The Biofore Company UPM

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INTERIM REPORT 1 JANUARY – 30 SEPTEMBER 2017

UPM Interim Report Q3 2017:

Excellent quarter, further steps in transformation

Q3 2017 highlights

- Comparable EBIT increased by 12% to EUR 351 million (314 million in Q3 2016).
- Good growth in deliveries and strong operational efficiency with no significant maintenance activity.
- Strong operating cash flow at EUR 486 million (506 million).
- Net debt decreased to EUR 623 million (1,479 million).
- UPM announced a new focused growth project at the UPM Chudovo plywood mill in Russia.
- UPM announced the next step towards entering a new sustainable biochemicals business.

Q1–Q3 2017 highlights

- Comparable EBIT increased by 8% to EUR 926 million (859 million in Q1–Q3 2016).
- Solid profit performance continued through a turn in input cost environment.
- Growth initiatives contributed to the comparable EBIT growth.
- Strong operating cash flow at EUR 1,151 million (1,281 million).
- UPM announced focused growth investments at the Kaukas pulp mill and the Tampere label stock factory.
- UPM announced divestments of hydropower assets in Germany, Austria and the US.

Key figures

	Q3/2017	Q3/2016	Q2/2017	Q1–Q3/2017	Q1–Q3/2016	Q1–Q4/2016
Sales, EURm	2,493	2,445	2,464	7,439	7,336	9,812
Comparable EBITDA, EURm	425	423	349	1,180	1,210	1,560
% of sales	17.1	17.3	14.2	15.9	16.5	15.9
Operating profit, EURm	379	364	269	960	903	1,135
Comparable EBIT, EURm	351	314	270	926	859	1,143
% of sales	14.1	12.8	11.0	12.4	11.7	11.6
Profit before tax, EURm	357	336	258	914	848	1,080
Comparable profit before tax, EURm	328	288	258	878	807	1,089
Profit for the period, EURm	286	268	205	730	693	880
Comparable profit for the period, EURm	267	234	205	707	659	879
Earnings per share (EPS), EUR	0.54	0.50	0.38	1.37	1.30	1.65
Comparable EPS, EUR	0.50	0.44	0.39	1.32	1.23	1.65
Return on equity (ROE), %	13.9	13.8	10.2	11.7	11.7	10.9
Comparable ROE, %	13.0	12.1	10.2	11.4	11.1	10.9
Return on capital employed (ROCE), %	14.8	13.4	10.8	12.2	11.0	10.5
Comparable ROCE, %	13.6	11.5	10.8	11.7	10.5	10.6
Operating cash flow, EURm	486	506	269	1,151	1,281	1,686
Operating cash flow per share, EUR	0.91	0.95	0.50	2.16	2.40	3.16
Equity per share at the end of period, EUR	15.61	14.75	15.14	15.61	14.75	15.43
Capital employed at the end of period, EURm	10,098	10,463	9,965	10,098	10,463	10,657
Net debt at the end of period, EURm	623	1,479	1,046	623	1,479	1,131
Net debt to EBITDA (last 12 m.)	0.41	0.94	0.68	0.41	0.94	0.73
Personnel at the end of period	19,335	19,559	20,096	19,335	19,559	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 Q3 result:

"The third quarter was another excellent quarter for UPM. The markets were favourable and we achieved good growth in delivery volumes. We also succeeded in mitigating input cost inflation with sales price increases and cost efficiency measures. Our operational efficiency was strong in a quarter with no significant maintenance activity.

Our comparable EBIT increased by 12 per cent to EUR 351 million. Operating cash flow was strong at EUR 486 million and net debt decreased to EUR 623 million, representing 0.4 times EBITDA.

UPM Biorefining benefitted from higher pulp prices and good delivery growth. UPM Raflatac, UPM Specialty Papers and UPM Plywood were able to largely offset higher input costs by increasing deliveries and sales prices. In UPM Energy the hydropower generation recovered to normal level.

UPM Paper ENA was able to report the best quarter of this year, despite the significant increase in fibre costs. This is the outcome of consistent and continuous work for cost efficiency and competitiveness as well as the stringent execution of commercial strategies. In order to succeed also next year, we need to take timely measures in capacity management and cost savings.

In addition to our strong performance we are pleased to see good progress in our transformation, including our initiatives for future growth.

This morning we announced another growth project in our top-performing plywood business. The expansion of the UPM Chudovo plywood mill in Russia will enable us to grow in attractive plywood segments in a highly competitive way. Our ongoing growth projects in pulp and in self-adhesive labels are proceeding well and will strengthen our position in the growing markets in 2018. UPM Kymi pulp mill expansion is already starting production in the fourth quarter.

UPM aims to grow in new biomolecule businesses. I'm pleased to say that the Lappeenranta Biorefinery has now reached the designed capacity of renewable diesel and naphtha and generates a good financial return. The biorefinery was the first significant investment in new innovative wood-based products. Today we reported on our progress towards entering a new sustainable biochemicals business. After more than five years of research and piloting we have now entered the basic engineering phase, targeting industrial scale production of biochemicals in Germany.

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

Despite seasonal quarterly variations, we have consistently continued our improvement trend in profitability and our financial standing for several years. The third quarter marks the 18th consecutive quarter of improving profits. At the same time with the improving performance, we have proceeded step by step in our business transformation, and this work will continue."

Outlook for 2017

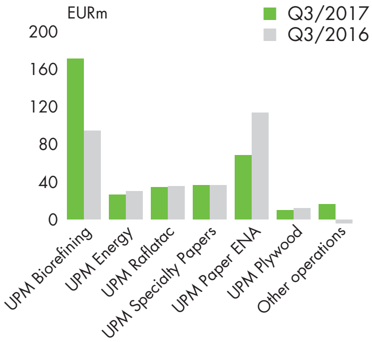
UPM's profitability improved significantly in 2016 and is expected to continue on a good level in 2017. Comparable EBIT is expected to increase in 2017 compared with 2016.

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 to UPM's performance.

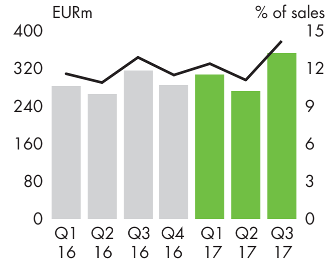
Following a deflationary environment in recent years, 2017 is expected to show modest input cost inflation. UPM will continue measures to reduce fixed and variable costs to mitigate this.

Q4 2017 is expected to include more maintenance activity than Q3 2017 in UPM Biorefining and UPM Paper ENA.

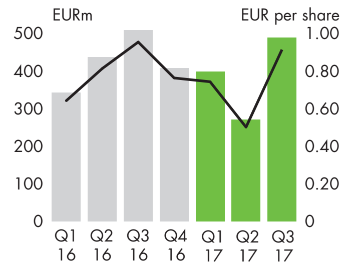
Comparable EBIT



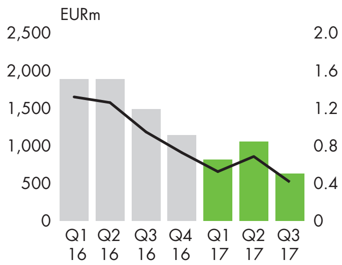
Comparable EBIT



Operating cash flow



Net debt and net debt to EBITDA



Results

Q3 2017 compared with Q3 2016

Q3 2017 sales were EUR 2,493 million, 2% higher than the EUR 2,445 million for Q3 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 12% to EUR 351 million, 14.1% of sales (314 million, 12.8%). Changes in sales prices in UPM's product range had a clear positive net impact on the comparable EBIT, more than offsetting the negative impact from increased variable costs. Delivery volumes grew, while fixed costs stayed on the same level as in the comparison period. Changes in currencies had a negative impact on comparable EBIT. Changes in maintenance activity had no significant impact on the comparison with Q3 2016.

Depreciation, excluding items affecting comparability, totalled EUR 104 million (118 million). The increase in the fair value of forest assets net of wood harvested was EUR 29 million (7 million).

Operating profit totalled EUR 379 million (364 million). Items affecting comparability in operating profit totalled gains of EUR 28 million (gains of EUR 50 million). This included gains from selling hydropower facilities in Austria and in the US.

Net interest and other finance costs were EUR 16 million (4 million). The exchange rate and fair value gains and losses resulted in a loss of EUR 5 million (loss of EUR 25 million). Income taxes totalled EUR 72 million (68 million).

Profit for Q3 2017 was EUR 286 million (268 million), and comparable profit was EUR 267 million (234 million).

Q3 2017 compared with Q2 2017

Comparable EBIT increased by 30% to EUR 351 million, 14.1% of sales (270 million, 11.0%). Significantly lower maintenance activity and seasonally lower fixed costs impacted comparable EBIT by approximately EUR 45 million compared with Q2 2017, particularly in UPM Biorefining, UPM Paper ENA and UPM Energy. Sales prices and delivery volumes increased. Changes in currencies had a negative impact.

Depreciation, excluding items affecting comparability, totalled EUR 104 million (112 million). The increase in the fair value of forest assets net of wood harvested was EUR 29 million (32 million).

Operating profit totalled EUR 379 million (269 million).

January–September 2017 compared with January–September 2016

Q1–Q3 2017 sales were EUR 7,439 million, 1% higher than the EUR 7,336 million for Q1–Q3 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 8% to EUR 926 million, 12.4% of sales (859 million, 11.7%). Comparable EBIT increased mainly due to higher delivery volumes and lower depreciation. Increased variable costs had a negative impact, which was nearly offset by increased sales prices and UPM's cost efficiency measures. Fixed costs were slightly higher. Changes in currencies had a negative impact on comparable EBIT.

Depreciation, excluding items affecting comparability, totalled EUR 335 million (390 million). The increase in the fair value of forest assets net of wood harvested was EUR 77 million (35 million).

Operating profit totalled EUR 960 million (903 million). Items affecting comparability in operating profit totalled gains of EUR 34 million (gains of EUR 44 million). This included gains from selling hydropower facilities in Austria and the US.

Net interest and other finance costs were EUR 35 million (33 million). The exchange rate and fair value gains and losses resulted in a loss of EUR 11 million (loss of EUR 22 million). Income taxes totalled EUR 184 million (155 million). Items affecting comparability in taxes totalled EUR –12 million (–8 million).

Profit for Q1–Q3 2017 was EUR 730 million (693 million) and comparable profit was EUR 707 million (659 million).

Financing and cash flow

In Q1–Q3 2017, cash flow from operating activities before capital expenditure and financing totalled EUR 1,151 million (1,281 million). Working capital decreased by EUR 30 million (decreased by EUR 115 million) during the period.

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

Net debt decreased to EUR 623 million at the end of the period (1,479 million). The gearing ratio as of 30 September 2017 was 7% (19%). Net debt to EBITDA ratio, based on the latest 12 months' EBITDA, was 0.41 at the end of the period (0.94).

On 30 September 2017, UPM's cash funds and unused committed credit facilities totalled EUR 1.5 billion.

Capital expenditure

In Q1–Q3 2017, capital expenditure totalled EUR 209 million, 2.8% of sales (231 million, 3.1% of sales). Total capital expenditure in 2017, excluding investments in shares, is estimated to be approximately EUR 300 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 that 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 UPM 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 UPM 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 26 million was paid in Q3 2017 and EUR 93 million has been paid over previous years.

Personnel

In Q1–Q3 2017, UPM had an average of 19,594 employees (20,024). At the beginning of the year, the number of employees was 19,310 and at the end of Q3 2017 it was 19,335.

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 pre-engineering study and the permitting process. During this phase, significant progress would be expected in the implementation of the state-led infrastructure initiatives agreed upon 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.

Biochemicals business development

UPM formed UPM Biochemicals in 2013, by combining its biochemical-related business initiatives. UPM Biochemicals offers and develops innovative, sustainable and competitive wood-based biochemicals. The product segments are biochemicals, lignin products and biomedical products. Development is at the pre-commercial phase, with UPM actively developing and testing industrial applications to create mill-scale industrial concepts.

On 24 October UPM announced it evaluates potential of building a biorefinery in Frankfurt-Höchst in Germany. UPM now proceeds with detailed commercial and basic engineering study to confirm the attractiveness of the business case. The estimated duration of this phase is about 12 months. If all preparation phases are concluded successfully, UPM would initiate the company's regular process of analysing and preparing an investment decision.

Events during January–September 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 the 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 Q3 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.

On 30 March, UPM announced it had signed an agreement on the sale of its hydropower facilities in Steyrermühl, Austria to Energie AG. The transaction was completed in Q3 2017.

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 was completed in Q3 2017.

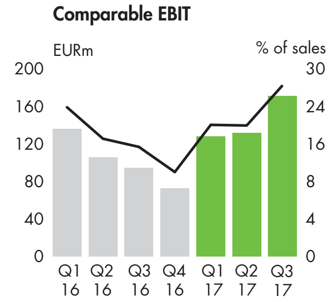
Events after the balance sheet date

On October 24, UPM announced plans to expand its Chudovo plywood mill in Russia. The project will raise the mill's production capacity to 155,000 m^3. The total investment will be about EUR 50 million.

On October 24, UPM announced it evaluates potential of building a biorefinery in Frankfurt-Höchst in Germany. UPM proceeds with detailed commercial and basic engineering study to confirm the attractiveness of the business case.

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.



	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	624	630	607	533	541	563	568	1,861	1,672	2,206
Comparable EBITDA, EURm	203	157	160	101	132	140	175	520	448	548
% of sales	32.4	25.0	26.4	18.9	24.5	24.8	30.9	27.9	26.8	24.9
Change in fair value of forest assets and wood harvested, EURm	7	14	8	14	3	9	3	28	15	29
Share of results of associates and joint ventures, EURm	–	1	1	–	1	1	–	1	1	2
Depreciation, amortisation and impairment charges, EURm	–39	–41	–42	–43	–42	–44	–44	–121	–130	–173
Operating profit, EURm	170	131	127	72	94	105	135	428	334	406
% of sales	27.2	20.8	20.9	13.5	17.4	18.7	23.7	23.0	20.0	18.4
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	170	131	127	72	94	105	135	428	334	406
% of sales	27.2	20.8	20.9	13.4	17.4	18.7	23.7	23.0	20.0	18.4
Capital employed (average), EURm	3,155	3,263	3,347	3,292	3,230	3,185	3,217	3,255	3,211	3,231
Comparable ROCE, %	21.5	16.1	15.1	8.7	11.6	13.2	16.7	17.5	13.9	12.6
Pulp deliveries, 1,000 t	890	907	918	831	849	891	848	2,715	2,588	3,419

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

Actions

- Plan to adopt an 18-month maintenance cycle at Fray Bentos pulp mill in Uruguay, scheduled shutdown in Q4 2017 moved forward to 2018.
- Quarterly production record at the Lappeenranta biorefinery.

Results

Q3 2017 compared with Q3 2016

Comparable EBIT for UPM Biorefining increased mainly due to higher pulp sale prices.

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

Q3 2017 compared with Q2 2017

Comparable EBIT increased due to improved production efficiency, lower costs and higher pulp sale prices. In the comparison period, profitability was negatively impacted by higher costs, partly relating to maintenance activity.

The average price for UPM's pulp deliveries increased by 1%. Euro strengthening offset the increase in US dollar pulp market prices.

January–September 2017 compared with January–September 2016

Comparable EBIT for UPM Biorefining increased due to higher pulp sale prices and pulp delivery volumes, more than offsetting higher costs. Production efficiency improved significantly at the Lappeenranta biorefinery.

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

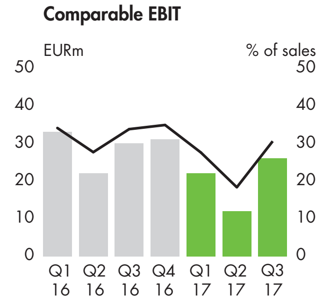
Market environment

- 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 third quarter.
- In Europe, during the first nine months of 2017, the average market price of NBSK in euro was 8% higher than last year, while the market price of BHKP increased by 10% compared to last year. In China, the average market price of NBSK in US dollars was 9% higher and BHKP was 19% 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 during the third 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.



	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	86	65	80	90	89	81	97	231	266	357
Comparable EBITDA, EURm	28	14	24	34	32	25	36	67	93	126
% of sales	33.0	21.8	30.3	37.3	36.3	30.4	37.1	28.9	34.8	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	−2	−7	−7	−9
Operating profit, EURm	26	12	22	31	30	22	33	60	85	116
% of sales	30.5	18.3	27.5	34.8	33.7	27.6	34.0	26.0	32.0	32.7
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	26	12	22	31	30	22	33	60	85	116
% of sales	30.5	18.3	27.5	34.8	33.7	27.6	34.0	26.0	32.0	32.7
Capital employed (average), EURm	2,279	2,261	2,256	2,290	2,313	2,360	2,396	2,265	2,356	2,340
Comparable ROCE, %	4.6	2.1	3.9	5.5	5.2	3.8	5.5	3.5	4.8	5.0
Electricity deliveries, GWh	2,093	1,744	2,059	2,152	2,246	2,102	2,282	5,896	6,630	8,782

Actions

- Improved hydrological situation supported hydropower generation.
- Production resumed in July at the Olkiluoto 2 nuclear unit, after the prolonged maintenance shutdown.

Results

Q3 2017 compared with Q3 2016

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

UPM's average electricity sales price increased by 2% to EUR 33.9/MWh (33.2/MWh).

Q3 2017 compared with Q2 2017

Comparable EBIT increased due to higher average electricity sales prices and higher generation volumes. In the previous quarter, profitability was negatively impacted by the scheduled maintenance shutdown at the Olkiluoto nuclear power plant.

UPM's average electricity sales price increased by 9% to EUR 33.9/MWh (31.1/MWh).

January–September 2017 compared with January–September 2016

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

UPM's average electricity sales price decreased by 3% to EUR 32.5/MWh (33.4/MWh).

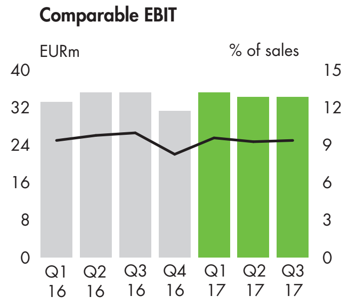
Market environment

- The Nordic hydrological balance improved in the third quarter and was close to the long-term average level at the end of September.
- Coal prices and the CO_2 emission allowance price increased during the third quarter.
- In the first nine months of 2017, the average Finnish area spot price on the Nordic electricity exchange was EUR 33.3/MWh, 8% higher than in the same period last year (30.8/MWh).
- The Finnish area front-year forward electricity price closed at EUR 33.0/MWh in September, 7% higher than at the end of Q2 2017 (30.7/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.



	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	369	375	371	372	355	360	351	1,116	1,065	1,437
Comparable EBITDA, EURm	42	42	43	39	43	43	41	128	128	166
% of sales	11.4	11.3	11.7	10.5	12.2	12.1	11.7	11.5	12.0	11.6
Depreciation, amortisation and impairment charges, EURm	–8	–8	–8	–8	–8	–8	–8	–24	–25	–33
Operating profit, EURm	34	34	35	31	36	35	33	104	103	134
% of sales	9.3	9.2	9.5	8.2	10.1	9.7	9.3	9.3	9.7	9.3
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	34	34	35	31	35	35	33	104	103	133
% of sales	9.3	9.2	9.5	8.2	9.9	9.7	9.3	9.3	9.7	9.3
Capital employed (average), EURm	498	488	503	513	516	524	540	496	527	524
Comparable ROCE, %	27.7	28.2	28.1	23.8	27.3	26.7	24.2	28.0	26.0	25.5

Actions

- Strong delivery growth continued, particularly in Asia.
- Set-up of new slitting and distribution terminal in Santiago, Chile.
- Increased presence in the US through the acquisition of a distributor in Texas.

Results

Q3 2017 compared with Q3 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.

Q3 2017 compared with Q2 2017

Comparable EBIT remained stable as the negative sales margin impact was offset by the positive impact of higher delivery volumes and lower fixed costs.

January–September 2017 compared with January–September 2016

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

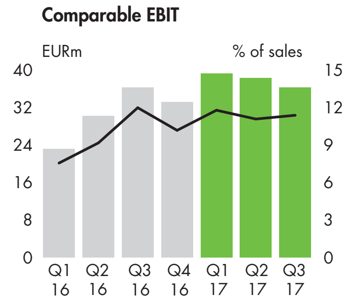
Market environment

- Global demand for self-adhesive label materials grew in the first nine months 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.



	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	320	342	330	329	305	327	312	993	944	1,273
Comparable EBITDA, EURm	55	58	60	54	58	53	48	173	160	214
% of sales	17.2	16.9	18.1	16.4	19.1	16.2	15.6	17.4	16.9	16.8
Depreciation, amortisation and impairment charges, EURm	–19	–20	–21	–21	–22	–23	–25	–61	–71	–92
Operating profit, EURm	36	38	39	33	36	30	23	113	89	123
% of sales	11.3	11.0	11.7	10.1	11.9	9.1	7.5	11.3	9.5	9.6
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	36	38	39	33	36	30	23	113	89	123
% of sales	11.3	11.0	11.7	10.1	11.9	9.1	7.5	11.3	9.5	9.6
Capital employed (average), EURm	858	879	931	984	987	1,027	1,051	889	1,022	1,012
Comparable ROCE, %	16.9	17.1	16.7	13.5	14.7	11.6	8.9	16.9	11.6	12.1
Paper deliveries, 1,000 t	384	404	390	397	374	407	379	1,178	1,159	1,556

Actions

- Solid demand growth in label materials globally and in office papers in Asia.

Results

Q3 2017 compared with Q3 2016

Comparable EBIT for UPM Specialty Papers remained stable. The positive impact of higher sales prices and higher release liner volumes offset the negative impact of higher pulp costs.

Q3 2017 compared with Q2 2017

Comparable EBIT decreased slightly as higher pulp costs more than offset the positive impact of higher sales prices.

January–September 2017 compared with January–September 2016

Comparable EBIT for UPM Specialty Papers increased mainly due to higher sales prices, an improved product mix and higher release liner volumes, more than offsetting the negative impact of higher pulp costs.

Market environment

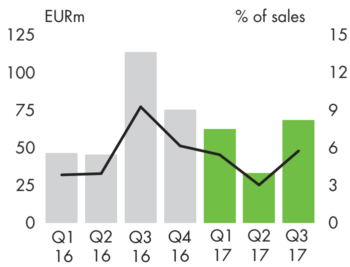
- In the Asia-Pacific region, office paper demand remained strong and the average market price increased in the first nine months of 2017.
- The demand for label and release paper increased on a global scale in the first nine months of 2017, particularly in Asia. Price development varied between regions and on average, was stable in the first nine months 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.

Comparable EBIT



	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	1,189	1,112	1,148	1,228	1,234	1,155	1,202	3,449	3,590	4,818
Comparable EBITDA, EURm	94	64	98	111	148	93	96	256	337	448
% of sales	7.9	5.7	8.6	9.1	12.0	8.1	8.0	7.4	9.4	9.3
Share of results of associates and joint ventures, EURm	–	–	1	–	1	–	–	1	1	2
Depreciation, amortisation and impairment charges, EURm	–26	–31	–35	–60	–35	–47	–72	–93	–153	–214
Operating profit, EURm	123	31	61	26	160	47	–11	215	197	223
% of sales	10.3	2.8	5.3	2.1	13.0	4.1	–0.9	6.2	5.5	4.6
Items affecting comparability in operating profit, EURm [1)]	55	–2	–1	–49	47	2	–57	52	–8	–57
Comparable EBIT, EURm	68	33	62	75	113	45	46	163	205	280
% of sales	5.7	3.0	5.4	6.1	9.2	3.9	3.8	4.7	5.7	5.8
Capital employed (average), EURm	1,678	1,698	1,801	1,855	1,915	1,988	2,098	1,725	2,000	1,964
Comparable ROCE, %	16.2	7.7	13.9	16.2	23.7	9.1	8.8	12.6	13.7	14.3
Paper deliveries, 1,000 t	2,040	1,893	1,934	2,068	2,068	1,940	1,982	5,868	5,990	8,057

[1)] In Q3 2017, items affecting comparability include gain amounting to EUR 43 million and EUR 11 million relating to sale of hydro power assets located at the mill sites in Madison and Steyrermühl, correspondingly. In addition, EUR 1 million income relates to prior capacity closures. 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

- Concluded the sale of its hydropower facilities in Madison in the USA and in Steyrermühl in Austria.
- Next milestone achieved in sustainability — all mills producing papers were awarded with the EU Ecolabel.

Results

Q3 2017 compared with Q3 2016

Comparable EBIT decreased for UPM Paper ENA mainly due to higher fibre costs.

The average price for UPM's paper deliveries in euro decreased by 2% due to an unfavourable currency impact on export prices.

Q3 2017 compared with Q2 2017

Comparable EBIT increased due to seasonally higher delivery volumes, lower fixed costs and higher sales prices, more than offsetting the negative impact of higher pulp costs.

The average price for UPM's paper deliveries in euro decreased by 1%. Price increases in the euro area were offset by an unfavourable currency impact on export prices.

January–September 2017 compared with January–September 2016

Comparable EBIT decreased for UPM Paper ENA mainly due to lower sales prices and higher fibre costs, more than offsetting lower fixed costs, including depreciations.

The average price for UPM's paper deliveries in euros decreased by 2% partly due to an unfavourable currency impact on export prices.

Market environment

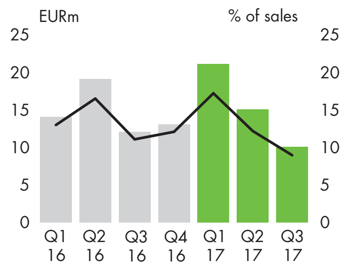
- In the first nine months of 2017, demand for graphic papers in Europe was 3% lower than last year. Newsprint demand decreased by 6%, magazine paper by 2% and fine paper by 1% compared with the first nine months of 2016.
- In the third quarter, publication paper prices in Europe remained stable compared both to the second quarter of 2017 and the third quarter of 2016. In the third quarter, fine paper prices in Europe were on average 3% higher compared to the previous quarter. Compared to Q3 2016, fine paper prices were on average 4% higher.
- In the first nine months of 2017, demand for magazine papers in North America decreased by 6% compared to last year. The average US dollar price for magazine papers in the third quarter of 2017 increased by 3% and was 1% higher compared to Q3 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



	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	112	128	124	109	106	119	110	364	335	444
Comparable EBITDA, EURm	16	21	27	19	17	25	20	64	61	80
% of sales	14.0	16.6	21.9	17.4	16.2	20.9	17.8	17.6	18.4	18.1
Depreciation, amortisation and impairment charges, EURm	–6	–6	–6	–6	–5	–5	–5	–17	–16	–22
Operating profit, EURm	10	15	21	13	12	19	14	47	45	58
% of sales	8.9	12.1	17.1	12.0	11.0	16.4	12.9	12.8	13.5	13.2
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	10	15	21	13	12	19	14	47	45	58
% of sales	8.9	12.1	17.1	12.0	11.0	16.4	12.9	12.8	13.5	13.2
Capital employed (average), EURm	263	276	268	262	259	262	252	269	258	259
Comparable ROCE, %	15.1	22.4	31.7	20.0	18.0	29.7	22.6	23.1	23.5	22.6
Plywood deliveries, 1,000 m³	192	214	201	185	184	206	189	607	579	764

Actions

- Introduced a new sustainable lignin-based WISA BioBond bonding technology in plywood manufacturing.
- Increased production efficiency from Kalso peeling investment.

Results

Q3 2017 compared with Q3 2016
Comparable EBIT for UPM Plywood decreased slightly. Higher costs offset the positive impact of higher average sales prices and delivery volumes.

Q3 2017 compared with Q2 2017
Comparable EBIT decreased mainly due to seasonally lower delivery volumes.

January–September 2017 compared with January–September 2016
Comparable EBIT for UPM Plywood increased due to higher average sales prices and delivery volumes, more than offsetting higher costs.

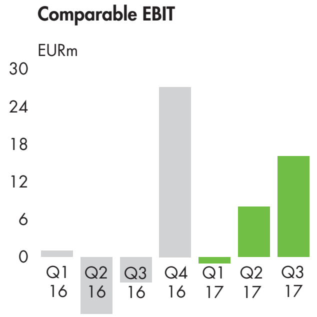
Market environment

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

Source: UPM

Other operations

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



	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	69	70	72	72	65	76	73	212	213	285
Comparable EBITDA, EURm	–2	–6	–7	–9	–7	–9	–10	–16	–26	–35
Change in fair value of forest assets and wood harvested, EURm	22	18	9	40	4	2	13	49	20	59
Share of results of associates and joint ventures, EURm	1	–	–	–	1	1	1	2	3	3
Depreciation, amortisation and impairment charges, EURm	–4	–3	–3	–4	–3	–3	–3	–11	–10	–13
Operating profit, EURm	16	8	–2	28	–4	–9	0	23	–13	15
Items affecting comparability in operating profit, EURm [1]	–	–	–	1	–	–	–	–	–	1
Comparable EBIT, EURm	16	8	–1	27	–4	–9	1	23	–13	14
Capital employed (average), EURm	1,455	1,489	1,508	1,506	1,532	1,553	1,571	1,484	1,552	1,541
Comparable ROCE, %	4.5	2.1	–0.4	7.2	–1.2	–2.4	0.2	2.1	–1.1	0.9

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

Actions

- UPM BioPiva, a sustainable lignin gluing technology, developed by UPM Biochemicals and introduced into plywood manufacturing.

Results

Q3 2017 compared with Q3 2016

Comparable EBIT for Other operations increased. The increase in the fair value of forest assets net of wood harvested was EUR 22 million (4 million). The increase in the fair value of forest assets was EUR 34 million (20 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 12 million (16 million).

Q3 2017 compared with Q2 2017

Comparable EBIT increased. The increase in the fair value of forest assets net of wood harvested was EUR 22 million (18 million). The increase in the fair value of forest assets was EUR 34 million (31 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 12 million (13 million).

January–September 2017 compared with January–September 2016

Comparable EBIT for Other operations increased. The increase in the fair value of forest assets net of wood harvested was EUR 49 million (20 million). The increase in the fair value of forest assets was EUR 87 million (61 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 38 million (42 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.

Teollisuuden Voima Oyj (TVO) is in the process of constructing a third nuclear power plant unit, OL3 EPR, at the Olkiluoto site (OL3). UPM participates in OL3 through its shareholding in Pohjolan Voima Oyj (PVO), which is the majority shareholder in TVO. UPM's indirect share of OL3 is approximately 31%. The OL3 plant supplier, a consortium consisting of AREVA GmbH, AREVA NP SAS and Siemens AG (the Supplier), is constructing OL3 as a turnkey project.

The start of regular electricity production, originally scheduled for April 2009, has been revised several times by the Supplier. According to a public statement by TVO in October 2017, TVO received information on the Supplier's schedule rebaseline review for OL3 project completion, according to which the start of regular electricity production at OL3 will take place in May 2019. Furthermore, TVO has expressed concerns regarding the pending restructuring of AREVA Group, involving a transfer of the operations of AREVA NP to a new company, the majority owner of which is going to be EDF, and the potential consequences for the performance of the OL3 contract.

According to public statements by TVO, no assurance can be given that further delays, which could have a material adverse effect on TVO's business and financial position, will not occur prior to completion of the OL3 project. As a consequence, further delays could have an adverse impact on PVO's business and financial position, the fair value of UPM's energy shareholdings in PVO and/or the cost of energy sourced from OL3 when completed.

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–Q3 2017, UPM shares worth EUR 6,204 million (4,932 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 26.53 in July 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, the transfer of treasury shares and the 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, which also includes 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 September 2017 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 September 2017, the company held 411,653 of its own shares, representing approximately 0.08% of the total number of company shares and voting rights. 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, private forest owners, 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 150.4 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 26.7 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. 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 124.9 million, of which EUR 17.6 million is based on agreements between Metsähallitus and UPM. In August and September 2017, the District Court passed first 69 judgements in the private forest owners' claims rejecting all the claims and ordering the claimants to compensate legal expenses of the defendants. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

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 EPR 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 was to take place in late 2018. According to TVO, in October 2017 TVO received information on the Supplier's schedule re-baseline review for OL3 EPR project completion. According to the information the start of regular electricity production at OL3 EPR will take place in May 2019.

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 was the estimated start of regular electricity production of OL3 EPR according to the schedule submitted by the Supplier in 2014. 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 EPR 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, and thereafter more than half of the shares of New NP would be transferred to EDF. According to TVO, the OL3 EPR 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. According to TVO, in September 2017 TVO filed an appeal to the General Court of the EU against the EU Commission decision on the French state aid to Areva Group. TVO requires that the restructuring of the French nuclear industry will not compromise the completion of the OL3 EPR 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 EPR 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 EPR 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, 24 October 2017

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q3/2017	Q3/2016	Q1–Q3/2017	Q1–Q3/2016	Q1–Q4/2016
Sales	2,493	2,445	7,439	7,336	9,812
Other operating income	35	60	75	92	140
Costs and expenses	−2,075	−2,032	−6,301	−6,163	−8,365
Change in fair value of forest assets and wood harvested	29	7	77	35	88
Share of results of associates and joint ventures	1	2	4	5	5
Depreciation, amortisation and impairment charges	−104	−118	−334	−401	−545
Operating profit	379	364	960	903	1,135
Gains on sale of energy shareholdings, net	–	–	–	1	1
Exchange rate and fair value gains and losses	−5	−25	−11	−22	−7
Interest and other finance costs	−16	−4	−35	−33	−49
Profit before tax	357	336	914	848	1,080
Income taxes	−72	−68	−184	−155	−200
Profit for the period	286	268	730	693	880
Attributable to:					
Owners of the parent company	286	268	730	692	879
Non-controlling interests	–	–	–	–	1
	286	268	730	693	880
Earnings per share for profit attributable to owners of the parent company					
Basic earnings per share, EUR	0.54	0.50	1.37	1.30	1.65
Diluted earnings per share, EUR	0.54	0.50	1.37	1.30	1.65

Consolidated statement of comprehensive income

EURm	Q3/2017	Q3/2016	Q1–Q3/2017	Q1–Q3/2016	Q1–Q4/2016
Profit for the period	286	268	730	693	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	17	−76	38	−192	−97
Items that may be reclassified subsequently to the income statement:					
Translation differences	−71	−21	−251	−129	−14
Net investment hedge	4	1	17	9	−1
Cash flow hedges	40	35	79	46	73
Gains and losses on energy shareholdings	−25	–	−9	−97	−144
	−52	15	−163	−171	−87
Other comprehensive income for the period, net of tax	−35	−61	−125	−363	−184
Total comprehensive income for the period	250	207	605	330	696
Attributable to:					
Owners of the parent company	250	207	605	330	695
Non-controlling interests	–	–	–	–	1
	250	207	605	330	696

Consolidated balance sheet

EURm	30 SEP 2017	30 SEP 2016	31 DEC 2016
ASSETS			
Goodwill	233	238	245
Other intangible assets	305	301	301
Property, plant and equipment	4,297	4,622	4,657
Forest assets	1,643	1,697	1,734
Energy shareholdings	1,947	1,983	1,932
Other non-current financial assets	193	282	255
Deferred tax assets	418	470	446
Net retirement benefit assets	92	44	71
Investments in associates and joint ventures	30	30	29
Other non-current assets	38	47	47
Non-current assets	9,196	9,715	9,715
Inventories	1,335	1,333	1,346
Trade and other receivables	1,799	1,711	1,726
Other current financial assets	110	122	109
Income tax receivables	25	19	14
Cash and cash equivalents	896	771	992
Current assets	4,165	3,956	4,187
Assets classified as held for sale	11	8	8
Assets	13,372	13,678	13,911
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	−2	−2	−2
Translation reserve	200	329	433
Other reserves	1,485	1,435	1,416
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	4,482	3,944	4,225
Equity attributable to owners of the parent company	8,327	7,867	8,234
Non-controlling interests	3	3	3
Equity	8,330	7,870	8,237
Deferred tax liabilities	474	434	457
Net retirement benefit liabilities	765	911	817
Provisions	119	130	145
Non-current debt	1,161	1,957	1,835
Other non-current financial liabilities	85	113	110
Non-current liabilities	2,605	3,545	3,364
Current debt	607	636	584
Trade and other payables	1,717	1,496	1,594
Other current financial liabilities	47	77	116
Income tax payables	67	53	16
Current liabilities	2,438	2,262	2,309
Liabilities related to assets classified as held for sale	–	–	–
Liabilities	5,042	5,808	5,673
Equity and liabilities	13,372	13,678	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	–	–	–	–	–	730	730	–	730
Translation differences	–	–	–251	–	–	–	–251	–	–251
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	10	–	–	10	–	10
Cash flow hedges – changes in fair value, net of tax	–	–	–	69	–	–	69	–	69
Net investment hedge, net of tax	–	–	17	–	–	–	17	–	17
Energy shareholdings – changes in fair value, net of tax	–	–	–	–9	–	–	–9	–	–9
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	38	38	–	38
Total comprehensive income for the period	–	–	–233	70	–	768	605	–	605
Share-based payments, net of tax	–	–	–	–	–	–5	–5	–	–5
Dividend distribution	–	–	–	–	–	–507	–507	–	–507
Total transactions with owners for the period	–	–	–	–	–	–512	–512	–	–512
Total equity at 30 September 2017	890	–2	200	1,485	1,273	4,482	8,327	3	8,330
Value at 1 January 2016	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Profit for the period	–	–	–	–	–	692	692	–	693
Translation differences	–	–	–129	–	–	–	–129	–	–129
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	48	–	–	48	–	48
Cash flow hedges – changes in fair value, net of tax	–	–	–	–2	–	–	–2	–	–2
Net investment hedge, net of tax	–	–	9	–	–	–	9	–	9
Energy shareholdings – changes in fair value, net of tax	–	–	–	–97	–	–	–97	–	–97
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	–192	–192	–	–192
Total comprehensive income for the period	–	–	–120	–51	–	501	330	–	330
Share-based payments, net of tax	–	–	–	–1	–	–3	–4	–	–4
Dividend distribution	–	–	–	–	–	–400	–400	–	–400
Total transactions with owners for the period	–	–	–	–1	–	–403	–404	–	–404
Total equity at 30 September 2016	890	–2	329	1,435	1,273	3,944	7,867	3	7,870

Condensed consolidated cash flow statement

EURm	Q1–Q3/2017	Q1–Q3/2016	Q1–Q4/2016
Cash flows from operating activities			
Profit for the period	730	693	880
Adjustments	527	567	778
Change in working capital	30	115	195
Finance costs, net	–17	–11	–22
Income taxes paid	–119	–83	–145
Operating cash flow	1,151	1,281	1,686
Cash flows from investing activities			
Capital expenditure	–200	–275	–351
Asset sales and other investing cash flow	37	91	89
Investing cash flow	–163	–184	–262
Cash flows from financing activities			
Change in loans and other financial items	–570	–550	–657
Dividends paid	–507	–400	–400
Financing cash flow	–1,076	–950	–1,057
Change in cash and cash equivalents	–89	147	367
Cash and cash equivalents at beginning of period	992	626	626
Exchange rate effect on cash and cash equivalents	–7	–2	–1
Change in cash and cash equivalents	–89	147	367
Cash and cash equivalents at end of period	896	771	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.

	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales, EURm	2,493	2,464	2,482	2,476	2,445	2,445	2,446	7,439	7,336	9,812
Comparable EBITDA, EURm	425	349	405	349	423	385	403	1,180	1,210	1,560
% of sales	17.1	14.2	16.3	14.1	17.3	15.8	16.5	15.9	16.5	15.9
Comparable EBIT, EURm	351	270	305	283	314	264	281	926	859	1,143
% of sales	14.1	11.0	12.3	11.4	12.8	10.8	11.5	12.4	11.7	11.6
Comparable profit before tax, EURm	328	258	291	282	288	252	267	878	807	1,089
Capital employed (average), EURm	10,032	9,942	10,288	10,560	10,433	10,701	11,005	10,378	10,737	10,833
Comparable ROCE, %	13.6	10.8	11.7	11.4	11.5	10.0	10.1	11.7	10.5	10.6
Comparable profit for the period, EURm	267	205	234	220	234	200	225	707	659	879
Total equity, average, EURm	8,204	8,020	8,100	8,054	7,767	7,819	7,959	8,284	7,907	8,091
Comparable ROE, %	13.0	10.2	11.6	10.9	12.1	10.2	11.3	11.4	11.1	10.9
Average number of shares basis (1,000)	533,328	533,505	533,505	533,505	533,505	533,505	533,505	533,446	533,505	533,505
Comparable EPS, EUR	0.50	0.39	0.44	0.41	0.44	0.37	0.42	1.32	1.23	1.65
Items affecting comparability in operating profit, EURm	28	−1	7	−51	50	−2	−4	34	44	−7
Items affecting comparability in financial items, EURm	1	–	–	–	−2	–	–	1	−2	−2
Items affecting comparability in taxes, EURm	−10	–	−2	18	−14	–	6	−12	−8	11
Operating cash flow, EURm	486	269	396	405	506	434	341	1,151	1,281	1,686
Operating cash flow per share, EUR	0.91	0.50	0.74	0.76	0.95	0.81	0.64	2.16	2.40	3.16
Net debt at the end of period, EURm	623	1,046	807	1,131	1,479	1,876	1,873	623	1,479	1,131
Gearing ratio, %	7	13	10	14	19	24	23	7	19	14
Net debt to EBITDA (last 12 m.)	0.41	0.68	0.52	0.73	0.94	1.25	1.31	0.41	0.94	0.73
Capital expenditure, EURm	99	64	46	94	98	85	47	209	231	325
Capital expenditure excluding acquisitions, EURm	72	64	46	94	98	85	47	182	231	325
Equity per share at the end of period, EUR	15.61	15.14	14.92	15.43	14.75	14.36	14.94	15.61	14.75	15.43
Personnel at the end of period	19,335	20,096	19,301	19,310	19,559	20,711	19,870	19,335	19,559	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	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Items affecting comparability										
Impairment charges	–	–	1	–24	–	1	–12	1	–11	–35
Restructuring charges	–2	–2	–3	–31	–	–	–18	–7	–18	–48
Change in fair value of unrealised cash flow and commodity hedges	–6	1	9	2	3	–3	25	4	25	27
Capital gains and losses on sale of non-current assets	35	–	–	2	47	–	–	35	47	49
Fair value changes of forest assets resulting from changes in estimates	–	–	–	–	–	–	–	–	–	–
Other non-operational items	–	–	–	–	–	–	–	–	–	–
Total items affecting comparability in operating profit	28	–1	7	–51	50	–2	–4	34	44	–7
Items affecting comparability in financial items	1	–	–	–	–2	–	–	1	–2	–2
Changes in tax rates	–	–	–	4	–	–	–	–	–	4
Taxes relating to items affecting comparability	–10	–	–2	14	–14	–	6	–12	–8	7
Items affecting comparability in taxes	–10	–	–2	18	–14	–	6	–12	–8	11
Items affecting comparability, total	19	–1	6	–33	34	–2	2	23	34	1
Comparable EBITDA										
Operating profit	379	269	312	232	364	262	277	960	903	1,135
Depreciation, amortisation and impairment charges [1]	104	112	119	120	118	134	138	335	390	510
Change in fair value of forest assets and wood harvested [1]	–29	–32	–16	–53	–7	–11	–16	–77	–35	–88
Share of result of associates and joint ventures	–1	–1	–2	–1	–2	–2	–	–4	–5	–5
Items affecting comparability in operating profit	–28	1	–7	51	–50	2	4	–34	–44	7
Comparable EBITDA	425	349	405	349	423	385	403	1,180	1,210	1,560
% of sales	17.1	14.2	16.3	14.1	17.3	15.8	16.5	15.9	16.5	15.9
[1] excluding items affecting comparability										
Comparable EBIT										
Operating profit	379	269	312	232	364	262	277	960	903	1,135
Items affecting comparability in operating profit	–28	1	–7	51	–50	2	4	–34	–44	7
Comparable EBIT	351	270	305	283	314	264	281	926	859	1,143
% of sales	14.1	11.0	12.3	11.4	12.8	10.8	11.5	12.4	11.7	11.6
Comparable profit before tax										
Profit before tax	357	258	299	231	336	250	263	914	848	1,080
Items affecting comparability in operating profit	–28	1	–7	51	–50	2	4	–34	–44	7
Items affecting comparability in financial items	–1	–	–	–	2	–	–	–1	2	2
Comparable profit before tax	328	258	291	282	288	252	267	878	807	1,089
Comparable ROCE, %										
Comparable profit before tax	328	258	291	282	288	252	267	878	807	1,089
Interest expenses and other financial expenses	13	10	10	17	13	15	10	33	38	55
	341	268	302	300	301	266	277	911	845	1,144
Capital employed, average	10,032	9,942	10,288	10,560	10,433	11,701	11,005	10,378	10,737	10,833
Comparable ROCE, %	13.6	10.8	11.7	11.4	11.5	10.0	10.1	11.7	10.5	10.6
Comparable profit for the period										
Profit for the period	286	205	240	187	268	198	227	730	693	880
Items affecting comparability, total	–19	1	–6	33	–34	2	–2	–23	–34	–1
Comparable profit for the period	267	205	234	220	234	200	225	707	659	879
Comparable EPS, EUR										
Comparable profit for the period	267	205	234	220	234	200	225	707	659	879
Profit attributable to non-controlling interest	–	–	–	–	–	–1	–	–	–	–1
	267	205	234	220	234	199	225	707	658	878
Average number of shares basic (1,000)	533,328	533,505	533,505	533,505	533,505	533,505	533,505	533,446	533,505	533,505
Comparable EPS, EUR	0.50	0.39	0.44	0.41	0.44	0.37	0.42	1.32	1.23	1.65

Reconciliation of key figures to IFRS

EURm, or as indicated	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Comparable ROE, %										
Comparable profit for the period	267	205	234	220	234	200	225	707	659	879
Profit attributable to non-controlling interest	–	–	–	–	–	–1	–	–	–	–1
	267	205	234	220	234	199	225	707	658	878
Total equity, average	8,204	8,020	8,100	8,054	7,767	7,819	7,959	8,284	7,907	8,091
Comparable ROE, %	13.0	10.2	11.6	10.9	12.1	10.2	11.3	11.4	11.1	10.9
Net debt										
Non-current debt	1,161	1,436	1,531	1,835	1,957	2,148	2,452	1,161	1,957	1,835
Current debt	607	451	426	585	636	592	574	607	636	585
Total debt	1,769	1,887	1,956	2,419	2,593	2,740	3,025	1,769	2,593	2,419
Non-current interest-bearing assets	198	210	222	259	292	350	321	198	292	259
Cash and cash equivalents	896	563	866	992	771	459	803	896	771	992
Other current interest-bearing assets	52	69	62	38	50	55	29	52	50	38
Total interest-bearing assets	1,146	841	1,149	1,289	1,114	864	1,153	1,146	1,114	1,289
Net debt	623	1,046	807	1,131	1,479	1,876	1,873	623	1,479	1,131

Quarterly business area information

EURm	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q3/17	Q1–Q3/16	Q1–Q4/16
Sales										
UPM Biorefining	624	630	607	533	541	563	568	1,861	1,672	2,206
UPM Energy	86	65	80	90	89	81	97	231	266	357
UPM Raflatac	369	375	371	372	355	360	351	1,116	1,065	1,437
UPM Specialty Papers	320	342	330	329	305	327	312	993	944	1,273
UPM Paper ENA	1,189	1,112	1,148	1,228	1,234	1,155	1,202	3,449	3,590	4,818
UPM Plywood	112	128	124	109	106	119	110	364	335	444
Other operations	69	70	72	72	65	76	73	212	213	285
Internal sales	–274	–258	–252	–260	–246	–229	–233	–783	–708	–969
Eliminations and reconciliations	–3	–	1	2	–2	–6	–34	–3	–42	–40
Sales, total	2,493	2,464	2,482	2,476	2,445	2,445	2,446	7,439	7,336	9,812
Comparable EBITDA										
UPM Biorefining	203	157	160	101	132	140	175	520	448	548
UPM Energy	28	14	24	34	32	25	36	67	93	126
UPM Raflatac	42	42	43	39	43	43	41	128	128	166
UPM Specialty Papers	55	58	60	54	58	53	48	173	160	214
UPM Paper ENA	94	64	98	111	148	93	96	256	337	448
UPM Plywood	16	21	27	19	17	25	20	64	61	80
Other operations	–2	–6	–7	–9	–7	–9	–10	–16	–26	–35
Eliminations and reconciliations	–10	–1	–	1	–2	16	–4	–12	10	11
Comparable EBITDA, total	425	349	405	349	423	385	403	1,180	1,210	1,560
Operating profit										
UPM Biorefining	170	131	127	72	94	105	135	428	334	406
UPM Energy	26	12	22	31	30	22	33	60	85	116
UPM Raflatac	34	34	35	31	36	35	33	104	103	134
UPM Specialty Papers	36	38	39	33	36	30	23	113	89	123
UPM Paper ENA	123	31	61	26	160	47	–11	215	197	223
UPM Plywood	10	15	21	13	12	19	14	47	45	58
Other operations	16	8	–2	28	–4	–9	–	23	–13	15
Eliminations and reconciliations	–37	–	9	–2	1	12	50	–29	62	60
Operating profit, total	379	269	312	232	364	262	277	960	903	1,135
% of sales	15.2	10.9	12.6	9.4	14.9	10.7	11.3	12.9	12.3	11.6
Items affecting comparability in operating profit										
UPM Biorefining	–	–	–	–	–	–	–	–	–	–
UPM Energy	–	–	–	–	–	–	–	–	–	–
UPM Raflatac	–	–	–	–	–	–	–	–	–	–
UPM Specialty Papers	–	–	–	–	–	–	–	–	–	–
UPM Paper ENA	55	–2	–1	–49	47	2	–57	52	–8	–57
UPM Plywood	–	–	–	–	–	–	–	–	–	–
Other operations	–	–	–	1	–	–	–	–	–	1
Eliminations and reconciliations [1]	–28	1	9	–3	3	–4	53	–17	51	48
Items affecting comparability in operating profit, total	28	–1	7	–51	50	–2	–4	34	44	–7
Comparable EBIT										
UPM Biorefining	170	131	127	72	94	105	135	428	334	406
UPM Energy	26	12	22	31	30	22	33	60	85	116
UPM Raflatac	34	34	35	31	35	35	33	104	103	133
UPM Specialty Papers	36	38	39	33	36	30	23	113	89	123
UPM Paper ENA	68	33	62	75	113	45	46	163	205	280
UPM Plywood	10	15	21	13	12	19	14	47	45	58
Other operations	16	8	–1	27	–4	–9	1	23	–13	14
Eliminations and reconciliations	–10	–1	–	1	–2	16	–3	–12	11	12
Comparable EBIT, total	351	270	305	283	314	264	281	926	859	1,143
% of sales	14.1	11.0	12.3	11.4	12.8	10.8	11.5	12.4	11.7	11.6

[1] In Q3 2017, eliminations and reconciliations includes EUR –22 million elimination adjustments of the joint operation Madison Paper Industries and EUR –6 million of changes in fair value of unrealised cash flow and commodity hedges. 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–Q3/2017	Q1–Q3/2016	Q1–Q4/2016
Book value at beginning of period	4,657	4,895	4,895
Capital expenditure	174	224	319
Decreases	–19	–33	–36
Depreciation	–327	–362	–478
Impairment charges	–1	–9	–32
Impairment reversals	2	–	–
Translation difference and other changes	–189	–93	–10
Book value at end of period	4,297	4,622	4,657

Financial assets and liabilities measured at fair value

EURm	30 SEP 2017				30 SEP 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	2	31	–	33	5	65	–	70	2	63	–	65
Derivatives used for hedging	32	217	–	249	10	301	–	311	32	241	–	273
Energy shareholdings	–	–	1,947	1,947	–	–	1,983	1,983	–	–	1,932	1,932
Total	34	248	1,947	2,229	15	366	1,983	2,364	34	304	1,932	2,270
Financial liabilities												
Derivatives, non-qualifying hedges	6	21	–	27	20	88	–	108	19	93	–	112
Derivatives used for hedging	21	38	–	59	38	85	–	123	42	94	–	136
Total	27	59	–	86	58	173	–	231	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–Q3/2017	Q1–Q3/2016	Q1–Q4/2016
Opening balance	1,932	2,085	2,085
Additions	25	–	–
Impairment charges	–	1	1
Disposals	–	–5	–6
Changes in fair value recognised in other comprehensive income	–11	–98	–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 SEP 2017	30 SEP 2016	31 DEC 2016
Non-current debt, excl. derivative financial instruments	1,146	1,878	1,804

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

Commitments and contingencies

EURm	30 SEP 2017	30 SEP 2016	31 DEC 2016
On own behalf			
Mortgages	79	150	151
On behalf of others			
Guarantees	1	2	2
Other own commitments			
Operating leases, due within12 months	67	69	74
Operating leases, due after months	358	355	374
Other commitments	91	164	154
Total	596	741	755

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2016	Q1–Q3/2017	AFTER 30 SEP 2017
Capacity increase / Kymi pulp mill	Q4 2017	98	18	36	44
Capacity increase / Raflatac Poland	Q1 2018	35	2	20	13
Debottlenecking / Kaukas pulp mill	Q2 2018	30	–	3	27

Notional amounts of derivative financial instruments

EURm	30 SEP 2017	30 SEP 2016	31 DEC 2016
Interest rate forward contracts	1,494	2,245	1,480
Interest rate swaps	1,569	1,990	2,019
Forward foreign exchange contracts	2,302	2,568	2,645
Currency options, bought	23	5	12
Currency options, written	43	–	24
Cross currency swaps	243	566	557
Commodity contracts	443	434	429

Assets classified as held for sale

Assets classified as held for sale relate to hydro power assets located in Schongau and Ettringen mill sites in Germany. 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–September 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.

UPM will adopt two new IFRS standards in 2018, IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments. Description of expected effects of future implementation is presented below.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers specifies how and when revenue is recognised as well as requires more informative and relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction contracts and a number of revenue related interpretations.

Implementation process

The group has made an assessment on how the new standard will affect the amount and timing of sales revenue by using the five-step model introduced in the standard. Specific surveys have been developed and customer contracts reviewed in order to identify and gather information on separate performance obligations within the contracts, services provided to the customers, discounts and rebates affecting variable consideration, contract modifications, satisfaction of performance obligation by assessing when customer obtains control of the goods or services that is defining revenue recognition over time or at a point in time.

The assessment has included in-depth review of disaggregated data of the UPM revenue streams, including analyses of revenues broken down by product and service by Business Area.

UPM generates revenue mainly from the sale of goods i.e. several types of products. Performance obligations are clearly identified in the customer contracts and orders. Approximately 59% of UPM revenue comes from sales of graphic and specialty papers to publishers, retailers, printing houses, merchants and distributors, converters and label stock manufacturers. Approximately 15% of revenue comes from sales of self-adhesive label materials to label printers and brand owners and approximately 12% comes from sales of pulp products to tissue, board, speciality and graphic paper producers. The rest of revenue comprises mainly of sales of energy, biofuels, sawn timber and plywood products. Sales of energy to NordPool electricity market continues to be recognised upon delivery and there are no changes identified compared to the current recognition principles.

The results of surveys and contract reviews indicated that the contractual terms and conditions with customers are largely standardised and revenue streams are relatively straightforward. The changes that will have an impact on UPM's financial statements are described below.

Delivery terms

According to the new requirements, revenue is recognised when the customer obtains control of the good or service. In UPM's customer contracts the change of control is often defined in terms that are based on Incoterms 2010 so the timing of revenue recognition is largely dependent on delivering the goods at a point in time. According to assessment the new guidance is generally not expected to change the point at which UPM's revenue is recognised for the performance obligation to provide goods. Delivery costs related to paper and pulp products sales comprise approximately 79% of the groups' total delivery costs. Major part of the sales contracts are on D delivery terms basis, whereby delivery is not a promised service to the customer, as the control of a good does not transfer to the customer before shipment. However, the group has some pulp and paper products sale over long distances using CIP and CPT delivery terms whereby UPM is responsible for organising the delivery. Approximately 9% of paper products and 24% of pulp products are sold over long distances using CIP and CPT delivery terms and in these cases, there are separate performance obligations for goods and delivery services. Consequently, the portion of revenue relating to goods has to be recognised when the goods pass the ship's rail and the part of delivery services over time when the service has been performed. Currently full revenue is recognised when the goods pass the ship's rail. According to analyses, the impact of accounting policy change is minor to UPM operating profit because under current practice the group recognises delivery costs at the same time with revenue. The change affects sales and delivery costs line items in income statement. However, the part of sales price allocated to the delivery services is a minor component of the total revenue and the delivery volumes over long distances are stable throughout the year. Analyses have also indicated that a performance obligation for delivery services does not involve an agency relationship. The group will complete delivery terms' analyses for the rest of its sales in the last quarter 2017.

Variable consideration

The group has determined the components of transaction price that are contingent on the outcome of future events and need to be estimated when recognising revenue.

UPM provides to its customers volume rebates that encourage the customer to take specific volumes in a given timescale. The amount of the rebates is a significant component of sales price in regard of sales of paper products and self-adhesive label materials. The group has reviewed the current principles of estimating and recognising rebates and concluded that the current accounting policy is in line with new guidance.

The group gives the customers the right for purchase price refund in case the products do not meet the quality as specified in the agreement. However, the customers have to raise the claim in a certain timeframe. According to the new guidance, the amount expected to be returned to the customer must be estimated and taken into account in the amount of sales revenue. In regard of sales of paper products, the group has not previously made an estimate of expected claims. Instead, the revenue has been adjusted when the group has processed and accepted the claims. The group will change the accounting policy and estimate and update the amount of claims at each reporting date. The impact to financial statements is insignificant as the amount of claims in paper sales is stable amounting approximately EUR 1 million per month.

Consignment stock agreements

According to new requirements, revenue is recognised when the customer obtains control of the good or service. Sales agreement assessment indicated that the group has some of pulp products sales agreements labelled as consignment stock agreements, that under new more specific requirements do not qualify as consignment stock agreements. Consequently, the revenue has to be recognised earlier than under current practice. The estimated effect to the UPM´s financial statements is not material.

Sales of services

Revenue from services not related to sale of goods comprises only 0.4% of UPM total sales, and consists of freight services (free space on group's vessels sold as freight services), forest expertise and contracting services to woodland and forestry owners. The revenue of freight services is currently recognised when the vessel leaves. The group will change the accounting policy to recognise revenue for freight services over time when the performance obligation is satisfied.

Presentation and disclosure

IFRS 15 will significantly increase the volume of the revenue related disclosures. The group continues to assess the new disclosure requirements, the standard's objective of presenting only useful information by aggregating or disaggregating disclosures and any necessary policy and process changes in preparation for adoption.

Transition

The group will adopt IFRS 15 using modified retrospective transition approach upon initial application 1 January 2018, applying the standard only to contracts that are not completed as of the date of initial application. Cumulative effect will be shown as an adjustment to opening retained earnings without restating comparative information.

During the last quarter of 2017, the group will finalise the implementation project and related documentation and communicate new accounting policies and procedures to sales and finance organisations as part of extensive training plan. As the results of surveys and contract reviews indicate that the adoption of the standard will only have a minor impact on revenue recognition, the group is able to utilise existing processes with small changes. The group will present more information on impact of the new standard and estimated cumulative effect on transition in financial statements release 2017.

IFRS 9 Financial instruments

IFRS 9 replaces IAS 39 and addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The changes that will have an impact on group's financial statements are described below.

Classification of financial assets

Energy shareholdings categorised as available-for-sale under current IAS 39 represent investments that group intends to hold for the long term. The group plans to classify these investments at the date of initial application 1 January 2018 as measured at fair value through other comprehensive income (FVOCI). Under this new FVOCI category, fair value changes are recognised in fair value reserve in OCI while dividends are recognised in profit or loss. Gains or losses, including any gains or losses on sale, are never reclassified from equity to the income statement. Despite the fact that the election is to be adopted retrospectively, comparatives are not restated on initial application.

Impairment of financial assets

The group is currently developing a simplified expected credit loss model for trade receivables, whereby expected credit losses are recognised based on ageing categories of trade receivables. UPM has historically low levels of realised bad debts in trade receivables due to strict policies and use of trade credit insurance. Expected loss model is not expected to increase amounts of bad debt provisions. Cumulative effect of adoption will be shown as an adjustment to opening retained earnings without restating comparative information.

Cost of hedging

In cash flow hedge accounting, the group designates only the spot element in the foreign exchange forward contract to offset the changes in the spot foreign exchange prices. Under current IAS 39, the changes in the fair value of the forward points are recognised directly in profit or loss. Under IFRS 9, when only designating the spot element in a cash flow hedge, the change in the fair value of the forward element may be recognised in OCI and accumulated in a separate component of equity. Group applies this in transaction related cash flow hedges. Forward element that will be accumulated in OCI is recognised in profit or loss when the hedged transaction affects profit or loss. This change in accounting policy will reduce the group's profit and loss volatility, but the anticipated effect is relatively small. The change will be implemented prospectively without restatement of comparatives.

Commodity hedges

IFRS 9 focuses on reflecting the company's risk management strategies in hedge accounting and allowing more hedging strategies to qualify for hedge accounting. Commodity derivative hedging will benefit from the possibility to apply hedge accounting for one or several risk components separately or in aggregation. The group is considering the ability to hedge separately electricity price risk components (i.e. SYS and EPAD). This change would reduce the group's profit and loss volatility as the fair value changes of unrealised SYS and EPAD derivatives would be recognised in OCI hedging reserve instead of income statement and ineffectiveness may arise in rare cases only. Currently unrealised fair value changes of non-qualified cash flow hedges as well as ineffectiveness are recognised in income statement. UPM will apply the hedge accounting of IFRS 9 on a prospective basis for all hedging relationships and there will be no restatement of comparatives.

UPM continues to assess the new disclosure requirements.

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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