The Biofore Company UPM

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INTERIM REPORT 1 JANUARY – 31 MARCH 2017

UPM Interim Report Q1/2017:

UPM businesses deliver a strong start for 2017

Q1 2017 highlights

- Comparable EBIT increased by 8% to EUR 305 million (281 million).
- Strong operational efficiency and good growth in deliveries.
- Operating cash flow was strong at EUR 396 million (341 million).
- Net debt decreased to EUR 807 million (1,873 million).
- UPM announced divestments of hydropower assets in Germany, Austria and the US.
- UPM renewed its long-term financial targets in January.

Key figures

	Q1/2017	Q1/2016	Q4/2016	Q1–Q4/2016
Sales, EURm	2,482	2,446	2,476	9,812
Comparable EBITDA, EURm	405	403	349	1,560
% of sales	16.3	16.5	14.1	15.9
Operating profit, EURm	312	277	232	1,135
Comparable EBIT, EURm	305	281	283	1,143
% of sales	12.3	11.5	11.4	11.6
Profit before tax, EURm	299	263	231	1,080
Comparable profit before tax, EURm	291	267	282	1,089
Profit for the period, EURm	240	227	187	880
Comparable profit for the period, EURm	234	225	220	879
Earnings per share (EPS), EUR	0.45	0.43	0.35	1.65
Comparable EPS, EUR	0.44	0.42	0.41	1.65
Return on equity (ROE), %	11.8	11.4	9.3	10.9
Comparable ROE, %	11.6	11.3	10.9	10.9
Return on capital employed (ROCE), %	12.0	9.9	9.4	10.5
Comparable ROCE, %	11.7	10.1	11.4	10.6
Operating cash flow, EURm	396	341	405	1,686
Operating cash flow per share, EUR	0.74	0.64	0.76	3.16
Equity per share at the end of period, EUR	14.92	14.94	15.43	15.43
Capital employed at the end of period, EURm	9,919	11,000	10,657	10,657
Net debt at the end of period, EURm	807	1,873	1,131	1,131
Net debt to EBITDA (last 12 m.)	0.52	1.31	0.73	0.73
Personnel at the end of period	19,301	19,870	19,310	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 Q1 results:

"UPM started year 2017 with a successful quarter. Our performance continued on a high level thanks to strong operational efficiency and good growth in deliveries. Our comparable EBIT increased by 8% to EUR 305 million and our balance sheet strengthened further. Operating cash flow was strong at EUR 396 million and our net debt decreased to EUR 807 million.

Growth was the main driver of the improved financial performance. Demand was good for most of our products and markets, particularly in Asia, and we were able to serve the increasing customer demand with the help of our recent growth initiatives. While we enjoyed a favourable market environment, we also experienced moderate input cost inflation, which we managed to contain well.

All businesses performed well during the first quarter. UPM Biorefining reached record production in Pulp, Biofuels and Timber. Our recent pulp debottlenecking investments have been successful and the ongoing investment at UPM Kymi pulp mill is proceeding well.

UPM Specialty Papers enjoyed strong markets and made good progress in driving its product mix forward, enabled by the new specialty paper machine in China. All of this was evident in the strong result for the quarter.

Both UPM Raflatac and UPM Plywood achieved record profits in the quarter, thanks to strong sales volumes and a favourable product mix. In Raflatac our efforts to strengthen our commercial capabilities are paying off and the labelstock investment in Poland is proceeding well. In Plywood, the Otepää investment in Estonia is already contributing to profitable growth in birch plywood.

UPM Paper ENA delivered another good quarter. We announced sale agreements of hydropower facilities in Germany, Austria and the US, which will add to Paper ENA's strong cash flow later this year. UPM Energy profits decreased due to a mild winter and low hydropower volumes.

We look confidently to the future as shown by our new ambitious long-term financial targets announced in January. We have competitive businesses with strong market positions and attractive growth opportunities. Going forward we continue to aim higher with our performance. With our cash flow and balance sheet we can distribute attractive dividends and invest in profitable growth simultaneously."

Outlook for 2017

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

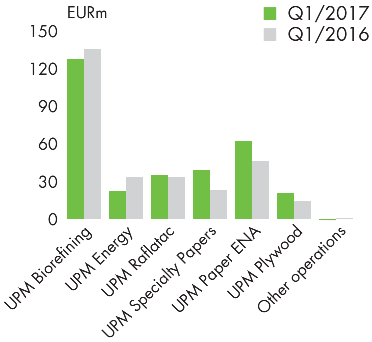
Demand growth is expected to continue for most of UPM's businesses, while demand decline is expected to continue for UPM Paper ENA. The focused growth projects continue to contribute gradually to UPM's performance.

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.

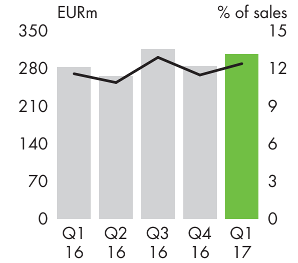
In Q2 2017, UPM's performance will be impacted by higher maintenance activity, especially in UPM Biorefining, UPM Paper ENA and UPM Energy, compared with Q1 2017.

Results

Comparable EBIT



Comparable EBIT



Q1 2017 compared with Q1 2016

Q1 2017 sales were EUR 2,482 million, 1% higher than the EUR 2,446 million for Q1 2016, mainly due to higher delivery volumes in UPM Biorefining, UPM Raflatac, UPM Specialty Papers and UPM Plywood. Sales prices were lower in several businesses.

Comparable EBIT increased by 8% to EUR 305 million, 12.3% of sales (281 million, 11.5%). Comparable EBIT increased mainly due to higher delivery volumes and lower depreciation. The net impact of changes in variable and fixed costs, including UPM's cost efficiency measures, was largely neutral. Changes in sales prices in UPM's product range had a negative net impact on the comparable EBIT.

Depreciation, excluding items affecting comparability, totalled EUR 119 million (138 million). The increase in the fair value of forest assets net of wood harvested was EUR 16 million (16 million).

Operating profit totalled EUR 312 million (277 million). Items affecting comparability in operating profit totalled gains of EUR 7 million (charges of EUR 4 million).

Net interest and other finance costs were EUR 13 million (15 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 0 million (1 million). Income taxes totalled EUR 59 million (36 million). Items affecting comparability in taxes totalled EUR -2 million (6 million).

Profit for Q1 2017 was EUR 240 million (227 million), and comparable profit was EUR 234 million (225 million).

Q1 2017 compared with Q4 2016

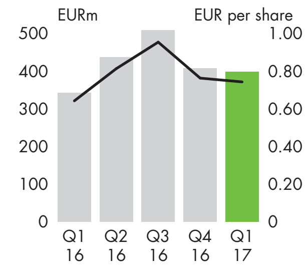
Comparable EBIT increased by 8% to EUR 305 million, 12.3% of sales (283 million, 11.4%). Fixed costs decreased significantly, due to seasonal reasons and clearly higher maintenance activity in the comparison period, particularly in UPM Biorefining and UPM Paper ENA.

Depreciation, excluding items affecting comparability, totalled EUR 119 million (120 million). The increase in the fair value of forest assets net of wood harvested was EUR 16 million (53 million).

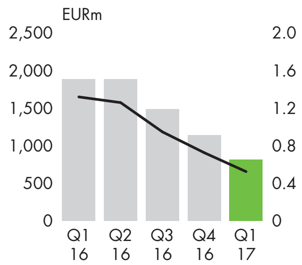
Operating profit totalled EUR 312 million (232 million).

Financing and cash flow

Operating cash flow



Net debt
and net debt to EBITDA



In Q1 2017, cash flow from operating activities before capital expenditure and financing totalled EUR 396 million (341 million). Working capital decreased by EUR 36 million (increased by EUR 14 million) during the period.

Net debt decreased to EUR 807 million at the end of the period (1,873 million). The gearing ratio as of 31 March 2017 was 10% (23%). Net debt to EBITDA ratio, based on the latest 12 months' EBITDA, was 0.52 at the end of the period (1.31)

On 31 March 2017, UPM's cash funds and unused committed credit facilities totalled EUR 1.5 billion.

In February, Moody's upgraded its credit rating for UPM to Baa3 and S&P upgraded its rating to BBB-.

Capital expenditure

In Q1 2017, capital expenditure totalled EUR 46 million, 1.8% of sales (47 million, 1.9% 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 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 2017, UPM had an average of 19,255 employees (19,664). At the beginning of the year, the number of employees was 19,310 and at the end of Q1 2017, it was 19,301.

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 this, the second preparation phase would consist of a pre-engineering study, permitting as well as significant progress in the implementation of the 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 Q1 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 Q1 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.

The decisions of the Annual General Meeting, held on 29 March 2017 are presented separately in this report.

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 to Tornator in North Karelia, Finland.

Events after the balance sheet date

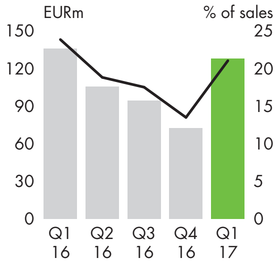
On 18 April, UPM announced that Madison Paper Industries, a partnership of UPM and Northern SC Paper Corp., a subsidiary of The New York Times Company, has signed an agreement on the sale of its hydropower facilities to Eagle Creek Renewable Energy, LLC. The transaction is still subject to third-party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

Assuming the above mentioned divestments of hydropower facilities in Germany, Austria and the US will materialise, UPM will recognise gains on sale totalling approximately EUR 65 million as items affecting comparability in its Q2 and Q3 2017 results.

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.

Comparable EBIT



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

Pulp mill maintenance shutdowns: Q4 2016 UPM Fray Bentos, Q3 2016 UPM Kaukas.

Actions

- Record production in Pulp, Biofuels and Timber.

Results

Q1 2017 compared with Q1 2016

Comparable EBIT for UPM Biorefining decreased mainly due to lower pulp sale prices, more than offsetting the positive impact of higher pulp and biofuels delivery volumes.

The average price for UPM's pulp deliveries decreased by 4%.

Q1 2017 compared with Q4 2016

Comparable EBIT increased due to improved production efficiency, higher pulp delivery volumes and increased pulp sale prices. In the previous quarter, profitability was negatively impacted by scheduled maintenance shutdowns.

The average price for UPM's pulp deliveries increased by 4%.

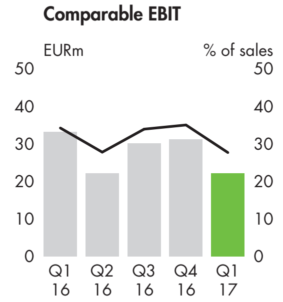
Market environment

- Chemical pulp demand continued to be strong. Demand growth was primarily recorded in Asia, particularly in China.
- In Europe and in China, the market price of both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased during the first quarter.
- In Europe in the first quarter, the average market price in euros of NBSK was 7% higher and the market price of BHKP was 8% lower than in the same period last year. In China, the average market price in US dollars of NBSK was 7% higher and BHKP was 3% higher than in the same period last year.
- Demand for advanced renewable diesel continued to be strong.
- Sawn timber demand was good and market prices remained broadly stable in the first 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.



	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/16
Sales, EURm	80	90	89	81	97	357
Comparable EBITDA, EURm	24	34	32	25	36	126
% of sales	30.3	37.3	36.3	30.4	37.1	35.4
Share of results of associates and joint ventures, EURm	–	–	–	–	–1	–1
Depreciation, amortisation and impairment charges, EURm	–2	–2	–2	–2	–2	–9
Operating profit, EURm	22	31	30	22	33	116
% of sales	27.5	34.8	33.7	27.6	34.0	32.7
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–
Comparable EBIT, EURm	22	31	30	22	33	116
% of sales	27.5	34.8	33.7	27.6	34.0	32.7
Capital employed (average), EURm	2,256	2,290	2,313	2,360	2,396	2,340
Comparable ROCE, %	3.9	5.5	5.2	3.8	5.5	5.0
Electricity deliveries, GWh	2,059	2,152	2,246	2,102	2,282	8,782

Actions

- Hydropower generation remained below long-term average level.
- Electricity market prices impacted by mild weather conditions.

Results

Q1 2017 compared with Q1 2016

Comparable EBIT for UPM Energy decreased due to lower average electricity sales price and lower hydropower generation.

UPM's average electricity sales price decreased by 8% to EUR 32.0/ MWh (34.6/MWh).

Q1 2017 compared with Q4 2016

Comparable EBIT decreased mainly due to lower average electricity prices.

UPM's average electricity sale price decreased by 11% to EUR 32.0/ MWh (35.9/MWh).

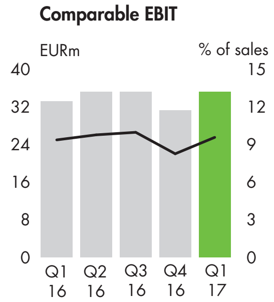
Market environment

- The Nordic hydrological balance was slightly below the long-term average level during the first quarter of 2017. At the end of March, the hydrological balance was close to the long-term average level.
- Coal prices decreased slightly and CO_2 emission allowance price remained stable during the first quarter.
- Mild weather conditions impacted the Finnish area electricity price negatively. The average Finnish area spot price was EUR 32.9/ MWh on the Nordic electricity exchange, 12% lower than in the previous quarter. Compared to Q1 2016 the average Finnish area spot price was 9% higher (EUR 30.3/MWh). The Finnish area front-year forward electricity price closed at EUR 30.1/MWh in March, 14% lower than at the end of 2016 (35.0/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.



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

Actions

- Strong delivery growth in Asia and Eastern Europe.
- Commercial capabilities were further strengthened and capacity increased.

Results

Q1 2017 compared with Q1 2016

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

Q1 2017 compared with Q4 2016

Comparable EBIT increased mainly due to seasonal lower fixed costs.

Market environment

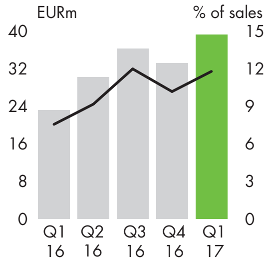
- Global demand for self-adhesive label materials grew in the first quarter. In Europe and North America, demand growth remained stable. In Asia, demand growth strengthened further.

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.

Comparable EBIT



	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/16
Sales, EURm	330	329	305	327	312	1,273
Comparable EBITDA, EURm	60	54	58	53	48	214
% of sales	18.1	16.4	19.1	16.2	15.6	16.8
Depreciation, amortisation and impairment charges, EURm	−21	−21	−22	−23	−25	−92
Operating profit, EURm	39	33	36	30	23	123
% of sales	11.7	10.1	11.9	9.1	7.5	9.6
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–
Comparable EBIT, EURm	39	33	36	30	23	123
% of sales	11.7	10.1	11.9	9.1	7.5	9.6
Capital employed (average), EURm	931	984	987	1,027	1,051	1,012
Comparable ROCE, %	16.7	13.5	14.7	11.6	8.9	12.1
Paper deliveries, 1,000 t	390	397	374	407	379	1,556

Actions

- Improved customer and product mix.
- Solid demand growth in label materials globally and office papers in Asia.

Results

Q1 2017 compared with Q1 2016

Comparable EBIT for UPM Specialty Papers increased mainly due to an improved product mix and higher delivery volumes.

Q1 2017 compared with Q4 2016

Comparable EBIT increased due to an improved product mix and seasonal lower fixed costs, more than offsetting the negative impact of higher variable costs.

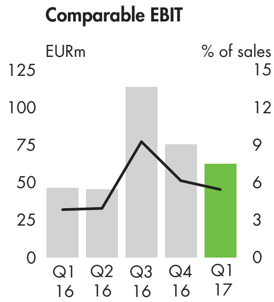
Market environment

- In Asia Pacific region growth picked up in office paper demand.
- Label and release paper demand increased globally, particularly in Asia.
- Price development varied between the regions and products. Prices increased in Asia, particularly in China for all grades.

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.



	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/16
Sales, EURm	1,148	1,228	1,234	1,155	1,202	4,818
Comparable EBITDA, EURm	98	111	148	93	96	448
% of sales	8.6	9.1	12.0	8.1	8.0	9.3
Share of results of associates and joint ventures, EURm	1	–	1	–	–	2
Depreciation, amortisation and impairment charges, EURm	–35	–60	–35	–47	–72	–214
Operating profit, EURm	61	26	160	47	–11	223
% of sales	5.3	2.1	13.0	4.1	–0.9	4.6
Items affecting comparability in operating profit, EURm [1]	–1	–49	47	2	–57	–57
Comparable EBIT, EURm	62	75	113	45	46	280
% of sales	5.4	6.1	9.2	3.9	3.8	5.8
Capital employed (average), EURm	1,801	1,855	1,915	1,988	2,098	1,964
Comparable ROCE, %	13.9	16.2	23.7	9.1	8.8	14.3
Paper deliveries, 1,000 t	1,934	2,068	2,068	1,940	1,982	8,057

[1] 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 Steyrermühl, Austria, Schongau and Ettringen in Germany.
- Permanent closure of 305,000 tonnes of SC paper capacity.
- Announced plan to restructure back office teams.

Results

Q1 2017 compared with Q1 2016

Comparable EBIT increased for UPM Paper ENA, mainly due to lower variable and fixed costs, including depreciations, 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.

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

Q1 2017 compared with Q4 2016

Comparable EBIT decreased mainly due to seasonally lower delivery volumes and higher variable costs, more than offsetting the positive impact of seasonally lower fixed costs.

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

Market environment

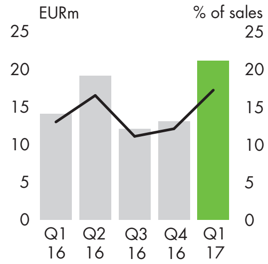
- In the first quarter of 2017, demand for graphic papers in Europe was 2% lower than last year. Newsprint demand decreased by 3%, magazine paper by 1% and fine paper by 1% compared with last year.
- In the first quarter, publication paper prices in Europe were on average 1% higher compared to the previous quarter. Compared to Q1 2016, publication paper prices were on average 3% lower. In the first quarter, fine paper prices in Europe were on average 1% higher compared to the previous quarter. Compared to Q1 2016, fine paper prices were on average 4% lower.
- In the first quarter of 2017, demand for magazine papers in North America decreased by 8% compared with last year. The average US dollar price for magazine papers in the first quarter of 2017 decreased by 1% and was 4% lower compared to Q1 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.

Comparable EBIT



	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/16
Sales, EURm	124	109	106	119	110	444
Comparable EBITDA, EURm	27	19	17	25	20	80
% of sales	21.9	17.4	16.2	20.9	17.8	18.1
Depreciation, amortisation and impairment charges, EURm	−6	−6	−5	−5	−5	−22
Operating profit, EURm	21	13	12	19	14	58
% of sales	17.1	12.0	11.0	16.4	12.9	13.2
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–
Comparable EBIT, EURm	21	13	12	19	14	58
% of sales	17.1	12.0	11.0	16.4	12.9	13.2
Capital employed (average), EURm	268	262	259	262	252	259
Comparable ROCE, %	31.7	20.0	18.0	29.7	22.6	22.6
Plywood deliveries, 1,000 m^3	201	185	184	206	189	764

Actions

- Otepää plywood mill investment ramp-up proceeded.
- Record high profits.

Results

Q1 2017 compared with Q1 2016

Comparable EBIT for UPM Plywood increased mainly due to higher delivery volumes and higher average sales prices, partly supported by a favourable product mix.

Q1 2017 compared with Q4 2016

Comparable EBIT increased mainly due to higher delivery volumes and higher average sales prices, more than offsetting the negative impact of higher variable costs. Average sales prices were partly supported by favourable product mix.

Market environment

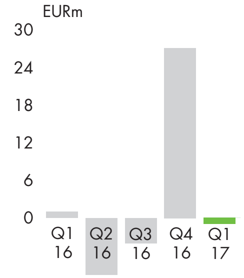
- Market environment was favourable in Europe, and demand is estimated to have increased from last year.
- In birch plywood-related industrial applications demand was good and activity in the building and construction industry improved further.
- Market prices increased in certain markets.

Source: UPM

Other operations

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

Comparable EBIT



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

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

Actions

- Signing of a letter of intent on forestry land sales and long-term wood supply.

Results

Q1 2017 compared with Q1 2017

Comparable EBIT for Other operations decreased. The increase in the fair value of forest assets net of wood harvested was EUR 9 million (13 million). The increase in the fair value of forest assets (growing trees) was EUR 22 million (24 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 13 million (11 million).

Q1 2017 compared with Q4 2016

Comparable EBIT decreased. The increase in the fair value of forest assets net of wood harvested was EUR 9 million (40 million). The increase in the fair value of forest assets (growing trees) was EUR 22 million (52 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 13 million (12 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 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 been benign for UPM in the past couple of years. 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 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.

Annual General Meeting

The Annual General Meeting held on 29 March 2017 decided that a dividend of EUR 0.95 per share (totalling EUR 507 million) be paid in respect of the 2016 financial year. The dividend was paid on 12 April 2017. The dividend record date was 31 March 2017. On 31 March in the balance sheet, the dividend has been deducted from equity and recognised as current liability.

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 AGM resolved that the rights to the shares entered in the Company's joint book-entry account and the rights attached to such shares are forfeited and authorised the Board of Directors to take any and all measures required by such resolution. 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 will have been entered in the shareholder's book-entry account by 30 June 2017, will, however, not be subject to the forfeiture of the rights. The provisions applicable to treasury shares shall apply to the forfeited shares.

Board of Directors

At the Annual General Meeting held on 29 March 2017, the number of members of the Board of Directors was confirmed as ten, and all incumbent directors, i.e. Berndt Brunow, Henrik Ehrnrooth, Piia-Noora Kauppi, Wendy E. Lane, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Suzanne Thoma, Kim Wahl and Björn Wahlroos, were re-elected to the Board for a term continuing until the end of the next AGM.

At the meeting of the Board of Directors held following the AGM, Björn Wahlroos was re-elected as Chairman, and Berndt Brunow as Deputy Chairman of the Board of Directors.

In addition, the Board of Directors elected the chairmen and other members to the Board committees from among its members. There are no changes in the composition of the committees. Piia-Noora Kauppi was re-elected to chair the Audit Committee, and Wendy E. Lane and Kim Wahl were re-elected as other committee members. Veli-Matti Reinikkala was re-elected to chair the Remuneration Committee, and Henrik Ehrnrooth and Suzanne Thoma were re-elected as other committee members. Björn Wahlroos was re-elected to chair the Nomination and Governance Committee, and Berndt Brunow and Ari Puheloinen were re-elected as other committee members.

Shares

In Q1 2017, UPM shares worth EUR 2,215 million (1,673 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 24.60 in January 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 31 March 2017 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 March 2017, 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 EPR 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, was in total approximately EUR 3.52 billion. The sum was based on the Supplier's updated analysis of events occurred through September 2014, with certain claims quantified to December 31, 2014. The sum included 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 comprised 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 finally resolved the great majority of these facts and matters in favour of TVO, and conversely has rejected the great majority of the Supplier's contentions in this regard. The partial award did 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.

According to TVO, Areva Group announced in 2016 a restructuring of its business. The restructuring plan apparently involves a transfer of the operations of Areva NP, excluding the OL3 EPR project and certain other operations, to a new company which is to be sold to a consortium led by EDF, and a joint venture with EDF known as NICE. 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, such as those related to the state aid and merger connected with the plan. In January 2017, the EU Commission made a conditional decision on the state aid. 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.

According to TVO, TVO has sought to obtain 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 will meet all their contractual obligations.

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 April 2017

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q1/2017	Q1/2016	Q1–Q4/2016
Sales	2,482	2,446	9,812
Other operating income	25	37	140
Costs and expenses	–2,095	–2,073	–8,365
Change in fair value of forest assets and wood harvested	16	16	88
Share of results of associates and joint ventures	2	–	5
Depreciation, amortisation and impairment charges	–118	–150	–545
Operating profit	312	277	1,135
Gains on sale of energy shareholdings, net	–	–	1
Exchange rate and fair value gains and losses	–	1	–7
Interest and other finance costs	–13	–15	–49
Profit before tax	299	263	1,080
Income taxes	–59	–36	–200
Profit for the period	240	227	880
Attributable to:			
Owners of the parent company	240	227	879
Non-controlling interests	–	–	1
	240	227	880
Earnings per share for profit attributable to owners of the parent company			
Basic earnings per share, EUR	0.45	0.43	1.65
Diluted earnings per share, EUR	0.45	0.43	1.65

Consolidated statement of comprehensive income

EURm	Q1/2017	Q1/2016	Q1–Q4/2016
Profit for the period	240	227	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	15	–72	–97
Items that may be reclassified subsequently to the income statement:			
Translation differences	–17	–130	–14
Net investment hedge	3	13	–1
Cash flow hedges	–1	–1	73
Gains and losses on energy shareholdings	–	–	–144
	–14	–118	–87
Other comprehensive income for the period, net of tax	–	–190	–184
Total comprehensive income for the period	240	37	696
Attributable to:			
Owners of the parent company	240	37	695
Non-controlling interests	–	–	1
	240	37	696

Consolidated balance sheet

EURm	31 MAR 2017	31 MAR 2016	31 DEC 2016
ASSETS			
Goodwill	243	236	245
Other intangible assets	307	313	301
Property, plant and equipment	4,565	4,704	4,657
Forest assets	1,688	1,715	1,734
Energy shareholdings	1,932	2,085	1,932
Other non-current financial assets	204	327	255
Deferred tax assets	439	489	446
Net retirement benefit assets	85	46	71
Investments in associates and joint ventures	30	28	29
Other non-current assets	39	50	47
Non-current assets	9,532	9,994	9,715
Inventories	1,410	1,408	1,346
Trade and other receivables	1,797	1,752	1,726
Other current financial assets	108	139	109
Income tax receivables	17	55	14
Cash and cash equivalents	866	803	992
Current assets	4,197	4,156	4,187
Assets classified as held for sale	47	7	8
Assets	13,776	14,157	13,911
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	−2	−2	−2
Translation reserve	420	332	433
Other reserves	1,412	1,482	1,416
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	3,968	3,998	4,225
Equity attributable to owners of the parent company	7,959	7,972	8,234
Non-controlling interests	3	3	3
Equity	7,962	7,975	8,237
Deferred tax liabilities	462	443	457
Net retirement benefit liabilities	806	778	817
Provisions	142	160	145
Non-current debt	1,531	2,452	1,835
Other non-current financial liabilities	86	138	110
Non-current liabilities	3,027	3,970	3,364
Current debt	425	573	584
Trade and other payables	2,246	1,480	1,594
Other current financial liabilities	77	102	116
Income tax payables	38	58	16
Current liabilities	2,786	2,213	2,309
Liabilities	5,813	6,183	5,673
Equity and liabilities	13,776	14,157	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	–	–	–	–	–	240	240	–	240
Translation differences	–	–	–17	–	–	–	–17	–	–17
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	6	–	–	6	–	6
Cash flow hedges – changes in fair value, net of tax	–	–	–	–7	–	–	–7	–	–7
Net investment hedge, net of tax	–	–	3	–	–	–	3	–	3
Energy shareholdings – changes in fair value, net of tax	–	–	–	–	–	–	–	–	–
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	15	15	–	15
Total comprehensive income for the period	–	–	–14	–1	–	255	240	–	240
Share-based payments, net of tax	–	–	–	–3	–	–5	–8	–	–8
Dividend distribution	–	–	–	–	–	–507	–507	–	–507
Total transactions with owners for the period	–	–	–	–3	–	–512	–515	–	–515
Total equity at 31 March 2017	890	–2	420	1,412	1,273	3,968	7,959	3	7,962
Value at 1 January 2016	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Profit for the period	–	–	–	–	–	227	227	–	227
Translation differences	–	–	–130	–	–	–	–130	–	–130
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	16	–	–	16	–	16
Cash flow hedges – changes in fair value, net of tax	–	–	–	–18	–	–	–18	–	–18
Net investment hedge, net of tax	–	–	13	–	–	–	13	–	13
Energy shareholdings – changes in fair value, net of tax	–	–	–	–	–	–	–	–	–
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	–72	–72	–	–72
Total comprehensive income for the period	–	–	–117	–1	–	155	37	–	37
Share-based payments, net of tax	–	–	–	–3	–	–3	–7	–	–7
Total transactions with owners for the period	–	–	–	–3	–	–3	–7	–	–7
Total equity at 31 March 2016	890	–2	332	1,482	1,273	3,998	7,972	3	7,975

Condensed consolidated cash flow statement

EURm	Q1/2017	Q1/2016	Q1–Q4/2016
Cash flows from operating activities			
Profit for the period	240	227	880
Adjustments	155	161	778
Change in working capital	36	–14	195
Finance costs, net	–8	–5	–22
Income taxes paid	–27	–28	–145
Operating cash flow	396	341	1,686
Cash flows from investing activities			
Capital expenditure	–66	–79	–351
Asset sales and other investing cash flow	4	6	89
Investing cash flow	–62	–73	–262
Cash flows from financing activities			
Change in loans and other financial items	–461	–88	–657
Dividends paid	–	–	–400
Financing cash flow	–461	–88	–1,057
Change in cash and cash equivalents	–127	180	367
Cash and cash equivalents at beginning of period	992	626	626
Exchange rate effect on cash and cash equivalents	1	–3	–1
Change in cash and cash equivalents	–127	180	367
Cash and cash equivalents at end of period	866	803	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.

	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/16
Sales, EURm	2,482	2,476	2,445	2,445	2,446	9,812
Comparable EBITDA, EURm	405	349	423	385	403	1,560
% of sales	16.3	14.1	17.3	15.8	16.5	15.9
Comparable EBIT, EURm	305	283	314	264	281	1,143
% of sales	12.3	11.4	12.8	10.8	11.5	11.6
Comparable profit before tax, EURm	291	282	288	252	267	1,089
Capital employed (average), EURm	10,288	10,560	10,433	10,701	11,005	10,833
Comparable ROCE, %	11.7	11.4	11.5	10.0	10.1	10.6
Comparable profit for the period, EURm	234	220	234	200	225	879
Total equity, average, EURm	8,100	8,054	7,767	7,819	7,959	8,091
Comparable ROE, %	11.6	10.9	12.1	10.2	11.3	10.9
Average number of shares basis (1,000)	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.44	0.41	0.44	0.37	0.42	1.65
Items affecting comparability in operating profit, EURm	7	−51	50	−2	−4	−7
Items affecting comparability in financial items, EURm	–	–	−2	–	–	−2
Items affecting comparability in taxes, EURm	−2	18	−14	–	6	11
Operating cash flow, EURm	396	405	506	434	341	1,686
Operating cash flow per share, EUR	0.74	0.76	0.95	0.81	0.64	3.16
Net debt at the end of period, EURm	807	1,131	1,479	1,876	1,873	1,131
Gearing ratio, %	10	14	19	24	23	14
Net debt to EBITDA (last 12 m.)	0.52	0.73	0.94	1.25	1.31	0.73
Capital expenditure, EURm	46	94	98	85	47	325
Capital expenditure excluding acquisitions, EURm	46	94	98	85	47	325
Equity per share at the end of period, EUR	14.92	15.43	14.75	14.36	14.94	15.43
Personnel at the end of period	19,301	19,310	19,559	20,711	19,870	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	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/16
Items affecting comparability						
Impairment charges	1	−24	–	1	−12	−35
Restructuring charges	−3	−31	–	–	−18	−48
Change in fair value of unrealised cash flow and commodity hedges	9	2	3	−3	25	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	7	−51	50	−2	−4	−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	7
Items affecting comparability in taxes	−2	18	−14	–	6	11
Items affecting comparability, total	6	−33	34	−2	2	1
Comparable EBITDA						
Operating profit	312	232	364	262	277	1,135
Depreciation, amortisation and impairment charges [1]	119	120	118	134	138	510
Change in fair value of forest assets and wood harvested [1]	−16	−53	−7	−11	−16	−88
Share of result of associates and joint ventures	−2	−1	−2	−2	–	−5
Items affecting comparability in operating profit	−7	51	−50	2	4	7
Comparable EBITDA	405	349	423	385	403	1,560
% of sales	16.3	14.1	17.3	15.8	16.5	15.9
[1] exluding items affecting comparability						
Comparable EBIT						
Operating profit	312	232	364	262	277	1,135
Items affecting comparability in operating profit	−7	51	−50	2	4	7
Comparable EBIT	305	283	314	264	281	1,143
% of sales	12.3	11.4	12.8	10.8	11.5	11.6
Comparable profit before tax						
Profit before tax	299	231	336	250	263	1,080
Items affecting comparability in operating profit	−7	51	−50	2	4	7
Items affecting comparability in financial items	–	–	2	–	–	2
Comparable profit before tax	291	282	288	252	267	1,089
Comparable ROCE, %						
Comparable profit before tax	291	282	288	252	267	1,089
Interest expenses and other financial expenses	10	17	13	15	10	55
	302	300	301	266	277	1,144
Capital employed, average	10,288	10,560	10,433	11,701	11,005	10,833
Comparable ROCE, %	11.7	11.4	11.5	10.0	10.1	10.6
Comparable profit for the period						
Profit for the period	240	187	268	198	227	880
Items affecting comparability, total	−6	33	−34	2	−2	−1
Comparable profit for the period	234	220	234	200	225	879
Comparable EPS, EUR						
Comparable profit for the period	234	220	234	200	225	879
Profit attributable to non-controlling interest	–	–	–	−1	–	−1
	234	220	234	199	225	878
Average number of shares basic (1,000)	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.44	0.41	0.44	0.37	0.42	1.65
Comparable ROE, %						
Comparable profit for the period	234	220	234	200	225	879
Profit attributable to non-controlling interest	–	–	–	−1	–	−1
	234	220	234	199	225	878
Total equity, average	8,100	8,054	7,767	7,819	7,959	8,091
Comparable ROE, %	11.6	10.9	12.1	10.2	11.3	10.9

Reconciliation of key figures to IFRS

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

Quarterly business area information

EURm	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/16
Sales						
UPM Biorefining	607	533	541	563	568	2,206
UPM Energy	80	90	89	81	97	357
UPM Raflatac	371	372	355	360	351	1,437
UPM Specialty Papers	330	329	305	327	312	1,273
UPM Paper ENA	1,148	1,228	1,234	1,155	1,202	4,818
UPM Plywood	124	109	106	119	110	444
Other operations	72	72	65	76	73	285
Internal sales	–252	–260	–246	–229	–233	–969
Eliminations and reconciliations	1	2	–2	–6	–34	–40
Sales, total	2,482	2,476	2,445	2,445	2,446	9,812
Comparable EBITDA						
UPM Biorefining	160	101	132	140	175	548
UPM Energy	24	34	32	25	36	126
UPM Raflatac	43	39	43	43	41	166
UPM Specialty Papers	60	54	58	53	48	214
UPM Paper ENA	98	111	148	93	96	448
UPM Plywood	27	19	17	25	20	80
Other operations	–7	–9	–7	–9	–10	–35
Eliminations and reconciliations	–	1	–2	16	–4	11
Comparable EBITDA, total	405	349	423	385	403	1,560
Operating profit						
UPM Biorefining	127	72	94	105	135	406
UPM Energy	22	31	30	22	33	116
UPM Raflatac	35	31	36	35	33	134
UPM Specialty Papers	39	33	36	30	23	123
UPM Paper ENA	61	26	160	47	–11	223
UPM Plywood	21	13	12	19	14	58
Other operations	–2	28	–4	–9	0	15
Eliminations and reconciliations	9	–2	1	12	50	60
Operating profit, total	312	232	364	262	277	1,135
% of sales	12.6	9.4	14.9	10.7	11.3	11.6
Items affecting comparability in operating profit						
UPM Biorefining	–	–	–	–	–	–
UPM Energy	–	–	–	–	–	–
UPM Raflatac	–	–	–	–	–	–
UPM Specialty Papers	–	–	–	–	–	–
UPM Paper ENA	–1	–49	47	2	–57	–57
UPM Plywood	–	–	–	–	–	–
Other operations	–	1	–	–	–	1
Eliminations and reconciliations [1]	9	–3	3	–4	53	48
Items affecting comparability in operating profit, total	7	–51	50	–2	–4	–7
Comparable EBIT						
UPM Biorefining	127	72	94	105	135	406
UPM Energy	22	31	30	22	33	116
UPM Raflatac	35	31	35	35	33	133
UPM Specialty Papers	39	33	36	30	23	123
UPM Paper ENA	62	75	113	45	46	280
UPM Plywood	21	13	12	19	14	58
Other operations	–1	27	–4	–9	1	14
Eliminations and reconciliations	–	1	–2	16	–3	12
Comparable EBIT, total	305	283	314	264	281	1,143
% of sales	12.3	11.4	12.8	10.8	11.5	11.6

[1] In Q1 2017, eliminations and reconciliations includes EUR 9 million relating to 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	Q1/2017	Q1/2016	Q1–Q4/2016
Book value at beginning of period	4,657	4,895	4,895
Capital expenditure	44	45	319
Decreases	–2	–2	–36
Depreciation	–111	–124	–478
Impairment charges	–	–10	–32
Impairment reversals	1	–	–
Translation difference and other changes	–24	–99	–10
Book value at end of period	4,565	4,704	4,657

Financial assets and liabilities measured at fair value

EURm	31 MAR 2017				31 MAR 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	4	50	–	54	5	43	–	48	2	63	–	65
Derivatives used for hedging	15	217	–	232	65	331	–	396	32	241	–	273
Energy shareholdings	–	–	1,932	1,932	–	–	2,085	2,085	–	–	1,932	1,932
Total	18	267	1,932	2,218	70	374	2,085	2,529	34	304	1,932	2,270
Financial liabilities												
Derivatives, non-qualifying hedges	8	11	–	20	23	81	–	104	19	93	–	112
Derivatives used for hedging	22	74	–	95	92	94	–	186	42	94	–	136
Total	30	85	–	115	115	175	–	290	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	Q1/2017	Q1/2016	Q1–Q4/2016
Opening balance	1,932	2,085	2,085
Impairment charges	–	–	1
Disposals	–	–	–6
Changes in fair value recognised in other comprehensive income	–	–	–148
Closing balance	1,932	2,085	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 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 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	31 MAR 2017	31 MAR 2016	31 DEC 2016
Non-current debt, excl. derivative financial instruments	1,508	2,318	1,804

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

Commitments and contingencies

EURm	31 MAR 2016	31 MAR 2016	31 DEC 2016
On own behalf			
Mortgages	116	184	151
On behalf of others			
Guarantees	2	5	2
Other own commitments			
Operating leases, due within12 months	74	67	74
Operating leases, due after months	374	358	374
Other commitments	124	163	154
Total	690	777	755

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2016	Q1 2017	AFTER 31 MAR 2017
Capacity increase / Kymi pulp mill	Q4 2017	98	18	6	74
Capacity increase / Raflatac Poland	Q1 2018	35	2	4	29

Notional amounts of derivative financial instruments

EURm	31 MAR 2017	31 MAR 2016	31 DEC 2016
Interest rate forward contracts	1,963	1,359	1,480
Interest rate swaps	1,683	2,045	2,019
Forward foreign exchange contracts	2,831	3,002	2,645
Currency options, bought	14	18	12
Currency options, written	23	20	24
Cross currency swaps	269	646	557
Commodity contracts	410	365	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 Q1 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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