The Biofore Company UPM

UPM FINANCIAL STATEMENTS RELEASE 2014

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UPM financial statements release 2014

Q4 2014 compared with Q4 2013

- Earnings per share excluding special items were EUR 0.32 (0.27), and reported EUR 0.01 (0.06)
- Operating profit excluding special items increased to EUR 230 million, 9.1% of sales (207 million, 8.0% of sales)
- UPM announced a new profit improvement programme, targeting annualised EUR 150 million impact by the end of 2015
- Net debt decreased to the record-low level of EUR 2,401 million (3,040 million)
- The UPM Lappeenranta Biorefinery started commercial production of advanced renewable diesel in January 2015

Full year 2014 compared with 2013

- Earnings per share excluding special items were EUR 1.17 (0.91), and reported EUR 0.96 (0.63)
- Operating profit excluding special items increased to EUR 847 million, 8.6% of sales (683 million, 6.8% of sales), due to the success of the EUR 200 million profit improvement programme
- Growth projects in pulp, labelling materials and self-adhesive labels proceeded well and will be completed during 2015
- Operating cash flow was strong at EUR 1,241 million (735 million)
- The Board proposes an increased dividend of EUR 0.70 (0.60) per share

Key figures

	Q4/2014	Q4/2013	Q3/2014	Q1–Q4/2014	Q1–Q4/2013
Sales, EURm	2,531	2,588	2,415	9,868	10,054
EBITDA, EURm [1]	330	302	346	1,287	1,155
% of sales	13.0	11.7	14.3	13.0	11.5
Operating profit (loss), EURm	71	134	236	674	548
excluding special items, EURm	230	207	235	847	683
% of sales	9.1	8.0	9.7	8.6	6.8
Profit (loss) before tax, EURm	57	115	214	667	475
excluding special items, EURm	216	188	213	774	610
Profit (loss) for the period, EURm	8	36	182	512	335
Earnings per share, EUR	0.01	0.06	0.34	0.96	0.63
excluding special items, EUR	0.32	0.27	0.32	1.17	0.91
Diluted earnings per share, EUR	0.01	0.06	0.34	0.96	0.63
Return on equity, %	0.4	1.9	9.7	6.9	4.5
excluding special items, %	9.2	7.5	9.1	8.3	6.4
Return on capital employed, %	2.5	4.7	8.1	6.5	4.8
excluding special items, %	8.2	7.2	8.0	7.5	6.0
Operating cash flow per share, EUR	0.86	0.49	0.57	2.33	1.39
Equity per share at end of period, EUR	14.02	14.08	14.33	14.02	14.08
Gearing ratio at end of period, %	32	41	36	32	41
Net interest-bearing liabilities at end of period, EURm	2,401	3,040	2,726	2,401	3,040
Capital employed at end of period, EURm	10,944	11,583	11,721	10,944	11,583
Capital expenditure, EURm	156	111	103	411	362
Capital expenditure excluding acquisitions and shares, EURm	121	111	103	375	329
Personnel at end of period	20,414	20,950	20,616	20,414	20,950

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, excluding the share of results of associated companies and joint ventures, and special items.

Market environment in 2014

Global economic growth in 2014 was largely on the same level as in the previous year. However, the development was highly uneven and country specific. Of the big economic areas, growth strengthened in the US and slowed in China. In the eurozone, growth turned positive, but remained very low.

The second half of 2014 was characterised by increasing geopolitical tensions and decreasing commodity prices, oil in particular. This increased uncertainty about the economic outlook and led to a clear slowdown in many developing countries.

As a result of the continuously weak growth outlook in Europe, interest rate cuts and prospects of looser monetary policies, the Euro weakened against the US dollar during the second half of the year. Against the US dollar, the Euro decreased by 12% during the year but was on average on the same level as in the previous year. The Euro weakened against the British pound sterling and strengthened against the Japanese yen.

In UPM's businesses and products, the market environment differed in 2014.

Demand grew in chemical pulp and self-adhesive label materials, especially in developing markets. Whereas hardwood pulp production capacity increased and prices decreased, a tight supply-demand balance in softwood pulp underpinned higher prices.

The hydrological balance in Finland was close to the long-term average level. The Finnish area price was above the Nord Pool system price due to dependency on imports for peak hours. The Finnish electricity spot price was lower on average than in the previous year – mainly due to lower coal prices, warmer weather and increased renewable power capacity.

Labelling materials demand increased globally and fine paper demand in Asia grew modestly.

The slight improvement in the eurozone economic region moderated the decline in graphic paper demand in Europe. Prices remained near the previous year's level on average.

Demand for plywood and timber products increased slightly, primarily driven by certain markets and industrial end uses. Prices increased.

Results

Q4 2014 compared with Q4 2013

Sales for Q4 2014 were EUR 2,531 million, 2% lower than the EUR 2,588 million in Q4 2013. Sales decreased mainly due to lower deliveries at UPM Paper ENA.

EBITDA was EUR 330 million, 13.0% of sales (302 million, 11.7% of sales). The EBITDA improvement was driven to a large extent by the ongoing profit improvement programme. Sales prices had a clear negative net impact on earnings, but this was offset by a reduction in variable costs, partly due to the actions taken under the Group's profit improvement programme.

UPM Paper Asia increased its EBITDA mainly due to lower variable costs and positive currency impact. UPM Energy increased its EBITDA due to lower costs and higher hydropower generation volumes. UPM Raflatac improved its EBITDA mainly due to higher deliveries and lower fixed costs. UPM Plywood increased its EBITDA mainly due to improved sales margins. UPM Paper ENA and UPM Biorefining reported about the same EBITDA as the previous year.

Operating profit excluding special items was EUR 230 million, 9.1% of sales (207 million, 8.0%). Depreciation excluding special items totalled EUR 132 million (132 million).

Reported operating profit was EUR 71 million, 2.8% of sales (134 million, 5.2% of sales). Operating profit includes net charges of EUR 159 million (73 million) as special items. UPM booked restructuring charges totalling EUR 73 million and write-offs totalling EUR 135 million related to planned paper capacity closures. Write-offs include the related share of combined heat and power plant assets. UPM recognised a capital gain of EUR 45 million from the sale of forestland in the UK.

The increase in the fair value of biological assets net of wood harvested was EUR 32 million (37 million).

Profit before tax was EUR 57 million (115 million) and excluding special items EUR 216 million (188 million). Net interest and other finance costs were EUR 17 million (19 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 3 million (0 million).

Income taxes totalled EUR 49 million (79 million). Special items in taxes were EUR 6 million negative (EUR 31 million negative).

Profit for Q4 2014 was EUR 8 million (36 million) and earnings per share were EUR 0.01 (0.06). Earnings per share excluding special items were EUR 0.32 (0.27).

Q4 2014 compared with Q3 2014

EBITDA was EUR 330 million, 13.0% of sales (346 million, 14.3% of sales).

EBITDA decreased in UPM Paper ENA mainly due to seasonally higher fixed costs.

EBITDA increased in UPM Energy mainly due to higher hydro and nuclear power generation volumes and lower costs. UPM Plywood increased its EBITDA due to seasonally higher deliveries. UPM Biorefining, UPM Raflatac and UPM Paper Asia reported about the same EBITDA as in the comparison period.

Operating profit excluding special items was EUR 230 million, 9.1% of sales (235 million, 9.7%). Depreciation excluding special items totalled EUR 132 million (129 million).

The increase in the fair value of biological assets net of wood harvested was EUR 32 million (17 million).

Full year 2014 compared with 2013

Sales for 2014 were EUR 9,868 million, 2% lower than the EUR 10,054 million in 2013. Sales decreased mainly due to lower deliveries at UPM Paper ENA.

EBITDA was EUR 1,287 million, 13.0% of sales (1,155 million, 11.5% of sales). The increase was driven to a large extent by the Group's profit improvement programme. Sales prices had a clearly negative net impact on earnings, but this was offset by a reduction in variable costs, partly due to the actions taken under the profit improvement programme. Fixed costs were EUR 60 million lower than the previous year.

UPM Paper ENA achieved a clear improvement in EBITDA based on lower variable and fixed costs. UPM Paper Asia also increased its EBITDA mainly due to lower variable and fixed costs. UPM Plywood improved its EBITDA mainly due to increased sales margins. UPM Energy increased its EBITDA due to lower costs as well as higher hydro and nuclear power production. UPM Raflatac reported a small increase in EBITDA, mainly driven by higher deliveries. EBITDA decreased in UPM Biorefining, mainly due to lower hardwood pulp prices.

Operating profit excluding special items was EUR 847 million, 8.6% of sales (683 million, 6.8%). Depreciation excluding special items totalled EUR 521 million (542 million).

Reported operating profit was EUR 674 million, 6.8% of sales (548 million, 5.5% of sales). Operating profit includes net charges of EUR 173 million as special items. UPM booked write-offs totalling EUR 135 million and restructuring charges totalling EUR 73 million related to the planned paper capacity closures and charges of EUR 5 million related to other restructurings in UPM Paper ENA. Restructuring measures in UPM Raflatac resulted in charges of EUR 11 million. UPM recognised a capital gain of EUR 45 million from the sale of forestland in the UK.

The increase in the fair value of biological assets net of wood harvested was EUR 78 million (68 million).

Profit before tax was EUR 667 million (475 million) and excluding special items EUR 774 million (610 million). Net interest and other finance costs were EUR 62 million (84 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 4 million (gain of EUR 10 million). Financial items include a special income of EUR 66 million related to the sale of Metsä Fibre shares in 2012 due to UPM's tag-along rights under the shareholders' agreement. The amount is based on the resolution of arbitration proceedings between UPM and Metsäliitto Cooperative and Metsä Board Corporation.

Income taxes totalled EUR 155 million (140 million). Special items in taxes were EUR 4 million negative (EUR 10 million negative).

Profit for 2014 was EUR 512 million (335 million) and earnings per share were EUR 0.96 (0.63). Earnings per share excluding special items were EUR 1.17 (0.91).

Operating cash flow per share was EUR 2.33 (1.39).

Financing

In 2014, cash flow from operating activities before capital expenditure and financing totalled EUR 1,241 million (735 million). Working capital decreased by EUR 73 million (increased by EUR 128 million) during the year.

The gearing ratio as of 31 December 2014 was 32% (41%). Net interest-bearing liabilities at the end of the period came to EUR 2,401 million (3,040 million).

On 31 December 2014, UPM's cash funds and unused committed credit facilities totalled EUR 1.6 billion.

Personnel

In 2014, UPM had an average of 20,852 employees (21,898). At the beginning of the year the number of employees was 20,950, and at the end of 2014 it was 20,414.

Capital expenditure and divestments

In 2014, capital expenditure was EUR 411 million, 4.2% of sales (362 million, 3.6% of sales), and excluding investments in shares EUR 375 million, 3.8% of sales (329 million, 3.3% of sales). Operational capital expenditure totalled EUR 194 million (209 million). The total capital expenditure in 2015 is estimated to be approximately EUR 500 million.

UPM's main ongoing investment projects are related to the growth projects, as described in the next chapter.

In December 2014, UPM completed the new combined heat and power plant at the UPM Schongau mill in Germany. The target is to significantly reduce energy costs as well as to secure the mill's energy supply. The total investment is EUR 89 million.

In June 2013, UPM announced that it is participating in the share issue from Pohjolan Voima Oy to finance the Olkiluoto 3 nuclear power plant project. UPM's share of the issue is EUR 119 million, of which EUR 31 million was paid in Q2 2013 and another EUR 31 million was paid in Q4 2014. The remaining part of the share issue will be implemented during the coming years based on the financing needs of the project.

On 12 December 2014, UPM executed a transaction to sell all of its forest land in the UK, 7,100 hectares in total, to The Church Commissioners for England. The transaction price was GBP 50.6 million. UPM recognised a capital gain of EUR 45 million as a special item for Q4 2014.

Growth projects targeting EBITDA impact of EUR 200 million

On 6 August 2013, UPM announced quantified targets for its growth projects over three years.

Biofuels, a 10% capacity increase in UPM's existing pulp mills, wood-free speciality papers in China and growth measures in UPM Raflatac are expected to provide top-line growth for UPM in the coming years. With these growth projects, the company is targeting an EBITDA contribution of EUR 200 million when the projects are in full operation.

The total investment requirement in these projects is EUR 680 million. EUR 315 million has already been invested, and the total remaining capital expenditure in the coming two years would be EUR 365 million.

UPM invested EUR 175 million in a biorefinery to produce renewable diesel from crude tall oil in Lappeenranta, Finland. The biorefinery is capable of producing approximately 120 million litres of advanced renewable diesel for transport each year. Construction of the refinery was completed, and the testing and commissioning process was started in July 2014. The refinery started commercial production of renewable diesel in January 2015.

In February 2014, UPM announced that it is building a new production unit at the UPM Changshu mill in China. The new unit will be capable of producing 360,000 tonnes of labelling materials and speciality papers. The total investment is approximately EUR 277 million, and the unit is expected to start up at the end of 2015.

In February 2014, UPM announced that it is investing approximately EUR 160 million in its UPM Kymi pulp mill, comprising a new pulp drying machine, modernisation of the softwood fibre line, a new debarking plant, as well as improvements to the energy balance of the Kymi integrate. The investment will increase the pulp mill's production capacity by 170,000 tonnes and advance the decoupling of UPM's pulp and paper businesses. The investment is expected to be completed by the end of 2015.

The modernisation of one fibre line at the UPM Pietarsaari pulp mill was completed in June 2014. The investment was EUR 13 million and increased the mill's production capacity by 70,000 tonnes.

Further debottlenecking potential has been identified at the UPM Fray Bentos and UPM Kaukas pulp mills. In June 2014, UPM received an increased production permit for the Fray Bentos pulp mill in Uruguay, entitling the mill to increase its production from the current 1,200,000 tonnes to 1,300,000 tonnes. To achieve this, minor investments were carried out in Q4 2014.

In April 2014, UPM announced that it is increasing its labelstock coating capacity in the Asia Pacific region by more than 50% by building a new coating line at the Changshu labelstock factory in China and upgrading machinery at the Johor Bahru factory in Malaysia. The investments totalling to approximately EUR 14 million are expected to be completed in Q1 2015.

In April 2014 UPM also announced it is increasing production capacity for its film labelstock business in Europe by investing approximately EUR 13 million in a new coating line at the self-adhesive labelstock factory in Nowa Wies, Poland. The investment is expected to be completed in Q1 2015.

Profit improvement programmes

On 6 August 2013, UPM announced that it had identified actions with an overall profit improvement impact of EUR 200 million in its existing businesses compared with the Q2 2013 results. Each business implemented a profit improvement programme with a simplified business model and variable and fixed cost savings.

The full impact of the programme was achieved in Q3 2014, one quarter ahead of the original schedule.

On 13 November 2014, UPM announced a new profit improvement target with an annualised impact of EUR 150 million by the end of 2015. The target includes savings in variable and fixed costs in all UPM businesses and functions, as well as planned capacity closures in the European paper business. UPM announced it's plan to permanently reduce its publication paper capacity in Europe by approximately 800,000 tonnes, including newsprint machine 3 at UPM Chapelle in France, newsprint machine 1 at UPM Shotton in the UK, SC paper machine Jämsänkoski 5 at UPM Jämsä River Mills in Finland and coated mechanical paper machine 2 at UPM Kaukas in Finland. The closures are planned to take place by the end of Q1 2015.

As part of the profit improvement programme UPM has started a review of the production, maintenance and other site operating practices across all of UPM businesses and operating countries.

The total annualised cost reduction impact of EUR 150 million is expected by the end of 2015, compared with the Q3 2014. The fixed cost reduction of the planned capacity closures is expected to be EUR 55 million, and is included in the total savings target.

UPM booked write-offs of EUR 135 million and restructuring charges of EUR 73 million in Q4 2014.

Risks and near-term uncertainties

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

Currently, the main near-term uncertainties relate to the global economic growth and currency markets, as well as the global chemical pulp market.

In the global chemical pulp market, new production lines entering the market may have a clear negative impact on pulp prices.

Economic growth remains weaker in Europe than in other major economic regions. The EU is the most significant market for UPM. Currently, there are concerns regarding the European economic outlook, partly related to geopolitical issues. There are also uncertainties related to developing economies, including China, which may have a significant influence on global economy overall, and on many of UPM's product markets in particular. Furthermore, changes in monetary policies of major central banks may have a significant impact on various currencies which are directly or indirectly relevant for UPM.

Recently the price of oil has decreased significantly. The oil price impacts directly and indirectly on many of UPM's cost items, e.g. logistics costs. It is uncertain whether the current price level will continue and how fast or to what extent it will be reflected in UPM's profitability.

The main earnings sensitivities and the Group's cost structure are presented on page 11 of the Annual Report of 2013. Risks and risk management are presented on pages 73–74 of the Report.

Events after the balance sheet date

On 12 January 2015, UPM announced that the UPM Lappeenranta Biorefinery had started commercial production. The production process works as planned and the high quality end product, UPM BioVerno diesel, fulfils customer specifications.

The UPM Lappeenranta Biorefinery is the world's first wood-based renewable diesel biorefinery, and is based on a hydrotreatment process developed by UPM. It is capable of producing approximately 120 million litres of renewable UPM BioVerno diesel each year.

On 20 January 2015, UPM announced that it will permanently close down paper machine 2 at UPM Kaukas and paper machine 5 at UPM Jämsänkoski in Finland, along with paper machine 1 at the UPM Shotton mill in the UK. Production will be ceased by the end of March 2015 at the latest. Employee consultation processes concerning the closing plans were concluded in mid-January 2015. The number of positions is reduced by 114 at the Kaukas mill in Lappeenranta, by 138 at the Jämsä River Mills and by 121 at Shotton. Along with the closures, UPM reduces its coated and uncoated magazine paper capacity by approximately 460,000 tonnes and its newsprint capacity by 215,000 tonnes.

Dividend

The Board of Directors proposes to the Annual General Meeting, to be held on 9 April 2015, that a dividend of EUR 0.70 per share be paid in respect of the 2014 financial year (EUR 0.60). It is proposed that the dividend be paid on 23 April 2015. On 31 December 2014, the distributable funds of the parent company were EUR 3,361.2 million.

Outlook for 2015

The improved profitability achieved in 2014 is expected to continue in 2015, and we have prospects to improve further. Our profitability is underpinned by the EUR 150 million profit improvement programme, as well as the first positive impacts from the company's growth projects. Profitability is affected by lower publication paper prices and lower electricity sales prices in the beginning of the year. The current weakened euro and lower oil price are supportive for the company's earnings.

Business area reviews

UPM Biorefining

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales, EURm	484	480	477	496	497	484	512	495	1,937	1,988
EBITDA, EURm [1)]	100	100	66	92	100	100	128	107	358	435
% of sales	20.7	20.8	13.8	18.5	20.1	20.7	25.0	21.6	18.5	21.9
Change in fair value of biological assets and wood harvested, EURm	5	1	2	1	4	3	6	2	9	15
Share of results of associated companies and joint ventures, EURm	–	–	1	–	–	–	1	–	1	1
Depreciation, amortisation and impairment charges, EURm	–37	–38	–38	–37	–37	–38	–38	–39	–150	–152
Operating profit, EURm	72	64	31	56	63	73	102	68	223	306
% of sales	14.9	13.3	6.5	11.3	12.7	15.1	19.9	13.7	11.5	15.4
Special items, EURm [2)]	5	1	–	–	–3	6	5	–2	6	6
Operating profit excl. special items, EURm	67	63	31	56	66	67	97	70	217	300
% of sales	13.8	13.1	6.5	11.3	13.3	13.8	18.9	14.1	11.2	15.1
Pulp deliveries, 1,000 t	791	848	832	816	810	789	774	790	3,287	3,163
Capital employed (average), EURm									2,862	2,825
ROCE (excl special items), %									7.6	10.6

[1)] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

[2)] In Q4 2014, special income of EUR 5 million relate to a gain on sale of property, plant and equipment. In Q3 2014, special income of EUR 1 million relate to restructuring measures. In Q4 2013, special charges of EUR 3 million relate to restructuring measures. In Q3 2013, special income of EUR 6 million relate to restructuring charges and a capital gain from a sale of property, plant and equipment. In Q2 2013, special income of EUR 5 million relate to restructuring measures. In Q1 2013, special items of EUR 2 million relate to restructuring charges.

Q4 2014 compared with Q4 2013

Operating profit excluding special items for UPM Biorefining was EUR 67 million (66 million). Sales decreased by 3% to EUR 484 million (497 million). Pulp deliveries decreased by 2% to 791,000 tonnes (810,000).

Operating profit was close to the previous year's level as lower variable costs offset the negative impacts of lower average pulp sales prices and the scheduled maintenance shutdown at the Fray Bentos mill in Uruguay.

Q4 2014 compared with Q3 2014

Operating profit excluding special items increased. Higher average pulp sales prices, mainly due to favourable currency developments, offset the negative impacts of the scheduled maintenance shutdown at the Fray Bentos mill and lower pulp deliveries.

Full year 2014 compared with 2013

Operating profit excluding special items for UPM Biorefining decreased to EUR 217 million (300 million). Sales decreased by 3% to EUR 1,937 million (1,988 million). Pulp deliveries increased by 4% to 3,287,000 tonnes (3,163,000).

Operating profit decreased mainly due to lower hardwood pulp prices. Fixed costs increased due to maintenance shutdowns carried out at the UPM Kaukas and UPM Pietarsaari pulp mills in the first half of the year and ramp-up of the Biofuels organisation. The commissioning phase of the biorefinery started in July, and commercial production of advanced renewable diesel began in January 2015. Profitability in sawmill operations improved thanks to further development in sales and production management.

Market review

In 2014, the average softwood pulp (NBSK) market price was EUR 698/tonne, 8% higher than during the previous year (646/tonne). At the end of the year, the softwood pulp market price was EUR 763/tonne (656/tonne). A tight supply-demand balance supported additional price increases for softwood market pulp.

The average market price of hardwood pulp (BHKP) was EUR 561/tonne, 6% lower than in the same period the previous year (596/tonne). New production capacity entered the market, impacting the supply-demand balance. The market price of hardwood pulp decreased in the first half of the year. In the second half of the year the euro denominated market price increased mainly due to the EUR/USD exchange rate weakening. At the end of the year the BHKP market price was EUR 608/tonne (557/tonne).

In 2014 global chemical pulp shipments increased by 2% from the previous year. Demand growth was mainly driven by developing economic regions such as Asia, Eastern Europe and Latin America. Shipments to Western Europe increased slightly, whilst shipments to North America and Japan were on the previous year's level. Shipments of NBSK pulp decreased modestly whilst shipments of BHKP grew.

Sawn timber markets weakened in the second half of the year due to excessive production and inventory build-up earlier in the year.

UPM Energy

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales, EURm	115	113	112	124	115	109	110	132	464	466
EBITDA, EURm [1]	59	46	49	59	48	43	49	58	213	198
% of sales	51.3	40.7	43.7	47.6	41.7	39.4	44.5	43.9	45.9	42.5
Share of results of associated companies and joint ventures, EURm	–	–	–	–	–	–1	–	–	–	–1
Depreciation, amortisation and impairment charges, EURm	–2	–3	–3	–3	–3	–2	–3	–3	–11	–11
Operating profit, EURm	57	43	46	56	45	40	46	55	202	186
% of sales	49.6	38.1	41.1	45.2	39.1	36.7	41.8	41.7	43.5	39.9
Special items, EURm	–	–	–	–	–	–	–	–	–	–
Operating profit excl. special items, EURm	57	43	46	56	45	40	46	55	202	186
% of sales	49.6	38.1	41.1	45.2	39.1	36.7	41.8	41.7	43.5	39.9
Electricity deliveries, GWh	2,169	2,135	2,112	2,305	2,164	2,027	2,221	2,513	8,721	8,925
Capital employed (average), EURm									2,903	2,882
ROCE (excl special items), %									7.0	6.5

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

Q4 2014 compared with Q4 2013

Operating profit excluding special items for UPM Energy increased to EUR 57 million (45 million). Sales were EUR 115 million (115 million). The total electricity sales volume was 2,169 GWh (2,164 GWh).

Operating profit increased mainly due to lower costs and higher hydro power generation volumes, more than offsetting the negative sales price impact.

The average electricity sales price decreased by 1% to EUR 45.5/MWh (46.0/MWh).

Q4 2014 compared with Q3 2014

The increase in operating profit excluding special items was mainly due to higher hydro and nuclear power generation volumes and lower costs. The average electricity sales price was unchanged at EUR 45.5/MWh (45.5/MWh).

Full year 2014 compared with 2013

Operating profit excluding special items for UPM Energy increased to EUR 202 million (186 million). Sales were EUR 464 million (466 million). The total electricity sales volume was 8,721 GWh (8,925 GWh).

Operating profit increased due to lower costs as well as higher hydro and nuclear power production, more than offsetting the negative impact of lower average sales prices.

The average electricity sales price decreased by 2% to EUR 45.3/MWh (46.1/MWh).

Market review

The hydrological balance in Finland remained fairly stable in 2014. In the first half of the year the balance remained slightly above the long-term average and deteriorated due to dry weather conditions during the second half of the year. The average Finnish area spot price on the Nordic electricity exchange in 2014 was EUR 36.0 /MWh, 13% lower than during the previous year (EUR 41.2/MWh) mainly due to lower coal prices, warmer weather and increased renewable generation capacity. The Finnish area price was above the Nord Pool system price due to dependency on imports.

Due to global excess coal supply, coal prices decreased in 2014. The CO_2 emission allowance price was EUR 6.9/tonne at the end of the year, 47% higher than on the same date the previous year (EUR 4.7/tonne). Backloading of emission allowances combined with structural reforms proposed by the European Commission supported CO_2 emission allowance price in 2014.

The Finnish area front-year forward electricity price closed at EUR 36.1/MWh at the end of the year, 4% lower than on the same date the previous year (37.6/MWh).

UPM Raflatac

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales, EURm	330	312	306	300	298	307	309	299	1,248	1,213
EBITDA, EURm [1]	30	29	25	28	25	30	28	26	112	109
% of sales	9.1	9.3	8.2	9.3	8.4	9.8	9.1	8.7	9.0	9.0
Depreciation, amortisation and impairment charges, EURm	–9	–8	–10	–8	–9	–10	–9	–8	–35	–36
Operating profit, EURm	21	21	7	20	16	7	19	18	69	60
% of sales	6.4	6.7	2.3	6.7	5.4	2.3	6.1	6.0	5.5	4.9
Special items, EURm [2]	–1	–	–10	–	–	–15	–	–	–11	–15
Operating profit excl. special items, EURm	22	21	17	20	16	22	19	18	80	75
% of sales	6.7	6.7	5.6	6.7	5.4	7.2	6.1	6.0	6.4	6.2
Capital employed (average), EURm									530	532
ROCE (excl special items), %									15.1	14.1

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

[2] In Q4 2014, special items of EUR 1 million include impairment charges related to restructurings. In Q2 2014, special items of EUR 10 million relate to restructuring charges, including impairments of EUR 2 million. In Q3 2013, special items of EUR 15 million relate to restructuring charges, including impairments of EUR 2 million.

Q4 2014 compared with Q4 2013

Operating profit excluding special items for UPM Raflatac was EUR 22 million (16 million). Sales increased by 11% to EUR 330 million (298 million).

Operating profit increased mainly due to higher delivery volumes and lower fixed costs, more than offsetting the negative sales margin impact.

Q4 2014 compared with Q3 2014

Operating profit excluding special items increased slightly as the impact of higher delivery volumes offset seasonally higher fixed costs.

Full year 2014 compared with 2013

Operating profit excluding special items for UPM Raflatac was EUR 80 million (75 million). Sales increased by 3% to EUR 1,248 million (1,213 million).

Operating profit increased mainly due to higher delivery volumes and lower fixed costs, more than offsetting the negative sales margin and currency impacts.

The coating operations in Melbourne, Australia and in Polinya, Spain were closed in Q2 2014.

Market review

Along with the improvement in the macro-economic environment, growth in the global demand for self-adhesive label materials strengthened over the year. Demand grew in Western Europe, especially in the fourth quarter. In spite of the political tensions in Russia and Ukraine, solid demand growth continued in Eastern Europe. After a weak first quarter, impacted by poor weather conditions, demand in North America increased in 2014. Growth strengthened during the second half of the year. In Asia and Latin America growth continued.

UPM Paper Asia

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales, EURm	288	274	285	277	268	274	289	277	1,124	1,108
EBITDA, EURm [1]	48	49	47	44	36	40	42	43	188	161
% of sales	16.7	17.9	16.5	15.9	13.4	14.6	14.5	15.5	16.7	14.5
Depreciation, amortisation and impairment charges, EURm	–21	–20	–20	–19	–20	–20	–20	–21	–80	–81
Operating profit, EURm	27	29	27	25	17	19	22	22	108	80
% of sales	9.4	10.6	9.5	9.0	6.3	6.9	7.6	7.9	9.6	7.2
Special items, EURm [2]	–	–	–	–	1	–1	–	–	–	–
Operating profit excl. special items, EURm	27	29	27	25	16	20	22	22	108	80
% of sales	9.4	10.6	9.5	9.0	6.0	7.3	7.6	7.9	9.6	7.2
Paper deliveries, 1,000 t	359	350	365	347	344	341	354	339	1,421	1,378
Capital employed (average), EURm									861	882
ROCE (excl special items), %									12.5	9.1

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.
[2] In Q4 2013, special income of EUR 1 million relate to restructuring measures. In Q3 2013, special items of EUR 1 million relate to restructuring charges.

Q4 2014 compared with Q4 2013

Operating profit excluding special items for UPM Paper Asia increased to EUR 27 million (16 million).

Sales increased to EUR 288 million (268 million). Deliveries increased by 4% to 359,000 tonnes (344,000).

The increase in operating profit was mainly due to lower variable costs and favourable currency impacts.

Q4 2014 compared with Q3 2014

Operating profit excluding special items decreased mainly due to seasonally higher fixed costs. Higher variable costs offset the positive impact of higher average sale prices, driven by favourable currency and mix developments.

Full year 2014 compared with 2013

Operating profit excluding special items for UPM Paper Asia increased to EUR 108 million (80 million). Sales were EUR 1,124 million (1,108 million). Paper deliveries increased by 3% to 1,421,000 tonnes (1,378,000).

Operating profit increased significantly due to lower variable and fixed costs. Average sales prices were slightly lower partly due to negative currency impacts.

Market review

In Asia Pacific, growth in fine paper demand is levelling off, though development varies by product and market segment. Growth in office paper demand continue. Competition in the region has been intense as overcapacity prevails in all paper grades.

The demand for labelling materials grew globally in 2014. New investments and paper machine conversions to uncoated woodfree and labelling materials in Asia, as well as conversions to labelling materials in Europe have intensified the competition.

UPM Paper ENA

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales, EURm	1,361	1,303	1,286	1,334	1,445	1,392	1,358	1,365	5,284	5,560
EBITDA, EURm [1]	84	113	100	95	86	83	34	29	392	232
% of sales	6.2	8.7	7.8	7.1	6.0	6.0	2.5	2.1	7.4	4.2
Share of results of associated companies and joint ventures, EURm	–	1	–	–	–	1	–	–	1	1
Depreciation, amortisation and impairment charges, EURm	–189	–52	–54	–54	–55	–57	–56	–65	–349	–233
Operating profit, EURm	–178	63	45	38	14	36	–18	–91	–32	–59
% of sales	–13.1	4.8	3.5	2.8	1.0	2.6	–1.3	–6.7	–0.6	–1.1
Special items, EURm [2]	–208	1	–2	–4	–17	7	5	–54	–213	–59
Operating profit excl. special items, EURm	30	62	47	42	31	29	–23	–37	181	0
% of sales	2.2	4.8	3.7	3.1	2.1	2.1	–1.7	–2.7	3.4	0.0
Paper deliveries, 1,000 t	2,225	2,136	2,098	2,148	2,332	2,258	2,181	2,139	8,607	8,910
Capital employed (average), EURm									2,511	2,672
ROCE (excl special items), %									7.2	0.0

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

[2] In Q4 2014, special items include write-offs totalling EUR 135 million and restructuring charges totalling EUR 73 million related to planned capacity closures. In Q3 2014, special income of EUR 1 million relate to restructuring measures. In Q2 2014, special items of EUR 2 million relate to restructuring measures. In Q1 2014, special items of EUR 4 million relate mainly to the closure of the UPM Docelles mill in France, including impairment charges of EUR 1 million. In Q4 2013, special items include charges of EUR 25 million related to the restructuring of the UPM Docelles mill in France and a net income of EUR 8 million related to other restructuring measures. In Q3 2013, special items include impairment charges of EUR 3 million and a net income of EUR 10 million related to the ongoing restructuring. In Q2 2013, special income of EUR 5 million relate to restructuring measures. In Q1 2013, special items of EUR 54 million relate to restructuring charges.

Q4 2014 compared with Q4 2013

Operating profit excluding special items for UPM Paper ENA was EUR 30 million (31 million).

Sales decreased to EUR 1,361 million (1,445 million). Paper deliveries decreased by 5% to 2,225,000 tonnes (2,332,000).

Operating profit remained close to the previous year's level. Lower variable costs, partly driven by the ongoing profit improvement programmes, offset the negative sales price impact.

The average price for all paper deliveries in euro was 1% lower than the previous year.

Q4 2014 compared with Q3 2014

Operating profit excluding special items decreased mainly due to seasonally higher fixed costs. The average price for all paper deliveries in euro remained stable.

Full year 2014 compared with 2013

Operating profit excluding special items for UPM Paper ENA increased significantly to EUR 181 million (0 million). Sales decreased to EUR 5,284 million (5,560 million). Paper deliveries decreased by 3% to 8,607,000 tonnes (8,910,000).

Operating profit increased due to significantly lower variable and fixed costs, driven to a large extent by the profit improvement programmes, more than offsetting the negative impact from sales prices and delivery volumes

The average price for all paper deliveries in euro was 1% lower than the previous year.

In January 2014, UPM closed down the Docelles paper mill in France.

Market review

In 2014, demand for graphic papers decreased by 3% in Europe. The slight improvement in the eurozone economic region moderated the decline in graphic paper demand during the first half of the year. During the second half of the year market conditions turned worse and overcapacity plagued the European paper markets, particularly in the newsprint segment. Graphic paper prices remained largely stable during the first half of the year and decreased towards the end of the year. On average, graphic paper prices were 1% lower than in 2013.

In North America, demand for magazine papers decreased by 3% and the average US dollar price for magazine papers was 6% lower than in the previous year.

UPM Plywood

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales, EURm	107	101	118	114	112	98	111	108	440	429
EBITDA, EURm [1]	20	13	18	17	15	6	12	10	68	43
% of sales	18.7	12.9	15.3	14.9	13.4	6.1	10.8	9.3	15.5	10.0
Depreciation, amortisation and impairment charges, EURm	–6	–6	–6	–6	–6	–5	–5	–6	–24	–22
Operating profit, EURm	14	7	12	11	9	1	7	4	44	21
% of sales	13.1	6.9	10.2	9.6	8.0	1.0	6.3	3.7	10.0	4.9
Special items, EURm	–	–	–	–	–	–	–	–	–	–
Operating profit excl. special items, EURm	14	7	12	11	9	1	7	4	44	21
% of sales	13.1	6.9	10.2	9.6	8.0	1.0	6.3	3.7	10.0	4.9
Deliveries, plywood, 1,000 m^3	176	168	199	188	191	169	191	186	731	737
Capital employed (average), EURm									268	286
ROCE (excl special items), %									16.4	7.3

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

Q4 2014 compared with Q4 2013

Operating profit excluding special items for UPM Plywood increased to EUR 14 million (9 million). Sales decreased by 4% to EUR 107 million (112 million) whereas deliveries decreased by 8% to 176,000 cubic metres (191,000).

Operating profit increased mainly due to improved sales margins resulting from higher sales prices and lower variable costs.

Q4 2014 compared with Q3 2014

Operating profit excluding special items increased mainly due to seasonally higher delivery volumes.

Full year 2014 compared with 2013

Operating profit excluding special items for UPM Plywood increased to EUR 44 million (21 million). Sales increased by 3% to EUR 440 million (429 million). Deliveries decreased by 1% to 731,000 cubic metres (737,000).

Operating profit increased significantly due to a clear improvement in sales margins resulting from both higher sales prices and lower variable costs. Fixed costs remained on the previous year's level.

Market review

The improvement in European plywood demand was country specific in 2014. The progress was slightly stronger in industrial applications compared to construction-related end-use segments. The plywood market in Europe remained in balance and market prices increased. Strengthening demand in the US, certain delivery problems with overseas suppliers and the Euro weakening during the second half of 2014 limited excess supply of plywood to Europe. The weakening of the Russian economy however, redirected standard birch plywood supply to the European market in the fourth quarter of 2014. Raw material costs remained stable in 2014.

Other operations

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales, EURm	113	102	113	119	120	117	128	125	447	490
EBITDA, EURm [1]	–5	1	–7	–10	–3	–1	–2	–10	–21	–16
Change in fair value of biological assets and wood harvested, EURm	27	16	15	11	33	8	8	4	69	53
Share of results of associated companies and joint ventures, EURm	–	–	1	–	–	1	–	–	1	1
Depreciation, amortisation and impairment charges, EURm	–3	–3	–2	–3	–3	–3	–3	–4	–11	–13
Operating profit, EURm	64	13	8	–3	–27	1	1	–17	82	–42
Special items, EURm [2]	45	–1	2	–1	–54	–4	–2	–7	45	–67
Operating profit excl. special items, EURm	19	14	6	–2	27	5	3	–10	37	25
Capital employed (average), EURm									1,445	1,533
ROCE (excl special items), %									2.6	1.6

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

[2] In Q4 2014, special items relate to a capital gain of EUR 45 million from the sale of forestland in the UK. In Q3 2014, special items of EUR 1 million relate to restructuring measures. In Q2 2014, special income of EUR 2 million relate to restructuring measures. In Q1 2014, special items of EUR 1 million relate to restructuring charges. In Q4 2013, special items of EUR 40 million relate to write-down of receivable due to the Finnish Customs' decision to dismiss UPM's application for the statutory refund of energy taxes for the year 2012. In addition, special items include restructuring charges of EUR 14 million. In Q3 2013, special items of EUR 4 million relate to restructuring of global functions. In Q2 2013, special items of EUR 2 million relate to restructuring charges. In Q1 2013, special items of EUR 7 million relate to restructuring charges mainly related to the streamlining of global functions.

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

Q4 2014 compared with Q4 2013

Operating profit excluding special items decreased to EUR 19 million (27 million). Sales decreased to EUR 113 million (120 million).

The increase in the fair value of biological assets net of wood harvested was EUR 27 million (33 million). The increase in the fair value of biological assets (growing trees) was EUR 43 million (48 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 16 million (15 million).

Q4 2014 compared with Q3 2014

Operating profit excluding special items increased to EUR 19 million (14 million). Sales increased to EUR 113 million (102 million).

The increase in the fair value of biological assets net of wood harvested was EUR 27 million (16 million). The increase in the fair value of biological assets (growing trees) was EUR 43 million (29 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 16 million (13 million).

Full year 2014 compared with 2013

Operating profit excluding special items was EUR 37 million (25 million). Sales decreased to EUR 447 million (490 million).

The increase in the fair value of biological assets net of wood harvested was EUR 69 million (53 million). The increase in the fair value of biological assets (growing trees) was EUR 121 million (112 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 52 million (59 million).

In 2014, UPM sold 51,000 (36,000) hectares of forests.

Shares

In 2014, UPM shares worth EUR 6,233 million (5,308 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent approximately two-thirds of all trading volume in UPM shares. The highest quotation was EUR 13.99 in December and the lowest was EUR 10.07 in October.

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

The Annual General Meeting held on 8 April 2014 authorised the Board of Directors to acquire no more than 50,000,000 of the company's own shares. This authorisation is valid for 18 months from the date of the decision.

The Annual General Meeting held on 4 April 2013 authorised the Board to decide on the issuance of new shares and/or the transfer of the company's own shares held by the company and/or the issue of special rights entitling to shares of the company as follows: (i) the maximum number of new shares that may be issued and the company's own shares held by the company that may be transferred is, in total, 25,000,000 shares. This figure also includes the number of shares that can be received on the basis of special rights; (ii) new shares and special rights entitling to shares of the company may be issued, and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their existing shareholdings in the company, or in a directed share issue, deviating from the shareholder's pre-emptive subscription rights. This authorisation is valid until 4 April 2016.

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

The subscription period for share options 2007C ended on 31 October 2014. During the entire share subscription period 4,435,302 shares were subscribed through exercising 2007C share options. Following the expiration of the 2007 stock options, the company has no stock option programme in place.

The number of shares entered in the Trade Register on 31 December 2014 was 533,735,699, including subscriptions in 2014 of 4,433,802 shares through exercising 2007C share options. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 December 2014, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of the company shares and voting rights.

Litigation

Group companies

In 2011, Metsähallitus (a Finnish state enterprise which administers state-owned land) filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Finnish Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the Finnish roundwood market. In addition to Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amount of all of the claims totals EUR 196 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 34 million in the aggregate. It is expected that the amounts claimed will change as a result of new claims, which have not yet been served. In addition to the claims on capital amounts, the claimants are also requesting compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

In 2012 UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along right under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of shares in Metsä Fibre to Itochu Corporation. UPM claimed jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million. Metsäliitto and Metsä Board had sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto had exercised a call option to purchase UPM's remaining 11% shareholding in Metsä Fibre for EUR 150 million. The arbitral tribunal rendered its final decision (arbitral award) in February 2014 and ordered Metsäliitto and Metsä Board to pay UPM the capital amount of EUR 58.5 million and penalty interest and compensate UPM for its legal fees. As a result, UPM recorded an income of EUR 67 million as a special item 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. UPM considers Metsäliitto's and Metsä Board's claims unfounded. At the moment, it is not known when the District Court will give its decision.

Neste Oil Oyj, a Finnish company producing traffic fuels (Neste), has filed an action for declaratory judgment against UPM in June 2013 with the Helsinki District Court. Neste seeks a declaration from the court that Neste enjoys protection on the basis of its patent against the technology that Neste alleges is being used at UPM's Kaukas mill site biorefinery. In March 2014 Neste filed an action with the Finnish Market Court in which Neste requests the Market Court to prohibit UPM from continuing the alleged infringement of Neste's patent at UPM's Kaukas biorefinery in Finland. In June 2014 the Market Court dismissed Neste's demand for a preliminary injunction. Neste's actions relate to the same Neste patent concerning which UPM has filed an invalidation claim in 2012. The invalidation claim was filed as a procedural precautionary measure to avoid unfounded legal processes. UPM considers Neste's actions to be without merit.

Other shareholdings

In Finland, UPM is participating in a project to construct a new nuclear power plant unit Olkiluoto 3 (OL3) through its shareholdings in Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj (TVO), holding 58.47% of its shares. UPM's indirect share of OL3 is approximately 31%. Originally the commercial electricity production of the OL3 plant unit was scheduled to start in April 2009. The completion of the project, however, has been delayed. In September 2014 TVO announced that it had received additional data about the schedule for the OL3 project from the AREVA-Siemens-Consortium (Supplier), which is constructing OL3 as a fixed-price turnkey project. According to this data, the start of regular electricity production of the plant unit would take place in late 2018. According to TVO, detailed evaluation of the received data is ongoing.

In December 2008 the Supplier initiated the International Chamber of Commerce (ICC) arbitration proceedings and submitted a claim concerning the delay at the OL3 project and related costs. According to TVO, the Supplier updated its claim in 2014 which brings the total amount claimed by the Supplier for events occurring during the construction period ending June 2011 to approximately EUR 3.4 billion. Among other things, this sum includes over EUR 1.2 billion in respect of penalty interest (calculated until October 2014) and payments allegedly delayed by TVO under the plant contract, as well as approximately EUR 150 million of alleged lost profit. TVO has previously considered the claims upon which the amounts demanded are based, and found them to be without merit. TVO will scrutinize the Supplier's updated claim, and respond to it in due course. According to TVO, the quantification estimate of its costs and losses related to its claim in the arbitration proceedings is approximately EUR 2.3 billion until the end of 2018, which is the estimated start of the regular electricity production of OL3 according to the schedule submitted by the Supplier in September 2014. TVO´s updated estimate was submitted to the tribunal in the arbitration proceedings in October 2014. The arbitration proceedings may continue for several years, and the claimed amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

Helsinki, 3 February 2015

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q4/2014	Q4/2013	Q1–Q4/2014	Q1–Q4/2013
Sales	2,531	2,588	9,868	10,054
Other operating income	61	5	91	60
Costs and expenses	–2,286	–2,365	–8,708	–9,091
Change in fair value of biological assets and wood harvested	32	37	78	68
Share of results of associated companies and joint ventures	–	–	3	2
Depreciation, amortisation and impairment charges	–267	–131	–658	–545
Operating profit (loss)	71	134	674	548
Gains on available-for-sale investments, net	–	–	59	1
Exchange rate and fair value gains and losses	3	–	–4	10
Interest and other finance costs, net	–17	–19	–62	–84
Profit (loss) before tax	57	115	667	475
Income taxes	–49	–79	–155	–140
Profit (loss) for the period	8	36	512	335
Attributable to:				
Owners of the parent company	8	36	512	335
Non-controlling interests	–	–	–	–
	8	36	512	335
Earnings per share for profit (loss) attributable to owners of the parent company				
Basic earnings per share, EUR	0.01	0.06	0.96	0.63
Diluted earnings per share, EUR	0.01	0.06	0.96	0.63

Consolidated statement of comprehensive income

EURm	Q4/2014	Q4/2013	Q1–Q4/2014	Q1–Q4/2013
Profit (loss) for the period	8	36	512	335
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	–88	7	–181	69
Items that may be reclassified subsequently to income statement:				
Translation differences	42	–90	291	–219
Net investment hedge	–6	38	–41	77
Cash flow hedges	–8	1	–107	–28
Available-for-sale investments	–109	51	–164	58
	–81	–	–21	–112
Other comprehensive income for the period, net of tax	–169	7	–202	–43
Total comprehensive income for the period	–161	43	310	292
Total comprehensive income attributable to:				
Owners of the parent company	–161	43	310	292
Non-controlling interests	–	–	–	–
	–161	43	310	292

Consolidated balance sheet

EURm	31.12.2014	31.12.2013
ASSETS		
Non-current assets		
Goodwill	230	219
Other intangible assets	340	342
Property, plant and equipment	4,707	4,757
Investment property	31	40
Biological assets	1,469	1,458
Investments in associated companies and joint ventures	25	22
Available-for-sale investments	2,510	2,661
Other non-current financial assets	334	282
Deferred tax assets	532	564
Other non-current assets	91	142
	10,269	10,487
Current assets		
Inventories	1,356	1,327
Trade and other receivables	1,856	1,948
Income tax receivables	14	50
Cash and cash equivalents	700	787
	3,926	4,112
Total assets	14,195	14,599
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent company		
Share capital	890	890
Treasury shares	–2	–2
Translation differences	256	6
Fair value and other reserves	1,867	2,256
Reserve for invested non-restricted equity	1,273	1,226
Retained earnings	3,194	3,073
	7,478	7,449
Non-controlling interests	2	6
Total equity	7,480	7,455
Non-current liabilities		
Deferred tax liabilities	428	501
Retirement benefit obligations	867	680
Provisions	214	189
Interest-bearing liabilities	3,058	3,485
Other liabilities	150	164
	4,717	5,019
Current liabilities		
Current interest-bearing liabilities	406	643
Trade and other payables	1,549	1,419
Income tax payables	43	63
	1,998	2,125
Total liabilities	6,715	7,144
Total equity and liabilities	14,195	14,599

Consolidated statement of changes in equity

EURm	Share capital	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to owners of the parent company								
Balance at 1 January 2013	890	–2	148	2,232	1,207	2,980	7,455	6	7,461
Profit (loss) for the period	–	–	–	–	–	335	335	–	335
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	69	69	–	69
Translation differences	–	–	–219	–	–	–	–219	–	–219
Net investment hedge, net of tax	–	–	77	–	–	–	77	–	77
Cash flow hedges, net of tax	–	–	–	–28	–	–	–28	–	–28
Available-for-sale investments, net of tax	–	–	–	58	–	–	58	–	58
Total comprehensive income for the period	–	–	–142	30	–	404	292	–	292
Share options exercised	–	–	–	–	19	–	19	–	19
Share-based compensation, net of tax	–	–	–	–6	–	9	3	–	3
Dividend distribution	–	–	–	–	–	–317	–317	–	–317
Other items	–	–	–	–	–	–3	–3	–	–3
Total transactions with owners for the period	–	–	–	–6	19	–311	–298	–	–298
Balance at 31 December 2013	890	–2	6	2,256	1,226	3,073	7,449	6	7,455
Balance at 1 January 2014	890	–2	6	2,256	1,226	3,073	7,449	6	7,455
Profit (loss) for the period	–	–	–	–	–	512	512	–	512
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	–181	–181	–	–181
Translation differences	–	–	291	–	–	–	291	–	291
Net investment hedge, net of tax	–	–	–41	–	–	–	–41	–	–41
Cash flow hedges, net of tax	–	–	–	–107	–	–	–107	–	–107
Available-for-sale investments, net of tax	–	–	–	–164	–	–	–164	–	–164
Total comprehensive income for the period	–	–	250	–271	–	331	310	–	310
Share options exercised	–	–	–	–	47	–	47	–	47
Share-based compensation, net of tax	–	–	–	–15	–	16	1	–	1
Dividend distribution	–	–	–	–	–	–319	–319	–	–319
Acquisition of non-controlling interests	–	–	–	–	–	–1	–1	–4	–5
Other items and reclassifications	–	–	–	–103	–	94	–9	–	–9
Total transactions with owners for the period	–	–	–	–118	47	–210	–281	–4	–285
Balance at 31 December 2014	890	–2	256	1,867	1,273	3,194	7,478	2	7,480

Consolidated cash flow statement

EURm	Q1–Q4/2014	Q1–Q4 /2013
Cash flow from operating activities		
Profit (loss) for the period	512	335
Adjustments	779	750
Interest received	7	3
Interest paid	–40	–50
Dividends received	2	2
Other financial items, net	–11	–20
Income taxes paid	–81	–157
Change in working capital	73	–128
Net cash generated from operating activities	1,241	735
Cash flow from investing activities		
Capital expenditure	–378	–337
Acquisition of shares in associated companies and joint ventures	–1	–1
Acquisition of available-for-sale investments	–31	–31
Proceeds from sale of tangible and intangible assets	89	33
Proceeds from disposal of subsidiaries	1	–2
Proceeds from disposal of available-for-sale investments	68	1
Change in other non-current assets	5	40
Net cash used in investing activities	–247	–297
Cash flow from financing activities		
Proceeds from non-current liabilities	–	553
Payments of non-current liabilities	–836	–323
Change in current liabilities	34	–64
Share options exercised	47	19
Dividends paid	–319	–317
Other financing cash flow	–22	–
Net cash used in financing activities	–1,096	–132
Change in cash and cash equivalents	–102	306
Cash and cash equivalents at beginning of period	787	486
Foreign exchange effect on cash and cash equivalents	15	–5
Change in cash and cash equivalents	–102	306
Cash and cash equivalents at end of period	700	787

Quarterly information

EURm	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales	2,531	2,415	2,441	2,481	2,588	2,472	2,520	2,474	9,868	10,054
Other operating income	61	14	9	7	5	28	–10	37	91	60
Costs and expenses	–2,286	–2,082	–2,161	–2,179	–2,365	–2,190	–2,245	–2,291	–8,708	–9,091
Change in fair value of biological assets and wood harvested	32	17	17	12	37	11	14	6	78	68
Share of results of associated companies and joint ventures	–	1	2	–	–	1	1	–	3	2
Depreciation, amortisation and impairment charges	–267	–129	–132	–130	–131	–135	–134	–145	–658	–545
Operating profit (loss)	71	236	176	191	134	187	146	81	674	548
Gains on available-for-sale investments, net	–	–	–	59	–	1	–	–	59	1
Exchange rate and fair value gains and losses	3	–3	–1	–3	–	–	5	5	–4	10
Interest and other finance costs, net	–17	–19	–16	–10	–19	–22	–23	–20	–62	–84
Profit (loss) before tax	57	214	159	237	115	166	128	66	667	475
Income taxes	–49	–32	–30	–44	–79	–28	–14	–19	–155	–140
Profit (loss) for the period	8	182	129	193	36	138	114	47	512	335
Attributable to:										
Owners of the parent company	8	182	129	193	36	138	114	47	512	335
Non-controlling interests	–	–	–	–	–	–	–	–	–	–
	8	182	129	193	36	138	114	47	512	335
Basic earnings per share, EUR	0.01	0.34	0.25	0.36	0.06	0.26	0.22	0.09	0.96	0.63
Diluted earnings per share, EUR	0.01	0.34	0.25	0.36	0.06	0.26	0.22	0.09	0.96	0.63
Earnings per share, excluding special items, EUR	0.32	0.32	0.26	0.27	0.27	0.26	0.20	0.18	1.17	0.91
Average number of shares basic (1,000)	532,916	531,932	531,932	529,514	528,887	528,211	527,922	526,252	531,574	527,818
Average number of shares diluted (1,000)	532,202	532,114	532,201	529,777	528,329	528,155	528,158	526,631	531,574	527,818
Special items in operating profit (loss)	–159	1	–10	–5	–73	–7	8	–63	–173	–135
Operating profit (loss), excl. special items	230	235	186	196	207	194	138	144	847	683
% of sales	9.1	9.7	7.6	7.9	8.0	7.8	5.5	5.8	8.6	6.8
Special items in financial items	–	–	–	66	–	–	–	–	66	–
Special items before tax	–159	1	–10	61	–73	–7	8	–63	–107	–135
Profit (loss) before tax, excl. special items	216	213	169	176	188	173	120	129	774	610
% of sales	8.5	8.8	6.9	7.1	7.3	7.0	4.8	5.2	7.8	6.1
Impact on taxes from special items	–6	11	4	–13	–31	6	–	15	–4	–10
Return on equity, excl. special items, %	9.2	9.1	7.3	7.7	7.5	7.5	5.7	5.1	8.3	6.4
Return on capital employed, excl. special items, %	8.2	8.0	6.5	6.6	7.2	6.8	4.9	5.1	7.5	6.0
EBITDA	330	346	298	313	302	311	258	284	1,287	1,155
% of sales	13.0	14.3	12.2	12.6	11.7	12.6	10.2	11.5	13.0	11.5

Quarterly segment information

EURm	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales										
UPM Biorefining	484	480	477	496	497	484	512	495	1,937	1,988
UPM Energy	115	113	112	124	115	109	110	132	464	466
UPM Raflatac	330	312	306	300	298	307	309	299	1,248	1,213
UPM Paper Asia	288	274	285	277	268	274	289	277	1,124	1,108
UPM Paper ENA	1,361	1,303	1,286	1,334	1,445	1,392	1,358	1,365	5,284	5,560
UPM Plywood	107	101	118	114	112	98	111	108	440	429
Other operations	113	102	113	119	120	117	128	125	447	490
Internal sales	–248	–248	–241	–263	–259	–283	–292	–297	–1,000	–1,131
Eliminations and reconciliations	–19	–22	–15	–20	–8	–26	–5	–30	–76	–69
Sales, total	2,531	2,415	2,441	2,481	2,588	2,472	2,520	2,474	9,868	10,054
EBITDA										
UPM Biorefining	100	100	66	92	100	100	128	107	358	435
UPM Energy	59	46	49	59	48	43	49	58	213	198
UPM Raflatac	30	29	25	28	25	30	28	26	112	109
UPM Paper Asia	48	49	47	44	36	40	42	43	188	161
UPM Paper ENA	84	113	100	95	86	83	34	29	392	232
UPM Plywood	20	13	18	17	15	6	12	10	68	43
Other operations	–5	1	–7	–10	–3	–1	–2	–10	–21	–16
Eliminations and reconciliations	–6	–5	–	–12	–5	10	–33	21	–23	–7
EBITDA, total	330	346	298	313	302	311	258	284	1,287	1,155
Operating profit (loss)										
UPM Biorefining	72	64	31	56	63	73	102	68	223	306
UPM Energy	57	43	46	56	45	40	46	55	202	186
UPM Raflatac	21	21	7	20	16	7	19	18	69	60
UPM Paper Asia	27	29	27	25	17	19	22	22	108	80
UPM Paper ENA	–178	63	45	38	14	36	–18	–91	–32	–59
UPM Plywood	14	7	12	11	9	1	7	4	44	21
Other operations	64	13	8	–3	–27	1	1	–17	82	–42
Eliminations and reconciliations	–6	–4	–	–12	–3	10	–33	22	–22	–4
Operating profit (loss), total	71	236	176	191	134	187	146	81	674	548
% of sales	2.8	9.8	7.2	7.7	5.2	7.6	5.8	3.3	6.8	5.5
Special items in operating profit										
UPM Biorefining	5	1	–	–	–3	6	5	–2	6	6
UPM Energy	–	–	–	–	–	–	–	–	–	–
UPM Raflatac	–1	–	–10	–	–	–15	–	–	–11	–15
UPM Paper Asia	–	–	–	–	1	–1	–	–	–	–
UPM Paper ENA	–208	1	–2	–4	–17	7	5	–54	–213	–59
UPM Plywood	–	–	–	–	–	–	–	–	–	–
Other operations	45	–1	2	–1	–54	–4	–2	–7	45	–67
Special items in operating profit, total	–159	1	–10	–5	–73	–7	8	–63	–173	–135
Operating profit (loss) excl. special items										
UPM Biorefining	67	63	31	56	66	67	97	70	217	300
UPM Energy	57	43	46	56	45	40	46	55	202	186
UPM Raflatac	22	21	17	20	16	22	19	18	80	75
UPM Paper Asia	27	29	27	25	16	20	22	22	108	80
UPM Paper ENA	30	62	47	42	31	29	–23	–37	181	–
UPM Plywood	14	7	12	11	9	1	7	4	44	21
Other operations	19	14	6	–2	27	5	3	–10	37	25
Eliminations and reconciliations	–6	–4	–	–12	–3	10	–33	22	–22	–4
Operating profit (loss) excl. special items, total	230	235	186	196	207	194	138	144	847	683
% of sales	9.1	9.7	7.6	7.9	8.0	7.8	5.5	5.8	8.6	6.8

Notes to the consolidated cash flow statement

Adjustments

EURm	Q1–Q4/2014	Q1–Q4/2013
Change in fair value of biological assets and wood harvested	–78	–68
Share of results of associated companies and joint ventures	–3	–2
Depreciation, amortisation and impairment charges	658	545
Capital gains on sale of non-current assets, net	–117	–19
Finance costs, net	66	74
Taxes	155	140
Change in restructuring provisions	14	–13
Other adjustments	84	93
Total	779	750

Change in working capital

EURm	Q1–Q4/2014	Q1–Q4/2013
Inventories	18	33
Current receivables	59	12
Current non-interest-bearing liabilities	–4	–173
Total	73	–128

Changes in property, plant and equipment

EURm	Q1–Q4/2014	Q1–Q4/2013
Book value at beginning of period	4,757	5,089
Capital expenditure	369	333
Decreases	–21	–83
Depreciation	–471	–490
Impairment charges	–138	–6
Translation difference and other changes	211	–86
Book value at end of period	4,707	4,757

Financial assets and liabilities measured at fair value

	31.12.2014				31.12.2013			
EURm	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading derivatives	1	61	–	62	1	56	–	57
Derivatives used for hedging	52	328	–	380	101	307	–	408
Available-for-sale investments	–	–	2,510	2,510	–	–	2,661	2,661
Total	53	389	2,510	2,952	102	363	2,661	3,126
Liabilities								
Trading derivatives	22	111	–	133	20	166	–	186
Derivatives used for hedging	81	156	–	237	104	43	–	147
Total	103	267	–	370	124	209	–	333

There have been no transfers between Levels.

Fair values of Level 2 derivative financial instruments (e.g. over-the-counter derivatives) have been estimated as follows: Interest forward rate agreements and futures contracts 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 in effect on the balance sheet date; foreign currency options are fair valued based on quoted market rates on the balance sheet date; interest and currency swap agreements are fair valued based on discounted cash flows; and commodity derivatives are fair valued based on quoted market rates on the balance sheet date. The fair values of non-traded derivatives such as embedded derivatives are assessed by using valuation methods and assumptions that are based on market quotations existing at each balance sheet date.

Fair value measurements using significant unobservable inputs, Level 3

	Available-for-sale investments	
EURm	Q1–Q4/2014	Q1–Q4/2013
Opening balance	2,661	2,587
Additions	31	31
Disposals	–1	–
Transfers into Level 3	–	1
Transfers from Level 3	–10	–
Translation differences	2	–
Gains and losses		
Recognised in income statement, under gains on available-for-sale investments	–	–1
Recognised in statement of comprehensive income, under available-for-sale investments	–173	43
Closing balance	2,510	2,661

Fair valuation of available-for-sale investments in the UPM Energy segment (Pohjolan Voima Oy's A, B, B2, C, C2, H, M and V-shares, Kemijoki Oy shares, and Länsi-Suomen Voima Oy shares) is based on discounted cash flows model. The Group's electricity price estimate is based on fundamental simulation of the Finnish area price. The electricity price used in the model is based on the company's estimates. A change of +/-5% in the electricity price used in the model would change the total value of the assets by +/- EUR 369 million. The discount rate of 5.82% 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 360 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 nuclear power plant project and the on-going arbitration proceedings between the plant supplier AREVA-Siemens Consortium and the plant owner Teollisuuden Voima Oyj (TVO). UPM's indirect share of the capacity of Olkiluoto 3 is approximately 31%, through its PVO B2 shares. The possible outcome of the arbitration proceedings has not been taken into account in the valuation. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

Fair value of the OEP Technologie B.V. shares is based on the discounted value of sales option related to the shareholding.

Fair value of financial assets and liabilities measured at carrying amount

EURm	31.12.2014	31.12.2013
Non-current interest bearing liabilities, excl. derivative financial instruments	3,037	3,489

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

Commitments and contingencies

EURm	31.12.2014	31.12.2013
Own commitments		
Mortgages	289	357
On behalf of others		
Other guarantees	5	5
Other own commitments		
Leasing commitments for the next 12 months	60	57
Leasing commitments for subsequent periods	339	339
Other commitments	160	141

Capital commitments

EURm	Completion	Total cost	By 31.12.2013	Q1–Q4/2014	After 31.12.2014
PM3 / Changshu	Q4 2015	277	9	56	212
Capacity increase / Kymi	Q4 2015	160	–	42	118

Notional amounts of derivative financial instruments

EURm	31.12.2014	31.12.2013
Forward foreign exchange contracts	4,465	4,973
Currency options, bought	19	18
Currency options, written	19	15
Interest rate forward contracts	2,310	2,332
Interest rate swaps	2,134	1,609
Cross currency swaps	617	804
Commodity contracts	442	490

Related party (associated companies and joint ventures) transactions and balances

EURm	Q1–Q4/2014	Q1–Q4/2013
Sales	2	2
Purchases	83	80
Non-current receivables at end of period	8	8
Trade and other receivables at end of period	1	1
Trade and other payables at end of period	2	2

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 in the Group's consolidated financial statements for 2013.

Calculation of key indicators

Return on equity, %:

$$\frac{\text{Profit before tax} - \text{income taxes}}{\text{Total equity (average)}} \times 100$$

Return on capital employed, %:

$$\frac{\text{Profit before tax} + \text{interest expenses and other financial expenses}}{\text{Total equity} + \text{interest-bearing liabilities (average)}} \times 100$$

Earnings per share:

$$\frac{\text{Profit for the period attributable to owners of the parent company}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

Key exchange rates for the euro at end of period

	31.12.2014	30.9.2014	30.6.2014	31.3.2014	31.12.2013	30.9.2013	30.6.2013	31.3.2013
USD	1.2141	1.2583	1.3658	1.3788	1.3791	1.3505	1.3080	1.2805
CAD	1.4063	1.4058	1.4589	1.5225	1.4671	1.3912	1.3714	1.3021
JPY	145.23	138.11	138.44	142.42	144.72	131.78	129.39	120.87
GBP	0.7789	0.7773	0.8015	0.8282	0.8337	0.8361	0.8572	0.8456
SEK	9.3930	9.1465	9.1762	8.9483	8.8591	8.6575	8.7773	8.3553

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. For more detailed information about risk factors, see pages 73–74 of the company's annual report 2013.

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