The Biofore Company UPM

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UPM FINANCIAL STATEMENTS RELEASE 2017

UPM financial statements release 2017:

Excellent finish to the record-strong year 2017

Q4 2017 highlights

- Comparable EBIT increased by 29% to EUR 366 million (283 million in Q4 2016).
- Sales prices and delivery growth boosted earnings, outstripping the impact of higher input costs and unfavourable currencies.
- Strong operating cash flow at EUR 407 million (405 million).
- Net debt decreased to EUR 174 million (1,131 million).
- UPM and the Government of Uruguay signed an agreement on local prerequisites for a possible new pulp mill.
- UPM announced the next step towards entering a new sustainable biochemicals business.
- UPM announced a new growth project at the UPM Chudovo plywood mill in Russia.
- UPM closed graphic paper capacity in the US and announced plans to optimise operations in Germany.
- UPM Kymi pulp mill expansion and the UPM Raflatac expansion in Poland were completed.

2017 highlights

- Comparable EBIT increased by 13% to EUR 1,292 million (1,143 million in 2016).
- Strong profit performance continued through a turn in input cost environment.
- Higher delivery volumes contributed to the comparable EBIT growth.
- Strong operating cash flow at EUR 1,558 million (1,686 million).
- The Board proposes a dividend of EUR 1.15 (0.95) per share, representing 39% of operating cash flow per share.
- UPM started focused growth investments at the Kaukas pulp mill and the Tampere label stock factory.
- UPM divested UPM Paper ENA's hydropower assets in Germany, Austria and the US.
- UPM closed a total of 433,000 tonnes of graphic paper capacity during 2017, targeting total annual cost savings of EUR 60 million.

Key figures

	Q4/2017	Q4/2016	Q3/2017	Q1–Q4/2017	Q1–Q4/2016
Sales, EURm	2,571	2,476	2,493	10,010	9,812
Comparable EBITDA, EURm	451	349	425	1,631	1,560
% of sales	17.5	14.1	17.1	16.3	15.9
Operating profit, EURm	299	232	379	1,259	1,135
Comparable EBIT, EURm	366	283	351	1,292	1,143
% of sales	14.2	11.4	14.1	12.9	11.6
Profit before tax, EURm	273	231	357	1,186	1,080
Comparable profit before tax, EURm	340	282	328	1,218	1,089
Profit for the period, EURm	244	187	286	974	880
Comparable profit for the period, EURm	297	220	267	1,004	879
Earnings per share (EPS), EUR	0.46	0.35	0.54	1.82	1.65
Comparable EPS, EUR	0.56	0.41	0.50	1.88	1.65
Return on equity (ROE), %	11.5	9.3	13.9	11.5	10.9
Comparable ROE, %	14.0	10.9	13.0	11.9	10.9
Return on capital employed (ROCE), %	13.2	9.4	14.8	12.5	10.5
Comparable ROCE, %	15.9	11.4	13.6	12.8	10.6
Operating cash flow, EURm	407	405	486	1,558	1,686
Operating cash flow per share, EUR	0.76	0.76	0.91	2.92	3.16
Equity per share at the end of period, EUR	16.24	15.43	15.61	16.24	15.43
Capital employed at the end of period, EURm	9,777	10,657	10,098	9,777	10,657
Net debt at the end of period, EURm	174	1,131	623	174	1,131
Net debt to EBITDA (last 12 m.)	0.11	0.73	0.41	0.11	0.73
Personnel at the end of period	19,111	19,310	19,335	19,111	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 Q4 and full year 2017 results:

"2017 was a record year and its last quarter was our 19th consecutive quarter of earnings growth. This was the result of favourable market conditions, timely growth investments and successful mitigation of input cost increases. Once again, our business model, performance culture and capex effectiveness delivered excellent results.

Our comparable EBIT in 2017 grew by 13%. Our cash flow was consistently strong, and we reduced our net debt by EUR 957 million over the course of the year, ending at a record low of EUR 174 million.

We finished the year with an excellent fourth quarter. We were able to increase prices and achieve good growth in delivery volumes, which in this quarter outstripped the impact of higher input costs and unfavourable currencies. Our comparable EBIT in Q4 increased by 29% to EUR 366 million.

UPM Biorefining benefitted from higher pulp prices and good delivery growth during the quarter. Kaukas, Pietarsaari and Fray Bentos pulp mills and the Lappeenranta biorefinery all set records for annual production. UPM Raflatac, UPM Specialty Papers and UPM Plywood were able to offset higher input costs by increasing deliveries and sales prices. At UPM Energy, the hydropower generation recovered to above normal level. UPM Paper ENA also reported a strong end to the year, despite rising fibre costs.

Since the introduction of UPM business model in 2013, we have achieved a clear improvement in business performance, attractive returns for our growth investments and a truly industry-leading balance sheet. Today we are proud to have six strong business areas, which provide us with a wealth of future opportunities.

Going forward we will maintain our performance focus supported by continuous improvement culture and innovation. We will also continue to grow our businesses with attractive focused growth investments. Today we announced the latest news on UPM Specialty Papers' growth plans.

Furthermore, we are now well-positioned for transformative prospects. I am pleased that we have reached a cornerstone agreement with the Government of Uruguay, outlining the local prerequisites for a potential pulp mill investment. The infrastructure projects and the pre-engineering of the mill are in progress. For UPM's pulp business, the potential mill would imply a step change in business size and earnings.

Another opportunity for transformation comes with the emerging biomolecules businesses, biofuels and biochemicals. During the fourth quarter, we started a basic engineering study regarding a potential industrial scale biochemical refinery in Germany. Entering the biochemicals business could provide UPM with significant growth platform for decades to come.

Our objective is earnings growth and therefore, we will maintain our high standards when it comes to return requirements for growth investments.

UPM is in better standing than ever: in the coming years we can allocate more capital to growing and transforming the company while simultaneously increasing the distribution to our shareholders and maintaining headroom in our strong balance sheet. Today, UPM's Board of Directors has proposed a dividend of EUR 1.15 (0.95) per share for 2017, representing 39% of operating cash flow per share and up by 21% from last year.

All in all, UPM is well-positioned for 2018 and beyond. UPM businesses today and in the future provide sustainable and safe solutions for the growing global consumer demand. Bioeconomy offers us limitless opportunities for value creation and growth."

Outlook for 2018

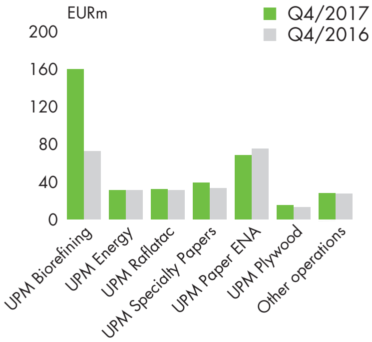
UPM reached record earnings in 2017. Fundamentals for UPM businesses in 2018 continue to be favourable.

Healthy demand growth is expected to continue for most of UPM's businesses in 2018, while modest demand decline is expected to continue for UPM Paper ENA. Sales prices are expected to increase in most of UPM's businesses, compared with 2017.

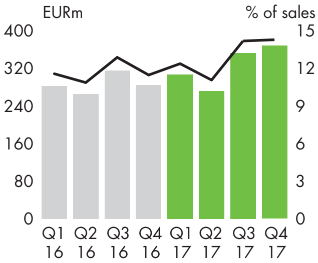
Input costs are expected to continue increasing in 2018, compared with 2017. UPM will continue measures to reduce fixed and variable costs to mitigate this. 2018 starts with less favourable currencies than 2017.

Q1 2018 results are expected to be impacted by temporary wood harvesting limitations in Northern Europe caused by unusually warm and wet weather in late 2017 and the beginning of 2018.

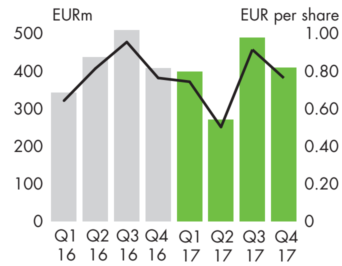
Comparable EBIT



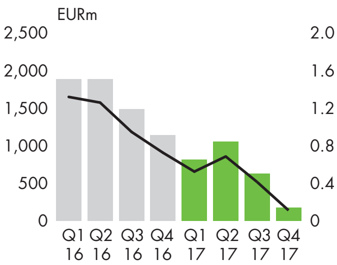
Comparable EBIT



Operating cash flow



Net debt and net debt to EBITDA



Results

Q4 2017 compared with Q4 2016

Q4 2017 sales were EUR 2,571 million, 4% higher than the EUR 2,476 million for Q4 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 29% to EUR 366 million, 14.2% of sales (283 million, 11.4%). 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 and fixed costs decreased slightly. Maintenance activity had a smaller negative impact on comparable EBIT than in the comparison period. Changes in currencies had a negative impact on comparable EBIT.

Depreciation, excluding items affecting comparability, totalled EUR 112 million (120 million). The increase in the fair value of forest assets net of wood harvested was EUR 26 million (53 million).

Operating profit totalled EUR 299 million (232 million). Items affecting comparability in operating profit totalled charges of EUR 67 million (charges of EUR 51 million). This included restructuring charges of EUR 35 million in UPM Paper ENA, and charges of EUR 30 million related to the reorganisation of pension schemes in UPM Biorefining.

Net interest and other finance costs were EUR 22 million (16 million). The exchange rate and fair value gains and losses resulted in a loss of EUR 1 million (gain of EUR 16 million). Income taxes totalled EUR 29 million (44 million).

Profit for Q4 2017 was EUR 244 million (187 million), and comparable profit was EUR 297 million (220 million).

Q4 2017 compared with Q3 2017

Comparable EBIT increased by 4% to EUR 366 million, 14.2% of sales (351 million, 14.1%). Fixed costs were seasonally EUR 54 million higher, including higher maintenance activity in UPM Biorefining and UPM Paper ENA. This was more than offset by higher sales prices and delivery volumes.

Depreciation, excluding items affecting comparability, totalled EUR 112 million (104 million). The increase in the fair value of forest assets net of wood harvested was EUR 26 million (29 million).

Operating profit totalled EUR 299 million (379 million).

Full year 2017 compared with 2016

2017 sales were EUR 10,010 million, 2% higher than the 2016 total of EUR 9,812 million. 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 13% to EUR 1,292 million, 12.9% of sales (1,143 million, 11.6%). Comparable EBIT increased mainly due to higher delivery volumes and lower depreciation. Changes in sales prices in UPM's product range had a clear positive net impact on the comparable EBIT. Variable costs, including the impact of UPM's cost efficiency measures, increased by similar magnitude. Fixed costs were slightly lower. Changes in currencies had a negative impact on comparable EBIT.

Depreciation, excluding items affecting comparability, totalled EUR 447 million (510 million). The increase in the fair value of forest assets net of wood harvested was EUR 103 million (88 million).

Operating profit totalled EUR 1,259 million (1,135 million). Items affecting comparability in operating profit totalled charges of EUR 33 million (charges of EUR 7 million). This included gains of EUR 33 million from selling hydropower facilities in Austria and the US, net restructuring charges of EUR 38 million related to UPM Paper ENA, and charges of EUR 30 million related to reorganisation of pension schemes in UPM Biorefining.

Net interest and other finance costs were EUR 57 million (49 million). The exchange rate and fair value gains and losses resulted in a loss of EUR 12 million (loss of EUR 7 million). Income taxes totalled EUR 212 million (200 million). Items affecting comparability in taxes totalled EUR 2 million (11 million).

Profit for 2017 was EUR 974 million (880 million) and comparable profit was EUR 1,004 million (879 million).

Financing and cash flow

In 2017, cash flow from operating activities before capital expenditure and financing totalled EUR 1,558 million (1,686 million). Working capital decreased by EUR 91 million (decreased by EUR 195 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.

UPM prepaid EUR 523 million of its debt in Q4 2017 and EUR 40 million in Q2 2017 due to good liquidity situation.

Net debt decreased to EUR 174 million at the end of the period (1,131 million). The gearing ratio as of 31 December 2017 was 2% (14%). Net debt to EBITDA ratio, based on the latest 12 months' EBITDA, was 0.11 at the end of the period (0.73).

On 31 December 2017, UPM's cash funds and unused committed credit facilities totalled EUR 1.4 billion.

Capital expenditure

In 2017, capital expenditure totalled EUR 329 million, 3.3% of sales (325 million, 3.3% of sales), or EUR 303 million (325 million) excluding investment in shares. Total capital expenditure in 2018, excluding investments in shares, is estimated to be approximately EUR 350 million.

In July 2016, UPM announced it was to 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. The investment was completed in Q4 2017 and it increased Kymi's annual pulp production capacity to 870,000 tonnes of bleached northern softwood and birch pulp. 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 started in December 2017, ahead of schedule. The investment totalled EUR 34 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 with a EUR 30 million investment, upgrading the mill's fibre lines, recovery boiler, evaporation, bailing and wood handling. 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.

In October 2017, UPM announced plans to expand its Chudovo plywood mill in Russia. The project will raise the mill's production capacity to 155,000 cubic meters. The total investment will be approximately EUR 50 million.

Personnel

In 2017, UPM had an average of 19,489 employees (19,858). At the beginning of the year, the number of employees was 19,310 and at the end of Q4 2017 it was 19,111.

Uruguay platform development

UPM is studying the potential of building a new world-class pulp mill in Uruguay. The possible pulp mill would have an annual capacity of approximately 2 million tonnes of eucalyptus market pulp. The preliminary estimate for a pulp mill investment on site is approximately EUR 2 billion. The site of the potential mill would be close to the city of Paso de los Toros, in the department of Durazno in central Uruguay. Two preparation phases need to be successfully completed before UPM would be in a position to make an investment decision.

Phase 1

The first preparation phase started in July 2016, when UPM commenced discussions with the Government of Uruguay regarding the prerequisites for long-term industrial development in Uruguay. The aim of these discussions during the first preparation phase was to come to a mutual understanding on an investment agreement that defines the local prerequisites for industrial investment as well as initiatives for infrastructure development. The investment agreement was signed on 7 November 2017, completing the first phase.

Phase 2

The second preparation phase consists of an engineering study, tendering and permitting processes by UPM for the potential pulp mill, as well as achieving significant progress in the implementation of the agreed infrastructure initiatives by the State. Any relevant items are to be agreed prior to the possible final investment decision. This second phase is expected to last 1.5 to 2 years.

If the second preparation phase is concluded successfully, UPM will initiate the company's regular process of analysing and preparing an investment decision about the potential pulp mill.

The investment agreement

The investment agreement outlines the local prerequisites for a potential pulp mill investment. It details the roles, commitments and timeline for both parties as well as the relevant items to be agreed prior to the final investment decision.

A long-term industrial operation requires stable and predictable operational environment. This will be supported by several measures in the areas of regional development, environment, forestry and land planning as well as labour and energy conditions.

The Government will develop the rail and road network by tendering the construction and long-term maintenance of the network. The Government will also promote concession for a terminal specialising in pulp in the Montevideo port with rail access, ensuring a reliable and competitive outlet to export markets.

Once the permitting requirements are fulfilled, the Government will grant the mill the status of a free-trade zone to ensure competitiveness in international markets.

UPM will carry out an engineering study and permitting process for a new world-class pulp mill with an annual capacity of about 2 million tonnes of eucalyptus market pulp. The preliminary estimate for a pulp mill investment on site is approximately EUR 2 billion.

In addition, a successful project requires off-site investments in plantation land and forestry, road network and nursery capacity, harvesting and transport equipment, rolling stock for the rail, export facilities and human development.

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-industrial scale concepts.

In October 2017 UPM announced that it is evaluating the potential of building a biorefinery in Frankfurt-Höchst Chemical Park in Germany. UPM is proceeding with detailed commercial and basic engineering studies to confirm the attractiveness of the business opportunity. 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 the year 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 Q1 2017, consisting of paper machine 2 at UPM Augsburg, Germany and paper machine 3 at UPM Steyrermühl, Austria. The plan was originally announced in November 2016. The number of persons affected was 143 for UPM Augsburg and 125 for UPM Steyrermühl. The closure of both machines is expected to result in annual cost savings of approximately EUR 30 million.

On 22 March, UPM announced it had signed an agreement on the sale of its hydropower facilities in Schongau and Ettringen, Germany to erdgas schwaben GmbH. The transaction was completed at the beginning of January 2018. The cash flow impact was booked in Q4 2017, and the sales gain of EUR 30 million will be booked in Q1 2018 as an item affecting comparability.

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. As part of the transaction, UPM sold 22,235 hectares of forestry land gradually during 2017 to Tornator in North Karelia, Finland, and Tornator will sell a significant volume of wood to UPM mills in Eastern Finland each year.

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.

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

On 24 October, UPM announced plans to reduce graphic paper capacity and optimise operations to increase competitiveness in UPM Paper ENA. As part of the plans, paper machine 5 at UPM Blandin in Minnesota, US, was permanently closed in December 2017. This reduced UPM's coated magazine paper capacity by 128,000 tonnes and affected 148 employees. The plans also include optimising operations at UPM Nordland Papier and UPM NorService units in Dörpen, Germany. In total 223 positions are estimated to be affected by the plans in Dörpen. UPM recognised restructuring and impairment charges of EUR 38 million in Q4 2017 as items affecting comparability. The planned actions are expected to result in annual savings of approximately EUR 30 million.

On 8 November 8, UPM announced it had signed an investment agreement with the Government of Uruguay to establish a competitive operating platform for a possible new pulp mill in Uruguay. The agreement outlines the local prerequisites for a potential pulp mill investment.

Events after the balance sheet date

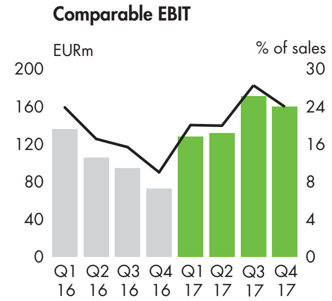
The group's management is not aware of any significant events occurring after 31 December 2017.

Dividend proposal for 2017

The Board of Directors proposes to the Annual General Meeting convening on 5 April 2018 that a dividend of EUR 1.15 per share be paid in respect of the 2017 financial year (0.95). The proposed dividend represents 39% of UPM's operating cash flow per share for the year 2017. It is proposed that the dividend be paid on 19 April 2018. On 31 December 2017 the distributable funds of the parent company were EUR 3,739.6 million.

UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses. UPM has three pulp mills in Finland and one mill and plantation operation in Uruguay. UPM operates four sawmills 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.



	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	669	624	630	607	533	541	563	568	2,531	2,206
Comparable EBITDA, EURm	194	203	157	160	101	132	140	175	714	548
% of sales	28.9	32.4	25.0	26.4	18.9	24.5	24.8	30.9	28.2	24.9
Change in fair value of forest assets and wood harvested, EURm	6	7	14	8	14	3	9	3	33	29
Share of results of associates and joint ventures, EURm	1	–	1	1	–	1	1	–	2	2
Depreciation, amortisation and impairment charges, EURm	–41	–39	–41	–42	–43	–42	–44	–44	–162	–173
Operating profit, EURm	130	170	131	127	72	94	105	135	557	406
% of sales	19.4	27.2	20.8	20.9	13.5	17.4	18.7	23.7	22.0	18.4
Items affecting comparability in operating profit, EURm [1)]	–30	–	–	–	–	–	–	–	–30	–
Comparable EBIT, EURm	159	170	131	127	72	94	105	135	587	406
% of sales	23.8	27.2	20.8	20.9	13.4	17.4	18.7	23.7	23.2	18.4
Capital employed (average), EURm	3,134	3,155	3,263	3,347	3,292	3,230	3,185	3,217	3,225	3,231
Comparable ROCE, %	20.3	21.5	16.1	15.1	8.7	11.6	13.2	16.7	18.2	12.6
Pulp deliveries, 1,000 t	880	890	907	918	831	849	891	848	3,595	3,419

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

[1)] In Q4 2017, items affecting comparability relate to the reorganisation of pension schemes.

Actions

- UPM and the Government of Uruguay signed an investment agreement to establish a competitive operating platform for a possible new pulp mill in Uruguay
- UPM Kymi pulp mill capacity expansion was completed
- Annual production records in UPM Pietarsaari, UPM Kaukas and UPM Fray Bentos pulp mills and UPM Lappeenranta Biorefinery

Results

Q4 2017 compared with Q4 2016

Comparable EBIT for UPM Biorefining increased mainly due to significantly higher pulp sales prices and increased delivery volumes.

The average price for UPM's pulp deliveries increased by about 19%.

Q4 2017 compared with Q3 2017

Comparable EBIT decreased slightly. The average pulp sales prices increased. This was more than offset by higher costs due to investment shutdown at UPM Kymi pulp mill and the impact of temporary wood harvesting limitations caused by unusually warm and wet weather in Northern Europe.

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

Full year 2017 compared with 2016

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

The average price for UPM's pulp deliveries increased by 9%.

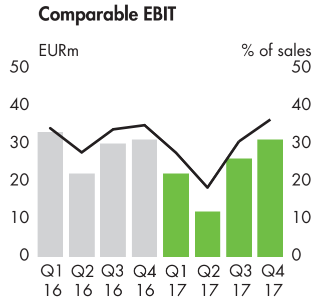
Market environment

- Chemical pulp demand continued to be strong. Demand growth was recorded primarily 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 significantly during the fourth quarter.
- In Europe in 2017, the average market price in euros was 10% higher for NBSK and 22% higher for BHKP than in 2016. In China, the average market price in US dollars was 19% higher for NBSK and 29% higher for BHKP than in 2016.
- Demand for advanced renewable diesel and naphtha continued to be strong.
- Sawn timber demand was good and market prices increased in the fourth quarter.

Sources: PPPC, FOEX

UPM Energy

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



	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	86	86	65	80	90	89	81	97	317	357
Comparable EBITDA, EURm	33	28	14	24	34	32	25	36	100	126
% of sales	38.8	33.0	21.8	30.3	37.3	36.3	30.4	37.1	31.6	35.4
Share of results of associates and joint ventures, EURm	–	–	–	–	–	–	–	–1	–	–1
Depreciation, amortisation and impairment charges, EURm	–2	–2	–2	–2	–2	–2	–2	–2	–9	–9
Operating profit, EURm	31	26	12	22	31	30	22	33	91	116
% of sales	36.3	30.5	18.3	27.5	34.8	33.7	27.6	34.0	28.8	32.7
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	31	26	12	22	31	30	22	33	91	116
% of sales	36.3	30.5	18.3	27.5	34.8	33.7	27.6	34.0	28.8	32.7
Capital employed (average), EURm	2,274	2,279	2,261	2,256	2,290	2,313	2,360	2,396	2,267	2,340
Comparable ROCE, %	5.5	4.6	2.1	3.9	5.5	5.2	3.8	5.5	4.0	5.0
Electricity deliveries, GWh	2,231	2,093	1,744	2,059	2,152	2,246	2,102	2,282	8,127	8,782

Actions

- Strongly improved hydrological situation supported hydropower generation
- Expansion project at Harjavalta hydropower plant was completed

Results

Q4 2017 compared with Q4 2016

Comparable EBIT for UPM Energy remained stable. The hydropower generation volumes were higher and the average electricity sales price was lower.

UPM's average electricity sales price decreased by 8% to EUR 32.9/MWh (35.9/MWh).

Q4 2017 compared with Q3 2017

Comparable EBIT increased due to higher hydropower and nuclear power generation volumes. The average electricity sales price was lower.

UPM's average electricity sales price decreased by 3% to EUR 32.9/MWh (33.9/MWh).

Full year 2017 compared with 2016

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

UPM's average electricity sales price decreased by 4% to EUR 32.6/MWh (33.9/MWh).

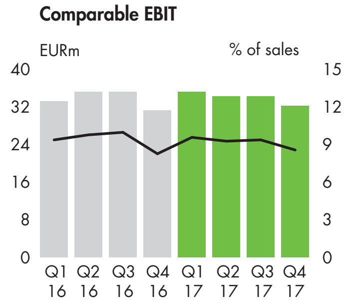
Market environment

- The Nordic hydrological balance divided into two weather periods in 2017, the first half of the year being dry and the second half wet. The Nordic hydrological balance improved significantly towards the end of 2017 and the year ended above the long-term average level.
- Coal prices increased in 2017, driven by oil prices, Chinese regulation and currencies. The CO_2 emission allowance price of EUR 8.2/tonne at the end of 2017 was higher than at the end of year 2016 (EUR 5.1/tonne).
- For the full year the average Finnish area spot price on the Nordic electricity exchange was EUR 33.2/MWh, 2% higher than in 2016 (32.5/MWh).
- The Finnish area front-year forward electricity price closed at EUR 33.1/MWh in December, slightly higher than at the end of Q3 2017 (33.0/MWh).

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

UPM Raflatac

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



	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	379	369	375	371	372	355	360	351	1,495	1,437
Comparable EBITDA, EURm	40	42	42	43	39	43	43	41	168	166
% of sales	10.6	11.4	11.3	11.7	10.5	12.2	12.1	11.7	11.2	11.6
Depreciation, amortisation and impairment charges, EURm	–8	–8	–8	–8	–8	–8	–8	–8	–32	–33
Operating profit, EURm	32	34	34	35	31	36	35	33	136	134
% of sales	8.5	9.3	9.2	9.5	8.2	10.1	9.7	9.3	9.1	9.3
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	32	34	34	35	31	35	35	33	136	133
% of sales	8.5	9.3	9.2	9.5	8.2	9.9	9.7	9.3	9.1	9.3
Capital employed (average), EURm	518	498	488	503	513	516	524	540	502	524
Comparable ROCE, %	24.8	27.7	28.2	28.1	23.8	27.3	26.7	24.2	27.2	25.5

Actions

- Sales margin improvement actions to mitigate raw material cost inflation started to have impact
- Start-up of the new coating line at Wroclaw, Poland ahead of schedule

Results

Q4 2017 compared with Q4 2016
Comparable EBIT for UPM Raflatac increased slightly as the positive impact of higher delivery volumes offset the negative impact of lower sales margin.

Q4 2017 compared with Q3 2017
Comparable EBIT decreased due to the seasonally higher fixed costs. The delivery volumes and the sales margin increased from the comparison period.

Full year 2017 compared with 2016
Comparable EBIT for UPM Raflatac increased. The positive impact of higher delivery volumes more than offset the impact of lower sales margin. The fixed costs increased.

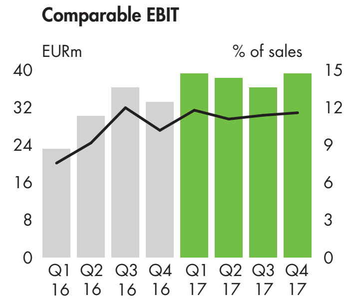
Market environment

- Global demand for self-adhesive label materials grew in 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.



	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	344	320	342	330	329	305	327	312	1,336	1,273
Comparable EBITDA, EURm	59	55	58	60	54	58	53	48	232	214
% of sales	17.1	17.2	16.9	18.1	16.4	19.1	16.2	15.6	17.3	16.8
Depreciation, amortisation and impairment charges, EURm	–19	–19	–20	–21	–21	–22	–23	–25	–80	–92
Operating profit, EURm	39	36	38	39	33	36	30	23	152	123
% of sales	11.5	11.3	11.0	11.7	10.1	11.9	9.1	7.5	11.4	9.6
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	39	36	38	39	33	36	30	23	152	123
% of sales	11.5	11.3	11.0	11.7	10.1	11.9	9.1	7.5	11.4	9.6
Capital employed (average), EURm	870	858	879	931	984	987	1,027	1,051	885	1,012
Comparable ROCE, %	18.1	16.9	17.1	16.7	13.5	14.7	11.6	8.9	17.2	12.1
Paper deliveries, 1,000 t	396	384	404	390	397	374	407	379	1,573	1,556

Actions

- Investment decision in glassine and supercalendered kraft (SCK) paper capacity expansion at UPM Jämsänkoski Mill in Finland
- A feasibility study on the conversion of the fine paper machine 2 at Nordland Papier in Germany started

Results

Q4 2017 compared with Q4 2016

Comparable EBIT for UPM Specialty Papers increased. The sales prices were higher and product mix improved. The pulp costs were significantly higher.

Q4 2017 compared with Q3 2017

Comparable EBIT increased. The sales prices increased, the product mix improved and the release liner volumes were higher. This offset the negative impact of higher pulp costs and seasonally higher fixed costs.

Full year 2017 compared with 2016

Comparable EBIT for UPM Specialty Papers increased mainly due to higher sales prices, an improved product mix and higher release liner volumes. Pulp costs increased significantly but it was partly mitigated by continuous variable cost saving measures.

Market environment

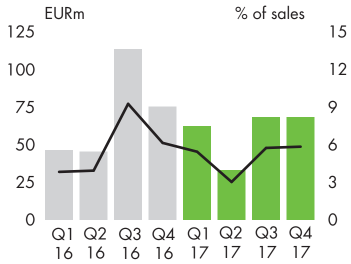
- In the Asia Pacific region, office paper demand remained strong and the average market price increased in the fourth quarter of 2017. In 2017, office paper demand increased and the average price was higher than in 2016.
- In 2017, label and release paper demand increased globally, particularly in Asia. Price development varied between the regions. In China, prices continued to increase.

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



	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	1,166	1,189	1,112	1,148	1,228	1,234	1,155	1,202	4,615	4,818
Comparable EBITDA, EURm	100	94	64	98	111	148	93	96	356	448
% of sales	8.6	7.9	5.7	8.6	9.1	12.0	8.1	8.0	7.7	9.3
Share of results of associates and joint ventures, EURm	–	–	–	1	–	1	–	–	1	2
Depreciation, amortisation and impairment charges, EURm	–37	–26	–31	–35	–60	–35	–47	–72	–130	–214
Operating profit, EURm	32	123	31	61	26	160	47	–11	247	223
% of sales	2.7	10.3	2.8	5.3	2.1	13.0	4.1	–0.9	5.4	4.6
Items affecting comparability in operating profit, EURm [1]	–36	55	–2	–1	–49	47	2	–57	16	–57
Comparable EBIT, EURm	68	68	33	62	75	113	45	46	231	280
% of sales	5.8	5.7	3.0	5.4	6.1	9.2	3.9	3.8	5.0	5.8
Capital employed (average), EURm	1,630	1,678	1,698	1,801	1,855	1,915	1,988	2,098	1,702	1,964
Comparable ROCE, %	16.6	16.2	7.7	13.9	16.2	23.7	9.1	8.8	13.6	14.3
Paper deliveries, 1,000 t	1,988	2,040	1,893	1,934	2,068	2,068	1,940	1,982	7,856	8,057

[1] In Q4 2017, items affecting comparability include EUR 13 million restructuring charges and EUR 4 million impairment charges relating to Blandin paper machine 5 closure. EUR 21 million restructuring charges relate to optimisation of operations in Germany and EUR 2 million income relates to prior capacity closures. 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 hydro power facilities in Schongau and Ettringen, Germany
- Paper machine 5 in Blandin in Minnesota, United States was closed
- Plans to optimise operations at UPM Nordland Papier and UPM NorService units in Dörpen, Germany
- Operations related to a contract manufacturing agreement at Schwedt newsprint mill in Germany ended as the new owner converted the paper machine

Results

Q4 2017 compared with Q4 2016

Comparable EBIT decreased for UPM Paper ENA mainly due to higher fibre costs. The negative impact of lower delivery volumes was offset by decreased fixed costs.

The average price for UPM's paper deliveries in euro decreased by 1% due to unfavourable currency impact on export prices.

Q4 2017 compared with Q3 2017

Comparable EBIT remained unchanged. The negative impact of higher fibre costs, lower delivery volumes and seasonally higher fixed costs was offset by the seasonally low energy costs, impacted by the energy-related refunds in Europe.

The average price for UPM's paper deliveries in euro remained at the same level as in comparison period.

Full year 2017 compared with 2016

Comparable EBIT decreased for UPM Paper ENA mainly due to higher fibre and logistics costs. The negative impact of lower delivery volumes and sales prices was offset by decreased fixed costs.

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

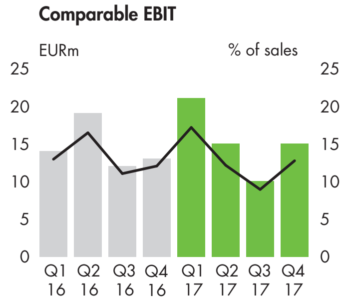
Market environment

- In 2017, demand for graphic papers in Europe was 3% lower than in 2016. Newsprint demand decreased by 5%, magazine paper by 2% and fine paper by 1% compared with the previous year.
- In the fourth quarter, publication paper prices in Europe remained stable in comparison with the third quarter 2017 and were 1% higher compared to the fourth quarter of 2016. In 2017, publication paper prices were on average 1% lower than in 2016.
- In the fourth quarter, fine paper prices in Europe were on average 3% higher compared to the third quarter of 2017. Compared to the fourth quarter of 2016, fine paper prices were 9% higher on average. In 2017, fine paper prices were 2% higher on average than in 2016.
- In 2017, demand for magazine papers in North America decreased by 7% compared with the previous year. The average US dollar price for magazine papers in the fourth quarter of 2017 increased by 1 % compared third quarter of 2017 and by 3% compared to the fourth quarter of 2016. In 2017, the average US dollar price for magazine papers was 1% lower than in 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.



	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	120	112	128	124	109	106	119	110	484	444
Comparable EBITDA, EURm	21	16	21	27	19	17	25	20	85	80
% of sales	17.4	14.0	16.6	21.9	17.4	16.2	20.9	17.8	17.6	18.1
Depreciation, amortisation and impairment charges, EURm	–6	–6	–6	–6	–6	–5	–5	–5	–23	–22
Operating profit, EURm	15	10	15	21	13	12	19	14	62	58
% of sales	12.7	8.9	12.1	17.1	12.0	11.0	16.4	12.9	12.8	13.2
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	15	10	15	21	13	12	19	14	62	58
% of sales	12.7	8.9	12.1	17.1	12.0	11.0	16.4	12.9	12.8	13.2
Capital employed (average), EURm	263	263	276	268	262	259	262	252	267	259
Comparable ROCE, %	23.1	15.1	22.4	31.7	20.0	18.0	29.7	22.6	23.1	22.6
Plywood deliveries, 1,000 m³	205	192	214	201	185	184	206	189	811	764

Actions

- The expansion project of the Chudovo plywood mill in Russia started
- UPM Plywood introduced new fire retardant WISA®-SpruceFR structural plywood for building and construction
- UPM Plywood generated record high annual result in 2017

Results

Q4 2017 compared with Q4 2016

Comparable EBIT for UPM Plywood increased. Higher delivery volumes and higher sales prices more than offset the increased variable costs.

Q4 2017 compared with Q3 2017

Comparable EBIT increased mainly due to higher delivery volumes as Q3 is seasonally impacted.

Full year 2017 compared with 2016

Comparable EBIT for UPM Plywood increased due to higher delivery volumes and higher sales prices, which more than offset the negative impact of higher costs.

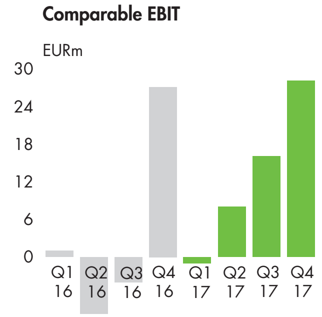
Market environment

- In 2017, the market environment was favourable in Europe, and demand increased from the previous year. Spruce plywood demand growth was driven by increased activity in the building and construction industry. Demand in birch plywood-related industrial applications such as vehicle floors and LNG carrier insulation material was good.

Source: UPM

Other operations

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



	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	69	69	70	72	72	65	76	73	281	285
Comparable EBITDA, EURm	11	–2	–6	–7	–9	–7	–9	–10	–5	–35
Change in fair value of forest assets and wood harvested, EURm	20	22	18	9	40	4	2	13	69	59
Share of results of associates and joint ventures, EURm	–	1	–	–	–	1	1	1	2	3
Depreciation, amortisation and impairment charges, EURm	–4	–4	–3	–3	–4	–3	–3	–3	–15	–13
Operating profit, EURm	28	16	8	–2	28	–4	–9	0	51	15
Items affecting comparability in operating profit, EURm [1)]	–	–	–	–	1	–	–	–	–	1
Comparable EBIT, EURm	28	16	8	–1	27	–4	–9	1	51	14
Capital employed (average), EURm	1,406	1,455	1,489	1,508	1,506	1,532	1,553	1,571	1,465	1,541
Comparable ROCE, %	7.9	4.5	2.1	–0.4	7.2	–1.2	–2.4	0.2	3.5	0.9

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

Actions

- UPM started to evaluate the potential of building a biochemical biorefinery in the Frankfurt-Höchst Chemical Park in Germany

Results

Q4 2017 compared with Q4 2016

Comparable EBIT for Other operations increased slightly. The increase in the fair value of forest assets net of wood harvested was EUR 20 million (40 million). The increase in the fair value of forest assets was EUR 45 million (52 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 25 million (12 million).

Q4 2017 compared with Q3 2017

Comparable EBIT increased. The increase in the fair value of forest assets net of wood harvested was EUR 20 million (22 million). The increase in the fair value of forest assets was EUR 45 million (34 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 25 million (12 million).

Full year 2017 compared with 2016

Comparable EBIT for Other operations increased. The increase in the fair value of forest assets net of wood harvested was EUR 69 million (59 million). The increase in the fair value of forest assets was EUR 132 million (113 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 63 million (54 million).

In 2017, UPM sold a total of 73,000 (63,113) hectares of forests.

Risks and near-term uncertainties

The main uncertainties in UPM's earnings relate to sales prices and delivery volumes of the group's products, as well as to changes to the main input cost items and currency exchange rates. Most of these items depend on general economic developments.

The UK's EU referendum 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 58% of the company's sales in 2017. The UK accounted for 6% 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.

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. It is possible that the cost of energy sourced from OL3 at the time when it starts regular electricity production will be higher than the market price of electricity at that time.

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 2017, UPM shares worth a total of EUR 8,460 million (6,749 million) 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 26.69 in December 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 31 December 2017 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 December 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 132.8 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 20.9 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 October 2017, the District Court passed judgments rejecting the damages claims by the municipalities and parishes. Claimants have a right to appeal the judgments to the Court of Appeal. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims. By end of 2017, the District Court passed judgements in the private forest owners' claims (total number 486) rejecting all the 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 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 project completion. According to the information the start of regular electricity production at OL3 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 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 November 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 execution of the construction works and the overall project management of the OL3 project. This comprises many facts and matters that TVO relies upon in its claims against the Supplier, as well as certain matters that the Supplier relies upon in its claims against TVO. The partial award finally resolves many of the facts and matters concerning the execution of the construction works in favour of TVO and notably defers many of the issues raised by TVO including the Supplier's project management for determination in a subsequent award.

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

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. According to TVO, the OL3 project and the means required to complete it, as well as certain other liabilities will remain within Areva NP, within the scope of Areva SA. In January 2018 Framatome released that on 31 December 2017 Areva NP sold the shares of New NP to EDF, a new majority shareholder with 75.5% of the capital, and to Mitsubishi Heavy Industries (MHI) and Assystem, with respectively 19.5% and 5% of the shares of New NP, which was renamed Framatome.

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 project within the Supplier's current schedule and that all liabilities of the plant contract are honored.

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

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

Helsinki, 31 January 2018

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q4/2017	Q4/2016	Q1–Q4/2017	Q1–Q4/2016
Sales	2,571	2,476	10,010	9,812
Other operating income	8	48	83	140
Costs and expenses	−2,192	−2,202	−8,492	−8,365
Change in fair value of forest assets and wood harvested	26	53	103	88
Share of results of associates and joint ventures	1	1	5	5
Depreciation, amortisation and impairment charges	−116	−144	−450	−545
Operating profit	299	232	1,259	1,135
Gains on sale of energy shareholdings, net	−3	–	−3	1
Exchange rate and fair value gains and losses	−1	16	−12	−7
Interest and other finance costs	−22	−16	−57	−49
Profit before tax	273	231	1,186	1,080
Income taxes	−29	−44	−212	−200
Profit for the period	244	187	974	880
Attributable to:				
Owners of the parent company	243	187	973	879
Non-controlling interests	1	–	1	1
	244	187	974	880
Earnings per share for profit attributable to owners of the parent company				
Basic earnings per share, EUR	0.46	0.35	1.82	1.65
Diluted earnings per share, EUR	0.46	0.35	1.82	1.65

Consolidated statement of comprehensive income

EURm	Q4/2017	Q4/2016	Q1–Q4/2017	Q1–Q4/2016
Profit for the period	244	187	974	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	28	95	66	−97
Items that may be reclassified subsequently to the income statement:				
Translation differences	−19	114	−270	−14
Net investment hedge	3	−10	20	−1
Cash flow hedges	43	27	122	73
Gains and losses on energy shareholdings	33	−47	24	−144
	61	84	−102	−87
Other comprehensive income for the period, net of tax	89	178	−37	−184
Total comprehensive income for the period	333	366	937	696
Attributable to:				
Owners of the parent company	332	366	937	695
Non-controlling interests	1	–	1	1
	333	366	937	696

Consolidated balance sheet

EURm	31 DEC 2017	31 DEC 2016
ASSETS		
Goodwill	231	245
Other intangible assets	294	301
Property, plant and equipment	4,281	4,657
Forest assets	1,600	1,734
Energy shareholdings	1,974	1,932
Other non-current financial assets	192	255
Deferred tax assets	423	446
Net retirement benefit assets	84	71
Investments in associates and joint ventures	29	29
Other non-current assets	37	47
Non-current assets	9,144	9,715
Inventories	1,311	1,346
Trade and other receivables	1,783	1,726
Other current financial assets	92	109
Income tax receivables	20	14
Cash and cash equivalents	716	992
Current assets	3,922	4,187
Assets classified as held for sale	1	8
Assets	13,067	13,911
EQUITY AND LIABILITIES		
Share capital	890	890
Treasury shares	–2	–2
Translation reserve	184	433
Other reserves	1,564	1,416
Reserve for invested non-restricted equity	1,273	1,273
Retained earnings	4,752	4,225
Equity attributable to owners of the parent company	8,660	8,234
Non-controlling interests	4	3
Equity	8,663	8,237
Deferred tax liabilities	458	457
Net retirement benefit liabilities	736	817
Provisions	177	145
Non-current debt	789	1,835
Other non-current financial liabilities	94	110
Non-current liabilities	2,254	3,364
Current debt	324	584
Trade and other payables	1,765	1,594
Other current financial liabilities	34	116
Income tax payables	26	16
Current liabilities	2,150	2,309
Liabilities	4,404	5,673
Equity and liabilities	13,067	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-CONTROLLING 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	–	–	–		–	973	973	1	974
Translation differences	–	–	–269	–	–	–	–269	–	–270
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	28	–	–	28	–	28
Cash flow hedges – changes in fair value, net of tax	–	–	–	95	–	–	95	–	95
Net investment hedge, net of tax	–	–	20	–	–	–	20	–	20
Energy shareholdings – changes in fair value, net of tax	–	–	–	24	–	–	24	–	24
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	66	66	–	66
Total comprehensive income for the period	–	–	–249	147	–	1,039	937	–	937
Share-based payments, net of tax	–	–	–	1	–	–5	–4	–	–4
Dividend distribution	–	–	–	–	–	–507	–507	–	–507
Total transactions with owners for the period	–	–	–	1	–	–512	–511	–	–511
Total equity at 31 December 2017	890	–2	184	1,564	1,273	4,752	8,660	4	8,663
Value at 1 January 2016	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Profit for the period	–	–	–	–	–	879	879	1	880
Translation differences	–	–	–14	–	–	–	–14	–	–14
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	55	–	–	55	–	55
Cash flow hedges – changes in fair value, net of tax	–	–	–	18	–	–	18	–	18
Net investment hedge, net of tax	–	–	–1	–	–	–	–1	–	–1
Energy shareholdings – changes in fair value, net of tax	–	–	–	–144	–	–	–144	–	–144
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	–97	–97	–	–97
Total comprehensive income for the period	–	–	–16	–72	–	782	695	1	696
Share-based payments, net of tax	–	–	–	1	–	–3	–2	–	–2
Dividend distribution	–	–	–	–	–	–400	–400	–	–400
Total transactions with owners for the period	–	–	–	1	–	–403	–402	–	–402
Total equity at 31 December 2016	890	–2	433	1,416	1,273	4,225	8,234	3	8,237

Consolidated cash flow statement

EURm	Q1–Q4/2017	Q1–Q4/2016
Cash flows from operating activities		
Profit for the period	974	880
Adjustments [1]	779	778
Interest received	2	6
Interest paid	–32	–40
Dividends received	10	4
Other financial items, net	–51	8
Income taxes paid	–216	–145
Change in working capital [2]	91	195
Operating cash flow	1,558	1,686
Cash flows from investing activities		
Capital expenditure	–305	–351
Acquisition of businesses and subsidiaries, net of cash acquired	–1	–
Acquisition of energy shareholdings	–25	–
Proceeds from sale of property, plant and equipment and intangible assets	106	93
Proceeds from disposal of shares in associates and joint ventures	3	–
Proceeds from disposal of energy shareholdings	1	6
Net cash flows from net investment hedges	–3	–8
Change in other non-current assets	3	–2
Investing cash flow	–222	–262
Cash flows from financing activities		
Proceeds from non-current debt	1	1
Payments of non-current debt	–964	–540
Change in current liabilities	–21	–77
Net cash flows from derivatives	–97	–22
Dividends paid	–507	–400
Other financing cash flow	–17	–19
Financing cash flow	–1,604	–1,057
Change in cash and cash equivalents	–268	367
Cash and cash equivalents at beginning of period	992	626
Exchange rate effect on cash and cash equivalents	–7	–1
Change in cash and cash equivalents	–268	367
Cash and cash equivalents at end of period	716	992

[1] **Adjustments**

EURm	Q1–Q4/2017	Q1–Q4/2016
Change in fair value of forest assets and wood harvested	–103	–88
Share of results of associates and joint ventures	–5	–5
Depreciation, amortisation and impairment charges	450	545
Capital gains and losses on sale of non-current assets	–53	–55
Financial income and expenses	70	56
Income taxes	212	200
Utilised provisions	–45	–47
Non-cash changes in provisions	37	44
Other adjustments	216	128
Total	779	778

[2] **Change in working capital**

EURm	Q1–Q4/2017	Q1–Q4/2016
Inventories	–26	41
Receivables included in working capital	–68	22
Liabilities included in working capital	184	132
Total	91	195

Quarterly key figures

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

	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales, EURm	2,571	2,493	2,464	2,482	2,476	2,445	2,445	2,446	10,010	9,812
Comparable EBITDA, EURm	451	425	349	405	349	423	385	403	1,631	1,560
% of sales	17.5	17.1	14.2	16.3	14.1	17.3	15.8	16.5	16.3	15.9
Comparable EBIT, EURm	366	351	270	305	283	314	264	281	1,292	1,143
% of sales	14.2	14.1	11.0	12.3	11.4	12.8	10.8	11.5	12.9	11.6
Comparable profit before tax, EURm	340	328	258	291	282	288	252	267	1,218	1,089
Capital employed (average), EURm	9,938	10,032	9,942	10,288	10,560	10,433	10,701	11,005	10,217	10,833
Comparable ROCE, %	15.9	13.6	10.8	11.7	11.4	11.5	10.0	10.1	12.8	10.6
Comparable profit for the period, EURm	297	267	205	234	220	234	200	225	1,004	879
Total equity, average, EURm	8,497	8,204	8,020	8,100	8,054	7,767	7,819	7,959	8,450	8,091
Comparable ROE, %	14.0	13.0	10.2	11.6	10.9	12.1	10.2	11.3	11.9	10.9
Average number of shares basis (1,000)	533,323	533,328	533,505	533,505	533,505	533,505	533,505	533,505	533,415	533,505
Comparable EPS, EUR	0.56	0.50	0.39	0.44	0.41	0.44	0.37	0.42	1.88	1.65
Items affecting comparability in operating profit, EURm	−67	28	−1	7	−51	50	−2	−4	−33	−7
Items affecting comparability in financial items, EURm	–	1	–	–	–	−2	–	–	1	−2
Items affecting comparability in taxes, EURm	14	−10	–	−2	18	−14	–	6	2	11
Operating cash flow, EURm	407	486	269	396	405	506	434	341	1,558	1,686
Operating cash flow per share, EUR	0.76	0.91	0.50	0.74	0.76	0.95	0.81	0.64	2.92	3.16
Net debt at the end of period, EURm	174	623	1,046	807	1,131	1,479	1,876	1,873	174	1,131
Gearing ratio, %	2	7	13	10	14	19	24	23	2	14
Net debt to EBITDA (last 12 m.)	0.11	0.41	0.68	0.52	0.73	0.94	1.25	1.31	0.11	0.73
Capital expenditure, EURm	120	99	64	46	94	98	85	47	329	325
Capital expenditure excluding acquisitions, EURm	120	72	64	46	94	98	85	47	303	325
Equity per share at the end of period, EUR	16.24	15.61	15.14	14.92	15.43	14.75	14.36	14.94	16.24	15.43
Personnel at the end of period	19,111	19,335	20,096	19,301	19,310	19,559	20,711	19,870	19,111	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	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Items affecting comparability										
Impairment charges	−4	–	–	1	−24	–	1	−12	−3	−35
Restructuring charges	−61	−2	−2	−3	−31	–	–	−18	−67	−48
Change in fair value of unrealised cash flow and commodity hedges	−2	−6	1	9	2	3	−3	25	2	27
Capital gains and losses on sale of non-current assets	1	35	–	–	2	47	–	–	35	49
Total items affecting comparability in operating profit	−67	28	−1	7	−51	50	−2	−4	−33	−7
Items affecting comparability in financial items	–	1	–	–	–	−2	–	–	1	−2
Changes in tax rates	−5	–	–	–	4	–	–	–	−5	4
Taxes relating to items affecting comparability	19	−10	–	−2	14	−14	–	6	7	7
Items affecting comparability in taxes	14	−10	–	−2	18	−14	–	6	2	11
Items affecting comparability, total	−53	19	−1	6	−33	34	−2	2	−30	1
Comparable EBITDA										
Operating profit	299	379	269	312	232	364	262	277	1,259	1,135
Depreciation, amortisation and impairment charges [1]	112	104	112	119	120	118	134	138	447	510
Change in fair value of forest assets and wood harvested [1]	−26	−29	−32	−16	−53	−7	−11	−16	−103	−88
Share of result of associates and joint ventures	−1	−1	−1	−2	−1	−2	−2	–	−5	−5
Items affecting comparability in operating profit	67	−28	1	−7	51	−50	2	4	33	7
Comparable EBITDA	451	425	349	405	349	423	385	403	1,631	1,560
% of sales	17.5	17.1	14.2	16.3	14.1	17.3	15.8	16.5	16.3	15.9
[1] excluding items affecting comparability										
Comparable EBIT										
Operating profit	299	379	269	312	232	364	262	277	1,259	1,135
Items affecting comparability in operating profit	67	−28	1	−7	51	−50	2	4	33	7
Comparable EBIT	366	351	270	305	283	314	264	281	1,292	1,143
% of sales	14.2	14.1	11.0	12.3	11.4	12.8	10.8	11.5	12.9	11.6
Comparable profit before tax										
Profit before tax	273	357	258	299	231	336	250	263	1,186	1,080
Items affecting comparability in operating profit	67	−28	1	−7	51	−50	2	4	33	7
Items affecting comparability in financial items	–	−1	–	–	–	2	–	–	−1	2
Comparable profit before tax	340	328	258	291	282	288	252	267	1,218	1,089
Comparable ROCE, %										
Comparable profit before tax	340	328	258	291	282	288	252	267	1,218	1,089
Interest expenses and other financial expenses	55	13	10	10	17	13	15	10	89	55
	395	341	268	302	300	301	266	277	1,307	1,144
Capital employed, average	9,938	10,032	9,942	10,288	10,560	10,433	11,701	11,005	10,217	10,833
Comparable ROCE, %	15.9	13.6	10.8	11.7	11.4	11.5	10.0	10.1	12.8	10.6
Comparable profit for the period										
Profit for the period	244	286	205	240	187	268	198	227	974	880
Items affecting comparability, total	53	−19	1	−6	33	−34	2	−2	30	−1
Comparable profit for the period	297	267	205	234	220	234	200	225	1,004	879
Comparable EPS, EUR										
Comparable profit for the period	297	267	205	234	220	234	200	225	1,004	879
Profit attributable to non-controlling interest	−1	–	–	–	–	–	−1	–	−1	−1
	296	267	205	234	220	234	199	225	1,003	878
Average number of shares basic (1,000)	533,323	533,328	533,505	533,505	533,505	533,505	533,505	533,505	533,415	533,505
Comparable EPS, EUR	0.56	0.50	0.39	0.44	0.41	0.44	0.37	0.42	1.88	1.65

Reconciliation of key figures to IFRS

EURm, or as indicated	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Comparable ROE, %										
Comparable profit for the period	297	267	205	234	220	234	200	225	1,004	879
Profit attributable to non-controlling interest	−1	–	–	–	–	–	−1	–	−1	−1
	296	267	205	234	220	234	199	225	1,003	878
Total equity, average	8,497	8,204	8,020	8,100	8,054	7,767	7,819	7,959	8,450	8,091
Comparable ROE, %	14.0	13.0	10.2	11.6	10.9	12.1	10.2	11.3	11.9	10.9
Net debt										
Non-current debt	789	1,161	1,436	1,531	1,835	1,957	2,148	2,452	789	1,835
Current debt	324	607	451	426	585	636	592	574	324	585
Total debt	1,114	1,769	1,887	1,956	2,419	2,593	2,740	3,025	1,114	2,419
Non-current interest-bearing assets	189	198	210	222	259	292	350	321	189	259
Cash and cash equivalents	716	896	563	866	992	771	459	803	716	992
Other current interest-bearing assets	35	52	69	62	38	50	55	29	35	38
Total interest-bearing assets	940	1,146	841	1,149	1,289	1,114	864	1,153	940	1,289
Net debt	174	623	1,046	807	1,131	1,479	1,876	1,873	174	1,131

Quarterly business area information

EURm	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q1–Q4/17	Q1–Q4/16
Sales										
UPM Biorefining	669	624	630	607	533	541	563	568	2,531	2,206
UPM Energy	86	86	65	80	90	89	81	97	317	357
UPM Raflatac	379	369	375	371	372	355	360	351	1,495	1,437
UPM Specialty Papers	344	320	342	330	329	305	327	312	1,336	1,273
UPM Paper ENA	1,166	1,189	1,112	1,148	1,228	1,234	1,155	1,202	4,615	4,818
UPM Plywood	120	112	128	124	109	106	119	110	484	444
Other operations	69	69	70	72	72	65	76	73	281	285
Internal sales	–263	–274	–258	–252	–260	–246	–229	–233	–1,046	–969
Eliminations and reconciliations	1	–3	–	1	2	–2	–6	–34	–2	–40
Sales, total	2,571	2,493	2,464	2,482	2,476	2,445	2,445	2,446	10,010	9,812
Comparable EBITDA										
UPM Biorefining	194	203	157	160	101	132	140	175	714	548
UPM Energy	33	28	14	24	34	32	25	36	100	126
UPM Raflatac	40	42	42	43	39	43	43	41	168	166
UPM Specialty Papers	59	55	58	60	54	58	53	48	232	214
UPM Paper ENA	100	94	64	98	111	148	93	96	356	448
UPM Plywood	21	16	21	27	19	17	25	20	85	80
Other operations	11	–2	–6	–7	–9	–7	–9	–10	–5	–35
Eliminations and reconciliations	–7	–10	–1	–	1	–2	16	–4	–18	11
Comparable EBITDA, total	451	425	349	405	349	423	385	403	1,631	1,560
Operating profit										
UPM Biorefining	130	170	131	127	72	94	105	135	557	406
UPM Energy	31	26	12	22	31	30	22	33	91	116
UPM Raflatac	32	34	34	35	31	36	35	33	136	134
UPM Specialty Papers	39	36	38	39	33	36	30	23	152	123
UPM Paper ENA	32	123	31	61	26	160	47	–11	247	223
UPM Plywood	15	10	15	21	13	12	19	14	62	58
Other operations	28	16	8	–2	28	–4	–9	–	51	15
Eliminations and reconciliations	–9	–37	–	9	–2	1	12	50	–38	60
Operating profit, total	299	379	269	312	232	364	262	277	1,259	1,135
% of sales	11.6	15.2	10.9	12.6	9.4	14.9	10.7	11.3	12.6	11.6
Items affecting comparability in operating profit										
UPM Biorefining	–30	–	–	–	–	–	–	–	–30	–
UPM Energy	–	–	–	–	–	–	–	–	–	–
UPM Raflatac	–	–	–	–	–	–	–	–	–	–
UPM Specialty Papers	–	–	–	–	–	–	–	–	–	–
UPM Paper ENA	–36	55	–2	–1	–49	47	2	–57	16	–57
UPM Plywood	–	–	–	–	–	–	–	–	–	–
Other operations	–	–	–	–	1	–	–	–	–	1
Eliminations and reconciliations [1]	–2	–28	1	9	–3	3	–4	53	–19	48
Items affecting comparability in operating profit, total	–67	28	–1	7	–51	50	–2	–4	–33	–7
Comparable EBIT										
UPM Biorefining	159	170	131	127	72	94	105	135	587	406
UPM Energy	31	26	12	22	31	30	22	33	91	116
UPM Raflatac	32	34	34	35	31	35	35	33	136	133
UPM Specialty Papers	39	36	38	39	33	36	30	23	152	123
UPM Paper ENA	68	68	33	62	75	113	45	46	231	280
UPM Plywood	15	10	15	21	13	12	19	14	62	58
Other operations	28	16	8	–1	27	–4	–9	1	51	14
Eliminations and reconciliations	–7	–10	–1	–	1	–2	16	–3	–18	12
Comparable EBIT, total	366	351	270	305	283	314	264	281	1,292	1,143
% of sales	14.2	14.1	11.0	12.3	11.4	12.8	10.8	11.5	12.9	11.6

[1] In Q4 2017, eliminations and reconciliations includes EUR –2 million of changes in fair value of unrealised cash flow and commodity hedges. 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–Q4/2017	Q1–Q4/2016
Book value at beginning of period	4,657	4,895
Capital expenditure	289	319
Decreases	−24	−36
Depreciation	−434	−478
Impairment charges	−5	−32
Impairment reversals	2	–
Translation difference and other changes	−204	−10
Book value at end of period	4,281	4,657

Financial assets and liabilities measured at fair value

EURm	31 DEC 2017				31 DEC 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivatives, non-qualifying hedges	4	19	–	23	2	63	–	65
Derivatives used for hedging	42	198	–	240	32	241	–	273
Energy shareholdings	–	–	1,974	1,974	–	–	1,932	1,932
Total	46	217	1,974	2,237	34	304	1,932	2,270
Financial liabilities								
Derivatives, non-qualifying hedges	17	19	–	36	19	93	–	112
Derivatives used for hedging	12	8	–	20	42	94	–	136
Total	29	27	–	56	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–Q4/2017	Q1–Q4/2016
Opening balance	1,932	2,085
Additions	25	–
Impairment charges	–3	1
Disposals	–	–6
Changes in fair value recognised in other comprehensive income	20	–148
Closing balance	1,974	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 340 million. The discount rate of 5.59% 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	31 DEC 2017	31 DEC 2016
Non-current debt, excl. derivative financial instruments	801	1,804

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

Commitments and contingencies

EURm	31 DEC 2017	31 DEC 2016
On own behalf		
Mortgages	76	151
On behalf of others		
Guarantees	2	2
Other own commitments		
Operating leases, due within12 months	77	74
Operating leases, due after months	386	374
Other commitments	95	154
Total	636	755

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2016	Q1–Q4/2017	AFTER 31 DEC 2017
Capacity increase / Chudovo	Q3 2019	50	–	8	42
Debottlenecking / Kaukas pulp mill	Q2 2018	30	–	9	21

Notional amounts of derivative financial instruments

EURm	31 DEC 2017	31 DEC 2016
Interest rate forward contracts	1,223	1,480
Interest rate swaps	1,056	2,019
Forward foreign exchange contracts	2,298	2,645
Currency options, bought	25	12
Currency options, written	23	24
Cross currency swaps	239	557
Commodity contracts	436	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. The sale was completed at the beginning of January 2018.

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.

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. IFRS 16 Leases will be adopted in 2019. Description of effects of 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 finalised the IFRS 15 implementation project and related documentation. The adoption of the standard has only a minor impact on revenue recognition as described below and the group is able to utilise existing processes with small changes.

The group has made an assessment on how the new standard affects 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 over time 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 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 not changing 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 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.

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 is changing the accounting policy and estimates and updates the amount of claims at each reporting date.

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.

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 is changing the accounting policy to recognise revenue for freight services over time when the performance obligation is satisfied.

Presentation and disclosure
IFRS 15 significantly increases the volume of the revenue related disclosures. The group has prepared draft disclosures that reflect the standard's objective of presenting only useful information by aggregating or disaggregating disclosures.

Transition
The group adopts 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.

The adoption of IFRS 15 results in a recognition of contract liability amounting to EUR 4 million relating mainly to the customers' right for purchase price refund in case the products do not meet the quality as specified in the agreement. The cumulative effect of the adoption is shown as an adjustment to retained earnings in the period of the initial application, 1 January 2018 without restating comparative information.

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 have an impact on group's financial statements are described below.

Classification of financial assets
Energy shareholdings categorised as available-for-sale under IAS 39 represent investments that group intends to hold for the long term. The group classifies 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 has developed 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. The new expected loss model resulted in a decrease of bad debt provisions by EUR 1 million and is shown as an adjustment to retained earnings in the period of the initial application, 1 January 2018, 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 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 is 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 is implemented prospectively without restatement of comparatives.

Commodity hedges
Under IFRS 9, more group's risk management strategies qualify for hedge accounting. Energy price hedging benefits from the possibility to apply hedge accounting for one or several risk components separately or in aggregation. This change will reduce the group's profit and loss volatility as the fair value changes of unrealised derivatives are recognised in OCI hedging reserve instead of income statement and ineffectiveness may arise in rare cases only. Unrealised fair value changes of non-qualified cash flow hedges as well as ineffectiveness are recognised in income statement. UPM has updated its risk management strategies and hedging objectives as well as new disclosures based on each risk category. UPM applies the hedge accounting of IFRS 9 on a prospective basis for all hedging relationships without restating comparative information.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The group has started the implementation phase in 2017 and will present more information on impact of the new standard and estimated cumulative effect on transition in 2018 interim financial statements. The group does not intend to adopt the standard before its effective date 1 January 2019.

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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