The Biofore Company UPM

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HALF YEAR FINANCIAL REPORT 2017

UPM Half Year Financial Report 2017:

UPM's good performance and favourable market demand continued

Q2 2017 highlights

- Comparable EBIT increased by 2% to EUR 270 million (264 million in Q2 2016).
- Favourable market demand continued.
- High maintenance activity and seasonally higher fixed costs impacted comparable EBIT by approximately EUR –20 million compared with Q2 2016, EUR –45 million compared with Q1 2017.
- Solid operating cash flow at EUR 269 million (434 million).
- Net debt decreased to EUR 1,046 million (1,876 million).
- UPM announced new focused investments at the Kaukas pulp mill and Tampere labelstock factory.

H1 2017 highlights

- Comparable EBIT increased by 5% to EUR 575 million (545 million in H1 2016).
- Five business areas increased their comparable EBIT.
- Growth initiatives contributed to the comparable EBIT growth.
- Successful mitigation of raw material cost pressures.
- Strong operating cash flow at EUR 665 million (775 million).
- UPM announced divestments of hydropower assets in Germany, Austria and the US.

Key figures

	Q2/2017	Q2/2016	Q1/2017	Q1-Q2/2017	Q1-Q2/2016	Q1–Q4/2016
Sales, EURm	2,464	2,445	2,482	4,946	4,891	9,812
Comparable EBITDA, EURm	349	385	405	755	788	1,560
% of sales	14.2	15.8	16.3	15.3	16.1	15.9
Operating profit, EURm	269	262	312	581	539	1,135
Comparable EBIT, EURm	270	264	305	575	545	1,143
% of sales	11.0	10.8	12.3	11.6	11.1	11.6
Profit before tax, EURm	258	250	299	557	513	1,080
Comparable profit before tax, EURm	258	252	291	550	519	1,089
Profit for the period, EURm	205	198	240	444	425	880
Comparable profit for the period, EURm	205	200	234	440	425	879
Earnings per share (EPS), EUR	0.38	0.37	0.45	0.83	0.80	1.65
Comparable EPS, EUR	0.39	0.37	0.44	0.82	0.79	1.65
Return on equity (ROE), %	10.2	10.1	11.8	10.9	10.9	10.9
Comparable ROE, %	10.2	10.2	11.6	10.8	10.9	10.9
Return on capital employed (ROCE), %	10.8	9.9	12.0	11.2	10.0	10.5
Comparable ROCE, %	10.8	10.0	11.7	11.1	10.1	10.6
Operating cash flow, EURm	269	434	396	665	775	1,686
Operating cash flow per share, EUR	0.50	0.81	0.74	1.25	1.45	3.16
Equity per share at the end of period, EUR	15.14	14.36	14.92	15.14	14.36	15.43
Capital employed at the end of period, EURm	9,965	10,403	9,919	9,965	10,403	10,657
Net debt at the end of period, EURm	1,046	1,876	807	1,046	1,876	1,131
Net debt to EBITDA (last 12 m.)	0.68	1.25	0.52	0.68	1.25	0.73
Personnel at the end of period	20,096	20,711	19,301	20,096	20,711	19,310

UPM presents certain performance measures of performance, financial position and cash flows, which are alternative performance measures in accordance with the guidance issued by the European Securities and Markets Authority (ESMA). The definitions of alternative performance measures are presented in notes to the consolidated financial statements in » **UPM Annual Report**.

Jussi Pesonen, President and CEO, comments on the Q2 result:

"UPM's comparable EBIT continued on an increasing track in Q2 despite clearly higher maintenance activity during the quarter. Operating cash flow was solid at EUR 269 million and net debt decreased to EUR 1,046 million.

Market demand was good and delivery growth continued in most businesses during the quarter. As expected, the higher maintenance activity resulted in temporarily higher fixed costs and lower operational efficiency. Moderate cost inflation continued but was mitigated by our own cost reduction measures and targeted price increases. Overall business conditions were favourable resulting in good performance.

UPM Biorefining benefitted from higher pulp prices, strong pulp demand and improved operational performance in UPM Biofuels. Profitability improved despite the maintenance shutdown at the UPM Pietarsaari pulp mill. UPM Raflatac and UPM Plywood maintained strong profitability and continued to show solid sales growth. UPM Specialty Papers achieved an excellent result. Thanks to the new specialty paper machine at UPM Changshu we have been able to grow the release liner business and improve our product mix even faster than expected.

UPM Paper ENA achieved a satisfactory result in the quarter most impacted by seasonal factors. Demand decline in Europe remained moderate. UPM Energy suffered from poor hydrological availability and prolonged maintenance activity at Olkiluoto power plant in Finland. As a result, power generation was exceptionally low during the quarter.

The focused growth projects over the recent years have been highly successful and have contributed to our profits and returns well. During the second quarter we introduced two further focused investments: the Kaukas pulp mill efficiency and competitiveness improvement in Lappeenranta and the UPM Raflatac specialty labels expansion in Tampere, both of which are in Finland.

When it comes to longer-term growth, the discussions continue with the Government of Uruguay concerning infrastructure development and other local prerequisites for a potential pulp mill investment.

2017 has started well for us. Five out of our six businesses improved their performance during the first half of the year. Our businesses are performing well, and our cash flow and balance sheet enable us to distribute attractive dividend and simultaneously invest in profitable growth. We look confidently into the future and our opportunities for creating value from bioeconomy."

Outlook for 2017

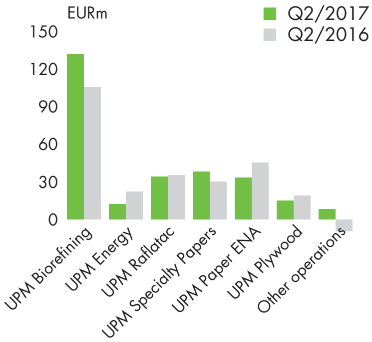
UPM's profitability improved significantly in 2016 and is expected to continue on a good level in 2017.

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.

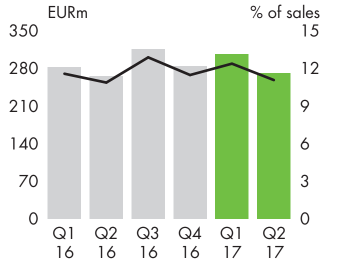
Following a deflationary environment in recent years, 2017 is expected to show modest input cost inflation. UPM will continue measures to reduce fixed and variable costs to mitigate this.

Q3 2017 is expected to include significantly less maintenance activity than Q2 2017 in UPM Biorefining, UPM Paper ENA and UPM Energy.

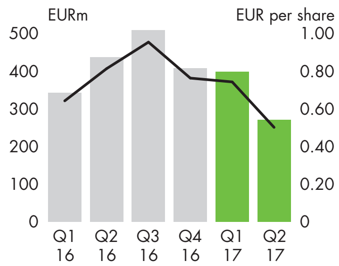
Comparable EBIT



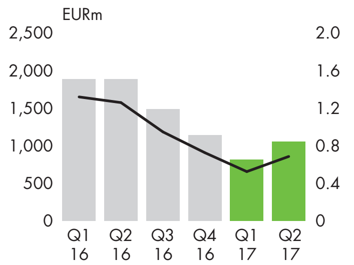
Comparable EBIT



Operating cash flow



Net debt and net debt to EBITDA



Results

Q2 2017 compared with Q2 2016

Q2 2017 sales were EUR 2,464 million, 1% higher than the EUR 2,445 million for Q2 2016. Sales grew in UPM Biorefining, UPM Raflatac, UPM Specialty Papers and UPM Plywood, but decreased in UPM Paper ENA and UPM Energy.

Comparable EBIT increased by 2% to EUR 270 million, 11.0% of sales (264 million, 10.8%). Comparable EBIT increased mainly due to lower depreciation. Changes in sales prices in UPM's product range had a positive net impact on the comparable EBIT, whereas changes in raw material prices had a negative impact. High maintenance activity impacted comparable EBIT by approximately EUR –20 million, compared with Q2 2016.

Depreciation, excluding items affecting comparability, totalled EUR 112 million (134 million). The increase in the fair value of forest assets net of wood harvested was EUR 32 million (11 million).

Operating profit totalled EUR 269 million (262 million). Items affecting comparability in operating profit totalled charges of EUR 1 million (charges of EUR 2 million).

Net interest and other finance costs were EUR 6 million (15 million). The exchange rate and fair value gains and losses resulted in a loss of EUR 6 million (gain of EUR 2 million). Income taxes totalled EUR 53 million (52 million).

Profit for Q2 2017 was EUR 205 million (198 million), and comparable profit was EUR 205 million (200 million).

Q2 2017 compared with Q1 2017

Comparable EBIT decreased by 11% to EUR 270 million, 11.0% of sales (305 million, 12.3%). High maintenance activity and seasonally higher fixed costs impacted comparable EBIT by approximately EUR –45 million, compared with Q1 2017, particularly in UPM Biorefining, UPM Paper ENA and UPM Energy. The positive net impact of changes in sales prices offset the impact of higher raw material costs and less favourable currencies.

Depreciation, excluding items affecting comparability, totalled EUR 112 million (119 million). The increase in the fair value of forest assets net of wood harvested was EUR 32 million (16 million). Operating profit totalled EUR 269 million (312 million).

January–June 2017 compared with January–June 2016

Q1-Q2 2017 sales were EUR 4,946 million, 1% higher than the EUR 4,891 million for Q1-Q2 2016. Sales grew in UPM Biorefining, UPM Raflatac, UPM Specialty Papers and UPM Plywood, but decreased in UPM Paper ENA and UPM Energy.

Comparable EBIT increased by 5% to EUR 575 million, 11.6% of sales (545 million, 11.1%). Comparable EBIT increased mainly due to higher delivery volumes and lower depreciation. The net impact of changes in sales prices and variable costs, including UPM's cost efficiency measures, was slightly negative. Fixed costs increased, mainly due to higher maintenance activity than in the comparison period.

Depreciation, excluding items affecting comparability, totalled EUR 231 million (272 million). The increase in the fair value of forest assets net of wood harvested was EUR 48 million (27 million).

Operating profit totalled EUR 581 million (539 million). Items affecting comparability in operating profit totalled gains of EUR 7 million (charges of EUR 6 million).

Net interest and other finance costs were EUR 19 million (30 million). The exchange rate and fair value gains and losses resulted in a loss of EUR 6 million (gain of 2 million). Income taxes totalled EUR 112 million (88 million). Items affecting comparability in taxes totalled EUR –2 million (7 million).

Profit for Q1-Q2 2017 was EUR 444 million (425 million), and comparable profit was EUR 440 million (425 million).

Financing and cash flow

In Q1-Q2 2017, cash flow from operating activities before capital expenditure and financing totalled EUR 665 million (775 million). Working capital increased seasonally by EUR 24 million (increased by EUR 4 million) during the period.

A dividend of EUR 0.95 per share (totalling EUR 507 million) was paid on 12 April 2017, in respect of the 2016 financial year.

Net debt decreased to EUR 1,046 million at the end of the period (1,876 million). The gearing ratio as of 30 June 2017 was 13% (24%). Net debt to EBITDA ratio, based on the latest 12 months' EBITDA, was 0.68 at the end of the period (1.25).

On 30 June 2017, UPM's cash funds and unused committed credit facilities totalled EUR 1.2 billion.

Capital expenditure

In Q1-Q2 2017, capital expenditure totalled EUR 110 million, 2.2% of sales (132 million, 2.7% of sales). Total capital expenditure in 2017, excluding investments in shares, is estimated to be approximately EUR 350 million.

In July 2016, 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.

In October 2016, 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 scheduled to commence in the first half of 2018. The investment will total approximately EUR 35 million.

In April 2017, UPM announced that it will strengthen its position in the label market and invest approximately EUR 6 million in special label capacity in Tampere, Finland. A new special label product line will be built, focusing on small series of production runs. In addition, internal logistics will be strengthened. The new product line is expected to be completed by the end of the first quarter of 2018.

In June 2017, UPM announced it will further improve the efficiency and competitiveness of the Kaukas pulp mill, by upgrading the mill's fibre lines, recovery boiler, evaporation, bailing and wood handling with a EUR 30 million investment. Erection of the main equipment and start-up are scheduled for the spring of 2018. After this new project, annual production capacity of the Kaukas pulp mill will increase by 30,000 tonnes to 770,000 tonnes of softwood and birch pulp in 2019.

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 over 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 Q1-Q2 2017, UPM had an average of 19,526 employees (20,049). At the beginning of the year the number of employees was 19,310 and at the end of Q2 2017 it was 20,096.

Uruguay platform development

In July 2016, UPM commenced discussions with the Government of Uruguay on the prerequisites for long-term industrial development in Uruguay, including infrastructure development.

The aim of these discussions during the first preparation phase is to find a mutual understanding on an investment agreement, which defines the local investment prerequisites and infrastructure development initiatives.

After the first phase, the second preparation phase would consist of a preengineering study and the permitting process. During this phase, significant progress would be expected in the implementation of the state-lead infrastructure initiatives agreed in the first preparation phase. This phase is expected to take 1.5 to 2 years.

If these two preparation phases were successfully concluded, UPM would initiate the company's regular process of analysing and preparing an investment decision about a potential pulp mill.

Events during January–June 2017

On 31 January, UPM announced its renewed long-term financial targets. In the new targets, the business area return targets and the comparable ROE target were increased. Comparable EBIT growth was introduced as a new group-level target. A new financial policy on leverage based on net debt/EBITDA was introduced. The dividend policy based on cash flow remains unchanged. The long-term financial targets are presented in UPM Annual Report 2016, page 17.

On 2 February, UPM announced that it was permanently closing down 305,000 tonnes of graphic paper capacity in Europe by the end of Q2 2017, consisting of paper machine 2 at UPM Augsburg, Germany and paper machine 3 at UPM Steyrermühl, Austria. The plan was originally announced in November 2016. The number of persons affected was 143 for UPM Augsburg and 125 for UPM Steyrermühl. The closure of both machines is expected to result in annual cost savings of approximately EUR 30 million.

On 22 March, UPM announced it had signed an agreement on the sale of its hydropower facilities in Schongau and Ettringen, Germany to erdgas schwaben GmbH. The agreement is still subject to third-party approvals.

On 30 March, UPM announced it had signed an agreement on the sale of its hydropower facilities in Steyrermühl, Austria to Energie AG. The agreement is still subject to third-party approvals.

On 30 March, UPM announced that it had signed a letter of intent on forestry land sales and long-term wood supply with Tornator PLC. Tornator will sell a significant volume of wood to UPM mills in Eastern Finland each year, and UPM will sell 23,000 hectares of forestry land gradually during 2017 to Tornator in North Karelia, Finland.

On 18 April, UPM announced that Madison Paper Industries, a partnership of UPM and Northern SC Paper Corp., a subsidiary of The New York Times Company, has signed an agreement on the sale of its hydropower facilities to Eagle Creek Renewable Energy, LLC. The transaction is still subject to third-party approvals.

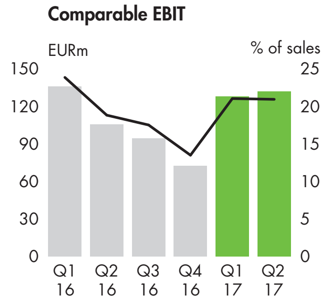
Assuming the above-mentioned divestments of hydropower facilities in Germany, Austria and the US materialise, UPM will recognise gains on sale totalling approximately EUR 65 million as items affecting comparability in its Q3 2017 results.

Events after the balance sheet date

The group's management is not aware of any significant events occurring after 30 June 2017.

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 and one biorefinery in Finland. 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.



	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	630	607	533	541	563	568	1,237	1,132	2,206
Comparable EBITDA, EURm	157	160	101	132	140	175	318	315	548
% of sales	25.0	26.4	18.9	24.5	24.8	30.9	25.7	27.8	24.9
Change in fair value of forest assets and wood harvested, EURm	14	8	14	3	9	3	21	12	29
Share of results of associates and joint ventures, EURm	1	1	–	1	1	–	1	1	2
Depreciation, amortisation and impairment charges, EURm	–41	–42	–43	–42	–44	–44	–82	–88	–173
Operating profit, EURm	131	127	72	94	105	135	258	240	406
% of sales	20.8	20.9	13.5	17.4	18.7	23.7	20.9	21.2	18.4
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	131	127	72	94	105	135	258	240	406
% of sales	20.8	20.9	13.4	17.4	18.7	23.7	20.9	21.2	18.4
Capital employed (average), EURm	3,263	3,347	3,292	3,230	3,185	3,217	3,305	3,201	3,231
Comparable ROCE, %	16.1	15.1	8.7	11.6	13.2	16.7	15.6	15.0	12.6
Pulp deliveries, 1,000 t	907	918	831	849	891	848	1,825	1,739	3,419

Pulp mill maintenance shutdowns: Q2 2017 UPM Pietarsaari, Q4 2016 UPM Fray bentos, Q3 2016 UPM Kaukas.

Actions

- Investment decision in efficiency and competitiveness of the UPM Kaukas pulp mill
- Scheduled maintenance shutdown at UPM Pietarsaari pulp mill.
- Discussions with the Government of Uruguay progressing concerning the infrastructure development and other local prerequisites.

Results

Q2 2017 compared with Q2 2016

Comparable EBIT for UPM Biorefining increased. Higher pulp sale prices and delivery volumes offset the negative impact of higher costs, partly relating to the scheduled maintenance shutdown at UPM Pietarsaari pulp mill. Production efficiency improved significantly at the Lappeenranta biorefinery. Higher planting activity in the Uruguayan plantations increased the fair value forest assets, but the net impact is largely neutral to EBIT due to higher corresponding planting costs.

The average price for UPM's pulp deliveries increased by 10%.

Q2 2017 compared with Q1 2017

Comparable EBIT increased mainly due to higher pulp sales prices, more than offsetting the negative impact of higher costs, partly relating to higher maintenance activity.

The average price for UPM's pulp deliveries increased by 6%.

January–June 2017 compared with January–June 2016

Comparable EBIT for UPM Biorefining increased due to higher pulp delivery volumes and pulp sales prices, more than offsetting higher costs, partly relating to the scheduled maintenance shutdown at UPM Pietarsaari pulp mill. Production efficiency improved significantly at the Lappeenranta biorefinery.

The average price for UPM's pulp deliveries increased by 3%.

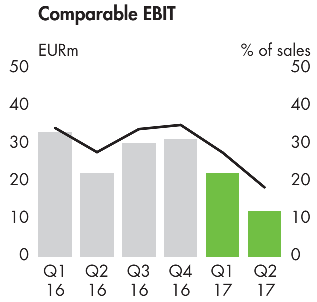
Market environment

- Chemical pulp demand continued to be strong. Demand growth was primarily recorded in Asia, particularly in China.
- In Europe, the market price of both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased during the second quarter.
- In China, the market price of northern bleached softwood kraft (NBSK) pulp decreased, while the market price of bleached hardwood kraft pulp (BHKP) increased during the second quarter.
- In Europe in the first half of 2017, the average market price in euros of NBSK was 9% higher and the market price of BHKP was 4% higher than last year. In China, the average market price in US dollars of NBSK was 7% higher and BHKP was 13% higher than in the same period last year.
- Demand for advanced renewable diesel and naphtha continued to be strong.
- Sawn timber demand was good and market prices increased somewhat in the second 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.



	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	65	80	90	89	81	97	145	177	357
Comparable EBITDA, EURm	14	24	34	32	25	36	38	60	126
% of sales	21.8	30.3	37.3	36.3	30.4	37.1	26.5	34.1	35.4
Share of results of associates and joint ventures, EURm	–	–	–	–	–	–1	–	–1	–1
Depreciation, amortisation and impairment charges, EURm	–2	–2	–2	–2	–2	–2	–4	–4	–9
Operating profit, EURm	12	22	31	30	22	33	34	55	116
% of sales	18.3	27.5	34.8	33.7	27.6	34.0	23.4	31.1	32.7
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	12	22	31	30	22	33	34	55	116
% of sales	18.3	27.5	34.8	33.7	27.6	34.0	23.4	31.1	32.7
Capital employed (average), EURm	2,261	2,256	2,290	2,313	2,360	2,396	2,259	2,378	2,340
Comparable ROCE, %	2.1	3.9	5.5	5.2	3.8	5.5	3.0	4.6	5.0
Electricity deliveries, GWh	1,744	2,059	2,152	2,246	2,102	2,282	3,803	4,384	8,782

Actions

- Low power generation due to prolonged maintenance shutdown at Olkiluoto nuclear power plant and low hydropower volumes.

Results

Q2 2017 compared with Q2 2016

Comparable EBIT for UPM Energy decreased mainly due to significantly lower power generation, partly due to the hydrological situation in Finland and partly due to longer maintenance shutdown at Olkiluoto nuclear power plant.

UPM's average electricity sales price decreased by 3% to EUR 31.1/MWh (32.1/MWh).

Q2 2017 compared with Q1 2017

Comparable EBIT decreased mainly due to lower generation volume in nuclear, relating to scheduled maintenance shutdown at Olkiluoto nuclear power plant.

UPM's average electricity sale price decreased by 3% to EUR 31.1/MWh (32.0/MWh).

January–June 2017 compared with January–June 2016

Comparable EBIT for UPM Energy decreased due to lower power generation and lower average electricity sales price. Longer maintenance shutdown at Olkiluoto nuclear power plant and the hydrological situation resulted in lower power generation.

UPM's average electricity sales price decreased by 5% to EUR 31.6/MWh (33.4/MWh).

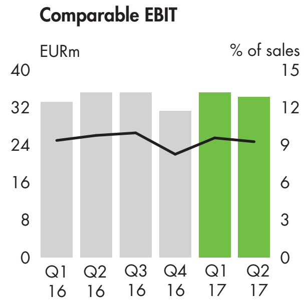
Market environment

- The Nordic hydrological balance remained stable during the second quarter and was close to the long-term average level at the end of June.
- Coal prices and CO_2 emission allowance price increased during the second quarter.
- In the first half of 2017 the average Finnish area spot price on the Nordic electricity exchange was EUR 31.9/MWh, 5% higher than in the same period last year (30.3/MWh).
- The Finnish area front-year forward electricity price closed at EUR 30.7/MWh in June, 2% higher than at the end of Q1 2017 (30.1/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.



	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	375	371	372	355	360	351	746	711	1,437
Comparable EBITDA, EURm	42	43	39	43	43	41	86	84	166
% of sales	11.3	11.7	10.5	12.2	12.1	11.7	11.5	11.9	11.6
Depreciation, amortisation and impairment charges, EURm	–8	–8	–8	–8	–8	–8	–16	–17	–33
Operating profit, EURm	34	35	31	36	35	33	70	68	134
% of sales	9.2	9.5	8.2	10.1	9.7	9.3	9.3	9.5	9.3
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	34	35	31	35	35	33	70	68	133
% of sales	9.2	9.5	8.2	9.9	9.7	9.3	9.3	9.5	9.3
Capital employed (average), EURm	488	503	513	516	524	540	495	532	524
Comparable ROCE, %	28.2	28.1	23.8	27.3	26.7	24.2	28.1	25.4	25.5

Actions

- Strong delivery growth continued in Asia and Eastern Europe.
- Demand improved in mature markets.
- Capacity expansion in Poland proceeding, investment decision in special label capacity in Finland.

Results

Q2 2017 compared with Q2 2016

Comparable EBIT for UPM Raflatac decreased slightly as the negative sales margin impact and higher fixed costs offset the positive impact of higher delivery volumes.

Q2 2017 compared with Q1 2017

Comparable EBIT decreased slightly as the negative sales margin impact and higher fixed costs offset the positive impact of higher delivery volumes.

January–June 2017 compared with January–June 2016

Comparable EBIT for UPM Raflatac increased due to higher delivery volumes, more than offsetting the negative impact of higher variable and fixed costs.

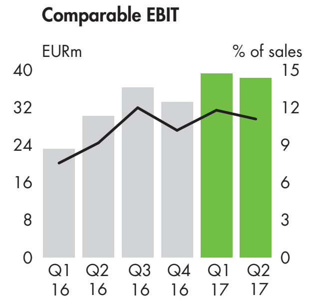
Market environment

- Global demand for self-adhesive label materials grew in the first half of 2017. In Europe and North America demand growth remained stable. In Asia, strong demand growth continued.

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.



	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	342	330	329	305	327	312	672	639	1,273
Comparable EBITDA, EURm	58	60	54	58	53	48	118	102	214
% of sales	16.9	18.1	16.4	19.1	16.2	15.6	17.5	15.9	16.8
Depreciation, amortisation and impairment charges, EURm	–20	–21	–21	–22	–23	–25	–42	–49	–92
Operating profit, EURm	38	39	33	36	30	23	76	53	123
% of sales	11.0	11.7	10.1	11.9	9.1	7.5	11.3	8.3	9.6
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	38	39	33	36	30	23	76	53	123
% of sales	11.0	11.7	10.1	11.9	9.1	7.5	11.3	8.3	9.6
Capital employed (average), EURm	879	931	984	987	1,027	1,051	905	1,039	1,012
Comparable ROCE, %	17.1	16.7	13.5	14.7	11.6	8.9	16.9	10.2	12.1
Paper deliveries, 1,000 t	404	390	397	374	407	379	794	785	1,556

Actions

- Customer and product mix improved further.
- Solid demand growth in label materials globally and office papers in Asia.

Results

Q2 2017 compared with Q2 2016
Comparable EBIT for UPM Specialty Papers increased mainly due to an improved product mix with higher release liner volumes. Pulp prices had a negative impact on profitability.

Q2 2017 compared with Q1 2017
Comparable EBIT decreased slightly as higher pulp costs offset the positive impact of higher sales prices and higher volumes.

January–June 2017 compared with January–June 2016
Comparable EBIT for UPM Specialty Papers increased mainly due to an improved product mix and higher release liner volumes.

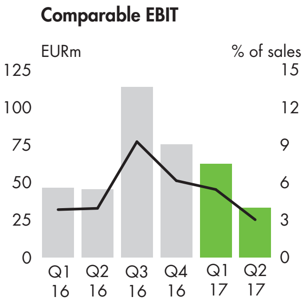
Market environment

- In the Asia Pacific region, office paper demand remained strong and the average market price increased in the first half of 2017.
- Label and release paper demand increased globally, in the first half of 2017, particularly in Asia. Price development varied between the regions and was stable on average in the first half of 2017.

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.



	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	1,112	1,148	1,228	1,234	1,155	1,202	2,260	2,357	4,818
Comparable EBITDA, EURm	64	98	111	148	93	96	162	189	448
% of sales	5.7	8.6	9.1	12.0	8.1	8.0	7.2	8.0	9.3
Share of results of associates and joint ventures, EURm	–	1	–	1	–	–	1	1	2
Depreciation, amortisation and impairment charges, EURm	–31	–35	–60	–35	–47	–72	–67	–118	–214
Operating profit, EURm	31	61	26	160	47	–11	92	37	223
% of sales	2.8	5.3	2.1	13.0	4.1	–0.9	4.1	1.6	4.6
Items affecting comparability in operating profit, EURm [1)]	–2	–1	–49	47	2	–57	–3	–55	–57
Comparable EBIT, EURm	33	62	75	113	45	46	95	92	280
% of sales	3.0	5.4	6.1	9.2	3.9	3.8	4.2	3.9	5.8
Capital employed (average), EURm	1,698	1,801	1,855	1,915	1,988	2,098	1,749	2,043	1,964
Comparable ROCE, %	7.7	13.9	16.2	23.7	9.1	8.8	10.9	9.0	14.3
Paper deliveries, 1,000 t	1,893	1,934	2,068	2,068	1,940	1,982	3,828	3,922	8,057

[1)] In Q2 2017, items affecting comparability include restructuring charges. In Q1 2017, items affecting comparability include restructuring charges of EUR 2 million and reversals of impairment charges of EUR 1 million. 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.

Actions

- Signed an agreement on the sale of hydropower facilities in Madison in the US.
- Seasonally high fixed costs, partly relating to maintenance activity.

Results

Q2 2017 compared with Q2 2016

Comparable EBIT decreased for UPM Paper ENA mainly due to lower sales prices and higher fibre costs.

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

Q2 2017 compared with Q1 2017

Comparable EBIT decreased mainly due to higher fibre costs and seasonally higher fixed costs, partly relating to increased maintenance activity.

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

January–June 2017 compared with January–June 2016

Comparable EBIT remained broadly stable for UPM Paper ENA.

The negative impacts of lower sales prices and delivery volumes were offset by lower variable and fixed costs, including depreciations.

The average price for UPM's paper deliveries in euros decreased by 2%.

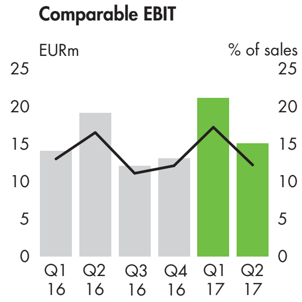
Market environment

- In the first half of 2017, demand for graphic papers in Europe was 3% lower than last year. Newsprint demand decreased by 5%, magazine paper by 1% and fine paper by 1% compared with the first half of 2016.
- In the second quarter, publication paper prices in Europe remained stable compared to the first quarter. Compared to Q2 2016, publication paper prices were on average 2% lower. In the second quarter, fine paper prices in Europe were on average 2% higher compared to the previous quarter. Compared to Q2 2016, fine paper prices were on average 2% lower.
- In the first half of 2017, demand for magazine papers in North America decreased by 5% compared with last year. The average US dollar price for magazine papers in the second quarter of 2017 decreased by 1% and was 5% lower compared to Q2 2016.

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.



	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	128	124	109	106	119	110	252	229	444
Comparable EBITDA, EURm	21	27	19	17	25	20	48	44	80
% of sales	16.6	21.9	17.4	16.2	20.9	17.8	19.2	19.4	18.1
Depreciation, amortisation and impairment charges, EURm	–6	–6	–6	–5	–5	–5	–12	–11	–22
Operating profit, EURm	15	21	13	12	19	14	37	34	58
% of sales	12.1	17.1	12.0	11.0	16.4	12.9	14.6	14.7	13.2
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	15	21	13	12	19	14	37	34	58
% of sales	12.1	17.1	12.0	11.0	16.4	12.9	14.6	14.7	13.2
Capital employed (average), EURm	276	268	262	259	262	252	272	257	259
Comparable ROCE, %	22.4	31.7	20.0	18.0	29.7	22.6	27.0	26.2	22.6
Plywood deliveries, 1,000 m^3	214	201	185	184	206	189	415	395	764

Actions

- Otepää plywood mill investment ramp-up proceeded.

Results

Q2 2017 compared with Q2 2016

Comparable EBIT for UPM Plywood decreased mainly due to higher costs, more than offsetting the positive impact of higher average sales prices and delivery volumes. Fixed costs increased partly due to timing of maintenance activity.

Q2 2017 compared with Q1 2017

Comparable EBIT decreased mainly due to higher costs and a less favourable product mix, more than offsetting the positive impact of higher delivery volumes. Fixed costs increased partly due to timing of maintenance activity.

January–June 2017 compared with January–June 2016

Comparable EBIT for UPM Plywood increased due to higher average sales prices and delivery volumes, more than offsetting higher costs.

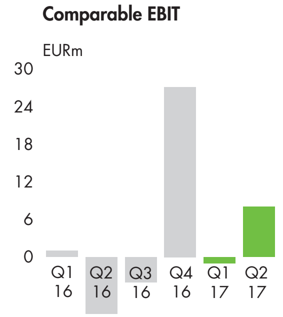
Market environment

- Market environment was favourable in Europe, and demand is estimated to have increased from the last year.
- In birch plywood-related industrial applications demand was good and activity in the building and construction industry improved further.
- Market prices increased in certain markets.

Source: UPM

Other operations

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



	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	70	72	72	65	76	73	143	149	285
Comparable EBITDA, EURm	–6	–7	–9	–7	–9	–10	–14	–19	–35
Change in fair value of forest assets and wood harvested, EURm	18	9	40	4	2	13	27	15	59
Share of results of associates and joint ventures, EURm	–	–	–	1	1	1	–	2	3
Depreciation, amortisation and impairment charges, EURm	–3	–3	–4	–3	–3	–3	–7	–7	–13
Operating profit, EURm	8	–2	28	–4	–9	0	7	–9	15
Items affecting comparability in operating profit, EURm [1]	–	–	1	–	–	–	–	–	1
Comparable EBIT, EURm	8	–1	27	–4	–9	1	7	–9	14
Capital employed (average), EURm	1,489	1,508	1,506	1,532	1,553	1,571	1,499	1,562	1,541
Comparable ROCE, %	2.1	–0.4	7.2	–1.2	–2.4	0.2	0.9	–1.1	0.9

[1] In Q4 2016, items affecting comparability related to restructuring charges.

Results

Q2 2017 compared with Q2 2016

Comparable EBIT for Other operations increased. The increase in the fair value of forest assets net of wood harvested was EUR 18 million (2 million). The increase in the fair value of forest assets was EUR 31 million (17 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 13 million (15 million).

Q2 2017 compared with Q1 2017

Comparable EBIT increased. The increase in the fair value of forest assets net of wood harvested was EUR 18 million (9 million). The increase in the fair value of forest assets was EUR 31 million (22 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 13 million (13 million).

January–June 2017 compared with January–June 2016

Comparable EBIT for Other operations increased. The increase in the fair value of forest assets net of wood harvested was EUR 27 million (15 million). The increase in the fair value of forest assets was EUR 52 million (41 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 26 million (26 million).

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 to decide whether the UK should leave or remain in the EU was held on 23 June 2016. 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 intention to leave the EU 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 been benign for UPM in the past couple of years. Recent changes in many 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 115 of the Annual Report 2016. Risks and opportunities are discussed on pages 22–23, and risks and risk management are presented on pages 98–99.

Shares

In Q1-Q2 2017, UPM shares worth EUR 4,042 million (3,474 million) in total were traded on the NASDAQ Helsinki stock exchange. This is estimated to represent approximately two thirds of all trading volumes in UPM shares. The highest listing was EUR 26.46 in June and the lowest was EUR 20.82 in January.

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 held on 29 March 2017 authorised the Board of Directors to decide on the repurchase of a maximum of 50,000,000 of the company's own shares. The authorisation will be valid for 18 months from the date of the AGM resolution.

The Annual General Meeting held on 7 April 2016 authorised the Board of Directors 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 30 June 2017 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 June 2017, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of company shares and voting rights.

The Annual General Meeting held on 29 March 2017 resolved on the forfeiture of shares entered in the company's joint book-entry account and of the rights attached to such shares. Shares with regard to which the registration of shareholder rights to the shareholder's book-entry account had been requested prior to the commencement of the Annual General Meeting, and which had been entered in the shareholder's book-entry account by 30 June 2017, were not, however, subject to the forfeiture of the rights. All registration requests submitted prior to the commencement of the Annual General Meeting had been processed by 30 June 2017. Following this, the number of shares on the joint book-entry account was 180,916 and these shares were transferred to the company's own book-entry account. Following the transfer, the company on 3 July 2017 held 411,653 treasury shares, corresponding 0.08% of the company's total number of registered shares. The Board of Directors may decide to retain, transfer or cancel the treasury shares.

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 decision of December 2009 in which the Finnish Market Court held that the defendants had 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 totals currently EUR 152 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 27 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. In June 2016 the District Court passed a judgment rejecting 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. Metsähallitus has appealed the District Court judgment to the Court of Appeal. The capital amount of Metsähallitus' claim is currently in total EUR 126 million, of which EUR 18 million is based on agreements between Metsähallitus and UPM.

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) 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 project from the supplier, a consortium formed by AREVA GmbH, AREVA NP SAS and Siemens AG (Supplier), which is constructing OL3 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 (ICC Arbitration) and submitted a claim concerning the delay and ensuing costs incurred at the OL3 project. According to TVO, the Supplier's monetary claim, as updated in April 2017 is in total approximately EUR 3.59 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, 2017) and payments allegedly delayed by TVO under the plant contract amounting to a combined total of approximately EUR 1.58 billion, as well as approximately EUR 132 million in alleged loss of profit.

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

TVO announced in July 2017 that it had received a final and binding partial award in the ongoing ICC Arbitration. In this partial award the ICC Tribunal has addressed the preparation, review, submittal, and approval of design and licensing documents on the OL3 project. This comprises the key facts and matters that the Supplier relies upon in its main claim against TVO, as well as certain matters that TVO relies upon in its claims against the Supplier. In doing so, the partial award has finally resolved the great majority of these facts and matters in favor of TVO. Conversely, it has also rejected the great majority of the Supplier's contentions in this regard. Although the partial award does not take a position on the claimed monetary amounts, it has conclusively rejected the analytical method used by the Supplier to support its principal monetary claims against TVO. A previous partial award, which addressed the early period of the project in relation to the time schedule, licensing and licensability, and system design, likewise favorable to TVO, was granted in November 2016. The arbitration proceeding is still going on with at least one further partial award 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 November 2016 partial award and the July 2017 partial award provide further material confirmation of this position, and reinforces TVO's view that the balance of the claims is in TVO's favor.

According to TVO, Areva Group announced in 2016 a restructuring of its business. The restructuring involves a transfer of the operations of Areva NP to a new company (Merger), called New NP, the majority owner of which is going to be EDF. The transaction is aimed to be completed by the end of the second half of 2017. According to TVO, the OL3 project and the means required to complete it, as well as certain other liabilities will remain within Areva NP, within the scope of Areva SA. In January 2017, the EU Commission made a decision on the state aid, and in May, 2017, the EU Commission accepted the Merger. TVO requires that the restructuring of the French nuclear industry will not compromise the completion of the OL3 project within the Supplier's current schedule and that all liabilities of the plant contract are honored.

According to TVO, TVO summoned Areva in an urgent interim proceeding before a French court in order to obtain information about the restructuring of French nuclear industry and the potential consequences on the performance of the OL3 contract. According to TVO, the discussions between the parties enabled TVO to withdraw from this action in May 2017 and that the continuation of discussions is expected to favor completion of the OL3 project and the start-up of the plant.

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.

Helsinki, 25 July 2017

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q2/2017	Q2/2016	Q1–Q2/2017	Q1–Q2/2016	Q1–Q4/2016
Sales	2,464	2,445	4,946	4,891	9,812
Other operating income	15	–5	40	32	140
Costs and expenses	–2,131	–2,058	–4,226	–4,131	–8,365
Change in fair value of forest assets and wood harvested	32	11	48	27	88
Share of results of associates and joint ventures	1	2	3	2	5
Depreciation, amortisation and impairment charges	–112	–133	–229	–283	–545
Operating profit	269	262	581	539	1,135
Gains on sale of energy shareholdings, net	–	1	–	1	1
Exchange rate and fair value gains and losses	–6	2	–6	2	–7
Interest and other finance costs	–6	–15	–19	–30	–49
Profit before tax	258	250	557	513	1,080
Income taxes	–53	–52	–112	–88	–200
Profit for the period	205	198	444	425	880
Attributable to:					
Owners of the parent company	205	197	444	424	879
Non-controlling interests	–	1	–	1	1
	205	198	444	425	880
Earnings per share for profit attributable to owners of the parent company					
Basic earnings per share, EUR	0.38	0.37	0.83	0.80	1.65
Diluted earnings per share, EUR	0.38	0.37	0.83	0.80	1.65

Consolidated statement of comprehensive income

EURm	Q2/2017	Q2/2016	Q1–Q2/2017	Q1–Q2/2016	Q1–Q4/2016
Profit for the period	205	198	444	425	880
Other comprehensive income for the period, net of tax:					
Items that will not be reclassified to the income statement:					
Actuarial gains and losses on defined benefit plans	6	–43	21	–116	–97
Items that may be reclassified subsequently to the income statement:					
Translation differences	–163	22	–180	–108	–14
Net investment hedge	10	–5	14	8	–1
Cash flow hedges	39	12	39	11	73
Gains and losses on energy shareholdings	16	–97	16	–97	–144
	–97	–68	–111	–186	–87
Other comprehensive income for the period, net of tax	–90	–111	–90	–301	–184
Total comprehensive income for the period	114	87	354	124	696
Attributable to:					
Owners of the parent company	114	86	354	123	695
Non-controlling interests	–	1	–	1	1
	114	87	354	124	696

Consolidated balance sheet

EURm	30 JUN 2017	30 JUN 2016	31 DEC 2016
ASSETS			
Goodwill	236	239	245
Other intangible assets	299	300	301
Property, plant and equipment	4,394	4,664	4,657
Forest assets	1,662	1,706	1,734
Energy shareholdings	1,947	1,983	1,932
Other non-current financial assets	202	349	255
Deferred tax assets	431	488	446
Net retirement benefit assets	83	50	71
Investments in associates and joint ventures	31	30	29
Other non-current assets	38	50	47
Non-current assets	9,323	9,859	9,715
Inventories	1,364	1,340	1,346
Trade and other receivables	1,829	1,724	1,726
Other current financial assets	101	136	109
Income tax receivables	19	19	14
Cash and cash equivalents	563	459	992
Current assets	3,876	3,678	4,187
Assets classified as held for sale	35	30	8
Assets	13,234	13,566	13,911
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	−2	−2	−2
Translation reserve	267	349	433
Other reserves	1,469	1,398	1,416
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	4,179	3,752	4,225
Equity attributable to owners of the parent company	8,075	7,659	8,234
Non-controlling interests	3	3	3
Equity	8,078	7,663	8,237
Deferred tax liabilities	467	446	457
Net retirement benefit liabilities	791	831	817
Provisions	123	145	145
Non-current debt	1,436	2,148	1,835
Other non-current financial liabilities	87	127	110
Non-current liabilities	2,904	3,697	3,364
Current debt	451	591	584
Trade and other payables	1,707	1,455	1,594
Other current financial liabilities	41	107	116
Income tax payables	53	50	16
Current liabilities	2,252	2,203	2,309
Liabilities related to assets classified as held for sale	–	4	–
Liabilities	5,156	5,904	5,673
Equity and liabilities	13,234	13,566	13,911

Consolidated statement of changes in equity

EURm	SHARE CAPITAL	TREASURY SHARES	TRANSLATION RESERVE	OTHER RESERVES	RESERVE FOR INVESTED NON-RESTRICTED EQUITY	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	NON-CONTROL-LING INTERESTS	TOTAL EQUITY
Value at 1 January 2017	890	–2	433	1,416	1,273	4,225	8,234	3	8,237
Profit for the period	–	–	–	–	–	444	444	–	444
Translation differences	–	–	–180	–	–	–	–180	–	–180
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	12	–	–	12	–	12
Cash flow hedges – changes in fair value, net of tax	–	–	–	27	–	–	27	–	27
Net investment hedge, net of tax	–	–	14	–	–	–	14	–	14
Energy shareholdings – changes in fair value, net of tax	–	–	–	16	–	–	16	–	16
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	21	21	–	21
Total comprehensive income for the period	–	–	–166	55	–	465	354	–	354
Share-based payments, net of tax	–	–	–	–2	–	–5	–7	–	–7
Dividend distribution	–	–	–	–	–	–507	–507	–	–507
Total transactions with owners for the period	–	–	–	–2	–	–512	–512	–	–513
Total equity at 30 June 2017	890	–2	267	1,469	1,273	4,179	8,075	3	8,078
Value at 1 January 2016	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Profit for the period	–	–	–	–	–	424	424	1	425
Translation differences	–	–	–108	–	–	–	–108	–	–108
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	25	–	–	25	–	25
Cash flow hedges – changes in fair value, net of tax	–	–	–	–14	–	–	–14	–	–14
Net investment hedge, net of tax	–	–	8	–	–	–	8	–	8
Energy shareholdings – changes in fair value, net of tax	–	–	–	–97	–	–	–97	–	–97
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	–116	–116	–	–116
Total comprehensive income for the period	–	–	–100	–86	–	309	123	1	124
Share-based payments, net of tax	–	–	–	–2	–	–3	–5	–	–5
Dividend distribution	–	–	–	–	–	–400	–400	–	–400
Total transactions with owners for the period	–	–	–	–2	–	–403	–405	–	–404
Total equity at 30 June 2016	890	–2	349	1,398	1,273	3,752	7,659	3	7,663

Condensed consolidated cash flow statement

EURm	Q1–Q2/2017	Q1–Q2/2016	Q1–Q4/2016
Cash flows from operating activities			
Profit for the period	444	425	880
Adjustments	319	405	778
Change in working capital	–24	–4	195
Finance costs, net	–12	–14	–22
Income taxes paid	–62	–37	–145
Operating cash flow	665	775	1,686
Cash flows from investing activities			
Capital expenditure	–120	–174	–351
Asset sales and other investing cash flow	12	88	89
Investing cash flow	–108	–86	–262
Cash flows from financing activities			
Change in loans and other financial items	–474	–454	–657
Dividends paid	–507	–400	–400
Financing cash flow	–981	–854	–1,057
Change in cash and cash equivalents	–424	–165	367
Cash and cash equivalents at beginning of period	992	626	626
Exchange rate effect on cash and cash equivalents	–5	–2	–1
Change in cash and cash equivalents	–424	–165	367
Cash and cash equivalents at end of period	563	459	992

Quarterly key figures

In addition to the conventional financial performance measures established by the IFRS, certain key figures (alternative performance measures) are presented to reflect the underlying business performance and enhance comparability from period to period.

	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales, EURm	2,464	2,482	2,476	2,445	2,445	2,446	4,946	4,891	9,812
Comparable EBITDA, EURm	349	405	349	423	385	403	755	788	1,560
% of sales	14.2	16.3	14.1	17.3	15.8	16.5	15.3	16.1	15.9
Comparable EBIT, EURm	270	305	283	314	264	281	575	545	1,143
% of sales	11.0	12.3	11.4	12.8	10.8	11.5	11.6	11.1	11.6
Comparable profit before tax, EURm	258	291	282	288	252	267	550	519	1,089
Capital employed (average), EURm	9,942	10,288	10,560	10,433	10,701	11,005	10,311	10,706	10,833
Comparable ROCE, %	10.8	11.7	11.4	11.5	10.0	10.1	11.1	10.1	10.6
Comparable profit for the period, EURm	205	234	220	234	200	225	440	425	879
Total equity, average, EURm	8,020	8,100	8,054	7,767	7,819	7,959	8,158	7,804	8,091
Comparable ROE, %	10.2	11.6	10.9	12.1	10.2	11.3	10.8	10.9	10.9
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
Comparable EPS, EUR	0.39	0.44	0.41	0.44	0.37	0.42	0.82	0.79	1.65
Items affecting comparability in operating profit, EURm	−1	7	−51	50	−2	−4	7	−6	−7
Items affecting comparability in financial items, EURm	–	–	–	−2	–	–	–	–	−2
Items affecting comparability in taxes, EURm	–	−2	18	−14	–	6	−2	7	11
Operating cash flow, EURm	269	396	405	506	434	341	665	775	1,686
Operating cash flow per share, EUR	0.50	0.74	0.76	0.95	0.81	0.64	1.25	1.45	3.16
Net debt at the end of period, EURm	1,046	807	1,131	1,479	1,876	1,873	1,046	1,876	1,131
Gearing ratio, %	13	10	14	19	24	23	13	24	14
Net debt to EBITDA (last 12 m.)	0.68	0.52	0.73	0.94	1.25	1.31	0.68	1.25	0.73
Capital expenditure, EURm	64	46	94	98	85	47	110	132	325
Capital expenditure excluding acquisitions, EURm	64	46	94	98	85	47	110	132	325
Equity per share at the end of period, EUR	15.14	14.92	15.43	14.75	14.36	14.94	15.14	14.36	15.43
Personnel at the end of period	20,096	19,301	19,310	19,559	20,711	19,870	20,096	20,711	19,310

The definitions of alternative performance measures are presented in notes to the consolidated financial statements in » **UPM Annual Report 2016**.

Reconciliation of key figures to IFRS

EURm, or as indicated	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Items affecting comparability									
Impairment charges	–	1	–24	–	1	–12	1	–11	–35
Restructuring charges	–2	–3	–31	–	–	–18	–5	–18	–48
Change in fair value of unrealised cash flow and commodity hedges	1	9	2	3	–3	25	10	22	27
Capital gains and losses on sale of non-current assets	–	–	2	47	–	–	–	–	49
Fair value changes of forest assets resulting from changes in estimates	–	–	–	–	–	–	–	–	–
Other non-operational items	–	–	–	–	–	–	–	–	–
Total items affecting comparability in operating profit	–1	7	–51	50	–2	–4	7	–6	–7
Items affecting comparability in financial items	–	–	–	–2	–	–	–	–	–2
Changes in tax rates	–	–	4	–	–	–	–	–	4
Taxes relating to items affecting comparability	–	–2	14	–14	–	6	–2	7	7
Items affecting comparability in taxes	–	–2	18	–14	–	6	–2	7	11
Items affecting comparability, total	–1	6	–33	34	–2	2	5	–	1
Comparable EBITDA									
Operating profit	269	312	232	364	262	277	581	539	1,135
Depreciation, amortisation and impairment charges [1]	112	119	120	118	134	138	231	272	510
Change in fair value of forest assets and wood harvested [1]	–32	–16	–53	–7	–11	–16	–48	–27	–88
Share of result of associates and joint ventures	–1	–2	–1	–2	–2	–	–3	–2	–5
Items affecting comparability in operating profit	1	–7	51	–50	2	4	–7	6	7
Comparable EBITDA	349	405	349	423	385	403	755	788	1,560
% of sales	14.2	16.3	14.1	17.3	15.8	16.5	15.3	16.1	15.9
[1] excluding items affecting comparability									
Comparable EBIT									
Operating profit	269	312	232	364	262	277	581	539	1,135
Items affecting comparability in operating profit	1	–7	51	–50	2	4	–7	6	7
Comparable EBIT	270	305	283	314	264	281	575	545	1,143
% of sales	11.0	12.3	11.4	12.8	10.8	11.5	11.6	11.1	11.6
Comparable profit before tax									
Profit before tax	258	299	231	336	250	263	557	513	1,080
Items affecting comparability in operating profit	1	–7	51	–50	2	4	–7	6	7
Items affecting comparability in financial items	–	–	–	2	–	–	–	–	2
Comparable profit before tax	258	291	282	288	252	267	550	519	1,089
Comparable ROCE, %									
Comparable profit before tax	258	291	282	288	252	267	550	519	1,089
Interest expenses and other financial expenses	10	10	17	13	15	10	20	24	55
	268	302	300	301	266	277	570	543	1,144
Capital employed, average	9,942	10,288	10,560	10,433	11,701	11,005	10,311	10,706	10,833
Comparable ROCE, %	10.8	11.7	11.4	11.5	10.0	10.1	11.1	10.1	10.6
Comparable profit for the period									
Profit for the period	205	240	187	268	198	227	444	425	880
Items affecting comparability, total	1	–6	33	–34	2	–2	–5	–	–1
Comparable profit for the period	205	234	220	234	200	225	440	425	879
Comparable EPS, EUR									
Comparable profit for the period	205	234	220	234	200	225	440	425	879
Profit attributable to non-controlling interest	–	–	–	–	–1	–	–	–1	–1
	205	234	220	234	199	225	440	424	878
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
Comparable EPS, EUR	0.39	0.44	0.41	0.44	0.37	0.42	0.82	0.79	1.65
Comparable ROE, %									
Comparable profit for the period	205	234	220	234	200	225	440	425	879
Profit attributable to non-controlling interest	–	–	–	–	–1	–	–	–1	–1
	205	234	220	234	199	225	440	424	878
Total equity, average	8,020	8,100	8,054	7,767	7,819	7,959	8,158	7,804	8,091
Comparable ROE, %	10.2	11.6	10.9	12.1	10.2	11.3	10.8	10.9	10.9

Reconciliation of key figures to IFRS

EURm	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Net debt									
Non-current debt	1,436	1,531	1,835	1,957	2,148	2,452	1,436	2,148	1,835
Current debt	451	426	585	636	592	574	451	592	585
Total debt	1,887	1,956	2,419	2,593	2,740	3,025	1,887	2,740	2,419
Non-current interest-bearing assets	210	222	259	292	350	321	210	350	259
Cash and cash equivalents	563	866	992	771	459	803	563	459	992
Other current interest-bearing assets	69	62	38	50	55	29	69	55	38
Total interest-bearing assets	841	1,149	1,289	1,114	864	1,153	841	864	1,289
Net debt	1,046	807	1,131	1,479	1,876	1,873	1,046	1,876	1,131

Quarterly business area information

EURm	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q2/17	Q1–Q2/16	Q1–Q4/16
Sales									
UPM Biorefining	630	607	533	541	563	568	1,237	1,132	2,206
UPM Energy	65	80	90	89	81	97	145	177	357
UPM Raflatac	375	371	372	355	360	351	746	711	1,437
UPM Specialty Papers	342	330	329	305	327	312	672	639	1,273
UPM Paper ENA	1,112	1,148	1,228	1,234	1,155	1,202	2,260	2,357	4,818
UPM Plywood	128	124	109	106	119	110	252	229	444
Other operations	70	72	72	65	76	73	143	149	285
Internal sales	–258	–252	–260	–246	–229	–233	–510	–462	–969
Eliminations and reconciliations	–	1	2	–2	–6	–34	–	–40	–40
Sales, total	2,464	2,482	2,476	2,445	2,445	2,446	4,946	4,891	9,812
Comparable EBITDA									
UPM Biorefining	157	160	101	132	140	175	318	315	548
UPM Energy	14	24	34	32	25	36	38	60	126
UPM Raflatac	42	43	39	43	43	41	86	84	166
UPM Specialty Papers	58	60	54	58	53	48	118	102	214
UPM Paper ENA	64	98	111	148	93	96	162	189	448
UPM Plywood	21	27	19	17	25	20	48	44	80
Other operations	–6	–7	–9	–7	–9	–10	–14	–19	–35
Eliminations and reconciliations	–1	–	1	–2	16	–4	–2	12	11
Comparable EBITDA, total	349	405	349	423	385	403	755	788	1,560
Operating profit									
UPM Biorefining	131	127	72	94	105	135	258	240	406
UPM Energy	12	22	31	30	22	33	34	55	116
UPM Raflatac	34	35	31	36	35	33	70	68	134
UPM Specialty Papers	38	39	33	36	30	23	76	53	123
UPM Paper ENA	31	61	26	160	47	–11	92	37	223
UPM Plywood	15	21	13	12	19	14	37	34	58
Other operations	8	–2	28	–4	–9	–	7	–9	15
Eliminations and reconciliations	–	9	–2	1	12	50	8	61	60
Operating profit, total	269	312	232	364	262	277	581	539	1,135
% of sales	10.9	12.6	9.4	14.9	10.7	11.3	11.8	11.0	11.6
Items affecting comparability in operating profit									
UPM Biorefining	–	–	–	–	–	–	–	–	–
UPM Energy	–	–	–	–	–	–	–	–	–
UPM Raflatac	–	–	–	–	–	–	–	–	–
UPM Specialty Papers	–	–	–	–	–	–	–	–	–
UPM Paper ENA	–2	–1	–49	47	2	–57	–3	–55	–57
UPM Plywood	–	–	–	–	–	–	–	–	–
Other operations	–	–	1	–	–	–	–	–	1
Eliminations and reconciliations [1]	1	9	–3	3	–4	53	10	48	48
Items affecting comparability in operating profit, total	–1	7	–51	50	–2	–4	7	–6	–7
Comparable EBIT									
UPM Biorefining	131	127	72	94	105	135	258	240	406
UPM Energy	12	22	31	30	22	33	34	55	116
UPM Raflatac	34	35	31	35	35	33	70	68	133
UPM Specialty Papers	38	39	33	36	30	23	76	53	123
UPM Paper ENA	33	62	75	113	45	46	95	92	280
UPM Plywood	15	21	13	12	19	14	37	34	58
Other operations	8	–1	27	–4	–9	1	7	–9	14
Eliminations and reconciliations	–1	–	1	–2	16	–3	–2	13	12
Comparable EBIT, total	270	305	283	314	264	281	575	545	1,143
% of sales	11.0	12.3	11.4	12.8	10.8	11.5	11.6	11.1	11.6

[1] In Q1 and Q2 2017, eliminations and reconciliations includes changes in fair value of unrealised cash flow and currency hedges. 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.

Changes in property, plant and equipment

EURm	Q1–Q2/2017	Q1–Q2/2016	Q1–Q4/2016
Book value at beginning of period	4,657	4,895	4,895
Capital expenditure	104	129	319
Decreases	–6	–7	–36
Depreciation	–220	–245	–478
Impairment charges	–	–10	–32
Impairment reversals	2	–	–
Translation difference and other changes	–143	–98	–10
Book value at end of period	4,394	4,664	4,657

Financial assets and liabilities measured at fair value

EURm	30 JUN 2017				30 JUN 2016				31 DEC 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Derivatives, non-qualifying hedges	5	34	–	39	2	70	–	72	2	63	–	65
Derivatives used for hedging	17	223	–	240	36	355	–	391	32	241	–	273
Energy shareholdings	–	–	1,947	1,947	–	–	1,983	1,983	–	–	1,932	1,932
Total	22	257	1,947	2,226	38	425	1,983	2,446	34	304	1,932	2,270
Financial liabilities												
Derivatives, non-qualifying hedges	9	14	–	23	26	94	–	120	19	93	–	112
Derivatives used for hedging	21	36	–	57	58	111	–	169	42	94	–	136
Total	30	50	–	80	84	205	–	289	61	187	–	248

There have been no transfers between Levels.

Specific valuation techniques used to value financial instruments at level 2 include the following methods:

Interest forward rate agreements (FRA) are fair valued based on quoted market rates on the balance sheet date. Forward foreign exchange contracts are fair valued based on the contract forward rates at the balance sheet date. Foreign currency options are fair valued based on quoted market rates and market volatility rates on the balance sheet date by using the Black&Scholes option valuation model. Interest and currency swap instruments are fair valued as present value of the estimated future cash flows based on observable yield curves. Commodity swaps are fair valued based on forward curve quotations received from service providers.

Fair value measurements using significant unobservable inputs, Level 3

	ENERGY SHAREHOLDINGS		
EURm	Q1–Q2/2017	Q1–Q2/2016	Q1–Q4/2016
Opening balance	1,932	2,085	2,085
Impairment charges	–	–	1
Disposals	–	–5	–6
Changes in fair value recognised in other comprehensive income	15	–97	–148
Closing balance	1,947	1,983	1,932

Fair valuation of energy shareholdings 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 electricity price estimate is based on fundamental simulation of the Finnish area electricity price. A change of 5% in the electricity price used in the model would change the total value of the assets by EUR 337 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 300 million. Other uncertainties and risk factors in the value of the assets relate to start-up schedule of the fixed price turn-key Olkiluoto 3 EPR nuclear power plant project 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	30 JUN 2017	30 JUN 2016	31 DEC 2016
Non-current debt, excl. derivative financial instruments	1,415	2,056	1,804

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

Commitments and contingencies

EURm	30 JUN 2017	30 JUN 2016	31 DEC 2016
On own behalf			
Mortgages	114	186	151
On behalf of others			
Guarantees	2	2	2
Other own commitments			
Operating leases, due within12 months	68	65	74
Operating leases, due after months	362	355	374
Other commitments	92	159	154
Total	638	767	755

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2016	Q1–Q2/2017	AFTER 30 JUN 2017
Capacity increase / Kymi pulp mill	Q4 2017	98	18	19	61
Capacity increase / Raflatac Poland	Q1 2018	35	2	11	22
Debottlenecking / Kaukas pulp mill	Q2 2018	30	–	–	30

Notional amounts of derivative financial instruments

EURm	30 JUN 2017	30 JUN 2016	31 DEC 2016
Interest rate forward contracts	1,756	2,868	1,480
Interest rate swaps	1,641	2,041	2,019
Forward foreign exchange contracts	2,521	2,568	2,645
Currency options, bought	8	19	12
Currency options, written	13	29	24
Cross currency swaps	252	664	557
Commodity contracts	430	410	429

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, hydro power assets located in Schongau and Ettringen mill sites in Germany and hydro power assets located in Steyrermühl mill site in Austria. In addition, forestry and land assets in North Karelia to be sold to Tornator PLC have been classified as assets held for sale. More information is presented under "Events during January–June 2017".

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 2016. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full year.

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.

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 115 of the 2016 Annual Report. Risks and opportunities are discussed on pages 22–23 and risks and risk management are presented on pages 98–99 of the report.

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