The Biofore Company UPM

# AIMING HIGHER WITH BIOFORE

HALF YEAR FINANCIAL REPORT 2018

# UPM Half Year Financial Report 2018:

## Commercial success drives growth in sales and earnings – strong outlook for H2 2018

### Q2 2018 highlights

- Sales grew by 5% to EUR 2,589 million (2,464 million in Q2 2017).
- Comparable EBIT increased by 24% to EUR 334 million (270 million).
- Sales prices increased in all business areas, outweighing the impact of higher input costs and unfavourable currency exchange rates.
- Q2 operating profit was held back by several significant scheduled maintenance shutdowns – total impact was EUR –90 million.
- Operating cash flow was EUR 329 million (269 million).
- UPM completed the UPM Kaukas pulp mill expansion.

### H1 2018 highlights

- Comparable EBIT increased by 20% to EUR 689 million (575 million in H1 2017).
- Sales prices increased in all business areas, outweighing the impact of higher input costs and unfavourable currency exchange rates.
- Delivery volumes were held back by several significant maintenance shutdowns in Q2 and weather-related wood harvesting limitations in Q1.
- UPM paid a dividend of EUR 613 million.
- Net debt decreased to EUR 401 million (1,046 million).
- UPM announced focused investments in Germany, Finland and China to grow in the attractive release liner segments.

### Key figures

| | Q2/2018 | Q2/2017 | Q1/2018 | Q1–Q2/2018 | Q1–Q2/2017 | Q1–Q4/2017 |
|---|---|---|---|---|---|---|
| Sales, EURm | 2,589 | 2,464 | 2,512 | 5,102 | 4,946 | 10,010 |
| Comparable EBITDA, EURm | 425 | 349 | 449 | 875 | 755 | 1,631 |
| % of sales | 16.4 | 14.2 | 17.9 | 17.1 | 15.3 | 16.3 |
| Operating profit, EURm | 349 | 269 | 385 | 734 | 581 | 1,259 |
| Comparable EBIT, EURm | 334 | 270 | 355 | 689 | 575 | 1,292 |
| % of sales | 12.9 | 11.0 | 14.1 | 13.5 | 11.6 | 12.9 |
| Profit before tax, EURm | 337 | 258 | 371 | 708 | 557 | 1,186 |
| Comparable profit before tax, EURm | 322 | 258 | 341 | 663 | 550 | 1,218 |
| Profit for the period, EURm | 269 | 205 | 309 | 577 | 444 | 974 |
| Comparable profit for the period, EURm | 258 | 205 | 288 | 545 | 440 | 1,004 |
| Earnings per share (EPS), EUR | 0.50 | 0.38 | 0.58 | 1.08 | 0.83 | 1.82 |
| Comparable EPS, EUR | 0.48 | 0.39 | 0.54 | 1.02 | 0.82 | 1.88 |
| Return on equity (ROE), % | 12.1 | 10.2 | 14.0 | 13.3 | 10.9 | 11.5 |
| Comparable ROE, % | 11.6 | 10.2 | 13.0 | 12.5 | 10.8 | 11.9 |
| Return on capital employed (ROCE), % | 14.2 | 10.8 | 15.6 | 14.9 | 11.2 | 12.5 |
| Comparable ROCE, % | 13.6 | 10.8 | 14.3 | 14.0 | 11.1 | 12.8 |
| Operating cash flow, EURm | 329 | 269 | 208 | 537 | 665 | 1,558 |
| Operating cash flow per share, EUR | 0.62 | 0.50 | 0.39 | 1.01 | 1.25 | 2.92 |
| Equity per share at the end of period, EUR | 16.37 | 15.14 | 16.83 | 16.37 | 15.14 | 16.24 |
| Capital employed at the end of period, EURm | 9,691 | 9,965 | 9,733 | 9,691 | 9,965 | 9,777 |
| Net debt at the end of period, EURm | 401 | 1,046 | 41 | 401 | 1,046 | 174 |
| Net debt to EBITDA (last 12 m.) | 0.23 | 0.68 | 0.02 | 0.23 | 0.68 | 0.11 |
| Personnel at the end of period | 19,836 | 20,096 | 19,027 | 19,836 | 20,096 | 19,111 |

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 2017***.

As of 26 April 2018, UPM Paper ENA is renamed as UPM Communication Papers. The change has no impact on reported figures.

## Jussi Pesonen, President and CEO, comments on Q2 results:

"UPM delivered yet another successful quarter of earnings growth. Customer demand for our products continued to be strong and we succeeded in increasing prices in most of our businesses also during the quarter. This enabled us to expand our margins and recover the impact of clearly higher input costs.

We carried out several significant scheduled maintenance shutdowns during the quarter, which held back our operating profit by approximately EUR 90 million. However, earlier challenges in wood harvesting and logistics were solved and no longer impacted our performance.

Our sales grew by 5% and our comparable EBIT increased by 24% to EUR 334 million. Operating cash flow was strong at EUR 329 million. UPM paid a dividend of EUR 613 million and net debt was EUR 401 million at the end of the quarter.

UPM Biorefining increased its earnings clearly. Customer demand was strong for pulp, biofuels and sawn timber, and sales prices increased. Scheduled maintenance shutdowns were carried out at the Fray Bentos and Kaukas pulp mills and at the Lappeenranta biorefinery. During the Kaukas shutdown, the pulp mill expansion was completed, providing 30,000 tons of additional pulp capacity.

UPM Communication Papers grew both its sales and earnings in tight markets. The business area achieved high operational efficiency and increased prices. UPM Raflatac performed well and managed to resume earnings growth after a challenging Q1. UPM Plywood had a steady performance in a good market situation.

UPM Energy improved earnings due to higher electricity prices and volumes. Electricity generation was held back by the annual maintenance shutdown at Olkiluoto power plant and weakened hydropower availability during the quarter.

UPM Specialty Papers enjoyed good market demand and increased prices, but was not able to fully offset the higher pulp costs.

We look to the future with confidence. In the second half of the year we have every opportunity to respond to customer demand with growing deliveries. Our ongoing focused growth projects enable us to develop our market position while maintaining and growing our earnings. During the quarter we announced new focused growth investments in Germany and in China in the attractive release liner business.

Our transformative prospects provide us with unique and exciting opportunities for significant long-term earnings growth. In Uruguay, the second preparation phase for the potential new world-class pulp mill is proceeding well. In attractive biomolecular businesses we continue to prepare for the potential first industrial-scale biochemical refinery in Germany and study the potential biofuels scale up in Finland.

In 2009, we redefined UPM as the Biofore Company, creating a new, future-oriented industry category characterized by efficiency, innovation and sustainability. This positioning gave a name to our transformation, energizing both UPMers as well as our stakeholders. We continue to be inspired by the limitless opportunities of bioeconomy. We are committed to delivering renewable and responsible solutions and innovating for a future beyond fossils."

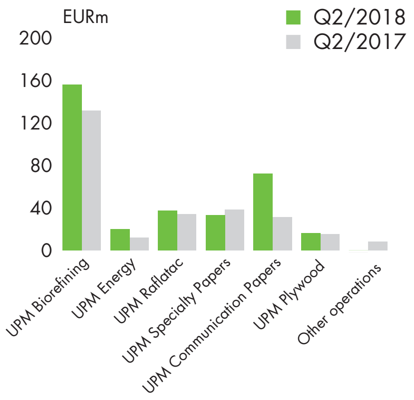
## Outlook for 2018

UPM's comparable EBIT is expected to continue growing in 2018 compared with 2017. H2 2018 comparable EBIT is expected to be significantly higher compared with H1 2018.

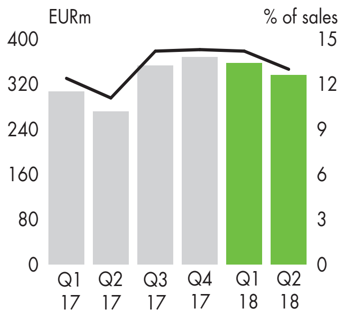
The fundamentals for UPM businesses in 2018 are favourable. Sales price increases in 2018 are expected to outweigh the increase in variable cost, compared with 2017.

H1 2018 results were impacted by four significant maintenance shutdowns and weather-related wood harvesting limitations. H2 2018 is scheduled to have one significant maintenance shutdown.

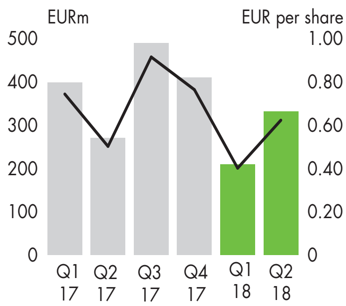
**Comparable EBIT**



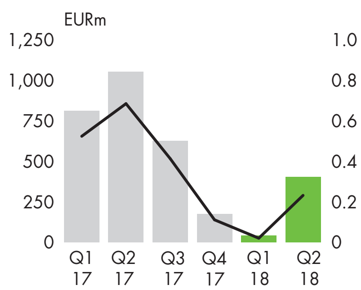

**Comparable EBIT**




**Operating cash flow**




**Net debt and net debt to EBITDA**




# Results

## Q2 2018 compared with Q2 2017

Q2 2018 sales were EUR 2,589 million, 5% higher than the EUR 2,464 million for Q2 2017. Sales grew in UPM Biorefining, UPM Energy, UPM Specialty Papers and UPM Communication Papers, but decreased in UPM Raflatac and UPM Plywood.

Comparable EBIT increased by 24% to EUR 334 million, 12.9% of sales (270 million, 11.0%). Sales prices increased across all UPM business areas. The positive impact of higher sales prices was clearly larger than the negative impact of increased variable costs and changes in currency exchange rates.

Fixed costs increased by EUR 26 million and delivery volumes were lower than in the comparison period, mainly due to the timing of several significant scheduled maintenance shutdowns in the second quarter this year. The higher scheduled maintenance activity increased maintenance costs and limited production volumes during the quarter, especially in the UPM Biorefining and UPM Energy business areas. The impact on operating profit from scheduled large maintenance shutdowns was EUR –60 million, compared with Q2 2017.

Depreciation, excluding items affecting comparability, totalled EUR 106 million (112 million). The increase in the fair value of forest assets net of wood harvested was EUR 14 million (32 million).

Operating profit totalled EUR 349 million (269 million). Items affecting comparability in operating profit totalled EUR 15 million in the period, including reversals of previous years' restructuring provisions in UPM Communication Papers.

Net interest and other finance costs were EUR 14 million (6 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 2 million (loss of EUR 6 million). Income taxes totalled EUR 68 million (53 million). Taxes related to items affecting comparability totalled EUR –3 million (0 million)

Profit for Q2 2018 was EUR 269 million (205 million), and comparable profit was EUR 258 million (205 million).

## Q2 2018 compared with Q1 2018

Comparable EBIT decreased by 6% to EUR 334 million, 12.9% of sales (355 million, 14.1%).

Sales prices increased across most of UPM business areas. The positive impact of higher sales prices was larger than the negative impact of increased variable costs.

Fixed costs increased by EUR 63 million due to the combination of seasonal factors and the timing of several significant scheduled maintenance shutdowns in the second quarter. The higher maintenance activity increased maintenance costs and limited production volumes during the quarter, especially in UPM Biorefining and UPM Energy business areas. The impact on operating profit from scheduled large maintenance shutdowns was EUR –90 million, compared with Q1 2018. The comparison period had no significant maintenance activity, but was impacted by weather-related wood harvesting limitations in Northern Europe. These harvesting limitations no longer impacted UPM's performance in Q2 2018.

Depreciation, excluding items affecting comparability, totalled EUR 106 million (106 million). The increase in the fair value of forest assets net of wood harvested was EUR 14 million (10 million).

Operating profit totalled EUR 349 million (385 million).

## January–June 2018 compared with January–June 2017

Q1–Q2 2018 sales were EUR 5,102 million, 3% higher than the EUR 4,946 million for Q1–Q2 2017. Sales grew in UPM Biorefining, UPM Energy, UPM Specialty Papers and UPM Communication Papers, but decreased in UPM Raflatac.

Comparable EBIT increased by 20% to EUR 689 million, 13.5% of sales (575 million, 11.6%). Sales prices increased across all UPM business areas. The positive impact of higher sales prices was clearly larger than the negative impact of increased variable costs and changes in currency exchange rates.

Fixed costs increased by EUR 27 million from last year due to the timing of several significant scheduled maintenance shutdowns to the reporting period. Delivery volumes were lower than last year, mainly due to the higher maintenance activity, as well as weather-related wood harvesting limitations in Northern Europe during the first quarter.

Depreciation, excluding items affecting comparability, totalled EUR 212 million (231 million). The increase in the fair value of forest assets net of wood harvested was EUR 24 million (48 million).

Operating profit totalled EUR 734 million (581 million). Items affecting comparability in operating profit totalled EUR 44 million in the period (7 million). The sale of UPM Communication Papers' hydropower facilities in Schongau and Ettringen, Germany, resulted in a sales gain of EUR 30 million. Items affecting comparability also included reversals of previous years' restructuring provisions, totalling EUR 18 million in UPM Communication Papers.

Net interest and other finance costs were EUR 28 million (19 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 2 million (loss of EUR 6 million). Income taxes totalled EUR 130 million (112 million). Taxes related to items affecting comparability totalled EUR –12 million (–2 million).

Profit for Q1–Q2 2018 was EUR 577 million (444 million), and comparable profit was EUR 545 million (440 million).

# Financing and cash flow

In Q1–Q2 2018, cash flow from operating activities before capital expenditure and financing totalled EUR 537 million (665 million). Working capital increased by EUR 162 million during the period (EUR 24 million), driven by seasonal factors and increased prices of UPM's products and raw materials.

A dividend of EUR 1.15 per share (totalling EUR 613 million) was paid on 19 April 2018, in respect of the 2017 financial year.

Net debt decreased to EUR 401 million at the end of the period (1,046 million). The gearing ratio as of 30 June 2018 was 5% (13%). The net debt to EBITDA ratio, based on the latest 12 months' EBITDA, was 0.23 at the end of the period (0.68).

On 30 June 2018, UPM's cash funds and unused committed credit facilities totalled EUR 0.9 billion.

# Capital expenditure

In Q1–Q2 2018, capital expenditure totalled EUR 119 million, 2.3% of sales (110 million, 2.2% of sales). It is estimated that total capital expenditure in 2018, excluding investments in shares, will be approximately EUR 350 million.

In April 2017, UPM announced that it plans to 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 2018.

In June 2017, UPM announced plans to further improve the efficiency and competitiveness of the UPM Kaukas pulp mill with a EUR 30 million investment to upgrade the mill's fibre lines, recovery boiler, evaporation, bailing and wood handling. The project was completed in Q2 2018. The annual production capacity of the UPM Kaukas pulp mill increased by 30,000 tonnes to 770,000 tonnes of softwood and birch pulp.

In October 2017, UPM announced plans to expand its Chudovo plywood mill in Russia. The project will raise the mill's production capacity by 45,000 cubic meters to 155,000 cubic metres while also broadening the mill's product portfolio. In addition to the production capacity growth, a new bio heat boiler will be built at the mill site. The total investment will be approximately EUR 50 million and will be completed by the end of 2019.

In January 2018, UPM announced it intended to expand its glassine and supercalendered kraft (SCK) paper manufacturing capacity by rebuilding a calender at UPM Jämsänkoski mill in Finland. The annual capacity addition of approximately 40,000 tonnes will be available in Q4 2018.

In April 2018, UPM announced it will rebuild paper machine 2 at its Nordland mill in Dörpen, Germany and convert it from fine paper to glassine paper production. The machine will be equipped with new finishing equipment and will start producing glassine paper as of Q4 2019. The planned capacity after the rebuild will be 110,000 tonnes per year. The total investment in Nordland is EUR 116 million.

In April 2018, UPM announced plans to increase the release liner base paper capacity at UPM Changshu mill in China. By installing a second supercalender on paper machine 3, there will be an additional capacity of more than 40,000 tons of glassine paper a year as of Q1 2020. The total investment in Changshu is EUR 34 million.

# Personnel

In Q1–Q2 2018, UPM had an average of 19,297 employees (19,526). At the beginning of the year the number of employees was 19,111 and at the end of Q2 2018 it was 19,836.

# 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, located 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 as well as initiatives for infrastructure development in Uruguay. The investment agreement was signed on 7 November 2017, completing the first phase.

**Phase 2**

The second preparation phase is proceeding. The permitting processes for the mill, rail and port, as well as rail tendering have started, as agreed in the investment agreement. The next main items are related to the progress of rail, port and labour protocols.

Achieving significant progress in the implementation of the agreed infrastructure initiatives by the State and 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 a 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, port and 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 industrial-scale mill concepts.

In October 2017, UPM announced that it was 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 January–June 2018

On 1 January, UPM completed the sale of UPM Communication Papers' hydropower facilities in Schongau and Ettringen, Germany, to erdgas schwaben GmbH. The cash flow impact was booked in Q4 2017, and the sales gain of EUR 30 million was booked in Q1 2018 as an item affecting comparability.

On 5 February, UPM announced it was studying biofuels development opportunities by starting an environmental impact assessment (EIA) for a possible biorefinery in Mussalo, Kotka, in south-eastern Finland. The study of the possible Kotka Biorefinery is in the very early stages and the EIA process normally takes approximately one year.

On 11 March, Teollisuuden Voima Oyj (TVO) announced it had signed a comprehensive settlement agreement concerning the completion of the OL3 EPR project and related disputes with OL 3 EPR (OL3) plant supplier consortium companies Areva NP, Areva GmbH and Siemens AG, as well as with Areva Group parent company Areva SA, a company wholly owned by the French State.

## Events after the balance sheet date

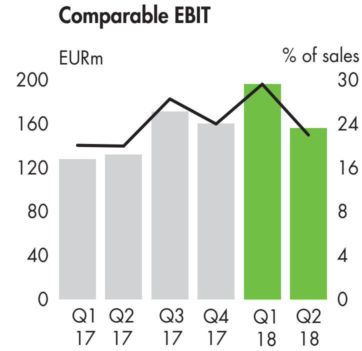
The group's management is not aware of any significant events occurring after 30 June 2018.

## Timing of significant maintenance shutdowns in 2017 and 2018

| TIMING | UNIT |
|---|---|
| Q2/2017 | Pietarsaari pulp mill<br>Olkiluoto nuclear power plant |
| Q4/2017 | Kymi pulp mill |
| Q2/2018 | Fray Bentos pulp mill<br>Kaukas pulp mill<br>Lappeenranta biorefinery turnaround<br>Olkiluoto nuclear power plant |
| Q4/2018 | Pietarsaari pulp mill |

# UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses. UPM has three pulp mills in Finland and one mill and plantation operation in Uruguay. UPM operates four sawmills and one biorefinery in Finland. The main customers of UPM Biorefining are tissue, specialty paper and board producers in the pulp industry, fuel distributors in the biofuel industry and construction and joinery industries in the timber sector.




| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 694 | 668 | 669 | 624 | 630 | 607 | 1,363 | 1,237 | 2,531 |
| Comparable EBITDA, EURm | 185 | 227 | 194 | 203 | 157 | 160 | 411 | 318 | 714 |
| % of sales | 26.6 | 33.9 | 28.9 | 32.4 | 25.0 | 26.4 | 30.2 | 25.7 | 28.2 |
| Change in fair value of biological assets and wood harvested, EURm | 8 | 7 | 6 | 7 | 14 | 8 | 15 | 21 | 33 |
| Share of results of associated companies and joint ventures, EURm | – | – | 1 | – | 1 | 1 | 1 | 1 | 2 |
| Depreciation, amortisation and impairment charges, EURm | –39 | –38 | –41 | –39 | –41 | –42 | –77 | –82 | –162 |
| Operating profit, EURm | 155 | 195 | 130 | 170 | 131 | 127 | 350 | 258 | 557 |
| % of sales | 22.3 | 29.2 | 19.4 | 27.2 | 20.8 | 20.9 | 25.7 | 20.9 | 22.0 |
| Items affecting comparability in operating profit, EURm [1] | – | – | –30 | – | – | – | – | – | –30 |
| Comparable EBIT, EURm | 155 | 195 | 159 | 170 | 131 | 127 | 350 | 258 | 587 |
| % of sales | 22.3 | 29.2 | 23.8 | 27.2 | 20.8 | 20.9 | 25.7 | 20.9 | 23.2 |
| Capital employed (average), EURm | 3,153 | 3,074 | 3,134 | 3,155 | 3,263 | 3,347 | 3,114 | 3,305 | 3,225 |
| Comparable ROCE, % | 19.7 | 25.4 | 20.3 | 21.5 | 16.1 | 15.1 | 22.5 | 15.6 | 18.2 |
| Pulp deliveries, 1,000 t | 835 | 850 | 880 | 890 | 907 | 918 | 1,685 | 1,825 | 3,595 |

Pulp mill maintenance shutdowns: Q2 2018 UPM Fray Bentos, UPM Kaukas. Q4 2017 UPM Kymi and Q2 2017 UPM Pietarsaari.

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

## Actions

- UPM Kaukas pulp mill expansion +30kt in Finland was completed
- Maintenance shutdowns at UPM Kaukas pulp mill in Finland and UPM Fray Bentos pulp mill in Uruguay and biorefinery turnaround in Lappeenranta, Finland
- Price increases in pulp and sawn timber more than offset raw material cost inflation
- Good wood availability after Q1 2018, as harvesting limitations in Finland were solved

## Results

### Q2 2018 compared with Q2 2017

Comparable EBIT for UPM Biorefining increased. Pulp sales prices were significantly higher. Delivery volumes were lower and fixed costs were higher, due to scheduled maintenance shutdowns in UPM Kaukas pulp mill in Finland and UPM Fray Bentos pulp mill in Uruguay, and the biorefinery turnaround in Lappeenranta, Finland. Variable costs were higher.

The average price for UPM's pulp deliveries in euros increased by 22%.

### Q2 2018 compared with Q1 2018

Comparable EBIT decreased mainly due to negative impact of higher fixed costs relating to scheduled maintenance activity. Pulp sales prices were higher.

The average price for UPM's pulp deliveries in euros increased by 7%.

### January–June 2018 compared with January–June 2017

Comparable EBIT for UPM Biorefining increased. Pulp sales prices were significantly higher. Delivery volumes were lower and fixed costs were higher, due to scheduled maintenance shutdowns. Pulp production was also impacted by weather-related wood harvesting limitations in Q1 2018. Variable costs were higher.

The average price for UPM's pulp deliveries in euros increased by 21%.

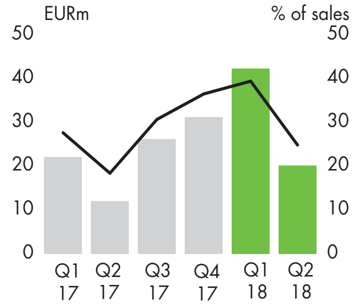
## Market environment

- Chemical pulp demand continued to be strong.
- In Europe and China, the market price of both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased during the second quarter.
- In Europe in the first half of 2018, the average market price in euros was 24% higher for NBSK and 22% higher for BHKP compared to the same period last year. In China, the average market price in US dollars was 38% higher for NBSK and 24% higher for BHKP compared to the same period last year.
- Demand for advanced renewable diesel and naphtha continued to be strong.
- In sawn timber, the solid demand growth continued and market prices increased.

Sources: PPPC, FOEX

# UPM Energy

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




| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 83 | 107 | 86 | 86 | 65 | 80 | 191 | 145 | 317 |
| Comparable EBITDA, EURm | 23 | 44 | 33 | 28 | 14 | 24 | 67 | 38 | 100 |
| % of sales | 27.2 | 41.1 | 38.8 | 33.0 | 21.8 | 30.3 | 35.0 | 26.5 | 31.6 |
| Depreciation, amortisation and impairment charges, EURm | –2 | –2 | –2 | –2 | –2 | –2 | –4 | –4 | –9 |
| Operating profit, EURm | 20 | 42 | 31 | 26 | 12 | 22 | 63 | 34 | 91 |
| % of sales | 24.7 | 39.2 | 36.3 | 30.5 | 18.3 | 27.5 | 32.8 | 23.4 | 28.8 |
| Items affecting comparability in operating profit, EURm [1] | – | – | – | – | – | – | – | – | – |
| Comparable EBIT, EURm | 20 | 42 | 31 | 26 | 12 | 22 | 63 | 34 | 91 |
| % of sales | 24.7 | 39.2 | 36.3 | 30.5 | 18.3 | 27.5 | 32.8 | 23.4 | 28.8 |
| Capital employed (average), EURm | 2,321 | 2,301 | 2,274 | 2,279 | 2,261 | 2,256 | 2,311 | 2,259 | 2,267 |
| Comparable ROCE, % | 3.5 | 7.3 | 5.5 | 4.6 | 2.1 | 3.9 | 5.4 | 3.0 | 4.0 |
| Electricity deliveries, GWh | 2,004 | 2,373 | 2,231 | 2,093 | 1,744 | 2,059 | 4,377 | 3,803 | 8,127 |

## Actions

- Maintenance shutdown at Olkiluoto nuclear power plant
- Limited hydro supply due to dry weather in Nordics

## Results

### Q2 2018 compared with Q2 2017

Comparable EBIT for UPM Energy increased due to significantly higher electricity sales prices and higher nuclear and hydropower generation.

UPM's average electricity sales price increased by 12% to EUR 34.9/MWh (31.1/MWh).

### Q2 2018 compared with Q1 2018

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

UPM's average electricity sales price decreased by 7% to EUR 34.9/MWh (37.7/MWh).

### January–June 2018 compared with January–June 2017

Comparable EBIT for UPM Energy increased due to higher average sales prices. The power generation volumes were higher.

UPM's average electricity sales price increased by 15% to EUR 36.4/MWh (31.6/MWh).

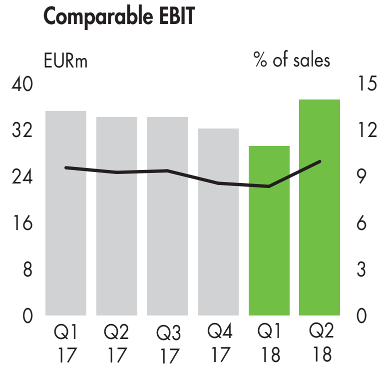
## Market environment

- The Nordic hydrological balance was below the long-term average in the second quarter of 2018.
- Coal prices in the second quarter of 2018 increased compared to the same period last year. $CO_2$ emission allowance price of EUR 15.0/tonne at the end of second quarter of 2018 was higher than in the second quarter of 2017 (EUR 5.0/tonne).
- The average Finnish area spot price for the first half of 2018 on the Nordic electricity exchange was EUR 42.0/MWh, 32% higher than in the same period last year (31.9/MWh).
- The Finnish area front-year forward electricity price closed at EUR 43.1/MWh in June, 29% higher than at the end of Q1 2018 (33.4/MWh).

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

# UPM Raflatac

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




| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 371 | 345 | 379 | 369 | 375 | 371 | 717 | 746 | 1,495 |
| Comparable EBITDA, EURm | 44 | 36 | 40 | 42 | 42 | 43 | 80 | 86 | 168 |
| % of sales | 11.9 | 10.4 | 10.6 | 11.4 | 11.3 | 11.7 | 11.2 | 11.5 | 11.2 |
| Depreciation, amortisation and impairment charges, EURm | –7 | –7 | –8 | –8 | –8 | –8 | –15 | –16 | –32 |
| Operating profit, EURm | 37 | 29 | 32 | 34 | 34 | 35 | 65 | 70 | 136 |
| % of sales | 9.9 | 8.3 | 8.5 | 9.3 | 9.2 | 9.5 | 9.1 | 9.3 | 9.1 |
| Items affecting comparability in operating profit, EURm | – | – | – | – | – | – | – | – | – |
| Comparable EBIT, EURm | 37 | 29 | 32 | 34 | 34 | 35 | 65 | 70 | 136 |
| % of sales | 9.9 | 8.3 | 8.5 | 9.3 | 9.2 | 9.5 | 9.1 | 9.3 | 9.1 |
| Capital employed (average), EURm | 540 | 519 | 518 | 498 | 488 | 503 | 530 | 495 | 502 |
| Comparable ROCE, % | 27.3 | 22.0 | 24.8 | 27.7 | 28.2 | 28.1 | 24.7 | 28.1 | 27.2 |

## Actions

- Pricing actions to mitigate raw material cost inflation
- Opened new slitting and distribution terminal in Seoul, South Korea

## Results

### Q2 2018 compared with Q2 2017

Comparable EBIT for UPM Raflatac increased due to higher sales prices more than offsetting the negative impact of higher variable costs.

### Q2 2018 compared with Q1 2018

Comparable EBIT increased due to higher delivery volumes. Higher sales prices and favourable changes in currencies more than offset the negative impact of higher variable costs.

### January–June 2018 compared with January–June 2017

Comparable EBIT for UPM Raflatac decreased due to higher variable and fixed costs and lower delivery volumes. Higher sales prices had a positive impact on profitability.

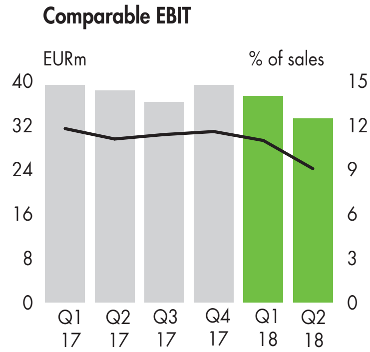
## Market environment

- Global demand growth for self-adhesive label materials remained stable in the first half of 2018.

Sources: FINAT, TLMI

# UPM Specialty Papers

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




| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 368 | 343 | 344 | 320 | 342 | 330 | 710 | 672 | 1,336 |
| Comparable EBITDA, EURm | 53 | 56 | 59 | 55 | 58 | 60 | 109 | 118 | 232 |
| % of sales | 14.4 | 16.4 | 17.1 | 17.2 | 16.9 | 18.1 | 15.4 | 17.5 | 17.3 |
| Depreciation, amortisation and impairment charges, EURm | –20 | –19 | –19 | –19 | –20 | –21 | –39 | –42 | –80 |
| Operating profit, EURm | 33 | 37 | 39 | 36 | 38 | 39 | 70 | 76 | 152 |
| % of sales | 9.0 | 10.9 | 11.5 | 11.3 | 11.0 | 11.7 | 9.9 | 11.3 | 11.4 |
| Items affecting comparability in operating profit, EURm | – | – | – | – | – | – | – | – | – |
| Comparable EBIT, EURm | 33 | 37 | 39 | 36 | 38 | 39 | 70 | 76 | 152 |
| % of sales | 9.0 | 10.9 | 11.5 | 11.3 | 11.0 | 11.7 | 9.9 | 11.3 | 11.4 |
| Capital employed (average), EURm | 887 | 874 | 870 | 858 | 879 | 931 | 880 | 905 | 885 |
| Comparable ROCE, % | 15.0 | 17.1 | 18.1 | 16.9 | 17.1 | 16.7 | 16.0 | 16.9 | 17.2 |
| Paper deliveries, 1,000 t | 393 | 379 | 396 | 384 | 404 | 390 | 772 | 794 | 1,573 |

## Actions

- Price increases offset part of the variable costs increases
- Growth projects in the release liner business in Jämsänkoski, Finland, in Nordland, Germany and in Changshu, China are proceeding as planned

## Results

### Q2 2018 compared with Q2 2017

Comparable EBIT for UPM Specialty Papers decreased mainly due to higher pulp costs and lower delivery volumes more than offsetting the positive impact of higher sales prices.

### Q2 2018 compared with Q1 2018

Comparable EBIT decreased due to higher pulp costs more than offsetting the positive impact of higher sales prices. Delivery volumes increased.

### January–June 2018 compared with January–June 2017

Comparable EBIT for UPM Specialty Papers decreased due to higher pulp costs and lower delivery volumes more than offsetting the positive impact of higher sales prices.

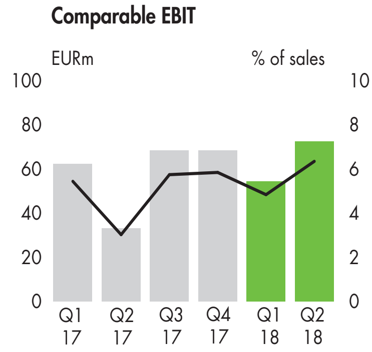
## Market environment

- In the Asia-Pacific region, office paper demand was good and the average market price increased in the first half of 2018. Cost environment remained unfavourable due to higher pulp costs.
- Label and release paper demand was solid in the first half of 2018 and sales prices increased.

Sources: UPM, RISI, Pöyry, AWA

# UPM Communication Papers

UPM Communication Papers offers graphic papers for advertising, magazines, newspapers and home and office. The business has extensive low-cost operations consisting of 15 efficient paper mills in Europe and the United States, a global sales network and an efficient logistic system. The main customers are publishers, cataloguers, retailers, printers and merchants.




| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 1,149 | 1,126 | 1,166 | 1,189 | 1,112 | 1,148 | 2,275 | 2,260 | 4,615 |
| Comparable EBITDA, EURm | 101 | 84 | 100 | 94 | 64 | 98 | 185 | 162 | 356 |
| % of sales | 8.8 | 7.5 | 8.6 | 7.9 | 5.7 | 8.6 | 8.1 | 7.2 | 7.7 |
| Share of results of associated companies and joint ventures, EURm | – | – | – | – | – | 1 | – | 1 | 1 |
| Depreciation, amortisation and impairment charges, EURm | –29 | –30 | –37 | –26 | –31 | –35 | –59 | –67 | –130 |
| Operating profit, EURm | 88 | 85 | 32 | 123 | 31 | 61 | 173 | 92 | 247 |
| % of sales | 7.7 | 7.5 | 2.7 | 10.3 | 2.8 | 5.3 | 7.6 | 4.1 | 5.4 |
| Items affecting comparability in operating profit, EURm [1] | 17 | 30 | –36 | 55 | –2 | –1 | 47 | –3 | 16 |
| Comparable EBIT, EURm | 72 | 54 | 68 | 68 | 33 | 62 | 126 | 95 | 231 |
| % of sales | 6.3 | 4.8 | 5.8 | 5.7 | 3.0 | 5.4 | 5.5 | 4.2 | 5.0 |
| Capital employed (average), EURm | 1,591 | 1,580 | 1,630 | 1,678 | 1,698 | 1,801 | 1,585 | 1,749 | 1,702 |
| Comparable ROCE, % | 18.1 | 13.7 | 16.6 | 16.2 | 7.7 | 13.9 | 15.9 | 10.9 | 13.6 |
| Paper deliveries, 1,000 t | 1,842 | 1,855 | 1,988 | 2,040 | 1,893 | 1,934 | 3,697 | 3,828 | 7,856 |

[1] In Q2 2018, items affecting comparability include EUR 18 million income relating to reversal of unused restructuring provisions in Finland and Germany and EUR 1 million loss relating to sale of Myllykoski mill site in Finland. In Q1 2018, items affecting comparability relate to sale of hydropower assets located in Schongau and Ettringen mill sites in Germany. 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.

As of 26 April 2018, UPM Paper ENA is renamed as UPM Communication Papers. The change has no impact on reported figures.

## Actions

- Price increases implemented in all products to mitigate raw material cost inflation
- High emphasis on operative efficiency and initiatives for digital solutions
- Seasonally high fixed costs

## Results

### Q2 2018 compared with Q2 2017

Comparable EBIT increased due to higher sales prices more than offsetting the negative impact of higher pulp costs. Fixed costs decreased.

The average price for UPM's paper deliveries in euros increased by 6%.

### Q2 2018 compared with Q1 2018

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

The average price for UPM's paper deliveries in euros increased by 3%.

### January–June 2018 compared with January–June 2017

Comparable EBIT for UPM Communication Papers increased. Higher sales prices more than offset the negative impact of higher pulp costs. Fixed costs were lower, more than offsetting the impact of lower delivery volumes.

The average price for UPM's paper deliveries in euros increased by 4%.

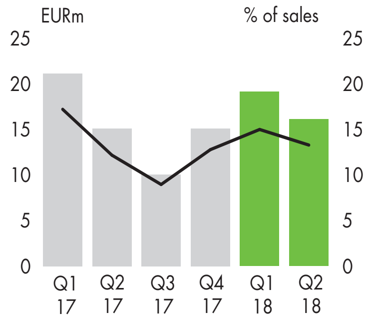
## Market environment

- In the first half of 2018, demand for graphic papers in Europe was 5% lower than last year. Newsprint demand decreased by 6%, magazine paper by 3% and fine paper by 5% compared with the first half of 2017.
- In the second quarter, publication paper prices in Europe were at the same level as the first quarter of 2018. Compared to Q2 2017, publication paper prices were on average 7% higher. In the second quarter, fine paper prices in Europe were on average 3% higher than the previous quarter. Compared to Q2 2017, fine paper prices were on average 11% higher.
- In the first half of 2018, demand for magazine papers in North America decreased by 6% compared to last year. The average US dollar price for magazine papers in the second quarter of 2018 increased by 5% compared to the first quarter of 2018 and 13% compared to Q2 2017.

Sources: PPI/RISI, Euro-Graph, PPPC

# UPM Plywood

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




| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 125 | 125 | 120 | 112 | 128 | 124 | 250 | 252 | 484 |
| Comparable EBITDA, EURm | 22 | 24 | 21 | 16 | 21 | 27 | 47 | 48 | 85 |
| % of sales | 17.8 | 19.5 | 17.4 | 14.0 | 16.6 | 21.9 | 18.7 | 19.2 | 17.6 |
| Depreciation, amortisation and impairment charges, EURm | –6 | –6 | –6 | –6 | –6 | –6 | –12 | –12 | –23 |
| Operating profit, EURm | 16 | 19 | 15 | 10 | 15 | 21 | 35 | 37 | 62 |
| % of sales | 13.2 | 14.9 | 12.7 | 8.9 | 12.1 | 17.1 | 14.0 | 14.6 | 12.8 |
| Items affecting comparability in operating profit, EURm | – | – | – | – | – | – | – | – | – |
| Comparable EBIT, EURm | 16 | 19 | 15 | 10 | 15 | 21 | 35 | 37 | 62 |
| % of sales | 13.2 | 14.9 | 12.7 | 8.9 | 12.1 | 17.1 | 14.0 | 14.6 | 12.8 |
| Capital employed (average), EURm | 280 | 269 | 263 | 263 | 276 | 268 | 274 | 272 | 267 |
| Comparable ROCE, % | 23.6 | 27.6 | 23.1 | 15.1 | 22.4 | 31.7 | 25.6 | 27.0 | 23.1 |
| Plywood deliveries, 1,000 $m^3$ | 206 | 209 | 205 | 192 | 214 | 201 | 414 | 415 | 811 |

## Actions

- Joensuu plywood mill's boiler and scarf-jointing line replacement project in Finland was announced
- Chudovo plywood mill investment project in Russia continued

## Results

### Q2 2018 compared with Q2 2017

Comparable EBIT for UPM Plywood increased. The positive impact of higher sales prices more than offset the impact of higher variable costs, unfavourable changes in currencies and lower delivery volumes.

### Q2 2018 compared with Q1 2018

Comparable EBIT decreased mainly due to higher costs and unfavourable changes in currencies. Higher average sales prices more than offset the negative impact of higher variable costs.

### January–June 2018 compared with January–June 2017

Comparable EBIT for UPM Plywood decreased slightly. Higher average sales prices more than offset the negative impact of higher variable costs. Changes in currencies were unfavourable.

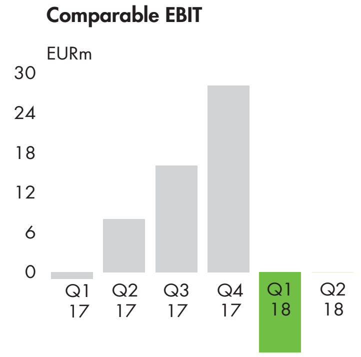
## Market environment

- In the first half of 2018, the market demand in Europe remained strong. Spruce plywood demand growth was good, driven by the building and construction industry. Demand in birch plywood-related industrial applications was strong.

Source: UPM

# Other operations

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




| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 83 | 76 | 69 | 69 | 70 | 72 | 159 | 143 | 281 |
| Comparable EBITDA, EURm | –2 | –13 | 11 | –2 | –6 | –7 | –15 | –14 | –5 |
| Change in fair value of biological assets and wood harvested, EURm | 6 | 3 | 20 | 22 | 18 | 9 | 9 | 27 | 69 |
| Share of results of associated companies and joint ventures, EURm | – | 1 | – | 1 | – | – | 2 | – | 2 |
| Depreciation, amortisation and impairment charges, EURm | –3 | –3 | –4 | –4 | –3 | –3 | –7 | –7 | –15 |
| Operating profit, EURm | 0 | –12 | 28 | 16 | 8 | –2 | –11 | 7 | 51 |
| Items affecting comparability in operating profit, EURm | – | – | – | – | – | – | – | – | – |
| Comparable EBIT, EURm | 0 | –12 | 28 | 16 | 8 | –1 | –11 | 7 | 51 |
| Capital employed (average), EURm | 1,378 | 1,384 | 1,406 | 1,455 | 1,489 | 1,508 | 1,381 | 1,499 | 1,465 |
| Comparable ROCE, % | 0.1 | –3.4 | 7.9 | 4.5 | 2.1 | –0.4 | –1.6 | 0.9 | 3.5 |

## Results

### Q2 2018 compared with Q2 2017

Comparable EBIT for Other operations decreased. The increase in the fair value of forest assets net of wood harvested was EUR 6 million (18 million). The increase in the fair value of forest assets was EUR 25 million (31 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 20 million (13 million).

### Q2 2018 compared with Q1 2018

Comparable EBIT increased. The increase in the fair value of forest assets net of wood harvested was EUR 6 million (3 million). The increase in the fair value of forest assets was EUR 25 million (14 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 20 million (11 million).

### January–June 2018 compared with January–June 2017

Comparable EBIT for Other operations decreased. The increase in the fair value of forest assets net of wood harvested was EUR 9 million (27 million). The increase in the fair value of forest assets was EUR 40 million (52 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 31 million (26 million).

## Risks and near-term uncertainties

The main uncertainties in UPM's earnings relate to the 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.

There are uncertainties regarding global trade and economic growth related to possible protectionist policies. In addition, 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, supply changes such as new production lines, exits and conversions or production issues may have a clear impact on pulp prices.

Recent changes in many commodities indicate that there is a risk of cost inflation in the operating environment.

The decision by the UK to leave the EU 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 decision to leave the EU has also increased uncertainty related to currencies.

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. As announced by TVO in June 2018, TVO received from the Supplier an updated schedule for the commissioning of OL3, and that in accordance with the Supplier's updated schedule the regular electricity generation at OL3 will commence in September 2019. As disclosed by TVO, fuel will be loaded into the reactor in January 2019, and the first connection to the grid will take place in May 2019. According to TVO, OL3 will produce 2–4 TWh of electricity, at varying power levels, during the period of time between the first connection to the grid and the start of regular electricity production in accordance with the Supplier's plant ramp-up program.

TVO announced in March 2018 that the business restructuring plan announced by Areva in 2016 was implemented at the beginning of 2018. The majority of Areva NP's business was transferred to a company named Framatome, of which 75.5% is owned by Electricité de France (EDF). The OL3 project and the means required to complete the project, as well as certain other liabilities remained within Areva NP SAS and Areva GmbH, within the scope of Areva SA.

Furthermore, TVO announced that a comprehensive settlement agreement between TVO, the Supplier and Areva Group parent company Areva SA, a company wholly owned by the French State, was signed and came into force in March 2018. The settlement agreement concerns the completion of the OL3 project and related disputes. The agreement also noted the Supplier's schedule at the time the agreement was signed, according to which the regular electricity production in the unit would have commenced in May 2019.

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 123 of the Annual Report 2017. Risks and opportunities are discussed on pages 22–23 and risks and risk management are presented on pages 102–104.

## Shares

In Q1–Q2 2018, UPM shares worth a total of EUR 4,825 million (4,042 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 32.72 in June and the lowest was EUR 25.59 in February.

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

The Annual General Meeting held on 5 April 2018 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 shareholders' existing holdings in the company, or in a directed share issue, deviating from 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 is valid for three years from the date of the AGM resolution.

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

The number of shares entered in the Trade Register on 30 June 2018 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 June 2018, 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, filed claims relating to the Market Court decision. The capital amount of all of the claims totals currently EUR 125.8 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 18.4 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. The group of municipality claimants have irrevocably waived their claims in April 2018. In May 2018, the Court of Appeal of Helsinki passed a judgment rejecting the damages claim of Metsähallitus against UPM, and the other two Finnish forest companies. The Court of Appeal ordered Metsähallitus also to pay compensation for legal expenses. Metsähallitus has filed a request for leave of appeal with the Supreme Court. 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. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

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

### Other shareholdings

In Finland, UPM is participating in a project to construct a new nuclear power plant unit Olkiluoto 3 EPR (OL3) through its shareholdings in Pohjolan Voima Oyj. Pohjolan Voima Oyj is a majority shareholder of Teollisuuden Voima Oyj (TVO), holding 58.5% of its shares. UPM's indirect share of OL3 is approximately 31%.

According to TVO OL3 was procured as a fixed price turnkey project from a consortium formed by Areva GmbH, Areva NP SAS and Siemens AG (the Supplier). The consortium companies have under the plant contract joint and several liability for the contractual obligations.

Originally the commercial electricity production of the OL3 was scheduled to start in April 2009. The completion of the project, however, has been delayed. As announced by TVO, in accordance with the schedule updated by the Supplier in June 2018, the regular electricity generation at the plant unit will commence in September 2019.

According to TVO, the business restructuring plan announced by Areva Group in 2016 was implemented at the beginning of 2018. The restructuring involved a transfer of the majority of business of Areva NP to a company named Framatome of which 75.5% is owned by Electricité de France (EDF). According to TVO, the OL3 project and the means required to complete it, as well as certain other liabilities remained within Areva NP SAS and Areva GmbH, within the scope of Areva SA.

In March 2018 TVO announced it had signed a comprehensive settlement agreement with the Supplier and Areva Group parent company, Areva SA, a company wholly owned by the French State. The settlement agreement concerns the completion of the OL3 project and related disputes and entered into force in late March. According to TVO, pursuant to the settlement agreement TVO and the Supplier jointly withdrew the pending arbitration proceedings under the International Chamber of Commerce (ICC) rules with respect to costs and losses incurred in relation to delays in the construction of the OL3 project. In July 2018 TVO announced that in June 2018 the ICC tribunal had confirmed the arbitration settlement by a consent award, and the arbitration proceedings had been terminated. The parties also withdrew the pending appeals in the General Court of the European Union.

According to TVO the settlement agreement stipulates as follows:

To provide and maintain adequate and competent technical and human resources for the completion of the OL3 project, Areva will source the necessary additional resources from Framatome S.A.S., whose majority owner is EDF.

The supplier consortium companies undertake that the funds dedicated to the completion of the OL3 project will be adequate and will cover all applicable guarantee periods, including setting up a trust mechanism funded by Areva companies to secure the financing of the costs of completion of the OL3 project.

The turnkey principle of the OL3 plant contract and the joint and several liability of the supplier consortium companies remain in full force.

The agreement also noted the plant Supplier's schedule at the time the agreement was signed, according to which regular electricity production in the unit would have commenced in May 2019.

The ICC arbitration concerning the costs and losses caused by the delay of the OL3 project is settled by financial compensation of EUR 450 million to be paid to TVO in two installments by the Supplier.

The parties withdraw all on-going legal actions related to OL3, including the ICC Arbitration and appeals in the General Court of the European Union.

The supplier consortium companies are entitled to receive an incentive payment, in a maximum amount of EUR 150 million, upon timely completion of the OL3 project. In the event that the supplier consortium companies fail to complete the OL3 project by the end of 2019, the supplier consortium companies will pay a penalty to TVO for such delay in an amount which will depend on the actual time of completion of the OL3 project and may not exceed EUR 400 million.

According to TVO, TVO received the first payment of EUR 328 million of the settlement amount in March at the entry into force of the settlement agreement. The second payment of EUR 122 million is payable upon completion of the OL3 project or, in any event, on 31 December 2019 at the latest. TVO had made in the first quarter of 2018, a provision of EUR 150 million reflecting the maximum amount of the incentive payment payable to the Supplier for timely completion of the OL3 project. According to the updated schedule for the commissioning of the OL3 received by TVO from the Supplier in June 2018, the regular electricity generation at OL3 will start in September 2019, so in the second quarter of 2018, the provision was withdrawn by EUR 50 million. These settlement payments to TVO, any incentive payment by TVO and any penalty payable to TVO due to any additional project delay have all been taken into account by TVO in calculating the final cost of the OL3 project.

TVO announced that based on the current OL3 project schedule provided by the Supplier, TVO's current capital expenditure assumptions and the effect of the settlement agreement, TVO estimates its total investment in OL3 EPR to be around EUR 5.5 billion.

Helsinki, 24 July 2018

**UPM-Kymmene Corporation**
Board of Directors

# Financial information

## Consolidated income statement

| EURm | Q2/2018 | Q2/2017 | Q1–Q2/2018 | Q1–Q2/2017 | Q1–Q4/2017 |
|---|---|---|---|---|---|
| **Sales** | 2,589 | 2,464 | 5,102 | 4,946 | 10,010 |
| Other operating income | 13 | 15 | 56 | 40 | 83 |
| Costs and expenses | −2,162 | −2,131 | −4,238 | −4,226 | −8,492 |
| Change in fair value of biological assets and wood harvested | 14 | 32 | 24 | 48 | 103 |
| Share of results of associated companies and joint ventures | 1 | 1 | 3 | 3 | 5 |
| Depreciation, amortisation and impairment charges | −106 | −112 | −212 | −229 | −450 |
| **Operating profit** | 349 | 269 | 734 | 581 | 1,259 |
| | | | | | |
| Gains on sale of energy shareholdings, net | – | – | – | – | −3 |
| Exchange rate and fair value gains and losses | 2 | −6 | 2 | −6 | −12 |
| Interest and other finance costs, net | −14 | −6 | −28 | −19 | −57 |
| **Profit before tax** | 337 | 258 | 708 | 557 | 1,186 |
| | | | | | |
| Income taxes | −68 | −53 | −130 | −112 | −212 |
| **Profit for the period** | 269 | 205 | 577 | 444 | 974 |
| | | | | | |
| **Attributable to:** | | | | | |
| Owners of the parent company | 269 | 205 | 577 | 444 | 973 |
| Non-controlling interests | – | – | 1 | – | 1 |
| | 269 | 205 | 577 | 444 | 974 |
| | | | | | |
| **Earnings per share for profit attributable to owners of the parent company** | | | | | |
| Basic earnings per share, EUR | 0.50 | 0.38 | 1.08 | 0.83 | 1.82 |
| Diluted earnings per share, EUR | 0.50 | 0.38 | 1.08 | 0.83 | 1.82 |

## Consolidated statement of comprehensive income

| EURm | Q2/2018 | Q2/2017 | Q1–Q2/2018 | Q1–Q2/2017 | Q1–Q4/2017 |
|---|---|---|---|---|---|
| **Profit for the period** | 269 | 205 | 577 | 444 | 974 |
| | | | | | |
| **Other comprehensive income for the period, net of tax:** | | | | | |
| **Items that will not be reclassified to income statement:** | | | | | |
| Actuarial gains and losses on defined benefit obligations | 35 | 6 | 54 | 21 | 66 |
| Changes in fair value of energy shareholdings | 0 | – | 38 | – | – |
| **Items that may be reclassified subsequently to income statement:** | | | | | |
| Translation differences | 89 | −163 | 47 | −180 | −270 |
| Net investment hedge | −14 | 10 | −8 | 14 | 20 |
| Cash flow hedges | −13 | 39 | −24 | 39 | 122 |
| Changes in fair value of energy shareholdings | – | 16 | – | 16 | 24 |
| | 63 | −97 | 14 | −111 | −102 |
| **Other comprehensive income for the period, net of tax** | 98 | −90 | 106 | −90 | −37 |
| **Total comprehensive income for the period** | 366 | 114 | 684 | 354 | 937 |
| | | | | | |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent company | 366 | 114 | 683 | 354 | 937 |
| Non-controlling interests | – | – | 1 | – | 1 |
| | 366 | 114 | 684 | 354 | 937 |

# Consolidated balance sheet

| EURm | 30 JUN 2018 | 30 JUN 2017 | 31 DEC 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Goodwill | 234 | 236 | 231 |
| Other intangible assets | 311 | 299 | 294 |
| Property, plant and equipment | 4,213 | 4,394 | 4,281 |
| Forest assets | 1,614 | 1,662 | 1,600 |
| Energy shareholdings | 2,011 | 1,947 | 1,974 |
| Other non-current financial assets | 182 | 202 | 192 |
| Deferred tax assets | 396 | 431 | 423 |
| Net retirement benefit assets | 100 | 83 | 84 |
| Investments in associates and joint ventures | 30 | 31 | 29 |
| Other non-current assets | 37 | 38 | 37 |
| **Non-current assets** | 9,127 | 9,323 | 9,144 |
| | | | |
| Inventories | 1,471 | 1,364 | 1,311 |
| Trade and other receivables | 1,800 | 1,829 | 1,783 |
| Other current financial assets | 95 | 101 | 92 |
| Income tax receivables | 19 | 19 | 20 |
| Cash and cash equivalents | 369 | 563 | 716 |
| **Current assets** | 3,753 | 3,876 | 3,922 |
| Assets classified as held for sale | – | 35 | 1 |
| | | | |
| **Assets** | 12,881 | 13,234 | 13,067 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 890 | 890 | 890 |
| Treasury shares | −2 | −2 | −2 |
| Translation reserve | 222 | 267 | 184 |
| Other reserves | 1,588 | 1,469 | 1,564 |
| Reserve for invested non-restricted equity | 1,273 | 1,273 | 1,273 |
| Retained earnings | 4,759 | 4,179 | 4,752 |
| **Equity attributable to owners of the parent company** | 8,729 | 8,075 | 8,660 |
| **Non-controlling interests** | 4 | 3 | 4 |
| **Equity** | 8,734 | 8,078 | 8,663 |
| | | | |
| Deferred tax liabilities | 461 | 467 | 458 |
| Net retirement benefit liabilities | 675 | 791 | 736 |
| Provisions | 132 | 123 | 177 |
| Non-current debt | 750 | 1,436 | 789 |
| Other non-current financial liabilities | 87 | 87 | 94 |
| **Non-current liabilities** | 2,104 | 2,904 | 2,254 |
| | | | |
| Current debt | 207 | 451 | 324 |
| Trade and other payables | 1,722 | 1,707 | 1,765 |
| Other current financial liabilities | 91 | 41 | 34 |
| Income tax payables | 23 | 53 | 26 |
| **Current liabilities** | 2,043 | 2,252 | 2,150 |
| **Liabilities** | 4,147 | 5,156 | 4,404 |
| | | | |
| **Equity and liabilities** | 12,881 | 13,234 | 13,067 |

# 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 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2017** | 890 | −2 | 184 | 1,564 | 1,273 | 4,752 | 8,660 | 4 | 8,663 |
| Impact of adoption of IFRS 15 [1] | – | – | – | – | – | −3 | −3 | – | −3 |
| Impact of adoption of IFRS 2 amendment [1] | – | – | – | 26 | – | – | 26 | – | 26 |
| **Balance at 1 January 2018** | 890 | −2 | 184 | 1,590 | 1,273 | 4,750 | 8,684 | 4 | 8,687 |
| Profit for the period | – | – | – | – | – | 577 | 577 | 1 | 577 |
| Translation differences | – | – | 47 | – | – | – | 47 | – | 47 |
| Cash flow hedges – reclassified to income statement, net of tax | – | – | – | −20 | – | – | −20 | – | −20 |
| Cash flow hedges – changes in fair value, net of tax | – | – | – | −4 | – | – | −4 | – | −4 |
| Net investment hedge, net of tax | – | – | −8 | – | – | – | −8 | – | −8 |
| Energy shareholdings – changes in fair value, net of tax | – | – | – | 38 | – | – | 38 | – | 38 |
| Actuarial gains and losses on defined benefit plans, net of tax | – | – | – | – | – | 54 | 54 | – | 54 |
| **Total comprehensive income for the period** | – | – | 38 | 14 | – | 630 | 683 | 1 | 684 |
| Share-based payments, net of tax | – | – | – | −16 | – | −8 | −24 | – | −24 |
| Dividend distribution | – | – | – | – | – | −613 | −613 | – | −613 |
| **Total transactions with owners for the period** | – | – | – | −16 | – | −621 | −637 | – | −637 |
| **Balance at 30 June 2018** | 890 | −2 | 222 | 1,588 | 1,273 | 4,759 | 8,729 | 4 | 8,734 |
| | | | | | | | | | |
| **Balance at 1 January 2017** | 890 | −2 | 433 | 1,416 | 1,273 | 4,225 | 8,234 | 3 | 8,237 |
| Profit for the period | – | – | – | – | – | 444 | 444 | – | 444 |
| Translation differences | – | – | −180 | – | – | – | −180 | – | −180 |
| Cash flow hedges – reclassified to income statement, net of tax | – | – | – | 12 | – | – | 12 | – | 12 |
| Cash flow hedges – changes in fair value, net of tax | – | – | – | 27 | – | – | 27 | – | 27 |
| Net investment hedge, net of tax | – | – | 14 | – | – | – | 14 | – | 14 |
| Energy shareholdings – changes in fair value, net of tax | – | – | – | 16 | – | – | 16 | – | 16 |
| Actuarial gains and losses on defined benefit plans, net of tax | – | – | – | – | – | 21 | 21 | – | 21 |
| **Total comprehensive income for the period** | – | – | −166 | 55 | – | 465 | 354 | – | 354 |
| Share-based payments, net of tax | – | – | – | −2 | – | −5 | −7 | – | −7 |
| Dividend distribution | – | – | – | – | – | −507 | −507 | – | −507 |
| **Total transactions with owners for the period** | – | – | – | −2 | – | −512 | −512 | – | −513 |
| **Balance at 30 June 2017** | 890 | −2 | 267 | 1,469 | 1,273 | 4,179 | 8,075 | 3 | 8,078 |

[1] More information on changes in group's accounting policies is presented under *» Basis of preparation and accounting policies*.

# Condensed consolidated cash flow statement

| EURm | Q1–Q2/2018 | Q1–Q2/2017 | Q1–Q4/2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | 577 | 444 | 974 |
| Adjustments | 249 | 319 | 779 |
| Change in working capital | –162 | –24 | 91 |
| Finance costs, net | –19 | –12 | –71 |
| Income taxes paid | –108 | –62 | –216 |
| **Operating cash flow** | 537 | 665 | 1,558 |
| | | | |
| **Cash flows from investing activities** | | | |
| Capital expenditure | –139 | –120 | –305 |
| Asset sales and other investing cash flow | 23 | 12 | 84 |
| **Investing cash flow** | –116 | –108 | –222 |
| | | | |
| **Cash flows from financing activities** | | | |
| Change in loans and other financial items | –155 | –474 | –1,098 |
| Dividends paid | –613 | –507 | –507 |
| **Financing cash flow** | –768 | –981 | –1,604 |
| | | | |
| **Change in cash and cash equivalents** | –347 | –424 | –268 |
| | | | |
| Cash and cash equivalents at beginning of period | 716 | 992 | 992 |
| Exchange rate effect on cash and cash equivalents | –1 | –5 | –7 |
| Change in cash and cash equivalents | –347 | –424 | –268 |
| **Cash and cash equivalents at end of period** | 369 | 563 | 716 |

# Quarterly key figures

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

| | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 2,589 | 2,512 | 2,571 | 2,493 | 2,464 | 2,482 | 5,102 | 4,946 | 10,010 |
| Comparable EBITDA, EURm | 425 | 449 | 451 | 425 | 349 | 405 | 875 | 755 | 1,631 |
| % of sales | 16.4 | 17.9 | 17.5 | 17.1 | 14.2 | 16.3 | 17.1 | 15.3 | 16.3 |
| Comparable EBIT, EURm | 334 | 355 | 366 | 351 | 270 | 305 | 689 | 575 | 1,292 |
| % of sales | 12.9 | 14.1 | 14.2 | 14.1 | 11.0 | 12.3 | 13.5 | 11.6 | 12.9 |
| Comparable profit before tax, EURm | 322 | 341 | 340 | 328 | 258 | 291 | 663 | 550 | 1,218 |
| Capital employed (average), EURm | 9,712 | 9,755 | 9,938 | 10,032 | 9,942 | 10,288 | 9,734 | 10,311 | 10,217 |
| Comparable ROCE, % | 13.6 | 14,3 | 15.9 | 13.6 | 10.8 | 11.7 | 14.0 | 11.1 | 12.8 |
| Comparable profit for the period, EURm | 258 | 288 | 297 | 267 | 205 | 234 | 545 | 440 | 1,004 |
| Total equity, average, EURm | 8,856 | 8,821 | 8,497 | 8,204 | 8,020 | 8,100 | 8,699 | 8,158 | 8,450 |
| Comparable ROE, % | 11.6 | 13.0 | 14.0 | 13.0 | 10.2 | 11.6 | 12.5 | 10.8 | 11.9 |
| Average number of shares basis (1,000) | 533,324 | 533,324 | 533,323 | 533,328 | 533,505 | 533,505 | 533,324 | 533,505 | 533,415 |
| Comparable EPS, EUR | 0.48 | 0.54 | 0.56 | 0.50 | 0.39 | 0.44 | 1.02 | 0.82 | 1.88 |
| Items affecting comparability in operating profit, EURm | 15 | 30 | –67 | 28 | –1 | 7 | 44 | 7 | –33 |
| Items affecting comparability in financial items, EURm | – | – | – | 1 | – | – | – | – | 1 |
| Items affecting comparability in taxes, EURm | –3 | –9 | 14 | –10 | – | –2 | –12 | –2 | 2 |
| Operating cash flow, EURm | 329 | 208 | 407 | 486 | 269 | 396 | 537 | 665 | 1,558 |
| Operating cash flow per share, EUR | 0.62 | 0.39 | 0.76 | 0.91 | 0.50 | 0.74 | 1.01 | 1.25 | 2.92 |
| Net debt at the end of period, EURm | 401 | 41 | 174 | 623 | 1,046 | 807 | 401 | 1,046 | 174 |
| Gearing ratio, % | 5 | 0 | 2 | 7 | 13 | 10 | 5 | 13 | 2 |
| Net debt to EBITDA (last 12 m.) | 0.23 | 0.02 | 0.11 | 0.41 | 0.68 | 0.52 | 0.23 | 0.68 | 0.11 |
| Capital expenditure, EURm | 76 | 43 | 120 | 99 | 64 | 46 | 119 | 110 | 329 |
| Capital expenditure excluding acquisitions, EURm | 76 | 43 | 120 | 72 | 64 | 46 | 119 | 110 | 303 |
| Equity per share at the end of period, EUR | 16.37 | 16.83 | 16.24 | 15.61 | 15.14 | 14.92 | 16.37 | 15.14 | 16.24 |
| Personnel at the end of period | 19,836 | 19,027 | 19,111 | 19,335 | 20,096 | 19,301 | 19,836 | 20,096 | 19,111 |

*The definitions of alternative performance measures are presented in notes to the consolidated financial statements in » **UPM Annual Report 2017**.*

# Reconciliation of key figures to IFRS

| EURm, OR AS INDICATED | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| **Items affecting comparability** | | | | | | | | | |
| Impairment charges | – | – | –4 | – | – | 1 | – | 1 | –3 |
| Restructuring charges | 18 | – | –61 | –2 | –2 | –3 | 19 | –5 | –67 |
| Change in fair value of unrealised cash flow and commodity hedges | –2 | – | –2 | –6 | 1 | 9 | –3 | 10 | 2 |
| Capital gains and losses on sale of non-current assets | –2 | 30 | 1 | 35 | – | – | 28 | – | 35 |
| Total items affecting comparability in operating profit | 15 | 30 | –67 | 28 | –1 | 7 | 44 | 7 | –33 |
| Items affecting comparability in financial items | – | – | – | 1 | – | – | – | – | 1 |
| Changes in tax rates | – | – | –5 | – | – | – | – | – | –5 |
| Taxes relating to items affecting comparability | –3 | –9 | 19 | –10 | – | –2 | –12 | –2 | 7 |
| Items affecting comparability in taxes | –3 | –9 | 14 | –10 | – | –2 | –12 | –2 | 2 |
| **Items affecting comparability, total** | 11 | 21 | –53 | 19 | –1 | 6 | 32 | 5 | –30 |
| | | | | | | | | | |
| **Comparable EBITDA** | | | | | | | | | |
| Operating profit | 349 | 385 | 299 | 379 | 269 | 312 | 734 | 581 | 1,259 |
| Depreciation, amortisation and impairment charges [1] | 106 | 106 | 112 | 104 | 112 | 119 | 212 | 231 | 447 |
| Change in fair value of forest assets and wood harvested [1] | –14 | –10 | –26 | –29 | –32 | –16 | –24 | –48 | –103 |
| Share of result of associates and joint ventures | –1 | –2 | –1 | –1 | –1 | –2 | –3 | –3 | –5 |
| Items affecting comparability in operating profit | –15 | –30 | 67 | –28 | 1 | –7 | –44 | –7 | 33 |
| **Comparable EBITDA** | 425 | 449 | 451 | 425 | 349 | 405 | 875 | 755 | 1,631 |
| % of sales | 16.4 | 17.9 | 17.5 | 17.1 | 14.2 | 16.3 | 17.1 | 15.3 | 16.3 |
| [1] excluding items affecting comparability | | | | | | | | | |
| | | | | | | | | | |
| **Comparable EBIT** | | | | | | | | | |
| Operating profit | 349 | 385 | 299 | 379 | 269 | 312 | 734 | 581 | 1,259 |
| Items affecting comparability in operating profit | –15 | –30 | 67 | –28 | 1 | –7 | –44 | –7 | 33 |
| **Comparable EBIT** | 334 | 355 | 366 | 351 | 270 | 305 | 689 | 575 | 1,292 |
| % of sales | 12.9 | 14.1 | 14.2 | 14.1 | 11.0 | 12.3 | 13.5 | 11.6 | 12.9 |
| | | | | | | | | | |
| **Comparable profit before tax** | | | | | | | | | |
| Profit before tax | 337 | 371 | 273 | 357 | 258 | 299 | 708 | 557 | 1,186 |
| Items affecting comparability in operating profit | –15 | –30 | 67 | –28 | 1 | –7 | –44 | –7 | 33 |
| Items affecting comparability in financial items | – | – | – | –1 | – | – | – | – | –1 |
| **Comparable profit before tax** | 322 | 341 | 340 | 328 | 258 | 291 | 663 | 550 | 1,218 |
| | | | | | | | | | |
| **Comparable ROCE, %** | | | | | | | | | |
| Comparable profit before tax | 322 | 341 | 340 | 328 | 258 | 291 | 663 | 550 | 1,218 |
| Interest expenses and other financial expenses | 8 | 9 | 55 | 13 | 10 | 10 | 17 | 20 | 89 |
| | 330 | 350 | 395 | 341 | 268 | 302 | 680 | 570 | 1,307 |
| Capital employed, average | 9,712 | 9,755 | 9,938 | 10,032 | 9,942 | 10,288 | 9,734 | 10,311 | 10,217 |
| **Comparable ROCE, %** | 13.6 | 14.3 | 15.9 | 13.6 | 10.8 | 11.7 | 14.0 | 11.1 | 12.8 |
| | | | | | | | | | |
| **Comparable profit for the period** | | | | | | | | | |
| Profit for the period | 269 | 309 | 244 | 286 | 205 | 240 | 577 | 444 | 974 |
| Items affecting comparability, total | –11 | –21 | 53 | –19 | 1 | –6 | –32 | –5 | 30 |
| **Comparable profit for the period** | 258 | 288 | 297 | 267 | 205 | 234 | 545 | 440 | 1,004 |
| | | | | | | | | | |
| **Comparable EPS, EUR** | | | | | | | | | |
| Comparable profit for the period | 258 | 288 | 297 | 267 | 205 | 234 | 545 | 440 | 1,004 |
| Profit attributable to non-controlling interest | – | –1 | –1 | – | – | – | –1 | – | –1 |
| | 258 | 287 | 296 | 267 | 205 | 234 | 545 | 440 | 1,003 |
| Average number of shares basic (1,000) | 533,324 | 533,324 | 533,323 | 533,328 | 533,505 | 533,505 | 533,324 | 533,505 | 533,415 |
| **Comparable EPS, EUR** | 0.48 | 0.54 | 0.56 | 0.50 | 0.39 | 0.44 | 1.02 | 0.82 | 1.88 |
| | | | | | | | | | |
| **Comparable ROE, %** | | | | | | | | | |
| Comparable profit for the period | 258 | 288 | 297 | 267 | 205 | 234 | 545 | 440 | 1,004 |
| Profit attributable to non-controlling interest | – | –1 | –1 | – | – | – | –1 | – | –1 |
| | 258 | 287 | 296 | 267 | 205 | 234 | 545 | 440 | 1,003 |
| Total equity, average | 8,856 | 8,821 | 8,497 | 8,204 | 8,020 | 8,100 | 8,699 | 8,158 | 8,450 |
| **Comparable ROE, %** | 11.6 | 13.0 | 14.0 | 13.0 | 10.2 | 11.6 | 12.5 | 10.8 | 11.9 |

# Reconciliation of key figures to IFRS

| EURm, OR AS INDICATED | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| **Net debt** | | | | | | | | | |
| Non-current debt | 750 | 720 | 789 | 1,161 | 1,436 | 1,531 | 750 | 1,436 | 789 |
| Current debt | 207 | 34 | 324 | 607 | 451 | 426 | 207 | 451 | 324 |
| **Total debt** | 957 | 755 | 1,114 | 1,769 | 1,887 | 1,956 | 957 | 1,887 | 1,114 |
| Non-current interest-bearing assets | 167 | 165 | 189 | 198 | 210 | 222 | 167 | 210 | 189 |
| Cash and cash equivalents | 369 | 528 | 716 | 896 | 563 | 866 | 369 | 563 | 716 |
| Other current interest-bearing assets | 20 | 20 | 35 | 52 | 69 | 62 | 20 | 69 | 35 |
| **Total interest-bearing assets** | 556 | 714 | 940 | 1,146 | 841 | 1,149 | 556 | 841 | 940 |
| **Net debt** | 401 | 41 | 174 | 623 | 1,046 | 807 | 401 | 1,046 | 174 |

# Quarterly segment information

| EURm | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 | Q1/17 | Q1–Q2/18 | Q1–Q2/17 | Q1–Q4/17 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | |
| UPM Biorefining | 694 | 668 | 669 | 624 | 630 | 607 | 1,363 | 1,237 | 2,531 |
| UPM Energy | 83 | 107 | 86 | 86 | 65 | 80 | 191 | 145 | 317 |
| UPM Raflatac | 371 | 345 | 379 | 369 | 375 | 371 | 717 | 746 | 1,495 |
| UPM Specialty Papers | 368 | 343 | 344 | 320 | 342 | 330 | 710 | 672 | 1,336 |
| UPM Communication Papers | 1,149 | 1,126 | 1,166 | 1,189 | 1,112 | 1,148 | 2,275 | 2,260 | 4,615 |
| UPM Plywood | 125 | 125 | 120 | 112 | 128 | 124 | 250 | 252 | 484 |
| Other operations | 83 | 76 | 69 | 69 | 70 | 72 | 159 | 143 | 281 |
| Internal sales | –289 | –279 | –263 | –274 | –258 | –252 | –568 | –510 | –1,046 |
| Eliminations and reconciliations | 4 | 1 | 1 | –3 | – | 1 | 5 | – | –2 |
| **Sales, total** | 2,589 | 2,512 | 2,571 | 2,493 | 2,464 | 2,482 | 5,102 | 4,946 | 10,010 |
| | | | | | | | | | |
| **Comparable EBITDA** | | | | | | | | | |
| UPM Biorefining | 185 | 227 | 194 | 203 | 157 | 160 | 411 | 318 | 714 |
| UPM Energy | 23 | 44 | 33 | 28 | 14 | 24 | 67 | 38 | 100 |
| UPM Raflatac | 44 | 36 | 40 | 42 | 42 | 43 | 80 | 86 | 168 |
| UPM Specialty Papers | 53 | 56 | 59 | 55 | 58 | 60 | 109 | 118 | 232 |
| UPM Communication Papers | 101 | 84 | 100 | 94 | 64 | 98 | 185 | 162 | 356 |
| UPM Plywood | 22 | 24 | 21 | 16 | 21 | 27 | 47 | 48 | 85 |
| Other operations | –2 | –13 | 11 | –2 | –6 | –7 | –15 | –14 | –5 |
| Eliminations and reconciliations | – | –9 | –7 | –10 | –1 | – | –9 | –2 | –18 |
| **Comparable EBITDA, total** | 425 | 449 | 451 | 425 | 349 | 405 | 875 | 755 | 1,631 |
| | | | | | | | | | |
| **Operating profit** | | | | | | | | | |
| UPM Biorefining | 155 | 195 | 130 | 170 | 131 | 127 | 350 | 258 | 557 |
| UPM Energy | 20 | 42 | 31 | 26 | 12 | 22 | 63 | 34 | 91 |
| UPM Raflatac | 37 | 29 | 32 | 34 | 34 | 35 | 65 | 70 | 136 |
| UPM Specialty Papers | 33 | 37 | 39 | 36 | 38 | 39 | 70 | 76 | 152 |
| UPM Communication Papers | 88 | 85 | 32 | 123 | 31 | 61 | 173 | 92 | 247 |
| UPM Plywood | 16 | 19 | 15 | 10 | 15 | 21 | 35 | 37 | 62 |
| Other operations | 0 | –12 | 28 | 16 | 8 | –2 | –11 | 7 | 51 |
| Eliminations and reconciliations | –2 | –9 | –9 | –37 | – | 9 | –12 | 8 | –38 |
| **Operating profit, total** | 349 | 385 | 299 | 379 | 269 | 312 | 734 | 581 | 1,259 |
| % of sales | 13.5 | 15.3 | 11.6 | 15.2 | 10.9 | 12.6 | 14.4 | 11.8 | 12.6 |
| | | | | | | | | | |
| **Items affecting comparability in operating profit** | | | | | | | | | |
| UPM Biorefining | – | – | –30 | – | – | – | – | – | –30 |
| UPM Energy | – | – | – | – | – | – | – | – | – |
| UPM Raflatac | – | – | – | – | – | – | – | – | – |
| UPM Specialty Papers | – | – | – | – | – | – | – | – | – |
| UPM Communication Papers | 17 | 30 | –36 | 55 | –2 | –1 | 47 | –3 | 16 |
| UPM Plywood | – | – | – | – | – | – | – | – | – |
| Other operations | – | – | – | – | – | – | – | – | – |
| Eliminations and reconciliations [1)] | –2 | – | –2 | –28 | 1 | 9 | –3 | 10 | –19 |
| **Items affecting comparability in operating profit, total** | 15 | 30 | –67 | 28 | –1 | 7 | 44 | 7 | –33 |
| | | | | | | | | | |
| **Comparable EBIT** | | | | | | | | | |
| UPM Biorefining | 155 | 195 | 159 | 170 | 131 | 127 | 350 | 258 | 587 |
| UPM Energy | 20 | 42 | 31 | 26 | 12 | 22 | 63 | 34 | 91 |
| UPM Raflatac | 37 | 29 | 32 | 34 | 34 | 35 | 65 | 70 | 136 |
| UPM Specialty Papers | 33 | 37 | 39 | 36 | 38 | 39 | 70 | 76 | 152 |
| UPM Communication Papers | 72 | 54 | 68 | 68 | 33 | 62 | 126 | 95 | 231 |
| UPM Plywood | 16 | 19 | 15 | 10 | 15 | 21 | 35 | 37 | 62 |
| Other operations | 0 | –12 | 28 | 16 | 8 | –1 | –11 | 7 | 51 |
| Eliminations and reconciliations | – | –9 | –7 | –10 | –1 | – | –9 | –2 | –18 |
| **Comparable EBIT, total** | 334 | 355 | 366 | 351 | 270 | 305 | 689 | 575 | 1,292 |
| % of sales | 12.9 | 14.1 | 14.2 | 14.1 | 11.0 | 12.3 | 13.5 | 11.6 | 12.9 |

[1)] In Q2 2018, eliminations and reconciliations includes changes in fair value of unrealised cash flow and commodity hedges. 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 commodity hedges.

# External sales by major products

| BUSINESS AREA | BUSINESS | Q2/2018 | Q2/2017 | Q1–Q2/2018 | Q1–Q2/2017 | Q1–Q4/2017 |
|---|---|---|---|---|---|---|
| EUR million | | | | | | |
| UPM Biorefining | UPM Pulp, UPM Biofuels, UPM Timber | 536 | 486 | 1,053 | 956 | 1,958 |
| UPM Energy | UPM Energy | 20 | 21 | 66 | 53 | 120 |
| UPM Raflatac | UPM Raflatac | 371 | 375 | 717 | 746 | 1,495 |
| UPM Specialty Papers | UPM Specialty Papers | 313 | 285 | 605 | 562 | 1,111 |
| UPM Communication Papers | UPM Communication Papers | 1,143 | 1,106 | 2,261 | 2,248 | 4,592 |
| UPM Plywood | UPM Plywood | 119 | 123 | 239 | 241 | 463 |
| Other operations | Wood Sourcing and Forestry, UPM Biochemicals, UPM Biocomposites | 82 | 69 | 156 | 138 | 274 |
| Eliminations and reconciliations | | 4 | – | 5 | – | –2 |
| **Total** | | 2,589 | 2,464 | 5,102 | 4,946 | 10,010 |

| BUSINESS | PRODUCT RANGE |
|---|---|
| UPM Pulp | Softwood, birch and eucalyptus pulp |
| UPM Biofuels | Wood-based renewable diesel for transport and renewable naphtha for transport and for bioplastics |
| UPM Timber | Standard and special sawn timber |
| UPM Energy | Electricity and related services |
| UPM Raflatac | Self-adhesive paper and film label stock |
| UPM Specialty Papers | Labelling and packaging materials, office papers, graphic papers |
| UPM Communication Papers | Magazine papers, newsprint and fine papers for various end uses |
| UPM Plywood | Plywood and veneer products, thermoformable wood material |
| Wood Sourcing and Forestry | Wood and wood-based biomass (logs, pulpwood, chips, forest residues etc.), full forestry service offering |
| UPM Biochemicals | Lignin products for industrial use. Cell culture hydrogel products for biomedical applications. |
| UPM Biocomposites | UPM ProFi decking products and UPM Formi granules |

## Changes in property, plant and equipment

| EURm | Q1–Q2/2018 | Q1–Q2/2017 | Q1–Q4/2017 |
|---|---|---|---|
| Book value at beginning of period | 4,281 | 4,657 | 4,657 |
| Capital expenditure | 113 | 104 | 289 |
| Decreases | –8 | –6 | –24 |
| Depreciation | –205 | –220 | –434 |
| Impairment charges | – | – | –5 |
| Impairment reversals | – | 2 | 2 |
| Translation difference and other changes | 32 | –143 | –204 |
| **Book value at end of period** | 4,213 | 4,394 | 4,281 |

## Financial assets and liabilities measured at fair value

| EURm | 30 JUN 2018 | | | | 30 JUN 2017 | | | | 31 DEC 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | | | | | | | | |
| Derivatives non-qualifying hedges | – | 12 | – | 12 | 5 | 34 | – | 39 | 4 | 19 | – | 23 |
| Derivatives used for hedging | 104 | 139 | – | 243 | 17 | 223 | – | 240 | 42 | 198 | – | 240 |
| Energy shareholdings | – | – | 2,011 | 2,011 | – | – | 1,947 | 1,947 | – | – | 1,974 | 1,974 |
| **Total** | 104 | 151 | 2,011 | 2,266 | 22 | 257 | 1,947 | 2,226 | 46 | 217 | 1,974 | 2,237 |
| **Financial liabilities** | | | | | | | | | | | | |
| Derivatives non-qualifying hedges | – | 15 | – | 15 | 9 | 14 | – | 23 | 17 | 19 | – | 36 |
| Derivatives used for hedging | 43 | 40 | – | 83 | 21 | 36 | – | 57 | 12 | 8 | – | 20 |
| **Total** | 43 | 55 | – | 98 | 30 | 50 | – | 80 | 29 | 27 | – | 56 |

There have been no transfers between Levels.

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

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

## Fair value measurements using significant unobservable inputs, Level 3

| | ENERGY SHAREHOLDINGS | | |
|---|---|---|---|
| EURm | Q1–Q2/2018 | Q1–Q2/2017 | Q1–Q4/2017 |
| Opening balance | 1,974 | 1,932 | 1,932 |
| Additions | – | – | 25 |
| Impairment charges | – | – | –3 |
| Fair value changes recognised in other comprehensive income | 37 | 15 | 20 |
| **Closing balance** | 2,011 | 1,947 | 1,974 |

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 290 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. UPM's indirect share of the capacity of Olkiluoto 3 EPR is approximately 31%, through its PVO B2 shares. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

## Fair value of financial assets and liabilities measured at carrying amount

| EURm | 30 JUN 2018 | 30 JUN 2017 | 31 DEC 2017 |
|---|---|---|---|
| Non-current debt, excl. derivative financial instruments | 761 | 1,415 | 801 |

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

## Commitments and contingencies

| EURm | 30 JUN 2018 | 30 JUN 2017 | 31 DEC 2017 |
|---|---|---|---|
| **Own commitments** | | | |
| Mortgages | 12 | 114 | 76 |
| | | | |
| **On behalf of others** | | | |
| Guarantees | | 2 | 2 |
| | 2 | | |
| **Other own commitments** | | | |
| Leasing commitments for the next 12 months | 80 | 68 | 77 |
| Leasing commitments for subsequent periods | 382 | 362 | 386 |
| Other commitments | 93 | 92 | 95 |
| | 569 | 638 | 636 |

## Capital commitments

| EURm | COMPLETION | TOTAL COST | BY 31 DEC 2017 | Q1–Q2/2018 | AFTER 30 JUN 2018 |
|---|---|---|---|---|---|
| Paper machine conversion / Nordland paper mill | Q4 2019 | 116 | – | 13 | 103 |
| Capacity increase / Changshu paper mill | Q4 2019 | 34 | – | 1 | 33 |
| Capacity increase / Chudovo plywood mill | Q3 2019 | 50 | 8 | 4 | 38 |

## Notional amounts of derivative financial instruments

| EURm | 30 JUN 2018 | 30 JUN 2017 | 31 DEC 2017 |
|---|---|---|---|
| Interest rate forward contracts | 2,033 | 1,756 | 1,223 |
| Interest rate swaps | 750 | 1,641 | 1,056 |
| | | | |
| Forward foreign exchange contracts | 2,403 | 2,521 | 2,298 |
| Currency options, bought | 18 | 8 | 25 |
| Currency options, written | 25 | 13 | 23 |
| | | | |
| Cross currency swaps | 163 | 252 | 239 |
| Commodity contracts | 705 | 430 | 436 |

# Basis of preparation and accounting policies

This unaudited interim report 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 2017.

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 has adopted two new IFRS standards on 1 January 2018, IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments as well as the amendment to IFRS 2 Share-based payments. IFRS 16 Leases will be adopted in 2019. Description of effects of implementation is presented below.

## IFRS 15 Revenue from contracts with Customers

The group has adopted IFRS 15 using modified retrospective transition approach upon initial application, applying the standard only to contracts that are not completed as of 1 January 2018. The cumulative effect of the adoption amounting to EUR 3 million net of tax is shown as a decrease of retained earnings on 1 January 2018 and relates mainly to variable consideration. Comparative information is not restated. The amount by which each financial statement line item is affected in the current reporting period by the application of IFRS 15 is not material for group financial statements. The changes that have been made to group's accounting policies are described below.

### Variable consideration

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. The group has not previously made an estimate of expected claims relating to sales of paper products. Instead, the revenue has been adjusted when the group has processed and accepted the claims. Under changed accounting policy, the group estimates and updates the amount of expected claims at each reporting date, and adjusts the sales revenue accordingly.

### Consignment stock agreements

According to new requirements, revenue is recognised when the customer obtains control of the good or service. The group has some sales agreements labelled as consignment stock agreements, that under new more specific requirements do not qualify as consignment stock agreements. Consequently, the revenue is recognised in these cases earlier than under old accounting policy.

### Delivery terms

The group has some sales over long distances using CIP and CPT delivery terms whereby UPM is responsible for organising the delivery. 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. Under old accounting policy, full revenue was recognised when the goods passed the ship's rail. The accounting policy change did not have any effect of UPM retained earnings at the transition because the group recognises delivery costs at the same time with revenue.

### Presentation and disclosure

IFRS 15 requires disaggregation of revenue by categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The group disaggregates its external sales by business areas, because UPM business areas are reported consistently with the internal reporting provided to UPM's President and CEO who is responsible for allocating resources and assessing performance of the business areas. The additional disclosures of goods and services included in sales revenue of each business area are presented earlier in this publication.

# IFRS 9 Financial instruments

The group has adopted IFRS 9, which has replaced 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 adoption of IFRS 9 did not have any effect on UPM retained earnings at the transition date. The changes that have been made to group's accounting policies are described below.

## Classification of financial assets and liabilities

UPM has classified its financial assets and liabilities based on group's business model using categories stated in IFRS 9.

On the date of initial application, 1 January 2018, UPM financial instruments were as follows, with any reclassifications noted:

| | ORIGINAL CLASSIFICATION IAS 39 | NEW CLASSIFICATION IFRS 9 | ORIGINAL CARRYING AMOUNT IAS 39 (EURm) | NEW CARRYING AMOUNT IFRS 9 (EURm) |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Energy shareholdings | Available-for-sale | Equity investments at FVOCI | 1,974 | 1,974 |
| Loans and receivables | Loans and receivables | Financial assets at amortised costs | 21 | 21 |
| Trade and other receivables | Loans and receivables | Financial assets at amortised costs | 1,783 | 1,783 |
| Derivatives used for hedging | Derivatives used for hedging | Derivatives used for hedging | 240 | 240 |
| Derivatives, non-qualifying hedges | Fair value through profit and loss | Fair value through profit and loss | 23 | 23 |
| **Financial liabilities** | | | | |
| Loans | Financial liabilities at amortised costs | Financial liabilities at amortised costs | 1,185 | 1,185 |
| Trade and other payables | Financial liabilities at amortised costs | Financial liabilities at amortised costs | 1,765 | 1,765 |
| Derivatives, qualifying hedges | Derivatives used for hedging | Derivatives used for hedging | 20 | 20 |
| Derivatives, non-qualifying hedges | Fair value through profit and loss | Fair value through profit and loss | 36 | 36 |

The group has classified its energy shareholdings categorised as available-for-sale under IAS 39 at the date of initial application 1 January 2018 as measured at fair value through other comprehensive income (FVOCI). Energy shareholdings are unlisted equity investments that group intends to hold for the long term. 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 had to be adopted retrospectively, comparatives were not restated on initial application. These changes did not have any impact on UPM's financial statements in the period of the initial application, 1 January 2018.

Loans and receivables including trade receivables continue to be measured in the balance sheet at amortised costs as the purpose of holding these financial assets is to obtain contractual cash flows.

IFRS 9 did not bring any changes to group's previous classification and measurement of financial liabilities.

## Impairment of trade receivables

Under IAS 39, impairment was recognised when there was objective evidence that the group is not able to collect the amounts due. Under IFRS 9, the group has developed a simplified expected credit loss model for trade receivables, whereby expected credit losses that are expected to occur during the full lifetime of the assets are recognised as provisions. New impairment model is based on forward-looking information as well as past experience and current expectations. 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 did not materially change the amount of credit loss provision at the transition date.

## 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 were 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 has been implemented prospectively without restatement of comparatives.

## Commodity hedges

UPM is hedging both sales of power production and power purchases consumed at daily business. The group's sensitivity to electricity market price is dependent on the electricity production and consumption levels and the hedging levels. In the Nordic and Central European market areas the operative risk management is done by entering into electricity derivatives contracts.

Under IFRS 9, more group's risk management strategies qualify for hedge accounting. UPM's electricity price hedging benefits from the possibility to apply hedge accounting for one or several risk components separately or in aggregation. UPM considers system (SYS) and electricity price area differential (EPAD) products perfect hedges for corresponding electricity price risk components in Finland. Thus, a vast majority of the previously non-hedge accounted electricity derivatives qualify for hedge accounting under IFRS 9 as of 1 January 2018. This change will reduce the UPM's profit and loss volatility as the fair value changes of unrealized derivatives are recognised in OCI hedging reserve instead of income statement. The effective portion of designated risk component is recognised in OCI. Ineffectiveness is recognised in income statement. However, it may arise in rare cases only.

UPM has updated its risk management strategies, hedging documentation and hedge effectiveness testing principles.

UPM applies the hedge accounting of IFRS 9 on a prospective basis for all hedging relationships without restating comparative information. Thus, these changes in accounting principles did not have any impact on UPM's financial statements in the period of the initial application, 1 January 2018.

## Amendment to IFRS 2 Share-based Payments

Amendment to IFRS 2 clarifies the accounting for equity-settled share-based payments with net settlement features for withholding tax obligations. UPM has share-based arrangements with net settlement features in several countries. Tax laws and regulations oblige UPM to withhold an amount for an employee's obligation in respect of taxes associated with share-based payments and to pay this amount to tax authorities in cash on behalf of employee. The obligation to settle in cash has resulted in such transactions being classified previously as cash-settled. According to new requirements, the group classifies the transactions with net settlement features as equity-settled in its entirety.

The change will reduce profit and loss volatility and was implemented prospectively without restatement of comparatives. At the transition date 1 January 2018, the group has transferred the liability amounting to EUR 26 million relating to unvested plans to share-based payments reserve in equity.

## 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 of the IFRS 16 -project in 2018. The undiscounted amount relating to payment commitments as of 31 December 2017 amounted to EUR 463 million.

UPM plans to adopt IFRS 16 using modified retrospective transition approach upon initial application 1 January 2019 without restatement of comparatives. More information on impact of the new standard and estimated cumulative effect on transition will be presented in Q3 2018 interim financial statement.

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 123 of the 2017 Annual Report. Risks and opportunities are discussed on pages 22–23 and risks and risk management are presented on pages 102–104 of the report.

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