The Biofore Company UPM

AIMING HIGHER WITH BIOFORE

INTERIM REPORT 1 JANUARY – 31 MARCH 2018

UPM Interim Report Q1 2018:

UPM continues to grow earnings

Strong customer demand in all businesses

Q1 2018 highlights

- Comparable EBIT increased by 17% to EUR 355 million (305 million in Q1 2017).
- Sales prices increased in all business areas, outweighing the impact of higher input costs and unfavourable currencies.
- Operating cash flow was EUR 208 million (396 million), including an increase in working capital.
- Net debt decreased to EUR 41 million (807 million).

Key figures

	Q1/2018	Q1/2017	Q4/2017	Q1–Q4/2017
Sales, EURm	2,512	2,482	2,571	10,010
Comparable EBITDA, EURm	449	405	451	1,631
% of sales	17.9	16.3	17.5	16.3
Operating profit, EURm	385	312	299	1,259
Comparable EBIT, EURm	355	305	366	1,292
% of sales	14.1	12.3	14.2	12.9
Profit before tax, EURm	371	299	273	1,186
Comparable profit before tax, EURm	341	291	340	1,218
Profit for the period, EURm	309	240	244	974
Comparable profit for the period, EURm	288	234	297	1,004
Earnings per share (EPS), EUR	0.58	0.45	0.46	1.82
Comparable EPS, EUR	0.54	0.44	0.56	1.88
Return on equity (ROE), %	14.0	11.8	11.5	11.5
Comparable ROE, %	13.0	11.6	14.0	11.9
Return on capital employed (ROCE), %	15.6	12.0	13.2	12.5
Comparable ROCE, %	14.3	11.7	15.9	12.8
Operating cash flow, EURm	208	396	407	1,558
Operating cash flow per share, EUR	0.39	0.74	0.76	2.92
Equity per share at the end of period, EUR	16.83	14.92	16.24	16.24
Capital employed at the end of period, EURm	9,733	9,919	9,777	9,777
Net debt at the end of period, EURm	41	807	174	174
Net debt to EBITDA (last 12 m.)	0.02	0.52	0.11	0.11
Personnel at the end of period	19,027	19,301	19,111	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 Q1 results:

"Commercially the first quarter was excellent. Customer demand was strong and we succeeded in increasing sales prices in all businesses, practically in all products. With this we were able to expand our margins and recover the impact of clearly higher input costs.

Our comparable EBIT increased by 17 % to EUR 355 million, marking the 20th consecutive quarter of earnings growth. Operating cash flow was at EUR 208 million and net debt decreased to EUR 41 million during the quarter.

UPM Biorefining benefitted from significantly higher pulp prices in the first quarter. Operationally, however, the quarter left room for improvement. Challenges in wood harvesting and operational efficiency limited our production and we were not able to fully benefit from the strong market demand.

UPM Energy achieved an excellent result with higher electricity prices and a good level of hydropower generation.

UPM Communication Papers (formerly UPM Paper ENA), UPM Specialty Papers and UPM Plywood continued good performance. They were able to offset most of the heavy cost increases with sales price actions in favourable customer demand and tight markets.

The market demand was also good for self-adhesive labels. UPM Raflatac was able to restore its unit margins with price increases after 12 months of continued heavy input cost increases, but gave up some volumes in the process.

We are making progress in our transformative prospects. In Uruguay, the second preparation phase for the potential new pulp mill is proceeding. The permitting processes for the mill, rail and port, as well as rail tendering have started as agreed with the Government of Uruguay.

In UPM Biochemicals, the basic engineering work for the potential industrial scale biochemical refinery in Germany is proceeding at full speed. Results are expected by the end of the year.

In UPM Biofuels, we continue to explore future opportunities by carrying out an environmental impact study in Kotka, Finland, as a potential location for a new biorefinery.

I am pleased to say that UPM is in good shape. Global megatrends drive demand growth for sustainable and safe solutions that we provide. We will create value by seizing the limitless opportunities of bioeconomy."

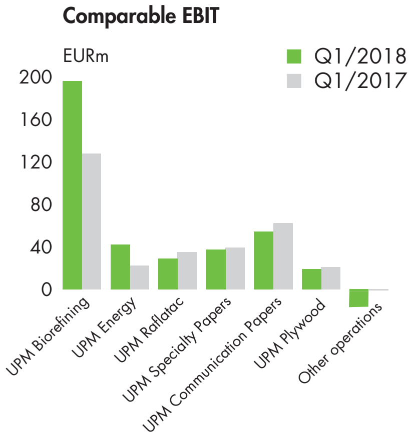
Outlook for 2018

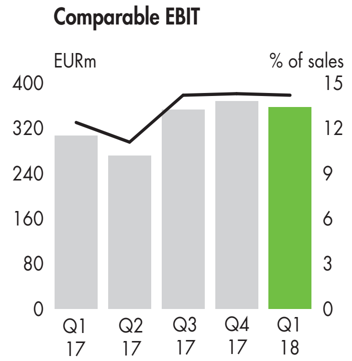
UPM reached record earnings in 2017 and its comparable EBIT is expected to increase further in 2018 compared with 2017.

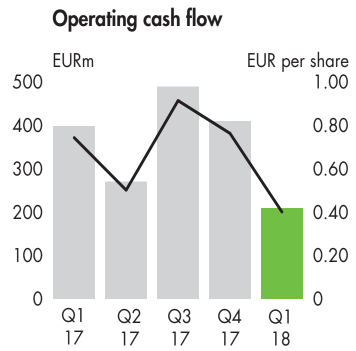
The fundamentals for UPM businesses in 2018 continue to be favourable. Healthy demand growth is expected to continue for most UPM businesses in 2018, while demand decline is expected to continue for UPM Communication Papers. Sales prices are expected to be higher in UPM businesses in 2018 compared with 2017.

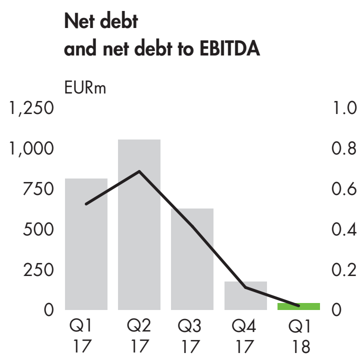
Input costs are expected to be higher in 2018 compared with 2017. In order to mitigate this, UPM will continue to implement measures to reduce fixed and variable costs. 2018 has started with less favourable currency exchange rates than 2017.

Q2 2018 results will be impacted by significant maintenance activity, especially in UPM Biorefining.









Results

Q1 2018 compared with Q1 2017

Q1 2018 sales were EUR 2,512 million, 1% higher than the EUR 2,482 million for Q1 2017. Sales grew in UPM Biorefining, UPM Energy, UPM Specialty Papers and UPM Plywood, but decreased in UPM Communication Papers and UPM Raflatac.

Comparable EBIT increased by 17% to EUR 355 million, 14.1% of sales (305 million, 12.3%). Sales prices increased in all UPM business areas. The positive impact of higher sales prices more than offset the negative impacts of increased variable costs and changes in currencies. Fixed costs were on the same level as last year. Delivery volumes were lower than last year, partly due to the weather-related wood harvesting limitations in Northern Europe.

Depreciation, excluding items affecting comparability, totalled EUR 106 million (119 million). The increase in the fair value of forest assets net of wood harvested was EUR 10 million (16 million).

Operating profit totalled EUR 385 million (312 million). The sale of UPM Communication Papers's hydropower facilities in Schongau and Ettringen, Germany, resulted in a sales gain of EUR 30 million, which was booked as an item affecting comparability in operating profit.

Net interest and other finance costs were EUR 14 million (13 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 0 million (0 million). Income taxes totalled EUR 62 million (59 million).

Profit for Q1 2018 was EUR 309 million (240 million), and comparable profit was EUR 288 million (234 million).

Q1 2018 compared with Q4 2017

Comparable EBIT decreased by 3% to EUR 355 million, 14.1% of sales (366 million, 14.2%). Sales prices increased in all UPM business areas, offsetting the negative impact of increased variable costs. Delivery volumes decreased, partly for seasonal reasons and partly due to the weather-related wood harvesting limitations in Northern Europe. Fixed costs were seasonally EUR 37 million lower.

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 10 million (26 million).

Operating profit totalled EUR 385 million (299 million).

Financing and cash flow

In Q1 2018, cash flow from operating activities before capital expenditure and financing totalled EUR 208 million (396 million). Working capital increased seasonally by EUR 142 million during the period (decreased by EUR 36 million, driven by the working capital reduction programme).

Net debt decreased to EUR 41 million at the end of the period (807 million). The gearing ratio as of 31 March 2018 was 0% (10%). Net debt to EBITDA ratio, based on the latest 12 months' EBITDA, was 0.02 at the end of the period (0.52).

On 31 March 2018, UPM's cash funds and unused committed credit facilities totalled EUR 1.0 billion.

Capital expenditure

In Q1 2018, capital expenditure totalled EUR 43 million, 1.7% of sales (46 million, 1.8% 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, upgrading the mill's fibre lines, recovery boiler, evaporation, bailing and wood handling. Erection of the main equipment and start-up are scheduled for the spring of 2018. This new project will see the annual production capacity of the UPM Kaukas pulp mill increase by 30,000 tonnes to 770,000 tonnes of softwood and birch pulp in 2019.

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

Personnel

In Q1 2018, UPM had an average of 19,011 employees (19,255). At the beginning of the year, the number of employees was 19,111 and at the end of Q1 2018 it was 19,027.

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

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

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

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

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

Biochemicals business development

UPM formed UPM Biochemicals in 2013 by combining its biochemical-related business initiatives. UPM Biochemicals offers and develops innovative, sustainable and competitive wood-based biochemicals. The product segments are biochemicals, lignin products and biomedical products. Development is at the pre-commercial phase, with UPM actively developing and testing industrial applications to create 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 Q1 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 31 January, 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 addition to the Jämsänkoski investment, UPM decided to conduct a feasibility study on the conversion of the fine paper machine PM2 at Nordland Papier into release liner production.

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

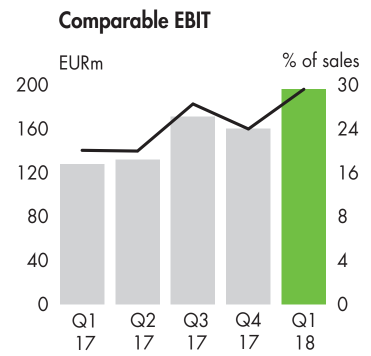
UPM held its Annual General Meeting on 5 April. The decisions of the AGM are presented elsewhere in this report.

Timing of significant maintenance shutdowns in 2017 and 2018

TIMING	UNIT
Q2/2017	Pietarsaari pulp mill Olkiluoto nuclear power plant
Q4/2017	Kymi pulp mill
Q2/2018	Fray Bentos pulp mill Kaukas pulp mill Lappeenranta biorefinery turnaround 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.



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

Pulp mill maintenance shutdowns: Q4 2017 UPM Kymi, Q2 2017 UPM Pietarsaari.

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

Actions

- UPM started an environmental impact assessment (EIA) for a possible biofuels biorefinery in Kotka, Finland
- Pulp production was impacted by the temporary wood harvesting limitations in Finland

Results

Q1 2018 compared with Q1 2017

Comparable EBIT for UPM Biorefining increased mainly due to significantly higher pulp sales prices. Pulp delivery volumes were lower as production was impacted by the temporary wood harvesting limitations caused by unusually warm and wet weather in Northern Europe in the fourth quarter of 2017. At the UPM Lappeenranta Biorefinery in biofuels, an unexpected shutdown took place due to a technical breakdown.

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

Q1 2018 compared with Q4 2017

Comparable EBIT increased due to higher pulp sales prices. Pulp delivery volumes were lower.

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

Market environment

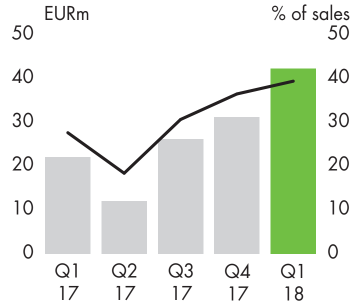
- Chemical pulp demand continued to be strong.
- In Europe and in China, the market price of both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased during the first quarter.
- In Europe in the first quarter, the average market price in euros was 12% higher for NBSK and 29% higher for BHKP than in the same period last year. In China, the average market price in US dollars was 43% higher for NBSK and 36% higher for BHKP than in the first quarter of 2017.
- 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.

Comparable EBIT



	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q1–Q4/17
Sales, EURm	107	86	86	65	80	317
Comparable EBITDA, EURm	44	33	28	14	24	100
% of sales	41.1	38.8	33.0	21.8	30.3	31.6
Share of results of associated companies and joint ventures, EURm	–	–	–	–	–	–
Depreciation, amortisation and impairment charges, EURm	–2	–2	–2	–2	–2	–9
Operating profit, EURm	42	31	26	12	22	91
% of sales	39.2	36.3	30.5	18.3	27.5	28.8
Items affecting comparability in operating profit, EURm [1]	–	–	–	–	–	–
Comparable EBIT, EURm	42	31	26	12	22	91
% of sales	39.2	36.3	30.5	18.3	27.5	28.8
Capital employed (average), EURm	2,301	2,274	2,279	2,261	2,256	2,267
Comparable ROCE, %	7.3	5.5	4.6	2.1	3.9	4.0
Electricity deliveries, GWh	2,373	2,231	2,093	1,744	2,059	8,127

[1]

Actions

- TVO signed a settlement agreement on OL3 EPR project completion and related disputes
- Electricity market prices and hydro production were at a good level

Results

Q1 2018 compared with Q1 2017

Comparable EBIT for UPM Energy increased. The average electricity sales price was higher due to cold weather and resulting high electricity consumption in the Nordics. The hydropower generation volumes were higher.

UPM's average electricity sales price increased by 18% to EUR 37.7/MWh (32.0/MWh).

Q1 2018 compared with Q4 2017

Comparable EBIT increased due to higher average electricity sales prices. The hydropower generation volumes were slightly lower.

UPM's average electricity sales price increased almost by 15% to EUR 37.7/MWh (32.9/MWh).

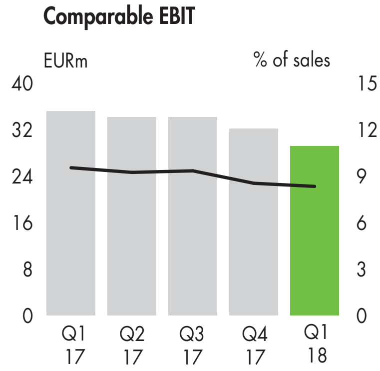
Market environment

- The Nordic hydrological balance was close to the long-term average level in the first quarter of 2018. At the end of March, the hydrological balance was slightly below the long-term average level.
- Coal prices in the first quarter of 2018 increased in comparison with the same period last year but decreased from the fourth quarter of 2017. The CO_2 emission allowance price of EUR 13.0/tonne at the end of the first quarter of 2018 was higher than in the first quarter of 2017 (EUR 5.2/tonne).
- The average Finnish area spot price for the first quarter of 2018 on the Nordic electricity exchange was EUR 42.0/MWh, 27% higher than in the previous quarter (33.0/MWh) and in the first quarter of 2017 (33.0/MWh).
- The Finnish area front-year forward electricity price closed at EUR 33.4/MWh in March, slightly higher than at the end of Q4 2017 (33.1/MWh).

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

UPM Raflatac

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



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

Actions

- Price increases were implemented in all regions
- Product range was complemented further in high value-added and innovative products

Results

Q1 2018 compared with Q1 2017

Comparable EBIT for UPM Raflatac decreased mainly due to lower delivery volumes and unfavourable changes in currencies. Higher sales prices offset the negative impact of higher variable costs.

Q1 2018 compared with Q4 2017

Comparable EBIT decreased due to lower delivery volumes. The sales margin increased from the comparison period.

Market environment

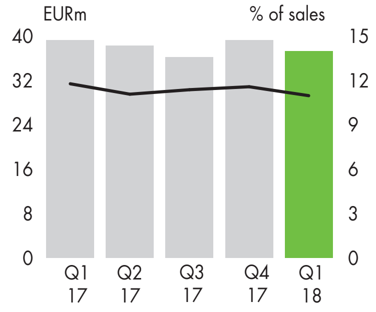
- Global demand growth for self-adhesive label materials remained solid in the first quarter of 2018.

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.

Comparable EBIT



	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q1–Q4/17
Sales, EURm	343	344	320	342	330	1,336
Comparable EBITDA, EURm	56	59	55	58	60	232
% of sales	16.4	17.1	17.2	16.9	18.1	17.3
Depreciation, amortisation and impairment charges, EURm	–19	–19	–19	–20	–21	–80
Operating profit, EURm	37	39	36	38	39	152
% of sales	10.9	11.5	11.3	11.0	11.7	11.4
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–
Comparable EBIT, EURm	37	39	36	38	39	152
% of sales	10.9	11.5	11.3	11.0	11.7	11.4
Capital employed (average), EURm	874	870	858	879	931	885
Comparable ROCE, %	17.1	18.1	16.9	17.1	16.7	17.2
Paper deliveries, 1,000 t	379	396	384	404	390	1,573

Actions

- UPM was recognised as a water efficiency frontrunner in China and received Singapore Green Label certification for sustainable manufacturing, product value chain and environmental practice

Results

Q1 2018 compared with Q1 2017

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

Q1 2018 compared with Q4 2017

Comparable EBIT decreased due to higher pulp and energy costs and lower delivery volumes, more than offsetting the positive impact of higher sales prices.

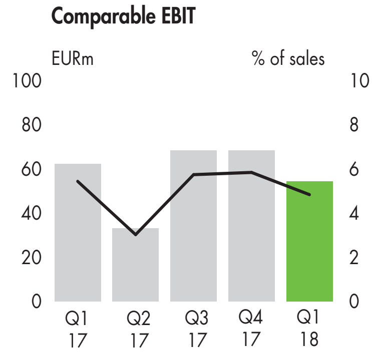
Market environment

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



	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q1–Q4/17
Sales, EURm	1,126	1,166	1,189	1,112	1,148	4,615
Comparable EBITDA, EURm	84	100	94	64	98	356
% of sales	7.5	8.6	7.9	5.7	8.6	7.7
Share of results of associated companies and joint ventures, EURm	–	–	–	–	1	1
Depreciation, amortisation and impairment charges, EURm	–30	–37	–26	–31	–35	–130
Operating profit, EURm	85	32	123	31	61	247
% of sales	7.5	2.7	10.3	2.8	5.3	5.4
Items affecting comparability in operating profit, EURm [1)]	30	–36	55	–2	–1	16
Comparable EBIT, EURm	54	68	68	33	62	231
% of sales	4.8	5.8	5.7	3.0	5.4	5.0
Capital employed (average), EURm	1,580	1,630	1,678	1,698	1,801	1,702
Comparable ROCE, %	13.7	16.6	16.2	7.7	13.9	13.6
Paper deliveries, 1,000 t	1,855	1,988	2,040	1,893	1,934	7,856

[1)] In Q1 2018, items affecting comparability relate to sale of hydro power 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 were implemented for all paper grades

Results

Q1 2018 compared with Q1 2017

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

The average price for UPM's paper deliveries in euro increased by 2%, impacted by unfavourable changes in currencies.

Q1 2018 compared with Q4 2018

Comparable EBIT decreased as higher pulp and energy costs more than offset the positive impact of higher average sales prices. Energy costs were higher. Fixed costs and delivery volumes decreased seasonally.

The average price for UPM's paper deliveries in euro increased by 3%. In the local currencies the price increases were higher.

Market environment

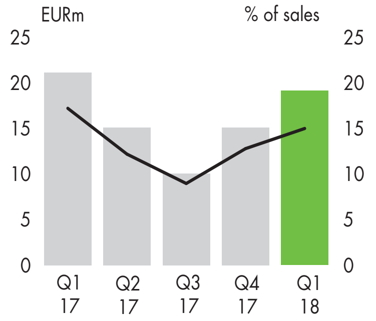
- In first quarter of 2018, demand for graphic papers in Europe was 6% lower than in the same period last year. Newsprint demand decreased by 8%, magazine paper by 4% and fine paper by 6% compared with the first quarter of 2017.
- In the first quarter, publication paper prices in Europe were 6% higher in comparison with the fourth quarter of 2017 and were 7% higher compared to the first quarter of 2017.
- In the first quarter, fine paper prices in Europe were on average 3% higher compared to the fourth quarter of 2017. Compared to the first quarter of 2017, fine paper prices were 10% higher on average.
- In the first quarter, demand for magazine papers in North America decreased by 7% compared with the same period last year. The average US dollar price for magazine papers in the first quarter of 2018 increased by 3% compared fourth quarter of 2017 and by 6% compared to the first quarter of 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.

Comparable EBIT



	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q1–Q4/17
Sales, EURm	125	120	112	128	124	484
Comparable EBITDA, EURm	24	21	16	21	27	85
% of sales	19.5	17.4	14.0	16.6	21.9	17.6
Depreciation, amortisation and impairment charges, EURm	–6	–6	–6	–6	–6	–23
Operating profit, EURm	19	15	10	15	21	62
% of sales	14.9	12.7	8.9	12.1	17.1	12.8
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–
Comparable EBIT, EURm	19	15	10	15	21	62
% of sales	14.9	12.7	8.9	12.1	17.1	12.8
Capital employed (average), EURm	269	263	263	276	268	267
Comparable ROCE, %	27.6	23.1	15.1	22.4	31.7	23.1
Plywood deliveries, 1,000 m^3	209	205	192	214	201	811

Actions

- Strong profitability continued and price increases were implemented
- UPM celebrated 2 million cubic metres of manufactured birch plywood in UPM Chudovo plywood mill, Russia, where ongoing investment is in place to expand the production capacity and to broaden the product portfolio by the end of 2019.

Results

Q1 2018 compared with Q1 2017

Comparable EBIT for UPM Plywood decreased as unfavourable currency exchange rates and higher variable costs more than offset the positive impact of higher delivery volumes and sales prices.

Q1 2018 compared with Q4 2017

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

Market environment

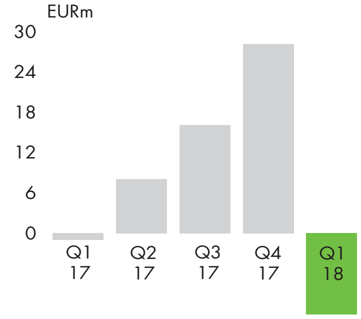
- In the first quarter of 2018, the market demand in Europe increased. Spruce plywood demand growth was good, driven principally by the building and construction industry. Demand in birch plywood-related industrial applications was strong.

Source: UPM

Other operations

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

Comparable EBIT



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

Results

Q1 2018 compared with Q1 2017

Comparable EBIT for Other operations decreased. The increase in the fair value of forest assets net of wood harvested was EUR 3 million (9 million). The increase in the fair value of forest assets was EUR 14 million (22 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 11 million (13 million).

Q1 2018 compared with Q4 2017

Comparable EBIT decreased. The increase in the fair value of forest assets net of wood harvested was EUR 3 million (20 million). The increase in the fair value of forest assets was EUR 14 million (45 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 11 million (25 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.

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.

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.

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

The start of regular electricity production, originally scheduled for April 2009, has been revised several times by the Supplier. According to a public statement by TVO in October 2017, TVO received information on the Supplier's schedule rebaseline review for OL3 project completion, according to which the start of regular electricity production at OL3 will take place in May 2019.

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 percent 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 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 notes the Supplier's most recent schedule according to which regular electricity production in the unit will commence in May 2019.

TVO publicly announced after the reporting period that the Supplier informed in April 2018 that due to some delays in the hot functional testing phase it will perform a schedule review in a few weeks' time and provide TVO with an overall rebaseline schedule for the final phases of the project. Furthermore, TVO announced that it cannot estimate whether or not the schedule will influence the start of the regular electricity production in May 2019 or the preceding production of electricity with varying power levels during the test program currently scheduled to start in December 2018.

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.

Annual General Meeting

The Annual General Meeting held on 5 April 2018 decided that a dividend of EUR 1.15 per share (totalling EUR 613 million) be paid in respect of the 2017 financial year. The dividend was paid on 19 April 2018. The dividend record date was 9 April 2018.

The Annual General Meeting authorised the Board of Directors to decide on the repurchase of a maximum of 50,000,000 of the Company's own shares. The authorisation will be valid for 18 months from the date of the AGM resolution.

The Annual General Meeting approved amendments to articles 2, 8 and 10 of the Articles of Association and resolved to remove the article 12 (Obligation to redeem shares in different voting right situations) from the Articles of Association. Article 2 was amended to reflect the Company's businesses more closely, Article 8 to correspond to the statutory responsibility for the auditor oversight and Article 10 to the effect that the entire notice of the Annual General Meeting will be published only on the corporate website. Article 12 was removed from the Articles of Association as obsolete and difficult to apply in practice.

Board of Directors

At the Annual General Meeting held on 5 April 2018, the number of members of the Board of Directors was confirmed as ten, and Berndt Brunow, Henrik Ehrnrooth, Piia-Noora Kauppi, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Suzanne Thoma, Kim Wahl and Björn Wahlroos were re-elected to the Board. Marjan Oudeman was elected as a new director. The directors' term of office will end upon the closure of the next AGM. Wendy E. Lane, member of UPM's Board of Directors since 2005, stepped down from the Board.

Björn Wahlroos was re-elected as Chairman, and Berndt Brunow as Deputy Chairman of the Board of Directors of UPM-Kymmene Corporation at the Board of Directors' constitutive meeting that took place following the Annual General Meeting.

In addition, the Board of Directors elected the chairmen and other members to the Board committees from among its members. Piia-Noora Kauppi was re-elected to chair the Audit Committee. Kim Wahl was re-elected and Marjan Oudeman elected to the committee as a new member. Veli-Matti Reinikkala was re-elected to chair the Remuneration Committee, and Henrik Ehrnrooth and Suzanne Thoma were re-elected as other committee members. Björn Wahlroos was re-elected to chair the Nomination and Governance Committee, and Berndt Brunow and Ari Puheloinen were re-elected as other committee members.

Shares

In Q1 2018, UPM shares worth a total of EUR 2,538 million (2,215 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 30.22 in March 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 will be valid for three years from the date of the AGM resolution.

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

The number of shares entered in the Trade Register on 31 March 2018 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 March 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, have filed claims relating to the Market Court decision. The capital amount of all of the claims totals currently EUR 132.8 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 20.9 million in the aggregate. In addition to the claims on capital amounts, the claimants are also requesting compensation relating to value added tax and interests. In June 2016, the District Court passed a judgment rejecting the damages claim of Metsähallitus against UPM, and the other two Finnish forest companies. The District Court ordered Metsähallitus to pay UPM compensation for legal expenses. Metsähallitus has appealed the District Court judgment to the Court of Appeal. The capital amount of Metsähallitus' claim is currently in total EUR 124.9 million, of which EUR 17.6 million is based on agreements between Metsähallitus and UPM. In October 2017, the District Court passed judgments rejecting the damages claims by the municipalities and parishes. Claimants have a right to appeal the judgments to the Court of Appeal. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims. By end of 2017, the District Court passed judgements in the private forest owners' claims (total number 486) rejecting all the claims. Such 486 private claimants have irrevocably waived their claims in January 2018.

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 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 plant unit was scheduled to start in April 2009. The completion of the project, however, has been delayed. According to TVO, in accordance with the schedule updated by the Supplier in October 2017 the start of regular electricity production at OL3 will take place in May 2019. As announced by TVO after the reporting period, the Supplier informed in April 2018 that due to some delays in the hot functional testing phase it will perform a schedule review in a few weeks' time and provide TVO with an overall rebaseline schedule for the final phases of the project. Furthermore, TVO announced that it cannot estimate whether or not the schedule will influence the start of the regular electricity production in May 2019 or the preceding production of electricity with varying power levels during the test program currently scheduled to start in December 2018.

TVO was a party to the International Chamber of Commerce (ICC) arbitration proceedings (ICC Arbitration) initiated by the Supplier in December 2008 concerning the costs and losses incurred in relation to delays in the construction of the OL3 project. According to TVO, the Supplier's monetary claim was in total approximately EUR 3.59 billion. The sum included penalty interest (calculated to June 30, 2017) and payments allegedly delayed by TVO under the plant contract amounting to a combined total of approximately EUR 1.58 billion, as well as approximately EUR 132 million in alleged loss of profit.

According to TVO, the quantification estimate of its costs and losses related to its counter claim against the Supplier in the ICC Arbitration was approximately EUR 2.6 billion (including TVO's actual claim and estimated part) until the end of 2018 which was the the Supplier's earlier estimated start of regular electricity production of OL3.

As announced by TVO in 2016 and 2017 it had received three final and binding partial awards on the initial key issue areas in the ICC Arbitration. The partial awards resolved the great majority of the facts and matters covered in these proceedings in favour of TVO, and rejected the great majority of the Supplier's contentions in this regard. According to TVO the partial awards did not take a position on the claimed monetary amounts.

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 and Areva GmbH, within the scope of Areva SA.

TVO announced it has signed in March 2018 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 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 notes the supplier consortium companies' most recent schedule according to which regular electricity production in the unit will commence 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.

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 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, 26 April 2018

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q1/2018	Q1/2017	Q1–Q4/2017
Sales	2,512	2,482	10,010
Other operating income	43	25	83
Costs and expenses	–2,076	–2,095	–8,492
Change in fair value of biological assets and wood harvested	10	16	103
Share of results of associated companies and joint ventures	2	2	5
Depreciation, amortisation and impairment charges	–106	–118	–450
Operating profit	385	312	1,259
Gains on sale of energy shareholdings, net	–	–	–3
Exchange rate and fair value gains and losses	–	–	–12
Interest and other finance costs, net	–14	–13	–57
Profit before tax	371	299	1,186
Income taxes	–62	–59	–212
Profit for the period	309	240	974
Attributable to:			
Owners of the parent company	308	240	973
Non-controlling interests	1	–	1
	309	240	974
Earnings per share for profit attributable to owners of the parent company			
Basic earnings per share, EUR	0.58	0.45	1.82
Diluted earnings per share, EUR	0.58	0.45	1.82

Consolidated statement of comprehensive income

EURm	Q1/2018	Q1/2017	Q1–Q4/2017
Profit for the period	309	240	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	19	15	66
Changes in fair value of energy shareholdings	38	–	–
Items that may be reclassified subsequently to income statement:			
Translation differences	–43	–17	–270
Net investment hedge	6	3	20
Cash flow hedges	–11	–1	122
Changes in fair value of energy shareholdings	–	–	24
	–10	–14	–102
Other comprehensive income for the period, net of tax	9	–	–37
Total comprehensive income for the period	317	240	937
Total comprehensive income attributable to:			
Owners of the parent company	317	240	937
Non-controlling interests	1	–	1
	317	240	937

Consolidated balance sheet

EURm	31 MAR 2018	31 MAR 2017	31 DEC 2017
ASSETS			
Goodwill	229	243	231
Other intangible assets	304	307	294
Property, plant and equipment	4,191	4,565	4,281
Forest assets	1,597	1,688	1,600
Energy shareholdings	2,011	1,932	1,974
Other non-current financial assets	165	204	192
Deferred tax assets	411	439	423
Net retirement benefit assets	91	85	84
Investments in associates and joint ventures	29	30	29
Other non-current assets	37	39	37
Non-current assets	9,064	9,532	9,144
Inventories	1,371	1,410	1,311
Trade and other receivables	1,859	1,797	1,783
Other current financial assets	95	108	92
Income tax receivables	20	17	20
Cash and cash equivalents	528	866	716
Current assets	3,873	4,197	3,922
Assets classified as held for sale	–	47	1
Assets	12,938	13,776	13,067
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	−2	−2	−2
Translation reserve	147	420	184
Other reserves	1,598	1,412	1,564
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	5,069	3,968	4,752
Equity attributable to owners of the parent company	8,974	7,959	8,660
Non-controlling interests	4	3	4
Equity	8,978	7,962	8,663
Deferred tax liabilities	461	462	458
Net retirement benefit liabilities	708	806	736
Provisions	169	142	177
Non-current debt	720	1,531	789
Other non-current financial liabilities	74	86	94
Non-current liabilities	2,133	3,027	2,254
Current debt	34	425	324
Trade and other payables	1,734	2,246	1,765
Other current financial liabilities	37	77	34
Income tax payables	22	38	26
Current liabilities	1,827	2,786	2,150
Liabilities	3,960	5,813	4,404
Equity and liabilities	12,938	13,776	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-CONTROL-LING 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	–	–	–	–	–	308	308	1	309
Translation differences	–	–	–43	–	–	–	–43	–	–43
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	–12	–	–	–12	–	–12
Cash flow hedges – changes in fair value, net of tax	–	–	–	1	–	–	1	–	–
Net investment hedge, net of tax	–	–	6	–	–	–	6	–	6
Energy shareholdings – changes in fair value, net of tax	–	–	–	38	–	–	38	–	38
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	19	19	–	19
Total comprehensive income for the period	–	–	–37	27	–	327	317	1	317
Share-based payments, net of tax	–	–	–	–19	–	–8	–26	–	–26
Dividend distribution	–	–	–	–	–	–	–	–	–
Total transactions with owners for the period	–	–	–	–19	–	–8	–26	–	–26
Balance at 31 March 2018	890	–2	147	1,598	1,273	5,069	8,974	4	8,978
Balance at 1 January 2017	890	–2	433	1,416	1,273	4,225	8,234	3	8,237
Profit for the period	–	–	–	–	–	240	240	–	240
Translation differences	–	–	–17	–	–	–	–17	–	–17
Cash flow hedges – reclassified to income statement, net of tax	–	–	–	6	–	–	6	–	6
Cash flow hedges – changes in fair value, net of tax	–	–	–	–7	–	–	–7	–	–7
Net investment hedge, net of tax	–	–	3	–	–	–	3	–	3
Energy shareholdings – changes in fair value, net of tax	–	–	–	–	–	–	–	–	–
Actuarial gains and losses on defined benefit plans, net of tax	–	–	–	–	–	15	15	–	15
Total comprehensive income for the period	–	–	–14	–1	–	255	240	–	240
Share-based payments, net of tax	–	–	–	–3	–	–5	–8	–	–8
Dividend distribution	–	–	–	–	–	–507	–507	–	–507
Total transactions with owners for the period	–	–	–	–3	–	–512	–515	–	–515
Balance at 31 March 2017	890	–2	420	1,412	1,273	3,968	7,959	3	7,962

[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	Q1/2018	Q1/2017	Q1–Q4/2017
Cash flows from operating activities			
Profit for the period	309	240	974
Adjustments	100	155	779
Change in working capital	–142	36	91
Finance costs, net	–7	–8	–71
Income taxes paid	–52	–27	–216
Operating cash flow	208	396	1,558
Cash flows from investing activities			
Capital expenditure	–61	–66	–305
Asset sales and other investing cash flow	7	4	84
Investing cash flow	–54	–62	–222
Cash flows from financing activities			
Change in loans and other financial items	–340	–461	–1,098
Dividends paid	–	–	–507
Financing cash flow	–340	–461	–1,604
Change in cash and cash equivalents	–186	–127	–268
Cash and cash equivalents at beginning of period	716	992	992
Exchange rate effect on cash and cash equivalents	–2	1	–7
Change in cash and cash equivalents	–186	–127	–268
Cash and cash equivalents at end of period	528	866	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.

	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q1–Q4/17
Sales, EURm	2,512	2,571	2,493	2,464	2,482	10,010
Comparable EBITDA, EURm	449	451	425	349	405	1,631
% of sales	17.9	17.5	17.1	14.2	16.3	16.3
Comparable EBIT, EURm	355	366	351	270	305	1,292
% of sales	14.1	14.2	14.1	11.0	12.3	12.9
Comparable profit before tax, EURm	341	340	328	258	291	1,218
Capital employed (average), EURm	9,755	9,938	10,032	9,942	10,288	10,217
Comparable ROCE, %	14,3	15.9	13.6	10.8	11.7	12.8
Comparable profit for the period, EURm	288	297	267	205	234	1,004
Total equity, average, EURm	8,821	8,497	8,204	8,020	8,100	8,450
Comparable ROE, %	13.0	14.0	13.0	10.2	11.6	11.9
Average number of shares basis (1,000)	533,324	533,323	533,328	533,505	533,505	533,415
Comparable EPS, EUR	0.54	0.56	0.50	0.39	0.44	1.88
Items affecting comparability in operating profit, EURm	30	−67	28	−1	7	−33
Items affecting comparability in financial items, EURm	–	–	1	–	–	1
Items affecting comparability in taxes, EURm	−9	14	−10	–	−2	2
Operating cash flow, EURm	208	407	486	269	396	1,558
Operating cash flow per share, EUR	0.39	0.76	0.91	0.50	0.74	2.92
Net debt at the end of period, EURm	41	174	623	1,046	807	174
Gearing ratio, %	0	2	7	13	10	2
Net debt to EBITDA (last 12 m.)	0.02	0.11	0.41	0.68	0.52	0.11
Capital expenditure, EURm	43	120	99	64	46	329
Capital expenditure excluding acquisitions, EURm	43	120	72	64	46	303
Equity per share at the end of period, EUR	16.83	16.24	15.61	15.14	14.92	16.24
Personnel at the end of period	19,027	19,111	19,335	20,096	19,301	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	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q1–Q4/17
Items affecting comparability						
Impairment charges	–	–4	–	–	1	–3
Restructuring charges	–	–61	–2	–2	–3	–67
Change in fair value of unrealised cash flow and commodity hedges	–	–2	–6	1	9	2
Capital gains and losses on sale of non-current assets	30	1	35	–	–	35
Total items affecting comparability in operating profit	30	–67	28	–1	7	–33
Items affecting comparability in financial items	–	–	1	–	–	1
Changes in tax rates	–	–5	–	–	–	–5
Taxes relating to items affecting comparability	–9	19	–10	–	–2	7
Items affecting comparability in taxes	–9	14	–10	–	–2	2
Items affecting comparability, total	21	–53	19	–1	6	–30
Comparable EBITDA						
Operating profit	385	299	379	269	312	1,259
Depreciation, amortisation and impairment charges [1]	106	112	104	112	119	447
Change in fair value of forest assets and wood harvested [1]	–10	–26	–29	–32	–16	–103
Share of result of associates and joint ventures	–2	–1	–1	–1	–2	–5
Items affecting comparability in operating profit	–30	67	–28	1	–7	33
Comparable EBITDA	449	451	425	349	405	1,631
% of sales	17.9	17.5	17.1	14.2	16.3	16.3
[1] excluding items affecting comparability						
Comparable EBIT						
Operating profit	385	299	379	269	312	1,259
Items affecting comparability in operating profit	–30	67	–28	1	–7	33
Comparable EBIT	355	366	351	270	305	1,292
% of sales	14.1	14.2	14.1	11.0	12.3	12.9
Comparable profit before tax						
Profit before tax	371	273	357	258	299	1,186
Items affecting comparability in operating profit	–30	67	–28	1	–7	33
Items affecting comparability in financial items	–	–	–1	–	–	–1
Comparable profit before tax	341	340	328	258	291	1,218
Comparable ROCE, %						
Comparable profit before tax	341	340	328	258	291	1,218
Interest expenses and other financial expenses	9	55	13	10	10	89
	350	395	341	268	302	1,307
Capital employed, average	9,755	9,938	10,032	9,942	10,288	10,217
Comparable ROCE, %	14.3	15.9	13.6	10.8	11.7	12.8
Comparable profit for the period						
Profit for the period	309	244	286	205	240	974
Items affecting comparability, total	–21	53	–19	1	–6	30
Comparable profit for the period	288	297	267	205	234	1,004
Comparable EPS, EUR						
Comparable profit for the period	288	297	267	205	234	1,004
Profit attributable to non-controlling interest	–1	–1	–	–	–	–1
	287	296	267	205	234	1,003
Average number of shares basic (1,000)	533,324	533,323	533,328	533,505	533,505	533,415
Comparable EPS, EUR	0.54	0.56	0.50	0.39	0.44	1.88
Comparable ROE, %						
Comparable profit for the period	288	297	267	205	234	1,004
Profit attributable to non-controlling interest	–1	–1	–	–	–	–1
	287	296	267	205	234	1,003
Total equity, average	8,821	8,497	8,204	8,020	8,100	8,450
Comparable ROE, %	13.0	14.0	13.0	10.2	11.6	11.9

Reconciliation of key figures to IFRS

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

Quarterly segment information

EURm	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q1–Q4/17
Sales						
UPM Biorefining	668	669	624	630	607	2,531
UPM Energy	107	86	86	65	80	317
UPM Raflatac2,512	345	379	369	375	371	1,495
UPM Specialty Papers	343	344	320	342	330	1,336
UPM Communication Papers	1,126	1,166	1,189	1,112	1,148	4,615
UPM Plywood	125	120	112	128	124	484
Other operations	76	69	69	70	72	281
Internal sales	–279	–263	–274	–258	–252	–1,046
Eliminations and reconciliations	1	1	–3	–	1	–2
Sales, total	2,512	2,571	2,493	2,464	2,482	10,010
Comparable EBITDA						
UPM Biorefining	227	194	203	157	160	714
UPM Energy	44	33	28	14	24	100
UPM Raflatac	36	40	42	42	43	168
UPM Specialty Papers	56	59	55	58	60	232
UPM Communication Papers	84	100	94	64	98	356
UPM Plywood	24	21	16	21	27	85
Other operations	–13	11	–2	–6	–7	–5
Eliminations and reconciliations	–9	–7	–10	–1	–	–18
Comparable EBITDA, total	449	451	425	349	405	1,631
Operating profit						
UPM Biorefining	195	130	170	131	127	557
UPM Energy	42	31	26	12	22	91
UPM Raflatac	29	32	34	34	35	136
UPM Specialty Papers	37	39	36	38	39	152
UPM Communication Papers	85	32	123	31	61	247
UPM Plywood	19	15	10	15	21	62
Other operations	–12	28	16	8	–2	51
Eliminations and reconciliations	–9	–9	–37	–	9	–38
Operating profit, total	385	299	379	269	312	1,259
% of sales	15.3	11.6	15.2	10.9	12.6	12.6
Items affecting comparability in operating profit						
UPM Biorefining	–	–30	–	–	–	–30
UPM Energy	–	–	–	–	–	–
UPM Raflatac	–	–	–	–	–	–
UPM Specialty Papers	–	–	–	–	–	–
UPM Communication Papers	30	–36	55	–2	–1	16
UPM Plywood	–	–	–	–	–	–
Other operations	–	–	–	–	–	–
Eliminations and reconciliations [1]	–	–2	–28	1	9	–19
Items affecting comparability in operating profit, total	30	–67	28	–1	7	–33
Comparable EBIT						
UPM Biorefining	195	159	170	131	127	587
UPM Energy	42	31	26	12	22	91
UPM Raflatac	29	32	34	34	35	136
UPM Specialty Papers	37	39	36	38	39	152
UPM Communication Papers	54	68	68	33	62	231
UPM Plywood	19	15	10	15	21	62
Other operations	–12	28	16	8	–1	51
Eliminations and reconciliations	–9	–7	–10	–1	–	–18
Comparable EBIT, total	355	366	351	270	305	1,292
% of sales	14.1	14.2	14.1	11.0	12.3	12.9

[1] In Q4 2017, eliminations and reconciliations includes EUR –2 million of changes in fair value of unrealised cash flow and commodity hedges. In Q3 2017, eliminations and reconciliations includes EUR –22 million elimination adjustments of the joint operation Madison Paper Industries and EUR –6 million of changes in fair value of unrealised cash flow and commodity hedges. In Q1 and Q2 2017, eliminations and reconciliations includes changes in fair value of unrealised cash flow and currency hedges.

External sales by major products

BUSINESS AREA	BUSINESS	Q1/2018 EURm	Q1/2017 EURm	Q1–Q4/2017 EURm
UPM Biorefining	UPM Pulp, UPM Biofuels, UPM Timber	517	470	1,958
UPM Energy	UPM Energy	46	33	120
UPM Raflatac	UPM Raflatac	345	371	1,495
UPM Specialty Papers	UPM Specialty Papers	292	277	1,111
UPM Communication Papers	UPM Communication Papers	1,118	1,142	4,592
UPM Plywood	UPM Plywood	120	118	463
Other operations	Wood Sourcing and Forestry, UPM Biochemicals, UPM Biocomposites	74	70	274
Total		2,512	2,482	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	Q1/2018	Q1/2017	Q1–Q4/2017
Book value at beginning of period	4,281	4,657	4,657
Capital expenditure	40	44	289
Decreases	–1	–2	–24
Depreciation	–103	–111	–434
Impairment charges	–	–	–5
Impairment reversals	–	1	2
Translation difference and other changes	–26	–24	–204
Book value at end of period	4,191	4,565	4,281

Financial assets and liabilities measured at fair value

EURm	31 MAR 2018				31 MAR 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	4	50	–	54	4	19	–	23
Derivatives used for hedging	52	175	–	227	15	217	–	232	42	198	–	240
Energy shareholdings	–	–	2,011	2,011	–	–	1,932	1,932	–	–	1,974	1,974
Total	52	187	2,011	2,250	18	267	1,932	2,218	46	217	1,974	2,237
Financial liabilities												
Derivatives non-qualifying hedges	–	10	–	10	8	11	–	20	17	19	–	36
Derivatives used for hedging	22	12	–	34	22	74	–	95	12	8	–	20
Total	22	22	–	44	30	85	–	115	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 signficant unobservable inputs, Level 3

	ENERGY SHAREHOLDINGS		
EURm	Q1/2018	Q1/2017	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	–	20
Closing balance	2,011	1,932	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	31 MAR 2018	31 MAR 2017	31 DEC 2017
Non-current debt, excl. derivative financial instruments	741	1,508	801

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

Commitments and contingencies

EURm	31 MAR 2018	31 MAR 2017	31 DEC 2017
Own commitments			
Mortgages	8	116	76
On behalf of others			
Guarantees	2	2	2
Other own commitments			
Leasing commitments for the next 12 months	77	74	77
Leasing commitments for subsequent periods	375	374	386
Other commitments	92	124	95
	554	690	636

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2017	Q1 2018	AFTER 31 MAR 2018
Capacity increase / Chudovo plywood mill	Q3 2019	50	8	2	40
Debottlenecking / Kaukas pulp mill	Q2 2018	30	9	4	17

Notional amounts of derivative financial instruments

EURm	31 MAR 2018	31 MAR 2017	31 DEC 2017
Interest rate forward contracts	1,551	1,963	1,223
Interest rate swaps	736	1,683	1,056
Forward foreign exchange contracts	2,324	2,831	2,298
Currency options, bought	23	14	25
Currency options, written	42	23	23
Cross currency swaps	160	269	239
Commodity contracts	463	410	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-qualifing 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, qualifing hedges	Derivatives used for hedging	Derivatives used for hedging	20	20
Derivatives, non-qualifing 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 2018 interim financial statements.

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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