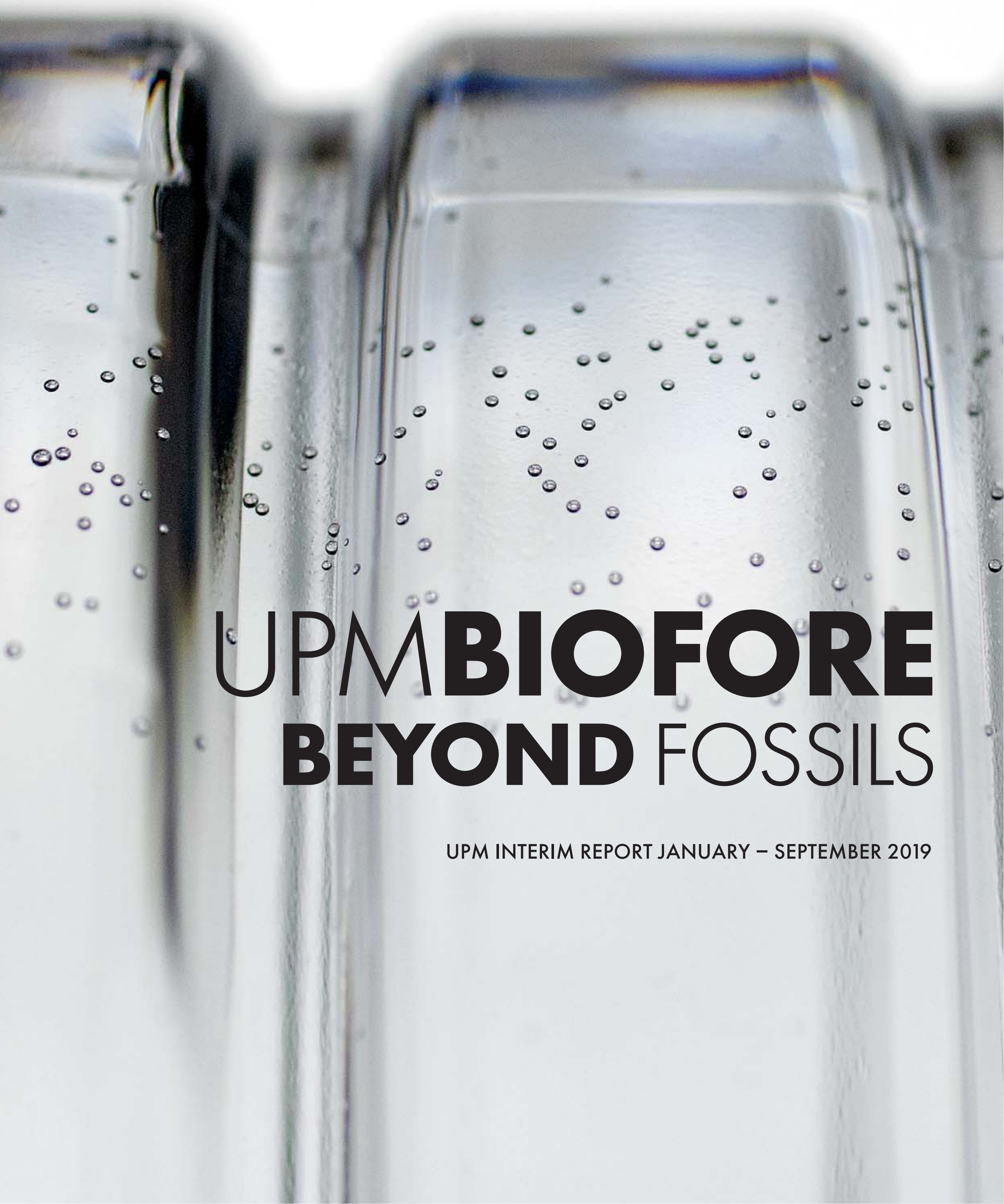


UPM BIOFORE BEYOND FOSSILS

UPM INTERIM REPORT JANUARY – SEPTEMBER 2019

UPM Interim Report Q3 2019:

UPM reports good performance and strong financial position - Uruguay decision drives significant future earnings growth

Q3 2019 highlights

- Sales decreased by 6% to EUR 2,493 million (2,650 million in Q3 2018)
- Comparable EBIT decreased by 19% to EUR 342 million (420 million)
- Sales prices decreased in pulp, outweighing the impact of lower variable costs in all business areas
- UPM announced the transformative investment in Uruguay for significant future earnings growth, and further plans to safeguard competitiveness in UPM Communication Papers
- Operating cash flow increased to EUR 500 million (405 million)
- Net debt decreased to EUR -2 million (4 million)

Q1–Q3 2019 highlights

- Sales grew by 1% to EUR 7,791 million (7,752 million in Q1–Q3 2018)
- Comparable EBIT decreased by 4% to EUR 1,061 million (1,109 million)
- Operating cash flow increased to EUR 1,256 million (947 million)
- In July, UPM announced a USD 2.7 billion investment in a 2.1 million tonne eucalyptus pulp mill near Paso de los Toros, Uruguay
- In July, UPM closed paper machine 10 at UPM Plattling, Germany
- In September, UPM announced plans to close paper machine 2 at UPM Rauma, Finland, to sell UPM Chapelle newsprint mill in Grand-Couronne, France and to establish a new Business Services Hub in Wroclaw, Poland

Key figures

	Q3/2019	Q3/2018	Q2/2019	Q1–Q3/2019	Q1–Q3/2018	Q1–Q4/2018
Sales, EURm	2,493	2,650	2,605	7,791	7,752	10,483
Comparable EBITDA, EURm [1]	455	497	466	1,409	1,395	1,868
% of sales [1]	18.2	18.7	17.9	18.1	18.0	17.8
Operating profit, EURm	316	417	319	1,009	1,151	1,895
Comparable EBIT, EURm	342	420	345	1,061	1,109	1,513
% of sales	13.7	15.9	13.2	13.6	14.3	14.4
Profit before tax, EURm	319	401	300	983	1,108	1,839
Comparable profit before tax, EURm	345	404	325	1,036	1,067	1,457
Profit for the period, EURm	260	328	245	810	905	1,496
Comparable profit for the period, EURm	281	330	271	857	875	1,194
Earnings per share (EPS), EUR	0.46	0.61	0.46	1.49	1.69	2.80
Comparable EPS, EUR	0.50	0.61	0.51	1.58	1.64	2.24
Return on equity (ROE), %	10.7	14.5	10.0	11.0	13.5	16.2
Comparable ROE, %	11.6	14.6	11.1	11.6	13.0	12.9
Return on capital employed (ROCE), %	12.0	16.7	11.2	12.4	15.3	18.4
Comparable ROCE, %	12.9	16.8	12.2	13.1	14.8	14.6
Operating cash flow, EURm [1]	500	405	436	1,256	947	1,330
Operating cash flow per share, EUR [1]	0.94	0.76	0.82	2.35	1.78	2.49
Equity per share at the end of period, EUR	18.28	17.21	17.91	18.28	17.21	18.36
Capital employed at the end of period, EURm	11,172	9,942	10,820	11,172	9,942	10,575
Net debt at the end of period, EURm	-2	4	366	-2	4	-311
Net debt to EBITDA (last 12 months) [1]	0.00	0.00	0.19	0.00	0.00	-0.17
Personnel at the end of period	19,020	19,076	19,760	19,020	19,076	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 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 Q3 2019 results:

"Q3 was a milestone quarter in our strategic transformation. The biggest news during the quarter was the decision to proceed with the new, highly competitive pulp mill investment in Uruguay, which represents a step change in the scale of our pulp business, as well as in UPM's future earnings. We are in a unique position as we proceed with the execution and preparation of major future growth projects. At the same time, we are continuously taking action to ensure our competitiveness.

UPM's good business performance continued during Q3. The decelerating economy, especially in Europe, is impacting our product markets, and sales prices decreased in line with our expectations. We succeeded in maintaining margins at the same level as in the first half of the year.

In comparison to the corresponding quarter last year, which saw record high pulp prices, our sales decreased by 6% and comparable EBIT by 19% to EUR 342 million. Compared to the previous quarter of the present year earnings stayed on the same level. Operating cash flow was very strong, totalling EUR 500 million. Consistently strong cash flow and a debt-free balance sheet provide a solid foundation for our growth investments.

In UPM Biorefining, earnings were affected by lower pulp prices as expected. Operationally, however, the quarter was strong. Both UPM Pulp and UPM Biofuels achieved record production, and UPM Biofuels reported its best quarterly result ever.

Once again, UPM Communication Papers achieved a solid result. Through continuous fixed and variable cost management, we succeeded in countering the headwind from the market demand and prices. To ensure competitiveness going forward, UPM closed PM10 at UPM Plattling, Germany, in July, and in September we announced plans to close PM2 at UPM Rauma, Finland, and sell UPM Chapelle newsprint mill in Grand-Couronne, France.

UPM Specialty Papers succeeded in making a profitability turnaround. The business benefited from lower pulp costs and strong customer demand, especially in Asia. Our internal cost-management measures also had visible results.

UPM Raflatac's margins are recovering gradually, due to disciplined management efforts. To stay on this positive track, various margin, product-mix and cost-management initiatives will be continued.

UPM Energy reported another excellent quarter thanks to higher market prices and skilful optimisation of hydropower generation in the extremely dry hydrological conditions of Finland.

UPM Plywood faced strengthening headwind in the markets. Adjusting to slowing demand led to labour co-operation negotiations and temporary layoffs in Finland. On a positive note, production commenced at the mill expansion in UPM Chudovo, Russia, which is further improving competitiveness.

After careful preparation, we made the decision to build a new, world-class pulp mill in central Uruguay. We are swiftly proceeding from preparation to planning and execution. Construction permitting and preliminary works on the mill site and in the Montevideo port have begun. The state of Uruguay has commenced construction of the railway, and suppliers are recruiting workforces. The USD 2.7 million investment in a highly competitive 2.1 million tonne eucalyptus pulp mill will raise UPM's pulp capacity by more than 50 % and significantly contribute to future earnings.

Our other transformative projects are progressing, too. Release-liner expansions in UPM Nordland and UPM Changshu will be completed by the end of the year, and technical and commercial studies into biochemicals and biofuels are ongoing in Germany and Finland. In these businesses, we are driving the change towards a world beyond fossils. They represent exciting business opportunities for UPM in vast new markets.

UPM firmly believes in growing sustainable businesses that offer solutions to global challenges. During the quarter this commitment was recognised with top ratings by the Dow Jones Sustainability Indices, United Nations Global Compact LEAD and MSCI ESG Ratings. I am very proud of these recognitions from respected institutions."

Outlook for 2019

The global economic growth is estimated to continue in 2019, albeit at a slower pace than in 2018. There are significant uncertainties related to global economic growth, including global trade tensions. Growth has slowed down in Europe, particularly in Germany. These issues may have an impact on the global economic growth and on UPM's product and raw material markets.

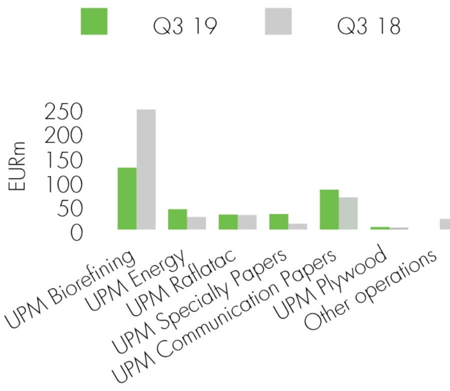
UPM reached record earnings in 2018. UPM's business performance is expected to be at a good level in 2019.

In 2019, demand growth has continued for most UPM businesses, albeit at a modest pace. Demand decline has continued for UPM Communication Papers.

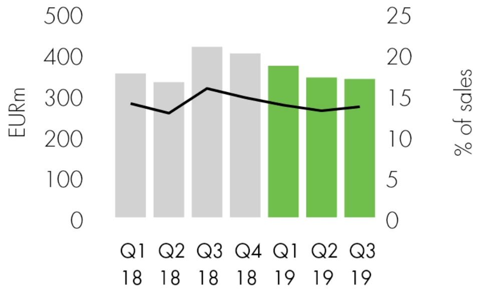
Fair value increases of forest assets are not expected to contribute materially to comparable EBIT in 2019.

In Q4 2019, the average pulp price for UPM businesses is expected to be lower than in Q3 2019. UPM Biorefining is affected by the scheduled maintenance shutdown at the UPM Fray Bentos pulp mill. UPM Communication Papers is positively impacted by the annual energy related refunds.

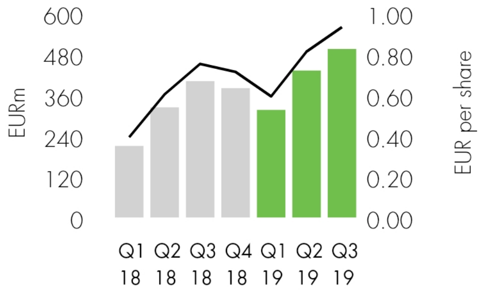
Comparable EBIT



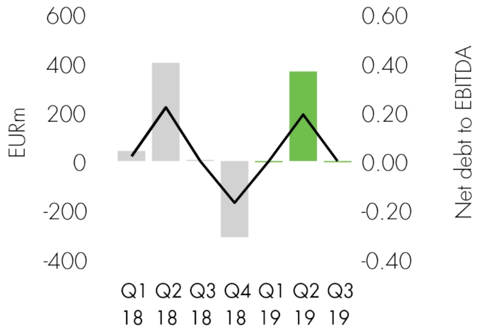
Comparable EBIT



Operating cash flow



Net debt and net debt to EBITDA



Adoption of IFRS 16 Leases

UPM adopted the IFRS 16 Leases standard on 1 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, 2019 operating costs would be approximately EUR 80 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 January 2019 was EUR 489 million and the increase in financial debt amounted to EUR 488 million. Leased assets are not included in the measure of Capital expenditure.

Results

Q3 2019 compared with Q3 2018

Q3 2019 sales were EUR 2,493 million, 6% lower than the EUR 2,650 million for Q3 2018. Sales grew in UPM Raflatac, remained unchanged in UPM Energy, and decreased in UPM Biorefining, UPM Communication Papers, UPM Specialty Papers and UPM Plywood.

Comparable EBIT decreased by 19% to EUR 342 million, 13.7% of sales (420 million, 15.9%).

Development in sales prices differed between businesses. At the group level, changes in sales prices, mainly in pulp, contributed negatively to comparable EBIT and more than offset the positive impact of lower variable costs in all business areas.

Fixed costs decreased by EUR 13 million, mainly due to lower employee costs. Without the adoption of the IFRS 16 Leases standard, fixed costs would have been EUR 15 million higher (i.e. increased by EUR 2 million). Delivery volumes increased from last year.

Depreciation, excluding items affecting comparability, totalled EUR 119 million (105 million), including depreciation of leased assets totaling EUR 18 million (2 million). The change in the fair value of forest assets net of wood harvested was EUR 5 million (27 million).

Operating profit was EUR 316 million (417 million). Items affecting comparability in operating profit totalled EUR -26 million in the period (-3 million). This included EUR 28 million of restructuring charges in UPM Communication Papers.

Net interest and other finance income and costs were EUR 3 million (-17 million). The exchange rate and fair value gains and losses were EUR 0 million (0 million). Income taxes were EUR 59 million (73 million).

Profit for Q3 2019 was EUR 260 million (328 million), and comparable profit was EUR 281 million (330 million).

Q3 2019 compared with Q2 2019

Comparable EBIT decreased by 1% to EUR 342 million, 13.7% of sales (345 million, 13.2%).

Sales prices decreased across most of UPM's business areas.

Fixed costs decreased by EUR 46 million due to seasonal factors and the scheduled maintenance shutdown at the UPM Kymi pulp mill in the Q2 comparison period. Variable costs were lower with the largest contribution coming from lower pulp costs. Delivery volumes increased.

Depreciation, excluding items affecting comparability, totalled EUR 119 million (118 million). The change in the fair value of forest assets net of wood harvested was EUR 5 million (-3 million).

Operating profit was EUR 316 million (319 million).

January–September 2019 compared with January–September 2018

Q1–Q3 2019 sales were EUR 7,791 million, 1% higher than the EUR 7,752 million for Q1–Q3 2018. Sales grew in UPM Raflatac and UPM Energy, remained unchanged in UPM Biorefining and UPM Specialty Papers, and decreased slightly in UPM Communication Papers and UPM Plywood.

Comparable EBIT decreased by 4% to EUR 1,061 million, 13.6% of sales (1,109 million, 14.3%).

Development in sales prices and variable costs differed between businesses. At the group level, the negative impact of increased variable costs was larger than the positive impact of higher sales prices.

Fixed costs decreased by EUR 38 million, partly due to less maintenance activity being conducted than in the comparison period. Without the adoption of the IFRS 16 Leases standard fixed costs would have been EUR 42 million higher (i.e. increased by EUR 4 million). Delivery volumes increased.

Depreciation, excluding items affecting comparability, totalled EUR 357 million (317 million) including depreciation of leased assets totalling EUR 53 million (5 million). The change in the fair value of forest assets net of wood harvested was EUR 7 million (27 million).

Operating profit was EUR 1,009 million (1,151 million). Items affecting comparability in operating profit totalled EUR -53 million in the period (41 million). This included EUR 57 million of restructuring charges in UPM Communication Papers and EUR 3 million in UPM Raflatac.

Net interest and other finance income and costs were EUR -25 million (-45 million). The exchange rate and fair value gains and losses were EUR -1 million (2 million). Income taxes were EUR 174 million (203 million).

Profit for Q1–Q3 2019 was EUR 810 million (905 million), and comparable profit was EUR 857 million (875 million).

Financing and cash flow

In Q1–Q3/2019 cash flow from operating activities before capital expenditure and financing totalled EUR 1,256 million (947 million). Working capital decreased by EUR 49 million during the period (increased by 237 million).

A dividend of EUR 1.30 per share (totalling EUR 693 million) was paid on 17 April 2019 in respect of the 2018 financial year.

Net debt decreased to EUR -2 million at the end of Q3 2019 (4 million). The gearing ratio as of 30 September 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 (0.00).

On 30 September 2019 UPM's cash funds and unused committed credit facilities totalled EUR 1.1 billion.

Capital expenditure

In Q1–Q3/2019 capital expenditure totalled EUR 212 million, 2.7% of sales (194 million, 2.5% of sales). Capital expenditure does not include additions to leased assets.

Total capital expenditure in 2019, excluding investments in shares, is estimated to be approximately EUR 450 million.

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 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 has raised 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 growth in production capacity, a new bio-heat boiler has been built at the mill site. The total investment is EUR 50 million and was completed at 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 124 million.

In April 2018 UPM announced plans to increase 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.

In July 2019 UPM announced that it would invest USD 2,7 billion in a 2,1 million tonne greenfield eucalyptus pulp mill near Paso de los Toros in central Uruguay. Additionally, UPM will invest approximately USD 280 million in port operations in Montevideo and USD 70 million in local investments outside the mill fence, including a new residential area in Paso de los Toros. The mill is scheduled to start up in the second half of 2022.

Personnel

In Q1–Q3 2019 UPM had an average of 19,306 employees (19,360). At the beginning of the year, the number of employees was 18,978, while at the end of Q3 2019 it was 19,020.

Uruguay pulp mill investment

On 23 July UPM announced that it would invest USD 2.7 billion in a 2.1 million tonne greenfield eucalyptus pulp mill near Paso de los Toros in central Uruguay. Additionally, UPM will invest approximately USD 280 million in port operations in Montevideo and USD 70 million in local investments outside the mill fence, including a new residential area in Paso de los Toros. The mill is scheduled to start up in the second half of 2022.

The investment will grow UPM's current pulp capacity by more than 50%, resulting in a step change in the scale of UPM's pulp business as well as in UPM's future earnings.

With a combination of competitive wood supply, scale, best available techniques and efficient logistics the mill is expected to reach a highly competitive cash cost level, approximately USD 280 per delivered tonne of pulp. This figure includes the variable and fixed costs of plantation operations, wood sourcing, mill operations and logistics delivered to the main markets. Furthermore, the safety and sustainability performance of the value chain from plantations to customer delivery is expected to be on an industry leading level.

Competitive wood supply

The eucalyptus availability for the mill is secured through UPM's own and leased plantations as well as through wood sourcing agreements with private partners. The plantations that UPM owns and leases in Uruguay cover 382,000 hectares. They will supply the current UPM Fray Bentos mill and the new mill near Paso de los Toros.

State of the art mill design

The pulp mill has been designed as an efficient single-line operation. The machines, materials, level of automation and standards enable a high operating rate and maintainability as well as high energy output, ensuring excellent safety, high environmental performance as well as low operating costs during the long lifecycle of the mill.

The mill is designed to fully meet the strict Uruguayan environmental regulations as well as international standards and recommendations for modern mills, including the use of latest and best available proven technology (BAT). The mill's environmental performance will be verified with comprehensive and transparent monitoring.

The mill's initial annual production capacity is 2.1 million tonnes, and the environmental permits enable further capacity potential. When in operation, the mill generates more than 110 MW surplus of renewable electricity.

Efficient logistics set-up

An efficient logistics chain will be secured by the agreed road improvements, extensive railway modernisation and port terminal construction.

The Public-Private-Partnership agreement between the government and the construction company for the construction of the central railway was signed in May 2019. Initial works on the central railway have been started and the financing of the construction consortium is finalised.

UPM has decided on the construction of a deep-sea pulp terminal in Montevideo port with an investment of approximately USD 280 million. Direct rail access from the mill to a modern deep sea port terminal creates an efficient supply chain to world markets. The Montevideo deep sea port also enables synergies in ocean logistics with UPM's existing Uruguay operations.

UPM has entered into port terminal concession and plans to enter rail logistic services agreements both being under IFRS 16 Leases. The total amount of such lease payments is expected to be USD 200 million.

Significant impact on the Uruguayan economy

Based on independent socioeconomic impact studies, the mill is estimated to increase Uruguay's gross national product by about 2% and the annual value of Uruguay's exports by approximately 12% after completion.

In the most intensive construction phase, there will be more than 6,000 people working on the site. When completed, approximately 10,000 permanent jobs are estimated to be created in the Uruguayan economy whereof approximately 4,000 would involve direct employment by UPM and its subcontractors. About 600 companies are estimated to be working in the value chain.

The mill will be located in one of Uruguay's many free trade zones and pay a fixed annual tax of USD 7 million per annum. The mill's value chain is expected to contribute USD 170 million in annual taxes and social security payments and contribute annually USD 200 million in wages and salaries.

Project schedule and capital outflow

The mill is expected to start up in the second half of 2022. Construction permitting process and ground preparation for the mill have been started, and the construction of temporary housing for the construction workers is ongoing. Preparations for the construction of the pulp terminal in Montevideo port have also started. The port area has been cleared, dredging has started, and demolitions of piers is ongoing. Also, the tendering for the main equipment and manning of the project is ongoing. Commitments on major capital outlays will be made in line with the railway financing and execution.

The main part of the total capital expenditure of USD 3 billion will take place in 2020-2022. UPM will have 91% ownership in the project and a local long-time partner which has also been involved in UPM Fray Bentos is owning 9%. UPM's investment will be mainly financed by operating cash flow complemented by regular group financing activities.

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 and lignin 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. The commercial studies also need to be concluded before UPM's regular process of analysing and preparing an investment decision commences.

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 July 2019, TVO received from 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 July 2020.

According to Supplier, nuclear fuel will be loaded into the reactor in January 2020 and the first connection to the grid will take place in April 2020. According to the commissioning program, the unit will produce 1-3 terawatt hours with varying power levels during the test program, which will begin from the connection to the grid and will end to the beginning of regular electricity production.

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 CO_2 -free and Olkiluoto will have a secure solution for the final disposal of used fuel.

Events during January–September 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 specialised 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.

On 31 January UPM announced that it would invest in the refurbishment of the 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.

On 24 June UPM announced the decision to permanently close paper machine 10 at UPM Plattling, Germany, reducing the annual capacity of coated mechanical paper in Europe by approximately 155,000 tonnes. The paper machine was permanently closed in July 2019 and the number of persons affected is 155. UPM recognised restructuring charges of EUR 29 million as items affecting comparability in its Q2 2019 results. The expected annual cost savings are approximately EUR 17 million.

On 17 July 2019 TVO announced it had received an updated schedule for the commissioning of the OL3 EPR plant unit from the Supplier. According to the received information, the regular electricity generation at the OL3 plant unit will start in July 2020.

On 23 July UPM announced that it would invest USD 2,7 billion in a 2,1 million tonne greenfield eucalyptus pulp mill near Paso de los Toros in central Uruguay. Additionally, UPM will invest approximately USD 280 million in port operations in Montevideo and USD 70 million in local investments outside the mill fence, including a new residential area in Paso de los Toros. The mill is scheduled to start up in the second half of 2022.

On 10 September UPM announced that it plans to permanently close a SC paper machine 2 in Rauma, Finland and sell its Chapelle newsprint mill in Grand-Couronne, France. If realised, the measures would result in a reduction of 265,000 tonnes of SC capacity and 240,000 tonnes of newsprint capacity in UPM's portfolio. The estimated reduction of personnel is 179 persons for UPM Rauma. The closure of PM 2 is planned to be completed by the end of 2019. In UPM Chapelle 236 people would be affected. If no credible offer is received by mid-January 2020, a consultation process for a potential closure of the mill would be started while the search for a potential buyer would still continue. The target is to close the processes by the end of Q2 2020.

At the same time UPM announced that it plans to establish a new Business Services Hub in Wroclaw, Poland. In total 168 positions in 11 different locations would be affected. The hub is planned to be in full operation by the end of Q3 2020.

UPM recognised restructuring charges of EUR 28 million, of which EUR 11 million as write-offs, as items affecting comparability in its Q3 2019 results, mainly related to the planned closure of Rauma PM2. The planned actions will result in annual savings of approximately EUR 20 million.

Events after the balance sheet date

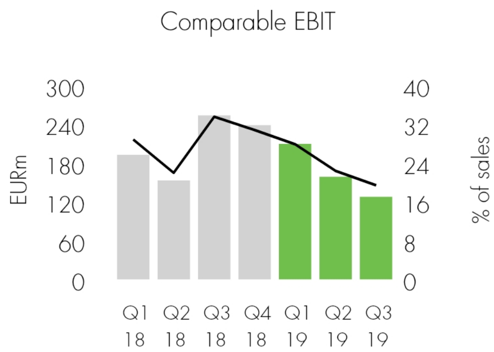
The group's management is not aware of any significant events occurring after 30 September 2019.

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.



	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	660	708	753	775	754	694	668	2,121	2,117	2,892
Comparable EBITDA, EURm [1]	171	203	254	282	297	199	233	628	729	1,011
% of sales [1]	25.9	28.6	33.8	36.4	39.3	28.6	34.9	29.6	34.4	35.0
Change in fair value of forest assets and wood harvested, EURm [1]	1	-1	-1	-3	-3	-6	0	0	-9	-12
Share of results of associated companies and joint ventures, EURm	1	1	1	0	1	0	0	2	1	2
Depreciation, amortisation and impairment charges, EURm	-43	-42	-42	-39	-39	-39	-38	-127	-116	-155
Operating profit, EURm	130	161	212	241	256	155	195	502	606	847
% of sales	19.7	22.7	28.2	31.1	33.9	22.3	29.2	23.7	28.6	29.3
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—	—	—	—	—
Comparable EBIT, EURm	130	161	212	241	256	155	195	502	606	847
% of sales	19.7	22.7	28.2	31.1	33.9	22.3	29.2	23.7	28.6	29.3
Capital employed (average), EURm	3,468	3,491	3,481	3,267	3,224	3,153	3,074	3,480	3,150	3,180
Comparable ROCE, %	15.0	18.4	24.4	29.5	31.7	19.7	25.4	19.3	25.6	26.6
Pulp deliveries, 1000 t	979	877	915	912	870	835	850	2,772	2,555	3,468

Pulp mill maintenance shutdowns: Q2 2019 Kymi, 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

- UPM announced USD 2.7 billion investment in a 2.1 million tonne eucalyptus pulp mill near Paso de los Toros in Uruguay
- Record production for pulp and biofuels

Results

Q3 2019 compared with Q3 2018

Comparable EBIT for UPM Biorefining decreased due to lower pulp sales prices. Delivery volumes were higher partly due to temporary production issues in the comparison period and partly due to increased market deliveries.

The average price in euro for UPM's pulp deliveries decreased by 25%.

Q3 2019 compared with Q2 2019

Comparable EBIT decreased due to lower pulp sales prices. Fixed costs were lower and delivery volumes were higher partly due to scheduled maintenance activity in the comparison period and partly due to increased market deliveries. Variable costs were lower.

The average price in euro for UPM's pulp deliveries decreased by 16%.

January–September 2019 compared with January–September 2018

Comparable EBIT for UPM Biorefining decreased due to lower pulp sales prices. Delivery volumes were higher.

The average price in euro for UPM's pulp deliveries decreased by 9%.

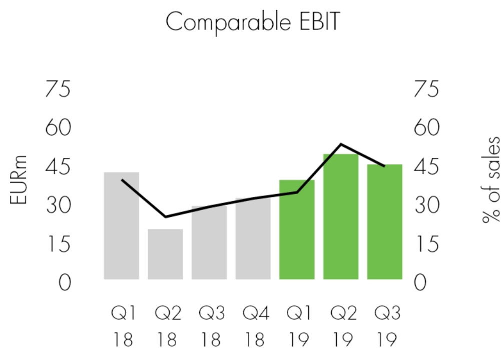
Market environment

- Global chemical pulp demand growth slowed in the first nine months of 2019. Uncertainties in the global economy and above average pulp inventory levels continued to impact global market pulp shipments.
- In Europe and China, the market price of both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) decreased in the third quarter of 2019 compared to the previous quarter.
- In the first nine months of 2019 the average European market price in euro was 9% lower for NBSK and 6% lower for BHKP compared to the previous year. In China the average market price in US dollars was 27% lower for NBSK and 21% lower for BHKP compared to the previous year.
- Demand for advanced renewable diesel and naphtha remained strong.
- Demand growth for sawn timber continued albeit at lower level. Uncertainties in the global economy and destocking in the value chain continued to impact market prices.

Sources: FOEX, UPM

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.



	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	101	93	113	100	101	83	107	306	291	391
Comparable EBITDA, EURm	48	51	41	34	31	23	44	140	98	132
% of sales	47.5	55.1	36.0	34.1	30.8	27.2	41.1	45.6	33.6	33.7
Depreciation, amortisation and impairment charges, EURm	-3	-2	-2	-2	-2	-2	-2	-7	-6	-9
Operating profit, EURm	45	49	39	23	29	20	42	132	91	114
% of sales	44.3	52.2	34.2	22.9	28.7	24.7	39.2	43.0	31.4	29.2
Items affecting comparability in operating profit, EURm [1]	—	-1	—	-9	—	—	—	-1	—	-9
Comparable EBIT, EURm	45	49	39	32	29	20	42	132	91	123
% of sales	44.3	52.9	34.2	31.9	28.7	24.7	39.2	43.2	31.4	31.5
Capital employed (average), EURm	2,452	2,460	2,463	2,419	2,343	2,321	2,301	2,458	2,322	2,346
Comparable ROCE, %	7.3	8.0	6.3	5.3	4.9	3.5	7.3	7.2	5.3	5.3
Electricity deliveries, GWh	2,040	2,121	2,173	2,103	2,128	2,004	2,373	6,334	6,505	8,608

[1] In Q2 2019 and Q4 2018, items affecting comparability relate to restructuring of ownership in Meri-Pori power plant

- TVO announced that the regular electricity generation at the nuclear power plant unit Olkiluoto 3 ERP is expected to start in July 2020
- Successful optimisation of hydropower generation

Results

Q3 2019 compared with Q3 2018

Comparable EBIT for UPM Energy increased due to higher electricity sales prices, higher nuclear generation and lower costs for nuclear.

UPM's average electricity sales price increased by 7% to EUR 43.3/MWh (40.3/MWh).

Q3 2019 compared with Q2 2019

Comparable EBIT decreased. Hydropower generation was lower due to flooding season in the comparison period. Sales prices were higher.

UPM's average electricity sales price increased by 11% to EUR 43.3/MWh (38.9/MWh).

January–September 2019 compared with January–September 2018

Comparable EBIT for UPM Energy increased due to higher electricity sales prices, higher nuclear generation and lower costs for nuclear.

UPM's average electricity sales price increased by 11% to EUR 41.9/MWh (37.7/MWh).

Market environment

- The Nordic hydrological balance was close to normal at the end of September. However, hydrological balance remained weak in Finland.
- Coal prices in Q3 2019 decreased compared to the same period in the previous year. The CO_2 emission allowance price of EUR 24.7/tonne at the end of Q3 2019 was higher than in Q3 2018 (EUR 21.2/tonne).
- The average Finnish area spot price on the Nordic electricity exchange for the first nine months of 2019 was EUR 44.2/MWh, 3% lower than in the same period last year (45.8/MWh).
- The front-year forward electricity price for the Finnish area closed at EUR 42.9/MWh in September, 7% higher than at the end of Q2 2019 (40.0/MWh).

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

UPM Raflatac

UPM Raflatac manufactures self-adhesive label materials for product and information labelling 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

	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	382	385	398	397	374	371	345	1,165	1,091	1,488
Comparable EBITDA, EURm	44	40	40	35	41	44	36	124	121	156
% of sales	11.4	10.3	10.1	8.8	11.0	11.9	10.4	10.6	11.1	10.5
Depreciation, amortisation and impairment charges, EURm	-10	-10	-10	-7	-8	-7	-7	-30	-22	-30
Operating profit, EURm	36	30	26	27	33	37	29	91	99	126
% of sales	9.3	7.8	6.5	6.9	8.9	9.9	8.3	7.8	9.1	8.5
Items affecting comparability in operating profit, EURm [1]	2	—	-5	—	—	—	—	-3	—	—
Comparable EBIT, EURm	34	30	31	27	33	37	29	94	99	126
% of sales	8.8	7.7	7.7	6.9	8.9	9.9	8.3	8.1	9.1	8.5
Capital employed (average), EURm	578	590	586	543	538	540	519	585	533	535
Comparable ROCE, %	23.4	20.1	20.9	20.2	24.8	27.3	22.0	21.4	24.7	23.6

[1] In Q3 2019, items affecting comparability include EUR 2 million gain on sale of non-current assets. In Q1 2019, items affecting comparability EUR 5 million relate to restructuring charges.

- Sales growth was driven by improved mix and higher sales prices
- Launched world's first wood-based fossil-free film label material UPM Raflatac Forest Film™

Results

Q3 2019 compared with Q3 2018

Comparable EBIT for UPM Raflatac increased due to higher sales, improved mix and margin management despite of unfavourable changes in currencies.

Q3 2019 compared with Q2 2019

Comparable EBIT increased due to improved mix and margin management.

January–September 2019 compared with January–September 2018

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

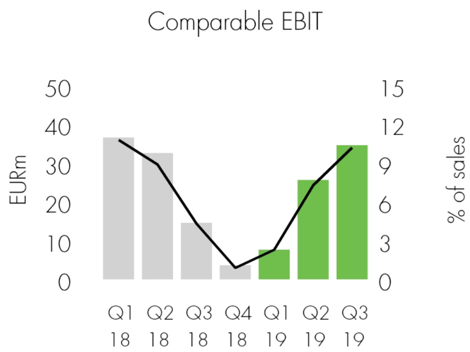
Market environment

- Global demand growth for self-adhesive label materials has decelerated in the first nine months of 2019.

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.



	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	344	359	357	364	354	368	343	1,059	1,065	1,429
Comparable EBITDA, EURm	53	45	29	23	34	53	56	127	144	167
% of sales	15.4	12.5	8.2	6.4	9.7	14.4	16.4	12.0	13.5	11.7
Depreciation, amortisation and impairment charges, EURm	-18	-19	-21	-19	-19	-20	-19	-57	-58	-77
Operating profit, EURm	35	26	8	4	15	33	37	70	86	90
% of sales	10.3	7.4	2.4	1.0	4.4	9.0	10.9	6.6	8.1	6.3
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—	—	—	—	—
Comparable EBIT, EURm	35	26	8	4	15	33	37	70	86	90
% of sales	10.3	7.4	2.4	1.0	4.4	9.0	10.9	6.6	8.1	6.3
Capital employed (average), EURm	895	892	908	901	896	887	874	898	885	889
Comparable ROCE, %	15.8	11.8	3.7	1.7	6.9	15.0	17.1	10.4	12.9	10.1
Paper deliveries, 1000 t	383	390	386	393	389	393	379	1,159	1,161	1,554

- Profitability turnaround in Chinese fine paper business
- Preparations continued for growth projects
- Cost savings having a positive impact

Results

Q3 2019 compared with Q3 2018

Comparable EBIT for UPM Specialty Papers increased due to lower pulp costs. Sales prices were lower. Fixed costs decreased.

Q3 2019 compared with Q2 2019

Comparable EBIT increased due to lower pulp costs. Sales prices were lower.

January–September 2019 compared with January–September 2018

Comparable EBIT for UPM Specialty Papers decreased due to lower fine paper sales prices, unfavourable changes in currencies and the impact of reducing stock. Variable and fixed costs were lower.

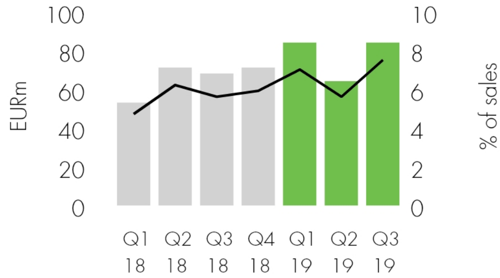
Market environment

- In the Asia-Pacific region, fine paper demand was good during Q3 2019. China fine paper market prices increased in the first nine months of 2019.
- Label, release and packaging paper demand growth was healthy in the first nine months 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.



	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	1,116	1,138	1,200	1,206	1,209	1,149	1,126	3,454	3,484	4,690
Comparable EBITDA, EURm	117	98	118	99	97	101	84	333	281	381
% of sales	10.5	8.6	9.8	8.2	8.0	8.8	7.5	9.6	8.1	8.1
Share of results of associated companies and joint ventures, EURm	0	0	0	1	1	0	0	0	1	2
Depreciation, amortisation and impairment charges, EURm	-43	-34	-33	-28	-28	-29	-30	-111	-88	-116
Operating profit, EURm	57	36	85	71	69	88	85	178	242	312
% of sales	5.1	3.2	7.1	5.9	5.7	7.7	7.5	5.1	6.9	6.7
Items affecting comparability in operating profit, EURm [1]	-28	-29	—	-1	—	17	30	-57	47	46
Comparable EBIT, EURm	85	65	85	72	69	72	54	234	195	267
% of sales	7.6	5.7	7.1	6.0	5.7	6.3	4.8	6.8	5.6	5.7
Capital employed (average), EURm	1,627	1,663	1,759	1,631	1,605	1,591	1,580	1,683	1,592	1,602
Comparable ROCE, %	20.8	15.6	19.3	17.7	17.1	18.1	13.7	18.6	16.3	16.7
Paper deliveries, 1000 t	1,681	1,666	1,746	1,865	1,879	1,842	1,855	5,093	5,577	7,442

[1] In Q3 2019, items affecting comparability include EUR 17 million restructuring charges and EUR 11 million impairment charges related to planned closure of paper machine 2 at UPM Rauma mill, Finland. In Q2 2019, items affecting comparability include EUR 28 million restructuring charges and EUR 1 million impairment charges related to closure of paper machine 10 at UPM Plattling mill, Germany. 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.

- UPM closed paper machine 10 at UPM Plattling, Germany
- UPM announced plans to close paper machine 2 at UPM Rauma, Finland and to sell UPM Chapelle newsprint mill in Grand-Couronne, France

Results

Q3 2019 compared with Q3 2018

Comparable EBIT for UPM Communication Papers increased due to lower variable and fixed costs. Delivery volumes were lower and more than offset the positive impact higher sales prices. The impact of reducing stock was negative.

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

Q3 2019 compared with Q2 2019

Comparable EBIT increased due to lower variable costs especially for pulp. Also, fixed costs were lower following normal seasonality. Sales prices were lower.

The average price in euro for UPM's paper deliveries decreased by 2%.

January–September 2019 compared with January–September 2018

Comparable EBIT for UPM Communication Papers increased due to higher sales prices. Delivery volumes were lower. Variable costs were higher.

The average price in euro for UPM's paper deliveries increased by 8%.

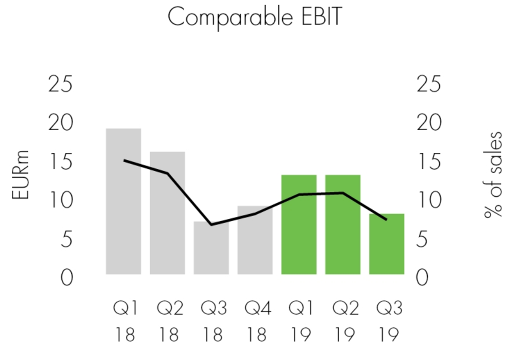
Market environment

- In the first nine months of 2019 demand for graphic papers in Europe was 9% lower than last year. Newsprint demand decreased by 8%, magazine paper by 10% and fine paper by 8% compared with the first nine months of 2018.
- In Q3 2019 publication paper prices in Europe were 5% lower than in the second quarter of 2019. Compared to Q3 2018 publication paper prices were at the same level. In Q3 2019 fine paper prices in Europe were on average 4% lower than in the previous quarter. Compared to Q3 2018 fine paper prices were on average 2% lower.
- In the first nine months of 2019 demand for magazine papers in North America decreased by 14% compared to the same period last year. The average price in US dollars for magazine papers in Q3 2019 was at the same level compared to Q2 2019 and increased by 3% compared to Q3 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.



	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	106	120	123	119	112	125	125	349	362	480
Comparable EBITDA, EURm	14	19	19	15	13	22	24	51	60	75
% of sales	13.0	15.6	15.3	13.0	11.7	17.8	19.5	14.7	16.5	15.6
Depreciation, amortisation and impairment charges, EURm	-6	-6	-6	-6	-6	-6	-6	-18	-17	-23
Operating profit, EURm	8	13	13	9	7	16	19	33	42	52
% of sales	7.2	10.7	10.5	8.0	6.6	13.2	14.9	9.6	11.7	10.8
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—	—	—	—	—
Comparable EBIT, EURm	8	13	13	9	7	16	19	33	42	52
% of sales	7.2	10.7	10.5	8.0	6.6	13.2	14.9	9.6	11.7	10.8
Capital employed (average), EURm	332	336	321	301	282	280	269	330	277	283
Comparable ROCE, %	9.3	15.2	16.1	12.6	10.5	23.6	27.6	13.5	20.5	18.4
Plywood deliveries, 1000 m³	181	193	196	189	188	206	209	569	602	791

- Inauguration of UPM Chudovo plywood mill expansion investment in Russia
- Production curtailment and temporary lay-offs in Finnish birch plywood mills
- Labour co-operation negotiations regarding temporary lay-offs and production curtailment in Finnish spruce plywood mills were completed

Results

Q3 2019 compared with Q3 2018

Comparable EBIT for UPM Plywood increased. Lower costs slightly more than offset the negative impact of lower delivery volumes and mix impacted sales price.

Q3 2019 compared with Q2 2019

Comparable EBIT decreased due to lower mix impacted sales prices and lower delivery volumes. Costs were lower.

January–September 2019 compared with January–September 2018

Comparable EBIT for UPM Plywood decreased due to lower delivery volumes and higher costs. Sales prices were higher.

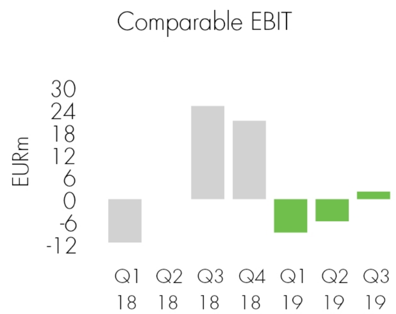
Market environment

- Market demand in Europe decelerated in the first nine months of 2019. Demand for spruce plywood as well as for birch plywood-related industrial applications was weakening. Competition remained intense in the birch-trading business.

Source: UPM

Other operations

UPM Forest 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.



	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	63	72	68	87	80	83	76	202	239	326
Comparable EBITDA, EURm 1)	4	3	-8	-14	-2	1	-13	-1	-14	-28
Change in fair value of forest assets and wood harvested, EURm 1)	4	-3	6	383	30	3	3	7	36	419
Share of results of associated companies and joint ventures, EURm	0	0	0	0	0	0	1	0	2	2
Depreciation, amortisation and impairment charges, EURm	-6	-7	-6	-3	-3	-3	-3	-20	-10	-13
Operating profit, EURm	1	-9	-9	365	25	0	-12	-17	14	380
Items affecting comparability in operating profit, EURm 2)	-1	-2	—	345	—	—	—	-3	—	345
Comparable EBIT, EURm	2	-6	-9	21	25	0	-12	-14	14	35
Capital employed (average), EURm	1,823	1,807	1,801	1,447	1,360	1,378	1,384	1,810	1,374	1,392
Comparable ROCE, %	0.4	-1.4	-2.0	5.8	7.5	0.1	-3.4	-1.0	1.4	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 Q3 2019, items affecting comparability relate to restructuring charges and in Q2 2019, to sale of Voikkaa mill site in Finland. In Q4 2018, items affecting comparability of EUR 345 million relate to increase in the fair value of the forest assets in Finland, mainly due to higher forest growth estimates.

Results

Q3 2019 compared with Q3 2018

Comparable EBIT for other operations decreased. The change in the fair value of forest assets net of wood harvested was EUR 4 million (30 million). The increase in the fair value of forest assets was EUR 15 million (40 million). The cost of wood harvested from UPM forests was EUR 12 million (10 million).

Q3 2018 compared with Q2 2019

Comparable EBIT increased. The change in the fair value of forest assets net of wood harvested was EUR 4 million (-3 million). The increase in the fair value of forest assets was EUR 15 million (13 million). The cost of wood harvested from UPM forests was EUR 12 million (15 million).

January–September 2019 compared with January–September 2018

Comparable EBIT for other operations decreased. The change in the fair value of forest assets net of wood harvested was EUR 7 million (36 million). The increase in the fair value of forest assets was EUR 43 million (77 million). The cost of wood harvested from UPM forests was EUR 37 million (41 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 and into 2020. 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.

Economic growth has slowed down in Europe, particularly in Germany. Slowing economy may have an adverse impact on demand and pricing for UPM's products. The EU is the most significant market for UPM, representing 57.6% of the company'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 UK accounted for 6.3% of UPM's sales in 2018.

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. However, the completion of the project has been delayed. Supplier has updated the schedule for the commissioning of OL3 several times. As announced by TVO, in accordance with the schedule updated by the Supplier in July 2019, regular electricity generation at the plant unit will commence in July 2020.

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

In July 2018 TVO announced that in June 2018 the ICC tribunal had confirmed the arbitration settlement by a consent award, and the arbitration proceedings had been terminated. The parties also withdrew the pending appeals in the General Court of the European Union.

According to TVO the settlement agreement stipulates as follows: To provide and maintain adequate and competent technical and human resources for the completion of the OL3 project, Areva will source the necessary additional resources from Framatome S.A.S., whose majority owner is EDF.

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

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

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

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

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.

Shares

In Q1–Q3 2019 UPM shares worth a total of EUR 7,491 million (7,294 million) were traded on the NASDAQ Helsinki stock exchange. This is estimated to represent more than 50% of all trading volume in UPM shares. The highest listing was EUR 28.48 EUR in April and the lowest was EUR 21.10 in July.

In the beginning of the year the company's ADSs were traded on the US over-the-counter (OTC) market under a Level 1-sponsored American Depositary Receipt programme. This American Depositary Receipt programme terminated on 30 August 2019.

The Annual General Meeting held on 4 April 2019 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 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 30 September 2019 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 September 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, 24 October 2019

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q3/2019	RESTATED *) Q3/2018	Q1–Q3/2019	RESTATED *) Q1–Q3/2018	RESTATED *) Q1–Q4/2018
Sales	2,493	2,650	7,791	7,752	10,483
Other operating income	28	13	80	69	87
Costs and expenses *)	-2,081	-2,169	-6,502	-6,384	-8,665
Change in fair value of forest assets and wood harvested *)	5	27	7	27	407
Share of results of associated companies and joint ventures	1	2	2	4	6
Depreciation, amortisation and impairment charges	-130	-105	-369	-317	-422
Operating profit	316	417	1,009	1,151	1,895
Exchange rate and fair value gains and losses	0	0	-1	2	3
Interest and other finance costs, net	3	-17	-25	-45	-60
Profit before tax	319	401	983	1,108	1,839
Income taxes	-59	-73	-174	-203	-342
Profit for the period	260	328	810	905	1,496
Attributable to:					
Owners of the parent company	247	326	796	902	1,495
Non-controlling interests	14	2	14	3	1
	260	328	810	905	1,496
Earnings per share for profit attributable to owners of the parent company					
Basic earnings per share, EUR	0.46	0.61	1.49	1.69	2.80
Diluted earnings per share, EUR	0.46	0.61	1.49	1.69	2.80

*) Accounting policy change of forest renewal costs.

Consolidated statement of comprehensive income

EURm	Q3/2019	Q3/2018	Q1–Q3/2019	Q1–Q3/2018	Q1–Q4/2018
Profit for the period	260	328	810	905	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	-59	6	-130	60	0
Changes in fair value of energy shareholdings	-1	84	-18	123	183
Items that may be reclassified subsequently to income statement:					
Translation differences	76	-8	112	39	62
Net investment hedge	-9	-1	-13	-9	-14
Cash flow hedges	-36	38	-53	14	13
Other comprehensive income for the period, net of tax	-29	120	-101	226	243
Total comprehensive income for the period	232	447	708	1,131	1,739
Total comprehensive income attributable to:					
Owners of the parent company	201	445	677	1,128	1,738
Non-controlling interests	31	2	31	3	1
	232	447	708	1,131	1,739

Consolidated balance sheet

EURm	30 SEP 2019	30 SEP 2018	31 DEC 2018
ASSETS			
Goodwill	241	235	236
Other intangible assets	332	310	295
Property, plant and equipment	4,036	4,172	4,186
Leased assets	600	—	—
Forest assets	2,073	1,607	1,945
Energy shareholdings	2,138	2,096	2,159
Other non-current financial assets	196	167	178
Deferred tax assets	403	396	397
Net retirement benefit assets	1	103	38
Investments in associates and joint ventures	34	31	32
Other non-current assets	24	37	34
Non-current assets	10,078	9,153	9,501
Inventories	1,500	1,561	1,642
Trade and other receivables	1,636	1,845	1,833
Other current financial assets	97	90	107
Income tax receivables	33	19	24
Cash and cash equivalents	1,080	549	888
Current assets	4,345	4,064	4,496
Assets classified as held for sale	19	—	—
Assets	14,442	13,217	13,996
EQUITY AND LIABILITIES			
Share capital	890	890	890
Treasury shares	-2	-2	-2
Translation reserve	314	213	232
Other reserves	1,700	1,714	1,778
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	5,575	5,091	5,623
Equity attributable to owners of the parent company	9,749	9,179	9,792
Non-controlling interests	106	7	5
Equity	9,855	9,185	9,797
Deferred tax liabilities	525	470	535
Net retirement benefit liabilities	814	668	679
Provisions	155	132	126
Non-current debt	1,179	732	753
Other non-current financial liabilities	74	95	101
Non-current liabilities, total	2,748	2,097	2,194
Current debt	137	25	25
Trade and other payables	1,602	1,792	1,881
Other current financial liabilities	69	80	78
Income tax payables	31	37	22
Current liabilities	1,839	1,935	2,005
Liabilities	4,587	4,032	4,199
Equity and liabilities	14,442	13,217	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	—	—	—	—	—	796	796	14	810
Translation differences	—	—	91	—	—	—	91	21	112
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	6	—	—	6	—	6
Cash flow hedges - changes in fair value, net of tax	—	—	—	-58	—	—	-58	—	-58
Net investment hedge, net of tax	—	—	-9	—	—	—	-9	-4	-13
Energy shareholdings - changes in fair value, net of tax	—	—	—	-19	—	1	-18	—	-18
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	-130	-130	—	-130
Total comprehensive income for the period	—	—	82	-71	—	667	677	31	708
Share-based payments, net of tax	—	—	—	-6	—	-8	-15	—	-15
Dividend distribution	—	—	—	—	—	-693	-693	—	-693
Changes in non-controlling interests	—	—	—	—	—	-6	-6	71	64
Total transactions with owners for the period	—	—	—	-6	—	-708	-715	71	-644
Value at 30 September 2019	890	-2	314	1,700	1,273	5,575	9,749	106	9,855
Value at 1 January 2018	890	-2	184	1,590	1,273	4,750	8,684	4	8,687
Profit for the period	—	—	—	—	—	902	902	3	905
Translation differences	—	—	39	—	—	—	39	—	39
Cash flow hedges - reclassified to income statement, net of tax	—	—	—	-18	—	—	-18	—	-18
Cash flow hedges - changes in fair value, net of tax	—	—	—	32	—	—	32	—	32
Net investment hedge, net of tax	—	—	-9	—	—	—	-9	—	-9
Energy shareholdings - changes in fair value, net of tax	—	—	—	123	—	—	123	—	123
Actuarial gains and losses on defined benefit plans, net of tax	—	—	—	—	—	60	60	—	60
Total comprehensive income for the period	—	—	29	137	—	962	1,128	3	1,131
Share-based payments, net of tax	—	—	—	-12	—	-7	-20	—	-20
Dividend distribution	—	—	—	—	—	-613	-613	—	-613
Total transactions with owners for the period	—	—	—	-12	—	-621	-633	—	-633
Value at 30 September 2018	890	-2	213	1,714	1,273	5,091	9,179	7	9,185

[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–Q3/2019	RESTATED *) Q1–Q3/2018	RESTATED *) Q1–Q4/2018
Cash flows from operating activities			
Profit for the period	810	905	1,496
Adjustments	555	458	301
Change in working capital	49	-237	-209
Finance costs, net	-32	-24	-31
Income taxes paid	-126	-155	-228
Operating cash flow	1,256	947	1,330
Cash flows from investing activities			
Capital expenditure	-222	-208	-303
Additions to forest assets	-32	-36	-49
Asset sales and other investing cash flow	-16	91	153
Investing cash flow	-270	-153	-199
Cash flows from financing activities			
Change in loans and other financial items **)	-49	-340	-338
Lease repayments **)	-62	-6	-7
Dividends paid	-693	-613	-613
Contributions by non-controlling interests	9	—	—
Financing cash flow	-795	-959	-959
Change in cash and cash equivalents	191	-166	172
Cash and cash equivalents at beginning of period	888	716	716
Exchange rate effect on cash and cash equivalents	1	-2	0
Change in cash and cash equivalents	191	-166	172
Cash and cash equivalents at end of period	1,080	549	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.

	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales EURm	2,493	2,605	2,693	2,731	2,650	2,589	2,512	7,791	7,752	10,483
Comparable EBITDA, EURm [1]	455	466	488	473	497	442	456	1,409	1,395	1,868
% of sales [1]	18.2	17.9	18.1	17.3	18.7	17.1	18.2	18.1	18.0	17.8
Comparable EBIT, EURm	342	345	374	404	420	334	355	1,061	1,109	1,513
% of sales	13.7	13.2	13.9	14.8	15.9	12.9	14.1	13.6	14.3	14.4
Comparable profit before tax, EURm	345	325	366	390	404	322	341	1,036	1,067	1,457
Capital employed (average, EURm)	10,996	11,069	10,946	10,259	9,817	9,712	9,755	10,873	9,860	10,176
Comparable ROCE, %	12.9	12.2	13.7	15.5	16.8	13.6	14.3	13.1	14.8	14.6
Comparable profit for the period, EURm	281	271	305	319	330	258	288	857	875	1,194
Total equity, average, EURm	9,706	9,804	9,924	9,491	8,959	8,856	8,821	9,826	8,924	9,230
Comparable ROE, %	11.6	11.1	12.3	13.4	14.6	11.6	13.0	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	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.50	0.51	0.57	0.60	0.61	0.48	0.54	1.58	1.64	2.24
Items affecting comparability in operating profit, EURm	-26	-26	-1	340	-3	15	30	-53	41	382
Items affecting comparability in financial items, EURm	0	0	0	0	0	0	0	0	0	0
Items affecting comparability in taxes, EURm	5	-1	0	-68	1	-3	-9	5	-12	-80
Operating cash flow, EURm [1]	500	436	320	384	405	328	214	1,256	947	1,330
Operating cash flow per share, EUR [1]	0.94	0.82	0.60	0.72	0.76	0.61	0.40	2.35	1.78	2.49
Net debt at the end of period, EURm	-2	366	-5	-311	4	401	41	-2	4	-311
Net debt to EBITDA (last 12 m.) [1]	0.00	0.19	0.00	-0.17	0.00	0.22	0.02	0.00	0.00	-0.17
Gearing ratio, %	0	4	0	-3	0	5	0	0	0	-3
Equity per share at the end of period, EUR	18.28	17.91	18.84	18.36	17.21	16.37	16.83	18.28	17.21	18.36
Capital expenditure, EURm	79	71	62	109	76	76	43	212	194	303
Capital expenditure excluding acquisitions, EURm	79	71	62	109	76	76	43	212	194	303
Personnel at the end of period	19,020	19,760	19,008	18,978	19,076	19,836	19,027	19,020	19,076	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 other financial information in » ***UPM Annual Report 2018.***

Reconciliation of key figures to IFRS

EURm, OR AS INDICATED	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Items affecting comparability										
Impairment charges	-11	-1	0	0	0	0	0	-12	0	0
Restructuring charges	-18	-28	-5	-10	0	18	0	-51	18	9
Change in fair value of unrealised cash flow and commodity hedges	1	6	4	6	-3	-2	0	11	-5	0
Capital gains and losses on sale of non-current assets	2	-2	0	0	0	-2	30	0	29	29
Fair value changes of forest assets resulting from changes in estimates	0	0	0	345	0	0	0	0	0	345
Total items affecting comparability in operating profit	-26	-26	-1	340	-3	15	30	-53	41	382
Items affecting comparability in financial items	0	0	0	0	0	0	0	0	0	0
Items affecting comparability in taxes	5	-1	0	-68	1	-3	-9	5	-12	-80
Items affecting comparability, total	-21	-26	-1	272	-2	11	21	-48	30	302
Comparable EBITDA										
Operating profit	316	319	373	744	417	349	385	1,009	1,151	1,895
Depreciation, amortisation and impairment charges excluding items affecting comparability	119	118	120	105	105	106	106	357	317	422
Change in fair value of forest assets and wood harvested excluding items affecting comparability [1)]	-5	3	-5	-35	-27	3	-3	-7	-27	-63
Share of result of associates and joint ventures	-1	-1	-1	-1	-2	-1	-2	-2	-4	-6
Items affecting comparability in operating profit	26	26	1	-340	3	-15	-30	53	-41	-382
Comparable EBITDA [1)]	455	466	488	473	497	442	456	1,409	1,395	1,868
% of sales [1)]	18.2	17.9	18.1	17.3	18.7	17.1	18.2	18.1	18.0	17.8
Comparable EBIT										
Operating profit	316	319	373	744	417	349	385	1,009	1,151	1,895
Items affecting comparability in operating profit	26	26	1	-340	3	-15	-30	53	-41	-382
Comparable EBIT	342	345	374	404	420	334	355	1,061	1,109	1,513
% of sales	13.7	13.2	13.9	14.8	15.9	12.9	14.1	13.6	14.3	14.4
Comparable profit before tax										
Profit before tax	319	300	364	731	401	337	371	983	1,108	1,839
Items affecting comparability in operating profit	26	26	1	-340	3	-15	-30	53	-41	-382
Items affecting comparability in financial items	0	0	0	0	0	0	0	0	0	0
Comparable profit before tax	345	325	366	390	404	322	341	1,036	1,067	1,457
Comparable ROCE, %										
Comparable profit before tax	345	325	366	390	404	322	341	1,036	1,067	1,457
Interest expenses and other financial expenses	10	11	8	7	9	8	9	30	26	33
	355	337	374	397	413	330	350	1,066	1,093	1,490
Capital employed, average	10,996	11,069	10,946	10,259	9,817	9,712	9,755	10,873	9,860	10,176
Comparable ROCE, %	12.9	12.2	13.7	15.5	16.8	13.6	14.3	13.1	14.8	14.6
Comparable profit for the period										
Profit for the period	260	245	304	591	328	269	309	810	905	1,496
Items affecting comparability, total	21	26	1	-272	2	-11	-21	48	-30	-302
Comparable profit for the period	281	271	305	319	330	258	288	857	875	1,194
Comparable EPS, EUR										
Comparable profit for the period	281	271	305	319	330	258	288	857	875	1,194
Profit attributable to non-controlling interest	-14	0	0	2	-2	0	-1	-14	-3	-1
	267	271	305	321	328	258	287	844	872	1,193
Average number of shares basic (1,000)	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324	533,324
Comparable EPS, EUR	0.50	0.51	0.57	0.60	0.61	0.48	0.54	1.58	1.64	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	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Comparable ROE, %										
Comparable profit for the period	281	271	305	319	330	258	288	857	875	1,194
Total equity, average	9,706	9,804	9,924	9,491	8,959	8,856	8,821	9,826	8,924	9,230
Comparable ROE, %	11.6	11.1	12.3	13.4	14.6	11.6	13.0	11.6	13.0	12.9
Net debt										
Non-current debt	1,179	1,126	1,139	753	732	750	720	1,179	732	753
Current debt	137	138	127	25	25	207	34	137	25	25
Total debt [1]	1,316	1,264	1,267	778	757	957	755	1,316	757	778
Non-current interest-bearing assets	201	184	177	171	158	167	165	201	158	171
Cash and cash equivalents	1,080	678	1,064	888	549	369	528	1,080	549	888
Other current interest-bearing assets	38	36	31	30	46	20	20	38	46	30
Total interest-bearing assets	1,318	898	1,272	1,089	753	556	714	1,318	753	1,089
Net debt	-2	366	-5	-311	4	401	41	-2	4	-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	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q1–Q3/19	Q1–Q3/18	Q1–Q4/18
Sales										
UPM Biorefining	660	708	753	775	754	694	668	2,121	2,117	2,892
UPM Energy	101	93	113	100	101	83	107	306	291	391
UPM Raflatac	382	385	398	397	374	371	345	1,165	1,091	1,488
UPM Specialty Papers	344	359	357	364	354	368	343	1,059	1,065	1,429
UPM Communication Papers	1,116	1,138	1,200	1,206	1,209	1,149	1,126	3,454	3,484	4,690
UPM Plywood	106	120	123	119	112	125	125	349	362	480
Other operations	63	72	68	87	80	83	76	202	239	326
Internal sales	-280	-269	-320	-318	-334	-289	-279	-870	-902	-1,220
Eliminations and reconciliation	1	1	2	1	0	4	1	3	5	7
Sales, total	2,493	2,605	2,693	2,731	2,650	2,589	2,512	7,791	7,752	10,483
Comparable EBITDA										
UPM Biorefining [1]	171	203	254	282	297	199	233	628	729	1,011
UPM Energy	48	51	41	34	31	23	44	140	98	132
UPM Raflatac	44	40	40	35	41	44	36	124	121	156
UPM Specialty Papers	53	45	29	23	34	53	56	127	144	167
UPM Communication Papers	117	98	118	99	97	101	84	333	281	381
UPM Plywood	14	19	19	15	13	22	24	51	60	75
Other operations [1]	4	3	-8	-14	-2	1	-13	-1	-14	-28
Eliminations and reconciliation	4	8	-4	-2	-15	0	-9	8	-24	-26
Comparable EBITDA, total [1]	455	466	488	473	497	442	456	1,409	1,395	1,868
Operating profit										
UPM Biorefining	130	161	212	241	256	155	195	502	606	847
UPM Energy	45	49	39	23	29	20	42	132	91	114
UPM Raflatac	36	30	26	27	33	37	29	91	99	126
UPM Specialty Papers	35	26	8	4	15	33	37	70	86	90
UPM Communication Papers	57	36	85	71	69	88	85	178	242	312
UPM Plywood	8	13	13	9	7	16	19	33	42	52
Other operations	1	-9	-9	365	25	0	-12	-17	14	380
Eliminations and reconciliation	5	14	0	4	-18	-2	-9	19	-29	-25
Operating profit, total	316	319	373	744	417	349	385	1,009	1,151	1,895
% of sales	12.7	12.3	13.9	27.3	15.7	13.5	15.3	12.9	14.8	18.1
Items affecting comparability in operating profit										
UPM Biorefining	—	—	—	—	—	—	—	—	—	—
UPM Energy	—	-1	—	-9	—	—	—	-1	—	-9
UPM Raflatac	2	—	-5	—	—	—	—	-3	—	—
UPM Specialty Papers	—	—	—	—	—	—	—	—	—	—
UPM Communication Papers	-28	-29	—	-1	—	17	30	-57	47	46
UPM Plywood	—	—	—	—	—	—	—	—	—	—
Other operations	-1	-2	—	345	—	—	—	-3	—	345
Eliminations and reconciliation [2]	1	6	4	6	-3	-2	—	11	-5	1
Items affecting comparability in operating profit, total	-26	-26	-1	340	-3	15	30	-53	41	382
Comparable EBIT										
UPM Biorefining	130	161	212	241	256	155	195	502	606	847
UPM Energy	45	49	39	32	29	20	42	132	91	123
UPM Raflatac	34	30	31	27	33	37	29	94	99	126
UPM Specialty Papers	35	26	8	4	15	33	37	70	86	90
UPM Communication Papers	85	65	85	72	69	72	54	234	195	267
UPM Plywood	8	13	13	9	7	16	19	33	42	52
Other operations	2	-6	-9	21	25	0	-12	-14	14	35
Eliminations and reconciliation	4	8	-4	-2	-15	0	-9	8	-24	-26
Comparable EBIT, total	342	345	374	404	420	334	355	1,061	1,109	1,513
% of sales	13.7	13.2	13.9	14.8	15.9	12.9	14.1	13.6	14.3	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] Eliminations and reconciliations includes changes in fair value of unrealised cash flow and commodity hedges.

External sales by major products

BUSINESS AREA	BUSINESS	Q3/2019	Q3/2018	Q1–Q3/2019	Q1–Q3/2018	Q1–Q4/2018
EUR million						
UPM Biorefining	UPM Pulp UPM Biofuels UPM Timber	510	570	1,645	1,623	2,223
UPM Energy	UPM Energy	35	15	124	80	109
UPM Raflatac	UPM Raflatac	382	374	1,165	1,091	1,488
UPM Specialty Papers	UPM Specialty Papers	295	302	900	906	1,213
UPM Communication Papers	UPM Communication Papers	1,108	1,203	3,426	3,464	4,664
UPM Plywood	UPM Plywood	101	107	331	346	458
Other operations	Wood Sourcing and Forestry UPM Biochemicals UPM Biocomposites	61	79	197	235	321
Eliminations and reconciliations		1	0	3	5	7
Total		2,493	2,650	7,791	7,752	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–Q3/2019	Q1–Q3/2018	Q1–Q4/2018
Book value at beginning of period	4,186	4,281	4,281
Reclassification to leased assets (IFRS 16)	-91	—	—
Reclassification to assets held for sale	-11	—	—
Capital expenditure	194	183	286
Decreases	-6	-11	-15
Depreciation	-295	-306	-408
Impairment charges	-12	0	0
Translation difference and other changes	71	25	41
Book value at end of period	4,036	4,172	4,186

Financial assets and liabilities measured at fair value

EURm	30 SEP 2019				30 SEP 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	—	39	—	39	—	13	—	13	—	16	—	16
Derivatives under hedge accounting	43	186	—	229	85	131	—	216	106	140	—	246
Energy shareholdings	—	—	2,138	2,138	—	—	2,096	2,096	—	—	2,159	2,159
Total	43	225	2,138	2,406	85	144	2,096	2,325	106	156	2,159	2,421
Financial liabilities												
Derivatives non-qualifying hedges	—	9	—	9	—	16	—	16	—	10	—	10
Derivatives under hedge accounting	12	53	—	65	24	50	—	74	15	56	—	71
Total	12	62	—	74	24	66	—	90	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

	ENERGY SHAREHOLDINGS		
EURm	Q1–Q3/2019	Q1–Q3/2018	Q1–Q4/2018
Book value at beginning of period	2,159	1,974	1,974
Disposals	-1	0	-1
Fair value changes recognised in other comprehensive income	-19	122	185
Book value at end of period	2,138	2,096	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 280 million. Other uncertainties and risk factors in the value of the assets relate to start-up schedule of the fixed price turn-key Olkiluoto 3 EPR nuclear power plant project. UPM's indirect share of the capacity of Olkiluoto 3 EPR is approximately 31%, through its PVO B2 shares. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

Fair value of financial assets and liabilities measured at carrying amount

EURm	30 SEP 2019	30 SEP 2018	31 DEC 2018
Non-current debt excl. derivative financial instruments and lease liabilities	699	652	659

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

Commitments and contingencies

EURm	30 SEP 2019	30 SEP 2018	31 DEC 2018
Own commitments			
Mortgages	1	12	1
On behalf of others			
Guarantees	2	2	2
Other own commitments			
Leasing commitments for the next 12 months in accordance with IFRS 16 [1]	6	80	90
Leasing commitments for subsequent periods [1]	—	440	464
Other commitments	105	89	92
Total	114	624	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–Q3/2019	AFTER 30 SEP 2019
New pulp mill / Uruguay	Q3 2022	2,730	—	4	2,726
Renovation and modernisation / Kuusankoski hydro power plant	Q4 2022	22	—	3	19
Paper machine conversion / Nordland paper mill	Q4 2019	124	35	35	54
Capacity increase / Changshu paper mill	Q4 2019	34	9	11	14

Notional amounts of derivative financial instruments

EURm	30 SEP 2019	30 SEP 2018	31 DEC 2018
Interest rate forward contracts	1,532	729	1,129
Interest rate swaps	344	752	753
Forward foreign exchange contracts	2,572	2,461	2,524
Currency options, bought	8	14	21
Currency options, written	16	25	31
Cross currency swaps	179	160	167
Commodity contracts	966	691	1,189

Assets classified as held for sale

Assets classified as held for sale relate to UPM Chapelle paper mill assets located in France. More information is presented under "Events during January–September 2019".

Transactions with non-controlling interests

In September 2019, the group disposed of 9% of its interests in Tile Forestal S.A., CUECAR S.A., Tebetur S.A. and Blanvira S.A. reducing its continuing interest to 91%. The proceeds on disposal of EUR 3 million were received in cash being the proportionate share of the carrying amount of the net assets of these subsidiaries.

In addition, the terms and conditions of UPM S.A. shareholders' agreement were amended resulting in recognition of 9% non-controlling interest amounting to EUR 63 million and derecognition of financial liability amounting to EUR 56 million. The difference amounting to EUR 7 million was recognised in equity as transactions with non-controlling interest. Prior to the amendment of the agreement the group accounted the portion belonging to non-controlling interests at the present value of the redemption amount within financial liability due to put option over non-controlling interests.

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 noncancellable 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.

The 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 488 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 leased assets.

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
Forecast 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	–1
Gross lease liabilities at 1.1.2019	572
Discounting [1]	–84
Lease liability 1.1.2019	488
Present value of finance lease liabilities 31.12.2018	98
Total lease liabilities 1.1.2019	586

[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	0	-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	0	-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.

UPM-Kymmene Corporation
Alvar Aallon katu 1
PO Box 380
FI-00101 Helsinki, Finland
Tel. +358 2041 5111
Fax +358 2041 5110
ir@upm.com