The Biofore Company UPM

MORE WITH BIOFORE

INTERIM REPORT 1 JANUARY – 30 JUNE 2015

UPM interim report 1 January – 30 June 2015

Q2 2015 compared with Q2 2014

- Earnings per share excluding special items were EUR 0.33 (0.26), and reported EUR 0.30 (0.25)
- Operating profit excluding special items increased to EUR 227 million, 8.9% of sales (186 million, 7.6% of sales)
- Profitability was underpinned by profit improvement actions and favourable exchange rates
- In Q2 2015, the profit improvement programme progressed well, reaching a cost reduction impact of EUR 27 million (annualised EUR 108 million)
- Operating cash flow was strong at EUR 324 million (215 million)

Q1–Q2 2015 compared with Q1–Q2 2014

- Earnings per share excluding special items were EUR 0.62 (0.53), and reported EUR 0.59 (0.61)
- Operating profit excluding special items increased to EUR 431 million, 8.6% of sales (382 million, 7.8% of sales)
- UPM started commercial deliveries of advanced renewable diesel and completed the UPM Raflatac expansions in Poland and APAC
- UPM invests in the top-performing plywood and pulp businesses by expanding the Otepää plywood mill in Estonia and improving efficiency in the UPM Kaukas pulp mill
- UPM closed 800,000 tonnes of graphic paper production capacity in Europe

Key figures

	Q2/2015	Q2/2014	Q1/2015	Q1–Q2/2015	Q1–Q2/2014	Q1–Q4/2014
Sales, EURm	2,548	2,441	2,486	5,034	4,922	9,868
EBITDA, EURm [1]	317	305	325	642	628	1,306
% of sales	12.4	12.5	13.1	12.8	12.8	13.2
Operating profit (loss), EURm	206	176	203	409	367	674
excluding special items, EURm	227	186	204	431	382	847
% of sales	8.9	7.6	8.2	8.6	7.8	8.6
Profit (loss) before tax, EURm	182	159	181	363	396	667
excluding special items, EURm	203	169	182	385	345	774
Profit (loss) for the period, EURm	160	129	155	315	322	512
Earnings per share, EUR	0.30	0.25	0.29	0.59	0.61	0.96
excluding special items, EUR	0.33	0.26	0.29	0.62	0.53	1.17
Diluted earnings per share, EUR	0.30	0.25	0.29	0.59	0.61	0.96
Return on equity, %	8.3	7.0	8.1	8.3	8.7	6.9
excluding special items, %	9.1	7.3	8.1	8.8	7.6	8.3
Return on capital employed, %	7.3	6.1	7.0	7.2	7.5	6.5
excluding special items, %	8.1	6.5	7.0	7.6	6.6	7.5
Operating cash flow per share, EUR	0.61	0.40	0.20	0.81	0.90	2.33
Capital expenditure, EURm	126	104	74	200	152	411
Capital expenditure excluding acquisitions and shares, EURm	123	104	74	197	151	375
Equity per share at end of period, EUR	14.30	13.76	14.61	14.30	13.76	14.02
Gearing ratio at end of period, %	35	40	31	35	40	32
Net interest-bearing liabilities at end of period, EURm	2,635	2,925	2,419	2,635	2,925	2,401
Capital employed at end of period, EURm	11,012	11,390	11,106	11,012	11,390	10,944
Personnel at end of period	20,900	21,496	20,210	20,900	21,496	20,414

[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 change in fair value of unrealised cash flow and commodity hedges, excluding the share of results of associated companies and joint ventures, and special items.

Results

Q2 2015 compared with Q2 2014

Sales for Q2 2015 were EUR 2,548 million, 4% higher than EUR 2,441 million in Q2 2014. Sales increased in UPM Biorefining, UPM Raflatac and UPM Paper Asia, and decreased in UPM Paper ENA, UPM Energy and UPM Plywood.

EBITDA increased to EUR 317 million (12.4% of sales) from EUR 305 million (12.5% of sales) in the comparison period. Variable costs decreased, to a large part driven by the Group´s profit improvement programmes. The favourable exchange rates had a significant positive impact, which was moderated by hedging. In Q2 2015, realised currency hedges decreased EBITDA by EUR 36 million, which was mainly impacting UPM Paper ENA and UPM Paper Asia business areas. Lower publication paper prices in Europe and lower electricity sales prices were negative factors.

UPM Biorefining increased its EBITDA because of higher pulp sales prices in euro terms. UPM Raflatac increased its EBITDA mainly because of increased sales margins and higher deliveries. UPM Plywood reported the same EBITDA as last year. EBITDA decreased in UPM Paper ENA, mainly because of lower publication paper prices in Europe and higher pulp costs and negative impact of currency hedging. EBITDA decreased in UPM Paper Asia, mainly because of higher pulp costs and negative impact of currency hedging. EBITDA decreased in UPM Energy, mainly because of lower electricity sales prices.

Operating profit excluding special items increased to EUR 227 million, 8.9% of sales (186 million, 7.6%). Depreciation totalled EUR 129 million (132 million).

Reported operating profit was EUR 206 million, 8.1% of sales (176 million, 7.2% of sales). Operating profit includes net charges of EUR 21 million as special items. In June 2015, Teollisuuden Voima Oyj decided not to apply for a building permit for the Olkiluoto 4 nuclear power plant, resulting in a charge of EUR 19 million related to UPM's participation in the tendering and planning phase of the project.

The increase in the fair value of biological assets net of wood harvested was EUR 31 million (17 million).

Profit before tax was EUR 182 million (159 million) and, excluding special items, EUR 203 million (169 million). Net interest and other finance costs were EUR 21 million (16 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 3 million (loss of EUR 1 million).

Income tax expenses totalled EUR 22 million (30 million). Effect of special items on income taxes was EUR 5 million benefit (EUR 4 million benefit).

Profit for Q2 2015 was EUR 160 million (129 million), and earnings per share were EUR 0.30 (0.25). Earnings per share, excluding special items, were EUR 0.33 (0.26).

Q2 2015 compared with Q1 2015

EBITDA was EUR 317 million, 12.4% of sales (325 million, 13.1% of sales). Currency hedging had a positive impact on UPM Biorefining and negative impact on UPM Paper ENA and UPM Paper Asia. EBITDA decreased in UPM Plywood, mainly because of seasonally higher fixed costs and lower deliveries. UPM Raflatac benefited from increased sales margins and deliveries, and UPM Energy benefited from higher hydropower volumes. Both increased their EBITDA compared with the comparison period.

Operating profit excluding special items was EUR 227 million, 8.9% of sales (204 million, 8.2%). Depreciation totalled EUR 129 million (131 million).

The increase in the fair value of biological assets net of wood harvested was EUR 31 million (16 million).

January–June 2015 compared with January–June 2014

Sales for Q1–Q2 2015 were EUR 5,034 million, 2% higher than EUR 4,922 million in Q1–Q2 2014. Sales increased in UPM Biorefining, UPM Raflatac and UPM Paper Asia, and decreased in UPM Paper ENA and UPM Energy. Sales remained at the same level at UPM Plywood.

EBITDA increased to EUR 642 million (12.8% of sales) from EUR 628 million (12.8% of sales) in the comparison period. Variable costs decreased, to a large part driven by the Group´s profit improvement programmes. The favourable exchange rates had a significant positive impact, which was moderated by hedging. In Q1–Q2 2015, realised currency hedges decreased EBITDA by EUR 61 million, which was mainly impacting the UPM Paper ENA and UPM Paper Asia business areas. Lower paper deliveries and lower publication paper prices in Europe, as well as lower electricity sales prices, had negative impacts.

UPM Biorefining increased its EBITDA mainly because of higher pulp sales prices in euro terms. UPM Raflatac and UPM Plywood increased their EBITDA mainly because of increased deliveries and sales margins. EBITDA decreased in UPM Paper ENA, mainly because of lower paper deliveries, lower publication paper prices in Europe and higher pulp costs. EBITDA decreased in UPM Paper Asia, mainly because of higher pulp costs and negative impact of currency hedging. EBITDA decreased in UPM Energy, mainly because of lower electricity sales prices.

Operating profit excluding special items increased to EUR 431 million, 8.6% of sales (382 million, 7.8%). Depreciation totalled EUR 260 million (262 million).

Reported operating profit was EUR 409 million, 8.1% of sales (367 million, 7.5% of sales). Operating profit includes net charges of EUR 22 million as special items. In June 2015, Teollisuuden Voima Oyj decided not to apply for a building permit for the Olkiluoto 4 nuclear power plant, resulting in a charge of EUR 19 million related to UPM's participation in the tendering and planning phase of the project.

The increase in the fair value of biological assets net of wood harvested was EUR 47 million (29 million).

Profit before tax was EUR 363 million (396 million) and, excluding special items, EUR 385 million (345 million). Net interest and other finance costs were EUR 36 million (26 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 10 million (loss of EUR 4 million).

Income tax expense totalled EUR 48 million (74 million). Effect of special items on income taxes was EUR 6 million benefit (EUR 9 million expense).

Profit for Q1–Q2 2015 was EUR 315 million (322 million), and earnings per share were EUR 0.59 (0.61). Earnings per share, excluding special items, were EUR 0.62 (0.53).

Operating cash flow per share was EUR 0.81 (0.90).

Financing

In Q1–Q2 2015, cash flow from operating activities before capital expenditure and financing totalled EUR 432 million (479 million). Working capital increased by EUR 116 million (35 million) during the period, mainly because of seasonal factors.

The gearing ratio as of 30 June 2015, was 35% (40%). Net interest-bearing liabilities at the end of the period came to EUR 2,635 million (2,925 million).

On 30 June 2015, UPM's cash funds and unused committed credit facilities totalled EUR 1.4 billion.

Personnel

In Q1–Q2 2015, UPM had an average of 20,458 employees (20,980). At the beginning of the year, the number of employees was 20,414, and at the end of Q2 2015, it was 20,900.

Capital expenditure

In Q1–Q2 2015, capital expenditure excluding investments in shares was EUR 197 million, 3.9% of sales (151 million, 3.1% of sales). The total capital expenditure in 2015 is estimated to be approximately EUR 500 million.

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

On 23 April 2015, UPM announced that it will strengthen its position as the leading plywood manufacturer in Europe by expanding the Otepää plywood mill in Estonia. The expansion will almost double the mill's production to 90,000 m^3 per annum. In addition to mill expansion, a new bio power plant will be built at the mill site. The investments in Otepää total about EUR 40 million. The expansion will be completed by the end of 2016.

On 16 June 2015, UPM announced it will further strengthen efficiency, competitiveness and optimisation of the Kaukas pulp mill in Lappeenranta, Finland. UPM will invest approximately EUR 50 million to modernise both pulp drying machines and install a new baling line at the mill. Start-up is scheduled for the end of 2016. The investment will benefit the entire Kaukas mill integrate through increased resource efficiency and operational flexibility.

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.

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 impact of EUR 200 million when the projects are in full operation.

The total investment requirement for these projects is EUR 680 million. EUR 430 million has already been invested, and the total remaining capital expenditure over the course of 2015–2016 will be EUR 250 million.

UPM invested EUR 179 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 every year. The refinery started its commercial production 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 production 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. The investment is expected to be completed by the end of 2015.

In addition to the investment in the UPM Kymi pulp mill, the 10% increase in UPM´s pulp production capacity also includes the expansion at the UPM Pietarsaari and UPM Fray Bentos pulp mills, completed in 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. Investments totalling EUR 14 million were completed in Q2 2015.

In April 2014, UPM also announced that it is increasing production capacity for its film labelstock business in Europe by investing EUR 13 million in a new coating line at the self-adhesive labelstock factory in Nowa Wies, Poland. The investment was completed in Q2 2015.

Profit improvement programme

On 13 November 2014, UPM announced a profit improvement programme targeting a total annualised cost reduction impact of EUR 150 million by the end of 2015, compared with Q3 2014. The target includes savings in variable and fixed costs in all UPM businesses and functions, as well as capacity closures in UPM Paper ENA.

As part of the programme, UPM permanently reduced its publication paper production capacity in Europe by approximately 800,000 tonnes during Q1–Q2 2015. 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 were permanently closed in Q1 2015. Newsprint machine 3 at UPM Chapelle Darblay in France was permanently closed in Q2 2015. The fixed cost reduction from the capacity closures is expected to be EUR 55 million and is included in the total savings target.

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

In Q2 2015, the actions taken under the profit improvement programme reduced UPM's costs by EUR 27 million, meaning about 72% of the annualised savings had been achieved.

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 depend on general economic developments.

Currently, the main near-term uncertainties relate to 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, the economic outlook in Europe has slightly improved, but it remains fragile and there are concerns, related to sovereign debt as well as geopolitical issues. Growth has slowed, and there are also uncertainties regarding developing economies, including China, which may have a significant influence on the global economy overall, and on many of UPM's product markets in particular. Furthermore, changes to the monetary policies of major central banks may have a significant impact on various currencies that directly or indirectly affect UPM.

Recently, the price of oil has decreased significantly. The oil price directly and indirectly impacts many of UPM's cost items, such as logistics. It is uncertain whether the current price level will remain stable 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 13 of the 2014 Annual Report. Risks and risk management are presented on pages 76–77 of the Report.

Events after the balance sheet date

The Group's management is not aware of any significant events occurring after 30 June 2015.

Outlook for 2015

The improved profitability achieved in 2014 is expected to continue in 2015, and there are prospects for further improvement. Profitability is underpinned by the EUR 150 million profit improvement programme, favourable currencies, 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, compared to 2014.

In the second half of 2015 compared to the first half of 2015, UPM Paper ENA profitability is expected to improve.

Business area reviews

UPM Biorefining

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales, EURm	601	533	484	480	477	496	1,134	973	1,937
EBITDA, EURm	153	134	100	100	66	92	287	158	358
% of sales	25.5	25.1	20.7	20.8	13.8	18.5	25.3	16.2	18.5
Change in fair value of biological assets and wood harvested, EURm	6	2	5	1	2	1	8	3	9
Share of results of associated companies and joint ventures, EURm	1	–	–	–	1	–	1	1	1
Depreciation, amortisation and impairment charges, EURm	–42	–39	–37	–38	–38	–37	–81	–75	–150
Operating profit, EURm	118	97	72	64	31	56	215	87	223
% of sales	19.6	18.2	14.9	13.3	6.5	11.3	19.0	8.9	11.5
Special items, EURm [1)	–	–	5	1	–	–	–	–	6
Operating profit excl. special items, EURm	118	97	67	63	31	56	215	87	217
% of sales	19.6	18.2	13.8	13.1	6.5	11.3	19.0	8.9	11.2
Pulp deliveries, 1,000 t	837	810	791	848	832	816	1,647	1,648	3,287

Pulp mill maintenance shutdowns: Q2 2015 UPM Kaukas, Q4 2014 UPM Fray Bentos, Q2 2014 UPM Pietarsaari and Q1 2014 UPM Kaukas.

1) 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.

Q2 2015 compared with Q2 2014

Operating profit excluding special items for UPM Biorefining increased significantly to EUR 118 million (31 million). Sales increased by 26% to EUR 601 million (477 million). Pulp deliveries increased by 1% to 837,000 tonnes (832,000).

Operating profit increased mainly because of higher euro-denominated average pulp sales prices.

Q2 2015 compared with Q1 2015

Operating profit increased mainly thanks to higher euro-denominated average pulp sales prices including positive impact of currency hedging. Delivery volumes increased. In the second quarter of 2015, profitability was negatively impacted by scheduled maintenance shutdown at the UPM Kaukas pulp mill.

January–June 2015 compared with January–June 2014

Operating profit excluding special items for UPM Biorefining increased significantly to EUR 215 million (87 million). Sales increased by 17% to EUR 1,134 million (973 million). Pulp deliveries of 1,647,000 tonnes remained at last year's level (1,648,000).

Operating profit increased mainly because of higher euro-denominated average pulp sales prices. Cost efficiency improved.

The UPM Lappeenranta Biorefinery started commercial production in January 2015. Deliveries of advanced renewable diesel started in May. In June, UPM informed the French authorities that the biofuel project in Stracel, France, has been discontinued.

Market review

In the first half of 2015, the average northern bleached softwood kraft (NBSK) pulp market price was EUR 787/tonne, 17% higher than last year (671/tonne).

The average market price of bleached hardwood kraft pulp (BHKP) was EUR 686/tonne, 24% higher than last year (554/tonne).

The market price difference between NBSK and BHKP narrowed as producers and end-use consumers responded to the historically high NBSK market pulp price premium. USD-denominated NBSK pulp prices slipped, while the market price of BHKP increased.

In the first half of 2015, global chemical pulp demand remained robust and growth was well spread over several regions.

UPM Energy

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales, EURm	94	99	115	113	112	124	193	236	464
EBITDA, EURm[1]	43	40	59	46	49	59	83	108	213
% of sales	45.7	40.4	51.3	40.7	43.7	47.6	43.0	45.8	45.9
Depreciation, amortisation and impairment charges, EURm	–3	–2	–2	–3	–3	–3	–5	–6	–11
Operating profit, EURm	21	38	57	43	46	56	59	102	202
% of sales	22.3	38.4	49.6	38.1	41.1	45.2	30.6	43.2	43.5
Special items, EURm [1]	–19	–	–	–	–	–	–19	–	–
Operating profit excl. special items, EURm	40	38	57	43	46	56	78	102	202
% of sales	42.6	38.4	49.6	38.1	41.1	45.2	40.4	43.2	43.5
Electricity deliveries, GWh	2,213	2,077	2,169	2,135	2,112	2,305	4,290	4,417	8,721

[1] In Q2 2015, special item of EUR 19 million relate to project expenses of Olkiluoto 4 nuclear power plant.

Q2 2015 compared with Q2 2014
Operating profit excluding special items for UPM Energy decreased to EUR 40 million (46 million). Sales were EUR 94 million (112 million). The total electricity sales volume was 2,213 GWh (2,112 GWh).

Operating profit decreased due to the lower average electricity sales price.

The average electricity sales price decreased by 17% to EUR 36.9/MWh (44.5/MWh).

Q2 2015 compared with Q1 2015
Operating profit excluding special items increased thanks to higher hydro power generation volumes.

The average electricity sales price decreased to EUR 36.9/MWh (40.0/MWh).

January–June 2015 compared with January–June 2014
Operating profit excluding special items for UPM Energy was EUR 78 million (102 million). Sales decreased to EUR 193 million (236 million). The total electricity sales volume was 4,290 GWh (4,417 GWh).

Operating profit decreased due to the lower average electricity sales price and lower nuclear power generation volumes.

The average electricity sales price decreased by 15% to EUR 38.4/MWh (45.2/MWh).

In June 2015, Teollisuuden Voima Oyj (TVO) announced that it will not apply for a building permit for the Olkiluoto 4 nuclear power plant. UPM participated in the tendering and planning phase of the project as a shareholder. UPM owns 44.3% of Pohjolan Voima Oy (PVO), which is a majority shareholder (58.5%) in Teollisuuden Voima Oyj.

Market review
In the first half of 2015, the Nordic and Finnish hydrological balance improved and was above the long-term average level at the end of June.

The average Finnish area spot price on the Nordic electricity exchange was EUR 28.9/MWh, 17% lower than the same period last year (EUR 34.9/MWh), mainly because of improved hydrology and mild winter. The Finnish area price was above the Nord Pool system price because of dependency on imports.

Coal prices were significantly lower than last year.

The CO_2 emission allowance price of EUR 7.5/tonne at the end of the period was higher than at the end of the comparison period (EUR 5.9/tonne).

The Finnish area front-year forward electricity price closed at EUR 32.9/MWh in June, down 12% compared to end of June last year (37.3/MWh).

UPM Raflatac

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales, EURm	351	342	330	312	306	300	693	606	1,248
EBITDA, EURm	33	29	30	29	25	28	62	53	112
% of sales	9.4	8.5	9.1	9.3	8.2	9.3	8.9	8.7	9.0
Depreciation, amortisation and impairment charges, EURm	–9	–8	–9	–8	–10	–8	–17	–18	–35
Operating profit, EURm	20	21	21	21	7	20	41	27	69
% of sales	5.7	6.1	6.4	6.7	2.3	6.7	5.9	4.5	5.5
Special items, EURm [1)]	–4	–	–1	–	–10	–	–4	–10	–11
Operating profit excl. special items, EURm	24	21	22	21	17	20	45	37	80
% of sales	6.8	6.1	6.7	6.7	5.6	6.7	6.5	6.1	6.4

[1)] In Q2 2015, special items of EUR 4 million mainly relate to restructuring charges. 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.

Q2 2015 compared with Q2 2014

Operating profit excluding special items for UPM Raflatac increased to EUR 24 million (17 million). Sales increased by 15% to EUR 351 million (306 million), driven by solid volume growth and decline in the euro exchange rate. Operating profit increased due to higher sales margins and delivery volumes.

Q2 2015 compared with Q1 2015

Operating profit increased, mainly thanks to higher sales margins and delivery volumes.

January–June 2015 compared with January–June 2014

Operating profit excluding special items for UPM Raflatac increased to EUR 45 million (37 million). Sales increased by 14% to EUR 693 million (606 million), driven by solid volume growth and decline in the euro exchange rate.

Operating profit increased mainly because of higher delivery volumes.

Production started at the new labelstock coating line in Nowa Wies, Poland, in April 2015 and in Changshu, China, in June 2015.

Market review

In the first half of 2015, global demand for self-adhesive label materials increased. Demand was robust in Western Europe and North America. In Eastern Europe, Asia and Latin America, growth continued.

UPM Paper Asia

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales, EURm	300	298	288	274	285	277	598	562	1,124
EBITDA, EURm	32	43	48	49	47	44	75	91	188
% of sales	10.7	14.4	16.7	17.9	16.5	15.9	12.5	16.2	16.7
Depreciation, amortisation and impairment charges, EURm	–21	–21	–21	–20	–20	–19	–42	–39	–80
Operating profit, EURm	11	22	27	29	27	25	33	52	108
% of sales	3.7	7.4	9.4	10.6	9.5	9.0	5.5	9.3	9.6
Special items, EURm	–	–	–	–	–	–	–	–	–
Operating profit excl. special items, EURm	11	22	27	29	27	25	33	52	108
% of sales	3.7	7.4	9.4	10.6	9.5	9.0	5.5	9.3	9.6
Paper deliveries, 1,000 t	361	349	359	350	365	347	710	712	1,421

Q2 2015 compared with Q2 2014

Operating profit excluding special items for UPM Paper Asia decreased to EUR 11 million (27 million).

Sales increased by 5% to EUR 300 million (285 million), mainly because of the decline in the euro exchange rate. Deliveries decreased by 1% to 361,000 tonnes (365,000).

Operating profit decreased mainly due to higher pulp costs and negative impact of currency hedging, more than offsetting savings in other costs.

Q2 2015 compared with Q1 2015

Operating profit excluding special items decreased mainly because of currency hedges.

January–June 2015 compared with January–June 2014

Operating profit excluding special items for UPM Paper Asia decreased to EUR 33 million (52 million).

Sales increased by 6% to EUR 598 million (562 million), mainly because of the decline in the euro exchange rate. Deliveries of 710,000 tonnes were at last year's level (712,000).

Operating profit decreased mainly due to higher pulp costs and negative impact of currency hedging, more than offsetting cost savings.

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 continues. Competition in the region remains intense as overcapacity prevails in all paper grades. The average market price in local currencies remained stable and was at the same level as in the first half of 2014.

The demand for labelling materials grew globally in the first half of the year, and average prices remained stable.

New investment and paper machine conversions to uncoated woodfree and labelling materials in Asia, as well as conversions to labelling materials in Europe, have intensified competition.

UPM Paper ENA

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales, EURm	1,210	1,256	1,361	1,303	1,286	1,334	2,466	2,620	5,284
EBITDA, EURm	38	56	84	113	100	95	94	195	392
% of sales	3.1	4.5	6.2	8.7	7.8	7.1	3.8	7.4	7.4
Share of results of associated companies and joint ventures, EURm	–	–	–	1	–	–	–	–	1
Depreciation, amortisation and impairment charges, EURm	–45	–52	–189	–52	–54	–54	–97	–108	–349
Operating profit, EURm	–9	5	–178	63	45	38	–4	83	–32
% of sales	–0.7	0.4	–13.1	4.8	3.5	2.8	–0.2	3.2	–0.6
Special items, EURm [1)]	–1	–	–208	1	–2	–4	–1	–6	–213
Operating profit excl. special items, EURm	–8	5	30	62	47	42	–3	89	181
% of sales	–0.7	0.4	2.2	4.8	3.7	3.1	–0.1	3.4	3.4
Paper deliveries, 1,000 t	2,046	2,023	2,225	2,136	2,098	2,148	4,069	4,246	8,607

[1)] In Q2 2015, special items of EUR 1 million relate to restructuring charges. 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.

Q2 2015 compared with Q2 2014
Operating loss excluding special items for UPM Paper ENA was EUR 8 million (profit of EUR 47 million).

Sales decreased to EUR 1,210 million (1,286 million). Paper deliveries decreased by 3% to 2,046,000 tonnes (2,098,000).

Operating profit decreased mainly due to higher euro-dominated pulp costs and lower publication paper prices in Europe. The average price for all paper deliveries in euro increased by 1%, due to favourable currency development on export prices. This positive impact was offset by currency hedges.

Q2 2015 compared with Q1 2015
Operating profit excluding special items decreased mainly because of currency hedges.

The average price for paper deliveries decreased slightly, which was offset by improved cost efficiency.

January–June 2015 compared with January–June 2014
Operating loss excluding special items for UPM Paper ENA was EUR 3 million (profit of 89 million).

Sales decreased to EUR 2,466 million (2,620 million). Deliveries decreased by 4% to 4,069,000 tonnes (4,246,000).

Operating profit decreased mainly due to higher euro-dominated pulp costs and lower publication paper prices in Europe. The average price for all paper deliveries in euro was on last year's level. The favourable currency development on export prices was moderated by currency hedges.

In March 2015, UPM closed down paper machine 2 at UPM Kaukas and paper machine 5 at UPM Jämsänkoski in Finland and, in February, paper machine 1 at UPM Shotton in the UK.

In June 2015, UPM closed down paper machine 3 at UPM Chapelle Darblay in France.

Market review
In the first half of 2015, demand for graphic papers in Europe was 5% lower than in the same period last year. Demand declined the most for newsprint, down 8% compared with the first half of 2014. In the second quarter, publication paper prices in Europe were 1% lower compared with the previous quarter, and in the first half 5% lower compared with the first half of 2014. Fine paper prices increased by 1% compared with the previous quarter and by 3% compared with the first half of 2014.

In the first half of 2015 demand for magazine papers in North America decreased by 6% compared with last year. The average US dollar price for magazine papers was on average at the same level as in Q1 2015 and 2% higher in the first half of 2015 compared with first half of 2014.

UPM Plywood

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales, EURm	113	119	107	101	118	114	232	232	440
EBITDA, EURm	18	25	20	13	18	17	43	35	68
% of sales	15.9	21.0	18.7	12.9	15.3	14.9	18.5	15.1	15.5
Depreciation, amortisation and impairment charges, EURm	–5	–6	–6	–6	–6	–6	–11	–12	–24
Operating profit, EURm	13	19	14	7	12	11	32	23	44
% of sales	11.5	16.0	13.1	6.9	10.2	9.6	13.8	9.9	10.0
Special items, EURm	–	–	–	–	–	–	–	–	–
Operating profit excl. special items, EURm	13	19	14	7	12	11	32	23	44
% of sales	11.5	16.0	13.1	6.9	10.2	9.6	13.8	9.9	10.0
Deliveries, plywood, 1,000 m^3	193	199	176	168	199	188	392	387	731

Q2 2015 compared with Q2 2014
Operating profit excluding special items for UPM Plywood was EUR 13 million (12 million). Sales decreased by 4% to EUR 113 million (118 million) and deliveries by 3% to 193,000 cubic metres (199,000).

Operating profit increased mainly due to lower variable costs, more than offsetting the impact of lower delivery volumes.

Q2 2015 compared with Q1 2015
Operating profit excluding special items decreased, mainly because of higher maintenance costs and lower delivery volumes.

January–June 2015 compared with January–June 2014
Operating profit excluding special items for UPM Plywood increased to EUR 32 million (23 million).

Sales were EUR 232 million (232 million) and deliveries increased by 1% to 392,000 cubic metres (387,000).

Operating profit increased mainly because of the improved sales margin resulting from clearly lower variable costs and slightly higher sales prices. Lower variable costs were partly driven by favourable currency impact.

Market review
Plywood demand continued to strengthen in the first half of 2015. Compared with first half of 2014 demand development was somewhat stronger in industrial applications compared with construction-related end-use segments. The plywood market in Europe remained in balance.

Other operations

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales, EURm	119	114	113	102	113	119	233	232	447
EBITDA, EURm	–1	–3	–5	1	–7	–10	–4	–17	–21
Change in fair value of biological assets and wood harvested, EURm	25	14	27	16	15	11	39	26	69
Share of results of associated companies and joint ventures, EURm	–	–	–	–	1	–	–	1	1
Depreciation, amortisation and impairment charges, EURm	–4	–3	–3	–3	–2	–3	–7	–5	–11
Operating profit, EURm	23	6	64	13	8	–3	29	5	82
Special items, EURm [1]	3	–1	45	–1	2	–1	2	1	45
Operating profit excl. special items, EURm	20	7	19	14	6	–2	27	4	37

[1] In Q2 2015, special items of EUR 3 million mainly relate to capital gains from the sale of assets. In Q1 2015, special items of EUR 1 million relate to restructuring measures. 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.

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

Q2 2015 compared with Q2 2014

Operating profit excluding special items increased to EUR 20 million (6 million). Sales increased to EUR 119 million (113 million).

The increase in the fair value of biological assets net of wood harvested was EUR 25 million (15 million). The increase in the fair value of biological assets (growing trees) was EUR 38 million (26 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 13 million (11 million).

Q2 2015 compared with Q1 2015

Operating profit excluding special items increased to EUR 20 million (7 million). Sales were EUR 119 million (114 million).

The increase in the fair value of biological assets net of wood harvested was EUR 25 million (14 million). The increase in the fair value of biological assets (growing trees) was EUR 38 million (25 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 13 million (11 million).

January–June 2015 compared with January–June 2014

Operating profit excluding special items increased to EUR 27 million (4 million). Sales increased to EUR 233 million (232 million).

The increase in the fair value of biological assets net of wood harvested was EUR 39 million (26 million). The increase in the fair value of biological assets (growing trees) was EUR 63 million (49 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 24 million (23 million).

Dividend

In accordance with the decision of the Annual General Meeting held on 9 April 2015, a dividend of EUR 0.70 per share (totalling EUR 373 million) was paid on 23 April 2015.

Shares

In Q1–Q2 2015, UPM shares worth EUR 4,498 million (3,062 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent about two-thirds of all trading volumes in UPM shares. The highest quotation was EUR 19.26 in April and the lowest EUR 13.45 in January.

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

The Annual General Meeting held on 9 April 2015 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 number of shares entered in the Trade Register on 30 June 2015 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 June 2015, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of company shares and voting rights.

Company Directors

At the Annual General Meeting held on 9 April 2015, the number of members of the Board of Directors was increased from nine to ten and Berndt Brunow, Piia-Noora Kauppi, Wendy E. Lane, Jussi Pesonen, Ari Puheloinen, 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. Suzanne Thoma and Henrik Ehrnrooth were elected as new members of the board. Matti Alahuhta 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, Piia-Noora Kauppi was elected as chair of the Audit Committee and Wendy E. Lane and Kim Wahl as other committee members. Veli-Matti Reinikkala was elected as chair of the Remuneration Committee, and Henrik Ehrnrooth and Suzanne Thoma were elected as other committee members. Björn Wahlroos was elected as chair of the Nomination and Governance Committee and Berndt Brunow and Ari Puheloinen as other committee members.

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. On 18 June 2015 the District Court dismissed the actions by Metsäliitto and Metsä Board. The decision is not final.

On 27 March 2015 Helsinki District Court rendered decisions regarding UPM's action for invalidation of a patent of Neste Oil Oyj (Neste) and Neste's action for a declaratory judgment against UPM, in which Neste sought the court's declaration that based on its patent Neste enjoys protection against the technology allegedly used by UPM at its biorefinery. The District Court dismissed both actions. The decisions have been appealed to the Helsinki Court of Appeal. Neste has filed a separate 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 biorefinery. UPM considers Neste's action to be without merit.

In February 2015, the claims relating to the implementation of the social plan after the closure of the Docelles mill in 2014 were brought to Commercial Court of Epinal, France. The claimants, the co-operative (SCOP) established by former employees of the Docelles mill as well as certain former employees of the mill, seek the forced sale of the assets of the Docelles mill to the SCOP for 2 euros and damages in the amount of approximately EUR 55 million for the alleged lost sales. UPM considers the claims to be without merit. No provisions have been made for the claims.

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 58.5% 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's monetary claim, as updated in 2014, is in total approximately EUR 3.4 billion. The claim covers events occurred during the construction period until the end of June 2011. 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 current 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, 28 July 2015

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q2/2015	Q2/2014	Q1–Q2/2015	Q1–Q2/2014	Q1–Q4/2014
Sales	2,548	2,441	5,034	4,922	9,868
Other operating income	25	9	32	16	91
Costs and expenses	–2,270	–2,161	–4,445	–4,340	–8,708
Change in fair value of biological assets and wood harvested	31	17	47	29	78
Share of results of associated companies and joint ventures	1	2	1	2	3
Depreciation, amortisation and impairment charges	–129	–132	–260	–262	–658
Operating profit (loss)	206	176	409	367	674
Gains on available-for-sale investments, net	–	–	–	59	59
Exchange rate and fair value gains and losses	–3	–1	–10	–4	–4
Interest and other finance costs, net	–21	–16	–36	–26	–62
Profit (loss) before tax	182	159	363	396	667
Income taxes	–22	–30	–48	–74	–155
Profit (loss) for the period	160	129	315	322	512
Attributable to:					
Owners of the parent company	160	129	315	322	512
Non-controlling interests	–	–	–	–	–
	160	129	315	322	512
Earnings per share for profit (loss) attributable to owners of the parent company					
Basic earnings per share, EUR	0.30	0.25	0.59	0.61	0.96
Diluted earnings per share, EUR	0.30	0.25	0.59	0.61	0.96

Consolidated statement of comprehensive income

EURm	Q2/2015	Q2/2014	Q1–Q2/2015	Q1–Q2/2014	Q1–Q4/2014
Profit (loss) for the period	160	129	315	322	512
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	170	–20	63	–61	–181
Items that may be reclassified subsequently to income statement:					
Translation differences	–110	69	265	23	291
Net investment hedge	9	–24	–33	–4	–41
Cash flow hedges	67	–24	17	–55	–107
Available-for-sale investments	–97	–	–98	–54	–164
	–131	21	151	–90	–21
Other comprehensive income for the period, net of tax	39	1	214	–151	–202
Total comprehensive income for the period	199	130	529	171	310
Total comprehensive income attributable to:					
Owners of the parent company	199	130	529	171	310
Non-controlling interests	–	–	–	–	–
	199	130	529	171	310

Consolidated balance sheet

EURm	30.6.2015	30.6.2014	31.12.2014
ASSETS			
Non-current assets			
Goodwill	238	219	230
Other intangible assets	346	349	340
Property, plant and equipment	4,822	4,678	4,707
Investment property	29	33	31
Biological assets	1,471	1,453	1,469
Investments in associated companies and joint ventures	27	24	25
Available-for-sale investments	2,411	2,598	2,510
Other non-current financial assets	307	296	334
Deferred tax assets	515	562	532
Other non-current assets	135	123	91
	10,301	10,335	10,269
Current assets			
Inventories	1,406	1,341	1,356
Trade and other receivables	2,023	1,944	1,856
Income tax receivables	37	47	14
Cash and cash equivalents	409	794	700
	3,875	4,126	3,926
Total assets	14,176	14,461	14,195
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Treasury shares	–2	–2	–2
Translation differences	488	25	256
Fair value and other reserves	1,785	2,034	1,867
Reserve for invested non-restricted equity	1,273	1,256	1,273
Retained earnings	3,195	3,118	3,194
	7,629	7,321	7,478
Non-controlling interests	2	6	2
Total equity	7,631	7,327	7,480
Non-current liabilities			
Deferred tax liabilities	429	481	428
Retirement benefit obligations	832	739	867
Provisions	171	153	214
Interest-bearing liabilities	2,844	3,403	3,058
Other liabilities	137	153	150
	4,413	4,929	4,717
Current liabilities			
Current interest-bearing liabilities	537	660	406
Trade and other payables	1,579	1,472	1,549
Income tax payables	16	73	43
	2,132	2,205	1,998
Total liabilities	6,545	7,134	6,715
Total equity and liabilities	14,176	14,461	14,195

Consolidated statement of changes in equity

	Attributable to owners of the parent company								
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
Balance at 1 January 2014	890	−2	6	2,256	1,226	3,073	7,449	6	7,455
Profit (loss) for the period	–	–	–	–	–	322	322	–	322
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	−61	−61	–	−61
Translation differences	–	–	23	–	–	–	23	–	23
Net investment hedge, net of tax	–	–	−4	–	–	–	−4	–	−4
Cash flow hedges, net of tax	–	–	–	−55	–	–	−55	–	−55
Available-for-sale investments, net of tax	–	–	–	−54	–	–	−54	–	−54
Total comprehensive income for the period	–	–	19	−109	–	261	171	–	171
Share options exercised	–	–	–	–	30	–	30	–	30
Share-based compensation, net of tax	–	–	–	−10	–	10	–	–	–
Dividend distribution	–	–	–	–	–	−319	−319	–	−319
Other items and reclassifications	–	–	–	−103	–	93	−10	–	−10
Total transactions with owners for the period	–	–	–	−113	30	−216	−299	–	−299
Balance at 30 June 2014	890	−2	25	2,034	1,256	3,118	7,321	6	7,327
Balance at 1 January 2015	890	−2	256	1,867	1,273	3,194	7,478	2	7,480
Profit (loss) for the period	–	–	–	–	–	315	315	–	315
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	63	63	–	63
Translation differences	–	–	265	–	–	–	265	–	265
Net investment hedge, net of tax	–	–	−33	–	–	–	−33	–	−33
Cash flow hedges, net of tax	–	–	–	17	–	–	17	–	17
Available-for-sale investments, net of tax	–	–	–	−98	–	–	−98	–	−98
Total comprehensive income for the period	–	–	232	−81	–	378	529	–	529
Share options exercised	–	–	–	–	–	–	–	–	–
Share-based compensation, net of tax	–	–	–	−1	–	−4	−5	–	−5
Dividend distribution						−373	−373		−373
Other items and reclassifications	–	–	–	–	–	–	–	–	–
Total transactions with owners for the period	–	–	–	−1	–	−377	−378	–	−378
Balance at 30 June 2015	890	−2	488	1,785	1,273	3,195	7,629	2	7,631

Condensed consolidated cash flow statement

EURm	Q1–Q2/2015	Q1–Q2/2014	Q1–Q4/2014
Cash flow from operating activities			
Profit (loss) for the period	315	322	512
Adjustments	334	254	779
Change in working capital	–116	–35	73
Cash generated from operations	533	541	1,364
Finance costs, net	–18	–21	–42
Income taxes paid	–83	–41	–81
Net cash generated from operating activities	432	479	1,241
Cash flow from investing activities			
Capital expenditure	–194	–174	–378
Acquisitions and share purchases	–2	–1	–32
Asset sales and other investing cash flow	13	71	163
Net cash used in investing activities	–183	–104	–247
Cash flow from financing activities			
Change in loans and other financial items	–170	–77	–824
Share options exercised	–	30	47
Dividends paid	–373	–319	–319
Net cash used in financing activities	–543	–366	–1,096
Change in cash and cash equivalents	–294	9	–102
Cash and cash equivalents at beginning of period	700	787	787
Foreign exchange effect on cash and cash equivalents	3	–2	15
Change in cash and cash equivalents	–294	9	–102
Cash and cash equivalents at end of period	409	794	700

Quarterly information

EURm	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales	2,548	2,486	2,531	2,415	2,441	2,481	5,034	4,922	9,868
Other operating income	25	7	61	14	9	7	32	16	91
Costs and expenses	–2,270	–2,175	–2,286	–2,082	–2,161	–2,179	–4,445	–4,340	–8,708
Change in fair value of biological assets and wood harvested	31	16	32	17	17	12	47	29	78
Share of results of associated companies and joint ventures	1	–	–	1	2	–	1	2	3
Depreciation, amortisation and impairment charges	–129	–131	–267	–129	–132	–130	–260	–262	–658
Operating profit (loss)	206	203	71	236	176	191	409	367	674
Gains on available-for-sale investments, net	–	–	–	–	–	59	–	59	59
Exchange rate and fair value gains and losses	–3	–7	3	–3	–1	–3	–10	–4	–4
Interest and other finance costs, net	–21	–15	–17	–19	–16	–10	–36	–26	–62
Profit (loss) before tax	182	181	57	214	159	237	363	396	667
Income taxes	–22	–26	–49	–32	–30	–44	–48	–74	–155
Profit (loss) for the period	160	155	8	182	129	193	315	322	512
Attributable to:									
Owners of the parent company	160	155	8	182	129	193	315	322	512
Non-controlling interests	–	–	–	–	–	–	–	–	–
	160	155	8	182	129	193	315	322	512
Basic earnings per share, EUR	0.30	0.29	0.01	0.34	0.25	0.36	0.59	0.61	0.96
Diluted earnings per share, EUR	0.30	0.29	0.01	0.34	0.25	0.36	0.59	0.61	0.96
Earnings per share, excluding special items, EUR	0.33	0.29	0.32	0.32	0.26	0.27	0.62	0.53	1.17
Average number of shares basic (1,000)	533,505	533,505	532,916	531,932	531,932	529,514	533,505	530,723	531,574
Average number of shares diluted (1,000)	533,505	533,505	532,202	532,114	532,201	529,777	533,505	530,989	531,574
Special items in operating profit (loss)	–21	–1	–159	1	–10	–5	–22	–15	–173
Operating profit (loss), excl. special items	227	204	230	235	186	196	431	382	847
% of sales	8.9	8.2	9.1	9.7	7.6	7.9	8.6	7.8	8.6
Special items in financial items	–	–	–	–	–	66	–	66	66
Special items before tax	–21	–1	–159	1	–10	61	–22	51	–107
Profit (loss) before tax, excl. special items	203	182	216	213	169	176	385	345	774
% of sales	8.0	7.3	8.5	8.8	6.9	7.1	7.6	7.0	7.8
Effect of special items on income taxes	5	1	–6	11	4	–13	6	–9	–4
Return on equity, excl. special items, %	9.1	8.1	9.2	9.1	7.3	7.7	8.8	7.6	8.3
Return on capital employed, excl. special items, %	8.1	7.0	8.2	8.0	6.5	6.6	7.6	6.6	7.5
EBITDA	317	325	334	344	305	323	642	628	1,306
% of sales	12.4	13.1	13.2	14.2	12.5	13.0	12.8	12.8	13.2

Quarterly segment information

EURm	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q2/15	Q1–Q2/14	Q1–Q4/14
Sales									
UPM Biorefining	601	533	484	480	477	496	1,134	973	1,937
UPM Energy	94	99	115	113	112	124	193	236	464
UPM Raflatac	351	342	330	312	306	300	693	606	1,248
UPM Paper Asia	300	298	288	274	285	277	598	562	1,124
UPM Paper ENA	1,210	1,256	1,361	1,303	1,286	1,334	2,466	2,620	5,284
UPM Plywood	113	119	107	101	118	114	232	232	440
Other operations	119	114	113	102	113	119	233	232	447
Internal sales	–219	–267	–248	–248	–241	–263	–486	–504	–1,000
Eliminations and reconciliations	–21	–8	–19	–22	–15	–20	–29	–35	–76
Sales, total	2,548	2,486	2,531	2,415	2,441	2,481	5,034	4,922	9,868
EBITDA									
UPM Biorefining	153	134	100	100	66	92	287	158	358
UPM Energy	43	40	59	46	49	59	83	108	213
UPM Raflatac	33	29	30	29	25	28	62	53	112
UPM Paper Asia	32	43	48	49	47	44	75	91	188
UPM Paper ENA	38	56	84	113	100	95	94	195	392
UPM Plywood	18	25	20	13	18	17	43	35	68
Other operations	–1	–3	–5	1	–7	–10	–4	–17	–21
Eliminations and reconciliations	1	1	–2	–7	7	–2	2	5	–4
EBITDA, total	317	325	334	344	305	323	642	628	1,306
Operating profit (loss)									
UPM Biorefining	118	97	72	64	31	56	215	87	223
UPM Energy	21	38	57	43	46	56	59	102	202
UPM Raflatac	20	21	21	21	7	20	41	27	69
UPM Paper Asia	11	22	27	29	27	25	33	52	108
UPM Paper ENA	–9	5	–178	63	45	38	–4	83	–32
UPM Plywood	13	19	14	7	12	11	32	23	44
Other operations	23	6	64	13	8	–3	29	5	82
Eliminations and reconciliations	9	–5	–6	–4	–	–12	4	–12	–22
Operating profit (loss), total	206	203	71	236	176	191	409	367	674
% of sales	8.1	8.2	2.8	9.8	7.2	7.7	8.1	7.5	6.8
Special items in operating profit									
UPM Biorefining	–	–	5	1	–	–	–	–	6
UPM Energy	–19	–	–	–	–	–	–19	–	–
UPM Raflatac	–4	–	–1	–	–10	–	–4	–10	–11
UPM Paper Asia	–	–	–	–	–	–	–	–	–
UPM Paper ENA	–1	–	–208	1	–2	–4	–1	–6	–213
UPM Plywood	–	–	–	–	–	–	–	–	–
Other operations	3	–1	45	–1	2	–1	2	1	45
Special items in operating profit, total	–21	–1	–159	1	–10	–5	–22	–15	–173
Operating profit (loss) excl. special items									
UPM Biorefining	118	97	67	63	31	56	215	87	217
UPM Energy	40	38	57	43	46	56	78	102	202
UPM Raflatac	24	21	22	21	17	20	45	37	80
UPM Paper Asia	11	22	27	29	27	25	33	52	108
UPM Paper ENA	–8	5	30	62	47	42	–3	89	181
UPM Plywood	13	19	14	7	12	11	32	23	44
Other operations	20	7	19	14	6	–2	27	4	37
Eliminations and reconciliations	9	–5	–6	–4	–	–12	4	–12	–22
Operating profit (loss) excl. special items, total	227	204	230	235	186	196	431	382	847
% of sales	8.9	8.2	9.1	9.7	7.6	7.9	8.6	7.8	8.6

Changes in property, plant and equipment

EURm	Q1–Q2/2015	Q1–Q2/2014	Q1–Q4/2014
Book value at beginning of period	4,707	4,757	4,757
Capital expenditure	191	144	369
Decreases	–8	–7	–21
Depreciation	–241	–234	–471
Impairment charges	–	–2	–138
Translation difference and other changes	173	20	211
Book value at end of period	4,822	4,678	4,707

Financial assets and liabilities measured at fair value

	30.6.2015				30.6.2014				31.12.2014			
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	2	48	–	50	1	64	–	65	1	61	–	62
Derivatives used for hedging	66	333	–	399	76	262	–	338	52	328	–	380
Available-for-sale investments	–	–	2,411	2,411	–	–	2,598	2,598	–	–	2,510	2,510
Total	68	381	2,411	2,860	77	326	2,598	3,001	53	389	2,510	2,952
Liabilities												
Trading derivatives	21	101	–	122	27	126	–	153	22	111	–	133
Derivatives used for hedging	88	115	–	203	96	75	–	171	81	156	–	237
Total	109	216	–	325	123	201	–	324	103	267	–	370

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–Q2/2015	Q1–Q2/2014	Q1–Q4/2014
Opening balance	2,510	2,661	2,661
Additions	1	–	31
Disposals	–	–	–1
Transfers from Level 3	–	–10	–10
Translation differences	1	–	2
Gains and losses			
Recognised in statement of comprehensive income, under available-for-sale investments	–101	–53	–173
Closing balance	2,411	2,598	2,510

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. A change of +/-5% in the electricity price used in the model would change the total value of the assets by +/- EUR 359 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	30.6.2015	30.6.2014	31.12.2014
Non-current interest bearing liabilities, excl. derivative financial instruments	2,818	3,373	3,037

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

Commitments and contingencies

EURm	30.6.2015	30.6.2014	31.12.2014
Own commitments			
Mortgages	254	323	289
On behalf of others			
Other guarantees	5	5	5
Other own commitments			
Leasing commitments for the next 12 months	65	60	60
Leasing commitments for subsequent periods	342	345	339
Other commitments	148	162	160

Capital commitments

EURm	Completion	Total cost	By 31.12.2014	Q1–Q2/2015	After 30.6.2015
PM3 / Changshu	Q4 2015	277	65	50	162
Capacity increase / Kymi	Q4 2015	160	42	39	79
Debottlenecking / Kaukas Pulp Mill	Q4 2016	52	–	–	52
Mill expansion / Otepää	Q4 2016	42	–	5	37

Notional amounts of derivative financial instruments

EURm	30.6.2015	30.6.2014	31.12.2014
Forward foreign exchange contracts	4,692	4,507	4,465
Currency options, bought	4	4	19
Currency options, written	4	3	19
Interest rate forward contracts	2,210	2,829	2,310
Interest rate swaps	2,167	1,972	2,134
Cross currency swaps	667	829	617
Commodity contracts	352	505	442

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 2014. 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, %:

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

Return on capital employed, %:

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

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

	30.6.2015	31.3.2015	31.12.2014	30.9.2014	30.6.2014	31.3.2014
USD	1.1189	1.0759	1.2141	1.2583	1.3658	1.3788
CAD	1.3839	1.3738	1.4063	1.4058	1.4589	1.5225
JPY	137.01	128.95	145.23	138.11	138.44	142.42
GBP	0.7114	0.7273	0.7789	0.7773	0.8015	0.8282
SEK	9.2150	9.2901	9.3930	9.1465	9.1762	8.9483

UPM

www.upm.com

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