

INTERIM REPORT 1 JANUARY – 30 JUNE 2014

MORE WITH BIOFORE

UPM interim report 1 January – 30 June 2014

Q2 2014 compared with Q2 2013

- Earnings per share excluding special items were EUR 0.26 (0.20), and reported EUR 0.25 (0.22)
- Operating profit excluding special items increased to EUR 186 million, 7.6% of sales (138 million, 5.5% of sales), due to the successful profit improvement programme
- EBITDA was EUR 298 million, 12.2% of sales (258 million, 10.2% of sales)
- The Lappeenranta renewable diesel refinery started its testing and commissioning process; the UPM Fray Bentos pulp mill received an increased production permit
- 94% of the targeted annualised EUR 200 million cost savings achieved in Q2 2014

Q1–Q2 2014 compared with Q1–Q2 2013

- Earnings per share excluding special items were EUR 0.53 (0.38), and reported EUR 0.61 (0.31)
- Operating profit excluding special items increased to EUR 382 million, 7.8% of sales (282 million, 5.6% of sales), due to the successful profit improvement programme
- EBITDA was EUR 611 million, 12.4% of sales (542 million, 10.9% of sales)
- Growth projects progressed in UPM Biorefining, UPM Paper Asia and UPM Raflatac
- Strong operating cash flow at EUR 479 million (187 million), net debt decreased to EUR 2,925 million

Key figures

	Q2/2014	Q2/2013	Q1/2014	Q1–Q2/2014	Q1–Q2/2013	Q1–Q4/2013
Sales, EURm	2,441	2,520	2,481	4,922	4,994	10,054
EBITDA, EURm ¹⁾	298	258	313	611	542	1,155
% of sales	12.2	10.2	12.6	12.4	10.9	11.5
Operating profit (loss), EURm	176	146	191	367	227	548
excluding special items, EURm	186	138	196	382	282	683
% of sales	7.6	5.5	7.9	7.8	5.6	6.8
Profit (loss) before tax, EURm	159	128	237	396	194	475
excluding special items, EURm	169	120	176	345	249	610
Profit (loss) for the period, EURm	129	114	193	322	161	335
Earnings per share, EUR	0.25	0.22	0.36	0.61	0.31	0.63
excluding special items, EUR	0.26	0.20	0.27	0.53	0.38	0.91
Diluted earnings per share, EUR	0.25	0.22	0.36	0.61	0.31	0.63
Return on equity, %	7.0	6.1	10.3	8.7	4.3	4.5
excluding special items, %	7.3	5.7	7.7	7.6	5.4	6.4
Return on capital employed, %	6.1	5.2	8.7	7.5	4.1	4.8
excluding special items, %	6.5	4.9	6.6	6.6	5.0	6.0
Operating cash flow per share, EUR	0.40	0.16	0.50	0.90	0.35	1.39
Equity per share at end of period, EUR	13.76	13.93	14.12	13.76	13.93	14.08
Gearing ratio at end of period, %	40	48	37	40	48	41
Net interest-bearing liabilities at end of period, EURm	2,925	3,524	2,777	2,925	3,524	3,040
Capital employed at end of period, EURm	11,390	11,557	11,610	11,390	11,557	11,583
Capital expenditure, EURm	104	108	48	152	168	362
Capital expenditure excluding acquisitions and shares, EURm	104	76	47	151	136	329
Personnel at end of period	21,496	22,606	20,768	21,496	22,606	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

Q2 2014 compared with Q2 2013

Sales for Q2 2014 were EUR 2,441 million, 3% lower than the EUR 2,520 million in Q2 2013. Sales decreased mainly due to lower deliveries in UPM Paper ENA.

EBITDA was EUR 298 million, 12.2% of sales (258 million, 10.2% 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 higher deliveries. UPM Paper Asia increased its EBITDA mainly due to lower variable and fixed costs. UPM Energy reported the same EBITDA as last year. EBITDA was lower in UPM Biorefining and UPM Raflatac. UPM Biorefining was impacted by lower hardwood pulp prices, the scheduled maintenance shutdown at the UPM Pietarsaari pulp mill

and a prolonged start-up at the UPM Kaukas pulp mill following its maintenance shutdown. UPM Raflatac was impacted by temporary operational issues.

Operating profit excluding special items was EUR 186 million, 7.6% of sales (138 million, 5.5%). Depreciation totalled EUR 130 million (135 million).

Reported operating profit was EUR 176 million, 7.2% of sales (146 million, 5.8% of sales). Operating profit includes net charges of EUR 10 million as special items, mainly related to restructuring measures in UPM Raflatac.

The increase in the fair value of biological assets net of wood harvested was EUR 17 million (14 million).

Profit before tax was EUR 159 million (128 million) and excluding special items EUR 169 million (120 million). Net interest and other finance costs were EUR 16 million (23 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 1 million (gain of EUR 5 million).

Income taxes were EUR 30 million (14 million). Special items in taxes were EUR 4 million positive (0 million).

Profit for Q2 2014 was EUR 129 million (114 million) and earnings per share were EUR 0.25 (0.22). Earnings per share excluding special items were EUR 0.26 (0.20).

Q2 2014 compared with Q1 2014

EBITDA was EUR 298 million, 12.2% of sales (313 million, 12.6% of sales).

EBITDA decreased in UPM Biorefining mainly due to lower hardwood pulp prices and a prolonged start-up at the UPM Kaukas pulp mill following its maintenance shutdown. EBITDA in UPM Energy decreased seasonally. UPM Raflatac was impacted by temporary operational issues, resulting in a lower EBITDA. EBITDA increased in UPM Paper ENA, UPM Paper Asia and UPM Plywood, mainly due to lower variable costs.

Operating profit excluding special items was EUR 186 million, 7.6% of sales (196 million, 7.9%). Depreciation totalled EUR 130 million (130 million).

The increase in the fair value of biological assets net of wood harvested was EUR 17 million (12 million).

January–June 2014 compared with January–June 2013

Sales for Q1–Q2 2014 were EUR 4,922 million, 1% lower than the EUR 4,994 million in Q1–Q2 2013. Sales decreased mainly due to lower deliveries in UPM Paper ENA.

EBITDA was EUR 611 million, 12.4% of sales (542 million, 10.9% 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 higher deliveries. UPM Paper Asia increased its EBITDA mainly due to lower variable and fixed costs and higher deliveries. UPM Energy and UPM Raflatac reported about the same EBITDA as last year. EBITDA decreased in UPM Biorefining, mainly due to lower hardwood pulp prices, the maintenance shutdowns at the UPM Kaukas and UPM Pietarsaari pulp mills and a prolonged start-up at the UPM Kaukas pulp mill following its maintenance stop.

Operating profit excluding special items was EUR 382 million, 7.8% of sales (282 million, 5.6%). Depreciation totalled EUR 260 million (274 million).

Reported operating profit was EUR 367 million, 7.5% of sales (227 million, 4.5% of sales). Operating profit includes net charges of EUR 15 million as special items, mainly related to the restructuring measures in UPM Raflatac, and 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 29 million (20 million).

Profit before tax was EUR 396 million (194 million) and excluding special items EUR 345 million (249 million). Net interest and other finance costs were EUR 26 million (43 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 4 million (gain of EUR 10 million). Financial items include a special income of EUR 66 million related to the sale of Metsä Fibre shares in 2012 due to UPM's tag-along rights under the shareholders' agreement. The amount is based on the resolution of arbitration proceedings between UPM and Metsäliitto Cooperative and Metsä Board Corporation.

Income taxes were EUR 74 million (33 million). Special items in taxes were EUR 9 million negative (15 million positive).

Profit for Q1–Q2 2014 was EUR 322 million (161 million) and earnings per share were EUR 0.61 (0.31). Earnings per share excluding special items were EUR 0.53 (0.38).

Operating cash flow per share was EUR 0.90 (0.35).

Financing

In Q1–Q2 2014, cash flow from operating activities before capital expenditure and financing totalled EUR 479 million (187 million). Working capital increased by EUR 35 million (215 million) during the period.

The gearing ratio as of 30 June 2014 was 40% (48%). Net interest-bearing liabilities at the end of the period came to EUR 2,925 million (3,524 million).

On 30 June 2014, UPM's cash funds and unused committed credit facilities totalled EUR 1.8 billion.

Personnel

In Q1–Q2 2014, UPM had an average of 20,980 employees (22,189). At the beginning of the year the number of employees was 20,950, and at the end of Q2 2014 it was 21,496.

Capital expenditure

In Q1–Q2 2014, capital expenditure excluding investments in shares was EUR 151 million, 3.1% of sales (136 million, 2.7% 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 projects, 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 projects targeting EUR 200 million of additional EBITDA

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

Biofuels, 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 additional EBITDA contribution of EUR 200 million when in full operation.

The total investment requirement in these projects is EUR 680 million. EUR 190 million has already been invested, and the total remaining capital expenditure in the coming two years would be EUR 490 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. Construction of the refinery has been completed, and the testing and commissioning process was started in July 2014. The sales agreement with NEOT (North European Oil Trade) was signed in June, and the refinery is expected to start commercial production of renewable diesel during autumn 2014. The total investment will amount to approximately EUR 175 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.

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

Further debottlenecking potential has been identified at the UPM Fray Bentos and UPM Kaukas pulp mills. In June 2014, UPM received an increased production permit for Fray Bentos pulp mill in Uruguay, entitling the mill to increase its production from the current 1,200,000 tonnes to 1,300,000 tonnes. To increase the production, minor investments are planned for 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 in the Changshu labelstock factory in China and upgrading machinery in the Johor Bahru factory in Malaysia. The investments totalling to EUR 14 million are expected to be completed by 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 Q2 2014, the actions under the profit improvement programme reduced UPM's costs by EUR 47 million, i.e. approximately 94% 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 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 Group's management is not aware of any significant events occurring after 30 June 2014.

Outlook for 2014

Growth in the European economy is expected to be modest in 2014, but to improve over last year. In the US, growth is expected to remain stable at a moderate level, whereas solid growth is expected to continue in the developing economies.

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 over the past two years and stimulate European demand for wood products. The current hydrological situation in Finland is slightly above the long term average level, and the forward electricity prices in Finland for H2 2014 are lower than the realised market prices in H2 2013.

UPM's business outlook is broadly stable.

In H2 2014, UPM's performance is expected to be underpinned by similar or slightly better performance in UPM Paper ENA, UPM Paper Asia, UPM Raflatac, UPM Plywood and UPM Energy, when compared to H2 2013.

UPM Biorefining's performance in H2 2014 compared to H2 2013 continues to be impacted by lower chemical pulp prices. Commercial production of renewable diesel at the Lappeenranta refinery is expected to start during autumn 2014, but the impact on UPM Biorefining's earnings during H2 2014 is expected to be minor.

Business area reviews

UPM Biorefining

	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales, EURm	477	496	497	484	512	495	973	1,007	1,988
EBITDA, EURm ¹⁾	66	92	100	100	128	107	158	235	435
% of sales	13.8	18.5	20.1	20.7	25.0	21.6	16.2	23.3	21.9
Change in fair value of biological assets and wood harvested, EURm	2	1	4	3	6	2	3	8	15
Share of results of associated companies and joint ventures, EURm	1	-	-	-	1	-	1	1	1
Depreciation, amortisation and impairment charges, EURm	-38	-37	-37	-38	-38	-39	-75	-77	-152
Operating profit, EURm	31	56	63	73	102	68	87	170	306
% of sales	6.5	11.3	12.7	15.1	19.9	13.7	8.9	16.9	15.4
Special items, EURm ²⁾	-	-	-3	6	5	-2	-	3	6
Operating profit excl. special items, EURm	31	56	66	67	97	70	87	167	300
% of sales	6.5	11.3	13.3	13.8	18.9	14.1	8.9	16.6	15.1
Pulp deliveries, 1,000 t	832	816	810	789	774	790	1,648	1,564	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.

Q2 2014 compared with Q2 2013

Operating profit excluding special items for UPM Biorefining decreased to EUR 31 million (97 million). Sales were EUR 477 million (512 million). Pulp deliveries increased by 7% to 832,000 tonnes (774,000).

Operating profit decreased mainly due to lower hardwood pulp prices, partly due to adverse currency impact, the scheduled maintenance shutdown at the UPM Pietarsaari pulp mill and a prolonged start-up at the UPM Kaukas pulp mill following its maintenance shutdown.

Q2 2014 compared with Q1 2014

Operating profit excluding special items decreased mainly due to lower hardwood pulp prices and a prolonged start-up at the UPM Kaukas pulp mill following its maintenance shutdown.

January-June 2014 compared with January-June 2013

Operating profit excluding special items for UPM Biorefining decreased to EUR 87 million (167 million). Sales decreased by 3% to EUR 973 million (1,007 million). Pulp deliveries increased by 5% to 1,648,000 tonnes (1,564,000).

Operating profit decreased mainly due to lower hardwood pulp prices, partly due to adverse currency impact, the maintenance shutdowns at the UPM Kaukas and UPM Pietarsaari pulp mills and a prolonged start-up at the UPM Kaukas pulp mill following its maintenance stop.

Market review

In the first half of 2014, the average softwood pulp (NBSK) market price was EUR 671/tonne, 5% higher than during the same period last year (637/tonne). At the end of June, the softwood pulp market price was EUR 681/tonne (653/tonne). The average market price of hardwood pulp (BHKP) was EUR 554/tonne, 9% lower than in the same period last year (610/tonne). At the end of June the BHKP market price was EUR 546/tonne (623/tonne).

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

UPM Energy

	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales, EURm	112	124	115	109	110	132	236	242	466
EBITDA, EURm ¹⁾	49	59	48	43	49	58	108	107	198
% of sales	43.7	47.6	41.7	39.4	44.5	43.9	45.8	44.2	42.5
Share of results of associated companies and joint ventures, EURm	-	-	-	-1	-	-	-	-	-1
Depreciation, amortisation and impairment charges, EURm	-3	-3	-3	-2	-3	-3	-6	-6	-11
Operating profit, EURm	46	56	45	40	46	55	102	101	186
% of sales	41.1	45.2	39.1	36.7	41.8	41.7	43.2	41.7	39.9
Special items, EURm	-	-	-	-	-	-	-	-	-
Operating profit excl. special items, EURm	46	56	45	40	46	55	102	101	186
% of sales	41.1	45.2	39.1	36.7	41.8	41.7	43.2	41.7	39.9
Electricity deliveries, GWh	2,112	2,305	2,164	2,027	2,221	2,513	4,417	4,734	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.

Q2 2014 compared with Q2 2013

Operating profit excluding special items for UPM Energy was EUR 46 million (46 million). Sales were EUR 112 million (110 million). The total electricity sales volume was 2,112 GWh (2,221 GWh).

Operating profit remained on last year's level as the decrease in costs offset the impact of lower average sales prices.

The average electricity sales price decreased by 1% to EUR 44.5/MWh (45.0/MWh).

Q2 2014 compared with Q1 2014

Operating profit excluding special items decreased, mainly due to seasonally lower volumes and prices. The average electricity sales price decreased to EUR 44.5/MWh (45.8/MWh).

January–June 2014 compared with January–June 2013

Operating profit excluding special items for UPM Energy was EUR 102 million (101 million). Sales decreased to EUR 236 million (242 million). The total electricity sales volume was 4,417 GWh (4,734 GWh).

Operating profit excluding special items 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 45.2/MWh (45.9/MWh).

Market review

The average Finnish area spot price on the Nordic electricity exchange in the first half of the year was EUR 34.9/MWh, 15% lower than during the same period last year (41.1/MWh). The Finnish area price was above the Nord Pool system price due to dependency on imports for peak hours. In June, Finnish hydrological balance was 7% above the long term average while the total Nordic hydrological balance was 10% below the long term average level. Coal prices were significantly lower than last year. The CO₂ emission allowance price of EUR 5.9/tonne at the end of the period was higher than on the same date last year (EUR 4.2/tonne). The Finnish area front-year forward price closed at EUR 37.3/MWh at the end of the period, 7% lower than on the same date last year (39.9/MWh).

UPM Raflatac

	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales, EURm	306	300	298	307	309	299	606	608	1,213
EBITDA, EURm ¹⁾	25	28	25	30	28	26	53	54	109
% of sales	8.2	9.3	8.4	9.8	9.1	8.7	8.7	8.9	9.0
Depreciation, amortisation and impairment charges, EURm	-10	-8	-9	-10	-9	-8	-18	-17	-36
Operating profit, EURm	7	20	16	7	19	18	27	37	60
% of sales	2.3	6.7	5.4	2.3	6.1	6.0	4.5	6.1	4.9
Special items, EURm ²⁾	-10	-	-	-15	-	-	-10	-	-15
Operating profit excl. special items, EURm	17	20	16	22	19	18	37	37	75
% of sales	5.6	6.7	5.4	7.2	6.1	6.0	6.1	6.1	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 Q2 2014, special items of EUR 10 million relate to restructuring charges, including impairments of EUR 2 million. In Q3 2013, special items of EUR 15 million relate to restructuring charges, including impairments of EUR 2 million.

Q2 2014 compared with Q2 2013

Operating profit excluding special items for UPM Raflatac decreased to EUR 17 million (19 million). Sales were EUR 306 million (309 million).

Operating profit decreased due to temporary operational issues and currency impact. Lower fixed costs and higher delivery volumes offset the negative sales margin impact. The coating operations in Melbourne, Australia were closed in May.

Q2 2014 compared with Q1 2014

Operating profit excluding special items decreased. Higher delivery volumes offset the negative sales margin impact, but not the impact of temporary operational issues.

January–June 2014 compared with January–June 2013

Operating profit excluding special items for UPM Raflatac was EUR 37 million (37 million). Sales were EUR 606 million (608 million).

Operating profit excluding special items remained on last year's level as temporary operational issues and negative currency impact offset the impact of higher delivery volumes and lower fixed costs.

Market review

In the first half of 2014, global demand for self-adhesive label materials increased. In Western Europe demand is estimated to have improved. Demand in North America increased slightly after a weak first quarter, impacted by poor weather conditions. In Eastern Europe, Asia and Latin America growth continued.

UPM Paper Asia

	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales, EURm	285	277	268	274	289	277	562	566	1,108
EBITDA, EURm ¹⁾	47	44	36	40	42	43	91	85	161
% of sales	16.5	15.9	13.4	14.6	14.5	15.5	16.2	15.0	14.5
Depreciation, amortisation and impairment charges, EURm	-20	-19	-20	-20	-20	-21	-39	-41	-81
Operating profit, EURm	27	25	17	19	22	22	52	44	80
% of sales	9.5	9.0	6.3	6.9	7.6	7.9	9.3	7.8	7.2
Special items, EURm ²⁾	-	-	1	-1	-	-	-	-	-
Operating profit excl. special items, EURm	27	25	16	20	22	22	52	44	80
% of sales	9.5	9.0	6.0	7.3	7.6	7.9	9.3	7.8	7.2
Paper deliveries, 1,000 t	365	347	344	341	354	339	712	693	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.

Q2 2014 compared with Q2 2013

Operating profit excluding special items for UPM Paper Asia increased to EUR 27 million (22 million).

Sales were EUR 285 million (289 million). Paper deliveries increased by 3% to 365,000 tonnes (354,000).

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

Q2 2014 compared with Q1 2014

Operating profit excluding special items increased due to lower costs and higher delivery volumes.

January-June 2014 compared with January-June 2013

Operating profit excluding special items for UPM Paper Asia increased to EUR 52 million (44 million). Sales were EUR 562 million (566 million). Paper deliveries increased by 3% to 712,000 tonnes (693,000).

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

Market review

Fine paper demand remained on last year's level in Asia, though this varied by product and market segment. Competition in the region has been intense. Fine paper prices in Asia remained broadly stable in the first half of 2014. On average, market prices were lower than last year, which was compounded by the negative currency impact.

The demand for label papers grew globally in the first half of the year and average prices remained stable.

UPM Paper ENA

	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales, EURm	1,286	1,334	1,445	1,392	1,358	1,365	2,620	2,723	5,560
EBITDA, EURm ¹⁾	100	95	86	83	34	29	195	63	232
% of sales	7.8	7.1	6.0	6.0	2.5	2.1	7.4	2.3	4.2
Share of results of associated companies and joint ventures, EURm	-	-	-	1	-	-	-	-	1
Depreciation, amortisation and impairment charges, EURm	-54	-54	-55	-57	-56	-65	-108	-121	-233
Operating profit, EURm	45	38	14	36	-18	-91	83	-109	-59
% of sales	3.5	2.8	1.0	2.6	-1.3	-6.7	3.2	-4.0	-1.1
Special items, EURm ²⁾	-2	-4	-17	7	5	-54	-6	-49	-59
Operating profit excl. special items, EURm	47	42	31	29	-23	-37	89	-60	0
% of sales	3.7	3.1	2.1	2.1	-1.7	-2.7	3.4	-2.2	0.0
Paper deliveries, 1,000 t	2,098	2,148	2,332	2,258	2,181	2,139	4,246	4,320	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 Q2 2014, special items of EUR 2 million relate to restructuring measures. In Q1 2014, special items of EUR 4 million relate mainly to the closure of the UPM Docelles mill in France, including impairment charges of EUR 1 million. In Q4 2013, special items include charges of EUR 25 million related to the restructuring of the UPM Docelles mill in France and a net income of EUR 8 million related to other restructuring measures. In Q3 2013, special items include impairment charges of EUR 3 million and a net income of EUR 10 million related to the ongoing restructuring. In Q2 2013, special income of EUR 5 million relate to restructuring measures. In Q1 2013, special items of EUR 54 million relate to restructuring charges.

Q2 2014 compared with Q2 2013

Operating profit excluding special items for UPM Paper ENA increased significantly to EUR 47 million (loss of EUR 23 million).

Sales decreased to EUR 1,286 million (1,358 million). Paper deliveries decreased by 4% to 2,098,000 tonnes (2,181,000).

Operating profit increased due to lower variable and fixed costs, to a large extent driven by the ongoing profit improvement programme.

The average price for all paper deliveries in euros was approximately 1% lower than last year.

Q2 2014 compared with Q1 2014

Operating profit excluding special items increased mainly due to lower variable costs, more than offsetting the negative sales price impact.

The average price for paper deliveries decreased by 1%.

January–June 2014 compared with January–June 2013

Operating profit excluding special items for UPM Paper ENA increased significantly to EUR 89 million (loss of EUR 60 million).

Sales decreased to EUR 2,620 million (2,723 million). Paper deliveries decreased by 2% to 4,246,000 tonnes (4,320,000).

Operating profit increased due to lower variable and fixed costs, to a large extent driven by the ongoing profit improvement programme.

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

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

Market review

In the first half of 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 half of the year and were on the same level as in the first half of 2013. In North America, demand for magazine papers decreased by 3% from last year. The average US dollar price for magazine papers was 2% lower compared to the previous quarter and 6% lower in the first half of 2014 compared to the first half of 2013.

UPM Plywood

	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales, EURm	118	114	112	98	111	108	232	219	429
EBITDA, EURm ¹⁾	18	17	15	6	12	10	35	22	43
% of sales	15.3	14.9	13.4	6.1	10.8	9.3	15.1	10.0	10.0
Depreciation, amortisation and impairment charges, EURm	-6	-6	-6	-5	-5	-6	-12	-11	-22
Operating profit, EURm	12	11	9	1	7	4	23	11	21
% of sales	10.2	9.6	8.0	1.0	6.3	3.7	9.9	5.0	4.9
Special items, EURm	-	-	-	-	-	-	-	-	-
Operating profit excl. special items, EURm	12	11	9	1	7	4	23	11	21
% of sales	10.2	9.6	8.0	1.0	6.3	3.7	9.9	5.0	4.9
Deliveries, plywood, 1,000 m ³	199	188	191	169	191	186	387	377	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.

Q2 2014 compared with Q2 2013

Operating profit excluding special items for UPM Plywood increased to EUR 12 million (7 million). Sales grew by 6% to EUR 118 million (111 million) and deliveries by 4% to 199,000 cubic metres (191,000).

Operating profit increased due to improved sales margin resulting from higher sales prices and lower variable costs, as well as higher delivery volumes.

Q2 2014 compared with Q1 2014

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

January–June 2014 compared with January–June 2013

Operating profit excluding special items for UPM Plywood increased to EUR 23 million (11 million). Sales increased by 6% to EUR 232 million (219 million). Deliveries increased by 3% to 387,000 cubic metres (377,000).

Operating profit increased due to improved sales margin resulting from higher sales prices and lower variable costs, as well as higher delivery volumes.

Market review

Plywood demand continued to strengthen in the first half of 2014. 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

	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales, EURm	113	119	120	117	128	125	232	253	490
EBITDA, EURm ¹⁾	-7	-10	-3	-1	-2	-10	-17	-12	-16
Change in fair value of biological assets and wood harvested, EURm	15	11	33	8	8	4	26	12	53
Share of results of associated companies and joint ventures, EURm	1	-	-	1	-	-	1	-	1
Depreciation, amortisation and impairment charges, EURm	-2	-3	-3	-3	-3	-4	-5	-7	-13
Operating profit, EURm	8	-3	-27	1	1	-17	5	-16	-42
Special items, EURm ²⁾	2	-1	-54	-4	-2	-7	1	-9	-67
Operating profit excl. special items, EURm	6	-2	27	5	3	-10	4	-7	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 Q2 2014, special income of EUR 2 million relate to restructuring measures. In Q1 2014, special items of EUR 1 million relate to restructuring charges. In Q4 2013, special items of EUR 40 million relate to write-down of receivable due to the Finnish Customs' decision to dismiss UPM's application for the statutory refund of energy taxes for the year 2012. In addition, special items include restructuring charges of EUR 14 million. In Q3 2013, special items of EUR 4 million relate to restructuring of global functions. In Q2 2013, special items of EUR 2 million relate to restructuring charges. In Q1 2013, special items of EUR 7 million relate to restructuring charges mainly related to the streamlining of global functions.

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

Q2 2014 compared with Q2 2013

Operating profit excluding special items was EUR 6 million (3 million). Sales decreased to EUR 113 million (128 million).

The increase in the fair value of biological assets net of wood harvested was EUR 15 million (8 million). The increase in the fair value of biological assets (growing trees) was EUR 26 million (26 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 11 million (18 million).

Q2 2014 compared with Q1 2014

Operating profit excluding special items was EUR 6 million (loss of EUR 2 million). Sales decreased to EUR 113 million (119 million).

The increase in the fair value of biological assets net of wood harvested was EUR 15 million (11 million). The increase in the fair value of biological assets (growing trees) was EUR 26 million (23 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 11 million (12 million).

January–June 2014 compared with January–June 2013

Operating profit excluding special items was EUR 4 million (loss of EUR 7 million). Sales decreased to EUR 232 million (253 million).

The increase in the fair value of biological assets net of wood harvested was EUR 26 million (12 million). The increase in the fair value of biological assets (growing trees) was EUR 49 million (42 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 23 million (30 million).

Dividend

In accordance with the decision of the Annual General Meeting held on 8 April 2014, the dividend of EUR 0.60 per share (totalling EUR 319 million) was paid on 24 April 2014.

Shares

In January–June 2014, UPM shares worth EUR 3,062 million (2,500 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 8 April 2014, authorised the Board of Directors to acquire no more than 50,000,000 of the company's own shares. This authorisation is valid for 18 months from the date of the decision.

The Annual General Meeting held on 4 April 2013, authorised the Board to decide on the issuance of new shares and/or the transfer of the company's own shares held by the company and/or the issue of special rights entitling to shares of the company as follows: (i) The maximum number of new shares that may be issued and the company's own shares held by the company that may be transferred is, in total, 25,000,000 shares. This figure also includes the number of shares that can be received on the basis of 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 30 June 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 30 June 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 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 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. 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 has recorded an income of EUR 67 million as a special item in Q1 2014. In May 2014 Metsäliitto and Metsä Board have commenced litigation proceedings in the Helsinki District Court challenging the arbitral award and requesting the District Court to set aside the arbitral award or to declare it null and void. UPM considers Metsäliitto's and Metsä Board's claims unfounded. At the moment, it is not known when the District Court will give its decision.

Neste Oil Oyj, a Finnish company producing traffic fuels (Neste), has filed an action for declaratory judgment against UPM in June 2013 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 with the Finnish Market Court in which Neste requests the Market Court to prohibit UPM from continuing the alleged infringement of Neste's patent at UPM's Kaukas biorefinery in Finland. In June 2014 the Market Court dismissed Neste's demand for preliminary injunction. Neste's actions relate to the same Neste patent concerning which UPM has filed an invalidation claim in 2012. The invalidation claim was filed as a procedural precautionary measure to avoid unfounded legal processes. UPM considers Neste's actions to be without merit.

In Finland, UPM is participating in a project to construct a new nuclear power plant unit Olkiluoto 3 (OL3) through its shareholdings in Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder

of Teollisuuden Voima Oyj (TVO), holding 58.47% of its shares. UPM's indirect share of OL3 is approximately 31%. Originally the commercial electricity production of the OL3 plant unit was scheduled to start in April 2009. The completion of the project, however, has been delayed. Based on the progress reports received from the AREVA-Siemens-Consortium (Supplier), which is constructing OL3 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 OL3 project from the Supplier. Therefore TVO 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 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. The monetary claim of the Supplier, updated in 2013, is in total approximately EUR 2.7 billion including the updated quantification until the end of June 2011. 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 defence 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 amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

Helsinki, 5 August 2014

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q2/2014	Q2/2013	Q1-Q2/2014	Q1-Q2/2013	Q1-Q4/2013
Sales	2,441	2,520	4,922	4,994	10,054
Other operating income	9	-10	16	27	60
Costs and expenses	-2,161	-2,245	-4,340	-4,536	-9,091
Change in fair value of biological assets and wood harvested	17	14	29	20	68
Share of results of associated companies and joint ventures	2	1	2	1	2
Depreciation, amortisation and impairment charges	-132	-134	-262	-279	-545
Operating profit (loss)	176	146	367	227	548
Gains on available-for-sale investments, net	-	-	59	-	1
Exchange rate and fair value gains and losses	-1	5	-4	10	10
Interest and other finance costs, net	-16	-23	-26	-43	-84
Profit (loss) before tax	159	128	396	194	475
Income taxes	-30	-14	-74	-33	-140
Profit (loss) for the period	129	114	322	161	335
Attributable to:					
Owners of the parent company	129	114	322	161	335
Non-controlling interests	-	-	-	-	-
	129	114	322	161	335
Earnings per share for profit (loss) attributable to owners of the parent company					
Basic earnings per share, EUR	0.25	0.22	0.61	0.31	0.63
Diluted earnings per share, EUR	0.25	0.22	0.61	0.31	0.63

Consolidated statement of comprehensive income

EURm	Q2/2014	Q2/2013	Q1-Q2/2014	Q1-Q2/2013	Q1-Q4/2013
Profit (loss) for the period	129	114	322	161	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	-20	75	-61	75	69
Items that may be reclassified subsequently to income statement:					
Translation differences	69	-115	23	-44	-219
Net investment hedge	-24	37	-4	20	77
Cash flow hedges	-24	8	-55	-14	-28
Available-for-sale investments	-	-	-54	7	58
	21	-70	-90	-31	-112
Other comprehensive income for the period, net of tax	1	5	-151	44	-43
Total comprehensive income for the period	130	119	171	205	292
Total comprehensive income attributable to:					
Owners of the parent company	130	119	171	205	292
Non-controlling interests	-	-	-	-	-
	130	119	171	205	292

Consolidated balance sheet

EURm	30.6.2014	30.6.2013	31.12.2013
ASSETS			
Non-current assets			
Goodwill	219	223	219
Other intangible assets	349	353	342
Property, plant and equipment	4,678	4,958	4,757
Investment property	33	41	40
Biological assets	1,453	1,471	1,458
Investments in associated companies and joint ventures	24	22	22
Available-for-sale investments	2,598	2,627	2,661
Other non-current financial assets	296	371	282
Deferred tax assets	562	698	564
Other non-current assets	123	88	142
	10,335	10,852	10,487
Current assets			
Inventories	1,341	1,420	1,327
Trade and other receivables	1,944	1,986	1,948
Income tax receivables	47	39	50
Cash and cash equivalents	794	314	787
	4,126	3,759	4,112
Total assets	14,461	14,611	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	25	124	6
Fair value and other reserves	2,034	2,222	2,256
Reserve for invested non-restricted equity	1,256	1,219	1,226
Retained earnings	3,118	2,901	3,073
	7,321	7,354	7,449
Non-controlling interests	6	6	6
Total equity	7,327	7,360	7,455
Non-current liabilities			
Deferred tax liabilities	481	597	501
Retirement benefit obligations	739	633	680
Provisions	153	205	189
Interest-bearing liabilities	3,403	3,617	3,485
Other liabilities	153	168	164
	4,929	5,220	5,019
Current liabilities			
Current interest-bearing liabilities	660	580	643
Trade and other payables	1,472	1,392	1,419
Income tax payables	73	59	63
	2,205	2,031	2,125
Total liabilities	7,134	7,251	7,144
Total equity and liabilities	14,461	14,611	14,599

Consolidated statement of changes in equity

EURm	Attributable to owners of the parent company								Total equity
	Share capital	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	
Balance at 1 January 2013	890	-2	148	2,232	1,207	2,980	7,455	6	7,461
Profit (loss) for the period	-	-	-	-	-	161	161	-	161
Actuarial gains and losses on defined benefit obligations, net of tax	-	-	-	-	-	75	75	-	75
Translation differences	-	-	-44	-	-	-	-44	-	-44
Net investment hedge, net of tax	-	-	20	-	-	-	20	-	20
Cash flow hedges, net of tax	-	-	-	-14	-	-	-14	-	-14
Available-for-sale investments, net of tax	-	-	-	7	-	-	7	-	7
Total comprehensive income for the period	-	-	-24	-7	-	236	205	-	205
Share options exercised	-	-	-	-	12	-	12	-	12
Share-based compensation, net of tax	-	-	-	-4	-	6	2	-	2
Dividend distribution	-	-	-	-	-	-317	-317	-	-317
Other items	-	-	-	-	-	-3	-3	-	-3
Total transactions with owners for the period	-	-	-	-4	12	-314	-306	-	-306
Balance at 30 June 2013	890	-2	124	2,221	1,219	2,902	7,354	6	7,360
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

Condensed consolidated cash flow statement

EURm	Q1-Q2/2014	Q1-Q2/2013	Q1-Q4/2013
Cash flow from operating activities			
Profit (loss) for the period	322	161	335
Adjustments	254	341	750
Change in working capital	-35	-215	-128
Cash generated from operations	541	287	957
Finance costs, net	-21	-34	-65
Income taxes paid	-41	-66	-157
Net cash generated from operating activities	479	187	735
Cash flow from investing activities			
Capital expenditure	-174	-167	-337
Acquisitions and share purchases	-1	-32	-32
Asset sales and other investing cash flow	71	-4	72
Net cash used in investing activities	-104	-203	-297
Cash flow from financing activities			
Change in loans and other financial items	-77	148	166
Share options exercised	30	13	19
Dividends paid	-319	-317	-317
Net cash used in financing activities	-366	-156	-132
Change in cash and cash equivalents	9	-172	306
Cash and cash equivalents at beginning of period	787	486	486
Foreign exchange effect on cash and cash equivalents	-2	-	-5
Change in cash and cash equivalents	9	-172	306
Cash and cash equivalents at end of period	794	314	787

Quarterly information

EURm	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales	2,441	2,481	2,588	2,472	2,520	2,474	4,922	4,994	10,054
Other operating income	9	7	5	28	-10	37	16	27	60
Costs and expenses	-2,161	-2,179	-2,365	-2,190	-2,245	-2,291	-4,340	-4,536	-9,091
Change in fair value of biological assets and wood harvested	17	12	37	11	14	6	29	20	68
Share of results of associated companies and joint ventures	2	-	-	1	1	-	2	1	2
Depreciation, amortisation and impairment charges	-132	-130	-131	-135	-134	-145	-262	-279	-545
Operating profit (loss)	176	191	134	187	146	81	367	227	548
Gains on available-for-sale investments, net	-	59	-	1	-	-	59	-	1
Exchange rate and fair value gains and losses	-1	-3	-	-	5	5	-4	10	10
Interest and other finance costs, net	-16	-10	-19	-22	-23	-20	-26	-43	-84
Profit (loss) before tax	159	237	115	166	128	66	396	194	475
Income taxes	-30	-44	-79	-28	-14	-19	-74	-33	-140
Profit (loss) for the period	129	193	36	138	114	47	322	161	335
Attributable to:									
Owners of the parent company	129	193	36	138	114	47	322	161	335
Non-controlling interests	-	-	-	-	-	-	-	-	-
	129	193	36	138	114	47	322	161	335
Basic earnings per share, EUR	0.25	0.36	0.06	0.26	0.22	0.09	0.61	0.31	0.63
Diluted earnings per share, EUR	0.25	0.36	0.06	0.26	0.22	0.09	0.61	0.31	0.63
Earnings per share, excluding special items, EUR	0.26	0.27	0.27	0.26	0.20	0.18	0.53	0.38	0.91
Average number of shares basic (1,000)	531,932	529,514	528,887	528,211	527,922	526,252	530,723	527,087	527,818
Average number of shares diluted (1,000)	532,201	529,777	528,329	528,155	528,158	526,631	530,989	527,394	527,818
Special items in operating profit (loss)	-10	-5	-73	-7	8	-63	-15	-55	-135
Operating profit (loss), excl. special items	186	196	207	194	138	144	382	282	683
% of sales	7.6	7.9	8.0	7.8	5.5	5.8	7.8	5.6	6.8
Special items in financial items	-	66	-	-	-	-	66	-	-
Special items before tax	-10	61	-73	-7	8	-63	51	-55	-135
Profit (loss) before tax, excl. special items	169	176	188	173	120	129	345	249	610
% of sales	6.9	7.1	7.3	7.0	4.8	5.2	7.0	5.0	6.1
Impact on taxes from special items	4	-13	-31	6	-	15	-9	15	-10
Return on equity, excl. special items, %	7.3	7.7	7.5	7.5	5.7	5.1	7.6	5.4	6.4
Return on capital employed, excl. special items, %	6.5	6.6	7.2	6.8	4.9	5.1	6.6	5.0	6.0
EBITDA	298	313	302	311	258	284	611	542	1,155
% of sales	12.2	12.6	11.7	12.6	10.2	11.5	12.4	10.9	11.5

Quarterly segment information

EURm	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1-Q2/14	Q1-Q2/13	Q1-Q4/13
Sales									
UPM Biorefining	477	496	497	484	512	495	973	1,007	1,988
UPM Energy	112	124	115	109	110	132	236	242	466
UPM Raflatac	306	300	298	307	309	299	606	608	1,213
UPM Paper Asia	285	277	268	274	289	277	562	566	1,108
UPM Paper ENA	1,286	1,334	1,445	1,392	1,358	1,365	2,620	2,723	5,560
UPM Plywood	118	114	112	98	111	108	232	219	429
Other operations	113	119	120	117	128	125	232	253	490
Internal sales	-241	-263	-259	-283	-292	-297	-504	-589	-1,131
Eliminations and reconciliations	-15	-20	-8	-26	-5	-30	-35	-35	-69
Sales, total	2,441	2,481	2,588	2,472	2,520	2,474	4,922	4,994	10,054
EBITDA									
UPM Biorefining	66	92	100	100	128	107	158	235	435
UPM Energy	49	59	48	43	49	58	108	107	198
UPM Raflatac	25	28	25	30	28	26	53	54	109
UPM Paper Asia	47	44	36	40	42	43	91	85	161
UPM Paper ENA	100	95	86	83	34	29	195	63	232
UPM Plywood	18	17	15	6	12	10	35	22	43
Other operations	-7	-10	-3	-1	-2	-10	-17	-12	-16
Eliminations and reconciliations	-	-12	-5	10	-33	21	-12	-12	-7
EBITDA, total	298	313	302	311	258	284	611	542	1,155
Operating profit (loss)									
UPM Biorefining	31	56	63	73	102	68	87	170	306
UPM Energy	46	56	45	40	46	55	102	101	186
UPM Raflatac	7	20	16	7	19	18	27	37	60
UPM Paper Asia	27	25	17	19	22	22	52	44	80
UPM Paper ENA	45	38	14	36	-18	-91	83	-109	-59
UPM Plywood	12	11	9	1	7	4	23	11	21
Other operations	8	-3	-27	1	1	-17	5	-16	-42
Eliminations and reconciliations	-	-12	-3	10	-33	22	-12	-11	-4
Operating profit (loss), total	176	191	134	187	146	81	367	227	548
% of sales	7.2	7.7	5.2	7.6	5.8	3.3	7.5	4.5	5.5
Special items in operating profit									
UPM Biorefining	-	-	-3	6	5	-2	-	3	6
UPM Energy	-	-	-	-	-	-	-	-	-
UPM Raflatac	-10	-	-	-15	-	-	-10	-	-15
UPM Paper Asia	-	-	1	-1	-	-	-	-	-
UPM Paper ENA	-2	-4	-17	7	5	-54	-6	-49	-59
UPM Plywood	-	-	-	-	-	-	-	-	-
Other operations	2	-1	-54	-4	-2	-7	1	-9	-67
Special items in operating profit, total	-10	-5	-73	-7	8	-63	-15	-55	-135
Operating profit (loss) excl. special items									
UPM Biorefining	31	56	66	67	97	70	87	167	300
UPM Energy	46	56	45	40	46	55	102	101	186
UPM Raflatac	17	20	16	22	19	18	37	37	75
UPM Paper Asia	27	25	16	20	22	22	52	44	80
UPM Paper ENA	47	42	31	29	-23	-37	89	-60	-
UPM Plywood	12	11	9	1	7	4	23	11	21
Other operations	6	-2	27	5	3	-10	4	-7	25
Eliminations and reconciliations	-	-12	-3	10	-33	22	-12	-11	-4
Operating profit (loss) excl. special items, total	186	196	207	194	138	144	382	282	683
% of sales	7.6	7.9	8.0	7.8	5.5	5.8	7.8	5.6	6.8

Changes in property, plant and equipment

EURm	Q1-Q2/2014	Q1-Q2/2013	Q1-Q4/2013
Book value at beginning of period	4,757	5,089	5,089
Capital expenditure	144	133	333
Decreases	-7	-10	-83
Depreciation	-234	-250	-490
Impairment charges	-2	1	-6
Translation difference and other changes	20	-5	-86
Book value at end of period	4,678	4,958	4,757

Financial assets and liabilities measured at fair value

EURm	30.6.2014				30.6.2013				31.12.2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Trading derivatives	1	64	-	65	2	69	-	71	1	56	-	57
Derivatives used for hedging	76	262	-	338	96	357	-	453	101	307	-	408
Available-for-sale investments	-	-	2,598	2,598	-	-	2,627	2,627	-	-	2,661	2,661
Total	77	326	2,598	3,001	98	426	2,627	3,151	102	363	2,661	3,126
Liabilities												
Trading derivatives	27	126	-	153	22	148	-	170	20	166	-	186
Derivatives used for hedging	96	75	-	171	95	47	-	142	104	43	-	147
Total	123	201	-	324	117	195	-	312	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

EURm	Available-for-sale investments		
	Q1-Q2/2014	Q1-Q2/2013	Q1-Q4/2013
Opening balance	2,661	2,587	2,587
Additions	-	31	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	2,627	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	30.6.2014	30.6.2013	31.12.2013
Non-current interest bearing liabilities, excl. derivative financial instruments	3,373	3,463	3,489

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

Commitments and contingencies

EURm	30.6.2014	30.6.2013	31.12.2013
Own commitments			
Mortgages	323	425	357
On behalf of others			
Other guarantees	5	5	5
Other own commitments			
Leasing commitments for the next 12 months	60	56	57
Leasing commitments for subsequent periods	345	355	339
Other commitments	162	139	141

Capital commitments

EURm	Completion	Total cost	By 31.12.2013	Q1-Q2/2014	After 30.6.2014
PM3/Changshu	Q4 2015	277	9	11	257
Capacity increase/Kymi	Q4 2015	160	-	14	146
Biorefinery/Kaukas	Q3 2014	175	123	33	19
Power plant/Schongau	Q4 2014	85	45	22	18

Notional amounts of derivative financial instruments

EURm	30.6.2014	30.6.2013	31.12.2013
Forward foreign exchange contracts	4,507	4,928	4,973
Currency options, bought	4	-	18
Currency options, written	3	-	15
Interest rate forward contracts	2,829	2,656	2,332
Interest rate swaps	1,972	1,535	1,609
Cross currency swaps	829	837	804
Commodity contracts	505	485	490

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

EURm	Q1-Q2/2014	Q1-Q2/2013	Q1-Q4/2013
Sales	1	1	2
Purchases	38	38	80
Non-current receivables at end of period	8	7	8
Trade and other receivables at end of period	1	1	1
Trade and other payables at end of period	1	2	2

Basis of preparation and accounting policies

This unaudited interim report has been prepared in accordance with the accounting policies set out in International Accounting Standard 34 on Interim Financial Reporting and in the Group's consolidated

financial statements for 2013. 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

	30.6.2014	31.3.2014	31.12.2013	30.9.2013	30.6.2013	31.3.2013
USD	1.3658	1.3788	1.3791	1.3505	1.3080	1.2805
CAD	1.4589	1.5225	1.4671	1.3912	1.3714	1.3021
JPY	138.44	142.42	144.72	131.78	129.39	120.87
GBP	0.8015	0.8282	0.8337	0.8361	0.8572	0.8456
SEK	9.1762	8.9483	8.8591	8.6575	8.7773	8.3553

It should be noted that certain statements herein, which are not historical facts, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by “believes”, “expects”, “anticipates”, “foresees”, or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein including the availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group’s targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group’s patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group’s products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group’s principal geographic markets or fluctuations in exchange and interest rates. For more detailed information about risk factors, see pages 73–74 of the company’s annual report 2013.



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