The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 31 MARCH 2014

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UPM interim report 1 January – 31 March 2014

Q1 2014 compared with Q1 2013

- Earnings per share excluding special items were EUR 0.27 (0.18), and reported EUR 0.36 (0.09)
- Operating profit excluding special items improved to EUR 196 million, 7.9% of sales (144 million, 5.8% of sales)
- EBITDA was EUR 313 million, 12.6% of sales (284 million, 11.5% of sales)
- Growth initiatives progressed in UPM Biorefining, UPM Paper Asia and UPM Raflatac
- 78% of the targeted annualised EUR 200 million cost savings achieved in Q1 2014
- Operating cash flow was EUR 264 million and net debt decreased to EUR 2,777 million

Key figures

	Q1/2014	Q1/2013	Q4/2013	Q1–Q4/2013
Sales, EURm	2,481	2,474	2,588	10,054
EBITDA, EURm [1]	313	284	302	1,155
% of sales	12.6	11.5	11.7	11.5
Operating profit (loss), EURm	191	81	134	548
excluding special items, EURm	196	144	207	683
% of sales	7.9	5.8	8.0	6.8
Profit (loss) before tax, EURm	237	66	115	475
excluding special items, EURm	176	129	188	610
Profit (loss) for the period, EURm	193	47	36	335
Earnings per share, EUR	0.36	0.09	0.06	0.63
excluding special items, EUR	0.27	0.18	0.27	0.91
Diluted earnings per share, EUR	0.36	0.09	0.06	0.63
Return on equity, %	10.3	2.5	1.9	4.5
excluding special items, %	7.7	5.1	7.5	6.4
Return on capital employed, %	8.7	2.9	4.7	4.8
excluding special items, %	6.6	5.1	7.2	6.0
Operating cash flow per share, EUR	0.50	0.20	0.49	1.39
Equity per share at end of period, EUR	14.12	14.30	14.08	14.08
Gearing ratio at end of period, %	37	42	41	41
Net interest-bearing liabilities at end of period, EURm	2,777	3,199	3,040	3,040
Capital employed at end of period, EURm	11,610	11,582	11,583	11,583
Capital expenditure, EURm	48	60	111	362
Capital expenditure excluding acquisitions and shares, EURm	47	60	111	329
Personnel at end of period	20,768	21,925	20,950	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.

Results

Q1 2014 compared with Q1 2013

Sales for Q1 2014 were EUR 2,481 million, about the same as the EUR 2,474 million in Q1 2013.

EBITDA was EUR 313 million, 12.6% of sales (284 million, 11.5% of sales). UPM Paper ENA achieved a clear improvement in EBITDA on lower variable and fixed costs. UPM Plywood improved its EBITDA mainly due to increased sales prices and favourable sales mix. UPM Energy, UPM Raflatac and UPM Paper Asia all showed slightly better EBITDA than last year. EBITDA decreased in UPM Biorefining, mainly due to adverse currency development and the maintenance shutdown at the UPM Kaukas pulp mill. In addition, Group EBITDA was impacted by a negative market value change of unrealised energy hedges, whereas the comparison period was affected by a positive change. Unrealised hedges are reported in Eliminations and reconciliations.

Operating profit excluding special items was EUR 196 million, 7.9% of sales (144 million, 5.8%). Depreciation totalled EUR 130 million (145 million).

Reported operating profit was EUR 191 million, 7.7% of sales (81 million, 3.3% of sales). Operating profit includes net charges of EUR 5 million as special items, mainly related to the closure of the UPM Docelles paper mill in France.

The increase in the fair value of biological assets net of wood harvested was EUR 12 million (6 million).

Profit before tax was EUR 237 million (66 million) and excluding special items EUR 176 million (129 million). Net interest and other finance costs were EUR 10 million (20 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 3 million (gain of EUR 5 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 were EUR 44 million (19 million). Special items in taxes were EUR 13 million negative (15 million positive).

Profit for Q1 2014 was EUR 193 million (47 million) and earnings per share were EUR 0.36 (0.09). Earnings per share excluding special items were EUR 0.27 (0.18).

Operating cash flow per share was EUR 0.50 (0.20).

Q1 2014 compared with Q4 2013

EBITDA was EUR 313 million, 12.6% of sales (302 million, 11.7% of sales). EBITDA increased in UPM Energy, UPM Paper ENA, UPM Paper Asia, UPM Raflatac and UPM Plywood. EBITDA decreased in UPM Biorefining mainly due to lower pulp prices and adverse currency development.

Operating profit excluding special items was EUR 196 million, 7.9% of sales (207 million, 8.0%). Depreciation totalled EUR 130 million (131 million).

The increase in the fair value of biological assets net of wood harvested was EUR 12 million (37 million).

Financing

In Q1 2014, cash flow from operating activities before capital expenditure and financing totalled EUR 264 million (103 million). Working capital decreased by EUR 1 million (increased by EUR 96 million) during the period.

The gearing ratio as of 31 March 2014 was 37% (42%). Net interest-bearing liabilities at the end of the period came to EUR 2,777 million (3,199 million).

On 31 March 2014, UPM's cash funds and unused committed credit facilities totalled EUR 2.0 billion.

Personnel

In Q1 2014, UPM had an average of 20,770 employees (21,907). At the beginning of the year the number of employees was 20,950, and at the end of Q1 2014 it was 20,768.

Capital expenditure

In Q1 2014, capital expenditure excluding investments in shares was EUR 47 million, 1.9% of sales (60 million, 2.4% of sales). The total capital expenditure in 2014 is estimated to be approximately EUR 450 million.

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

UPM is building a 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. Start-up is planned for the end of 2014. Total investment is approximately EUR 85 million.

Growth initiatives targeting EUR 200 million of additional EBITDA

On 6 August 2013, UPM announced quantified targets for its growth initiatives in the coming three years.

Biofuels, 10% capacity increase in UPM's existing pulp mills, wood-free specialty 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 initiatives, the company is targeting an additional EBITDA contribution of EUR 200 million when in full operation.

The total investment requirement in these projects is EUR 680 million. EUR 151 million has already been invested, and the total remaining capital expenditure in the coming three years would be EUR 529 million.

UPM is building a biorefinery to produce renewable diesel from crude tall oil in Lappeenranta, Finland. The biorefinery will produce approximately 100,000 tonnes of advanced renewable diesel for transport each year. Diesel production is expected to begin in summer 2014. The total investment will amount to approximately EUR 150 million.

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

In February 2014, UPM announced it is investing 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 improvements on 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.

UPM is also modernising one fibre line of the UPM Pietarsaari pulp mill. The investment is EUR 13 million and is expected to finalise the mill's production capacity increase by 70,000 tonnes. The modernisation is expected to be completed in summer 2014. Further debottlenecking potential has been identified at the UPM Fray Bentos and UPM Kaukas pulp mills.

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

Profit improvement programme targeting EUR 200 million of cost savings

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. Each business is implementing a profit improvement programme with a simplified business model and variable and fixed cost savings.

The full impact of the programme is expected to materialise by the end of 2014 as compared with the Q2 2013 results.

In Q1 2014, the actions under the profit improvement programme reduced UPM's costs by EUR 39 million, i.e. approximately 78% of the annualised savings had been achieved.

Risks and near-term uncertainties

The main near-term 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 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 that have recently started or are nearing completion may have a clear negative impact on pulp prices in the short term.

Economic growth remains weaker for Europe than other major economic regions. The EU is the most significant market for UPM. Currently, the crisis in Ukraine represents additional uncertainty in the European economic outlook, even though the direct impact to UPM's businesses is limited. There are also uncertainties related to developing economies, including China, which may have a significant influence on global economy overall, on currency rates and on many of UPM's product markets in particular.

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

The decisions of the Annual General Meeting held on 8 April 2014 are presented separately in this report.

Outlook for 2014

Growth in the European economy is expected to remain low in 2014, but improve from last year. Growth in the US and in the developing economies is expected to continue to outperform Europe.

This environment is expected to be supportive for the global pulp and label materials demand, as well as paper demand in Asia. The slight improvement in the European economy is likely to moderate the negative demand development seen in the European graphic paper market in the past two years and stimulate European demand for wood products. The current hydrological situation in Finland is close to the long term average level, and the forward electricity prices in Finland for H1 2014 are lower than the realised market prices in H1 2013.

UPM's business outlook for H1 2014 is broadly stable.

In H1 2014, UPM's performance is expected to be underpinned by stable overall outlook for UPM Energy, UPM Raflatac, UPM Paper Asia and UPM Plywood, as compared to H2 2013.

Profitability in UPM Paper ENA is expected to improve due to ongoing cost reduction measures. In H1 2014 compared to H2 2013, however, performance is negatively impacted by lower delivery volumes, including seasonal factors.

In UPM Biorefining, capacity additions in the global pulp market are expected to impact the pulp market balance as the year progresses.

Business area reviews

UPM Biorefining

	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales, EURm	496	497	484	512	495	1,988
EBITDA, EURm [1]	92	100	100	128	107	435
% of sales	18.5	20.1	20.7	25.0	21.6	21.9
Change in fair value of biological assets and wood harvested, EURm	1	4	3	6	2	15
Share of results of associated companies and joint ventures, EURm	–	–	–	1	–	1
Depreciation, amortisation and impairment charges, EURm	–37	–37	–38	–38	–39	–152
Operating profit, EURm	56	63	73	102	68	306
% of sales	11.3	12.7	15.1	19.9	13.7	15.4
Special items, EURm [2]	–	–3	6	5	–2	6
Operating profit excl. special items, EURm	56	66	67	97	70	300
% of sales	11.3	13.3	13.8	18.9	14.1	15.1
Pulp deliveries, 1,000 t	816	810	789	774	790	3,163

[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 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.

Q1 2014 compared with Q1 2013

Operating profit excluding special items for UPM Biorefining decreased to EUR 56 million (70 million). Sales were EUR 496 million (495 million). Pulp deliveries increased by 3% to 816,000 tonnes (790,000).

Operating profit decreased mainly due to a scheduled maintenance shutdown at the UPM Kaukas pulp mill. Higher delivery volumes and lower variable costs offset the impact of adverse currency development.

Q1 2014 compared with Q4 2013

Operating profit excluding special items decreased mainly due to lower average pulp prices and adverse currency development.

Market review

In Q1 2014, the average softwood pulp (NBSK) market price was EUR 668/tonne (622/tonne in Q1 2013) and the average hardwood pulp (BHKP) market price was EUR 561/tonne (596/tonne). At the end of Q1, the softwood pulp market price was EUR 669/tonne (646/tonne) and the hardwood pulp market price was EUR 555/tonne (619/tonne).

In Q1 2014 global chemical pulp shipments decreased by 1% compared to the same period last year. Shipments to Asia increased, while shipments to Western Europe and North America decreased.

UPM Energy

	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales, EURm	124	115	109	110	132	466
EBITDA, EURm [1]	59	48	43	49	58	198
% of sales	47.6	41.7	39.4	44.5	43.9	42.5
Share of results of associated companies and joint ventures, EURm	–	–	–1	–	–	–1
Depreciation, amortisation and impairment charges, EURm	–3	–3	–2	–3	–3	–11
Operating profit, EURm	56	45	40	46	55	186
% of sales	45.2	39.1	36.7	41.8	41.7	39.9
Special items, EURm	–	–	–	–	–	–
Operating profit excl. special items, EURm	56	45	40	46	55	186
% of sales	45.2	39.1	36.7	41.8	41.7	39.9
Electricity deliveries, GWh	2,305	2,164	2,027	2,221	2,513	8,925

[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.

Q1 2014 compared with Q1 2013

Operating profit excluding special items for UPM Energy was EUR 56 million (55 million). Sales decreased to EUR 124 million (132 million). The total electricity sales volume was 2,305 GWh during the quarter (2,513 GWh).

Operating profit increased slightly as the decrease in costs offset the impact of lower average sales prices.

The average electricity sales price decreased by 2% to EUR 45.8/MWh (46.8/MWh).

Q1 2014 compared with Q4 2013

Operating profit excluding special items increased, mainly due to higher hydropower generation volumes. The average electricity sales price decreased to EUR 45.8/MWh (46.0/MWh).

Market review

The average Finnish area spot price on the Nordic electricity exchange in Q1 2014 was EUR 35.2/MWh, 16% lower than during the same period last year (42.0/MWh). The Finnish area price was above the Nord Pool system price due to dependency on imports for peak hours. In March, Finnish hydrological balance was 7% above the long term average while the total Nordic hydrological balance was 2% below the long term average level. Coal prices were lower than last year. The CO_2 emission allowance price of EUR 4.7/tonne at the end of first quarter was almost unchanged compared to the end of Q1 2013.

The Finnish area front-year forward price closed at EUR 35.7/MWh in March, 8% lower than on the same date last year (38.8/MWh).

UPM Raflatac

	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales, EURm	300	298	307	309	299	1,213
EBITDA, EURm [1]	28	25	30	28	26	109
% of sales	9.3	8.4	9.8	9.1	8.7	9.0
Depreciation, amortisation and impairment charges, EURm	–8	–9	–10	–9	–8	–36
Operating profit, EURm	20	16	7	19	18	60
% of sales	6.7	5.4	2.3	6.1	6.0	4.9
Special items, EURm [2]	–	–	–15	–	–	–15
Operating profit excl. special items, EURm	20	16	22	19	18	75
% of sales	6.7	5.4	7.2	6.1	6.0	6.2

[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 Q3 2013, special items of EUR 15 million relate to restructuring charges, including impairments of EUR 2 million.

Q1 2014 compared with Q1 2013

Operating profit excluding special items for UPM Raflatac increased to EUR 20 million (18 million). Sales were EUR 300 million (299 million).

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

Q1 2014 compared with Q4 2013

Operating profit excluding special items increased, mainly due to lower fixed costs and improved sales mix.

Market review

In Q1 2014, global demand for self-adhesive label materials increased. In Western Europe demand is estimated to have improved slightly, whereas demand in North America was impacted by poor weather conditions. In Eastern Europe, Asia and Latin America growth continued.

UPM Paper Asia

	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales, EURm	277	268	274	289	277	1,108
EBITDA, EURm [1]	44	36	40	42	43	161
% of sales	15.9	13.4	14.6	14.5	15.5	14.5
Depreciation, amortisation and impairment charges, EURm	–19	–20	–20	–20	–21	–81
Operating profit, EURm	25	17	19	22	22	80
% of sales	9.0	6.3	6.9	7.6	7.9	7.2
Special items, EURm [2]	–	1	–1	–	–	–
Operating profit excl. special items, EURm	25	16	20	22	22	80
% of sales	9.0	6.0	7.3	7.6	7.9	7.2
Paper deliveries, 1,000 t	347	344	341	354	339	1,378

[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.

Q1 2014 compared with Q1 2013

Operating profit excluding special items for UPM Paper Asia increased to EUR 25 million (22 million).

Sales were EUR 277 million (277 million). Paper deliveries increased by 2% to 347,000 tonnes (339,000).

Operating profit increased mainly due to lower variable and fixed costs. Average sales prices were lower mainly due to negative currency impact.

Q1 2014 compared with Q4 2013

Operating profit excluding special items increased mainly due to lower variable and fixed costs and slightly higher delivery volumes.

Market review

Fine paper prices in Asia remained broadly stable in Q1 2014. On the average, market prices were lower than last year, which was compounded with the negative currency impact. Fine paper demand remained on last year's level in Asia, though this varied by product and market segment. Label papers demand grew globally in Q1 2014 and average prices remained stable.

UPM Paper ENA

	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales, EURm	1,334	1,445	1,392	1,358	1,365	5,560
EBITDA, EURm [1]	95	86	83	34	29	232
% of sales	7.1	6.0	6.0	2.5	2.1	4.2
Share of results of associated companies and joint ventures, EURm	–	–	1	–	–	1
Depreciation, amortisation and impairment charges, EURm	–54	–55	–57	–56	–65	–233
Operating profit, EURm	38	14	36	–18	–91	–59
% of sales	2.8	1.0	2.6	–1.3	–6.7	–1.1
Special items, EURm [2]	–4	–17	7	5	–54	–59
Operating profit excl. special items, EURm	42	31	29	–23	–37	0
% of sales	3.1	2.1	2.1	–1.7	–2.7	0.0
Paper deliveries, 1,000 t	2,148	2,332	2,258	2,181	2,139	8,910

[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 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.

Q1 2014 compared with Q1 2013

Operating profit excluding special items for UPM Paper ENA increased significantly to EUR 42 million (loss of EUR 37 million).

Sales decreased to EUR 1,334 million (1,365 million). Paper deliveries were 2,148,000 tonnes (2,139,000).

The increase in operating profit was mainly due to lower variable and fixed costs, partly driven by the ongoing profit improvement programme.

The average price for all paper deliveries in euros was approximately 2% lower than last year.

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

Q1 2014 compared with Q4 2013

Operating profit excluding special items increased due to lower fixed costs, partly for quarterly variations. Delivery volumes decreased seasonally.

The average price for paper deliveries was on the same level as in the previous quarter.

Market review

In Q1 2014, demand for graphic papers in Europe was 2% lower than in the same period last year. Graphic paper prices remained on average stable during the first quarter of the year and were on the same level as in the previous quarter and in the first quarter of 2013. In North America, demand for magazine papers decreased by 4% from last year and the average US dollar price for magazine papers was 6% lower compared to the previous quarter and 4% lower compared to the first quarter of 2013.

UPM Plywood

	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales, EURm	114	112	98	111	108	429
EBITDA, EURm [1]	17	15	6	12	10	43
% of sales	14.9	13.4	6.1	10.8	9.3	10.0
Depreciation, amortisation and impairment charges, EURm	–6	–6	–5	–5	–6	–22
Operating profit, EURm	11	9	1	7	4	21
% of sales	9.6	8.0	1.0	6.3	3.7	4.9
Special items, EURm	–	–	–	–	–	–
Operating profit excl. special items, EURm	11	9	1	7	4	21
% of sales	9.6	8.0	1.0	6.3	3.7	4.9
Deliveries, plywood, 1,000 m^3	188	191	169	191	186	737

[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.

Q1 2014 compared with Q1 2013

Operating profit excluding special items for UPM Plywood increased to EUR 11 million (4 million). Sales grew by 6% to EUR 114 million (108 million) and deliveries by 1% to 188,000 cubic metres (186,000).

Operating profit increased due to improved sales margin resulting from higher sales prices and a favourable sales mix, as well as lower variable unit costs.

Q1 2014 compared with Q4 2013

Operating profit excluding special items increased due to improved sales margin resulting from higher sales prices and a favourable sales mix.

Market review

Plywood demand continued to strengthen in the first quarter. Demand development 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 somewhat. Raw material costs remained stable.

Other operations

	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales, EURm	119	120	117	128	125	490
EBITDA, EURm [1]	–10	–3	–1	–2	–10	–16
Change in fair value of biological assets and wood harvested, EURm	11	33	8	8	4	53
Share of results of associated companies and joint ventures, EURm	–	–	1	–	–	1
Depreciation, amortisation and impairment charges, EURm	–3	–3	–3	–3	–4	–13
Operating profit, EURm	–3	–27	1	1	–17	–42
Special items, EURm [2]	–1	–54	–4	–2	–7	–67
Operating profit excl. special items, EURm	–2	27	5	3	–10	25

[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 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 forests and wood sourcing, UPM Biocomposites, UPM Biochemicals business units and Group services.

Q1 2014 compared with Q1 2013

Operating loss excluding special items was EUR 2 million (10 million). Sales decreased by 5% to EUR 119 million (125 million).

The increase in the fair value of biological assets net of wood harvested was EUR 11 million (4 million). The increase in the fair value of biological assets (growing trees) was EUR 23 million (17 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 12 million (13 million).

Q1 2014 compared with Q4 2013

The operating profit excluding special items decreased from the previous quarter mainly due to the smaller increase in the fair value of biological assets and smaller gains on sales of forest.

The increase in the fair value of biological assets net of wood harvested was EUR 11 million (33 million). The increase in the fair value of biological assets (growing trees) was EUR 23 million (48 million). The cost of wood harvested from own forests was EUR 12 million (15 million).

Annual General Meeting on 8 April 2014

The Annual General Meeting held on 8 April 2014 decided that a dividend of EUR 0.60 per share (totalling EUR 319 million) was to be paid on 24 April 2014. The dividend was paid to the shareholders who were registered in the Company's shareholders' register maintained by Euroclear Finland Ltd on 11 April 2014, which is the record date for the dividend payment.

The Annual General Meeting 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.

Shares

In Q1 2014, UPM shares worth EUR 1,682 million (1,302 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 13.51 in March and the lowest was EUR 11.15 in February.

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

The Annual General Meeting, held on 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 the 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.

UPM has one option series 2007C that would entitle holders to subscribe for a total of 5,000,000 shares.

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

The number of shares entered in the Trade Register on 31 March 2014 was 532,149,381, including subscriptions of 2,847,484 shares through exercising 2007C share options. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 559,300,397.

On 31 March 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.

Company Directors

At the Annual General Meeting held on 8 April 2014, the number of members of the Board of Directors was decreased from ten to nine and Matti Alahuhta, Berndt Brunow, Piia-Noora Kauppi, Wendy E. Lane, Jussi Pesonen, Veli-Matti Reinikkala, Kim Wahl and Björn Wahlroos were re-elected to the Board for a term continuing until the end of the next Annual General Meeting. Ari Puheloinen was elected as a new Board member. Due to his current obligations, Ari Puheloinen will be able to participate in the Board work as of 1 August 2014. Karl Grotenfelt and Ursula Ranin stepped down from the Board.

At the organisation meeting of the Board of Directors, Björn Wahlroos was re-elected as Chairman, and Berndt Brunow as Deputy Chairman of the Board of Directors. In addition, the Board of Directors elected Piia-Noora Kauppi as Chairman of the Audit Committee, and Wendy E. Lane and Kim Wahl as other members of the Committee. Berndt Brunow was elected as Chairman of the Remuneration Committee, and Matti Alahuhta and Veli-Matti Reinikkala as other Committee members. Björn Wahlroos was elected as Chairman of the Nomination and Governance Committee, and Matti Alahuhta and Ari Puheloinen as other Committee members.

Litigation

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 total 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. 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 in February 2014 and ordered Metsäliitto and Metsä Board to pay UPM the capital amount and penalty interest and compensate UPM for its legal fees. As a result, UPM has recorded an income of EUR 67 million as a special item in Q1 2014.

Neste Oil Oyj, a Finnish company producing traffic fuels (Neste), has filed an action for declaratory judgment against UPM in June 2013 in 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 UPM intends to use at the biorefinery which is being constructed at UPM's Kaukas mill site. In March 2014 Neste has filed an action at Finnish Market Court in which Neste asks the Market Court to prohibit UPM from continuing the alleged infringement of Neste's patent and seeks a preliminary injunction to prevent UPM from selling the products of Kaukas biorefinery in Finland. 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.

In Finland, UPM is participating in a project to construct a new nuclear power plant unit (Olkiluoto 3) 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 Olkiluoto 3 is approximately 31%. Originally the commercial electricity production of the Olkiluoto 3 plant unit was scheduled to start in April 2009. The completion of the project, however, has been delayed. Based on the progress reports received from the AREVA-Siemens-Consortium (Supplier), which is constructing Olkiluoto 3 as a fixed-price turnkey project, TVO announced in February 2013 that it will prepare for the possibility that the start of the regular electricity production may be postponed until year 2016. In February 2014 TVO announced that it had not received the requested overall schedule update for the Olkiluoto 3 project from the Supplier. Therefore TVO announced that it does not provide an estimate of the start-up time of the plant unit at the moment. TVO has required the Supplier, who is in charge of the project schedule, to update the overall schedule and to provide a clarification of the measures needed to ensure proper progress to complete the plant unit. Information about the start-up date of electricity production of the plant unit is pending the finalization of the Supplier's schedule clarification. In 2008 the Supplier initiated arbitration proceedings before an International Chamber of Commerce (ICC) arbitration tribunal in relation to the delay of Olkiluoto 3 and related costs. The monetary claim of the Supplier, updated in 2013, is in total approximately EUR 2.7 billion. The updated quantification is until the end of June 2011, and the sum includes approximately EUR 70 million of payments delayed by TVO under the plant contract as well as approximately EUR 700 million of penalty interest and approximately EUR 120 million of alleged loss of profit. TVO has considered and found the earlier claim by the Supplier to be without merit. TVO scrutinizes the updated claim and will respond to it in due course. In 2012 TVO submitted a claim and defense in the ICC arbitration proceedings. The quantification estimate of TVO's costs and losses was approximately EUR 1.8 billion which included TVO's actual claim and an estimated part until August 2014. The arbitration proceedings may continue for several years, and the claimed and counter-claimed amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

Helsinki, 29 April 2014

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q1/2014	Q1/2013	Q1–Q4/2013
Sales	2,481	2,474	10,054
Other operating income	7	37	60
Costs and expenses	–2,179	–2,291	–9,091
Change in fair value of biological assets and wood harvested	12	6	68
Share of results of associated companies and joint ventures	–	–	2
Depreciation, amortisation and impairment charges	–130	–145	–545
Operating profit (loss)	191	81	548
Gains on available-for-sale investments, net	59	–	1
Exchange rate and fair value gains and losses	–3	5	10
Interest and other finance costs, net	–10	–20	–84
Profit (loss) before tax	237	66	475
Income taxes	–44	–19	–140
Profit (loss) for the period	193	47	335
Attributable to:			
Owners of the parent company	193	47	335
Non-controlling interests	–	–	–
	193	47	335
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	0.36	0.09	0.63
Diluted earnings per share, EUR	0.36	0.09	0.63

Consolidated statement of comprehensive income

EURm	Q1/2014	Q1/2013	Q1–Q4/2013
Profit (loss) for the period	193	47	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	–41	–	69
Items that may be reclassified subsequently to income statement:			
Translation differences	–46	71	–219
Net investment hedge	20	–17	77
Cash flow hedges	–31	–22	–28
Available-for-sale investments	–54	7	58
	–111	39	–112
Other comprehensive income for the period, net of tax	–152	39	–43
Total comprehensive income for the period	41	86	292
Total comprehensive income attributable to:			
Owners of the parent company	41	86	292
Non-controlling interests	–	–	–
	41	86	292

Consolidated balance sheet

EURm	31.3.2014	31.3.2013	31.12.2013
ASSETS			
Non-current assets			
Goodwill	219	225	219
Other intangible assets	360	364	342
Property, plant and equipment	4,676	5,054	4,757
Investment property	33	39	40
Biological assets	1,454	1,485	1,458
Investments in associated companies and joint ventures	23	21	22
Available-for-sale investments	2,598	2,596	2,661
Other non-current financial assets	296	423	282
Deferred tax assets	561	730	564
Other non-current assets	125	89	142
	10,345	11,026	10,487
Current assets			
Inventories	1,370	1,433	1,327
Trade and other receivables	2,039	1,990	1,948
Income tax receivables	52	29	50
Cash and cash equivalents	1,005	390	787
	4,466	3,842	4,112
Total assets	14,811	14,868	14,599
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Treasury shares	–2	–2	–2
Translation differences	–20	202	6
Fair value and other reserves	2,059	2,213	2,256
Reserve for invested non-restricted equity	1,256	1,219	1,226
Retained earnings	3,329	3,028	3,073
	7,512	7,550	7,449
Non-controlling interests	6	6	6
Total equity	7,518	7,556	7,455
Non-current liabilities			
Deferred tax liabilities	488	600	501
Retirement benefit obligations	711	735	680
Provisions	175	239	189
Interest-bearing liabilities	3,399	3,680	3,485
Other liabilities	181	137	164
	4,954	5,391	5,019
Current liabilities			
Current interest-bearing liabilities	693	346	643
Trade and other payables	1,565	1,512	1,419
Income tax payables	81	63	63
	2,339	1,921	2,125
Total liabilities	7,293	7,312	7,144
Total equity and liabilities	14,811	14,868	14,599

Consolidated statement of changes in equity

EURm	Attributable to owners of the parent company: 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
Balance at 1 January 2013	890	–2	148	2,232	1,207	2,980	7,455	6	7,461
Profit (loss) for the period	–	–	–	–	–	47	47	–	47
Translation differences	–	–	71	–	–	–	71	–	71
Net investment hedge, net of tax	–	–	–17	–	–	–	–17	–	–17
Cash flow hedges, net of tax	–	–	–	–22	–	–	–22	–	–22
Available-for-sale investments, net of tax	–	–	–	7	–	–	7	–	7
Total comprehensive income for the period	–	–	54	–15	–	47	86	–	86
Share options exercised	–	–	–	–	12	–	12	–	12
Share-based compensation, net of tax	–	–	–	–4	–	4	–	–	–
Other items	–	–	–	–	–	–3	–3	–	–3
Total transactions with owners for the period	–	–	–	–4	12	1	9	–	9
Balance at 31 March 2013	890	–2	202	2,213	1,219	3,028	7,550	6	7,556
Balance at 1 January 2014	890	–2	6	2,256	1,226	3,073	7,449	6	7,455
Profit (loss) for the period	–	–	–	–	–	193	193	–	193
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	–41	–41	–	–41
Translation differences	–	–	–46	–	–	–	–46	–	–46
Net investment hedge, net of tax	–	–	20	–	–	–	20	–	20
Cash flow hedges, net of tax	–	–	–	–31	–	–	–31	–	–31
Available-for-sale investments, net of tax	–	–	–	–54	–	–	–54	–	–54
Total comprehensive income for the period	–	–	–26	–85	–	152	41	–	41
Share options exercised	–	–	–	–	30	–	30	–	30
Share-based compensation, net of tax	–	–	–	–9	–	11	2	–	2
Other items and reclassifications	–	–	–	–103	–	93	–10	–	–10
Total transactions with owners for the period	–	–	–	–112	30	104	22	–	22
Balance at 31 March 2014	890	–2	–20	2,059	1,256	3,329	7,512	6	7,518

Condensed consolidated cash flow statement

EURm	Q1/2014	Q1/2013	Q1–Q4/2013
Cash flow from operating activities			
Profit (loss) for the period	193	47	335
Adjustments	104	187	750
Change in working capital	1	–96	–128
Cash generated from operations	298	138	957
Finance costs, net	–10	–13	–65
Income taxes paid	–24	–22	–157
Net cash generated from operating activities	264	103	735
Cash flow from investing activities			
Capital expenditure	–68	–98	–337
Acquisitions and share purchases	–1	–	–32
Asset sales and other investing cash flow	70	–7	72
Net cash used in investing activities	1	–105	–297
Cash flow from financing activities			
Change in loans and other financial items	–73	–109	166
Share options exercised	30	12	19
Dividends paid	–	–	–317
Net cash used in financing activities	–43	–97	–132
Change in cash and cash equivalents	222	–99	306
Cash and cash equivalents at beginning of period	787	486	486
Foreign exchange effect on cash and cash equivalents	–4	3	–5
Change in cash and cash equivalents	222	–99	306
Cash and cash equivalents at end of period	1,005	390	787

Quarterly information

EURm	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales	2,481	2,588	2,472	2,520	2,474	10,054
Other operating income	7	5	28	–10	37	60
Costs and expenses	–2,179	–2,365	–2,190	–2,245	–2,291	–9,091
Change in fair value of biological assets and wood harvested	12	37	11	14	6	68
Share of results of associated companies and joint ventures	–	–	1	1	–	2
Depreciation, amortisation and impairment charges	–130	–131	–135	–134	–145	–545
Operating profit (loss)	191	134	187	146	81	548
Gains on available-for-sale investments, net	59	–	1	–	–	1
Exchange rate and fair value gains and losses	–3	–	–	5	5	10
Interest and other finance costs, net	–10	–19	–22	–23	–20	–84
Profit (loss) before tax	237	115	166	128	66	475
Income taxes	–44	–79	–28	–14	–19	–140
Profit (loss) for the period	193	36	138	114	47	335
Attributable to:						
Owners of the parent company	193	36	138	114	47	335
Non-controlling interests	–	–	–	–	–	–
	193	36	138	114	47	335
Basic earnings per share, EUR	0.36	0.06	0.26	0.22	0.09	0.63
Diluted earnings per share, EUR	0.36	0.06	0.26	0.22	0.09	0.63
Earnings per share, excluding special items, EUR	0.27	0.27	0.26	0.20	0.18	0.91
Average number of shares basic (1,000)	529,514	528,887	528,211	527,922	526,252	527,818
Average number of shares diluted (1,000)	529,777	528,329	528,155	528,158	526,631	527,818
Special items in operating profit (loss)	–5	–73	–7	8	–63	–135
Operating profit (loss), excl. special items	196	207	194	138	144	683
% of sales	7.9	8.0	7.8	5.5	5.8	6.8
Special items in financial items	66	–	–	–	–	–
Special items before tax	61	–73	–7	8	–63	–135
Profit (loss) before tax, excl. special items	176	188	173	120	129	610
% of sales	7.1	7.3	7.0	4.8	5.2	6.1
Impact on taxes from special items	–13	–31	6	–	15	–10
Return on equity, excl. special items, %	7.7	7.5	7.5	5.7	5.1	6.4
Return on capital employed, excl. special items, %	6.6	7.2	6.8	4.9	5.1	6.0
EBITDA	313	302	311	258	284	1,155
% of sales	12.6	11.7	12.6	10.2	11.5	11.5

Quarterly segment information

EURm	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/13
Sales						
UPM Biorefining	496	497	484	512	495	1,988
UPM Energy	124	115	109	110	132	466
UPM Raflatac	300	298	307	309	299	1,213
UPM Paper Asia	277	268	274	289	277	1,108
UPM Paper ENA	1,334	1,445	1,392	1,358	1,365	5,560
UPM Plywood	114	112	98	111	108	429
Other operations	119	120	117	128	125	490
Internal sales	−263	−259	−283	−292	−297	−1,131
Eliminations and reconciliations	−20	−8	−26	−5	−30	−69
Sales, total	2,481	2,588	2,472	2,520	2,474	10,054
EBITDA						
UPM Biorefining	92	100	100	128	107	435
UPM Energy	59	48	43	49	58	198
UPM Raflatac	28	25	30	28	26	109
UPM Paper Asia	44	36	40	42	43	161
UPM Paper ENA	95	86	83	34	29	232
UPM Plywood	17	15	6	12	10	43
Other operations	−10	−3	−1	−2	−10	−16
Eliminations and reconciliations	−12	−5	10	−33	21	−7
EBITDA, total	313	302	311	258	284	1,155
Operating profit (loss)						
UPM Biorefining	56	63	73	102	68	306
UPM Energy	56	45	40	46	55	186
UPM Raflatac	20	16	7	19	18	60
UPM Paper Asia	25	17	19	22	22	80
UPM Paper ENA	38	14	36	−18	−91	−59
UPM Plywood	11	9	1	7	4	21
Other operations	−3	−27	1	1	−17	−42
Eliminations and reconciliations	−12	−3	10	−33	22	−4
Operating profit (loss), total	191	134	187	146	81	548
% of sales	7.7	5.2	7.6	5.8	3.3	5.5
Special items in operating profit						
UPM Biorefining	–	−3	6	5	−2	6
UPM Energy	–	–	–	–	–	–
UPM Raflatac	–	–	−15	–	–	−15
UPM Paper Asia	–	1	−1	–	–	–
UPM Paper ENA	−4	−17	7	5	−54	−59
UPM Plywood	–	–	–	–	–	–
Other operations	−1	−54	−4	−2	−7	−67
Special items in operating profit, total	−5	−73	−7	8	−63	−135
Operating profit (loss) excl. special items						
UPM Biorefining	56	66	67	97	70	300
UPM Energy	56	45	40	46	55	186
UPM Raflatac	20	16	22	19	18	75
UPM Paper Asia	25	16	20	22	22	80
UPM Paper ENA	42	31	29	−23	−37	–
UPM Plywood	11	9	1	7	4	21
Other operations	−2	27	5	3	−10	25
Eliminations and reconciliations	−12	−3	10	−33	22	−4
Operating profit (loss) excl. special items, total	196	207	194	138	144	683
% of sales	7.9	8.0	7.8	5.5	5.8	6.8

Changes in property, plant and equipment

EURm	Q1/2014	Q1/2013	Q1–Q4/2013
Book value at beginning of period	4,757	5,089	5,089
Capital expenditure	45	62	333
Decreases	–3	–2	–83
Depreciation	–118	–126	–490
Impairment charges	–1	–1	–6
Translation difference and other changes	–4	–32	–86
Book value at end of period	4,676	5,054	4,757

Financial assets and liabilities measured at fair value

	31.3.2014				31.3.2013				31.12.2013			
EURm	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Trading derivatives	–	43	–	43	9	91	–	100	1	56	–	57
Derivatives used for hedging	114	313	–	427	54	399	–	453	101	307	–	408
Available-for-sale investments	–	–	2,598	2,598	–	–	2,596	2,596	–	–	2,661	2,661
Total	114	356	2,598	3,068	63	490	2,596	3,149	102	363	2,661	3,126
Liabilities												
Trading derivatives	26	185	–	211	3	128	–	131	20	166	–	186
Derivatives used for hedging	125	42	–	167	57	60	–	117	104	43	–	147
Total	151	227	–	378	60	188	–	248	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	Q1/2014	Q1/2013	Q1–Q4/2013
Opening balance	2,661	2,587	2,587
Additions	–	–	31
Transfers into Level 3	–	1	1
Transfers from Level 3	–10	–	–
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	–53	8	43
Closing balance	2,598	2,596	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 347 million. The discount rate of 5.85% 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 340 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	31.3.2014	31.3.2013	31.12.2013
Non-current interest bearing liabilities, excl. derivative financial instruments	3,355	3,546	3,489

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

Commitments and contingencies

EURm	31.3.2014	31.3.2013	31.12.2013
Own commitments			
Mortgages	319	481	357
On behalf of others			
Other guarantees	5	5	5
Other own commitments			
Leasing commitments for the next 12 months	59	53	57
Leasing commitments for subsequent periods	338	357	339
Other commitments	143	113	141

Capital commitments

EURm	Completion	Total cost	By 31.12.2013	Q1/2014	After 31.3.2014
PM3/Changshu	Q4 2015	277	9	–	268
Capacity increase/Kymi	Q4 2015	160	–	–	160
Power plant/Schongau	Q4 2014	85	45	8	32
Biorefinery/Kaukas	Q3 2014	150	123	16	11
Modernisation of fibreline/Pietarsaari	Q2 2014	13	2	1	1

Notional amounts of derivative financial instruments

EURm	31.3.2014	31.3.2013	31.12.2013
Forward foreign exchange contracts	4,694	5,131	4,973
Currency options, bought	8	13	18
Currency options, written	18	13	15
Interest rate forward contracts	1,089	2,677	2,332
Interest rate swaps	1,958	1,597	1,609
Cross currency swaps	810	864	804
Commodity contracts	512	475	490

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

EURm	Q1/2014	Q1/2013	Q1–Q4/2013
Sales	–	–	2
Purchases	18	17	80
Non-current receivables at end of period	8	7	8
Trade and other receivables at end of period	2	3	1
Trade and other payables at end of period	1	1	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. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

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

	31.3.2014	31.12.2013	30.9.2013	30.6.2013	31.3.2013
USD	1.3788	1.3791	1.3505	1.3080	1.2805
CAD	1.5225	1.4671	1.3912	1.3714	1.3021
JPY	142.42	144.72	131.78	129.39	120.87
GBP	0.8282	0.8337	0.8361	0.8572	0.8456
SEK	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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