

UPM **BIOFORE** **BEYOND** FOSSILS

INTERIM REPORT 1 JANUARY – 31 MARCH 2019

UPM Interim Report Q1 2019:

UPM continues to grow sales and earnings

Q1 2019 highlights

- Sales grew by 7% to EUR 2,693 million (2,512 million in Q1 2018)
- Comparable EBIT increased by 5% to EUR 374 million (355 million)
- Sales prices were higher, outweighing the impact of increased variable costs
- Operating cash flow increased to EUR 320 million (214 million)
- Net debt decreased to EUR –5 million (41 million)
- UPM announced a plan to close paper machine 10 at UPM Plattling, Germany

Key figures

	Q1/2019	Q1/2018	Q4/2018	Q1–Q4/2018
Sales, EURm	2,693	2,512	2,731	10,483
Comparable EBITDA, EURm ¹⁾	488	456	473	1,868
% of sales ¹⁾	18.1	18.2	17.3	17.8
Operating profit, EURm	373	385	744	1,895
Comparable EBIT, EURm	374	355	404	1,513
% of sales	13.9	14.1	14.8	14.4
Profit before tax, EURm	364	371	731	1,839
Comparable profit before tax, EURm	366	341	390	1,457
Profit for the period, EURm	304	309	591	1,496
Comparable profit for the period, EURm	305	288	319	1,194
Earnings per share (EPS), EUR	0.57	0.58	1.11	2.80
Comparable EPS, EUR	0.57	0.54	0.60	2.24
Return on equity (ROE), %	12.3	14.0	24.9	16.2
Comparable ROE, %	12.3	13.0	13.4	12.9
Return on capital employed (ROCE), %	13.6	15.6	28.8	18.4
Comparable ROCE, %	13.7	14.3	15.5	14.6
Operating cash flow, EURm ¹⁾	320	214	384	1,330
Operating cash flow per share, EUR ¹⁾	0.60	0.40	0.72	2.49
Equity per share at the end of period, EUR	18.84	16.83	18.36	18.36
Capital employed at the end of period, EURm	11,318	9,733	10,575	10,575
Net debt at the end of period, EURm	–5	41	–311	–311
Net debt to EBITDA (last 12 m.) ¹⁾	–0.00	0.02	–0.17	–0.17
Personnel at the end of period	19,008	19,027	18,978	18,978

¹⁾ The 2018 comparative figures have been restated due to accounting policy change of forest renewal costs. Refer to » [Basis of preparation and accounting policies](#).

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 » [UPM Annual Report 2018](#).

Jussi Pesonen, President and CEO, comments on Q1 2019 results:

"The first quarter of the year lived up to our expectations, and we are thus able to report the 24th consecutive quarter of increased earnings. In five of our six business areas, prices increased more than offsetting the higher costs and keeping overall margins healthy.

Our sales grew by 7% and comparable EBIT increased by 5% to EUR 374 million. Operating cash flow was strong, and our balance sheet remained debt-free even after all leases (EUR 495 million) were recognised on the balance sheet in accordance with the new IFRS 16 accounting standard.

UPM Biorefining reported another excellent quarter. As expected, pulp prices were somewhat lower than the historically high prices seen in the latter half of the previous year. Pulp, Biofuels and Timber all enjoyed good customer demand and consequently deliveries developed favourably in an operationally successful quarter.

UPM Communication Papers had a strong quarter with improved earnings due to year-end increases in sales prices. To ensure our long-term success in declining markets, we continue to implement measures to improve cost competitiveness and adapt capacity to the profitable customer demand. The conversion of PM2 at UPM Nordland, Germany, to release liner is proceeding well and in April we announced plans to close PM10 at UPM Plattling, Germany.

Good demand continued in the label paper and release liner businesses of UPM Specialty Papers. Destocking in the Asian fine paper market appears to be over and margins are turning. We aim to restore profitability with various cost, growth and product development initiatives.

UPM Raflatac regained upward momentum in sales and profitability after last year's challenge with rapid increases in raw material costs. In January, the new product line for specialty labels was completed in Tampere, Finland, and in March we began a fixed-cost reduction programme to further improve earnings.

Margins remained good in UPM Plywood and market demand in Europe was solid. The expansion project at the UPM Chudovo plywood mill in Russia proceeded to the production trial run phase.

UPM Energy is back on track as electricity prices have improved. Hydropower generation is still hindered by the dry hydrological situation.

Furthermore, we look forward to our transformative prospects that are set to provide us with unique opportunities for significant long-term earnings growth. In Uruguay, preparations for the potential new world-class pulp mill are proceeding. While encouraging progress has been made in many areas, several important conditions stated in the Investment Agreement are still pending. These include e.g. the execution of the Railway Contract in relation to the Central Railway Public-Private-Partnership (PPP) project. Labour protocols, conflict mitigation regulation and certain material outstanding items as specified in the Investment Agreement are all critical for UPM. If the ongoing second preparation phase is concluded successfully, UPM will initiate the company's regular process of analysing and preparing an investment decision on the potential pulp mill project.

Preparations are also ongoing in our attractive biomolecular businesses. In UPM Biochemicals, we have completed the basic engineering of the potential biorefinery. We are currently assessing two alternative industrial parks in Germany, in Frankfurt and in Leuna, to select the optimal set-up for our facility. Also, the commercial studies need to be concluded before starting UPM's regular process of analysing and preparing an investment decision.

UPM Biofuels is evaluating the growth opportunity in Kotka, Finland, and new sustainable feedstocks in order to scale up the business. The development work is expected to continue into next year, as we aim to create a competitive next generation biorefinery in terms of production, products and feedstocks.

UPM is in great shape and ready to grasp the opportunities for value creation and business growth offered by bioeconomy. We firmly believe in growing sustainable businesses that offer solutions to global challenges such as climate change and resource scarcity. Our innovations create value and business opportunities for an era where the world is no longer dependent on fossils."

Outlook for 2019

The global economic growth is estimated to continue in 2019, albeit at a slower pace than in 2018. There are, however, significant uncertainties related to this, including trade negotiations between China and the US, growth in China, the undefined nature of Brexit and political uncertainties in several countries. These issues may have an impact on the global economic growth and on UPM's product and raw material markets during 2019.

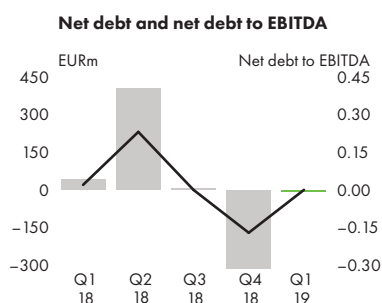
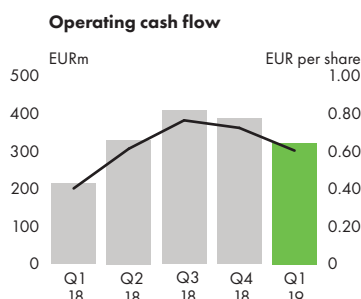
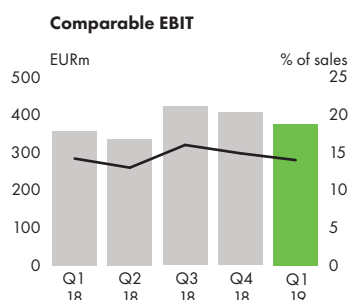
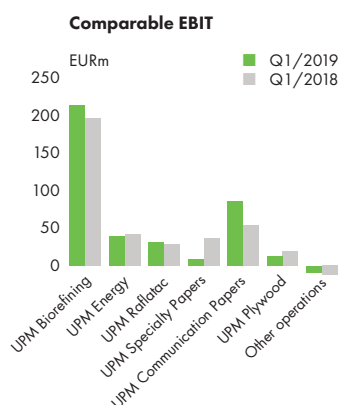
UPM reached record earnings in 2018. UPM's business performance is expected to continue at a good level in 2019.

In 2019, favourable demand is expected to continue for most UPM businesses. Demand decline is expected to continue for UPM Communication Papers.

In the early part of the year 2019, pulp prices are expected to be lower and graphic paper prices in Europe higher than in Q4 2018.

Input costs are expected to stabilise after the significant increases seen in 2018. UPM will continue measures to reduce both variable and fixed costs.

Fair value increases of forest assets are not expected to contribute materially to comparable EBIT in 2019.



Adoption of IFRS 16 Leases

UPM has adopted IFRS 16 Leases standard on 1 of January 2019 without restating prior years. The change in lease accounting has resulted in a reduction in operating costs (and therefore an increase in EBITDA), higher depreciation expenses and positive impact on operating profit. In addition, interest expenses have increased slightly. Cash generation was not impacted by the adoption of the standard, however operating cash flow is positively impacted by it, given that a large part of the payments in relation to leases is now reported as financing cash flow (lease liability repayments). The group has estimated that as a consequence of the adoption of IFRS 16, the operating costs in 2019 would be approximately EUR 85 million lower (driving the increase in EBITDA by the same amount), depreciation expenses would be approximately EUR 60 million higher and interest expenses would be approximately EUR 10 million higher. The increase in leased assets on 1 of January 2019 amounted to EUR 489 million and the increase in financial debt amounted to EUR 495 million. Leased assets are not included in the measure of Capital expenditure.

Results

Q1 2019 compared with Q1 2018

Q1 2019 sales were EUR 2,693 million, 7% higher than the EUR 2,512 million for Q1 2018. Sales grew in UPM Biorefining, UPM Communication Papers, UPM Raflatac, UPM Specialty Papers and UPM Energy, and remained unchanged in UPM Plywood.

Comparable EBIT increased by 5% to EUR 374 million, 13.9% of sales (355 million, 14.1%). Sales prices increased in five of the six 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.

Delivery volumes increased slightly from last year. Fixed costs increased by EUR 8 million. Without adoption of IFRS 16 Leases, fixed costs would have been EUR 13 million higher.

Depreciation totalled EUR 120 million (106 million) including depreciation of leased assets EUR 17 million (EUR 2 million). The increase in the fair value of forest assets net of wood harvested and excluding items affecting comparability was EUR 5 million (3 million).

Operating profit totalled EUR 373 million (385 million). Items affecting comparability in operating profit totalled EUR -1 million in the period (30 million). This included EUR 5 million restructuring charges in UPM Raflatac.

Net interest and other finance costs were EUR 9 million (14 million). The exchange rate and fair value gains and losses were EUR 0 million (0 million). Income taxes totalled EUR 60 million (62 million).

Profit for Q1 2019 was EUR 304 million (309 million), and comparable profit was EUR 305 million (288 million).

Q1 2019 compared with Q4 2018

Comparable EBIT decreased by 7% to EUR 374 million, 13.9% of sales (404 million, 14.8%). The decrease was mainly due to a lower fair value increase of the Finnish forest assets. Profitability of the six business areas combined was on the same level as in the comparison period.

Fixed costs decreased by EUR 59 million due to seasonal factors. Without adoption of IFRS 16 Leases, fixed costs would have been EUR 13 million higher. Variable costs increased, partly due to seasonal factors in energy costs.

Changes in sales prices across UPM business areas had a small positive impact on comparable EBIT. Deliveries decreased slightly.

Depreciation totalled EUR 120 million (105 million). The increase in the fair value of forest assets net of wood harvested and excluding items affecting comparability was EUR 5 million (35 million).

Operating profit totalled EUR 373 million (744 million).

Financing and cash flow

In Q1 2019, cash flow from operating activities before capital expenditure and financing totalled EUR 320 million (214 million). Working capital increased by EUR 111 million during the period (142 million).

Net debt decreased to EUR -5 million at the end of Q1 2019 (41 million). The gearing ratio as of 31 March 2019 was 0% (0%). The net debt to EBITDA ratio, based on the latest 12 months' EBITDA, was -0.00 at the end of the period (0.02).

On 31 March 2019, UPM's cash funds and unused committed credit facilities totalled EUR 1.0 billion.

Capital expenditure

In Q1 2019, capital expenditure totalled EUR 62 million, 2.3% of sales (43 million, 1.7% of sales). Capital expenditure is not including additions to leased assets.

Total capital expenditure in 2019, excluding investments in shares, is estimated to be approximately EUR 350 million, excluding any impact of UPM's potential transformative prospects.

In April 2017, UPM announced plans to strengthen its position in the label market and invest approximately EUR 6 million in capacity for special labels in Tampere, Finland. A new special label product line has been built, focusing on small series of production runs. In addition, internal logistics have been strengthened. The new product line was completed in January 2019.

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 metres 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 Q3 2019.

In April 2018, UPM announced that it would 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 the UPM Changshu mill in China. Installing a second supercalender on paper machine 3 will create an additional capacity of more than 40,000 tonnes of glassine paper per year, as of Q1 2020. The total investment in Changshu is EUR 34 million.

Personnel

In Q1 2019, UPM had an average of 18,998 employees (19,011). At the beginning of the year, the number of employees was 18,978 and at the end of Q1 2019, it was 19,008.

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 phase is ongoing. The port concession has been awarded to UPM. The mill engineering, design, tendering and permitting processes are all proceeding. The free-trade zone for the mill has been granted. Environmental permitting processes for port and mill are in their final stage. First construction contract for the railway has been signed.

Several important conditions agreed upon in the Investment Agreement have not been satisfied to date. Achieving progress in the implementation of the infrastructure initiatives, most importantly the execution of the Central Railway PPP project, the labour protocols and conflict mitigation regulation as well as certain material outstanding items as specified in the Investment Agreement are all necessary before the second preparation phase can be concluded.

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. This second phase is expected to last 1.5 to 2 years starting from signing of the investment agreement in November 2017.

The investment agreement in short

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 Germany. Basic engineering of the potential biorefinery has been completed. Currently the company is assessing two alternative industrial parks in Germany, in Frankfurt and in Leuna, to select the optimal set-up for the potential facility. Also, the commercial studies need to be concluded before starting UPM's regular process of analysing and preparing an investment decision.

OL3 power plant project

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 November 2018, TVO received from the Supplier an updated schedule for the commissioning of OL3 and, in accordance with the Supplier's updated schedule, regular electricity generation at OL3 would commence in January 2020. As disclosed by TVO, fuel would be loaded into the reactor in June 2019, and the first connection to the grid would take place in October 2019. According to TVO, OL3 would 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 programme.

After the reporting period TVO has announced on 10 April 2019 that the Supplier will update the schedule of OL3 EPR project and deliver a new schedule to TVO by the end of June.

When completed, OL3 will supply electricity to its shareholders on a cost-price principle (Mankala-principle) which is widely applied in the Finnish energy industry. Under the Mankala-principle electricity and/or heat is supplied to the shareholders in proportion to their ownership and each shareholder is, pursuant to the specific stipulations of the respective articles of association, severally responsible for its respective share of the production costs of the energy company concerned. OL3 will increase UPM Energy's electricity generation capacity significantly. The new power plant unit is expected to be highly efficient and meet the highest safety standards. Its power generation will be CO₂-free and Olkiluoto will have a secure solution for the deposit of used fuel.

Events during Q1 2019

On 9 January, UPM announced its participation in the international public tendering process in the port of Montevideo organised by the National Ports Administration (ANP) of Uruguay.

In March, ANP awarded UPM the concession in the port. The scope of the concession is the construction and operation of a port terminal specialized in the storage and shipping of pulp, chemicals and other inputs related to pulp production with a capacity to handle approximately 2 million tonnes of pulp annually. The tenure of the concession is to be 50 years.

UPM's financial commitment in the form of a performance bond would be USD 20 million at this stage. At the time of the potential investment decision on the pulp mill project described earlier in this report, UPM would proceed with the port investment decision and start of the construction of the port facilities. The preliminary UPM investment estimate for the port facilities would be approximately USD 260 million.

On 31 January, UPM announced that it will invest in the refurbishment of Kuusankoski hydropower plant in Finland. The average annual production of the Kuusankoski plant is expected to increase from the current 180 GWh to 195 GWh. The investment will be completed by the end of 2022.

Events after the balance sheet date

On 2 April, UPM announced a plan to permanently close paper machine 10 at UPM Plattling, Germany, reducing the annual capacity of coated mechanical paper in Europe by approximately 155,000 tons. In total, 160 positions would be affected by the plan. The employee consultation process started in April in line with local legislation. The machine is planned to be closed after the consultation process is finalised. UPM will recognise restructuring charges of approximately EUR 30 million as items affecting comparability in its Q2 2019 results. The planned actions would result in annual savings of approximately EUR 17 million.

UPM held its Annual General Meeting on 4 April. The decisions of the AGM are presented elsewhere in this report.

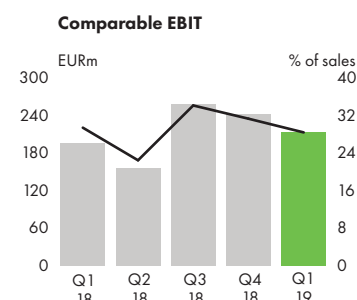
Timing of significant maintenance shutdowns in 2018 and 2019

TIMING	UNIT
Q2/2018	Fray Bentos pulp mill Kaukas pulp mill Lappeenranta biorefinery turnaround Olkiluoto nuclear power plant
Q4/2018	Pietarsaari pulp mill
Q2/2019	Kymi pulp mill Olkiluoto nuclear power plant
Q4/2019	Fray Bentos pulp mill

UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses.

UPM Pulp offers a versatile range of responsibly-produced pulp grades suitable for a wide range of end-uses such as tissue, specialty paper, graphic papers and board. UPM Timber offers certified sawn timber for construction, joinery and furniture. UPM Biofuels produces wood-based renewable diesel for all diesel engines and renewable naphtha that can be used as a biocomponent for gasoline or for replacing fossil raw materials in petrochemical industry, for example. UPM has three pulp mills in Finland and one mill and plantation operations in Uruguay. UPM operates four sawmills and one biorefinery in Finland.



	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	753	775	754	694	668	2,892
Comparable EBITDA, EURm ¹⁾	254	282	297	199	233	1,011
% of sales ¹⁾	33.8	36.4	39.3	28.6	34.9	35.0
Change in fair value of forest assets and wood harvested, EURm ¹⁾	-1	-3	-3	-6	-	-12
Share of results of associated companies and joint ventures, EURm	1	-	1	-	-	2
Depreciation, amortisation and impairment charges, EURm	-42	-39	-39	-39	-38	-155
Operating profit, EURm	212	241	256	155	195	847
% of sales	28.2	31.1	33.9	22.3	29.2	29.3
Items affecting comparability in operating profit, EURm	-	-	-	-	-	-
Comparable EBIT, EURm	212	241	256	155	195	847
% of sales	28.2	31.1	33.9	22.3	29.2	29.3
Capital employed (average), EURm	3,481	3,267	3,224	3,153	3,074	3,180
Comparable ROCE, %	24.4	29.5	31.7	19.7	25.4	26.6
Pulp deliveries, 1,000 t	915	912	870	835	850	3,468

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

¹⁾ The 2018 comparative figures have been restated due to accounting policy change of forest renewal costs. Refer to » [Basis of preparation and accounting policies](#).

- Strong first quarter, both in sales and production operations
- Strong profitability continued despite lower pulp prices

Results

Q1 2019 compared with Q1 2018

Comparable EBIT for UPM Biorefining increased due to higher pulp delivery volumes and higher sales prices. Variable costs increased due to higher wood costs in Finland.

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

Q1 2019 compared with Q4 2018

Comparable EBIT decreased due to lower pulp sales prices. Variable and fixed costs were slightly lower.

The average price for UPM's pulp deliveries in euros decreased by 6%.

Market environment

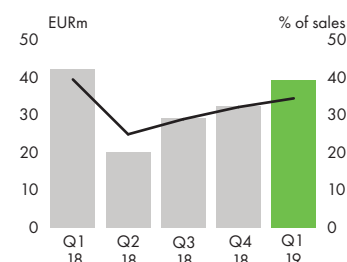
- Global chemical pulp demand was solid in the first quarter of 2019. Uncertainties in the global economy, slower growth in China and destocking in the value chain continued to impact on global market pulp shipments somewhat.
- In Europe and China, the market price of both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) decreased in the first quarter of 2019 compared to the previous quarter. However, in China, market prices stabilised or improved slightly during the first quarter.
- In the first quarter, the average European market price in euros was 1% higher for NBSK but 5% lower for BHKP compared to the previous year. In China, the average market price in US dollars was 20% lower for NBSK and 13% lower for BHKP compared to the previous year.
- The strong demand for advanced renewable diesel and naphtha continued.
- Demand for sawn timber was good. Market prices decreased slightly during Q1 2019 but remained at a relatively high level.

Source: FOEX

UPM Energy

UPM Energy creates value through cost competitive, low-emission electricity generation and through physical and financial electricity trading as well as energy optimisation services for industrial consumers. 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



	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	113	100	101	83	107	391
Comparable EBITDA, EURm	41	34	31	23	44	132
% of sales	36.0	34.1	30.8	27.2	41.1	33.7
Depreciation, amortisation and impairment charges, EURm	-2	-2	-2	-2	-2	-9
Operating profit, EURm	39	23	29	20	42	114
% of sales	34.2	22.9	28.7	24.7	39.2	29.2
Items affecting comparability in operating profit, EURm ¹⁾	-	-9	-	-	-	-9
Comparable EBIT, EURm	39	32	29	20	42	123
% of sales	34.2	31.9	28.7	24.7	39.2	31.5
Capital employed (average), EURm	2,463	2,419	2,343	2,321	2,301	2,346
Comparable ROCE, %	6.3	5.3	4.9	3.5	7.3	5.3
Electricity deliveries, GWh	2,173	2,103	2,128	2,004	2,373	8,608

¹⁾ In Q4 2018, items affecting comparability of EUR 9 million relate to restructuring of ownership in Meri-Pori power plant.

- An operating licence for a new nuclear power plant unit OL3 EPR in Olkiluoto, Finland, was granted

Results

Q1 2019 compared with Q1 2018

Comparable EBIT for UPM Energy decreased due to lower hydropower generation and higher fixed costs. Electricity sales prices were higher.

UPM's average electricity sales price increased by 16% to EUR 43.7/MWh (37.7/MWh).

Q1 2019 compared with Q4 2018

Comparable EBIT increased due to higher electricity sales prices.

UPM's average electricity sales price increased by 11% to EUR 43.7/MWh (39.4/MWh).

Market environment

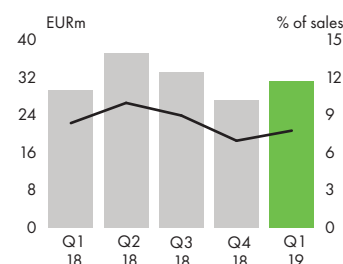
- The Nordic hydrological balance has been below the long-term average since March 2018. The hydrological balance gradually improved during the first quarter of 2019 but was still negative at the end of March.
- Coal prices in Q1 2019 decreased compared to the same period in the previous year. The CO₂ emission allowance price of EUR 21.5/tonne at the end of Q1 2019 was higher than in Q1 2018 (EUR 13.0/tonne).
- The average Finnish area spot price on the Nordic electricity exchange for the first quarter of 2019 was EUR 47.5/MWh, 5% lower than in the previous quarter (49.6/MWh) and 13% higher than in the first quarter of 2018 (42.0/MWh).
- The front-year forward electricity price for the Finnish area closed at EUR 38.4/MWh in March, 27% lower than at the end of Q4 2018 (52.5/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 in the food, beverage, personal care, pharmaceutical and retail segments, for example. UPM Raflatac is the second-largest producer of self-adhesive label materials worldwide.

Comparable EBIT



	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	398	397	374	371	345	1,488
Comparable EBITDA, EURm	40	35	41	44	36	156
% of sales	10.1	8.8	11.0	11.9	10.4	10.5
Depreciation, amortisation and impairment charges, EURm	-10	-7	-8	-7	-7	-30
Operating profit, EURm	26	27	33	37	29	126
% of sales	6.5	6.9	8.9	9.9	8.3	8.5
Items affecting comparability in operating profit, EURm ¹⁾	-5	-	-	-	-	-
Comparable EBIT, EURm	31	27	33	37	29	126
% of sales	7.7	6.9	8.9	9.9	8.3	8.5
Capital employed (average), EURm	586	543	538	540	519	535
Comparable ROCE, %	20.9	20.2	24.8	27.3	22.0	23.6

¹⁾ In Q1 2019, items affecting comparability of EUR 5 million relate to restructuring charges.

- Sales growth continued due to price increases and volume growth
- The new product line for specialty labels was completed in Tampere, Finland
- Fixed costs reduction programme was initiated
- UPM Raflatac signed commitments for the Ellen MacArthur Foundation's New Plastics Economy

Results

Q1 2019 compared with Q1 2018

Comparable EBIT for UPM Raflatac increased due to higher delivery volumes and sales prices more than offsetting the negative impact of higher variable costs and unfavourable changes in currencies.

Q1 2019 compared with Q4 2018

Comparable EBIT increased due to seasonally lower fixed costs and higher sales margin.

Market environment

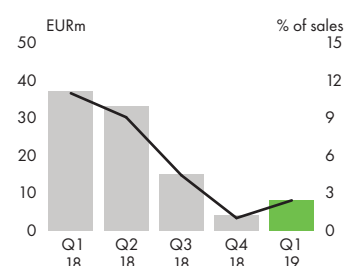
- Demand for self-adhesive label materials remained stable in North America and Asia. In Europe, the demand growth continued in the first quarter of 2019 albeit at lower level.

Sources: FINAT, TLMI

UPM Specialty Papers

UPM Specialty Papers serves growing global markets with labelling materials and release liners, office and graphic papers as well as packaging papers for labelling, commercial siliconising, flexible packaging, wrapping and printing. 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 label stock manufacturers, paper converters, merchants and distributors and packaging customers.

Comparable EBIT



	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	357	364	354	368	343	1,429
Comparable EBITDA, EURm	29	23	34	53	56	167
% of sales	8.2	6.4	9.7	14.4	16.4	11.7
Depreciation, amortisation and impairment charges, EURm	-21	-19	-19	-20	-19	-77
Operating profit, EURm	8	4	15	33	37	90
% of sales	2.4	1.0	4.4	9.0	10.9	6.3
Items affecting comparability in operating profit, EURm	-	-	-	-	-	-
Comparable EBIT, EURm	8	4	15	33	37	90
% of sales	2.4	1.0	4.4	9.0	10.9	6.3
Capital employed (average), EURm	908	901	896	887	874	889
Comparable ROCE, %	3.7	1.7	6.9	15.0	17.1	10.1
Paper deliveries, 1,000 t	386	393	389	393	379	1,554

- The fine papers market remained challenging, especially in China
- Demand growth continued in the Labelling materials business
- Focus on new product development and implementation of growth projects continued

Results

Q1 2019 compared with Q1 2018

Comparable EBIT for UPM Specialty Papers decreased due to lower fine paper sales prices, higher pulp costs and the impact of reducing stocks.

Q1 2019 compared with Q4 2018

Comparable EBIT increased due to seasonally lower fixed costs. Sales margins were stable.

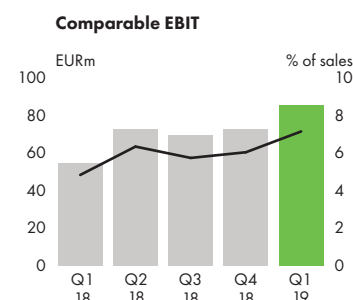
Market environment

- In the Asia-Pacific region, office paper demand was solid, though the market is oversupplied. Office paper market prices remained stable in the first quarter of 2019. The cost environment remained unfavourable due to pulp costs.
- Label and release paper demand was good in the first quarter of 2019 and sales prices were stable.

Sources: UPM, RISI, Pöyry, AWA

UPM Communication Papers

UPM Communication Papers offers an extensive product range of graphic papers for advertising and publishing as well as home and office uses. 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.



	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	1,200	1,206	1,209	1,149	1,126	4,690
Comparable EBITDA, EURm	118	99	97	101	84	381
% of sales	9.8	8.2	8.0	8.8	7.5	8.1
Share of results of associated companies and joint ventures, EURm	–	1	1	–	–	2
Depreciation, amortisation and impairment charges, EURm	–33	–28	–28	–29	–30	–116
Operating profit, EURm	85	71	69	88	85	312
% of sales	7.1	5.9	5.7	7.7	7.5	6.7
Items affecting comparability in operating profit, EURm ¹⁾	–	–1	–	17	30	46
Comparable EBIT, EURm	85	72	69	72	54	267
% of sales	7.1	6.0	5.7	6.3	4.8	5.7
Capital employed (average), EURm	1,759	1,631	1,605	1,591	1,580	1,602
Comparable ROCE, %	19.3	17.7	17.1	18.1	13.7	16.7
Paper deliveries, 1,000 t	1,746	1,865	1,879	1,842	1,855	7,442

¹⁾ In Q4 2018, items affecting comparability relate to prior capacity closures. 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.

- Sales prices increased in all paper grades
- Plans to permanently close 155,000 tonnes/year capacity of coated mechanical paper at UPM Plattling, Germany

Results

Q1 2019 compared with Q1 2018

Comparable EBIT for UPM Communication Papers increased due to significantly higher sales prices. Delivery volumes were lower. Variable costs were higher, especially for fibre and logistics.

The average price in euros for UPM's paper deliveries increased by 14%.

Q1 2019 compared with Q4 2018

Comparable EBIT increased due to higher sales prices. Delivery volumes were lower. Energy and logistics costs were higher, more than offsetting the positive impact of lower fixed costs.

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

Market environment

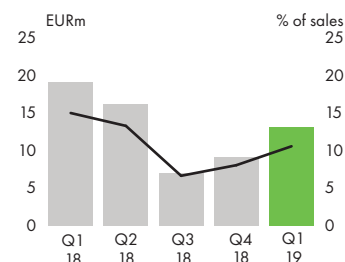
- In the first quarter of 2019, demand for graphic papers in Europe was 7% lower than last year. Newsprint demand decreased by 5%, magazine paper by 10% and fine paper by 8% compared with the first quarter of 2018.
- In Q1 2019, publication paper prices in Europe were on average 5% higher in comparison with Q4 2018. Compared to Q1 2018, publication paper prices were on average 12% higher. In Q1 2019, fine paper prices in Europe were on average 1% higher than in the previous quarter. Compared to Q1 2018, fine paper prices were on average 8% higher.
- In the first quarter of 2019, demand for magazine papers in North America decreased by 10% compared to the same period last year. The average price in US dollars for magazine papers in Q1 2019 remained unchanged compared to Q4 2018 and increased by 14% compared to Q1 2018.

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 industrial applications. Production facilities are located in Finland, Estonia and Russia.

Comparable EBIT



	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	123	119	112	125	125	480
Comparable EBITDA, EURm	19	15	13	22	24	75
% of sales	15.3	13.0	11.7	17.8	19.5	15.6
Depreciation, amortisation and impairment charges, EURm	-6	-6	-6	-6	-6	-23
Operating profit, EURm	13	9	7	16	19	52
% of sales	10.5	8.0	6.6	13.2	14.9	10.8
Items affecting comparability in operating profit, EURm	-	-	-	-	-	-
Comparable EBIT, EURm	13	9	7	16	19	52
% of sales	10.5	8.0	6.6	13.2	14.9	10.8
Capital employed (average), EURm	321	301	282	280	269	283
Comparable ROCE, %	16.1	12.6	10.5	23.6	27.6	18.4
Plywood deliveries, 1,000 m ³	196	189	188	206	209	791

- The UPM Chudovo plywood mill investment of 45,000 cubic metres of annual production capacity proceeded to the production trial run phase
- UPM Chudovo signed a letter of intent aimed at securing wood sourcing in Russia

Results

Q1 2019 compared with Q1 2018

Comparable EBIT for UPM Plywood decreased due to lower delivery volumes and higher fixed costs. Higher average sales prices more than offset the negative impact of higher variable costs.

Q1 2019 compared with Q4 2018

Comparable EBIT increased mainly due to higher delivery volumes. Sales prices were slightly higher.

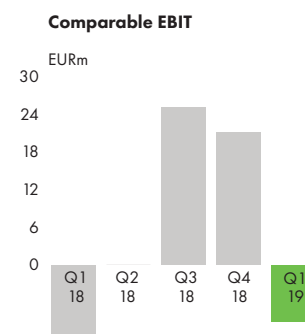
Market environment

- Market demand in Europe was good in the first quarter of 2019. Demand for spruce plywood was good, driven by the building and construction industry. Demand for birch plywood-related industrial applications was solid. However, competition was tightening in the birch trading business.

Source: UPM

Other operations

Wood Sourcing and Forestry secures competitive wood and biomass for UPM businesses and manages UPM-owned and privately-owned forests in North Europe. In addition, UPM offers forestry services to forest owners and forest investors. UPM Biochemicals and UPM Biocomposites business units as well as group services are also included in Other operations.



	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	68	87	80	83	76	326
Comparable EBITDA, EURm ¹⁾	-8	-14	-2	1	-13	-28
Change in fair value of forest assets and wood harvested, EURm ¹⁾	6	383	30	3	3	419
Share of results of associated companies and joint ventures, EURm	-	-	-	-	1	2
Depreciation, amortisation and impairment charges, EURm	-6	-3	-3	-3	-3	-13
Operating profit, EURm	-9	365	25	0	-12	380
Items affecting comparability in operating profit, EURm ²⁾	-	345	-	-	-	345
Comparable EBIT, EURm	-9	21	25	0	-12	35
Capital employed (average), EURm	1,801	1,447	1,360	1,378	1,384	1,392
Comparable ROCE, %	-2.0	5.8	7.5	0.1	-3.4	2.5

¹⁾ The 2018 comparative figures have been restated due to accounting policy change of forest renewal costs.

Refer to » [Basis of preparation and accounting policies](#).

²⁾ In Q4 2018, items affecting comparability of EUR 345 million relates to increase in the fair value of the forest assets in Finland, mainly due to higher forest growth estimates.

Results

Q1 2019 compared with Q1 2018

Comparable EBIT for other operations 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 15 million (14 million). The cost of wood harvested from UPM forests was EUR 9 million (11 million).

Q1 2019 compared with Q4 2018

Comparable EBIT decreased. The increase in the fair value of forest assets net of wood harvested was EUR 6 million (383 million). The increase in the fair value of forest assets was EUR 15 million (394 million). The cost of wood harvested from UPM forests was EUR 9 million (12 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 significant uncertainties related to global economic growth in 2019. Economists continue to expect GDP growth in 2019 but have, in recent months, gradually revised down their estimates for many regions. Trade negotiations between China and the US, the undefined nature of Brexit and political uncertainties in several other countries add to the uncertainty.

There are uncertainties regarding the growth outlook in developing economies, including China, which may significantly influence the overall global economy and many of UPM's product markets in particular. Uncertainties related to trade tariffs and other possible protectionist policies add to the risks. China accounted for 11.3% of UPM's sales in 2018.

The UK has decided to leave the EU, and this was scheduled to take place at the end of March 2019. However, the nature of the exit remains unknown. This represents 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 57.6% of the company's sales in 2018. The UK accounted for 6.3% of UPM's sales.

Changes to the monetary policies of major central banks may significantly impact various currencies that directly or indirectly affect UPM.

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 November 2018, the regular electricity generation at the plant unit will commence in January 2020. After the reporting period TVO has announced on 10 April 2019 that the Supplier will update the schedule of OL3 EPR project and deliver a new schedule to TVO by the end of June.

Further delays to the OL3 project 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 pages 135–136 of the Annual Report 2018. Risks and opportunities are discussed on pages 30–31, and risks and risk management are presented on pages 106–109.

Annual General Meeting

The Annual General Meeting held on 4 April 2019 decided that a dividend of EUR 1.30 per share (totalling EUR 693 million) would be paid in respect of the 2018 financial year. The dividend record date was 8 April and the dividend was paid on 17 April 2019.

The Annual General Meeting authorised the Board of Directors to decide on the issuance of new shares, transfer of treasury shares and issuance of special rights entitling to shares in proportion to the shareholders' existing holdings in the Company, or in a directed share issue, deviating from the shareholder's pre-emptive subscription right. The Board of Directors may also decide on a share issue without payment to the Company itself. The aggregate maximum number of new shares that may be issued and treasury shares that may be transferred is 25,000,000, including the number of shares that can be received on the basis of the special rights. The authorisation will be valid for 18 months from the date of the AGM resolution.

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.

Board of Directors

At the Annual General Meeting held on 4 April 2019, the number of members of the Board of Directors was confirmed as 10, and Berndt Brunow, Henrik Ehrnrooth, Piia-Noora Kauppi, Marjan Oudeman, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Suzanne Thoma, Kim Wahl and Björn Wahlroos were re-elected to the Board. The directors' term of office will end upon the closure of the next AGM.

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, and Marjan Oudeman and Kim Wahl were re-elected as other committee members. Veli-Matti Reinikkala was re-elected to chair the Remuneration Committee, and Henrik Ehrnrooth and Suzanne Thoma were re-elected as other committee members. Björn Wahlroos was re-elected to chair the Nomination and Governance Committee, and Berndt Brunow and Ari Puheloinen were re-elected as other committee members.

Shares

In Q1 2019, UPM shares worth a total of EUR 2,438 million (2,538 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 27.83 in February and the lowest was EUR 21.60 in January.

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

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The Annual General Meeting held on 4 April 2019 authorised the Board of Directors to decide on the issuance of new shares, transfer of treasury shares and issuance of special rights entitling to shares in proportion to the shareholders' existing holdings in the Company, or in a directed share issue, deviating from the shareholder's pre-emptive subscription right. The Board of Directors may also decide on a share issue without payment to the Company itself. The aggregate maximum number of new shares that may be issued and treasury shares that may be transferred is 25,000,000, including the number of shares that can be received on the basis of the special rights. The authorisation will be valid for 18 months 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 2019 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 March 2019, 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

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 filed a request for leave of appeal with the Supreme Court. In March 2019 the Supreme Court rendered its decision denying Metsäliitto and Metsä Board leave to appeal as a result of which the judgement of the Court of Appeal remains final.

Helsinki, 26 April 2019

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q1/2019	RESTATED ¹⁾ Q1/2018	RESTATED ¹⁾ Q1-Q4/2018
Sales	2,693	2,512	10,483
Other operating income	19	43	87
Costs and expenses ¹⁾	-2,225	-2,069	-8,665
Change in fair value of forest assets and wood harvested ¹⁾	5	3	407
Share of results of associated companies and joint ventures	1	2	6
Depreciation, amortisation and impairment charges	-120	-106	-422
Operating profit	373	385	1,895
Exchange rate and fair value gains and losses	-	-	3
Interest and other finance costs, net	-9	-14	-60
Profit before tax	364	371	1,839
Income taxes	-60	-62	-342
Profit for the period	304	309	1,496
Attributable to:			
Owners of the parent company	304	308	1,495
Non-controlling interests	-	1	1
	304	309	1,496
Earnings per share for profit attributable to owners of the parent company			
Basic earnings per share, EUR	0.57	0.58	2.80
Diluted earnings per share, EUR	0.57	0.58	2.80

¹⁾ Accounting policy change of forest renewal costs.

Consolidated statement of comprehensive income

EURm	Q1/2019	Q1/2018	Q1-Q4/2018
Profit for the period	304	309	1,496
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	-68	19	-
Changes in fair value of energy shareholdings	1	38	183
Items that may be reclassified subsequently to income statement:			
Translation differences	83	-43	62
Net investment hedge	-7	6	-14
Cash flow hedges	-32	-11	13
Other comprehensive income for the period, net of tax	-24	9	243
Total comprehensive income for the period	280	317	1,739
Total comprehensive income attributable to:			
Owners of the parent company	280	317	1,738
Non-controlling interests	-	1	1
	280	317	1,739

Consolidated balance sheet

EURm	31 MAR 2019	31 MAR 2018	31 DEC 2018
ASSETS			
Goodwill	238	229	236
Other intangible assets	323	304	295
Property, plant and equipment	4,106	4,191	4,186
Leased assets	594	–	–
Forest assets	1,967	1,597	1,945
Energy shareholdings	2,158	2,011	2,159
Other non-current financial assets	179	165	178
Deferred tax assets	408	411	397
Net retirement benefit assets	27	91	38
Investments in associates and joint ventures	32	29	32
Other non-current assets	27	37	34
Non-current assets	10,060	9,064	9,501
Inventories	1,664	1,371	1,642
Trade and other receivables	1,874	1,859	1,833
Other current financial assets	82	95	107
Income tax receivables	28	20	24
Cash and cash equivalents	1,064	528	888
Current assets	4,711	3,873	4,496
Assets	14,771	12,938	13,996
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	–2	–2	–2
Translation reserve	307	147	232
Other reserves	1,733	1,598	1,778
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	5,847	5,069	5,623
Equity attributable to owners of the parent company	10,046	8,974	9,792
Non-controlling interests	5	4	5
Equity	10,051	8,978	9,797
Deferred tax liabilities	532	461	535
Net retirement benefit liabilities	749	708	679
Provisions	129	169	126
Non-current debt	1,139	720	753
Other non-current financial liabilities	68	74	101
Non-current liabilities	2,617	2,133	2,194
Current debt	127	34	25
Trade and other payables	1,861	1,734	1,881
Other current financial liabilities	93	37	78
Income tax payables	21	22	22
Current liabilities	2,103	1,827	2,005
Liabilities	4,720	3,960	4,199
Equity and liabilities	14,771	12,938	13,996

Consolidated statement of changes in equity

EURm	SHARE CAPITAL	TREASURY SHARES	TRANSLATION RESERVE	OTHER RESERVES	RESERVE FOR INVESTED NON- RESTRICTED EQUITY	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	NON- CONTROLLING INTERESTS	TOTAL EQUITY
Value at 31 December 2018	890	-2	232	1,778	1,273	5,623	9,792	5	9,797
Impact of adoption of IFRS 16 ¹⁾	-	-	-	-	-	-6	-6	-	-6
Value at 1 January 2019	890	-2	232	1,778	1,273	5,617	9,786	5	9,791
Profit for the period	-	-	-	-	-	304	304	-	304
Translation differences	-	-	83	-	-	-	83	-	83
Cash flow hedges – reclassified to income statement, net of tax	-	-	-	3	-	-	3	-	3
Cash flow hedges – changes in fair value, net of tax	-	-	-	-36	-	-	-36	-	-36
Net investment hedge, net of tax	-	-	-7	-	-	-	-7	-	-7
Energy shareholdings – changes in fair value, net of tax	-	-	-	-	-	1	1	-	1
Actuarial gains and losses on defined benefit plans, net of tax	-	-	-	-	-	-68	-68	-	-68
Total comprehensive income for the period	-	-	75	-32	-	237	280	-	280
Share-based payments, net of tax	-	-	-	-12	-	-7	-20	-	-20
Dividend distribution	-	-	-	-	-	-	-	-	-
Total transactions with owners for the period	-	-	-	-12	-	-7	-20	-	-20
Value at 31 March 2019	890	-2	307	1,733	1,273	5,847	10,046	5	10,051
Value 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	-	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
Value at 31 March 2018	890	-2	147	1,598	1,273	5,069	8,974	4	8,978

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	Q1/2019	RESTATED ^{*)} Q1/2018	RESTATED ^{*)} Q1-Q4/2018
Cash flows from operating activities			
Profit for the period	304	309	1,496
Adjustments	173	105	301
Change in working capital	-111	-142	-209
Finance costs, net	-1	-7	-31
Income taxes paid	-45	-51	-228
Operating cash flow	320	214	1,330
Cash flows from investing activities			
Capital expenditure	-78	-61	-303
Additions to forest assets	-7	-8	-49
Asset sales and other investing cash flow	4	10	153
Investing cash flow	-81	-59	-199
Cash flows from financing activities			
Change in loans and other financial items ^{**)}	-43	-338	-338
Lease repayments ^{**)}	-22	-2	-7
Dividends paid	-	-	-613
Financing cash flow	-66	-340	-959
Change in cash and cash equivalents	174	-186	172
Cash and cash equivalents at beginning of period	888	716	716
Exchange rate effect on cash and cash equivalents	2	-2	-
Change in cash and cash equivalents	174	-186	172
Cash and cash equivalents at end of period	1,064	528	888

^{*)} Accounting policy change of forest renewal costs.

^{**)} Repayments of finance leases under IAS 17 have been reclassified from Change in loans and other financial items to Lease repayments.

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.

	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales, EURm	2,693	2,731	2,650	2,589	2,512	10,483
Comparable EBITDA, EURm ¹⁾	488	473	497	442	456	1,868
% of sales ¹⁾	18.1	17.3	18.7	17.1	18.2	17.8
Comparable EBIT, EURm	374	404	420	334	355	1,513
% of sales	13.9	14.8	15.9	12.9	14.1	14.4
Comparable profit before tax, EURm	366	390	404	322	341	1,457
Capital employed (average), EURm	10,946	10,259	9,817	9,712	9,755	10,176
Comparable ROCE, %	13.7	15.5	16.8	13.6	14.3	14.6
Comparable profit for the period, EURm	305	319	330	258	288	1,194
Total equity, average, EURm	9,924	9,491	8,959	8,856	8,821	9,230
Comparable ROE, %	12.3	13.4	14.6	11.6	13.0	12.9
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.57	0.60	0.61	0.48	0.54	2.24
Items affecting comparability in operating profit, EURm	-1	340	-3	15	30	382
Items affecting comparability in financial items, EURm	-	-	-	-	-	-
Items affecting comparability in taxes, EURm	-	-68	1	-3	-9	-80
Operating cash flow, EURm ¹⁾	320	384	405	328	214	1,330
Operating cash flow per share, EUR ¹⁾	0.60	0.72	0.76	0.61	0.40	2.49
Net debt at the end of period, EURm	-5	-311	4	401	41	-311
Gearing ratio, %	0	-3	0	5	0	-3
Net debt to EBITDA (last 12 m.) ¹⁾	-0.00	-0.17	0.00	0.22	0.02	-0.17
Capital expenditure, EURm	62	109	76	76	43	303
Capital expenditure excluding acquisitions, EURm	62	109	76	76	43	303
Equity per share at the end of period, EUR	18.84	18.36	17.21	16.37	16.83	18.36
Personnel at the end of period	19,008	18,978	19,076	19,836	19,027	18,978

¹⁾ The 2018 comparative figures have been restated due to accounting policy change of forest renewal costs.
Refer to » **Basis of preparation and accounting policies.**

The definitions of alternative performance measures are presented in notes to the consolidated financial statements in » **UPM Annual Report 2018.**

Reconciliation of key figures to IFRS

EURm, OR AS INDICATED	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Items affecting comparability						
Restructuring charges	-5	-10	-	18	-	9
Change in fair value of unrealised cash flow and commodity hedges	4	6	-3	-2	-	-
Capital gains and losses on sale of non-current assets	-	-	-	-2	30	29
Fair value changes of forest assets resulting from changes in estimates	-	345	-	-	-	345
Total items affecting comparability in operating profit	-1	340	-3	15	30	382
Items affecting comparability in financial items	-	-	-	-	-	-
Items affecting comparability in taxes	-	-68	1	-3	-9	-80
Items affecting comparability, total	-1	272	-2	11	21	302
Comparable EBITDA						
Operating profit	373	744	417	349	385	1,895
Depreciation, amortisation and impairment charges excluding items affecting comparability	120	105	105	106	106	422
Change in fair value of forest assets and wood harvested excluding items affecting comparability ¹⁾	-5	-35	-27	3	-3	-63
Share of result of associates and joint ventures	-1	-1	-2	-1	-2	-6
Items affecting comparability in operating profit	1	-340	3	-15	-30	-382
Comparable EBITDA ¹⁾	488	473	497	442	456	1,868
% of sales ¹⁾	18.1	17.3	18.7	17.1	18.2	17.8
Comparable EBIT						
Operating profit	373	744	417	349	385	1,895
Items affecting comparability in operating profit	1	-340	3	-15	-30	-382
Comparable EBIT	374	404	420	334	355	1,513
% of sales	13.9	14.8	15.9	12.9	14.1	14.4
Comparable profit before tax						
Profit before tax	364	731	401	337	371	1,839
Items affecting comparability in operating profit	1	-340	3	-15	-30	-382
Items affecting comparability in financial items	-	-	-	-	-	-
Comparable profit before tax	366	390	404	322	341	1,457
Comparable ROCE, %						
Comparable profit before tax	366	390	404	322	341	1,457
Interest expenses and other financial expenses	8	7	9	8	9	33
	374	397	413	330	350	1,490
Capital employed, average	10,946	10,259	9,817	9,712	9,755	10,176
Comparable ROCE, %	13.7	15.5	16.8	13.6	14.3	14.6
Comparable profit for the period						
Profit for the period	304	591	328	269	309	1,496
Items affecting comparability, total	1	-272	2	-11	-21	-302
Comparable profit for the period	305	319	330	258	288	1,194
Comparable EPS, EUR						
Comparable profit for the period	305	319	330	258	288	1,194
Profit attributable to non-controlling interest	-	2	-2	-	-1	-1
	305	321	328	258	287	1,193
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.57	0.60	0.61	0.48	0.54	2.24

¹⁾ The 2018 comparative figures have been restated due to accounting policy change of forest renewal costs.
Refer to » [Basis of preparation and accounting policies](#).

Reconciliation of key figures to IFRS

EURm, OR AS INDICATED	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Comparable ROE, %						
Comparable profit for the period	305	319	330	258	288	1,194
Total equity, average	9,924	9,491	8,959	8,856	8,821	9,230
Comparable ROE, %	12.3	13.4	14.6	11.6	13.0	12.9
Net debt						
Non-current debt	1,139	753	732	750	720	753
Current debt	127	25	25	207	34	25
Total debt ¹⁾	1,267	778	757	957	755	778
Non-current interest-bearing assets	177	171	158	167	165	171
Cash and cash equivalents	1,064	888	549	369	528	888
Other current interest-bearing assets	31	30	46	20	20	30
Total interest-bearing assets	1,272	1,089	753	556	714	1,089
Net debt	-5	-311	4	401	41	-311

¹⁾ Total debt increased in 2019 as a result of the adoption of IFRS 16 Leases 1 January 2019.
Refer to » [Basis of preparation and accounting policies](#).

Quarterly information by business area

EURm, OR AS INDICATED	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Sales						
UPM Biorefining	753	775	754	694	668	2,892
UPM Energy	113	100	101	83	107	391
UPM Raflatac	398	397	374	371	345	1,488
UPM Specialty Papers	357	364	354	368	343	1,429
UPM Communication Papers	1,200	1,206	1,209	1,149	1,126	4,690
UPM Plywood	123	119	112	125	125	480
Other operations	68	87	80	83	76	326
Internal sales	-320	-318	-334	-289	-279	-1,220
Eliminations and reconciliations	2	1	-	4	1	7
Sales, total	2,693	2,731	2,650	2,589	2,512	10,483
Comparable EBITDA						
UPM Biorefining ¹⁾	254	282	297	199	233	1,011
UPM Energy	41	34	31	23	44	132
UPM Raflatac	40	35	41	44	36	156
UPM Specialty Papers	29	23	34	53	56	167
UPM Communication Papers	118	99	97	101	84	381
UPM Plywood	19	15	13	22	24	75
Other operations ¹⁾	-8	-14	-2	1	-13	-28
Eliminations and reconciliations	-4	-2	-15	-	-9	-26
Comparable EBITDA, total ¹⁾	488	473	497	442	456	1,868
Operating profit						
UPM Biorefining	212	241	256	155	195	847
UPM Energy	39	23	29	20	42	114
UPM Raflatac	26	27	33	37	29	126
UPM Specialty Papers	8	4	15	33	37	90
UPM Communication Papers	85	71	69	88	85	312
UPM Plywood	13	9	7	16	19	52
Other operations	-9	365	25	0	-12	380
Eliminations and reconciliations	-	4	-18	-2	-9	-25
Operating profit, total	373	744	417	349	385	1,895
% of sales	13.9	27.3	15.7	13.5	15.3	18.1
Items affecting comparability in operating profit						
UPM Biorefining	-	-	-	-	-	-
UPM Energy	-	-9	-	-	-	-9
UPM Raflatac	-5	-	-	-	-	-
UPM Specialty Papers	-	-	-	-	-	-
UPM Communication Papers	-	-1	-	17	30	46
UPM Plywood	-	-	-	-	-	-
Other operations	-	345	-	-	-	345
Eliminations and reconciliations ²⁾	4	6	-3	-2	-	1
Items affecting comparability in operating profit, total	-1	340	-3	15	30	382
Comparable EBIT						
UPM Biorefining	212	241	256	155	195	847
UPM Energy	39	32	29	20	42	123
UPM Raflatac	31	27	33	37	29	126
UPM Specialty Papers	8	4	15	33	37	90
UPM Communication Papers	85	72	69	72	54	267
UPM Plywood	13	9	7	16	19	52
Other operations	-9	21	25	0	-12	35
Eliminations and reconciliations	-4	-2	-15	-	-9	-26
Comparable EBIT, total	374	404	420	334	355	1,513
% of sales	13.9	14.8	15.9	12.9	14.1	14.4

¹⁾ The 2018 comparative figures have been restated due to accounting policy change of forest renewal costs.

Refer to » **Basis of preparation and accounting policies.**

²⁾ In Q1 2019, Q4, Q3 and Q2 2018, eliminations and reconciliations includes changes in fair value of unrealised cash flow and commodity hedges.

External sales by major products

BUSINESS AREA	BUSINESS	Q1/2019	Q1/2018	Q1-Q4/2018
EUR million				
UPM Biorefining	UPM Pulp, UPM Biofuels, UPM Timber	580	517	2,223
UPM Energy	UPM Energy	44	46	109
UPM Raflatac	UPM Raflatac	398	345	1,488
UPM Specialty Papers	UPM Specialty Papers	296	292	1,213
UPM Communication Papers	UPM Communication Papers	1,190	1,118	4,664
UPM Plywood	UPM Plywood	117	120	458
Other operations	Wood Sourcing and Forestry, UPM Biochemicals, UPM Biocomposites	66	74	321
Eliminations and reconciliations		2	1	7
Total		2,693	2,512	10,483

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 materials, release base papers, flexible packaging materials, office papers, graphic papers
UPM Communication Papers	Graphic 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, nanocellulose-based products for biomedical applications
UPM Biocomposites	UPM ProFi decking products and UPM Formi granules

Changes in property, plant and equipment

EURm	Q1/2019	Q1/2018	Q1-Q4/2018
Book value at beginning of period	4,186	4,281	4,281
Reclassification to leased assets (IFRS 16)	-91	-	-
Capital expenditure	57	40	286
Decreases	-	-1	-15
Depreciation	-99	-103	-408
Translation difference and other changes	55	-26	41
Book value at end of period	4,106	4,191	4,186

Financial assets and liabilities measured at fair value

EURm	31 MAR 2019				31 MAR 2018				31 DEC 2018			
	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	-	22	-	22	-	12	-	12	-	16	-	16
Derivatives under hedge accounting	61	153	-	214	52	175	-	227	106	140	-	246
Energy shareholdings	-	-	2,158	2,158	-	-	2,011	2,011	-	-	2,159	2,159
Total	61	175	2,158	2,394	52	187	2,011	2,250	106	156	2,159	2,421
Financial liabilities												
Derivatives non-qualifying hedges	-	7	-	7	-	10	-	10	-	10	-	10
Derivatives under hedge accounting	11	78	-	89	22	12	-	34	15	56	-	71
Total	11	85	-	96	22	22	-	44	15	66	-	81

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

EURm	ENERGY SHAREHOLDINGS		
	Q1/2019	Q1/2018	Q1-Q4/2018
Opening balance	2,159	1,974	1,974
Disposals	-1	-	-1
Fair value changes recognised in other comprehensive income	1	37	185
Closing balance	2,158	2,011	2,159

Fair valuation of energy shareholdings in the UPM Energy (Pohjolan Voima Oyj'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 approximately EUR 350 million. The discount rate of 5.49% used in the valuation model is determined using the weighted

average cost of capital method. A change of 0.5% in the discount rate would change the total value of the assets by approximately EUR 300 million. Other uncertainties and risk factors in the value of the assets relate to start-up schedule of the fixed price turn-key Olkiluoto 3 EPR nuclear power plant project. 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 2019	31 MAR 2018	31 DEC 2018
Non-current debt, excl. derivative financial instruments and lease liabilities	673	644	659

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

Commitments and contingencies

EURm	31 MAR 2019	31 MAR 2018	31 DEC 2018
Own commitments			
Mortgages	1	8	1
On behalf of others			
Guarantees	2	2	2
Other own commitments			
Leasing commitments for the next 12 months ¹⁾	6	77	90
Leasing commitments for subsequent periods ¹⁾	–	375	464
Other commitments	89	92	92
Total	97	554	649

¹⁾ Leasing commitments have decreased as a result of the adoption of IFRS 16 Leases 1 January 2019.
Refer to » [Basis of preparation and accounting policies](#).

Capital commitments

EURm	COMPLETION	TOTAL COST	BY 31 DEC 2018	Q1/2019	AFTER 31 MAR 2019
Renovation and modernisation / Kuusankoski hydro power plant	2022	22	–	1	21
Paper machine conversion / Nordland paper mill	Q4 2019	116	35	9	72
Capacity increase / Changshu paper mill	Q4 2019	34	9	2	23
Capacity increase / Chudovo plywood mill	Q3 2019	50	42	3	5

Notional amounts of derivative financial instruments

EURm	31 MAR 2019	31 MAR 2018	31 DEC 2018
Interest rate forward contracts	2,054	1,551	1,129
Interest rate swaps	334	736	753
Forward foreign exchange contracts	2,536	2,324	2,524
Currency options, bought	8	23	21
Currency options, written	8	42	31
Cross currency swaps	169	160	167
Commodity contracts	969	463	1,189

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 2018.

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.

On 1 January 2019, UPM has adopted IFRS 16 Leases standard and changed accounting policy of forest renewal costs. Description of effects of implementation and changes in accounting policies are presented below.

IFRS 16 Leases

The group as a lessee

On 1 January 2019, UPM has changed its accounting policy regarding recognition, measurement, presentation and disclosure of leases. As a result, UPM as a lessee has recognised most of leases on the balance sheet and there is no distinction between operating and finance leases anymore.

Leases of property, plant and equipment where UPM, as a lessee, obtains substantially all of the economic benefits from the use of the identified asset and where UPM has the right to direct the use of the identified asset, are classified as leases.

The group recognises a leased asset and a lease liability at the lease commencement date, except for short-term leases. Short-term leases are leases where the duration of the lease term is 12 months or less. In case the contract includes a purchase option, it is not a short-term lease. UPM recognises lease payments of short-term leases as an expense on straight-line basis over the lease term.

The lease term of the different contracts is determined as the non-cancellable period taking into consideration the options to extend and terminate if it is reasonably certain that the group will exercise the extension option or will not exercise the termination option. If the contract is for an indefinite period of time and the group and the lessor both have a right to terminate the contract within a short notice period (12 months or less) without a significant penalty, the contract is considered to be a short-term and the lease payments are expensed in the income statement on a straight-line basis over the lease term.

Leased asset comprises the initial lease liability, initial direct costs and the obligations to refurbish the asset, less any incentives granted by the lessors. The leased asset is subsequently valued at cost less accumulated depreciation and impairment losses. Remeasurement takes place in case lease liability is remeasured and change in cash flows is based on contract terms that have been included in the original contract. The leased asset is depreciated over the shorter of the asset's useful life and the lease term.

The lease liability is recognised at the commencement date and measured at the present value of the lease payments to be paid during the lease term. The group uses, as a basis, discount rate implicit in the lease and if that rate cannot be readily determined, UPM uses incremental borrowing rate which comprises of currency and lease period based reference rate and specific credit spread. Lease payments can include fixed payments, variable payments that depend on an index or rate and extension option payments or purchase options if it is reasonably certain that the group will exercise them. The lease liability is subsequently measured at amortised cost using the effective interest rate method and remeasured (with corresponding adjustment to the related leased asset) when there is a change in future

lease payments due to renegotiation, changes of an index or rate or reassessment of options.

The group has elected to separate non-lease components such as service components and other variable components and account them for as expenses, if they can be separated from the leased asset. However, the group does not separate non-lease components from the lease contracts of company cars.

The group does not apply portfolio approach of leases with similar characteristics.

Group as a lessor

At inception of a lease contract, the group makes an assessment whether the lease is a finance lease or an operating lease. If the lease transfers substantially all of the risks and rewards incidental to ownership of the asset, it is considered to be a finance lease; if not, the lease is considered to be an operating lease. The group has only a minor amount of operating lease contracts, whereby the lease payments are recognised on a straight-line basis over the term of the lease.

Implementation of IFRS 16

The group has adopted the IFRS 16 standard using modified retrospective application method without restatement of comparatives. Under IFRS 16, a right-of-use asset (i.e. leased assets), representing right to use the underlying asset, and a lease liability, representing the obligation to make lease payments, is recognised on the balance sheet.

As part of the transition, leased assets of EUR 489 million and lease liabilities of EUR 495 million were recognised at the date of initial application on 1 January 2019. The most significant lease contracts recognised on the balance sheet consists of land areas, power plants and real estate. UPM estimated the remaining lease term as of 1 January 2019 and measured its lease liability at the present value of the remaining lease payments discounted using incremental borrowing rate at the date of application 1 January 2019. Lease payments relating to an optional renewal period in the lease liability were included only if it was reasonably certain that the group will exercise that option. The group applied IAS 36 Impairment of Assets to assess the leased assets for impairment at the date of initial application and consequently recognised an adjustment, net of tax, to the opening balance of retained earnings.

UPM applied short-term leases exemption consistently upon transition and subsequently for all asset classes.

For transition purposes UPM did not reassess previous decisions about existing contracts whether they are or contain a lease. Additionally, the group did not identify initial direct costs of leases previously classified as operating leases. At the date of initial application, the group did not apply practical exemption to account leases with the remaining term less than 12 months as short-term leases.

The Group has elected to separate lease and non-lease components for all asset classes except for company cars.

Upon transition, UPM did not make any adjustments to existing finance lease balances which have been accounted for in accordance with IAS 17. Subsequently, the group accounts for the leased asset and lease liability in accordance with the general requirements of IFRS 16.

The impact of the initial application of IFRS 16 by each balance sheet line item is described below. The balance sheet impact includes also the reclassification of finance leases recognised in accordance with IAS 17 at 31 December 2018 to leased assets and lease liability. In addition, certain long-term land use contracts were reclassified from intangible rights to leased assets. The corresponding lease liabilities have been settled in previous periods. Operating lease prepayments reported in trade and other receivables at 31.12.2018 were reclassified to lease liabilities.

Adjustments of opening balances

EURm	31 DEC 2018	IMPACT OF IFRS 16	1 JAN 2019
ASSETS			
Goodwill	236	–	236
Other intangible assets	295	–16	279
Property, plant and equipment	4,186	–92	4,094
Leased assets	–	598	598
Forest assets	1,945	–	1,945
Energy shareholdings	2,159	–	2,159
Other non-current financial assets	178	–	178
Deferred tax assets	397	–	397
Net retirement benefit assets	38	–	38
Investments in associates and joint ventures	32	–	32
Other non-current assets	34	–	34
Non-current assets	9,501	489	9,991
Inventories	1,642	–	1,642
Trade and other receivables	1,833	–8	1,825
Other current financial assets	107	–	107
Income tax receivables	24	–	24
Cash and cash equivalents	888	–	888
Current assets	4,496	–8	4,488
Assets	13,996	482	14,479
EQUITY AND LIABILITIES			
Share capital	890	–	890
Treasury shares	–2	–	–2
Translation reserve	232	–	232
Other reserves	1,778	–	1,778
Reserve for invested non-restricted equity	1,273	–	1,273
Retained earnings	5,623	–6	5,617
Equity attributable to owners of the parent company	9,792	–6	9,786
Non-controlling interests	5	–	5
Equity	9,797	–6	9,791
Deferred tax liabilities	535	–	535
Net retirement benefit liabilities	679	–	679
Provisions	126	–	126
Non-current debt	753	420	1,173
Other non-current financial liabilities	101	–	101
Non-current liabilities	2,194	420	2,614
Current debt	25	68	93
Trade and other payables	1,881	–	1,881
Other current financial liabilities	78	–	78
Income tax payables	22	–	22
Current liabilities	2,005	68	2,073
Liabilities	4,199	488	4,687
Equity and liabilities	13,996	482	14,479

The following reconciliation to opening balance for the lease liabilities as of 1 January 2019 is based upon the operating lease commitments as of 31 December 2018:

EURm	
Operating lease commitments 31.12.2018	554
Recognition exemption for short-term leases	–7
Reasonably certain extension or termination options	53
Non-lease components (service components)	–27
Other	6
Gross lease liabilities at 1.1.2019	579
Discounting ¹⁾	–84
Lease liability 1.1.2019	495
Present value of finance lease liabilities 31.12.2018	98
Total lease liabilities 1.1.2019	593

¹⁾ The lease liabilities were discounted at incremental borrowing date as of 1.1.2019. The weighted-average incremental borrowing rate was 1.4%.

Accounting policy change of forest renewal costs

On 1 January 2019, UPM has changed its accounting policy relating to forest assets by capitalising forestry renewal costs on the balance sheet during the growth cycle and reclassifying forest assets-related cash flows from operating cash flow to investing cash flow. Previously UPM has recognised forestry renewal costs in income statement and reported forest assets-related cash flows, including forest renewal costs, forest asset purchases and sales, in operating cash flow. UPM has consistently increased the weight of the Southern hemisphere plantations in its forest asset portfolio, where the growth cycle is significantly shorter and significance of forestry renewal cost

substantially higher compared to the Northern hemisphere. Majority of UPM's forest renewal costs are related to Southern hemisphere plantations. Thus, the change of accounting policy results in more relevant information on group's financial performance and cash flows.

The change has an impact on the following key figures in UPM group, UPM Biorefining and Other operations: EBITDA, EBITDA margin, operating and investing cash flows, operating cash flow per share and net debt to EBITDA ratio. Operating profit, comparable EBIT and balance sheet are not affected. The comparative years have been restated according to the new reporting principles.

UPM group

AS PUBLISHED	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Comparable EBITDA, EURm	461	487	425	449	1,823
% of sales	16.9	18.4	16.4	17.9	17.4
Operating cash flow, EURm	420	434	329	208	1,391
Operating cash flow per share, EUR	0.79	0.81	0.62	0.39	2.61
Investing cash flow, EURm	-83	-61	-62	-54	-260
Net debt to EBITDA (last 12 m.)	-0.17	0.00	0.23	0.02	-0.17

RESTATED	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
Comparable EBITDA, EURm	473	497	442	456	1,868
% of sales	17.3	18.7	17.1	18.2	17.8
Operating cash flow, EURm	384	405	328	214	1,330
Operating cash flow per share, EUR	0.72	0.76	0.61	0.40	2.49
Investing cash flow, EURm	-46	-33	-61	-59	-199
Net debt to EBITDA (last 12 m.)	-0.17	0.00	0.22	0.02	-0.17

Comparable EBITDA by business area

AS PUBLISHED	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
EUR million					
UPM Biorefining	271	288	185	227	970
UPM Energy	34	31	23	44	132
UPM Raflatac	35	41	44	36	156
UPM Specialty Papers	23	34	53	56	167
UPM Communication Papers	99	97	101	84	381
UPM Plywood	15	13	22	24	75
Other operations	-14	-2	-2	-13	-31
Eliminations and reconciliations	-2	-15	-	-9	-26
Total	461	487	425	449	1,823

RESTATED	Q4/18	Q3/18	Q2/18	Q1/18	Q1-Q4/18
EUR million					
UPM Biorefining	282	297	199	233	1,011
UPM Energy	34	31	23	44	132
UPM Raflatac	35	41	44	36	156
UPM Specialty Papers	23	34	53	56	167
UPM Communication Papers	99	97	101	84	381
UPM Plywood	15	13	22	24	75
Other operations	-14	-2	1	-13	-28
Eliminations and reconciliations	-2	-15	-	-9	-26
Total	473	497	442	456	1,868

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 pages 135–136 of the 2018 Annual Report. Risks and opportunities are discussed on pages 30–31 and risks and risk management are presented on pages 106–109 of the report.



www.upm.com

UPM-Kymmene Corporation

Alvar Aallon katu 1
PO Box 380
FI-00101 Helsinki, Finland
tel. +358 2041 5111
fax +358 2041 5110
info@upm.com
ir@upm.com