10.8	11.5	9.6	9.5	8.6	8.4	11.6	9.0

[1] Q3 2015 Other operations includes a fair value increase of biological assets in Finland totalling EUR 265 million, due to adjusted long-term wood price estimates and a change in the discount rate.

[2] In Q4 2016, eliminations and reconciliations includes EUR 2 million income relating to changes in fair value of unrealised cash flow and currency hedges and EUR –5 million elimination adjustment related to the joint operation Madison Paper Industries (MPI). Q3 2016, eliminations and reconciliation includes EUR 3 million income relating to changes in fair value of unrealised cash flow and currency hedges. Q2 2016 eliminations and reconciliation includes EUR 3 million expenses relating to changes in fair value of unrealised cash flow and currency hedges and EUR –1 million elimination adjustment related to the joint operation Madison Paper Industries (MPI). Q1 2016 eliminations and reconciliation includes EUR 28 million elimination adjustments of the joint operation Madison Paper Industries (MPI) reported as subsidiary in UPM Paper ENA and EUR 25 million of changes in fair value of unrealised cash flow and commodity hedges. In 2015 eliminations and reconciliation include changes in fair value of unrealised cash flow and commodity hedges.

Changes in property, plant and equipment

EURm	Q1–Q4/2016	Q1–Q4/2015
Book value at beginning of period	4,895	4,707
Capital expenditure	319	471
Decreases	–36	–14
Depreciation	–478	–487
Impairment charges	–32	–
Translation difference and other changes	–10	218
Book value at end of period	4,657	4,895

Financial assets and liabilities measured at fair value

EURm	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading derivatives	2	63	–	65	6	63	–	69
Derivatives used for hedging	32	241	–	273	88	283	–	371
Available-for-sale investments	–	–	1,932	1,932	–	–	2,085	2,085
Total	34	304	1,932	2,270	94	346	2,085	2,525
Liabilities								
Trading derivatives	19	93	–	112	59	62	–	121
Derivatives used for hedging	42	94	–	136	109	89	–	198
Total	61	187	–	248	168	151	–	319

There have been no transfers between Levels.

Fair values of Level 2 derivative financial instruments (e.g. over-the-counter derivatives) have been estimated as follows: Interest forward rate agreements and futures contracts 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 in effect on the balance sheet date; foreign currency options are fair valued based on quoted market rates on the balance sheet date; interest and currency swap agreements are fair valued based on discounted cash flows; and commodity derivatives are fair valued based on quoted market rates on the balance sheet date. The fair values of non-traded derivatives such as embedded derivatives are assessed by using valuation methods and assumptions that are based on market quotations existing at each balance sheet date.

Fair value measurements using significant unobservable inputs, Level 3

	AVAILABLE-FOR-SALE INVESTMENTS	
EURm	Q1–Q4/2016	Q1–Q4/2015
Opening balance	2,085	2,510
Additions	–	33
Impairment charges	1	–
Disposals	–6	–35
Transfers into Level 3	–	1
Gains and losses		
Recognised in statement of comprehensive income, under available-for-sale investments	–148	–424
Closing balance	1,932	2,085

Fair valuation of available-for-sale investments in the UPM Energy (Pohjolan Voima Oy'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 Group's electricity price estimate is based on fundamental simulation of the Finnish area price. A change of +/-5% in the electricity price used in the model would change the total value of the assets by +/- EUR 333 million. The discount rate of 5.85% used in the valuation model is determined using the weighted average cost of capital method. A change of +/- 0.5% in the discount rate would change the total value of the assets by approximately -/+ EUR 310 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 nuclear power plant project and the on-going arbitration proceedings between the plant supplier AREVA-Siemens Consortium and the plant owner Teollisuuden Voima Oyj (TVO). UPM's indirect share of the capacity of Olkiluoto 3 EPR is approximately 31%, through its PVO B2 shares. The possible outcome of the arbitration proceedings has not been taken into account in the valuation. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

Fair value of financial assets and liabilities measured at carrying amount

EURm	31 Dec 2016	31 Dec 2015
Non-current interest bearing liabilities, excl. derivative financial instruments	1,804	2,755

The fair values of all other financial assets and liabilities approximate their carrying amount.

Commitments and contingencies

EURm	31 Dec 2016	31 Dec 2015
Own commitments		
Mortgages	151	220
On behalf of others		
Guarantees	2	4
Other own commitments		
Leasing commitments for the next 12 months	74	65
Leasing commitments for subsequent periods	374	355
Other commitments	154	180

Capital commitments

EURm	Completion	Total cost	By 31 Dec 2015	Q1–Q4/2016	After 31 Dec 2016
Capacity increase / Kymi	Q4 2017	98	–	18	80
Capacity increase / Wroclaw	Q1 2018	35	–	2	33

Notional amounts of derivative financial instruments

EURm	31 Dec 2016	31 Dec 2015
Interest rate forward contracts	1,480	1,906
Interest rate swaps	2,019	2,131
Forward foreign exchange contracts	2,645	2,949
Currency options, bought	12	25
Currency options, written	24	48
Cross currency swaps	557	669
Commodity contracts	429	400

Assets classified as held for sale

Assets classified as held for sale relate to hydro power assets located at the mill site in Madison Paper Industries in the US. More information is presented under "Events during the year 2016".

Basis of preparation and accounting policies

This unaudited financial statements 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 2015. 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.

Formulae for key figures

Comparable EBITDA:

Operating profit – depreciation – impairment charges
– change in fair value of biological assets and wood harvested
– share of results of associated companies and joint ventures
– items affecting comparability

Comparable EBIT:

Operating profit – items affecting comparability in operating profit

Comparable profit for the period:

Profit for the period
– items affecting comparability

Gearing ratio, %:

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$$

Net interest-bearing liabilities:

Interest-bearing liabilities – interest-bearing financial assets

Return on equity (ROE), %:

$$\frac{\text{Profit before tax – income taxes}}{\text{Total equity (average)}} \times 100$$

Comparable ROE, %:

$$\frac{\text{Profit before tax – income taxes – items affecting comparability}}{\text{Total equity (average)}} \times 100$$

Return on capital employed (ROCE), %:

$$\frac{\text{Profit before tax – interest expenses and other financial expenses}}{\text{Total equity + interest-bearing liabilities (average)}} \times 100$$

Comparable ROCE, %:

$$\frac{\text{Profit before tax – interest expenses and other financial expenses – items affecting comparability}}{\text{Total equity + interest-bearing liabilities (average)}} \times 100$$

Comparable ROCE, for the segments (operating capital), %:

$$\frac{\text{Operating profit – items affecting comparability}}{\text{Non-current assets + inventories + trade receivables – trade payables (average)}} \times 100$$

Earnings per share (EPS):

$$\frac{\text{Profit for the period attributable to owners of the parent company}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

Comparable EPS:

$$\frac{\text{Profit for the period attributable to owners of the parent company – items affecting comparability}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

Equity per share:

$$\frac{\text{Equity attributable to owners of the parent company}}{\text{Adjusted number of shares at end of period}}$$

Operating cash flow per share:

$$\frac{\text{Operating cash flow}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

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 page 18 of the 2015 Annual Report. Risks and opportunities are discussed on pages 17–18 and risks and risk management are presented on pages 84–86 of the report.

UPM

www.upm.com

UPM-Kymmene Corporation
Alvar Aallon katu 1
PO Box 380
FI-00101 Helsinki, Finland
tel. +358 2041 5111
fax +358 2041 5110
info@upm.com
ir@upm.com