The Biofore Company UPM

YEAR OF PROGRESS

ANNUAL REPORT 2014

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UPM – The Biofore Company

UPM integrates bio and forest industries and builds a sustainable future across six business areas. Our products are made of renewable raw materials and are recyclable.

In 2014, UPM's sales totalled EUR 9.9 billion. UPM has production plants in 13 countries and a global sales network. UPM employs approximately 20,000 employees worldwide. UPM shares are listed on the NASDAQ Helsinki stock exchange. At the end of 2014, UPM had approximately 90,000 shareholders.

VISION
As the frontrunner of the new forest industry UPM leads the integration of bio and forest industries into a new, sustainable and innovation-driven future. Cost leadership, change readiness, engagement and safety of our people form the foundation of our success.

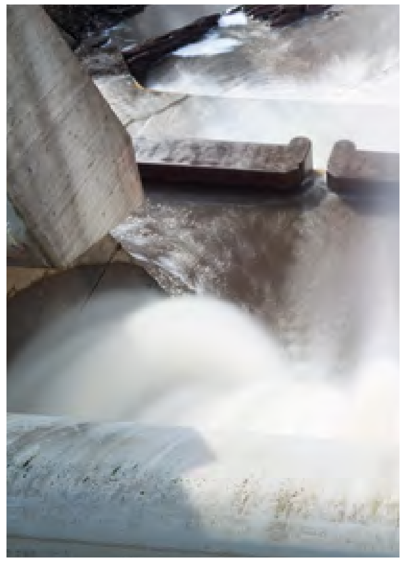
PURPOSE
We create value from renewable and recyclable materials by combining expertise and technologies within fibre-based, energy-related and engineered materials businesses.

VALUES
Trust and be trusted
Achieve together
Renew with courage

UPM BIOREFINING

UPM Biorefining consists of pulp, timber and biofuels businesses. UPM has three pulp mills in Finland and one mill and plantation operations in Uruguay. UPM operates four sawmills in Finland. UPM's biorefinery producing wood-based renewable diesel started up in early 2015. The main customers are tissue, specialty paper and board producers in pulp, fuel distributors in biofuels and construction and joinery industries in timber. UPM aims to grow as a reliable pulp supplier and seeks growth in advanced biofuels.

UPM ENERGY



UPM Energy generates cost competitive low-emission electricity and operates in physical and derivatives trading on the Nordic and Central European energy markets. UPM's power generation capacity consists of hydropower, nuclear power and condensing power. UPM Energy aims to grow on the Nordic CO_2 emission-free energy market.

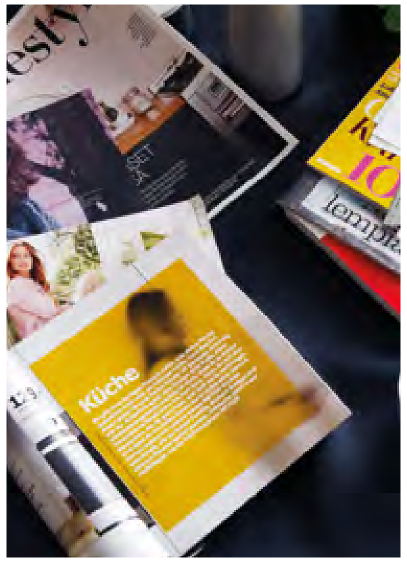
UPM RAFLATAC

UPM Raflatac manufactures self-adhesive label materials for product and information labelling for label printers and brand owners in the food, personal care, pharmaceutical and retail segments, for example. UPM Raflatac is the second-largest producer of self-adhesive label materials worldwide. UPM Raflatac aims to advance in growth markets and strengthen its position in film and specialty labelstock products.

UPM PAPER ASIA

UPM Paper Asia serves growing markets with labelling materials globally and fine papers in Asia. The operations consist of the UPM Changshu paper mill in China and labelling and packaging materials production lines at the UPM Tervasaari and UPM Jämsänkoski mills in Finland. The main customers are retailers, printers, publishers, distributors and paper converters. UPM Paper Asia seeks growth in labelling materials globally and in high quality office papers in Asia.

UPM PAPER ENA



UPM Paper ENA produces magazine papers, newsprint and fine papers for a wide range of end uses in 17 efficient paper mills in Europe and the United States. The main customers are publishers, cataloguers, retailers, printers and distributors. UPM has a global paper sales network and an efficient logistics system. UPM Paper ENA focuses on cost leadership and improved profitability to maximise cash flow.

UPM PLYWOOD

UPM Plywood offers plywood and veneer products, mainly for construction, vehicle flooring and LNG shipbuilding as well as other manufacturing industries. UPM is the leading plywood supplier in Europe, with production in Finland, Estonia and Russia. UPM Plywood aims to strengthen its market position in selected end-use segments and to increase value and customer-oriented service offering.

OTHER OPERATIONS

Wood Sourcing and Forestry secures competitive wood and biomass for UPM businesses and manages UPM-owned forests. In addition, UPM offers a wide range of wood trade and forestry services to forest owners and forest investors. UPM Biocomposites and UPM Biochemicals business units are also included in Other operations.

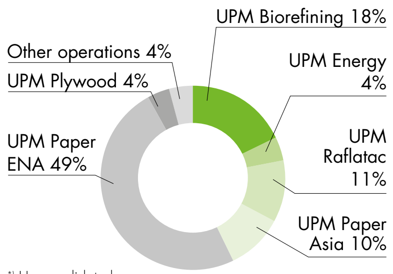
KEY PERFORMANCE INDICATORS

Operating profit *) EUR 847 million	Operating cash flow per share EUR 2.33	EPS *) EUR 1.17	ROE *) 8.3%	Gearing 32%
+24%	+68%	+29%	+1.9pp	–9pp
Employee engagement 63%	**Lost time accident frequency** 4.4	**Share of certified wood** 83%	**Supplier Code qualified supplier spend** 67%	**Share of ecolabelled products** 76%
+3pp	–18%	+3pp	+3pp	+1pp

*) excluding special items

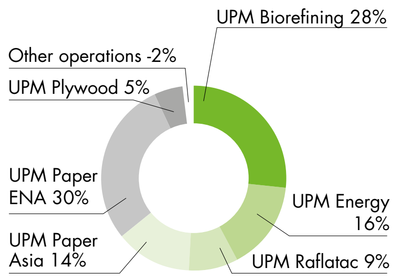
UPM'S BUSINESS PORTFOLIO IN FIGURES

Sales 2014*) EUR 9,868 million

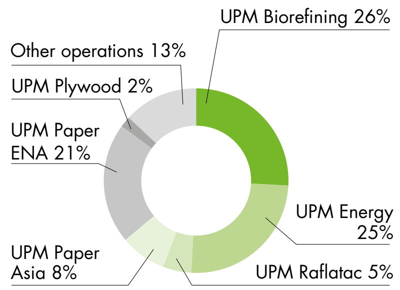


*) Unconsolidated

EBITDA 2014 EUR 1,287 million



Capital employed 2014 EUR 10,944 million



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A year of progress

UPM made good progress in 2014. We advanced both our profitability improvement as well as our growth projects.

The year was the first full year of operation for UPM's new business structure. The structure – based on six business areas – brought clarity and focus to implementing UPM's agenda for each of the businesses. It sharpened our operations in the customer interface. At the same time, we were able to carry out the short term profitability improvement programme in an efficient manner. Target savings of EUR 200 million were achieved earlier than expected and a new target of EUR 150 million was set for the year 2015.

In addition the growth projects progressed well during the year: The Lappeenranta biorefinery started commercial production of advanced renewable diesel in Finland in the beginning of January 2015 – a historic milestone after eight years of R&D, piloting and construction.

The pulp expansion projects progressed in Finland and in Uruguay, and investments were made in labelling materials, woodfree speciality paper and self-adhesive labels in China and Poland. Through these projects, we target an EBITDA impact of EUR 200 million. The projects will be completed in 2015 and we expect to see the first financial results of the growth projects as the year progresses.

Good earnings momentum in 2014

UPM showed good performance throughout 2014. Our operating profit improved by 24% year-on-year thanks to the successful profit improvement actions. Return on equity excluding special items was 8.3% for the full year and cash flow per share was EUR 2.33.

I'm especially pleased with our excellent cash flow. Following the consistently strong cash flow, our balance sheet at the end of 2014 was the strongest ever in the company's history. We were able to reduce our net debt by EUR 639 million through the course of the year.

All six UPM businesses performed well in 2014 and four of them reached or exceeded their long-term return targets.

UPM Plywood, UPM Energy and UPM Paper Asia deserve special recognition for consistent improvement and strong results. Thanks to cost savings, UPM Paper ENA (Europe & North America) also succeeded in improving profitability and generating strong cash flow in very difficult market conditions.

UPM Biorefining's profitability was impacted by lower hardwood pulp prices, but benefited from improved efficiency in production. UPM Raflatac showed volume growth and stable results, but did not fully reach its market potential.

UPM's Board of Directors decided on a new dividend policy targeting an attractive dividend of 30–40% of UPM operating cash flow per share. Based on this policy, the board's proposal for the 2014 dividend is EUR 0.70 per share. The proposal indicates confidence in UPM's stable outlook and its ability to continue on its journey of transformation.

Overall, the company performance has progressed as planned and I would like to thank all UPM employees for a good 2014.

Responsibility brings a competitive advantage

Our target is sustainable operations that will bring us competitive advantages and future growth in various businesses.

To enhance transparency towards our stakeholders, we use the Global Reporting Initiative (GRI) reporting framework. With this report, we also want to highlight the value our businesses create in terms of the economic, social and environmental success of the company and throughout value chain.

Furthermore in 2014, UPM's consistent work in the area of responsibility received third-party recognition. The company was listed in the Dow Jones Sustainability Indices for the third time in a row. The companies that perform better against sustainability criteria than their competitors are selected in the indices.

2014 was also a year where UPM made strong progress in its efforts to make the company a safer place to work. The Step Change in Safety initiative has reduced the lost-time accident frequency by 70% in just three years. Every UPM employee can take pride in creating a safer working culture within UPM.

Outlook

UPM has a versatile business portfolio and many growth businesses. The improved profitability achieved in 2014 is expected to continue in 2015 and we have potential to improve further.

Our profitability is underpinned by the EUR 150 million profit improvement programme as well as the first positive impacts from the company's growth projects. In the beginning of the year, profitability is affected by lower publication paper prices and lower electricity sales prices. The current weakened euro and lower oil price are supportive for the company's earnings.

Our goal is to enhance the value of UPM businesses further.

The versatile use of forest biomass, competitiveness and being at the forefront of developments will also advance UPM's Biofore strategy in 2015.

With good performance in our businesses, strong cash flow and leading balance sheet in the industry, we are in a unique position to simultaneously distribute an attractive dividend, implement focused growth projects and act on strategic opportunities.

Jussi Pesonen
President and CEO

DRIVING PERFORMANCE AND TRANSFORMATION

The UPM transformation continues to ensure long-term sustainable value creation. UPM's structure of six separate businesses promotes top performance as well as enables implementation of business portfolio changes.

GROUP DIRECTION

Vision and values
Portfolio strategy
Business targets
Capital allocation
Code of Conduct
Responsibility targets

IMPLEMENTATION IN BUSINESSES

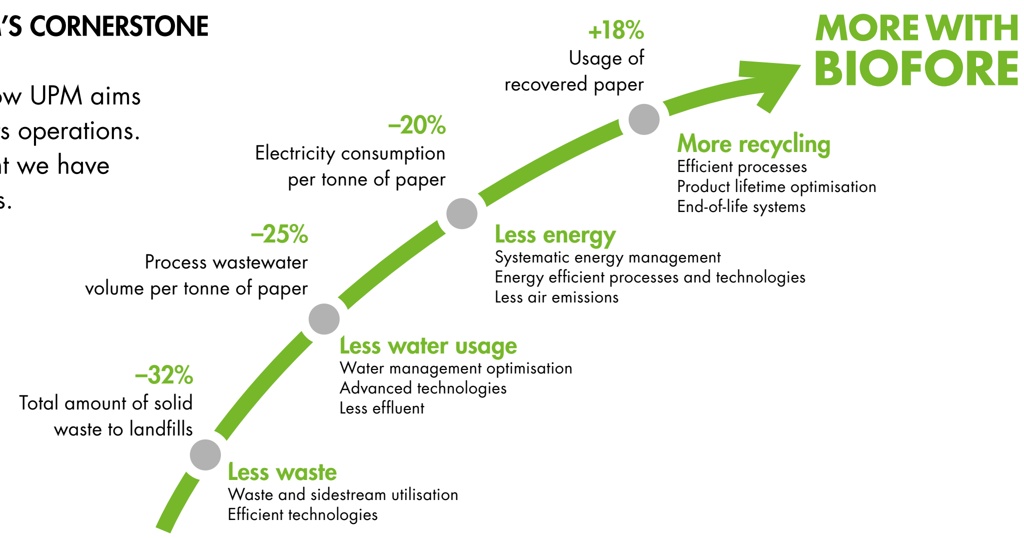
Business area strategies
Commercial excellence
Growth projects
Profitability improvement programmes
Innovation

OUTCOMES

Top performance
Competitive advantage
Value creation
Shared value with stakeholders
License to operate

RESOURCE EFFICIENCY – UPM'S CORNERSTONE

More with Biofore describes how UPM aims to create more with less in all its operations. Have a look at the development we have achieved over the last ten years.



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A year of progress
Shifting gear in UPM transformation

UPM's strategy includes short-term actions to drive performance, mid-term projects to capture high-return growth opportunities and long-term development work to create new high value added growth. The company is developing its business portfolio in order to increase its value and to create growth.

1 SHORT TERM PROFITABILITY PROGRAMMES

UPM is implementing profit improvement actions in all businesses to further improve cost competitiveness and advance towards top performance in the businesses' respective markets.

- The profit improvement programme, launched in August 2013, achieved its target of EUR 200 million of annualised fixed and variable cost savings in Q3 2014. This was reflected in UPM's 2014 operating profit, up 24% from 2013.
- UPM announced a new profit improvement programme in November 2014, targeting EUR 150 million of fixed and variable cost savings by the end of 2015. The plan includes the permanent closure of four publication paper machines in Europe.

2 MID-TERM FOCUSED GROWTH PROJECTS

UPM is investing EUR 680 million in 2013–2016 in the following four growth projects, targeting an EBITDA impact of EUR 200 million when all the projects are fully operational.

- Pulp: 10% (340,000 t) capacity increase in the existing pulp mills
- Biofuels: Lappeenranta biorefinery and the start of the UPM Biofuels business
- New labelling materials and speciality papers production unit in China
- Self-adhesive labels: 50% increase in self-adhesive labelstock production capacity in Asia Pacific and expansion of high-value-added filmic labelstock production capacity in Poland

3 BUSINESS PORTFOLIO DEVELOPMENT AND VALUE CREATION

UPM aims to develop its business portfolio to increase its value and to create growth.

- Performance: targeting top performance in each business
- Grow: focused high-return growth investments and synergistic mergers and acquisitions
- Simplify: best value realisation for UPM
- Consolidation in European paper market without allocating more capital

4 NEW BUSINESS DEVELOPMENT FOR LONG-TERM GROWTH

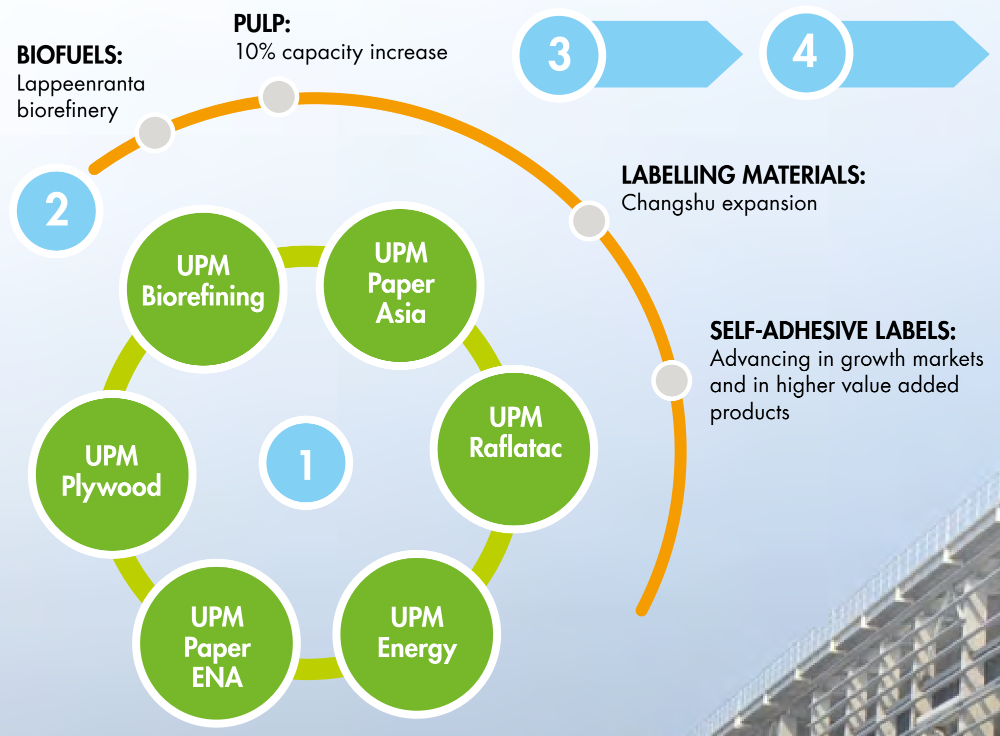
UPM is developing new businesses based on its extensive know-how and strong position in the forest biomass sourcing and processing value chain. Ecodesign represents business opportunities with large target markets and high added value.

BIOFUELS
Advanced renewable diesel suitable for all diesel engines

BIOCOMPOSITES
Renewable materials to replace oil-based materials e.g. in injection moulding

BIOCHEMICALS
Renewable performance chemicals and drop-in alternatives for oil-based chemicals

STRATEGY IN ACTION



New labelling materials and speciality paper production unit at UPM Changshu in China is scheduled to be completed by the end of 2015.

Biofore strategy in a changing operating environment

The world around us is changing rapidly and the future will bring both opportunities and challenges that we have never before experienced. Global demand for resources – oil, food, water and energy – is surging, driven by global population growth, urbanisation and an expanding middle class in the emerging markets. Climate change has already emerged as a major global phenomenon. Furthermore, the shifting of economic power from West to East and the increasing pace at which business is conducted and digital technologies are becoming integrated into our everyday lives is changing the operating environment considerably.

UPM's Biofore strategy fits well into this changing world.

Renewables: UPM's products are based on sustainably-sourced renewable raw materials.

More with Biofore: Making more out of less is central to UPM's resource efficiency as well as a major source of cost efficiency and competitiveness.

Recycling: Most of UPM's products are recyclable and UPM recycles many of them into new products such as paper, biocomposites and energy.

Energy: In energy generation, whether in electricity, heat or biofuels, UPM's operations are based on reliable, low-emission and cost competitive energy sources. UPM is continuously improving its energy efficiency.

DRIVERS FOR UPM'S BUSINESSES

THEME	**Low-emission and renewable energy**	**Fast moving consumer goods, retail**	**Advertising, office communication**	**Bio-based materials**
TRENDS	Uncertain energy prices and security of supply Integrating European markets Climate change	Global population growth Ageing population in developed markets GDP growth, urbanisation and expanding middle class in developing markets Change in consumer behaviour	Digitalisation – from print to screen Change in economic gravity from mature to emerging markets	Raw material scarcity Sustainability and renewability Access to clean water Biodiversity loss Replacing oil-based materials
IMPACT ON UPM	Increasing regulation, uncertain rules for energy markets Preferential treatment of renewable energy Cost for emissions	Growth opportunities for pulp and value-added labelling solutions in developed markets Attractive growth prospects for pulp, label materials, wood products and office papers in developing countries	Declining graphic paper consumption in mature markets Different decline rates in different paper end uses Higher demand growth for most of UPM's products in developing markets	Increasing raw material costs and uncertain availability Increasing interest for sustainable products and solutions New business opportunities with ecodesign
UPM'S RESPONSE	Focus on cost competitive low-emission energy sources Increase energy efficiency Grow in advanced biofuels Plywood solutions for LNG tankers	Grow in cost competitive pulp Grow in labelling materials and self-adhesive labelstock in developing markets Grow in higher value-added labelstock products in developed markets Grow in office papers in APAC Supply wood products outside Europe	Continuous improvement in cost competitiveness Focus on more attractive paper end-use segments Adjust graphic paper production capacity to profitable customer demand	Use of renewable raw materials Responsible sourcing Increase materials efficiency Recycling and reuse of production waste UPM's global biodiversity programme Develop new businesses in biofuels, biochemicals and biocomposites

Growth markets: UPM has an attractive platform for growth in Asia, Latin America and Eastern Europe in its pulp, paper, label materials and wood products businesses – serving growing consumption in a sustainable way.

Efficient operations: Cost efficiency and scalable operations are important in all businesses, but form the cornerstone of success in the mature European and North American graphic paper business.

Innovation: UPM's know-how and strong position in the wood processing – or biorefining – value chain is utilised to innovate new sustainable businesses with large target markets and higher added value. Many of these new renewable alternatives will replace non-renewable products.

Responsibility: UPM applies the same high standards for environmental performance, safety at work, responsible sourcing and code of conduct everywhere in the world.

The majority of the global change drivers support UPM's businesses in the long term, but they do not affect all UPM businesses equally. This means that strategic direction, targets and actions vary throughout different UPM businesses in order to capture opportunities and mitigate challenges in both short and long term.

▼ The world's first biorefinery producing wood-based renewable diesel has started up in Lappeenranta, Finland.

UPM Biofore strategy in action 2014

1 SHORT TERM PROFITABILITY PROGRAMMES

2 MID-TERM FOCUSED GROWTH PROJECTS

3 BUSINESS PORTFOLIO DEVELOPMENT AND VALUE CREATION

4 NEW BUSINESS DEVELOPMENT FOR LONG-TERM GROWTH

Business area	Strategic targets	Actions in 2014	Actions planned for 2015 *)
UPM BIOREFINING	Grow in cost competitive, high quality pulp and advanced biofuels Efficient sawn timber business Utilise synergies and increase added value in biorefining	Capacity expansions completed in UPM Pietarsaari and UPM Fray Bentos pulp mills, investment started at UPM Kymi 2 Lappeenranta biorefinery started production 2 4 Reduction in variable costs 1 Improvement in efficiency and profitability in Timber 1	Complete the expansion in UPM Kymi 2 Ramp up production expansion at the UPM Pietarsaari and UPM Fray Bentos pulp mills 2 Ramp up and optimise production in the UPM Lappeenranta biorefinery 2 4 Participate in the EUR 150 million profit improvement programme 1
UPM ENERGY	Profitable growth in Nordic low-emission power generation Value creation in physical trading and hedging	Successful hedging and physical trading and reduction in costs 1 Continued OL3 construction 2 Continued the refurbishment of hydropower plants 2	Continue OL3 construction and refurbishment of hydropower plants 2 Participate in the EUR 150 million profit improvement programme 1
UPM RAFLATAC	Profitable growth in higher value films and specialty labels and expand presence in developing markets	Reduction in fixed costs through optimisation of the production platform 1 Coating operations were closed in Spain and in Australia and production was relocated 1 Investment projects to increase production capacity in China, Malaysia and Poland started 2 New slitting and distribution terminal opened in Mexico 2	Complete the investment projects in China, Malaysia and Poland 2 Plan new slitting and distribution terminals in growth markets 2 Global development in R&D 2 Participate in the EUR 150 million profit improvement programme 1
UPM PAPER ASIA	Profitable growth in labelling materials globally and in high quality office papers in Asia	Construction of the third production unit started at UPM Changshu 2 Reduction in variable and fixed costs 1	Complete the investment project at UPM Changshu in China 2 Participate in the EUR 150 million profit improvement programme 1
UPM PAPER ENA	Improve profitability and maximise cash flow through cost competitiveness and customer focus	Significant reduction in variable and fixed costs 1 Simplified, customer segment-based organisation 1 Closure of the UPM Docelles paper mill 1	Participate in the EUR 150 million profit improvement programme 1 Close down four paper machines in Europe in early 2015 1
UPM PLYWOOD	Profitable growth in selected customer segments through operational excellence and customer service	Reduction in variable and fixed costs 1	Participate in the EUR 150 million profit improvement programme 1
WOOD SOURCING AND FORESTRY	Secure competitive biomass	Reduction in wood costs 1	Participate in the EUR 150 million profit improvement programme 1
BUSINESS PORTFOLIO DEVELOPMENT AND VALUE CREATION	Grow with synergistic acquisitions Simplify with best value realisation for UPM	Studied M&A opportunities, no significant transactions materialised 3 Sold 51,000 hectares of forest land in Finland 3 Sold all 7,100 hectares of forest land in the UK 3	Continue to look for value enhancing M&A opportunities 3 Continue forest land sales 3
NEW BUSINESS DEVELOPMENT	UPM Biocomposites: business creation in UPM Formi and continued growth in UPM ProFi biocomposites UPM Biochemicals: further application development and piloting of biofibrils and biochemicals Commercialise technology and IPR innovations for core-related activities	Biofuels started as a business within UPM Biorefining 2 4 Partnership with Renmatix to test Renmatix' Plantrose™ process in biochemicals 4 Development of lignin-based products 4 Food freshness indicator technology commercialised to Indicatorium Ltd. 4	Continue to expand UPM ProFi product portfolio. Continue to commercialise UPM Formi 4 Continue to develop biochemicals 4 Continue studying technology and IPR commercialisation possibilities 4

*) not a complete list

New business structure facilitates UPM transformation and performance

2014 was the first full year of operation for UPM's new business structure. The company consists of six business areas: UPM Biorefining, UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA (Europe & North America) and UPM Plywood. Other operations include UPM's wood sourcing and forestry and the UPM Biocomposites and UPM Biochemicals business units. Each business area has a defined strategic role and clear targets, outlined in the adjacent table.

2014 was a year of progress and showed that the new organisation is capable of delivering results. All of the businesses and group functions took part in the EUR 200 million profit improvement programme, launched in August 2013. The programme achieved its targets in Q3 2014, ahead of schedule. At that time, further improvement potential was identified and the company launched a second EUR 150 million profit improvement programme in November 2014.

Organic growth projects progressed in UPM Biorefining, UPM Raflatac, UPM Paper Asia and UPM Energy. Most of the current projects are scheduled for completion by the end of 2015.

Business portfolio development progressed through organic growth projects and continued forest land sales. M&A opportunities were also studied during the year, but no significant transactions materialised.

New business development reached a significant milestone when UPM Biofuels started its first biorefinery producing wood-based renewable diesel as part of the UPM Biorefining business area.

Focus on responsibility and leadership

Corporate responsibility is an integral part of all our operations and is seen as a source of competitive advantage. UPM is strongly committed to continuous improvement in economic, social and environmental performance. Over the past few years, UPM has focused heavily on improving safety at work and on further improving the environmental performance of its production units. In 2014, special attention was also paid to responsible sourcing.

Achieving our ambitious targets requires high performing people and teams to drive business transformation. This also highlights the importance of being an attractive employer with inspiring and empowering leaders who offer diverse opportunities to perform and grow. To ensure the success of our businesses and the people who make it happen, UPM's management is placing particular emphasis on performance orientation and employee engagement.

Read more on UPM's responsible sourcing (p. 40) and safety improvement (p. 44).

EVENTS IN 2014

22 January: UPM closes down the UPM Docelles fine paper mill in France

28 February: UPM proceeds with the construction of the third production unit at its Changshu mill in China

28 February: UPM announces its EUR 160 million investment in the Kymi pulp mill, Finland

3 April: UPM Raflatac announces its plans to increase labelstock production capacity in China and Malaysia

24 April: UPM Raflatac announces its plans to invest in new production capacity in filmic labelstock and restructure sheet labelstock businesses in Europe

12 June: The UPM Fray Bentos pulp mill completes the production permitting process in Uruguay and increases its production level to meet the mill capacity

16 June: UPM signs a sales agreement for the distribution of UPM BioVerno renewable diesel with North European Oil Trade Oy (NEOT)

11 September: UPM is listed as the industry leader in the global Dow Jones Sustainability Index

25 September: The Government of Finland decides not to grant an extension to the decision-in-principle for the Olkiluoto 4 nuclear power plant unit

13 November: UPM introduces a new profit improvement target of EUR 150 million — UPM Paper ENA plans to reduce 800,000 tonnes of publication paper capacity in 2015

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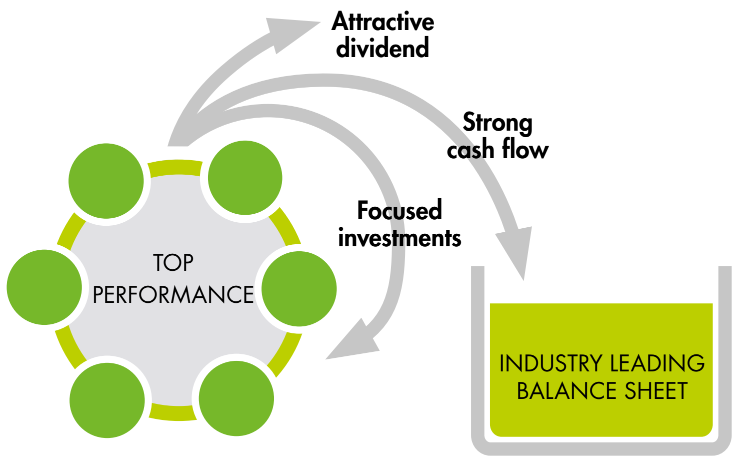
UPM as an investment

UPM aims to increase profitability, growth outlook and the value of its business portfolio. The target is to simplify and develop the business portfolio to uncover and increase its value.

With good performance in the businesses, strong cash flow, and leading balance sheet in the industry, UPM can simultaneously distribute an attractive dividend, implement focused growth projects and act on strategic opportunities.

Strengths of UPM's model



UPM aims to increase shareholder value

Drive top performance: At the business area level, UPM targets top performance in their respective markets. In 2014, UPM introduced long term return targets for the six business areas. Four out of the six businesses reached or exceeded their return targets (page 13). To further support the performance in 2015, UPM in November 2014 announced a profitability improvement programme targeting EUR 150 million in cost savings by the end of 2015 compared to Q3 2014 earnings. 1

Capture growth opportunities: To expand the well performing businesses with positive long term fundamentals, UPM is implementing focused growth projects over the next two years, targeting an EBITDA impact of EUR 200 million when all the initiatives are in full operation. 2

Develop business portfolio: UPM is seeking to simplify and develop its business portfolio in order to uncover and increase its value. Increasing the share of highly profitable businesses with good fundamentals for growth improves the company's long term profitability and boosts the value of the shares. 3

Strong operating cash flow is important for UPM as it enables the realisation of organic growth projects and new business development, as well as paying attractive dividends to UPM shareholders.

Industry leading balance sheet: The company aims to maintain a strong balance sheet to enable portfolio changes that increase UPM's shareholder value.

New businesses: UPM's expertise in renewable and recyclable materials, low-emission energy and resource efficiency is the key to developing new, sustainable business opportunities with high added value. 4

Responsibility is an integral part of UPM's Biofore strategy. Good corporate governance, target-oriented leadership, appropriate working conditions and community involvement are essential to UPM's way of working. Proactive corporate responsibility work also enables business impacts and risks to be efficiently identified and mitigated. UPM's consistent efforts in this area continued to gain external recognition in 2014.

Dividend policy

Attractive dividend: UPM aims to pay an attractive dividend, 30–40% of the company's annual cash flow per share.

UPM'S BIOFORE STRATEGY RECEIVES EXTERNAL RECOGNITION

Industry leader in the Dow Jones European and World Sustainability Indices for 2014–2015

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

RobecoSAM's annual Sustainability Yearbook 2014 with a Gold Class distinction

ROBECOSAM Sustainability Award Gold Class 2014

Top position with the highest possible score on A list in the CDP Climate Performance Leadership Index 2014

CDP CLIMATE PERFORMANCE LEADER 2014

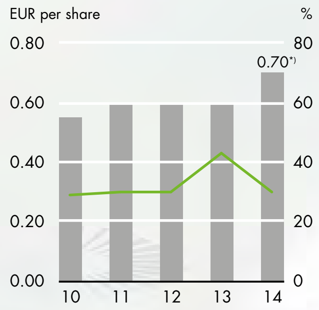
Sector leader for the materials industry in CDP's 2014 global Forests Program

CDP CLIMATE DISCLOSURE LEADER 2014

UPM BioVerno – the EU's Sustainable Energy Europe Award 2014

Read more:
www.upm.com/responsibility

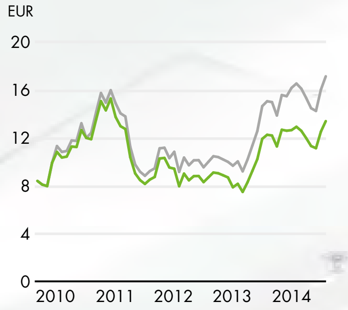
Cash flow-based dividend



— % of operating cash flow per share

*) Board's proposal for 2014

UPM share price 2010–2014 and total shareholder return



— UPM share price
— Total shareholder return*)

*) Assuming dividends reinvested in the company

UPM share price 2010–2014 compared with indices

— UPM share price
— NASDAQ OMX Helsinki (rebased)
— DJ STOXX 600 (rebased)

UPM Energy is one of UPM's growing business areas, covering electricity production and trading in physical and financial energy markets.

5-YEAR SHARE PERFORMANCE AND VALUATION MULTIPLES

	2014	2013	2012	2011	2010
Share price at 31 Dec, EUR	**13.62**	12.28	8.81	8.51	13.22
Earnings per share, excluding special items, EUR	**1.17**	0.91	0.74	0.93	0.99
Dividend per share, EUR	**0.70** *)	0.60	0.60	0.60	0.55
Operating cash flow per share, EUR	**2.33**	1.39	1.98	1.99	1.89
Effective dividend yield, %	**5.1**	4.9	6.8	7.1	4.2
P/E ratio	**14.2**	19.5	neg.	9.2	13.4
P/BV ratio[1]	**0.97**	0.87	0.62	0.60	0.97
EV/EBITDA ratio[2]	**7.5**	8.3	6.0	5.8	7.6
Market capitalisation, EUR million	**7,266**	6,497	4,633	4,466	6,874

*) 2014: Board's proposal
1) P/BV ratio = Share price at 31.12./Equity per share
2) EV/EBITDA ratio = (Market capitalisation + Net debt)/EBITDA

Financial targets

At the business area level, UPM targets top relative performance in their respective markets compared with key peers. UPM has also defined long-term EBITDA margin and ROCE targets for each of its business areas. In the case of UPM Paper ENA, these long-term targets are instead defined for cash flow margin and cash flow return on capital employed.

In UPM Energy, where the asset base is valued at fair value, the ROCE target is 6%. In the less capital intensive converting industry, UPM Raflatac, the ROCE target is 18%. Finally, in the process industry businesses UPM Biorefining, UPM Paper Asia and UPM Plywood, the ROCE target is 10-12%, or cash return in the case of UPM Paper ENA.

With the current business portfolio, achieving the business area targets simultaneously would result in a UPM Group operating profit margin of approximately 10%, and ROCE of approximately 9%.

At the Group level, UPM's financial targets are based on return on equity and gearing. The return on equity target is at least five percentage points above the yield of a 10-year risk-free investment such as the Finnish government's euro-denominated bonds. At the end of 2014, the minimum target for return on equity, as defined above, was 5.9%. The gearing ratio is to be kept below 90%. For 2014, UPM's return on equity excluding special items was 8.3% and gearing was 32% at the end of the year.

Earnings sensitivities

Changes in sales prices

The biggest factor affecting UPM's financial results is the sales price of paper. A change in the volume delivered has less than half of the effect of the same percentage change in sales prices.

EFFECT OF A 10% CHANGE IN PRICES ON OPERATING PROFIT FOR THE YEAR

	EURm
Papers in UPM Paper ENA	509
Fine and speciality papers in UPM Paper Asia	90
Label materials	125
Plywood	40
Sawn timber	29
Chemical pulp (net effect)	18

Exchange rate risk

Changes in exchange rates over a prolonged period have a marked impact on financial results.

It is the company's policy to hedge an average of 50% of its estimated net currency cash flow for 12 months ahead.

At the end of 2014, UPM's estimated net currency flow for the coming 12 months was EUR 1,640 million. The US dollar represented the biggest exposure, at EUR 810 million.

Changing exchange rates can also have indirect effects, such as change in relative competitiveness between currency regions.

FOREIGN CURRENCY NET CASH FLOW

	EURm
USD	810
GBP	500
JPY	160
Others, total	170

Cost structure

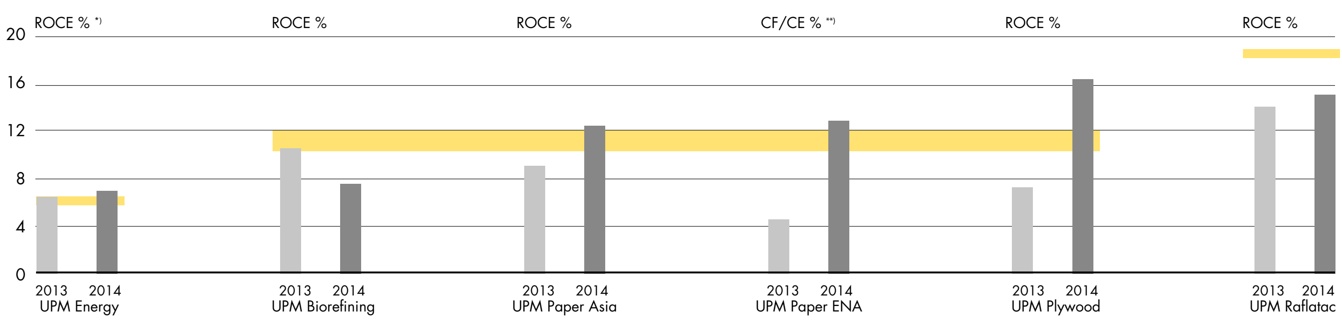
The company's biggest cost items are the cost of fibre raw material and personnel expenses.

COSTS, EXCLUDING DEPRECIATION

%	2014	2013
Delivery of own products	10	11
Wood and fibre	31	29
Energy	9	10
Fillers, coating and chemicals	11	12
Other variable costs	14	13
Personnel expenses	15	15
Other fixed costs	10	10
Total	**100**	**100**

Costs totalled EUR 8.7 billion in 2014 (2013: 9.1 billion)

Achievement of the long-term return targets in 2013–2014

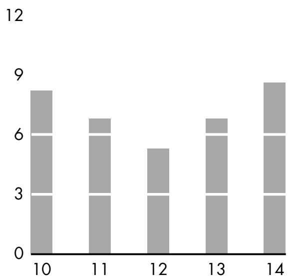


Target

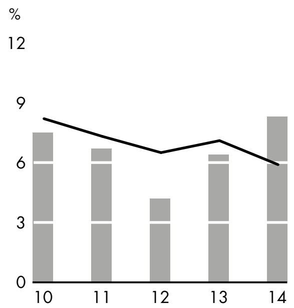
*) shareholdings in UPM Energy valued at fair value

**) cash flow after investments, changes in working capital and restructuring payments

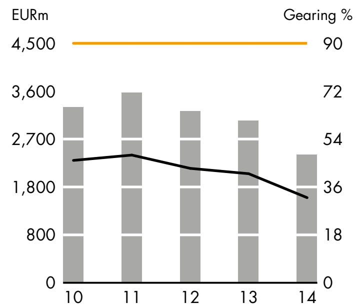
Operating profit excluding special items



ROE compared with target



Net debt and gearing



CONTENTS

Risk management

UPM's business operations are subject to various risks which may have an adverse effect on the company. The list below is not complete but it explains some of the risks with their potential impacts and how UPM manages those risks today.[1)]

	Risk description	Impact	Management
STRATEGIC RISKS	Structural changes in paper usage result in decline in paper demand which leads to overcapacity	Continuously operating rates and weak pricing power in the industry	Ensure cost efficiency of operations Proactive product portfolio management
	Delay in OL3 nuclear plant start-up and consequent loss of profit and cost overruns	Material cost overrun	Ensure that contractual obligations are met by both parties Arbitration proceedings have been initiated by both parties
	Cost of an acquisition proves high and/or targets for strategic fit and integration of operations are not met	Return on investment does not meet targets	Disciplined acquisition preparation to ensure the strategic fit, right valuation and effective integration
	Regulatory changes such as EU climate policy and new requirements for CO_2 emissions	Subsidies for alternative uses of wood raw material increase costs Changes to relative competitiveness of energy forms	Communicate the employment and value-added creation impacts of such policies clearly Invest in new, value-adding uses of biomass Cost competitive operations
OPERATIONAL RISKS	Availability and price of major production inputs like chemicals, fillers or roundwood	Increased cost of raw materials and potential production interruptions would lower profitability	Improving materials efficiency Long-term sourcing contracts and relying on alternative suppliers Ownership of forest land and long-term forest management contracts
	Execution of investment projects	Material cost overrun, return on investment does not meet targets	Disciplined planning, project management and follow-up processes
	Ability to retain and recruit skilled personnel	Business planning and execution impaired, affecting long-term profitability	Competence development Incentive schemes
	Availability of information systems	Interruptions in critical information services cause a major interruption of UPM business	Technical, physical and process improvements to mitigate availability risk
FINANCIAL RISKS	Major trading currencies like USD move significantly against euro	Changes in currencies change profitability of exports and relative competitiveness of currency areas	Hedging net currency exposure on a continuous basis Hedging the balance sheet
	Payment default or customer bankruptcy	Loss of income	Active management of credit risks and use of credit insurance
HAZARD RISKS	Environmental risks; A leak, spill or explosion	Damage to reputation, possible sanctions Direct cost to clean up and to repair potential damages to production unit, loss of production	Maintenance, internal controls and reports Certified environmental management systems (ISO 14001, EMAS)
	Physical damage to the employees or property	Harm to employees and damage to reputation Damage to assets or loss of production	Occupational health and safety systems Loss prevention activities and systems Emergency and business continuity procedures

1) A more detailed description of risks and risk management is included in the Report of the Board of Directors on page 70.

UPM Biorefining

OUR DIRECTION

- In Pulp, maintain cost competitiveness through continuous operational improvement, grow as a cost efficient producer through low-risk, high-yield debottlenecking investments, strategic sales co-operation and potentially through acquisitions
- In Biofuels, commercialise the investment in the world's first biorefinery producing wood-based renewable diesel and further develop UPM's proprietary technology
- In Timber, enhance profitability through efficient use of wood supply, operational excellence and sharpened commercial strategy

OUR STRENGTHS

- Modern, efficient pulp mills and business committed to growth
- Versatile range of pulp grades suitable for a wide range of end uses
- Own sales and service network for the global customer base
- World-class logistic platform connecting continents
- Sustainable fibre sourcing and outstanding environmental performance
- Proprietary technology for wood-based renewable diesel
- Competitive sawmills with skilled global sales
- Synergistic operations from joint supply chain of wood raw materials for sawn timber, pulp and renewable diesel

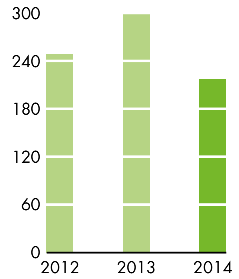
▲ Commercial production of wood-based renewable diesel began in Lappeenranta, Finland in January 2015.

KEY FIGURES

	2014	2013
Sales, EURm	**1,937**	1,988
Operating profit excl. special items, EURm	**217**	300
Capital employed (average), EURm	**2,862**	2,825
ROCE excl. special items, %	**7.6**	10.6
Personnel on 31 Dec.	**2,529**	2,376

Operating profit*)

EUR million



*) excl. special items

Growth in pulp

and start-up of the biorefinery

Business performance

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

Benefits from integrated production

In the UPM Biorefining business area, UPM combines integrated production of pulp, renewable diesel and sawn timber with a joint supply chain of wood raw materials. Pulp mills produce renewable energy in their recovery boilers and provide CO_2-neutral biomass-based electricity. As a residue of the pulp production, mills produce crude tall oil, which is the raw material in the biorefinery producing wood-based renewable diesel. Sawmills have a central

UPM BIOREFINING VALUE CREATED

CAPITALS

- Capital intensive process industry
- Engaged high performing people
- Sustainable forest biomass from certified sources and with full traceability
- Sustainable forest management
- Responsible sourcing
- Intellectual property rights
- Community engagement

FORESTRY AND WOOD SOURCING

- **Professional sourcing organisation**
- **UPM's certified forests in Finland**
- **UPM certified eucalyptus plantations in Uruguay**
- **Forestry services**

Synergies in wood sourcing and raw materials

PRODUCTION

PULP
- **Large modern mills**
- **Efficient production**
- **Combined heat and power production**

BIOFUELS
- **World's first biorefinery producing wood-based renewable diesel**
- **Proprietary technology**
- **IPR**

TIMBER
- **Efficient sawmills**

Synergistic operations in production integrates

SALES

PULP
- **Global sales**
- **Strategic sales co-operation**
- **World-class technical service**

BIOFUELS
- **Regional biofuels sales**

TIMBER
- **Skilled global sales network**

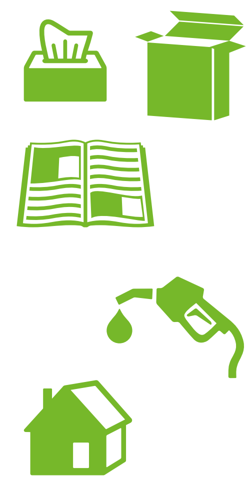
CUSTOMERS

PULP
- Tissue,
- Packaging board,
- Specialty paper and
- Graphic paper producers

BIOFUELS
- Fuel distributors

TIMBER
- Construction, furniture, joinery industries

END USES



OUTCOMES

- Safe and sustainable products
- Renewable energy
- Carbon storing products
- Low emissions
- Biodiversity
- Employment
- Work safety
- Community wellbeing
- ROCE

UPM Biorefining

▲ Risto Kotilainen (left), Hannu Kykkänen and Thomas Björklöf cheer after the start-up of the UPM Lappeenranta Biorefinery.

role in the wood supply chain, as their by-products are used in the production of pulp and energy. In UPM Biorefining, UPM benefits from efficient use of sustainable wood raw materials and integrated production.

Business development

In 2014, UPM proceeded with efforts to increase pulp capacity through debottlenecking investments, and to improve the efficiency of mill integrates in order to release the full potential of production assets.

As part of UPM's growth projects, it is targeting a 340,000 tonne increase in existing pulp production capacity with investments of approximately EUR 200 million. These projects are primarily production debottlenecking investments and estimated to be value enhancing at low risk.

The modernisation of one fibre line at the UPM Pietarsaari pulp mill was completed in June. The investment of EUR 13 million increased the mill's production flexibility in terms of the use of wood raw materials, as well as the mill's capacity to gradually grow by 70,000 tonnes.

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

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

UPM has consistently developed its pulp business with a unique sales and marketing network providing customers with a multi-fibre pulp product range directly from producers to the global market. Pulp has a wide range of end uses with different features and quality requirements, and selecting the most suitable fibres provides clear benefits. UPM's own pulp sales and technical service experts locate strategically close to customers and in each mill. This model provides the customer with fast service and support.

In January 2014, UPM strengthened its fibre offering through a strategic sales and marketing co-operation with Canfor Pulp Products Inc. This co-operation provides customers with the most versatile range of northern softwood, birch, eucalyptus and mechanical pulp available on the global market, in combination with world-class technical service.

As part of UPM's growth projects, commissioning of the UPM Lappeenranta Biorefinery proceeded well during the second half of 2014 and commercial production of UPM BioVerno, its advanced renewable diesel, started in January 2015. The focus is on commercialising the investment and developing UPM's proprietary technologies for broader raw material use.

In June, UPM published a sales agreement for UPM BioVerno renewable diesel with NEOT (North European Oil Trade). NEOT specialises in oil and biofuels wholesale to service stations such as St1 and ABC. UPM BioVerno is distributed to Finnish service stations and the annual production of UPM BioVerno will cover nearly a quarter of Finland's 20% renewable energy target for transport in 2020.

As a product, UPM BioVerno has been extensively tested in engine tests and fleet tests, and has been found to function like any regular diesel. Due to the high quality, there are no technical blending limits. UPM BioVerno is also a sustainable alternative – it ensures a considerable reduction in greenhouse gas emissions, and is refined from a sustainable raw material, a residue from pulp production. UPM BioVerno is a competitive alternative to provide the renewable component in traffic fuels, and is well-positioned among the few existing advanced biofuel alternatives available on the market.

In sawn timber, UPM proceeded with measures targeting improved operational efficiency, and focused sales and supply chain management. As an example, the modernisation of the sticking machine at the Alholma sawmill increased production efficiency.

Markets and drivers

- Chemical pulp demand is growing globally by approximately 2-3% annually, driven by growth in private consumption. In 2014, global market shipments increased by 2% compared to the previous year.
- In mature markets, consumption is driven by an increasing use of hygiene, packaging and speciality products. In developing markets, growth is also underpinned by middle class expansion and fast urbanisation.
- Demand for hardwood pulp grows faster than for softwood pulp due its end-use qualities and lower production costs.
- The global hardwood pulp production capacity is growing, primarily through new production line installations entering the market. The softwood pulp market has remained in balance thanks to limited capacity additions.
- Chemical pulp demand is also supported structurally as the graphic paper segment supplies fewer white recycled fibres for the growing tissue and speciality segments. Older pulp capacity has been closed down for financial and environmental reasons.
- Demand for biofuels is growing due to stricter environmental standards and sustainability requirements. The share of advanced biofuels in increasing.

FIBRE UNITED, UNIQUE COLLABORATION

UPM Pulp and Canadian-based Canfor Pulp's sales and marketing co-operation started strongly in all its markets in 2014. Customers are able to choose from the most versatile range of pulp available on the global market in combination with world-class technical service.

As of the beginning of 2014, UPM's sales network has represented and co-marketed Canfor Pulp's products in Europe and China, while Canfor Pulp's sales network has represented and co-marketed UPM Pulp in North America and Japan.

Based on customer feedback, customers have benefited from direct access to a broader product offering for every end use, enhanced product quality and improved business planning.

During the first year of co-operation, former sales channels were replaced, sales personnel were trained and product information was shared. Further benefits are expected to achieve from the technical and logistics co-operation.

The co-operation includes six pulp grades and approximately one million tonnes of pulp sales from eight mills on three continents.

Read more:
www.upmpulp.com

WOOD-BASED UPM BIOVERNO IS SUITABLE FOR ALL DIESEL ENGINES

UPM's renewable diesel fuel, UPM BioVerno, is an exceptional innovation. It is produced from crude tall oil, a residue of UPM's own pulp production.

The high quality wood-based renewable diesel reduces greenhouse gas emissions significantly compared to fossil diesel fuel, and does not compete with food production. UPM BioVerno is manufactured in Lappeenranta, Finland. The production supports the local economy and improves self-sufficiency in traffic fuels.

UPM BioVerno is compatible with all diesel engines in passenger cars, buses and trucks – without modification. In Finland, UPM BioVerno is available in St1 and ABC service stations.

UPM BioVerno has been granted the Finnish Key Flag Symbol, which guarantees the Finnish origins of a product. It has also received international awards, such as the EU Sustainable Energy Europe 2014 Award, granted by European Commission.

UPM BioVerno diesel has been granted certificates for sustainable sourcing, production and product safety. The certifications verify that the fuel has been produced according to the EU directive on renewable energy, taking into account environmental, social and transparency aspects.

Read more:
www.upmbiofuels.com

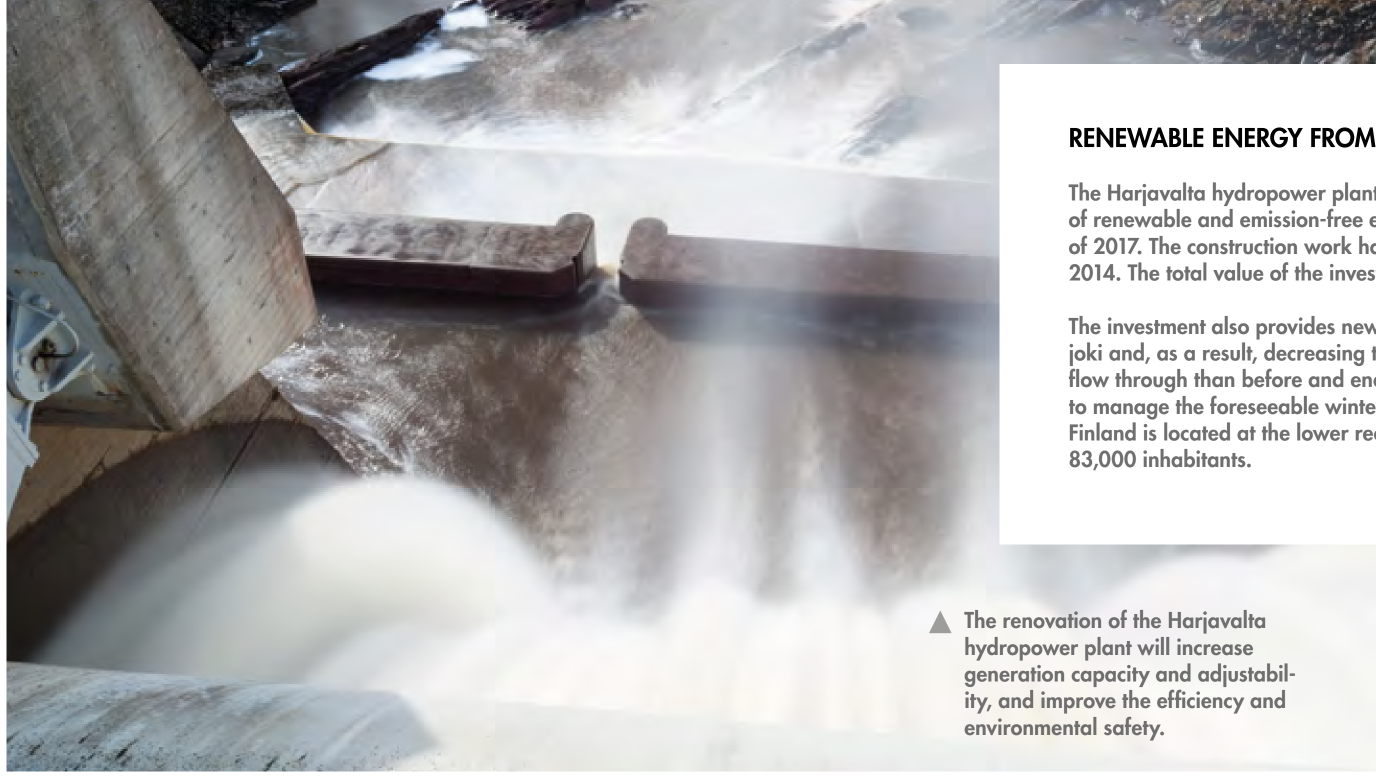
UPM Energy

OUR DIRECTION

- Create value in the Nordic electricity market through generation and physical and financial trading
- Profitable growth on the Nordic CO_2 emission-free electricity market

OUR STRENGTHS

- Cost competitive, low-emission electricity generation portfolio
- Versatile asset base – nuclear power as base load capacity, hydropower as flexible capacity and condensing power as reliable peak load capacity
- Strong competencies and value creation track record in physical and financial electricity trading



▲ The renovation of the Harjavalta hydropower plant will increase generation capacity and adjustability, and improve the efficiency and environmental safety.

RENEWABLE ENERGY FROM HARJAVALTA

The Harjavalta hydropower plant reburbishment project will significantly increase the production of renewable and emission-free energy capacity, and it is scheduled for completion by the end of 2017. The construction work has begun, and the main equipment purchases were made in 2014. The total value of the investment is approximately EUR 40 million.

The investment also provides new possibilities for managing the water flow rate in Kokemäenjoki and, as a result, decreasing the risk of flooding. The renewed plant will let more water flow through than before and enables minimum release more efficiently, which makes it easier to manage the foreseeable winter discharge volumes. The single largest flood risk area in Finland is located at the lower reaches of the river around the city of Pori, which has over 83,000 inhabitants.

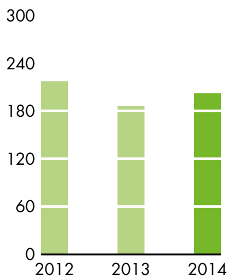
KEY FIGURES

	2014	2013
Sales, EURm	**464**	466
Operating profit excl. special items, EURm	**202**	186
Capital employed (average), EURm	**2,903**	2,882
ROCE excl. special items, %	**7.0**	6.5
Personnel on 31 Dec.	**80**	92

Top performance continued

Operating profit[*]

EUR million



[*] excl. special items

Business performance

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

Business development

UPM Energy is a market-driven business and the second largest electricity generator in Finland. UPM Energy has developed wide competencies in physical and financial electricity trading, supported by market analysis. Its own hydropower plants and shares in energy companies provide UPM Energy with a versatile and cost competitive power generation portfolio with low emissions.

With its competencies and generation assets, UPM Energy is well-positioned to generate good profitability and create additional value from the increased electricity price volatility in the market, through optimal use of its hydropower assets. The share of weather-dependent (wind and solar) power production in the market is growing, increasing price volatility and calling for flexible generation to balance out the variations in the production and consumption of electricity.

In 2014, UPM proceeded with efforts to upgrade its hydropower production assets. Through its ownership of Länsi-Suomen Voima Oy, UPM is participating in the expansion of the Harjavalta hydropower plant with provision of a new machine unit and refurbishment of the existing two turbines. When completed in 2017, the project will improve the efficiency, control and environmental safety of the plant, as well as responding to the increasing demand for flexible capacity. The total power output of the plant will increase from 72 MW to 110 MW.

Otsotuuli Oy, a wind power development joint venture company established with Element Power in 2013, continued to develop wind power production possibilities at a number of sites throughout Finland, primarily on land leased from UPM. Based on wind measurements, UPM has several land assets that are well-suited to wind energy production.

The largest ongoing project is at Teollisuuden Voima Oyj (TVO), which is building a third nuclear power reactor, OL3, at Olkiluoto, Finland. The new unit will have an annual nuclear power generation capacity of approximately 1,600 MW. Through Pohjolan Voima Oy (PVO), UPM is entitled to approximately 500 MW of capacity.

The commissioning phase for the building technology systems of the reactor and turbine plants is ongoing. Testing and planning, as well as documentation and licensing of the reactor plant automation are continuing. The plant supplier estimates that regular electricity generation at the power plant should start in late 2018.

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.

In July 2010, the Finnish parliament ratified the government's favourable decision-in-principle concerning TVO's application to construct OL4, its fourth nuclear power plant unit. UPM is participating in financing the bidding and engineering phase for OL4.

In September 2014, TVO's application for an extension to submit a construction licence application for OL4 plant unit was rejected by the Finnish Government. The deadline for the application is June 2015.

Markets and drivers

- Electricity consumption in the Nordic countries is expected to remain stable.
- Demand is driven by household consumption and industrial activity.
- In 2014, electricity consumption in the Nordic countries decreased slightly, primarily due to warmer than normal weather.
- New capacity investments are driven by economics and influenced by regulatory issues and support schemes; capacity is mainly growing in renewables.
- Power markets across Europe are becoming more integrated due to market coupling and new transmission lines.
- Hydrological balance and wind in the Nordic countries impacts electricity supply and therefore electricity prices and price spreads between different price areas.
- In the Nordic countries there are several different price areas; UPM Energy is currently operating in the Finnish price area only.

UPM ENERGY VALUE CREATED

CAPITALS

- Capital intensive utility business
- Low-emission energy sources, including water rights
- Fuels
- Engaged high performing people
- Organisational experience
- Energy trading platform
- Regulation

VERSATILE GENERATION

(from own hydropower plants and shareholdings in energy companies)

HYDROPOWER
- Flexible
- Cost competitive
- Low emissions
- Renewable

NUCLEAR
- Efficient base load
- Cost competitive
- Low emissions

CONDENSING POWER
- Reliable peak load

PHYSICAL POWER MARKET
- Physical value creation
- Mainly Nord Pool Spot market for day-ahead and intraday trading
- Members (buyers and sellers) agree on contracts for the delivery of power

FINANCIAL POWER MARKETS

Derivative power contracts traded on Nasdaq Commodities
- Value protection and creation

TRANSMISSION

DISTRIBUTION

HOUSEHOLD CONSUMPTION

SMALL AND MEDIUM SIZED ENTERPRISES

INDUSTRIAL ELECTRICITY CONSUMPTION

OUTCOMES

- Low-emission electricity
- Work safety
- Energy supply security
- Flexible power supply
- Risk mitigation
- ROCE

UPM Raflatac

OUR DIRECTION

- Profitable growth through organic growth, product portfolio development and synergistic acquisitions
- Growth in high value added films and speciality label products
- Expand presence in rapidly-growing developing markets

OUR STRENGTHS

- Accurate supply chain and efficient delivery network
- Modern strategically-located production assets
- Second largest supplier in most markets with global scale in R&D, quality development and technical know-how

INVISIBLE NEVER LOOKED SO GOOD

UPM Raflatac launched a new VANISH™ range of ultra-thin, invisible clear film labelstocks in 2014.

VANISH™ clear PET films are ideal for beverage, personal care and food package labelling. These labels fit perfectly in applications where resistance against water, oil and chemicals is important, as they offer the exceptional combination of strength, good stability and excellent chemical resistance.

With new VANISH™ labels, brand owners can maximize brand representation as well as realise new productivity gains and reductions in packaging materials throughout their processes.

Read more:
www.upmraflatac.com/vanish

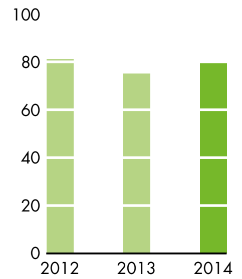
KEY FIGURES

	2014	2013
Sales, EURm	**1,248**	1,213
Operating profit excl. special items, EURm	**80**	75
Capital employed (average), EURm	**530**	532
ROCE excl. special items, %	**15.1**	14.1
Personnel on 31 Dec.	**2,847**	2,869

Stable profitability and growth in deliveries

Operating profit[1]

EUR million



Business performance

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

Business development

In parallel with the implementation of its growth strategy, UPM Raflatac has continued with efficiency improving measures in order to make full use of its production platform and distribution network. Investments and restructuring have taken place to reflect market demand in developed and growth markets and maximise cost competitiveness.

In developed markets such as Western Europe and North America, UPM Raflatac has continuously strengthened its offering in films and speciality products. Efforts have focused on distribution, marketing and product development in parallel with complementary acquisitions which have enhanced growth.

In April, to secure cost competitive growth in films, UPM Raflatac announced plans to increase production capacity for its film labelstock business in Europe by investing in a new coating line in Nowa Wies, Poland. This growth investment of approximately EUR 13 million is part of UPM's focused growth projects. Following this investment, a siliconising line in Tervasaari, Finland was closed.

As part of UPM Raflatac's efficiency improving measures, the sheet labelstock business closed down coating operations and reduced capacity in sheet finishing in Polinya, Spain. Sheet coating is being centralised at Nowa Wies, Poland.

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

In growth markets such as Eastern Europe, Latin America and Asia, UPM Raflatac has significantly enhanced its service and manufacturing network by investing in new technology and opening new slitting and distribution terminals in past years. In 2014 a new terminal was opened in Mexico, and more openings are planned for growth markets in 2015.

In April, UPM Raflatac announced plans to increase production capacity by more than 50% in Asia. The investment of approximately EUR 14 million is part of UPM's focused growth projects.

Both growth investments are expected to be completed in Q1 2015.

UPM's labelstock business has seen a rapid growth in Asia and the planned capacity allows UPM to respond to the increasing demand with improved quality and cost competitiveness. UPM Raflatac's sales increased by a strong 10% in growth markets in 2014 compared to 2013.

Markets and drivers

- The global label materials market has a robust growth outlook, driven by an expanding middle class and the private consumption of branded and packaged goods. Thanks to its versatility and brand appeal, self-adhesive labelling as a technology is increasing its market share among labelling solutions.
- In 2014, global demand for label materials is estimated to have increased by 4% compared to the previous year.
- Label materials have a wide range of end uses, of which 80% is driven by private consumption and 20% by industrial applications.
- Growth rates are strongest in Asia, Latin America and Eastern Europe, thanks to faster urbanisation, an expanding middle class and increasing income levels. Demand is further supported by the rapid development of retailers, distributor networks and automated product labelling.
- In the mature markets of Western Europe, the United States and Japan, growth is mainly driven by product renewal and tailored solutions. Increased private consumption also increases demand.

UPM RAFLATAC VALUE CREATED

CAPITALS

Capital light converting business
Engaged high performing people
Responsible sourcing
Face paper
Release paper
Films
Adhesives
Silicones

SELF-ADHESIVE LABELSTOCK FACTORIES

- Modern
- Efficient
- Strategically located

DISTRIBUTION AND SLITTING NETWORK

- Optimised distribution and slitting network
- Efficient and responsive

SALES AND SERVICES

- Loyal relationships
- Global scale
- Technical know-how

New concepts and products, sustainability through the lifecycle

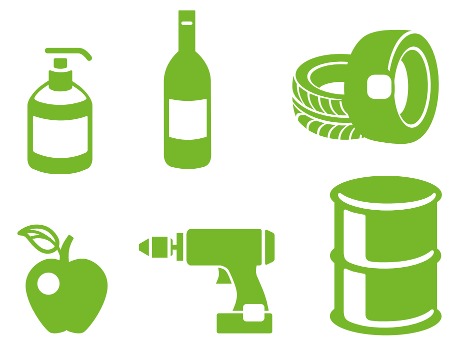
CUSTOMERS

Label printers

LABEL USING INDUSTRIES

Home & Personal care
Food & Beverage
Retail
A4 and cut-size
Pharmaceutical
Transport & Logistics
Durables
Tyres

END USES



OUTCOMES

Safe and certified products
Brand appeal
Work safety
Employment
Recyclable products
RafCycle – waste recycling concept
ROCE

CONTENTS

UPM Paper Asia

OUR DIRECTION

- Profitable growth in office papers in Asia Pacific and in labelling materials globally through competitive production, new capacity investment and strengthened partnerships with customers by offering exceptional customer experience

OUR STRENGTHS

- Global market leadership in labelling materials, focusing on high quality release liners and face papers
- Reliable supplier with high quality fine papers in Asia Pacific with own distribution network
- Exceptional customer service globally and strong office paper brands in China
- Recognised industry leader in sustainability and environmental excellence
- Competitive production assets in China and Finland

OFFICE PAPER IN HIGH DEMAND IN ASIA

The market for office papers continues to grow in the Asia Pacific region. Key factors behind the growth include general economic growth, urbanisation and the increasing number of offices.

To further support the development, a new production unit for manufacturing woodfree papers and label materials is being built at the Changshu mill.

UPM has its own office paper brands for Asia and the company also acts as a contract manufacturer for other brands, such as office equipment manufacturers. UPM's own brands have a strong position particularly in China.

UPM is one of the leading office paper manufacturers in the region. With significant local capacity, UPM is a reliable supplier whose delivery reliability and consistent quality are well established. Responsibility in environmental matters as well as ethical business practices bring competitive advantage.

Read more:
www.upmbiofore.com

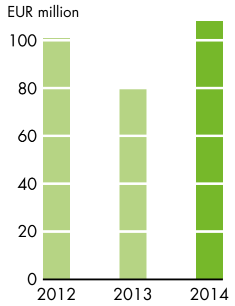
KEY FIGURES

	2014	2013
Sales, EURm	1,124	1,108
Operating profit excl. special items, EURm	108	80
Capital employed (average), EURm	861	882
ROCE excl. special items, %	12.5	9.1
Personnel on 31 Dec.	1,652	1,457

Outstanding achievement in profitability

Operating profit*)

EUR million



*) excl. special items

Business performance

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

Business development

In 2014, UPM Paper Asia streamlined its organisation and sharpened its customer focus. The service and product offering were aligned with individual customer needs.

UPM Paper Asia is capturing its share of the growing markets by investing in new production capacity. As part of UPM's growth projects, investment in the third production unit at the UPM Changshu mill in China proceeded well in 2014 and is expected to start up by the end of 2015. The annual production capacity is 360,000 tonnes of high quality labelling materials and woodfree uncoated papers.

The investment will enable growth, improve local cost efficiency and enhance global market coverage of UPM's labelling materials. It also provides an excellent platform for strengthening strategic partnerships with self-adhesive labelstock customers and expanding with new products in Asia Pacific.

In February 2014, UPM decided to revise its investment scope by specifying more focused infrastructure investments. UPM will upgrade existing boilers with state-of-the-art technology to minimise environmental impacts. With the revised plan, the investment cost decreased to EUR 277 million from the original EUR 390 million.

Markets and drivers

- The labelling materials market is growing globally, in Asia Pacific in particular. In 2014, global labelling materials market grew by 3–5%. In Asia Pacific, the growth rate is twice as high.
- In developing markets, growth is driven by middle class expansion and consumption as well as by branded goods. Growth in labelling materials is also supported by the rapid development of retailers, distributor networks and automated product labelling.
- In mature markets, demand is shifting towards customer-specific labelling solutions.
- In Asia Pacific, growth in fine paper demand is levelling off, while office paper demand continues to grow. In 2014, office paper demand grew by 2–4% compared to the previous year.
- Regional office paper demand is driven by economic activity, urbanisation and new company establishments.
- Overcapacity prevails in all paper grades. New investments and paper machine conversions to uncoated woodfree and labelling materials in Asia Pacific, as well as conversions to labelling materials in Europe have intensified the competition.

Read more on UPM Changshu environmental investment (p. 51).

UPM PAPER ASIA VALUE CREATED

CAPITALS

Capital intensive process industry
Engaged high performing people
Community engagement
Responsible sourcing
Sustainable chemical pulp with full traceability
Sustainable raw materials and energy

PRODUCTION

LABELLING MATERIALS
- Extensive experience in high quality release liners and face papers
- Cost competitive production

FINE PAPERS
- Leading office paper brands in China
- Selectively in uncoated and coated segments
- Cost competitive production
- BAT (Best Available Techniques)

CUSTOMER-DRIVEN R&D

SALES

- Global market leader in labelling materials
- Own sales network of fine papers in Asia Pacific
- Reliable supplier
- Exceptional customer experience
- Recognised leader in sustainability

CUSTOMERS

Labelstock manufacturers
Siliconisers
Packaging converters
Merchants
Printers & Publishers
Merchant-owned labels

END USES

OUTCOMES

Safe and certified products
Work safety
Employment
Career opportunity
Ethical and compliance in global norms
Recyclable products
Low emissions
ROCE

CONTENTS

UPM Paper ENA

(Europe & North America)

OUR DIRECTION

- Improve profitability and maximise cash flow through simplified customer-focused sales strategy
- Make use of optimisation opportunities in the large low-cost production platform

OUR STRENGTHS

- Large low-cost operating platform providing continuous opportunities for optimisation
- Reliable supplier with consistently high quality, excellent service as well as wide product palette
- Scale and skills in responsible sourcing and manufacturing
- Environmental and technical expertise, consistent product development

LESS IS MORE IN PAPER

UPM has launched a new high quality and competitive printing paper grade, UPM Valor, designed especially for magazine publishers and brand owners. It is a prime example of how UPM's papers add value for customers by providing savings in mailing and delivery costs without the need to compromise on quality.

UPM Valor matches the quality and the properties of the reference paper grades but is up to 15% lighter in basis weight. Since fewer raw materials are needed, UPM Valor supports the sustainability of customer operations with a smaller environmental footprint throughout the value chain.

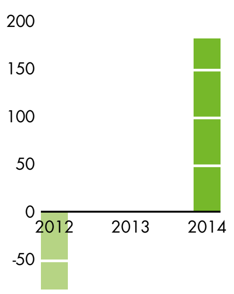
After the launch in 2014, several international brand owners such as Spiegel, IKEA and Finnair have integrated UPM Valor into their paper portfolio. As an example, the weight loss achieved by Finnair's in-flight magazine means that the airline company will save on fuel costs.

Read more:
www.upmpaper.com

KEY FIGURES

	2014	2013
Sales, EURm	5,284	5,560
Operating profit excl. special items, EURm	181	0
Capital employed (average), EURm	2,511	2,672
ROCE excl. special items, %	7.2	0.0
CF/CE %	12.9	4.6
Personnel on 31 Dec.	10,467	11,081

Significant improvement in profitability



*) excl. special items

Business performance

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

Business development

2014 was characterised by the decision in 2013 to reorganise the business into a customer-based structure with differentiated strategies. UPM Paper ENA was organised into three customer-based Strategic Business Units (SBU); Magazine Publishing & Advertising; Newspaper Publishing; Merchants, Home & Office.

The reorganisation sharpened operational focus in each strategic business unit, facilitating management of the business segments towards differentiated target setting with faster decision making. UPM Paper ENA's leaner structure and decentralised profit responsibility also sparked agility and engagement within the organisation, laying the foundations for further improvements in production and supply chain management as well as customer focus.

UPM Paper ENA also successfully launched new paper products, e.g. UPM Valor, UPM Impresse and UPM ReCat.

In the first half of 2014, UPM Paper ENA implemented measures relating to the first profit improvement programme (announced in August 2013). Fixed costs were reduced through focusing, de-layering, increased scalability and simplification of working procedures. Variable costs were reduced in sourcing, logistics and manufacturing. Thanks to successful implementation of the profit improvement programme, combined with some tailwind from lower input costs, UPM Paper ENA achieved a clear turnaround in profitability.

Market conditions remained challenging in 2014 although the decline in paper demand moderated somewhat, and the price slide levelled off. Nevertheless, overcapacity continued to plague the European paper markets. The outlook for growth in the European economy deteriorated in the second half of the year and contributed to the challenging market environment.

In November, UPM announced plans to reduce 345,000 tonnes of newsprint and 460,000 tonnes of magazine paper capacity in Europe in 2015. With the closures, UPM aims to adapt its production to meet profitable customer demand and ensure efficient use of its remaining production capacity without endangering customer deliveries. The fixed cost reduction related to the capacity closures is expected to be EUR 55 million and is part of the group-wide EUR 150 million profit improvement programme.

The UPM Docelles paper mill in France was closed in January 2014. The mill produced 160,000 tonnes of uncoated woodfree papers annually.

Markets and drivers

- Graphic paper demand is driven by advertising spending in printed media and in targeted and unaddressed direct marketing, magazine and newspaper circulations and titles, as well as home and office paper consumption.
- Following the increased use of digital media in the consumer market, paper consumption is in structural decline in mature markets in Europe and North America. Despite the overall decline however there are still growth opportunities in certain end uses and markets.
- In Europe, demand for graphic papers decreased by 3% in 2014. The decline was steeper in newsprint and magazine paper, while fine paper demand remained stable.
- In North America, demand for magazine paper decreased by 3% in 2014.

UPM PAPER ENA VALUE CREATED

CAPITALS

Capital intensive process industry
Engaged high performing people
Community involvement and local presence
Responsible sourcing
Virgin fibre from certified sources
Recycled fibre
Chemical pulp with full traceability
Sustainable raw materials and energy

CUSTOMER-BASED BUSINESS UNITS

- Customer focus and offerings
- Wide product range
- Reliable supplier
- Common operational platform for production, supply chain and sales

MAGAZINE PUBLISHING & ADVERTISING
NEWSPAPER PUBLISHING
MERCHANTS, HOME & OFFICE

PRODUCTION

- Efficient and cost competitive production
- Environmental and technical expertise
- Focused R&D

SALES

- Market-based, global sales
- World class technical service
- Excellent customer service

CUSTOMERS

Publishers
Printers
Retailers
Cataloguers
Advertisers
Brand owners
Merchants
Converters

END USE

OUTCOMES

Safe and certified products
Work safety
Employment
Recyclable products
Renewable energy
Low emissions
Vitality of local communities
Responsible restructuring
Cash flow / Capital employed

UPM Plywood

OUR DIRECTION

- Profitable growth through operational excellence and customer-oriented service
- Strengthen market position in selected businesses by increasing value and service offering

OUR STRENGTHS

- Leading supplier in demanding end-use segments
- Reliable supplier with consistent high quality
- Superior customer service
- Strongest brand in the market – WISA®

CO-OPERATION DRIVES WELLBEING AT WORK

UPM Kalso veneer mill in Kouvola, Finland has focused on the development of leadership, management skills and solution-oriented decision-making, and the results are beginning to show. The changes have been driven by rapid changes in the veneer business, personnel reductions and concern for the mill's future, which could be seen in the Employee Engagement Survey feedback.

The mill identified relevant development areas in workshops and created clear action plans based on them. The business and mill management team, together with the employees, began to systematically change old practices and fix identified issues. From the beginning, shop stewards had a significant role in the improvement of the work environment and wellbeing of the employees.

The main action points for the mill were the development of multiple skills and job rotation. Changes were made to meeting practices and content, decision-making, information flow and communication. In addition, the mill has focused on improving people management, working conditions and wellbeing reviews.

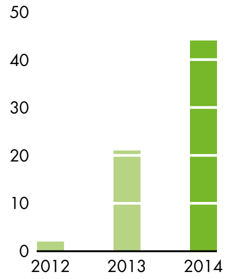
KEY FIGURES

	2014	2013
Sales, EURm	440	429
Operating profit excl. special items, EURm	44	21
Capital employed (average), EURm	268	286
ROCE excl. special items, %	16.4	7.3
Personnel on 31 Dec.	2,441	2,455

Consistent work delivered results

Operating profit[1)]

EUR million



[1)] excl. special items

Business performance

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

Business development

UPM Plywood's performance has consistently improved thanks to past years' restructuring and streamlining measures and a renewed commercial strategy. In 2014, UPM Plywood proceeded with measures to further improve performance in several areas, focusing particularly on sales management and service offering as well as operational efficiency and work safety.

UPM Plywood made further progress in its customer-oriented approach in 2014. A clear definition of the value proposition to customers in 2013 enabled UPM Plywood to enhance its technical support, services tailored to end-use needs and services to improve customers' process efficiency.

Through its improved customer focus, UPM Plywood has successfully increased sales to demanding end-use industrial applications such as LNG (liquefied natural gas) vessels and trailer manufacturers. Investment activity in the LNG industry is high and the outlook remains good. In the area of road freight applications, UPM Plywood has provided expertise to further reduce the weight of trailers in co-operation with trailer manufacturers and has launched the WISA Bonded Floor plywood solution. The new application brings about both economic and environmental benefits.

UPM Plywood's increasingly value-oriented customer offering improved average sale prices compared to the previous year.

In 2014, UPM Plywood also succeeded in further improving its operational efficiency. Fixed costs remained at the previous year's level as the benefits of a new maintenance model and strict cost control offset the impact of cost inflation. A shorter maintenance shutdown at the Finnish mills improved production flexibility and enabled UPM to respond to customer demand with increased production. Intensified efforts in supply chain and production management resulted in improved quality, higher delivery assurance and lower unit costs.

In 2014, production efficiency improved in particular at the Savonlinna birch plywood mill in Finland. Since the extension and modernisation work was completed in 2012, production efficiency has gradually improved and the mill offers further improvement potential.

Safety issues have been made an integral part of the business management system and daily activities, and thanks to a continued systematic approach and readiness to intervene in risk situations, safety results have improved considerably, reaching world class industry levels in 2014.

Markets and drivers

- Plywood demand is driven by activity in the building and construction and furniture industries as well as industrial end-use segments such as transportation.
- Plywood demand in Europe is estimated to have increased slightly in 2014. Demand was slightly higher in industrial applications than in construction-related end-use segments.
- The plywood market in Europe was in balance in 2014, and sales prices increased slightly.

UPM PLYWOOD VALUE CREATED

CAPITALS

Moderately labour and capital intensive industry
Engaged high performing people
Community engagement
Responsible sourcing
Sustainably sourced wood from certified sources with full traceability
Sustainable energy

PRODUCTION

PLYWOOD MILLS (SPRUCE)
PLYWOOD MILLS (BIRCH)
VENEER MILL

SALES

- Leading supplier in demanding end uses
- High quality
- Supply chain services
- Professional technical services
- Reliable supplier
- Strong brand

CUSTOMER INDUSTRIES

Construction
LNG shipbuilding
Vehicle flooring
Parquet
Other industrial manufacturing

END USES

OUTCOMES

Safe and certified products
Carbon storing products
Employment
Work safety
Vitality of local communities
Low emissions
ROCE

Product and process development

Innovations and R&D

The objective of UPM's R&D programmes and business development is to create new technologies and products, provide support to and ensure the competitiveness of its businesses.

The share of R&D work increased in new technologies and growth businesses such as developing biofuels, biocomposites, biochemicals, biofibrils, pulp and CO_2-neutral energy in 2014. UPM Biofuels entered its commercialisation phase in 2014 and is included in the UPM Biorefining business area.

Increasing efficient use of resources

In 2014, UPM spent EUR 112 million (155 million) on research and development work equating to 9.0% (21.1%) of UPM's operating cash flow. On top of the direct R&D expenditure of approximately EUR 35 million (38 million), the figures include negative operating cash flow and capital expenditure in developing businesses.

Versatile use of wood biomass

UPM's Biofore strategy is based on the versatile use of renewable wood biomass, combined with innovation, resource efficiency and sustainability. The purpose is to replace non-renewable materials with renewable, recyclable and low-impact alternatives – the main drivers for bioeconomy.

Improvements in material efficiency make it possible to consume fewer resources and raw materials in production processes. Therefore, UPM's R&D work has expanded its focus to the more efficient use and reuse of side streams. The most recent examples are UPM's Elurit and Cinerit construction products that are made of fly ash from the thermal recovery of biogenic waste materials.

UPM has a global network of research centres to support the businesses and their business development goals. All of UPM's businesses and R&D centres have adopted ecodesign in their product development processes. This means that environmental aspects are systematically integrated into product design at an early stage.

Wide-scale collaboration in new businesses

UPM is a shareholder in the Finnish Bioeconomy Cluster (FIBIC). The Cluster's research programmes focus on the bioeconomy and products based on renewable materials, thus supporting UPM's internal R&D activities. Moreover, UPM is a shareholder in the Finnish CLEEN Ltd research company that is focusing on energy and environmental research.

The research clusters support the Finnish bioeconomy and cleantech strategies with the aim of increasing sustainable businesses in Finland. The clusters' research projects are in line with the research and implementation activities of UPM's Biofore strategy.

In July 2014, EU and industry leaders launched a new European Joint Undertaking on Bio-based Industries (BBI) in which UPM acted as one of the founding members in industrial consortium part.

This Public Private Partnership (PPP) aims to trigger investments and create competitive market for bio-based products and materials that are sourced locally. For UPM, the PPP is an important funding element for speeding up the implementation of future investments in new areas such as biochemicals, biocomposites and biofuels.

In 2014, UPM received approximately EUR 2.1 million (3.8 million) from Tekes (the Finnish Funding Agency for Technology and Innovation) for its research projects. These projects were carried out in co-operation with research institutes, universities and other companies.

UPM's intellectual property rights applications have increased significantly during the last few years. The importance of patent registration highlights the progress made in new businesses.

UPM's biocomposites combine natural fibres and plastic

The UPM Biocomposites business unit develops, manufactures, markets and sells high quality composite products and granulates for a wide range of consumer and industrial applications.

UPM ProFi and UPM Formi composites combine the best characteristics of natural fibres and plastic. Their principal ingredients are cellulose fibres and polymers, which can be either virgin or recycled. The non-toxic composites can be recycled.

UPM ProFi products are used for decking and other outdoor end uses. They are made mainly from the surplus paper and plastic left over from the production of self-adhesive label materials.

UPM Formi composite is used to replace plastic in many applications, from furniture to consumer electronics. UPM Formi is manufactured from cellulose fibre and plastics. Around half of the oil-based plastic is replaced with cellulose fibres in the biocomposite.

Products manufactured from UPM Formi comply with food contact material requirements stipulated in the EU and US Food and Drug Administration (FDA) regulations.

The composite also complies with EU toy safety regulations.

UPM Biochemicals has profound know-how in lignin-based products

The UPM Biochemicals unit develops wood-based chemical building blocks, performance chemicals and biofibrils.

Chemical building blocks are a cost competitive replacement for fossil-based monomers and chemicals such as intermediates to bioplastics. Performance chemicals utilise the basic structure of the natural biopolymers of wood, such as lignin and hemicellulose.

Biofibrils™ products and lignin, the binding agent of wood, are examples of UPM's performance chemicals. Biofibrils are cellulose micro- and nanofibril products that can be used for shaping materials and giving them new characteristics. Lignin for example can be used in various resin mixtures and adhesives.

In 2014, UPM Biochemicals worked with Renmatix to test the company's water-based Plantrose™ process. The goal is to convert woody biomass into intermediates for subsequent downstream processing into biochemicals.

In addition, UPM Biochemicals signed a lignin supply contract with Domtar Inc. to develop the market and offer sustainable, value-added products for a growing variety of end uses.

UPM Biochemicals has developed profound know-how and intellectual property in the area of lignin-based products, e.g. resins, which are typically used as binders in wood-based products. UPM BioPiva™ lignin for resin formulations, based on UPMs proprietary activation technology, is one example of this kind of product.

Product development at UPM Biochemicals is at the pre-commercial phase, with UPM actively developing and testing industrial applications with its partners in order to create mill-scale industrial concepts.

Read more on the reuse of materials (p.50).

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PARTNERSHIPS HELP BRING ADDED VALUE TO SIDE-STREAMS

In December 2014, UPM announced its agreement with Indicatorium Oy for the international commercialisation of the food freshness indicator technology developed by UPM. Food freshness indicator is a smart label that reacts to certain chemicals and helps to determine whether a food product is still fresh and safe to eat.

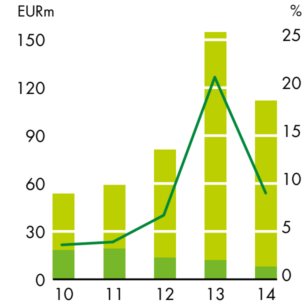
The co-operation is a good example of UPM actively using its extensive patent portfolio, by which it is seeking business development and innovative partnerships for various bioeconomy projects and the development of by-product utilisation. With the help of co-operation, UPM is aiming to develop new business models and utilise patents that would otherwise be neglected.

UPM is looking for partners among other industrial companies, start-ups, research institutes (e.g. FIBIC) and various other entities that facilitate the commercialisation of technologies (VTT, Sitra). Occasionally, UPM also forms partnerships with its customers, like in the case of the RafCycle label waste recycling concept.

These partnerships help UPM divide the workload, bringing more flexibility and agility to its operations. UPM's contributions to the projects include transferring and sharing its know-how on technology and environment.

Read more:
www.upm.com

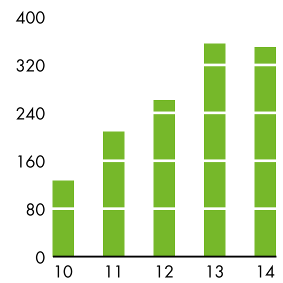
UPM's development expenditure



Developing businesses[*]
Mature businesses
Of operating cash flow

[*] Includes negative operating cash flow and capital expenditures

Annual patent filings 2010–2014



UPM's patent filings have grown significantly in past years. The filings are mainly related to UPM's developing businesses such as biofuels, biocomposites and biochemicals.

EVENTS IN 2014

4 March: UPM's Biofore Concept Car demonstrating versatile use of biomaterials premieres at the Geneva International Motor Show

11 March: Fortum, UPM and Valmet announce their plan to jointly develop technology to produce advanced biomass-based fuels

19 March: UPM Plywood and Finnish furniture manufacturer Isku sign a partnership agreement on thermo-formable UPM Grada wood material to cut Isku's form press times by half

1

Well-functioning stakeholder engagement is considered to bring competitive advantage to the company.

2

UPM's materiality analysis highlights the most important issues for UPM and its stakeholders. The analysis uses feedback from different stakeholder enquiries and the company's risk mapping based on which the importance and potential impact of different issues or activities on UPM's operations are assessed.

3

In 2014, the three most important issues were Biofore value creation and opportunities in the changing business environment, product stewardship and occupational health and safety.

Creating added value

through stakeholder engagement

To deliver true stakeholder value, UPM focuses on ensuring good co-operation, regular discussion and interaction at all levels. These tools and channels enhance knowledge and understanding of the company's activities and targets, as well as building long-term trust with its key stakeholder groups.

To ensure long-term engagement, UPM continuously works with its diverse range of stakeholders to understand their specific needs and expectations. It is equally important to communicate and discuss the company's targets, operating principles, values and the challenges it faces within the business environment.

As UPM is primarily viewed as an economic operator, financial success, stability, future outlook and growth are fundamental themes for most stakeholders. In addition, UPM's environmental performance and social responsibility play a significant role in UPM's ability to operate and affect the long-term success of its businesses.

To address these different needs, and in recognising the differing emphases of different stakeholders, UPM aims to provide a balanced view of the economic, environmental and social aspects of its business activities.

Stakeholder engagement is part of the strategy process

Regular stakeholder mapping in all businesses is an essential part of stakeholder relations, along with the systematic gathering of feedback and views from different sources. This way, UPM aims to ensure that sufficient consideration is given to stakeholder needs during the strategic development and decision-making processes.

UPM's most important stakeholders are customers, investors and financiers, employees, suppliers, authorities and key decision-makers, the media, non-governmental organisations and local communities. The approach to each varies based on business focus, region and individual stakeholder groups.

The UPM Code of Conduct sets the standards of responsible behaviour towards these stakeholders for each and every UPM employee globally. The standards cover topics relating to legal compliance and disclosure, conflicts of interest, gifts and bribes, HR practices, human rights questions and environmental matters. In 2015, the Code of Conduct will be reviewed.

The level of stakeholder engagement is measured by several key performance indicators. Feedback from stakeholders adds real value by contributing to risk management and mitigation, as well as the development of competitive advantage and continuous innovation. It also helps third parties to understand key challenges and opportunities in the company's operating environment.

Should stakeholders have concerns or suspect misconduct, they are encouraged to contact UPM's Stakeholder Relations function or use the UPM Report Misconduct channel accessible via the company website. A claim can be made confidentially and anonymously. The company has agreed internal procedures on how to address possible misconduct.

Activity in 2014

At the beginning of the year, a new Stakeholder Relations function was formed. Globally, the function operates at Group Executive Team level with UPM's businesses responsible for local activity.

UPM conducted a materiality analysis that highlighted the most important issues for UPM and its stakeholders. The analysis uses feedback from different stakeholder enquiries, the company's risk mapping and other information sources based on which the importance and potential impact of different issues or activities on UPM's operations was assessed.

During 2014, UPM was able to respond to stakeholders' expectations reasonably well. UPM was not involved in any major stakeholder conflicts. This creates good opportunities to further develop stakeholder relations in the future.

The majority of direct feedback from stakeholders focused on the local effects of UPM's operations, such as noise, odour or logging practices. The single largest topic of feedback relates to the problems caused by malodorous gas emissions at the UPM Kaukas pulp mill.

Customer enquiries focused on topics such as product safety, ecolabels and the origin of raw materials. UPM actively participated in the debate and sought to increase stakeholder information of the situation.

Competitiveness at the forefront of public affairs

Through public affairs activity, the company aimed to foster the necessary prerequisites for investment, particularly in China, Finland and Uruguay. Within the EU, UPM promoted competitive and consistent energy and climate policy regulation. UPM co-operated with a number of trade associations on these topics.

In Finland, UPM highlighted the economic footprint of its existing operations. In addition, the company defined six critical topic areas within the Finnish operating environment that impact the competitiveness of the forest industry in Finland and discussed these topic areas with several Finnish decision-makers.

▲ The Biofore Concept Car premiered at the International Geneva Motor Show in March.

THE POTENTIAL OF UPM'S BIOMATERIALS PRESENTED

The Biofore Concept Car – showcased at the International Geneva Motor Show in March – demonstrates the innovative use of biomaterials in the car industry. Most of the parts traditionally made from plastic have been replaced with high quality biomaterials, UPM Formi and UPM Grada, and the vehicle runs on UPM's renewable wood-based diesel, UPM BioVerno.

Following the successful premiere, the car has appeared at dozens of events, including UPM's Annual General Meeting, WWF Living Planet Report 2014 seminar, the CEPI European Paperweek and the International Day of Forests at the UN's Palais des Nations in Geneva, Switzerland.

During 2014, the car received wide publicity all over the world.

The vehicle was designed and manufactured by some 50 industrial design students from the Helsinki Metropolia University of Applied Sciences. Building the car took four years and approximately 50,000 work hours.

Read more:
www.bioforeconceptcar.upm.com

PROMOTING ADVANCED BIOFUELS

The European Union is aiming to increase the use of renewable fuels in transport by the year 2020. In 2014, the EU decision-making bodies discussed the draft directive on Indirect Land Use Change (ILUC) aiming to minimise the changes in land use by favouring certain renewable raw materials, such as wood-based residues.

Legislation regarding renewable transport fuels will have an impact on the development of the UPM Biofuels business. UPM is developing high quality, residue-based renewable fuels that will not cause changes in land use or compete with food production.

UPM has established the Leaders of Sustainable Biofuels (LSB) coalition together with other European companies that produce and develop advanced biofuels.

The purpose of the coalition is to communicate with other organisations and stakeholders about the development and opportunities of advanced biofuels and technologies, and to define the preconditions for advancing investments in the field.

This is achieved, for example, by arranging joint meetings and open expert seminars. Expert assessments are also used to increase awareness of the challenges and possibilities relating to biofuels.

Read more:
www.sustainablebiofuelsleaders.com

On the environmental front, the most important influencing activity was the updating of the EU Best Available Techniques (BAT BREF) reference document. The document sets the basis for European pulp and paper mill permits.

Co-operation on environment provides prerequisites for trust

Globally, UPM continued its active co-operation with local permit authorities. For environmental and responsibility issues, UPM's stakeholder engagement activity aimed to maintain consistent quality in operations and products, along with securing the prerequisites for future activities.

Co-operation also continued on a voluntary basis with a wide range of stakeholders relating to ecolabels, standards and standardisation frameworks, as well as nature conservation.

Regarding environmental issues, co-operation continued with WWF, IUCN and the Uruguayan Vida Silvestre, for example. As to ecolabels and standardisation issues, UPM collaborated with FSC, PEFC, the German Blue Angel, the Swan label and the EU Ecolabel.

Global sustainable development projects have been developed alongside WBCSD (World Business Council for Sustainable Development) and "The Forest Dialogue" organisation.

Biofore strategy communicated through versatile channels

During 2014, UPM's Biofore strategy and its progress were regularly communicated to key stakeholder groups. The constant transformation of the company, growth projects and innovations continued to generate significant interest about UPM.

According to a brand tracking study carried out at the end of 2014, UPM's stakeholders give the company very positive scores in future orientation, sustainability and innovation. In the growing Asian markets, these features were estimated to have a specific weight in the future.

Since UPM opened its new head office in Helsinki, more than 22,000 visitors have visited the Biofore House and heard about UPM's transformation. In Lappeenranta, Finland, UPM has opened a dedicated visitor centre for its renewable diesel biorefinery.

UPM's Biofore Concept Car, launched at the Geneva Motor Show, showcased the opportunities for renewable materials to an extensive international audience. The car was manufactured in co-operation with students from the Metropolia School of Applied Sciences.

The company also engaged in several joint initiatives with different parties: for example, together with VR, the Finnish state railways, rail yard safety risks on wood transportation were assessed. UPM also initiated co-operation with WWF Finland to promote the sustainability of economic forests and the sustainability of wood-based liquid biofuels.

Sponsorships revisited

UPM focuses on sponsorship initiatives that are future oriented and appropriate for an innovative bio-forest industry company with sustainable values. To better align with UPM's strategy, the company's guidelines for sponsorships and donations were revised in late 2013. New targets and focus areas for 2014-2016 were defined.

The focus of the local sponsorship was to support the vitality of UPM production locations. UPM spent approximately EUR 490,000 on local sponsorships and donations. For commercial sponsorships, UPM spent approximately EUR 750,000.

UPM's support for its Uruguayan UPM Foundation continued with EUR 530,000. The foundation supports and encourages training, entrepreneurship, employment and healthy living and entertainment in local communities in the Uruguayan countryside.

UPM does not financially support political parties or individual candidates.

Approximately EUR 225,000 was donated to charities or other non-profit purposes, targeting the health and wellbeing of children and the young, as well as universities.

Continuous development with corrective actions

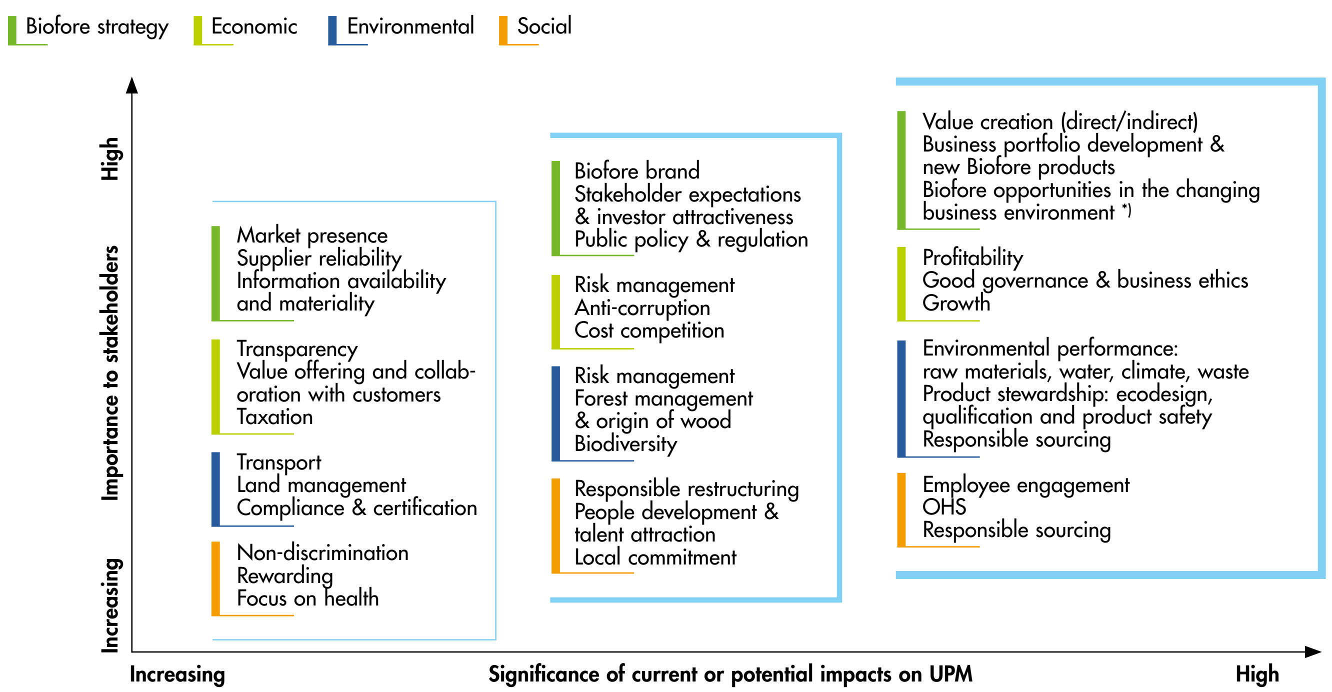
UPM does not tolerate any violations of the UPM Code of Conduct or the rules and guidelines that accompany it.

In 2014, a total of 16 concerns were reported through the UPM Report Misconduct channel. UPM took corrective actions considered appropriate to the circumstances.

The complaints related mainly to suspected cases of fraud and suspected failures to adhere to the company's HR Rules or compliance procedures. Some of the cases involved misconduct and led to disciplinary action including terminations of employment.

Read more on malodorous gas emissions at UPM Kaukas (p. 52), co-operation with Vida Silvestre (p. 53) and UPM Biofore Concept Car (p. 32).

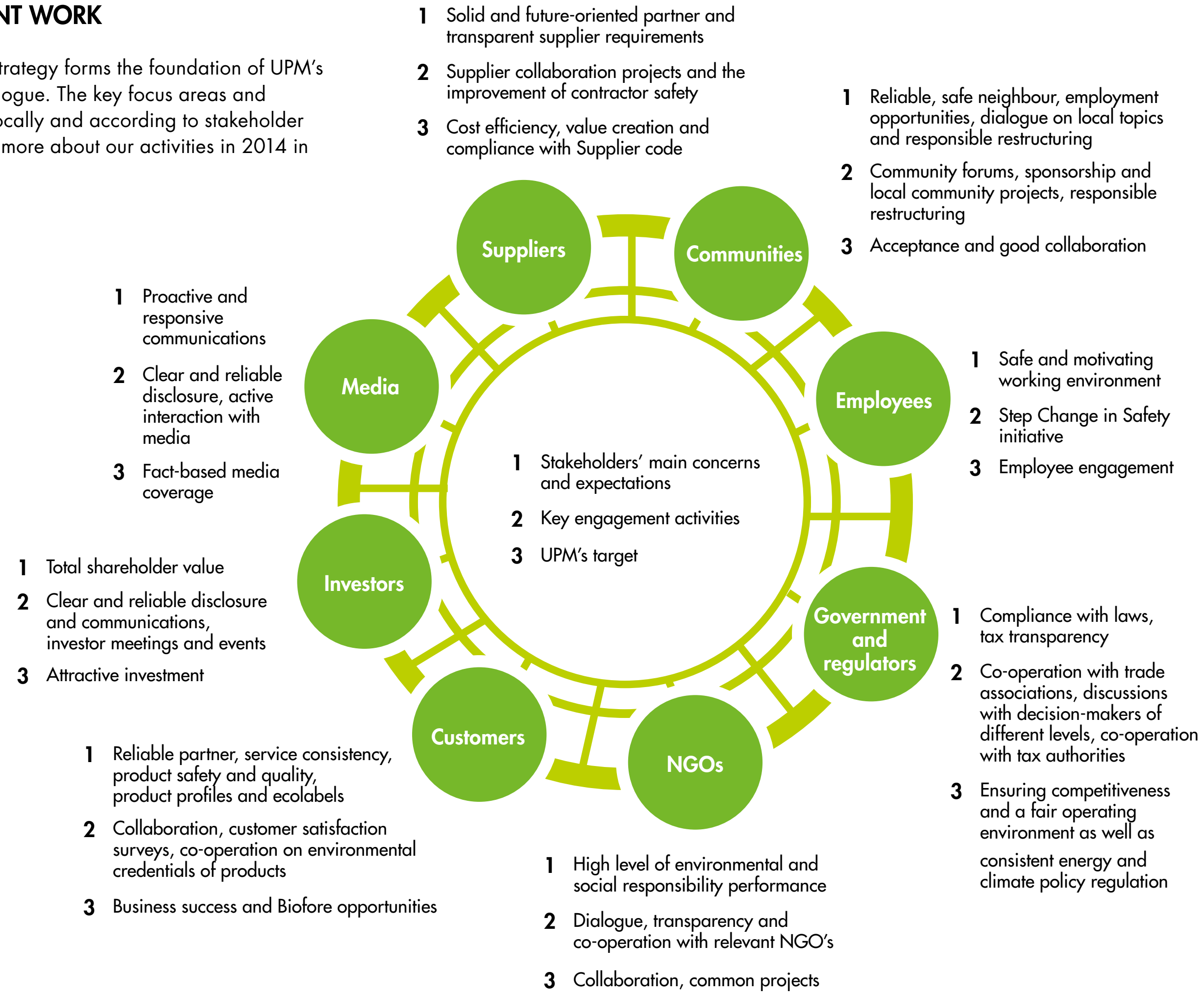
UPM'S MATERIALITY ANALYSIS 2014



*) Change in consumer behaviour, climate change, demographic change, digitalisation, material scarcity, political and financial instability

THE FOCUS OF UPM'S STAKEHOLDER ENGAGEMENT WORK

UPM's Biofore strategy forms the foundation of UPM's stakeholder dialogue. The key focus areas and activities vary locally and according to stakeholder needs. Find out more about our activities in 2014 in this picture.



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UPM's tax policy promotes compliance, risk management, transparency and efficiency

Based on the standards of behaviour required by UPM's Code of Conduct, UPM's tax policy describes the main principles and guidelines of taxation at UPM. UPM is committed to paying all the relevant statutory indirect, direct and other taxes and to file, report and disclose the information required to comply with the prevailing legal requirements and transparency objectives of UPM.

The four main principles of UPM's tax policy, updated in 2014, are:

- Compliance with relevant statutory legislations and rules.
- Management of tax risks, both financial and non-financial.
- Transparency of tax issues and an overall requirement of commercial rationale concerning tax-related transactions.
- Continuous enhancement of shareholder value by aiming for cost efficient and optimal tax processes, business transactions and structures.

UPM pays taxes where value is created

All of UPM's tax-relevant transactions are based on commercial rationale. The location of UPM's group entities is driven by business reasons, such as the location of customers, suppliers, raw materials and know-how.

UPM recognises the importance of following arm's length standards as stated in the OECD guidelines and in other standards. Accordingly, transactions are taxed where operations are performed and where value is created.

Due to UPM's corporate and operational structure, UPM reports and pays its corporate income taxes mainly in the production countries and in the countries where innovations are being developed, in accordance with the local tax legislation and regulations of the country in question.

UPM's significance to local tax revenue is especially emphasised at the locations of production sites. In addition to the taxes paid by UPM, such as corporate income taxes and real estate taxes, the local impact is augmented by the taxes paid to the local municipalities by UPM's employees as well as those indirectly employed to perform various services at the production sites.

Work on developing tax transparency continues

UPM supports transparency of tax issues through sufficient and regular reporting on taxes and by open communication with authorities and other relevant stakeholders.

UPM aims to achieve a transparent, proactive and professional relationship with tax authorities in all the countries where it operates.

An enhanced relationship or co-operative compliance, available in some countries, is one example of a more structured way of improving co-operation with tax authorities. OECD recommends an enhanced relationship between tax authorities and large taxpayers to enable the real-time sharing of information on significant tax matters to make sure that the correct tax is paid when it is due and to avoid unnecessary compliance costs.

In Finland, UPM participates in a voluntary pilot project of enhanced relationship with the Finnish tax authority, the Large Taxpayer's Office.

In 2014, the enhanced relationship started with so-called compliance scans that included a review of UPM's current tax control framework concerning all taxes supervised by the Large Taxpayer's Office. Through the pilot project, UPM aims to achieve efficiency, cost savings and certainty around tax issues in the long term.

In addition to the enhanced relationship with tax authorities, UPM has engaged in open dialogue with various stakeholder groups interested in tax issues. UPM aims to develop tax reporting that meets the expectations of various stakeholders. UPM closely follows the development of international and local guidelines and recommendations for country-by-country reporting, for example via OECD's work on tax reporting or other international corporate responsibility initiatives as well as local legislations.

UPM's tax policy is available at **www.upm.com**

UPM'S CORPORATE INCOME TAX IN FINLAND REACHES NEARLY EUR 90 MILLION

UPM pays income tax where added value is created and profit generated. As a result, especially in the countries where UPM's different business areas have significant value-adding operations, the company is also a major tax payer both of direct taxes (for example corporate income tax, real estate tax) and indirect taxes (value added tax). In addition to Finland, UPM has significant investments in production, for example in Uruguay, Germany, China, the UK and the USA.

Corporate income tax particularly, which is based on the company's taxable profits, is directly proportional to the company's profitability. UPM has worked systematically to improve its profitability over the past few years, not only through increasing its cost efficiency and making savings, but also by investing in new operations.

Corporate income tax is paid in accordance with local legislation. In some countries, governments support companies making significant investments, for example by granting temporary operating permits for special economic zones. In Uruguay, the government has granted a permit to UPM's pulp mill to operate in a free trade zone.

Finland's corporate income tax rate decreased to 20% from the beginning of 2014. UPM's corporate income tax in Finland in 2014, estimated at nearly EUR 90 million, has been calculated at the tax rate of 20%. In 2013, UPM's corporate income tax in Finland was EUR 116 million at the tax rate of 24.5%.

UPM is one of Finland's biggest tax payers

Despite the challenging operating environment, UPM has been able to improve its results through its own actions year on year, and thus the amount of taxes paid has also increased.

Another reason for the large amount of taxes paid is that UPM has significant operations in Finland through all of its six business areas. At the same time as some operations have been reduced, new operations have been started and new service concepts have been developed.

Investments have been made in production and service operations as well as in research and development, which will contribute to the results in the future. For example, following research work carried out in Finland, the production of biofuels has been started in Lappeenranta.

Local investments and expertise can also be used in a completely new business environment, good examples of which include business premises and related services provided by UPM to entrepreneurs in Kajaani and Kouvola, and the provision of forest management services to an increasingly larger group of investors.

A certain amount of the corporate income tax paid by UPM in Finland is distributed to regions where the company has significant operations, for example Lappeenranta, Jämsä, Kouvola, Rauma and Tampere. In addition to this corporate income tax and real estate tax paid by UPM, the taxes paid by the company's own employees and indirectly-employed contractors increase the tax revenue of the regions. The taxes are used to finance common services and projects, with the purchasing power of UPM and its employees also adding to the vitality of these regions.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED BY UPM IN 2014 (EUR MILLION)

Direct economic value created		Economic value distributed	
		Operating costs	–7,413
Sales	9,868	Employee wages and benefits	–1,290
Income from sale of assets	158	Payments to providers of loans	–51
Income from financial investments	9	Dividend distribution	–319
Other income	29	Corporate income taxes paid and donations	–82
	10,064		–9,155

Economic value retained 909

UPM's economic impact is significant in the surrounding communities. The company's operations contribute to local, regional and national economies by generating economic benefits for different stakeholder groups. The related direct monetary flows indicate the extent of added value globally.

UPM offers a wide range of renewable and recyclable products to be further processed into a variety of useful everyday products, and also provides services that meet the needs of a versatile range of customers.

UPM's interaction with customers is based on continuous dialogue and regular customer satisfaction surveys.

Customers value UPM's comprehensive product range, reliability and excellent environmental performance.

Continuous dialogue

and collaboration with customers

UPM's businesses vary in the products and services they offer. Each business has its own customer management process and way of interacting with customers. A comprehensive understanding of the markets, knowledge of end uses and an appreciation of customers' needs form the basis of UPM's customer relationship management.

UPM's target is to provide customers with solutions that improve customers' business processes, with a special focus on creating mutual benefits with increased efficiency. Matters related to environmental performance are also at the centre of UPM's customer offering.

Collaboration with customers

In addition to a continuous working dialogue, UPM is engaged in various development projects with customers. Many of the projects are related to product development, supply chain efficiency and optimisation, as well as the co-planning of activities.

Customer satisfaction is measured regularly in most businesses through customer satisfaction surveys conducted by a third party. Based on various business customer satisfaction surveys, the overall total satisfaction with UPM as a supplier is 77% (75%). The surveys act as a tool for further development, and bring an important customer dimension to performance management.

Customers interested in responsibility

Based on the dialogue and surveys, UPM's customers take an interest in the company's responsibility performance and the sustainability of its operations.

Product safety, forest certification and chains of custody, resource efficiency, safety performance and the supply chain are among the most important topics. The significance of long term financial performance and profitability of the supplier have increased.

UPM offers product declarations and environmental data for most products as a tool to provide customers with information on the sustainability of products and the supply chain.

Read more on new printing paper UPM Valor (p. 26), new invisible film labelstock VANISH (p. 22) and UPM's co-operation Hamelin Group on ecolabels (p. 49).

CUSTOMER COLLABORATION IN UPM'S BUSINESSES

	Pulp	Biofuels	Timber products	Energy	UPM Raflatac	UPM Paper Asia	UPM Paper ENA	Plywood	Wood Sourcing and Forestry
Product range	Softwood, birch and eucalyptus pulp	Wood-based renewable diesel for transport	Standard and special sawn timber	Trading in physical and derivatives electricity markets	Self-adhesive paper and film labelstock	Fine papers, office papers, labelling and packaging materials	Magazine papers, newsprint, fine papers for various end uses	Plywood and veneer products	Wood and wood-based biomass (logs, pulpwood, chips, forest residues etc.), forest estates and lakeshore plots
Customer industries	Tissue, specialty, printing and writing papers, as well as packaging	Fuel distributors, transportation, oil and petrochemicals industry	Building, construction, furniture, joinery, packaging industries	UPM businesses and electricity supply sector in the Nordic countries and Central Europe	Label printers, packers, brand owners in durables, tyres, retail, A4, food, beverage, personal care, pharmaceutical, retail and logistics segments	Distributors, retailers, OEMs (original equipment manufacturers), printers and publishers, converters	Newspaper and magazine publishers, printers, cataloguers, retailers, distributors and converters	Construction, vehicle flooring, LNG shipbuilding and parquet industries	All UPM businesses using wood or wood-based biomass, forest owners
Measurement of customer satisfaction	Continuous dialogue, regular customer surveys	Continuous dialogue and collection of feedback, end-user studies	Continuous dialogue and collection of feedback, annual customer surveys	Continuous dialogue	Continuous dialogue, customer surveys, training, customer events	Continuous dialogue, regular customer surveys	Continuous dialogue, regular customer surveys	Continuous dialogue, bi-annual customer surveys	Continuous dialogue and regular customer surveys
Actions in 2014	• Sales and marketing co-operation with Canfor Pulp • Co-marketing events for customers • Increase of pulp production at all mills • Strengthened technical customer service in Europe • Strengthened sales in APAC and Europe	• Supply chain and operative readiness in place • Strengthening partnerships with selected companies • Ensuring product functionality by comprehensive testing	• Further focus on strategic markets and market-specific weighting • Optimisation of raw material quality and use	• Sale of hydropower from Kymijoki river power plants to KSS Energia	• Strengthen films & specials offering • Optimisation of production and distribution network • Product development partnership • Improvement of supply chain efficiency • Sustainability and recycling solutions	• Launch of a series of new value-added products and services • Joint development projects • Enhancing sustainability message further	• Launch of new products that bring savings to customers • Joint product development • Development of service offering • Improved business interaction with customers	• Sharpened end-use prioritisation • Continuation of the ongoing work to improve supply chain performance and service • Quantifying value propositions • Customer and contract management	• Development of supply chain efficiency and services • Development of a new way of serving forest owners • Development of web solutions to improve customer service
Important corporate responsibility topics	Forest certification, sustainable forestry, water use and resource efficiency	Reducing greenhouse gas emissions, biofuels-specific sustainability certification, social and traceability criteria in targets set by the EU Renewable Energy Directive	Chain of custody, origin of wood and forest certification	Concern for fishways, low-emission energy	Product safety, lifecycle analysis, waste management, recyclability and forest certification	Forest certification, origin of wood, product safety and resource efficiency	Safety, forest certification, environmental performance, supplier audits at mills, ecolabels, resource efficiency and financial stability as a supplier	Forest certification, chain of custody, product safety and resource efficiency	Competitive price and sustainable forestry
Major changes in customer industries	• Significant growth of tissue and packaging board production • Sharp decline of printing and writing paper industry in mature markets • China's role as the most important single country for consumption of pulp	• Global increase of advanced biofuel volumes and demand • Waste and residue-based biofuels are favoured by both customers and legislation	• Growing importance of East Europe as a production area	• Structural changes in the electricity market	• Growth in personal care products • Retailer and distributor network development • Online shopping • Increase in automated product labelling and identification • Increase in adhesive-based fastening in manufacturing • Increased use of composite materials in materials technology	Fine Papers APAC: • Changes in graphics end uses • Increased share of e-media • Quality upgrade in cut-size business Labelling materials: see UPM Raflatac	• Digitalisation • Structural overcapacity • Variations in raw material availability and costs • Power shift in global economy • Consolidation	• Increased need for services, stocks and short lead times • Requirement for forest certifications has increased within on-site construction end use • More customer-driven specifications among industrial end users decreasing supplier's possibility to differentiate with a product	• Tightened competition • New Forest Act and other legislative changes impacting forestry practices and competitive environment in Finland

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Suppliers

are an integral part of UPM value creation

Sourcing operations play a significant role in ensuring the efficiency and profitability of UPM. The objective of UPM's sourcing operations is to maintain a supplier base that is capable of delivering material and service solutions that are both cost competitive and innovative to UPM businesses globally. This calls for close co-operation between UPM sourcing professionals and UPM businesses.

The sourcing of all necessary products and services results in a significant cost element for UPM business. Cost efficiency is the leading principle in UPM sourcing, including price and other cost elements.

Besides cost, UPM's holistic sourcing approach sets requirements for the reliability of deliveries in the long term, the quality of the products and services, the financial stability of the supplier, the environmental management of operations, social responsibility and occupational health and safety as well as product safety.

WOOD DELIVERIES TO UPM MILLS

1,000 m³	2014	2013
Finland	17,910	17,907
Germany	1,336	1,691
Austria	962	1,098
Russia	328	352
United Kingdom	289	297
Estonia	135	123
United States	940	881
Uruguay	4,366	4,519
Total	**26,266**	**26,868**

UPM experts auditing a pulp supplier in Brazil.

Close co-operation with a wide variety of suppliers

UPM aims to be a professional partner to its suppliers and to develop supplier relationships in a responsible manner that deliver long-term benefits to both parties.

The company's sourcing network consists of suppliers ranging from private forest owners and local companies to large international corporations. Long-term co-operation plans based on mutual commitment and openness between companies are in place with key suppliers. The aim of this co-operation is to work together to optimise the entire value chain, while sharing best practice in areas such as supply chain, manufacturing and product development.

Suppliers are an important stakeholder group for UPM. UPM sourcing professionals, with their full understanding of supply market dynamics, are one of the key resources of UPM.

Ensuring responsible sourcing is an integral part of supplier performance management. UPM works closely with suppliers to ensure that all the company's requirements are met and to establish mutual understanding on the issues of sustainability and social responsibility.

Systematic supplier assessment and requirements

Transparent and systematic supplier requirements are the basis for the company's supplier selection process and supplier performance evaluation. UPM's risk assessment covers environmental, social and economic risks and is carried out at supplier level. Supplier audits are initiated based on identified risks or gaps in supplier performance.

UPM requires its suppliers to apply the principles of the Code of Conduct and to fulfil the criteria concerning social and environmental responsibility. These supplier requirements are defined in the UPM Supplier Code.

In 2014, 67% (64%) of supplier spend was qualified against the Supplier Code. Good progress was achieved in sourcing of raw materials for paper and label, where the qualified spend is over 80%. Additional specific requirements are in place for areas such as wood, chemicals, safety, logistics, pulp and packaging.

Suppliers are encouraged to apply management systems based on internationally recognised standards and up-to-date techniques and practices.

Wood is the primary raw material for UPM's businesses

UPM is both a major forest owner and a purchaser of wood. UPM's wood sourcing operations are closely integrated with the UPM businesses that use wood as a basic raw material. UPM sources all wood assortments to ensure optimal utilisation of this valuable raw material.

In 2014, UPM sourced 26.3 (28.0) million cubic metres of wood from around the world. The majority of wood is purchased from private forest owners who numbered nearly 24,000 in 2014.

A network of local entrepreneurs takes care of harvesting, logistics and forestry work operations. There were nearly 3,000 harvester drivers and more than 3,000 truck drivers working for the entrepreneurs in 2014. UPM wood sourcing creates employment opportunities for thousands of people living in rural areas within the UPM wood sourcing spheres.

Tracing the origin of wood is a prerequisite for UPM

UPM's tracing systems and chain of custody model cover the requirements for both PEFC™ and FSC® forest certification schemes. UPM considers forest certification to be an excellent tool for promoting sustainable forestry.

With its chain of custody system, UPM ensures full traceability of the origin of wood worldwide. UPM has several decades of experience of wood supplier audits.

UPM verifies that the wood raw material supplied to its mills is sustainably sourced, legally logged and procured according to the basic requirements of international forest certification schemes and the EU Timber Regulation, US Lacey act and other regional jurisdictions. UPM therefore has control over the origin of its own harvesting and ensures that other sources are controlled through contractual terms of agreement and supplier audits.

All of UPM's wood supplies are covered by third-party-verified chains of custody and 83% (80%) of the wood used is certified.

Pulp and chemicals are purchased worldwide

UPM buys approximately 1.8 million tonnes of chemical pulp from external suppliers. Specific requirements are set for pulp suppliers with regard to environmental performance, social responsibility, forestry, wood sourcing and performance reporting.

Environmental and social performance data collection is an integral part of supplier risk and performance management. The data is collected regularly from UPM's pulp and chemical suppliers. The results of these surveys are discussed with the suppliers, both on and off-site, resulting in improvements, action plans and commitments such as continuous improvement.

Since 2011, UPM Raflatac has annually conducted the Responsibility Survey with the most important paper, film and chemical suppliers. In 2014 the survey was conducted with 70 suppliers. The completed surveys were scored and ranked and the suppliers were given feedback based on their responses.

UPM is a significant user and buyer of recovered paper

UPM is the world's largest user of recovered paper for the production of graphic papers. In 2014, the total consumption of recovered paper was approximately 3.4 million tonnes.

Efficient paper recycling depends on the local infrastructure for national collection schemes and recovery systems. The recovered paper used by UPM is purchased from Europe, where the most significant suppliers are local authorities, waste management companies and printing houses. UPM aims to optimise the value chain of recovered paper by focusing on local supply close to the mills with minimal costs and environmental impact.

Energy from renewable sources

UPM is both a significant purchaser and producer of energy. The majority of electrical and thermal energy is used for the company's pulp and paper production. UPM favours a wide range of low-emission energy sources and focuses on energy efficiency and energy savings in its businesses. In 2014, 67% (67%) of the fuels used by UPM were from renewable sources.

In addition to the company's own electricity generation, electricity is also purchased from the Nordic and Central European energy markets. In Germany, the company has bilateral agreements in place with electricity suppliers. In 2014, 4.9 TWh (5.1 TWh) of electricity was purchased.

Logistics form the foundation of on-time deliveries

UPM delivers approximately 1.3 million truckloads (c. 25 tonne each) of products and raw materials around the world every year; that is one load every 25 seconds. Of all UPM deliveries, 68% are transported by rail and road and 32% by sea. The majority of UPM's haulage is handled by contract partners. UPM aims to create strategic long-term alliances to create benefits for the company and its customers.

UPM has focused on optimising transportation. At the same time, emissions caused by transportation are reduced to the lowest possible volume.

Wood sourcing, transportation and logistics have a significant socio-economic impact on rural areas around the UPM mill sites. In Finland alone, the total external workforce includes 1,000 harvester drivers, 1,400 truck drivers, 550 railroad workers, 360 dock workers and 650 sailors. The number of entrepreneurs and companies involved is 230. Looking at UPM global scale this, together with purchases from the forest owners, results in significant support for local livelihoods in rural Europe, USA and Uruguay.

Read more on UPM's sustainable forestry (p.53).

FOCUS ON SOCIAL RESPONSIBILITY

In 2014, UPM focused more intensively on social responsibility issues in its supply chain. Based on a human rights related assessment conducted in 2013, UPM evaluated its present sourcing processes and took the necessary steps in order to highlight human rights related issues in its sourcing activities.

The risk assessment related to the supplier base was enhanced. Consequently, the number of risk assessment-based supplier audits was doubled in 2014 with a much wider geographical coverage than earlier. Some of the audits covered the entire up-stream supply chain.

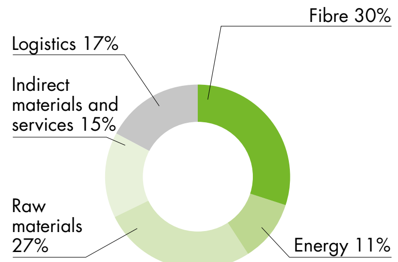
UPM also combined forces with the Fair Working Conditions (FWC) organisation on audits in China in order to benchmark the employment practices of UPM's suppliers, based on the recommendations of the International Labour Organisation (ILO), for example.

In addition, UPM arranged training on responsible sourcing to nearly 200 employees and improved the awareness of the sourcing personnel.

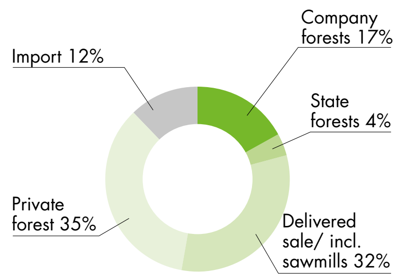
The development of responsible sourcing practices will continue in 2015.

Read more:
www.upm.com/suppliers, www.upm.com/responsibility and www.fairworkingconditions.ie

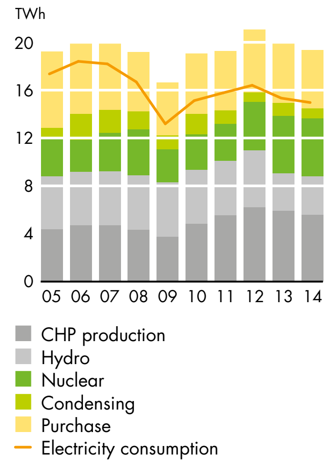
UPM's external purchasing spend



Sources of wood to UPM mills 2014



UPM group's electricity supply



People enable company transformation

In 2014 the main focus areas in UPM's People Strategy were a safe and inspiring workplace, sharp commercial ambition and sales capabilities, and change readiness and agility in changing business environment. These focus areas have been incorporated into the businesses' strategy process.

Encouraging professional growth

UPM aims to provide a safe and inspiring working environment where employees are capable of achieving good results. UPM encourages its employees to pursue professional growth and supports them in learning and developing their skills further.

The company uses the 70/20/10 model based on the assumption that 70% of learning takes place on the job, 20% comes from learning from others, and 10% comes from development programmes.

UPM systematically uses a performance management process (PPR) to set individual strategy-related targets and development plans for all employees globally. The PPR provides an opportunity, both for managers and employees, to give and receive feedback on performance and behaviour based on UPM values.

In past years UPM has developed its performance appraisal process by emphasising managers' roles in leading performance and giving feedback. Managers are expected to focus on performance management and guiding their team members to reach agreed targets. 86% (85%) of all permanent UPM employees had a personal performance review with their managers in 2014.

Developing the workplace together

The UPM Employee Engagement Survey (EES) invites all employees across the company to evaluate different aspects of the working environment every year. The survey measures development in three main indices; Employee Engagement, Manager Effectiveness and Occupational Health and Safety (OHS).

In 2014, 78% (78%) of UPM employees responded to the survey which illustrates a high level of willingness to participate in the development of UPM as a place to work. The Engagement index increased to 63% (60%) while favourable scores in the OHS index increased it to 78% (77%). Favourable scores in the Manager Effectiveness index have steadily improved over the years (from 74% in 2013 to 75% in 2014), and the score is now close to the top quarter of the global norm.

The EES gives an opportunity for annual monitoring of long term trends and the progress of agreed development activities. The results and progress are evaluated in order to define further improvements both at organisational and team level.

Building capabilities for empowering leadership

The company aims to have inspiring leaders who empower and engage employees at all levels. To further develop its leadership capabilities, UPM has a development programme portfolio focusing on self-leadership, coaching capabilities, innovation and leading in complexity.

In 2014, UPM continued to support a coaching leadership style and promoted the use of various tools for feedback on behaviours and performance. The target is to improve dialogue and the feedback culture in the company. UPM also continued its mentoring programme as a valuable tool for developing leaders.

Rewarding and recognising good performance

UPM offers reward and recognition with an emphasis on high performance. UPM has a total compensation approach consisting of base salary, benefits and incentives, which are determined by UPM's global rules, local legislation and market practice.

Intangible recognition is included in the total reward portfolio, which means that UPM provides, for instance, a safe and healthy working environment, interesting and meaningful work, and excellent leadership and career opportunities. Individual, team and business performance are criteria for compensation planning and decisions.

Base salary is set with regard to general agreements and local market practice, the level of the particular position, and individual performance. Through their own personal achievements and behaviour, employees have the possibility to influence their base salary.

All UPM's employees belong to a unified annual Short Term Incentive (STI) scheme. The plan includes company- and business-level targets, safety targets and personal and/or team performance targets. EBITDA is one of the key financial indicators for the company- and business-level targets. The annual incentives paid in 2014 for the 2013 STI plan were EUR 50 million and the estimated amount of annual incentives for the 2014 STI plan is EUR 51 million. For significant individual or team successes, there is a separate Achievement Award system in place.

UPM has two long term incentive plans: a Performance Share Plan (PSP) for senior executives and a Deferred Bonus Plan (DBP) for other key employees. Approximately 600 employees are covered by the plans launched in 2011 and run on an annual basis. Under both plans, shares can be earned based on either group or business area level performance. The PSP and DBP have replaced the Stock Option Programme 2007 which expired during 2014. More information about long term incentives can be found in the Remuneration Statement on www.upm.com in the Investors section under Governance.

UPM promotes active participation

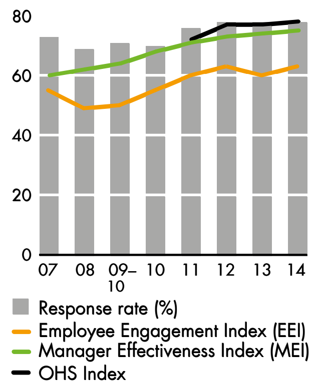
At the end of 2014, UPM had 20,414 employees working in 45 countries. As a multinational company, UPM complies with international, national and local laws and regulations and respects international agreements concerning human and labour rights and freedom of association.

UPM abides by legally binding collective agreements. UPM does not collect information on or report on its employees' union membership at a global level due to differences in national legislation in the various countries. The estimated percentage of active employees covered by collective agreement mechanisms was 73% (65%) in 2014.

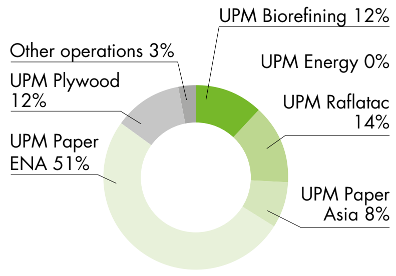
UPM promotes active employee participation and consultation, organised in accordance with international and national rules and regulations. UPM respects the privacy of employees and promotes equal opportunities and objectivity in employment and career development.

To enhance open international dialogue, UPM has a co-operative body, The UPM European Forum, that focuses on issues related to changes within the company and the business environment in general. The forum organises regular meetings for employee representatives from business units operating in Europe.

Employee Engagement Survey (EES) results, Trend 2007–2014



UPM's personnel by business area 2014



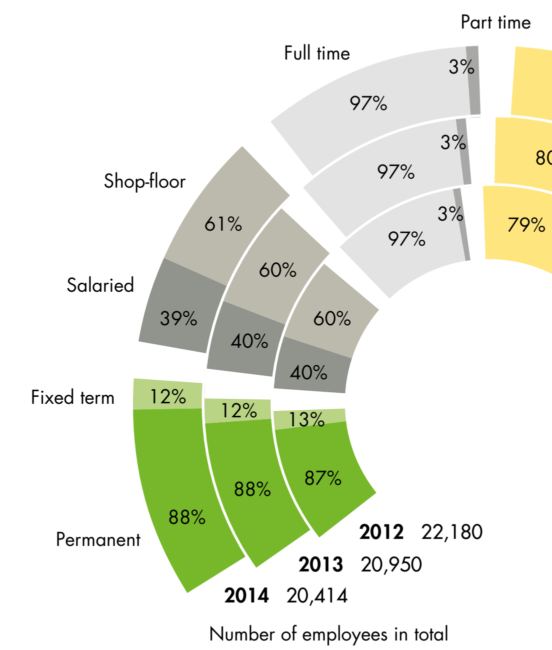
PERSONNEL BY COUNTRY

31 Dec.	2014	2013	2012
Finland	7,855	8,110	8,636
Germany	4,586	4,609	4,714
United Kingdom	1,098	1,136	1,205
Russia	787	771	970
France	785	901	1,146
Austria	549	547	546
Poland	499	440	454
Estonia	204	206	217
Spain	109	194	212
Italy	61	62	65
Turkey	40	38	39
Sweden	27	26	29
Belgium	28	32	35
Other Europe	111	177	208
China [1]	1,424	1,412	1,430
United States [2]	1,087	1,116	1,129
Uruguay	565	562	576
Malaysia	175	174	185
Brazil	89	95	48
South Africa	67	66	72
Australia	61	77	86
India	39	41	36
Rest of the world	168	158	142
Total	**20,414**	**20,950**	**22,180**

1) Incl. Hong Kong
2) Incl. Madison 50%

▲ **UPM is placing particular emphasis on performance orientation and employee engagement.**

UPM PERSONNEL IN FIGURES



	2014	2013	2012
Turnover %	10.86	12.45	15.06
Turnover% (voluntary)	4.76	5.49	5.95
Average age of personnel	43.7	43.4	42.8
People development			
Average training hours*) (hours employee)	15	15	17
OHS figures			
Lost-time accident frequency	4.4	5.4	8.5
Total recordable injury frequency	11.6	13.5	n/a
Absenteeism %	3.4	3.4	3.5

*) Reflects active employees

Supporting re-employment

The UPM Docelles paper mill in France was closed in January 2014. UPM's activities on permanently closed sites and in restructuring typically focus on retraining, re-employment and relocation within the company, as well as on supporting entrepreneurship. Active measures promoting employment and retraining are carried out in close co-operation with various authorities and other third parties.

In November 2014, UPM announced a plan to reduce its publication paper capacity permanently in France, Finland and the UK. In addition, UPM centralises UPM Paper ENA supply chain planning and order fulfilment activities to Augsburg and Dörpen in Germany. Personnel would be reduced by approximately 500 people by the end of 2015 according to the plan.

As part of UPM Raflatac's efficiency improving measures, the sheet labelstock business closed down coating operations and reduced capacity in sheet finishing in Polinya, Spain. Sheet coating is being centralised at Nowa Wies, Poland.

More graphs available on page 139.

YOUNG PROFESSIONALS GAINING EXPERIENCE

Emmi Reinikainen participates in UPM's first apprenticeship programme at the UPM Kaukas mill in Finland. The objective is to provide a comprehensive knowledge of the paper production process and maintenance work while performing different tasks at the mills.

"For me, on-the-job training has proved an excellent way to learn the work of the mill in practice," says Emmi Reinikainen of her experiences.

Despite the turbulent times within the paper industry, she is confident of her career prospects.

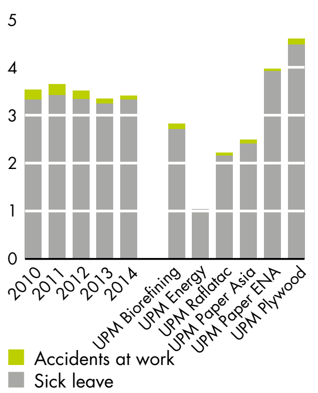
"Currently, there are difficulties in all industrial sectors, but I believe that there will be more work opportunities in future. I have enjoyed training very much, so I hope to be able to continue working in this field."

Altogether there are some 40 trainees at four paper mills in Finland. The programme runs in co-operation with local vocational schools. At the end of the programme, the participants will obtain a degree in the paper industry. The two-year programme started in February 2014.

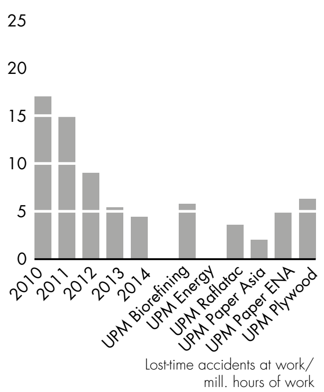
UPM also organises apprenticeship programmes in other countries. For example, there are more than 100 apprentices starting in 15 professions at UPM in Germany every year.

Read more:
www.upm.com/careers

Absenteeism due to sickness and accidents at work, all UPM personnel



Lost-time accident frequency, all UPM personnel



Significant change in UPM's safety culture

2014 was the final year for the "Step Change in Safety 2012-2014" initiative that was launched to improve safety culture and performance within UPM. Altogether, the initiative brought approximately 18% improvement in lost time accident frequency on the previous year and 70% improvement over three years.

Safety is an essential part of UPM's activities and business management system. Equal safety requirements are applied to all employees as well as to visitors and subcontractors working on the company's premises.

In 2014, UPM's lost time accident frequency (LTAF, the number of lost-time work accidents per one million hours of work) was 4.4 (5.4). The target for the end of 2014 was below five.

At the end of the year, 11 production units achieved more than one year without any lost-time accidents.

Unfortunately, there were three fatal accidents in total in 2014 at UPM premises: one in Finland as well as one fatal contractor accident in Finland and one in Germany.

In 2014, UPM adopted a new indicator: TRIF (total recordable injury frequency) which includes, in addition to LTA, modified duty cases and accidents requiring medical treatment. In 2014 the frequency rate was 11.6 (13.5).

The rate of absenteeism due to illness and accidents at UPM was 3.4% (3.4%) globally. Absenteeism due to accidents at work decreased by nearly 20% in 2014.

Accident prevention

In 2014, safety efforts concentrated particularly on avoiding slip, trip and fall accidents at UPM premises. Approximately one third of absences due to work-related accidents have resulted from these kinds of cases.

Regardless of severity, employees must report all near misses and make safety observations. UPM has a monthly near miss and safety observation report system in use at all its business units. All high-risk near misses are investigated with root cause analysis and corrective actions are undertaken to prevent their reoccurrence. In 2014, a total of 47,095 near miss and safety observation reports were recorded.

Good performance in safety is recognised with company-wide safety awards. The 2014 UPM Safety Award was given to UPM Changshu paper mill for excellent development in safety results and activities.

In April, UPM celebrated the company's second Safety Week in connection with the World Day for Safety and Health at Work organised by the International Labour Organization (ILO).

Despite the end of the safety initiative, safety work will continue to be one of the key focus areas. UPM has set a new target for the next three years: to achieve LTAF 3 by the end of 2017, with the focus on implementing and perfecting local practices.

The UPM Paper ENA business area launched its Safety 2.0 programme to ensure full implementation of new safety practices in its paper mills.

The target of the safety requirements is to ensure that neither UPM employees nor contractors are subjected to any risks when working at UPM's premises.

70% IMPROVEMENT IN LOST TIME ACCIDENT FREQUENCY IN THREE YEARS

Contractor safety enhanced

UPM requires its contractors to follow safety guidelines which enable them to carry out their work safely whilst on UPM premises. The safety induction is a prerequisite before starting work at a UPM site. Nearly 40,000 contractors have completed the web-based UPM safety induction by the end of 2014.

In 2014, the number of contractor accidents was at the same level as in 2013.

In 2014, UPM also rewarded contractors for their good safety performance, commitment and initiative with an annual safety award. The 2014 local contractor safety awards were given to 11 contractors in Finland, UK and China.

Focus on health

To support the wellbeing of its personnel UPM is working in close co-operation with employees and external organisations responsible for occupational health.

In 2014, UPM launched the "Focus on Health" campaign, the aim of which is to support continuous improvement of employees' health, quality of life and ability to perform on a voluntary basis. The campaign was run in connection with the Step Change in Safety initiative.

The campaign concentrated on supporting personal health under the themes of Activity, Recovery and Nutrition. After reviewing health practices among different businesses, functions and sites, several new voluntary health and wellbeing initiatives were launched under the themes.

The pilot health project conducted at some sites in Finland consisted of a medical check, wellness assessment and personal support based on individual health improvement action plans.

Monitoring wellbeing

To improve wellbeing at work, UPM is monitoring employees using several metrics and indicators on a yearly basis. The indicators include, for example, the annual employee engagement survey (EES), follow-up of safety and absence indicators, and occupational health checks aligned with national legal requirements.

CONTENTS

1

Our existing and new businesses that make use of renewable and reusable raw materials form the core of the Biofore strategy. UPM aims to create more with less in all its operations. The efficient use of raw materials and energy brings savings in terms of the environment and costs.

2

UPM is listed as the best company in the paper and forest industry sector in the Dow Jones European and World Sustainability Indices (DJSI) 2014-2015. UPM is included in these indices for the third time in a row.

3

In 2014, the company's main focus areas in corporate responsibility were the Step Change in Safety initiative, the improvement of contractor safety and the Clean Run environmental campaign. Special attention was also paid to the further development of responsible sourcing activities.

Responsibility

supports business development

UPM is committed to sustainable development. Responsibility and a holistic approach to environmental issues are key building blocks of UPM's safe and responsible business operations and product development.

The changing operating environment drives companies to seek sustainable solutions

Global megatrends, such as population growth, urbanisation, changes in consumer behaviour and power shift of economies, cause stress to the environment. For example, the increasing scarcity of raw materials, climate change, the loss of biodiversity and the availability of clean water are all global environmental challenges.

These megatrends will change our business environment and the way companies operate. The competition for non-renewable and renewable natural resources will intensify and may also lead to conflicts. However, renewable natural resources offer an advantage since they can be used generation after generation, provided that they are managed in a sustainable manner.

The Biofore strategy is based on resource efficiency and renewability

For UPM, these megatrends create also new opportunities, particularly in bio-based products. Our products manufactured from renewable and recyclable materials respond to global challenges.

UPM's Biofore strategy is based on using renewable and recyclable raw materials in a sustainable way. This means consuming resources such as raw materials, water and energy, in a prudent and responsible way while achieving energy, production and cost efficiency. Less waste is produced, giving products more economic and environmental value.

Resource efficiency encompasses various areas, such as:

- Using natural resources as efficiently and productively as possible – creating more with less
- Moving from the use of non-renewable resources to using renewable resources
- Taking environmental aspects into consideration early in the product design phase
- Reducing the environmental footprints of products
- Increasing the recyclability of products and raw materials

UPM is committed to responsible and ethical business practices

All UPM activities comply with local laws and regulations. The company respects international human rights agreements and agreements concerning labour rights, including the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the OECD Guidelines for Multinational Enterprises.

The company is also a signatory of the UN Global Compact initiative whose ten universal principles are derived from international agreements in the areas of human rights, labour standards, the environment and anti-corruption.

Furthermore, UPM has promoted global sustainability projects by participating in the World Business Council for Sustainable Development (WBCSD) and by active dialogue with The Forests Dialogue organisation and with other organisations focusing on ethical conduct, such as WWF, IUCN and Changemaker.

EVENTS IN 2014

12 March: UPM expands its certification services in Finland and prepares its own PEFC group certificate

4 April: UPM donates EUR 100,000 for the new children's hospital in Helsinki

6 May: WWF Poland and UPM Raflatac continue to co-operate in protecting rivers in Poland

18 June: UPM and WWF Finland enter versatile co-operation

25 June: UPM BioVerno wins EU Sustainable Energy Europe Award

11 September: UPM is listed as the industry leader in the global Dow Jones Sustainability Index

15 October: UPM achieves top position with the highest possible score in the CDP Climate Performance Leadership Index

30 October: UPM Raflatac announces that all its production sites and terminals in China are certified to FSC and PEFC forest certification standards

11 November: UPM is announced as sector leader for the materials industry in CDP's global forests report

13 November: UPM receives its own PEFC group certificate in Finland

4 December: UPM and WWF Finland enter co-operation to promote the sustainability of wood-based liquid biofuels

CONTENTS

MORE WITH BIOFORE: RESPONSIBILITY AS A SOURCE OF COMPETITIVE ADVANTAGE

OPENING UPM BIOFORE STATIONS IN URUGUAY

The "Palmares de Cuico" path was the first UPM Biofore station opened in Paysandú, Uruguay.

The site is a part of an agreement between UPM's plantation company Forestal Oriental and the government of the Paysandú region to create and promote tourist areas. For visitors, the UPM Biofore stations offer the possibility to come and enjoy the countryside as well as to familiarise themselves with eucalyptus plantations and environmental protection.

The sites have been selected based on their potential tourist values. Some places have a beautiful landscape, some are home to rare species and plants, and others may have a cultural value.

The aim is to promote these areas alongside the region's existing tourist services.

In the interests of ensuring safe and optimum enjoyment of the sites and facilities, Forestal Oriental has released advertisements and produced brochures, signs and visitor guides.

There are currently nine UPM Biofore stations under development in Río Negro, Paysandú, Tacuarembó and Florida.

Read more:
www.upm.com/responsibility

Aerial view of UPM's plantations in Tacuarembó, Uruguay.

Group Executive Team in charge of managing corporate responsibility

The company's Biofore strategy and the Code of Conduct approved by the Board lay the foundations for responsible business operations and continuous improvement.

The Group Executive Team, headed by the President and CEO, is in charge of managing corporate responsibility, determining the course of action and guiding development work. The day-to-day work has been integrated into the company's business operations. Group-level corporate responsibility is managed by the Environment and responsibility team that coordinates the projects being carried out in business areas and functions.

The company's Code of Conduct addresses human rights, labour rights, good business conduct, occupational safety and environmental practices. The Code of Conduct is complemented by more detailed policies, rules and guidelines, and training concerning these documents is provided regularly.

The Code of Conduct training is required from all employees and it is part of the induction programme for new employees. By the end of 2014, approximately 88% of all active UPM employees had attended Code of Conduct training. In 2015, the company will update the Code of Conduct and launch a new round of training.

UPM continuously strives to improve its environmental and health and safety performance by using various tools, such as certified management systems. In 2014, UPM began renewing the management systems of its pulp and paper mills in order to harmonise procedures.

The company monitors and assesses its anti-corruption and anti-bribery activities, and an Ethics Advisory Committee has been established to perform these tasks. The committee oversees UPM's compliance with company rules and reports to the Audit Committee regularly.

Responsibility principles and targets steer business

Based on a materiality assessment, UPM has established a series of responsibility principles and determined targets and performance indicators to monitor how these principles are translated into action (see table on next page).

In the area of economic responsibility, UPM's responsibility principles cover economic performance and good governance. The principles for social responsibility focus on sourcing, local co-operation between UPM and stakeholders, occupational safety and UPM's role as a responsible employer. In terms of environmental responsibility, the key focus areas are sustainable products, the climate, the use of forests and water, and the reduction of waste.

In 2014, UPM's group-wide responsibility efforts focused on the Step Change in Safety initiative, the improvement of contractor safety and the Clean Run environmental campaign. The business areas also focused on increasing the amount of ecolabelled products, verifying product safety and improving product safety-related communication.

In addition, special attention was paid to the continued development of UPM's responsible sourcing activities. The development work was based on the human rights related assessment conducted in 2013 within the context of the UN Protect, Respect and Remedy Framework and the associated UN Guiding Principles on Business and Human Rights.

Results of technology, know-how and development

Investments ensure that businesses are able to continue their good environmental performance. UPM's investments in environmental performance are part of the Group's investment programme and aim to improve the efficient and responsible use of energy, water and raw materials.

In 2014, the company's environmental investments totalled EUR 12 (29) million. The largest investment was the combustion gas purification system at UPM Changshu paper mill.

The company's environmental protection costs amounted to EUR 127 (134) million (including depreciation), and mainly consisted of effluent treatment and waste management costs.

No major environmental incidents

No significant environmental incidents occurred at UPM production plants in 2014. However, several minor temporary deviations from permit limits did arise. UPM immediately reported these deviations to the local authorities and undertook corrective measures to normalise the situation and prevent similar situations from occurring in the future.

These measures are part of UPM's internal Clean Run campaign that aims to improve the company's environmental performance further, sharing best practices and promoting and maintaining environmental awareness.

UPM provides an extensive amount of assured information

At corporate level, UPM follows the Global Reporting Initiative's G3 reporting guidelines, which enable companies to measure and report on their sustainability performance. The corporate responsibility information in English (see the Independent Assurance Report on page 59) has been assured by PricewaterhouseCoopers Oy, and congruence between the English and Finnish versions has been checked.

PricewaterhouseCoopers has checked that UPM's corporate responsibility reporting for 2014 meets the GRI requirements for Application Level B+, which does not indicate quality, but the number of indicators. The GRI content index can be found on pages 57-58, and an extended version of the GRI content index, including detailed descriptions of the scope of the reporting and data measurement techniques, is available at www.upm.com/responsibility.

To support the company's strong focus on stakeholder engagement and sustainable development further, UPM is committed to the principles of inclusivity, materiality and responsiveness, as defined in the AA1000 AccountAbility Principles Standard (2008).

UPM provides comprehensive environmental information that has been assured by third parties from corporate level right through to the mills and individual products. Ecolabelled products, product declarations and certified operations are used to inform the company's stakeholders about sustainability, transparency and risk management.

Read more on Step Change in Safety (p. 44), responsible sourcing (p. 40) and the UPM Changshu environmental investment (p. 51).

PRODUCT STEWARDSHIP WITH NEW TOOLS

Product safety is the single most important responsibility-related topic for UPM's customers.

To support UPM's paper customers, UPM created a new Product Safety Profile in 2014. It is a unique tool to ensure that UPM's customers receive all relevant product information in one, concise form. The document includes basic facts on product composition, product certificates, regulations related to product compliance and other possible measures taken to ensure that the product is safe.

The UPM Restricted Substance List (UPM RSL) was updated in 2013, and its implementation started in 2014. UPM RSL includes nearly 6,000 substances that are either restricted or prohibited.

In 2014, all relevant sourcing personnel received training, and the new updated list was communicated to UPM's suppliers and their compliance with the renewed restricted substances list was examined.

Read more:
www.upm.com/responsibility

Key trends	Key area of responsibility	Target	Achievement 2014
POWER SHIFT IN WORLD ECONOMY	**ECONOMIC**		
	Profit Shareholder value creation	• Operating profit margin > 10%	Operating profit excluding special items was 8.6% of sales. Four out of six business areas achieved their long-term return targets.
		• Return on equity at least 5 percentage points above the yield of a 10-year risk-free investment	Return on equity excluding special items was 8.3%.
		• Gearing ratio to be kept below 90%	Gearing ratio as of 31 December 2014 was 32%.
	Governance Accountability and compliance	• > 90% coverage of participation to UPM Code of Conduct training by 2015	Approximately 88% of employees have completed Code of Conduct training.
	SOCIAL 1)		
	Leadership Responsible leadership	• Employee engagement index overall favourable score exceeding 70% by 2015	Employee engagement index overall favourable score increased slightly to 63%.
		• Employee engagement survey response rate reaching 70% and over by 2015	Employee engagement survey response rate was 78%.
DEMOGRAPHIC CHANGE	**People development** High performing people	• Employee Personal Performance Review (PPR) coverage exceeding 90% globally by 2015	Employee Personal Performance Review (PPR) coverage increased slightly and was at the level of 86%.
	Working conditions Safe and encouraging working environment	• No fatal accidents (continuous)	Three fatal accidents: one employee accident in Finland as well as one contractor accident in Finland and one in Germany.
		• Lost time accident frequency below 5 (per million hours or work) by 2015	Approximately 18% improvement in lost-time accident frequency (LTAF) from the previous year and 70% achievement over 3 years. In 2014, the LTAF was 4.4.
		• Annual targets set for the reporting of near misses and safety observations	Annual target (two near misses or safety observations reported per employee) set and achieved at corporate level.
	Community involvement Local commitment	• Continuous development of strategic sustainability initiatives with leading NGOs	Co-operation with IUCN, WWF and Vida Silvestre continued.
		• Continuous sharing of best practices of stakeholder initiatives	Sharing of best practices ensured for example through well-established operational stakeholder forums in various locations.
	Responsible sourcing Value creation through responsible business practices	• > 80% of UPM supplier spend qualified against UPM Supplier Code by 2015 5)	67% of supplier spend qualified against UPM Supplier Code with 3 percentage points increase compared to the previous year.
		• Continuous supplier auditing based on systematic risk assessment practices	Risk assessment related to supplier base enhanced and number of risk assessment-based supplier audits significantly increased in 2014, with a wider geographical coverage than before. Awareness on responsible sourcing raised through internal training.
CLIMATE CHANGE	**ENVIRONMENTAL** 2)		
	Products Taking care of the entire lifecycle	• Environmental management systems certified in 100% of production units (continuous)	All sites except one have a certified environmental management system in place. UPM is a global frontrunner in the use of EU EMAS.
		• Environmental declarations for all product groups (continuous)	Environmental declarations are available for all relevant UPM products. In 2014, UPM launched Product Safety Profiles for its paper products.
		• 25% growth in the share of ecolabelled products by 2020 3)	Increase of ecolabelled sales in line with target. UPM actively participated in developing new EU Ecolabel criteria for converted paper products.
	Climate Creating climate solutions	• 15% reduction in fossil CO_2 emissions by 2020 4)	Development not in line with target. Despite improvements in fuel mix and energy efficiency, actions have not compensated for the increased level caused by the Myllykoski acquisition in 2011.
RESOURCE SCARITY	**Water** Using water responsibly	• 15% reduction in wastewater volume by 2020 4)	Development not in line with target. Average specific wastewater volume for UPM decreased only slightly due to a higher weight of pulp in portfolio, despite the fact that UPM Fray Bentos has one of the lowest water use rates in the industry.
		• 20% reduction in COD load by 2020 4)	Development in line with target. 16% reduction achieved since 2008 for the UPM average product.
	Forest Keeping forests full of life	• Maintain high share of certified fibre 85%	Development in line with target. The certified share increased from 80% to 83%.
		• 100% coverage of chains of custody (continuous)	Coverage is 100%.
	Waste Reduce, reuse and recycle	• 40% reduction in waste to landfill by 2020	Development in line with target. 21% reduction achieved since 2008 for the UPM average product.

1) Social targets: from 2011 levels
2) Environmental targets: from 2008 levels
3) Includes paper, timber, plywood, pulp and label
4) Numerical targets relevant for pulp and paper production
5) Covers all UPM business-to-business spend including wood and wood-based biomass sourcing and excluding energy

Taking care of the entire lifecycle

UPM's products are manufactured from renewable, biodegradable and recyclable raw materials.

The majority of UPM's production sites, as well as its wood sourcing operations, are covered by environmental, quality and occupational health and safety systems which are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards.

UPM has certified all its European pulp and paper mills, the UPM Fray Bentos pulp mill in Uruguay, and the UPM Changshu paper mill in China in accordance with the EU Eco-Management and Audit Scheme (EMAS). EMAS requires participants to have an Environmental Management System and to publish a third-party verified Environmental Statement, which increases the credibility and reliability of environmental data. UPM has participated in EMAS for 20 years.

UPM products have been granted several ecolabels, such as the EU Ecolabel, the German Blue Angel label and the PEFC and FSC forest certification labels.

UPM is the largest producer of EU Ecolabelled newsprint, graphic and office papers. Ecolabels demonstrate that UPM's products meet the environmental performance criteria expected by third parties. Read more about the EU Ecolabel for converted paper products on the right.

Ecodesign: part of product development

UPM businesses have adopted an ecodesign approach in their product development, which means the systematic integration of environmental aspects into product design at an early stage, covering the whole lifecycle. Some examples of UPM's ecodesign:

- New UPM Valor publication paper
- Thermoformable UPM Grada wood material
- UPM BioVerno renewable diesel
- The UPM Biofore Concept Car

UPM's aim is to deliver "More with Biofore" by continuously reducing the environmental impact of its products over the whole lifecycle. For this ambitious goal to be achieved, resource efficiency needs to play a key role in all company operations.

Product safety is an important part of product stewardship and provides customers with products that are safe to use and environmentally sound.

Read more on product safety (p. 47), UPM Valor printing paper (p. 26), UPM BioVerno renewable diesel (p. 18) and UPM Biofore Concept Car (p. 32).

HAMELIN GROUP ADOPTS EU ECOLABEL FOR CONVERTED PAPER PRODUCTS

The European Union has extended the scope of the EU Ecolabel to cover converted paper products. It is the very first official EU Ecolabel criteria created by an external consortium. Hamelin Group, together with UPM, played a key role in developing the new criteria.

Hamelin Group was the first UPM customer to adopt the EU Ecolabel for a wide range of its stationery products, such as notebooks and envelopes.

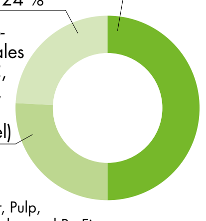
According to Virginie Ori, Director of Sustainable Development for Hamelin Group, the new criteria are an excellent opportunity to highlight the best practices of the company.

"Products with the EU Ecolabel have a reduced environmental impact throughout their lifecycle, from the sourcing of raw materials to the production, use and recyclability of the product at the end of its life."

"So we decided to certify all our products that fell within the scope of the criteria and even included the principles in our product ecodesign processes from a very early stage. Our customers expressed their interest in the demanding criteria, as they responded to their requirements," she says.

Read more:
www.upm.com/responsibility

UPM's ecolabeled sales[*)]



*) incl. Paper, Pulp, Plywood, Timber and ProFi

In 2014, 76% (75%) of UPM's overall sales of paper, chemical pulp, plywood and timber products was ecolabelled. This figure includes FSC, PEFC and EU Ecolabels, and national ecolabels. By 2020, UPM aims to increase the share of ecolabelled products by 25% compared with the 2008 level.

Yesterday's waste is today's raw material

UPM is committed to maximising the reuse of materials and minimising the generation of waste.

Nearly all organic production residues, including bark and wood residues, as well as fibre-containing solids from deinking and effluent treatment, are used in energy generation at mill sites. Today, approximately 90% of UPM's production waste is reused or recycled.

Ash resulting from bioenergy production forms the most significant proportion of UPM's solid waste. Ash is used on a large scale in applications ranging from landscaping to road building.

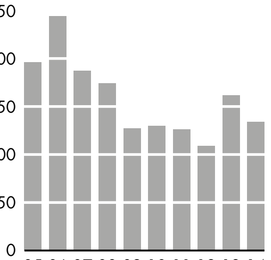
UPM has developed innovative ways to reduce its own waste or residues and reuse waste in new products. See the picture on the right.

UPM is also the world's largest user of recovered paper for the production of graphic paper, consuming 3.4 million tonnes of recovered paper in 2014. At UPM, 35% of all fibre used in UPM's paper production is recycled fibre.

By 2020, UPM aims to reduce the amount of its solid waste sent to landfill by 40% compared with the 2008 level. The reduction target was increased in 2012 because of the good progress made.

35% OF ALL FIBRE USED IN PAPER PRODUCTION IS RECYCLED.

UPM's total waste to landfills



The total amount of solid waste sent to landfill has decreased over the last ten years by over 30%. However, from 2012 to 2013 the total amount of waste sent to landfill increased significantly. This is due to the fact that former reuse possibilities for ash ceased at one of UPM's paper mills. In 2014, new methods of reuse were established, with further options for reuse still being investigated.

UPM is the world's largest user of recovered paper for the production of graphic papers.

UPM ProFi composite products are made from the surplus paper and plastic left over from the production of self-adhesive label materials.

UPM's renewable diesel, UPM BioVerno, is produced from crude tall oil, a residue of pulp production.

UPM's construction product Cinerit is made of fly ash from the thermal recovery of biogenic waste materials.

UPM's new product ELURIT, made of fly ash, can be used at the pulping and bleaching stages of the papermaking processes.

UNTIL THE END OF ITS LIFECYCLE

UPM's new product ELURIT is another excellent example of circular economy: how to prolong the lifecycle of raw materials by creating innovative products from waste. The product is made of fly ash that comes from the thermal recovery of the biogenic waste materials.

ELURIT is the result of research and development work conducted at the UPM Schongau mill in Germany. It will bring about other economic and environmental benefits since the use of fly ash significantly decreases landfill quantities and disposal costs.

Read more:
www.upm.com/responsibility

Energy efficiency improved and climate actions recognised

UPM products offer an alternative to fossil-based products because they are renewable and store carbon. UPM is continuously reducing the carbon footprint of its operations and improving energy efficiency. It is also the only forest industry company in the world to have achieved the A100 level in the CDP Climate indices.

UPM's energy production is based on a wide range of energy sources and the company aims to maximise the use of carbon-neutral energy.

Biomass-based fuels make up approximately 83% of the fuels used by UPM in Finland and approximately 67% of those used worldwide. UPM is the second largest generator of biomass-based electricity in Europe.

The largest project is the combined heat and power (CHP) plant at the UPM Schongau mill in Germany, completed in late 2014. The refurbishment of the company's own hydropower production assets in Finland is also underway. The refurbishment of the Harjavalta hydropower plant is due to be completed in 2017.

UPM's investments in the generation of biomass-based power and heat at production facilities have significantly increased the capacity of the facilities.

UPM's continuous target is to improve energy efficiency

Energy efficiency has been significantly improved by energy audits, innovations and internal campaigns over the last 15 years.

From its energy-saving investments carried out in 2014, UPM gained savings of EUR 1.3 million, achieved 10,000 t avoidance in CO_2 emissions and 33,000 MWh reduction in energy consumption. The annual savings are EUR 2.1 million, 15,000 t and 55,000 MWh.

In 2014, UPM's climate change actions were recognised externally. The company was selected to the A List of the CDP Climate Performance Leadership Index 2014. UPM also achieved full points in the Climate Disclosure Leadership Index. UPM was the only paper and forest products company to achieve the CDP's A100 level.

By 2020, UPM aims to reduce fossil CO_2 emissions by 15% compared with the 2008 level. The company also aims to continuously reduce all other air emissions.

Problems in the system used to burn weak malodorous gases at the UPM Kaukas pulp mill in Finland were the largest topic in 2014 (read more on next page).

Read more on the refurbishment of the Harjavalta hydropower plant (p. 20).

UPM CHANGSHU REDUCING ITS EMISSIONS

The new investment at UPM Changshu paper mill is significantly reducing the production plant's emissions. UPM installed a new combustion gas purification system that reduces the amount of sulphur dioxide released into the air to a tenth of the previous level. It also reduces nitrogen oxide emissions by half.

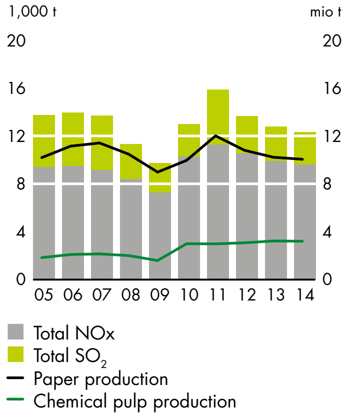
Sulphur dioxide and nitrogen oxides are gases released during the burning of fossil fuels, and they contribute to the acidifying of the environment. The advanced purification system will also reduce the amount of particulate emissions released into the atmosphere.

The boilers at UPM Changshu's combined heat and power plant use coal for fuel and produce steam and electricity for the mill site.

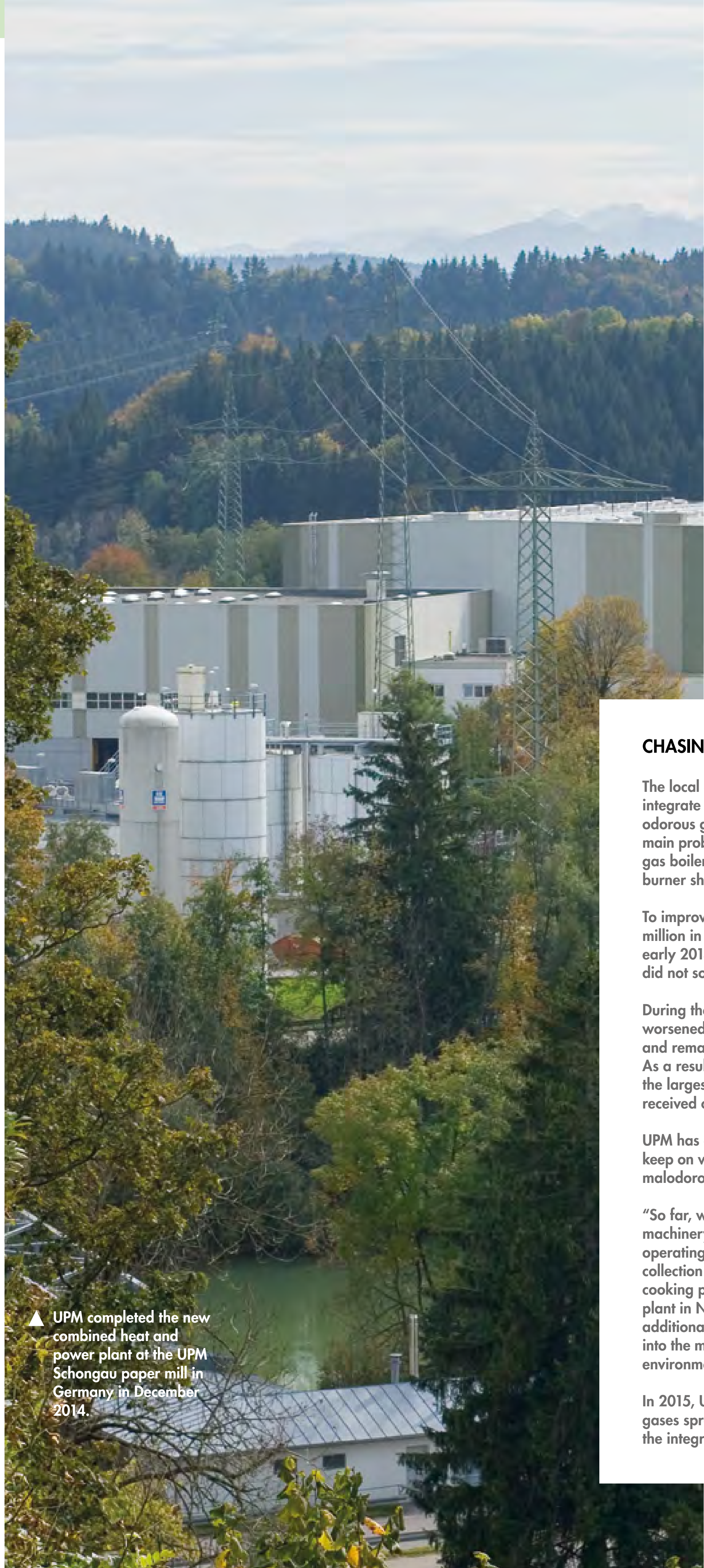
Thanks to the new system, the thermal plant's emissions will be significantly below the new official Chinese limits, which are considered strict when compared globally.

The total investment cost is approximately CNY 100 million, which is approximately EUR 12 million.

UPM's acidifying flue gases

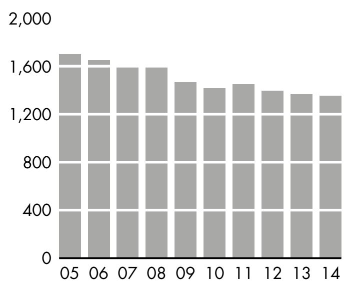


Increases in total volumes are due to acquisitions (in 2010 and 2011). In 2014, reduction was achieved mainly due to investment in flue gas purification at UPM Changshu paper mill, and process improvements at pulp mills.



▲ UPM completed the new combined heat and power plant at the UPM Schongau paper mill in Germany in December 2014.

UPM's electricity consumption per tonne of paper



The electricity consumption per tonne of paper has decreased by 20% over the last ten years due to continuous improvements in energy efficiency.

79% OF ELECTRICITY GENERATED BY UPM IS FREE FROM FOSSIL-FUEL CO_2 EMISSION

CHASING THE SOURCE OF ODOUR

The local community around the UPM Kaukas integrate in Lappeenranta has experienced odorous gases in 2014. According to studies, the main problem originated from the old malodorous gas boiler, which caused several unexpected burner shutdowns at the pulp mill.

To improve the situation, UPM invested EUR 1.5 million in a new burner for the recovery boiler in early 2014. However, the new installation alone did not solve the problem and the work continued.

During the heat wave in summer 2014, the situation worsened when a high pressure area stagnated air and remained over the region for several weeks. As a result, the malodorous gas problem has been the largest topic for which any UPM unit has received critical stakeholder feedback in 2014.

UPM has communicated actively locally and will keep on working to solve the problem by developing malodorous gas treatment at the mill.

"So far, we have discovered and repaired essential machinery breakdowns and problems in our operating systems. Then we further improved the collection of malodourous gases during the pulp cooking processes and at the wastewater treatment plant in November. We are also planning some additional investments to tackle random emissions into the malodorous gas treatment system," describes environmental manager Minna Maunus-Tiihonen.

In 2015, UPM Kaukas will prepare a malodorous gases spreading model to examine the impact of the integrated mill as a whole on the local area.

CAPACITY TO GENERATE POWER THROUGH OWN POWER PLANTS AND SHAREHOLDINGS

	Nominal MW
Hydropower	708
Nuclear power	581
Condensing power	320
Wind power	1
UPM Energy in total	**1,610**
Combined heat and power at mill sites	1,473
Mill site hydropower	49
Mill site power generation in total	**1,522**
Total UPM	**3,132**

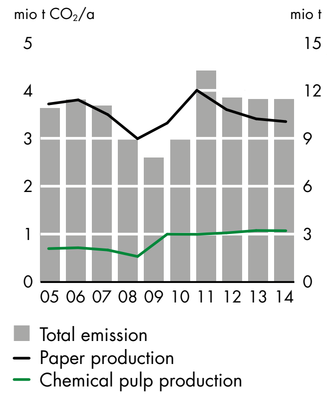
ELECTRICITY GENERATION

TWh	2014	2013
Mill CHP	5.6	5.9
Hydropower	3.2	3.1
Nuclear	4.8	4.8
Condensing	0.8	1.1
Total	**14.4**	**14.9**

FUELS USED FOR HEAT GENERATION

TWh	2014	2013
Black liquor	18.5	17.9
Bark and other biomass	8.5	9.4
Heat recovered from TMP production	1.3	1.4
Renewable fuels total	**28.3**	**28.7**
Peat	1.2	0.8
Purchased heat	0.5	0.2
Natural gas	8.0	8.5
Oil	0.7	0.7
Coal	3.6	3.6
Total	**42.2**	**42.6**

UPM's fossil carbon dioxide emissions



More graphs available on page 139.

CONTENTS

UPM ensures that all wood and wood fibre is sustainably sourced

UPM uses third-party verified chains of custody and forest certifications in its wood sourcing.

Wood is a renewable material and the primary raw material for UPM's businesses. UPM is both a major forest owner and a purchaser of wood.

Global forest loss, which is caused by the growing need for food production and wood, particularly in the tropics, is of particular concern to the whole forest sector. UPM recognises this global challenge and responds to it in its own operations and by actively participating in the WBCSD Forest Solutions Group.

UPM does not use wood from tropical rainforests as raw material, or accept wood from plantations that have been established by destroying rainforests. UPM does not operate in areas where the rights of indigenous peoples are threatened or endangered. UPM continued its participation in the WWF New Generation Plantations platform and is committed to develop and promote sustainable plantation practices.

UPM manages its forests with a view to enhancing biological diversity, natural ecosystems and the carbon storage, and operates according to the principles of sustainable forest management.

At the end of 2014, UPM owned 765,000 hectares of forest in Finland and 75,000 hectares in the USA. In December, UPM sold all 7,100 hectares of its forest land in the UK to The Church Commissioners for England. In Uruguay, UPM owns 235,000 hectares of plantations. Forests owned by UPM include approximately 43,000 protected sites with a total area of 121,000 hectares.

In addition, the company manages 1.6 million hectares of privately owned forests and 65,000 hectares of plantations.

All of UPM's forests and eucalyptus plantations are certified according to the FSC and/or PEFC certification schemes. In addition, UPM has an FSC and PEFC Group Certificate in Finland and a UKWAS Group Certificate in the UK which private forest owners can sign up to.

In 2014, UPM was selected as sector leader for the materials industry in the CDP's forests programme. This was the second time UPM received this acknowledgement.

UPM's global biodiversity programme

The aim of UPM's global biodiversity programme is to maintain and increase biodiversity in forests and to promote best practices in sustainable forestry. In connection with the biodiversity programme, UPM carried out several projects with stakeholders in 2014.

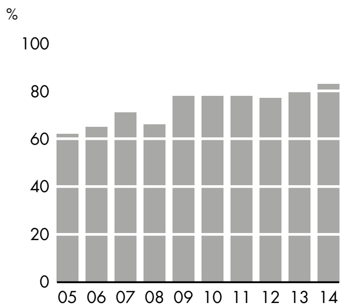
In one of the long-term projects that has already been running for ten years, UPM has participated in monitoring the insect species found in retention trees in Janakkala, Finland. The project is being carried out in co-operation with researchers and the Finnish Environment Institute.

UPM is also a network partner in the Biodiversity in Good Company initiative in Germany and the FIBS Business & Biodiversity programme in Finland, both of which contribute to the UN Convention on Biological Diversity. UPM also co-operated with IUCN in 2014.

Read more on UPM's wood sourcing (p. 39).

83% OF UPM'S PAPER IS PRODUCED USING FIBRE THAT MEETS THE CRITERIA OF FSC OR PEFC FOREST CERTIFICATION SCHEME

Certified wood supplied to mills



The average share of certified fibre supplied to UPM's mills increased to 83% (80%). By 2020, UPM aims to increase the share of certified fibre to 85%. UPM's 2020 target was increased in 2012 because of the good progress made.

VIDA SILVESTRE PROMOTES BIODIVERSITY IN URUGUAY

"Our work aims to preserve nature and the diversity of ecosystems and species, by working together with different groups in society," declares Oscar Blumetto, President of Vida Silvestre, discussing the objectives of the organisation.

Vida Silvestre and UPM's plantation forestry company Forestal Oriental have entered into a three-year co-operation project on the conservation of the environment. This is the first time a forestry company and an NGO have established such a partnership in Uruguay.

The main purpose of the co-operation is to contribute to the sustainable development of natural resources in the long term. UPM and Vida Silvestre are also looking for partnerships with other public or private stakeholders to facilitate more efficient management of biodiversity.

"We very much appreciate UPM's recent initiative to create and protect native species in conservation areas that are found in the company's eucalyptus plantations in Uruguay. We are participating in this process by assisting UPM in selecting these areas before plantations are created," adds Blumetto.

Read more:
www.upm.com/responsibility

Responsible use of water

Water plays an important role in UPM's pulp and paper production and hydropower generation. UPM's target is to minimise the impacts of operations on local water resources and safeguard the natural water cycle in forests.

UPM's main production plants are located in areas where there is sufficient water available. UPM uses water responsibly in terms of the company's water consumption and effluent quality. All of UPM's pulp and paper mills are required to have both a mechanical and a biological effluent treatment facility.

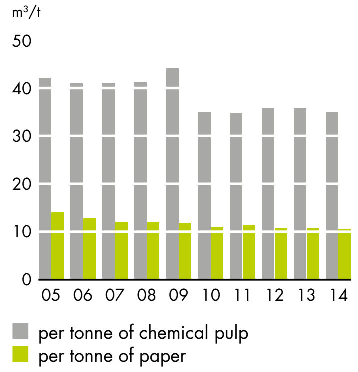
The optimisation of operating models continued at the UPM Pietarsaari pulp mill's effluent treatment plant, completed in 2013.

A working group established as part of the Clean Run campaign participates in the optimisation of all effluent treatment plants by sharing good operating models and preparing for exceptional situations.

During 2014, UPM participated in developing the ISO water footprint standard and joined the WBCSD Water Cluster's WASH Pledge programme as the first forest products company. As a participant in the WASH Pledge programme, UPM is committed to ensuring that all its employees have access to clean water, sanitation and hygiene in the workplace.

By 2020, UPM aims to reduce its wastewater volume by 15% and its COD load by 20% in pulp and paper production, as compared with the 2008 level. The project has been so successful to date that the 2020 target was tightened in 2012.

UPM's process wastewater volumes



UPM has reduced wastewater volumes per tonne of paper by 25%, and per tonne of chemical pulp by 17% over the last ten years.

More graphs available on page 139.

PROCESS WASTEWATER HAS DECREASED **17%** PER TONNE OF CHEMICAL PULP OVER THE LAST TEN YEARS

SEA TROUT AND WHITEFISH RETURNING

Sea trout and whitefish are good indicators of the efficiency of modern wastewater treatment and the improving state of nature. The species are now returning to their spawning locations in the Rauma river and Pitkäjärvenoja creek, which runs into the sea through the UPM Rauma paper mill site in Finland.

"The development is encouraging as the species are classified as 'very endangered' in the Baltic Sea region. Reproduction may be tiny, but it is important to guard the genetic heritage of the species," explains Juha Hyvärinen, head of environmental protection in the city of Rauma.

The seaside in front of the Rauma area has been systematically monitored from the late 1960s. Nowadays, one joint wastewater treatment plant operated by UPM purifies also all wastewater from Rauma municipality and Metsä Fibre pulp mill. The development of the wastewater treatment system has improved the water quality significantly since then.

Read more:
www.upm.com/responsibility

UPM's material balance 2014

UPM's material balance sums up the total material, energy and emission flows to and from UPM worldwide. In 2010, UPM set long-term environmental targets for 2020, and defined indicators to measure performance in key areas.

In 2012, UPM revised the targets and tightened when reasonable. UPM aims to continuously reduce environmental impacts over the entire lifecycle of its products and the company bases its annual performance evaluation on these indicators.

In 2014, improvements are visible in the reduction of effluent volume and effluent load (COD and BOD), air emissions (NOx and SO_2) as well as of solid waste to landfills. These are resulting from both special projects and continuous improvement efforts. Other environmental parameters like fossil CO_2 and AOX remained on a rather stable level compared to the previous year.

Energy

The majority of electrical and thermal energy is used for paper and pulp production. However, pulp mills are producing more energy than they are using.

UPM has invested significantly in the use of renewable and CO_2-neutral energy to reduce the environmental load from energy generation.

UPM's CO_2 target is strongly connected to energy sources and energy efficiency.

ENERGY

	2014
Fossil fuels, GWh	13,000
Renewable fuels [1], GWh	27,000
Purchased electricity [2], GWh	14,000
Purchased heat, GWh	150

1) 79% from UPM processes (e.g. bark, fibre sludge, black liquor)

2) Includes UPM shares of hydro, nuclear and condensing power as well as purchases from the market

Raw materials

Biomass is the basis for all UPM businesses. Certified chain of custody systems ensure that wood is sourced from sustainably managed forests.

UPM's Supplier Code defines suppliers' minimum compliance requirements in terms of responsibility with regard to matters such as environmental impact, human rights, labour practices, health and safety, and product safety.

The targets related to raw materials concern the certified fibre share and the coverage of chains of custody.

RAW MATERIALS

	2014
Wood, m^3	26,300,000
Market pulp, t	1,800,000
Paper for recovery, t	3,400,000
Purchased paper for converting, t	210,000
Minerals, t	2,500,000
Plastics, adhesives, resins, films, t	170,000
Co-mingled domestic waste [1], t	220,000

1) At UPM Shotton, a Material Recovery and Recycling Facility (MRRF) sorts co-mingled waste, of which the recovered paper fraction is reused at the paper mill.

Water

Water is an essential resource for pulp and paper production, where water is used within the process and for cooling. The share of the other UPM units is minor.

The majority of water that is used comes from rivers or lakes. A small amount comes from groundwater, where water levels are monitored.

The targets for water are to decrease process wastewater volume and effluent load.

WATER UPTAKE [1]

	2014
Surface water, million m^3	470
Groundwater, million m^3	21
Communal water, million m^3	4

1) Rainwater is not used in the process but it can be gathered and led to watercourses, depending on the site.

Emissions to air

The majority of UPM´s airborne emissions are caused by energy generation at its pulp and paper mills.

Choice of fuels, combustion technology and flue gas purification are the primary ways to reduce these emissions.

The targets for air emissions focus on the reduction of fossil carbon dioxide emissions.

EMISSIONS TO AIR [1]

	2014
Sulphur dioxide, t	2,800
Nitrogen oxides, t	9,600
Carbon dioxide (fossil) [2], t	3,800,000

1) Direct air emissions include emissions from UPM power plants and a respective share of co-owned power plants connected to UPM's energy supply. External power plants or boilers are considered in terms of heat supply. Hürth is taken into account for electricity as there is a direct supply from the neighbouring power plant.

2) In addition to direct CO_2 emissions, UPM is also evaluating and reporting its indirect CO_2 and other greenhouse gas emissions. Power purchased from the grid results in an additional 2.7 million tonnes. Areas such as transport and raw material production result in an additional 6.7 million tonnes. Detailed information can be found on UPM's website.

Products

UPM products are mainly based on renewable raw materials that are recyclable and biodegradable.

Third-party-verified ecolabels are commonly used to prove good environmental performance.

The targets for products are to increase the share of ecolabelled products, certified environmental management systems and availability of environmental product declarations.

PRODUCTS

	2014
Paper [1], t	9,800,000
Chemical pulp [1], t	2,200,000
Fluff pulp, t	50,000
Converting materials, t	480,000
Plywood and veneer, m^3	800,000
Sawn timber, m^3	1,300,000
Heat, GWh	700
Electricity, GWh	4,000
By-products (waste for reuse), dry t	1,300,000

1) Paper and chemical pulp volumes differ from the overall production of the paper and pulp mills because the paper and chemical pulp used internally have been deducted from the number of products sold.

Solid waste

Much of the process waste is either used as raw material or in energy generation.

Most production sites have reduced the volume of solid waste and improved handling by sorting waste at the source.

The target for waste is to reduce the amount of production waste sent to landfills.

SOLID WASTE [1]

	2014
To landfills, dry t	134,000
To temporary storage, [2] dry t	20,000
To municipal incineration plants, dry t	600
Hazardous waste for special treatment [3], t	3,900

1) Includes process and production waste. Also sorted waste from UPM Shotton's MRRF plant is included.

2) In 2014, 12,000 dry t of solid waste have been taken out from the temporary storages to be reused.

3) The main forms of hazardous waste are oil and other oil waste that is either reused or recycled. UPM is working with local licenced external partners on hazardous waste treatment.

Emissions to water

UPM`s paper and pulp production is the main source of emissions to water.

All effluents are treated both mechanically and biologically in the effluent treatments plants, before being released into watercourses.

Emission levels and environmental impacts are regulated and monitored.

The targets have been set for process wastewater volume and chemical oxygen demand (COD).

EMISSIONS TO WATER [1]

	2014
Chemical oxygen demand [2], t	75,400
Biological oxygen demand (7 days) [2], t	9,200
Adsorbable organic halogens, t	270
Process waste water, million m^3	240

1) The scope is pulp and paper mills: the impact of other UPM units is minor.

2) Information includes the load from the Augsburg, Caledonian, Hürth and Madison paper mills to external effluent treatment plants as well as external users of UPM's treatment plants. COD is not measured at Madison. BOD is not measured at Hürth.

GRI content index

UPM follows the Global Reporting Initiative's (GRI) sustainability reporting guidelines (version 3.0) in its corporate responsibility reporting. The reporting meets the GRI requirements for the Application Level B+, which refers to the quantity of indicators. The index below shows how and where the GRI indicators are addressed in the annual report and the company internet pages. An extended version of the GRI content index can be found at www.upm.com/responsibility.

AR = Annual Report 2014
● Fully reported
○ Partially reported

Profile	Location	Level
1. STRATEGY AND ANALYSIS		
1.1 CEO's statement	AR Pages 3–4	●
1.2 Key impacts, risks and opportunities	AR Pages 7–8, 14, 48	●
2. ORGANISATIONAL PROFILE		
2.1 Name of the organisation	AR Page 85	●
2.2 Primary brands, products and services	AR Pages 1–2	●
2.3 Operational structure	AR Pages 10, 117	●
2.4 Location of organization's headquarters	AR Page 144	●
2.5 Number of countries and locations of operations	AR Pages 141–142	●
2.6 Nature of ownership and legal form	AR Page 85	●
2.7 Markets served	AR Pages 37–38, 95	●
2.8 Scale of the reporting organisation	AR Pages 1, 133	●
2.9 Significant changes regarding size, structure or ownership	AR Pages 71–72	●
2.10 Awards received in the reporting period	AR Pages 10, 11, 45, Ext. GRI*)	●
3. REPORT PARAMETERS		
Report profile		
3.1 Reporting period	1 January 2014–31 December 2014	●
3.2 Date of most previous report	26 February 2014	●
3.3 Reporting cycle	Annual	●
3.4 Contact point for questions regarding the report or its content	AR Page 144	●
Report scope and boundary		
3.5 Process for defining report content	AR Pages 31–34, 47	●
3.6 Boundary of the report	Extended GRI content index	●
3.7 Limitations on the scope or boundary of the report	Extended GRI content index	●
3.8 Basis for reporting subsidiaries, joint ventures and other entities affecting comparability	Extended GRI content index	●
3.9 Data measurement techniques and the bases of calculations	Extended GRI content index	●
3.10 Explanation of re-statements	Extended GRI content index	●
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods	Extended GRI content index	●
Assurance		
3.13 Policy and current practice with regard to seeking external assurance for the report	AR Pages 47, 59	●
4. GOVERNANCE		
Governance		
4.1 Governance structure	AR Pages 60–62, Ext. GRI*)	●
4.2 Position of the Chairman of the Board	Extended GRI content index	●
4.3 Independence of the Board members	AR Pages 65–66, Ext. GRI*)	●
4.4 Mechanisms for shareholder and employee consultation	AR Pages 60–61	●
4.5 Executive compensation and linkage to organisation's performance	AR Pages 62–63	●
4.6 Process for avoiding conflicts of interest	AR Pages 60–62	●
4.7 Process for determining the Board members' expertise in strategic management and sustainability	AR Pages 60–62, 65–66	●
4.8 Implementation of mission or values statements, Code of Conduct and other principles	AR Pages 2, 39, 45–47	●
4.9 Procedures of the Board for overseeing management of sustainability performance, including risk management	AR Page 47	●
4.10 Processes for evaluating the Board's performance	AR Pages 61–62	●
Commitments to external initiatives		
4.11 Addressing the precautionary approach	Extended GRI content index	●
4.12 Voluntary charters and other initiatives	AR Pages 45–47	●
4.13 Memberships in associations	Extended GRI content index	●
Stakeholder engagement		
4.14 List of stakeholder groups	AR Page 34	●
4.15 Identification and selection of stakeholders	AR Pages 31–34	●
4.16 Approaches to stakeholder engagement	AR Pages 31–34, 37–38	●
4.17 Key topics raised through stakeholder engagement	AR Page 34	●
5. PERFORMANCE INDICATORS		
ECONOMIC PERFORMANCE		
Management approach to economic responsibility	AR Pages 13–14, 48, Ext. GRI*)	●
EC1 Direct economic value generated and distributed	AR Page 36	●
EC2 Financial implications, risks and opportunities due to climate change	AR Pages 14, 51	○
EC3 Coverage of defined benefit plan obligations	AR Pages 108–111	●
EC4 Significant subsidies received from government	AR Pages 29, 98–99	●
Indirect Economic Impacts		
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts	AR Pages 36, 43	○

*) Extended GRI content index

Profile	Location	Level
ENVIRONMENTAL INDICATORS		
Management approach to environmental responsibility	AR Pages 45–54	●
Materials		
EN1 Materials used by weight or volume	AR Page 55	●
EN2 Percentage of materials used that are recycled input materials	AR Pages 50, 55	●
Energy		
EN3 Direct energy consumption	AR Pages 52, 55	●
EN4 Indirect energy consumption by primary source	AR Page 55	○
EN5 Energy saved due to conservation and efficiency improvements	AR Page 51	●
EN6 Initiatives to provide energy-efficient or renewable energy based products and services	AR Pages 29, 32, 51	●
Water		
EN8 Total water withdrawal by source	AR Page 55	●
EN9 Water sources significantly affected by withdrawal of water	Extended GRI content index	●
EN10 Percentage and total volume of water recycled and reused	Extended GRI content index	○
Biodiversity		
EN11 Location and size of land holdings in biodiversity-rich habitats	AR Page 53, Ext. GRI*)	●
EN12 Significant impacts on biodiversity in protected areas and biodiversity-rich areas outside protected areas	Extended GRI content index	●
EN13 Habitats protected or restored	Extended GRI content index	●
EN14 Managing impacts on biodiversity	AR Page 53, Ext. GRI*)	●
EN15 Species with extinction risk with habitats in areas affected by operations	Extended GRI content index	○
Emissions, effluents and waste		
EN16 Total direct and indirect greenhouse gas emissions	AR Pages 52, 56	●
EN17 Other relevant indirect greenhouse gas emissions by weight	AR Page 56, Ext. GRI*)	●
EN18 Initiatives to reduce greenhouse gas emissions	AR Page 51, Ext. GRI*)	●
EN20 NOx, SOx and other significant air emissions	AR Page 56	●
EN21 Total water discharge by quality and destination	AR Page 56, Ext. GRI*)	●
EN22 Total amount of waste by type and disposal method	AR Page 56	●
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats	Extended GRI content index	○
Products and services		
EN26 Mitigating environmental impacts of products and services	AR Pages 2, 49–50	●
EN29 Significant environmental impacts of transporting products	AR Page 40, Ext. GRI*)	○
EN30 Total environmental protection expenditures and investments by type	AR Page 47	○
SOCIAL INDICATORS		
Management approach to social responsibility	AR Pages 41–48, Ext. GRI*)	●
LABOUR PRACTISES AND DECENT WORK		
Employment		
LA1 Total workforce by employment type, employment contract and region	AR Pages 42–43	●
LA2 Total number and rate of employee turnover by age group, gender and region	AR Page 43	○
Labour/management relations		
LA4 Coverage of collective bargaining agreements	AR Page 41	●
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Extended GRI content index	●
Occupational health and safety		
LA7 Injuries, lost days, absentee rates and fatalities	AR Pages 43–44, 139	○
LA8 Education, training, counseling, prevention, and risk-control	AR Page 44	○
Training and education		
LA10 Average hours of training per year per employee	AR Page 43	○
LA11 Programs for skills management and lifelong learning	AR Page 41	●
LA12 Employees receiving performance and career development reviews	AR Page 41	●
Diversity and equal opportunity		
LA13 Composition of governance bodies and breakdown of employees	AR Page 43, Ext. GRI*)	●
HUMAN RIGHTS		
HR2 Percentage of significant suppliers and contractors that have undergone hr screening and actions taken	AR Page 39	○
HR3 Employee training on policies and procedures concerning human rights relevant to operations	AR Page 47	○
HR6 Operations identified as having significant risk for child labour	AR Pages 45–47, Ext. GRI*)	●
HR7 Operations identified as having significant risk for forced or compulsory labour	AR Pages 45–47, Ext. GRI*)	●
HR9 Number of incidents involving rights of indigenous people and actions taken	AR Page 53, Ext. GRI*)	●
SOCIETY		
Community		
SO1 Assessment and management of impacts of operations on communities	AR Page 43	○
Corruption		
SO3 Percentage of employees trained in anti-corruption policies and procedures	AR Page 47	○
SO4 Actions taken in response to incidents of corruption	AR Page 33	○
Public Policy		
SO6 Contributions to political parties, politicians and related institutions	AR Page 33	●
SO7 Number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practises and their outcomes	AR Pages 75–76	●
Compliance		
SO8 Significant fines and sanctions for non-compliance with laws and regulations	Extended GRI content index	●
PRODUCT RESPONSIBILITY		
Product and service labelling		
PR3 Type of product information required by procedures	AR Page 49, Ext. GRI*)	●
PR5 Practises related to customer satisfaction and results of customer satisfaction surveys	AR Pages 37–38, Ext. GRI*)	●

We have self-declared our reporting to be Application Level B+ of the GRI G3 Guidelines.
PricewaterhouseCoopers Oy has checked our reporting and has confirmed it to be Application Level B+.

Independent Assurance Report

AA1000 Licensed Assurance Provider 000-29

To the Management of UPM-Kymmene Corporation

We have been engaged by the Management of UPM-Kymmene Corporation (hereinafter also the Company) to perform a limited assurance engagement on corporate responsibility performance indicators in the areas of economic, social and environmental responsibility for the reporting period 1 January 2014 to 31 December 2014. The assured performance indicators are disclosed in UPM-Kymmene Corporation's Annual Report 2014, and on its website in section "Responsibility", and they are listed in section 5 "Performance Indicators" of the GRI Content Index (hereinafter CR Reporting). The GRI Content Index is disclosed in the Company's Annual Report 2014 and on its website.

Furthermore, the assurance engagement has covered UPM-Kymmene Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

Management's responsibility

The Management of UPM-Kymmene Corporation is responsible for preparing the CR Reporting in accordance with the Reporting criteria as set out in the Company's reporting instructions and the G3 Sustainability Reporting Guidelines of the Global Reporting Initiative.

The Management of UPM-Kymmene Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in AccountAbility's AA1000 AccountAbility Principles Standard 2008.

Practitioner's responsibility

Our responsibility is to express a conclusion on the CR Reporting and on the Company's adherence to the AA1000 AccountAbility Principles based on our work performed. Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to UPM-Kymmene Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the CR Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with the Company, the AA1000AS (2008) requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that UPM-Kymmene Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles and that the CR Reporting is not reliable, in all material respects, based on the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the CR Reporting, and about the Company's adherence to the AA1000 AccountAbility Principles. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the CR Reporting and an assessment of the risks of the Company's material nonadherence to the AA1000 AccountAbility Principles. Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material corporate responsibility topics as well as assessing the CR Reporting based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as three sites in Finland and Uruguay.
- Interviewing employees responsible for collecting and reporting the information presented in the CR Reporting at the Group level and at the different sites where our visits took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

Furthermore nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation's CR Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Reporting is not reliable, in all material respects, based on the Reporting criteria.

When reading our assurance report, the inherent limitations to the accuracy and completeness of sustainability information should be taken into consideration.

Observations and recommendations

Based on our work described in this report, we provide the following observations and recommendations in relation to UPM-Kymmene Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Regarding Inclusivity:** UPM-Kymmene Corporation has processes in place for stakeholder inclusivity and engagement. Stakeholder Relations function coordinates stakeholder engagement at the group level. We recommend that the Company clarifies the need to increase stakeholder engagement related guidance from the Stakeholder Relations function to the businesses.
- **Regarding Materiality:** UPM-Kymmene Corporation has a systematic process in place to evaluate and determine the materiality of corporate responsibility topics. The Company conducted a materiality analysis that highlights the most important issues for the Company and its stakeholders in 2014. On this basis, we recommend that the Company continues to pay special attention to business and regional characteristics in its stakeholder dialogue.
- **Regarding Responsiveness:** UPM-Kymmene Corporation has processes in place for responding to stakeholder needs and concerns. We recommend that the Company considers the possibilities to increasingly utilise the Stakeholder Relations function in sharing best practices between the businesses.

Practitioner's independence and qualifications

We comply with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the IESBA (the International Ethics Standards Board for Accountants).

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility strategy and management, social and environmental issues, as well as the relevant industry knowledge, to undertake this assurance engagement.

Helsinki, 19 February 2015

PricewaterhouseCoopers Oy

Sirpa Juutinen Partner, Sustainability & Climate Change	Maj-Lis Steiner Director, Authorised Public Accountant Assurance Services

Corporate governance

UPM-Kymmene Corporation (UPM) is a publicly listed limited liability company with headquarters in Helsinki, Finland. It is the parent company of the UPM Group which consists of 110 subsidiaries in 44 countries. The Group's business operations are divided into six business areas supported by global functions.

Read more:
www.upm.com/governance

UPM's governance structure

UPM's control and governance is divided among the General Meeting of Shareholders, the Board of Directors and the President and CEO as shown in the illustration on the right. In the operational management of the company, the President and CEO is assisted by the Group Executive Team.

In matters pertaining to the preparation of group and business area strategies, financial targets, strategic projects, capital expenditure, M&A initiatives and other strategic development initiatives, the President and CEO is assisted by the Strategy Team consisting of the CFO and the heads of the strategy, technology and legal functions.

Each of the company's business areas and functions has its own management team, the purpose of which is to assist the business area or function head in the preparation and implementation of strategies, budgets, commercial strategies, business development plans, and the operating model and organisation for the business area or function in question.

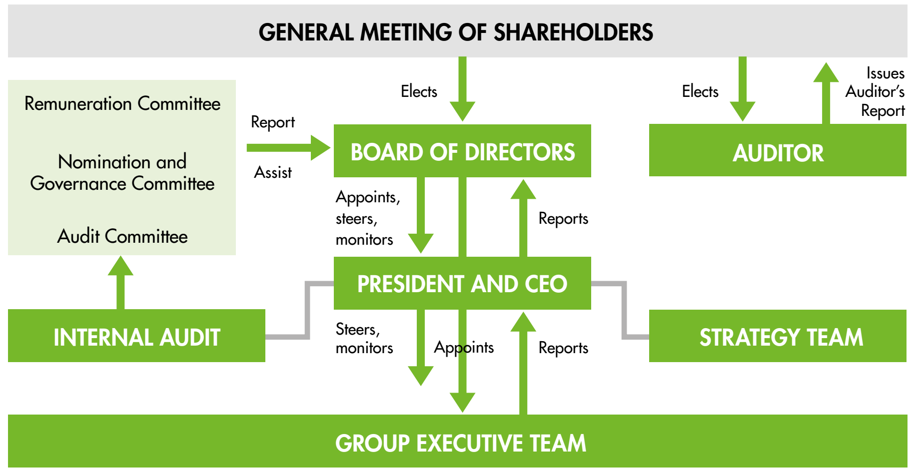
Governance guidelines

In addition to laws and regulations applicable to Finnish listed companies, UPM complies with – and its corporate governance is based on – the recommendations of the Finnish Corporate Governance Code issued by the Securities Market Association. UPM's Corporate Governance Statement for the year 2014, and the Remuneration Statement dated 3 March 2015, prepared in accordance with Recommendations 54 and 47 of the Finnish Corporate Governance Code, are available on the corporate website www.upm.com in the Investors Section, under Governance.

Furthermore, the company's governance is based on the charters and policies listed in the table on the right.

UPM's Code of Conduct forms the framework for all company operations and sets out standards of behaviour for each individual at UPM globally. It covers topics relating to legal compliance and disclosure, conflicts of interest, gifts and anti-bribery, HR practices, human rights issues and environmental matters. Violation of the Code will lead to disciplinary action up to and including termination of employment. The UPM Code of Conduct is complemented by more detailed rules and guidelines approved by the Group Executive Team. These rules and guidelines cover, among others, such topics as anti-bribery, competition law compliance, contract management, human resources, environment, safety and equality.

CORPORATE GOVERNANCE STRUCTURE AND POLICIES OF UPM-KYMMENE CORPORATION



Charter / Policy	Approved by	Originally approved	Last amended
Articles of Association	General Meeting of Shareholders	31 October and 1 November 1995 *)	22 March 2010
UPM Code of Conduct	Board of Directors	31 May 2006	3 August 2010
Board Charter	Board of Directors	31 May 2006	24 October 2013
Audit Committee Charter	Board of Directors	31 May 2006	24 October 2013
Remuneration Committee Charter	Board of Directors	31 May 2006	24 October 2013
Nomination and Governance Committee Charter	Board of Directors	31 May 2006	24 October 2013
Risk Management Policy	Board of Directors	1 February 2007	6 April 2009
Disclosure Policy	Board of Directors	24 July 2008	–
Group Treasury Policy	Board of Directors	1996	26 April 2012
Treasury Policy for Subsidiaries and Business Units	Board of Directors	1996	26 April 2012
Insider Policy	Board of Directors	31 October 2006	24 October 2013
Acceptance Policy	Board of Directors	5 February 2009	3 February 2015
Internal Audit Charter	Board of Directors	1 February 2010	–

*) Approved in the General Meetings of the merging companies Repola Oy and Kymmene Oy.

Annual General Meeting 2014

The General Meeting of Shareholders is the company's supreme decision-making body. The Annual General Meeting (AGM) of 2014 was held on 8 April in Helsinki. A total of 1,984 (in 2013: 1,769) shareholders attended the meeting in person or through a legal or proxy representative, representing 45.6% (42.4%) of the company's registered share capital and voting rights at the time of the meeting.

The AGM adopted the company's financial statements for the period 1 January–31 December 2013, decided to distribute dividends amounting to EUR 0.60 (EUR 0.60) per share and discharged the President and CEO, and the members of the Board of Directors from liability for the financial year 2013.

The AGM elected nine members to the Board of Directors and resolved on their remuneration. 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 one-year term continuing until the end of the next Annual General Meeting. General Ari Puheloinen was elected as a new member to the board. Karl Grotenfelt, member since 2004, and Ursula Ranin, member since 2006, stepped down from the board.

As regards board remuneration, the AGM resolved that the annual fee to the Board Chair be EUR 175,000, to the Board Deputy Chair and Chair of the Audit Committee EUR 120,000 and to other members of the board EUR 95,000. Of the annual fee, 60% was paid in cash to cover taxes and 40% in company shares purchased on the board members' behalf. Since General Ari Puheloinen was able to participate in the board work only from the start of August, the AGM decided that he was entitled to 2/3 of the board member's annual fee. No annual fee was paid to the President and CEO for his role as a member of the board.

The board members' annual fees, the number of acquired shares and the number of UPM shares held by the members at the end of 2014 are presented in the table on the right. The board members do not receive any other financial benefits for their board or committee memberships in addition to the annual fees. The annual fees have remained the same since 2007. According to the Board Charter, board members are encouraged to own company shares on a long term basis.

The AGM also resolved on the company's auditor, and re-elected PricewaterhouseCoopers Oy, a firm of authorised public accountants, as the company's auditor for a one-year term, with Ms Merja Lindh, Authorised Public Accountant, as the auditor in charge. The AGM decided that the audit fee would be paid against invoices approved by the Audit Committee. The fees paid to the auditor, as approved by the Audit Committee, are shown in the table below.

AUDITOR'S FEES

EURm	2014	2013
Audit	2.0	2.6
Audit related	–	0.1
Tax consulting	0.6	0.9
Other services	0.5	0.1
Total	**3.1**	**3.7**

Further resolutions taken in the AGM include authorisations to the Board of Directors to decide on the repurchase of the company's own shares and to decide on donations for charitable or corresponding purposes. The maximum number of shares that may be repurchased amounts to 50 million shares, and the total amount of donations may not exceed EUR 250,000. All decisions were taken without voting.

BOARD REMUNERATION AND SHAREHOLDINGS 2014

Director	Position in the Board	Annual fees (EUR)	of which shares (pcs)	Shareholdings as at 31 Dec. 2014
Björn Wahlroos	Chair	175,000	5,595	250,249
Berndt Brunow	Deputy Chair	120,000	3,836	300,703
Matti Alahuhta	Member	95,000	3,037	58,991
Piia-Noora Kauppi	Audit Committee Chair	120,000	3,836	8,981
Wendy E. Lane	Member	95,000	3,037	30,649
Jussi Pesonen	Member, President and CEO	–	–	195,280
Ari Puheloinen	Member	63,333	2,025	2,025
Veli-Matti Reinikkala	Member	95,000	3,037	33,821
Kim Wahl	Member	95,000	3,037	11,799
Total		**858,333**	**27,440**	**892,498**

The shareholdings as at 31 Dec. 2014 include also shares held by the directors' closely associated persons and controlled entities. Up-to-date information on the directors' shareholdings and any changes therein can be found on the corporate website.

Board of Directors

The company's Board of Directors is composed of nine members as detailed above. Eight of the directors are non-executive and one is executive. The directors' personal details, career histories and other significant engagements are presented on pages 65-66 and on the corporate website. Björn Wahlroos has chaired the board since 2008 and Berndt Brunow has been the Deputy Chair since 2005.

Directors' independence

The Board of Directors, assisted by its Nomination and Governance Committee, evaluates the independence of its members on a continuous basis. The evaluation is based on an overall assessment and, specifically, on the independence criteria of the Finnish Corporate Governance Code's Recommendation 15. As the company has no controlling shareholders and only two shareholders have disclosed an ownership of over five per cent of the company's total shares and votes, the board has assessed that all directors are independent of significant shareholders. The board has also assessed that all non-executive directors are independent of the company. As the President and CEO of the company, Jussi Pesonen is not independent of it.

Board work

The duties and responsibilities of the Board of Directors and its committees are defined in the Board and Committee Charters approved by the Board of Directors. The Charters are available on the corporate website in the Investors section, under Governance.

The Board of Directors convenes according to a pre-determined meeting schedule. The meeting schedule is based on the company's financial reporting schedule and is complemented by the Board of Directors' strategy and budget meetings. In addition, teleconference and per capsulam meetings are held when deemed necessary. In 2014, the Board held eleven meetings. The directors' average attendance at the meetings was 99.0% (97.8%).

In 2014, the board focused on strategic considerations and held an extensive strategy meeting in May that resulted in the approval of corporate and business area strategies. Part of the board's annual strategy work is the review of group strategic and operational risks. The board continued its strategy work in September when it was updated on the strategy implementation. During the year, the board was also regularly informed of the progress of the company's strategic priorities: the EUR 200 million profit improvement programme, the EUR 200 million EBITDA target of focused growth initiatives as well as the business portfolio development and value creation.

In addition to the board's annual and quarterly duties pertaining to, among others, financial reporting, budget follow-ups, management remuneration and proposals to the AGM, the Board of Directors resolved on a major investment in the UPM Kymi pulp mill in Finland and on the revision of the investment plan regarding construction of the third production unit and power plant at UPM Changshu mill in China. Furthermore, the board approved the start of negotiations on capacity closures in the European publication paper business. These decisions were announced in February and November respectively. In relation to the business structure change that was implemented in November 2013, the board also approved new financial targets for the group and business areas, as disclosed in connection with the company's Capital Markets Day in March.

Board self-evaluation

The Board of Directors reviews its performance and working methods annually. In 2014, the evaluation was conducted as a self-assessment and its results were reviewed at the board meeting in December. Directors evaluated the board's performance of its duties and responsibilities, board composition and structure, board culture, and the effectiveness of board meetings. Identified areas of improvement are considered when planning the board's work. One area of improvement that came up in the previous year's evaluation was a need to focus on and spend more time discussing the company's strategic direction. As a result, strategic considerations were reflected on the board's agenda during 2014 as described above.

BOARD OF DIRECTORS' COMMITTEES 2014

Committees	Audit Committee	Remuneration Committee	Nomination and Governance Committee
Members	Piia-Noora Kauppi (Ch.)	Berndt Brunow (Ch.)	Björn Wahlroos (Ch.)
	Wendy E. Lane	Matti Alahuhta	Matti Alahuhta
	Kim Wahl	Veli-Matti Reinikkala	Ari Puheloinen
Number of meetings	5	3	4
Attendance-%	100	100	100

Committees of the Board of Directors

The committees assist the Board of Directors by preparing matters within the competence of the board. The committee chairs report to the board on committee activities on a regular basis. In addition, minutes are kept for all committee meetings and distributed to all directors.

The Board of Directors has established three committees composed of its members: the Audit Committee, the Remuneration Committee and the Nomination and Governance Committee. The board appoints the members of the committees and their chairs annually. A committee always has at least three members. In 2014, all committees fulfilled their respective independence and desirable qualification requirements as set out in the Finnish Corporate Governance Code and Committee Charters. The President and CEO may not be appointed as a member of these committees.

The table on the right contains information on the committees' composition, the number of meetings and attendance levels in 2014.

Audit Committee

Audit Committee duties and responsibilities are defined in the Audit Committee Charter. To perform these duties and responsibilities, the Audit Committee reviews the company's quarterly financial results and interim financial statements and recommends their approval to the board. The committee's results review includes a review of potential significant and unusual transactions, accounting estimates and policies for the period in question. The committee also receives quarterly reports on assurance and legal matters including status reports on internal control, internal audit, litigations, and other legal proceedings. The external auditor attends all committee meetings and provides the committee with a review of the interim audit as well as an account of the audit and non-audit fees incurred during the quarter. The committee also regularly meets with the internal and external auditors without members of the management being present.

As part of the committee's compliance review, the committee is provided with a quarterly report by the company's Ethics Advisory Committee and a report of submissions under the Report Misconduct channel. With regard to risk management, the committee annually reviews the company's risk management process and is informed of the top 20 strategic risks identified in this process. In 2014, the committee also reviewed risk management and compliance procedures in UPM's energy business and UPM IT, where the focus was on IT security (Cybersecurity) risks.

The Audit Committee is also responsible for preparing a proposal to the AGM for the election of the external auditor. In this respect, the committee evaluates the qualifications and independence of the external auditor. The committee also arranges a tendering process for audit services at regular intervals, to ensure the independence and cost efficiency of the external audit. The latest tendering process was carried out in 2013, and as a result of this, the Audit Committee proposed the re-election of PricewaterhouseCoopers Oy as the company's external auditor at the AGM of 2014. The previous tendering process took place in 2007.

Remuneration Committee

The Remuneration Committee's primary purpose is to assist the Board of Directors in matters relating to management remuneration and succession planning.

The company's management remuneration consists of base salary and benefits, short-term incentives and share-based long-term incentives under the company's Performance Share Plan and Deferred Bonus Plan. To perform its duties, the Remuneration Committee reviews each of these components of the total remuneration on a regular basis. The review includes benchmarking the different components to market practices in corresponding positions in peer companies. Based on this review, the committee makes recommendations to the board for the approval of salaries and benefits for the President and CEO and other senior executives, for structure, measures and targets for short-term incentives and for earning criteria and targets for the plans starting annually under the Performance Share Plan and Deferred Bonus Plan. Each year, the committee also evaluates the achievement of the set targets and the overall performance of the President and CEO and other senior executives, and makes recommendations to the board for the approval of incentive pay-outs.

In addition, the committee annually reviews procedures and development strategies for senior positions and succession plans for the President and CEO and other senior executives, and reports to the Board of Directors on such matters. The committee also reviews the results of the employee engagement survey which is conducted every year in the autumn.

Nomination and Governance Committee

The primary purpose of the Nomination and Governance Committee is to identify individuals qualified to serve as directors and prepare a proposal to the General Meeting of Shareholders for election or re-election of directors and for their remuneration. The committee may engage – and has engaged – executive search firms to identify potential director candidates.

When preparing its proposal to the AGM regarding director nominees, the Nomination and Governance Committee reviews the composition of the board and the company's current and evolving needs in terms of director competencies and initiates a search for potential new directors early in the autumn.

When reviewing the composition of the board, the committee considers whether the board is sufficiently diverse in terms of professional and educational backgrounds, gender and age, and whether it represents an appropriate balance of competencies in order to address the needs of the company's business operations and strategic agenda. The committee has determined that desirable skills and qualifications for the directors include, among others, relevant industry experience, expertise in finance and accounting, senior executive level experience in global international business, experience in leadership and strategy formation, and experience in corporate governance.

Evaluation of director nominees' independence is an essential part of the director nomination process. As part of the committee's assessment of director nominees' independence, the committee reviews the directors' current engagements and the company's verification procedures concerning potential related party transactions and commitments that could jeopardise a director's independence. Based on such procedures, no such transactions took place and no conflicts of interest were identified in 2014. In addition, the committee is regularly informed of any changes in directors' employment and other engagements so that it can assess the potential effects of such changes on directors' independence and availability for board work.

When preparing its proposal to the AGM regarding board remuneration, the committee considers, among other things, the development of director remuneration and the level of director remuneration in peer companies. The committee has underlined the importance of aligning the interests of directors with those of shareholders and prefers payment of board remuneration in the form of shares.

President and CEO

The Board of Directors appoints the President and CEO of the company. Jussi Pesonen has served as the company's President and CEO since January 2004. The Board has approved his service contract, including financial benefits and other terms of service. Mr Pesonen has also been a member of UPM's Board of Directors since March 2007. He receives no financial benefit for his role as a member of the board.

Remuneration of the President and CEO

The Board of Directors resolves on the remuneration of the President and CEO based on the proposal by the Board of Directors' Remuneration Committee. The President and CEO's annual salary and other financial benefits in 2014 are shown in the table below. Information on the President and CEO's shareholding in the company is provided on pages 61 and 64.

SALARIES, INCENTIVES AND OTHER BENEFITS OF THE PRESIDENT AND CEO

EUR 1,000	2014	2013
Salaries and benefits		
Salary	1,052	1,059
Short-term incentives	627	553
Share rewards	–	–
Benefits	27	26
Total	**1,706**	**1,638**

The President and CEO participates in the Short-term Incentive Plan and the Performance Share Plan. Information on these plans is available in the Remuneration Statement on the corporate website.

In accordance with the service contract, the retirement age of the President and CEO is 60. The target pension is 60% of the average indexed earnings from the last 10 years of employment calculated according to the Finnish statutory pension scheme. The cost of lowering the retirement age to 60 is covered by supplementing the statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company before reaching the age of 60, an immediate vesting right corresponding to 100% of the earned pension (pro rata) will be applied.

In 2014, costs under the Finnish statutory pension scheme for the President and CEO amounted to EUR 0.3 million (EUR 0.3 million in 2013) and payments under the voluntary pension plan were EUR 0.7 million (EUR 0.7 million). In addition, a single premium of EUR 0.3 million was paid into the President and CEO's voluntary pension plan (EUR 1.1 million) to cover past service pension liabilities.

If notice of termination is given to the President and CEO, severance pay of 24 months' base salary will be paid, in addition to the salary for the six-month notice period. Should the President and CEO give notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period.

If there is a change of control in the company, the President and CEO may terminate his service contract within three months from the date of the event that triggered the change of control and will receive compensation equivalent to 24 months' base salary.

Group Executive Team

The Group Executive Team (GET) consists of the business area and function heads. GET members are presented in the illustration below. Their personal details, career histories and other significant engagements are available on pages 67-68 and on the corporate website.

Remuneration of the GET

The Remuneration Committee reviews GET members' performance annually based on the evaluation and proposal by the President and CEO. On the basis of this review, the Remuneration Committee recommends the total compensation of the GET members to the board for approval. The annual salaries and other financial benefits of the GET members in 2014 are shown in the table above. Information on their shareholdings in the company is provided on the following page.

Read more:
www.upm.com/governance

SALARIES, INCENTIVES AND OTHER BENEFITS OF THE GET (EXCLUDING THE PRESIDENT AND CEO)

EUR 1,000	2014	2013
Salaries and benefits		
Salaries	3,457	3,396
Short-term incentives	869	1,067
Share rewards	-	-
Benefits	249	137
Total	4,575	4,600

Since 1 November 2013, the GET (excluding the President and CEO) comprises 11 members, prior to that 8 members.

GET members participate in the Short-term Incentive Plan and the Performance Share Plan. Information on these plans is available in the Remuneration Statement on the corporate website.

GET members are covered by the statutory pension plan in the country of residence, supplemented by voluntary defined contribution pension plans. The retirement age is 63. Executives belonging to the GET before 1 January 2010 have fully vested rights corresponding to 100% of the accumulated account. Executives who have become GET members after 1 January 2010 are entitled to fully vested rights five years after becoming a member.

In 2014, costs under the Finnish and German statutory pension schemes for the members of the GET (excluding the President and CEO) amounted to EUR 0.8 million (EUR 0.7 million in 2013) and payments under the voluntary pension plan were EUR 0.7 million (EUR 0.5 million).

GET members receive severance pay in the event that their service contract is terminated by the company prior to the retirement age. The period for severance pay is 12 months in addition to the six months' salary for the notice period, unless notice is given for reasons that are solely attributable to the executive.

GROUP EXECUTIVE TEAM

President and CEO Jussi Pesonen

CFO 1)	Tapio Korpeinen	Heikki Vappula	**UPM Biorefining**
General Counsel	Juha Mäkelä	Tapio Korpeinen	**UPM Energy**
Strategy	Kari Ståhlberg	Tapio Kolunsarka	**UPM Raflatac**
Technology 2)	Jyrki Ovaska	Kim Poulsen	**UPM Paper Asia**
Human Resources	Riitta Savonlahti	Bernd Eikens	**UPM Paper ENA**
Stakeholder Relations 3)	Pirkko Harrela	Mika Sillanpää	**UPM Plywood**

1) Incl. Finance & Control, Treasury, IR, IT, Sourcing and Real Estate (incl. Finnish forest assets)
2) Incl. Investment Management, R&D, new business development (biocomposites, biochemicals)
3) Incl. Brand & Communications, Environment & Responsibility, Public Affairs

SHARES AND STOCK OPTIONS HELD BY THE GET MEMBERS

	Shares		2007C options **)	
	31 December		31 December	
Name	2014	2013	2014	2013
Jussi Pesonen*)	195,280	195,294	0	200,000
Bernd Eikens*)	10,000	21,536	–	–
Pirkko Harrela	35,488	35,488	0	70,000
Tapio Kolunsarka*)	10,000	10,000	–	–
Tapio Korpeinen*)	45,792	45,792	0	30,000
Juha Mäkelä	32,068	32,068	0	50,000
Jyrki Ovaska	64,612	64,612	0	60,000
Kim Poulsen*)	–	–	–	–
Riitta Savonlahti	16,570	16,570	0	5,000
Mika Sillanpää*)	10,117	9,000	0	10,000
Kari Ståhlberg	4,212	4,212	0	20,875
Heikki Vappula*)	10,000	10,000	–	–

*) Executives belonging to UPM's public insiders. Their shareholdings above include shares held by their closely associated persons and controlled entities.
**) Stock option programme 2007 expired on 31 October 2014.

If there is a change of control in the company, each GET member may terminate his/her employment contract within one month from the date of the event that triggered the change of control, and will receive compensation equivalent to 24 months' base salary.

Internal control, risk management and internal audit

The purpose of internal control is to ensure that the company's operations are effective, and that financial and other information is reliable and that the company complies with the relevant regulations and operating principles. The company's Board of Directors, assisted by the Audit Committee, is responsible for monitoring the company's internal control system. The company has developed and implemented a comprehensive internal control system that covers business and financial reporting processes. Internal control pertaining to financial reporting is described in the Corporate Governance Statement available on the corporate website.

The Risk Management function of UPM is responsible for communicating and enforcing the Risk Management Policy and risk limits approved by the Board of Directors. In addition, it develops group-wide risk management procedures and guidelines, and measures and monitors risk management performance. Aggregating and reporting risk exposure and risk management results collected from the business areas and functions are part of the risk management process. A description of the company's strategic, operational, financial and hazard risks is included in the Report of the Board of Directors on pages 70–79.

Each business area, function and unit is responsible for the management of risks related to its own operations. The Risk Management Committee, chaired by the CFO, is responsible for recommending risk tolerances and profiles to the President and CEO and the Group Executive Team, which is responsible for defining risk management priorities and tolerances, and aligning business and risk management strategies and policies. The Audit Committee oversees risk management activities and procedures.

The Internal Audit function assists the Board of Directors with its supervisory responsibility by ensuring that the group's control measures have been planned and set up effectively. The Internal Audit function is administratively subordinate to the President and CEO, but has direct access to the Audit Committee and reports to it quarterly on the adequacy and effectiveness of the group's control systems. The basic operating principles for internal auditing are defined in the Internal Audit Charter, which has been confirmed by the Board of Directors. The internal audit operations cover all aspects of the group's business operations, units, companies, processes and functions.

Insider administration

The company complies with the securities laws and regulations applicable to it. UPM also follows the Guidelines for Insiders issued by NASDAQ OMX Helsinki Ltd. The company's Insider Policy complements the statutory regulations and sets out company-specific guidelines for the company's insiders and for the management and administration of insider matters at UPM.

UPM's public insiders include the members of the Board of Directors, the President and CEO, the Chief Financial Officer, the business area heads and the auditor in charge. Public insider holdings in the company are in the public domain and up-to-date information on these holdings is available on the corporate website. It can also be obtained from Euroclear Finland Ltd. Public insider shareholdings as at 31 December 2014 are presented in the tables on this page and on page 61.

Trading restrictions

Certain trading procedures apply to both public insiders and permanent insiders (i.e. employees who regularly have access to inside information) of the company. Insiders are not allowed to trade in the company's securities during closed window periods. The closed window periods are four-week periods preceding and including the date on which the company's annual or quarterly results are disclosed. Trading is allowed during the open window periods, which are three-week periods commencing on the first business day following the disclosure of the company's annual or quarterly results. Periods between the open and closed window periods are referred to as clearance periods. Trading during clearance periods requires prior permission from the company's Insider Administration. When necessary, project-specific insider registers are set up and related trading restrictions imposed. Persons possessing inside information are not allowed to trade in the company's securities. The company's Insider Administration monitors compliance with trading restrictions.

To avoid any suspicion related to the use of inside information, the company's public insiders are advised to employ trading plans in accordance with the Trading Guidelines for Insiders issued by the Finnish Financial Supervisory Authority.

Board of Directors

Björn Wahlroos
Chairman
Chairman and member since 2008
Chairman of the Nomination and Governance Committee
Independent of the Company and significant shareholders
Born 1952, Finnish citizen
Ph.D. (Econ.)

President and CEO of Sampo plc 2001–2009. Chairman of the Board of Mandatum Bank plc 1998–2000, CEO and Vice Chairman of the Board of Mandatum & Co Ltd 1992–1997. Member of the Executive Committee and Executive Vice President of the Union Bank of Finland 1985–1992.

Chairman of the Board of Sampo plc, Nordea Bank AB (publ) and Hanken School of Economics.

Berndt Brunow
Deputy Chairman
Member since 2002, Deputy Chairman since 2005
Chairman of the Remuneration Committee
Independent of the Company and significant shareholders
Born 1950, Finnish citizen
B.Sc. (Econ.)

President and CEO of Oy Karl Fazer Ab 2002–2007. President and CEO of Sanitec Corporation 2000–2002. Over 20 years of experience in executive positions at Finnpap and UPM-Kymmene Corporation.

Chairman of the Board of Lemminkäinen Corporation, Oy Karl Fazer Ab and Mutual Pension Insurance Company Varma. Board member of Hartwall Capital Oy Ab and East Office of Finnish Industries Oy.

Matti Alahuhta
Member since 2008
Member of the Remuneration Committee and Nomination and Governance Committee
Independent of the Company and significant shareholders
Born 1952, Finnish citizen
D.Sc. (Eng.)

President and CEO of KONE Corporation 2006–2014 and President 2005–2006. Executive Vice President of Nokia Corporation 2004, President of Nokia Mobile Phones 1998–2003 and President of Nokia Telecommunications 1993–1998.

Chairman of the Board of Outotec Oyj, DevCo Partners Oy, Aalto University Foundation and Confederation of Finnish Industries (EK). Board member of KONE Corporation, AB Volvo (publ) and ABB Ltd.

BJÖRN WAHLROOS
BERNDT BRUNOW
MATTI ALAHUHTA
PIIA-NOORA KAUPPI
WENDY E. LANE

Piia-Noora Kauppi
Member since 2013
Chairman of the Audit Committee
Independent of the Company and significant shareholders
Born 1975, Finnish citizen
LL.M.

Managing Director of Federation of Finnish Financial Services since 2009. Member of the European Parliament and member of various parliamentary committees 1999–2008, Head of the Finnish Delegation in the EPP-ED Group 2004–2008. Legal advisor for the Parliamentary Group of the National Coalition Party Kokoomus 1997–1999.

Board member of Sulava Oy and the Finnish Financial Ombudsman Bureau. Member of the Supervisory Board of Helsinki Deaconess Institute and HSE Foundation. Chairman of the Executive Committee of European Banking Federation.

Wendy E. Lane
Member since 2005
Member of the Audit Committee
Independent of the Company and significant shareholders
Born 1951, US citizen
MBA (Harvard)

Chairman of the Board of Lane Holdings, Inc. since 1992. Managing Director and Principal at Donaldson, Lufkin & Jenrette Securities Corp. 1981–1992. Banking Associate at Goldman, Sachs & Co. 1977–1980.

Board member of Willis Group Holdings PLC and Al-Dabbagh Group Holding Company Limited.

Jussi Pesonen
Member since 2007
Independent of significant shareholders, non-independent of the Company
Born 1960, Finnish citizen
M.Sc. (Eng.)

President and CEO of UPM-Kymmene Corporation since 2004. COO of the Paper Divisions and Deputy to the President and CEO 2001–2004. Several management positions in UPM Paper Divisions 1987–2001.

Chairman of the Board of Ilmarinen Mutual Pension Insurance Company and the Finnish Forest Industries Federation (FFIF). Co-Chairman of the Forest Solutions Group (FSG) in World Business Council for Sustainable Development (WBCSD). Board member of the Confederation of European Paper Industries (CEPI) and East Office of Finnish Industries Oy.

Ari Puheloinen
Member since 2014
Member of the Nomination and Governance Committee
Independent of the Company and significant shareholders
Born 1951, Finnish citizen
General Staff Officer, General (ret.)

Commander of the Finnish Defence Forces 2009–2014. Chief of Finnish Defence Command 2007–2009 and Commander of the Eastern Command 2004–2007. Deputy Chief of Operations of the Finnish Defence Staff 2000–2003 and Brigade Commander 1999–2000. Principal Secretary of the Defence Council 1997–1999. Assistant Defence Attaché in Moscow 1986–1990.

Board member of the Association for the New Children's Hospital 2017.

JUSSI PESONEN
ARI PUHELOINEN
VELI-MATTI REINIKKALA
KIM WAHL

Veli-Matti Reinikkala
Member since 2007
Member of the Remuneration Committee
Independent of the Company and significant shareholders
Born 1957, Finnish citizen
eMBA

President of ABB Region Europe since 2015 and member of the Group Executive Committee of ABB Ltd since 2006. Head of ABB Process Automation Division 2006–2014. Business Area Manager for ABB Process Automation 2005. Automation Technologies Division Manager in ABB China 2003–2004. Manager for ABB Drives 1997–2002. CFO of ABB Industry Oy 1994–1996. Before 1994, various positions in paper and packaging companies in Finland.

Kim Wahl
Member since 2012
Member of the Audit Committee
Independent of the Company and significant shareholders
Born 1960, Norwegian citizen
MBA (Harvard)
BA, Business Economics (San Diego)

Chairman of the Board of Strømstangen AS since 2009. Deputy Chairman and Cofounder of the European private equity firm IK Investment Partners 1989–2009. Associate, Corporate Finance, Goldman, Sachs & Co. 1987–1989.

Board member of DNB Bank ASA and Intermediate Capital Group plc. Chairman of Voxtra AS and Voxtra Foundation. Adjunct Professor at INSEAD business school.

Group Executive Team

Jussi Pesonen
President and CEO
M.Sc. (Eng.)
Born 1960, Finnish citizen
Member of the Group Executive Team since 2001.
Employed by UPM-Kymmene Corporation since 1987.

Several management positions in the UPM Paper Divisions 1987–2001. COO of the Paper Divisions and Deputy to the President and CEO 2001–2004. President and CEO since 2004.

Chairman of the Board of Ilmarinen Mutual Pension Insurance Company and the Finnish Forest Industries Federation (FFIF). Co-Chairman of the Forest Solutions Group (FSG) in World Business Council for Sustainable Development (WBCSD). Board member of the Confederation of European Paper Industries (CEPI) and East Office of Finnish Industries Oy.

Tapio Korpeinen
CFO, Executive Vice President, UPM Energy
M.Sc. (Tech.), MBA
Born 1963, Finnish citizen
Member of the Group Executive Team since 2008.
Employed by UPM-Kymmene Corporation since 2005.

Several management positions at Jaakko Pöyry Consulting in Finland and North America 1991–1998 and 1999–2005. A.T. Kearney in Finland 1998–1999 and McKinsey & Company in Sweden 1988–1990. Vice President, Corporate Development and Senior Vice President, Strategy, UPM 2005–2008. President, Energy and Pulp Business Group, 2008–2010. CFO since 2010.

Chairman of the Board of Pohjolan Voima Oy. Board member of Teollisuuden Voima Oyj and Kemijoki Oy. Supervisory board member of Varma Mutual Pension Insurance Company.

Heikki Vappula
Executive Vice President, UPM Biorefining
M.Sc. (Econ.)
Born 1967, Finnish citizen
Member of the Group Executive Team since 2010.
Employed by UPM-Kymmene Corporation since 2006.

Sales Manager, Balance Consulting Oy 1992–1993. Management Accountant, Nokia Group, Finland 1993–1995. Several management positions at Nokia Networks Corporation in Finland, Denmark, the UK and Hungary 1996–2002. Vice President of Nokia Mobile Phones Supply Line Management 2002–2006. Senior Vice President, UPM Sourcing 2006–2010. President, Energy and Pulp Business Group 2010–2013.

Board member of the Finnish Forest Industries Federation (FFIF).

Mika Sillanpää
Executive Vice President, UPM Plywood
M.Sc. (Eng.)
Born 1958, Finnish citizen
Member of the Group Executive Team since 2013.
Employed by UPM-Kymmene Corporation since 1985.

Several management positions at UPM Raflatac in Finland and in France 1985–2000. Vice President, UPM Raflatac Europe 2001–2003. Senior Vice President, Strategic Development, UPM Raflatac Group 2003–2008. Vice President, Sourcing at UPM Raflatac Group 2008–2013.

Kari Ståhlberg
Executive Vice President, Strategy
M.Sc. (Eng.)
Born 1971, Finnish citizen
Member of the Group Executive Team since 2013.
Employed by UPM-Kymmene Corporation since 2007.

Management Consultant at Jaakko Pöyry Consulting Oy 1998–2000. M&A Advisor at JP Capital International Limited in the UK 2000–2006. Investment Manager at Finnish Industry Investment Ltd 2006–2007. Director, M&A, UPM-Kymmene Corporation 2007–2010. Senior Vice President, Corporate Strategy 2010–2013.

Juha Mäkelä
General Counsel
LL.M.
Born 1962, Finnish citizen
Member of the Group Executive Team since 2008.
Employed by UPM-Kymmene Corporation since 2005.

Several positions in law firms 1991–1996. Positions as legal counsel and senior legal counsel in KONE Corporation 1997–2004.

Supervisory Board member of Kemijoki Oy.

Tapio Kolunsarka
Executive Vice President, UPM Raflatac
M.Sc. (Eng.), M.Sc. (Econ.)
Born 1975, Finnish citizen
Member of the Group Executive Team since 2013
Employed by UPM-Kymmene Corporation since 2002.

Associate, McKinsey & Company 2000–2002. Several management positions at UPM Raflatac in Finland and in the USA 2002–2008. Senior Vice President, UPM Raflatac, Europe 2008–2011. Senior Vice President, UPM Raflatac, Europe, Middle-East and Africa 2011–2013.

Kim Poulsen
Executive Vice President, UPM Paper Asia
M.Sc. (Econ.)
Born 1966, Finnish citizen
Member of the Group Executive Team since 2013.
Employed by UPM-Kymmene Corporation since 2011.

General Manager, Koskisen Ltd. 1993–1996. Several management positions at Finnforest Ltd. in Finland, United Kingdom and Germany 1996–2006. President and CEO, Paloheimo Group and Fenestra Ltd. 2006–2010. Senior Vice President, UPM Plywood 2011–2013. Executive Vice President, Paper Business Asia Pacific and Corporate Relations 2013.

Bernd Eikens
Executive Vice President, UPM Paper ENA
Ph.D. (Eng.)
Born 1965, German citizen
Member of the Group Executive Team since 2013.
Employed by UPM-Kymmene Corporation since 1998.

Senior Process Engineer, International Paper Co. 1996–1998. Several management positions at UPM Nordland Papier 1998–2005. President, UPM-Kymmene Inc. North America 2005–2008. Senior Vice President, Supply Chain, Paper Business Group 2008–2013.

Board member of EUROGRAPH, the European Association of Graphic Paper Producers and German Pulp and Paper Association VDP. Chairman of the Owners' Committee of Madison Paper Industries. Board member of Johann Bunte Bauunternehmung GmbH & Co. KG.

Jyrki Ovaska
Executive Vice President, Technology
M.Sc. (Eng.)
Born 1958, Finnish citizen
Member of the Group Executive Team since 2002.
Employed by UPM-Kymmene Corporation since 1984.

Several management positions at United Paper Mills Ltd and UPM in the Printing Papers Division 1984–2001. President, Fine and Speciality Papers Division 2002–2003. President, Magazine Paper Division 2004–2008. President, Paper Business Group 2008–2013.

Vice Chairman of AmCham Finland (The American Chamber of Commerce in Finland). Board member of FIBIC, Finnish Bioeconomy Cluster.

Riitta Savonlahti
Executive Vice President, Human Resources
M.Sc. (Econ.)
Born 1964, Finnish citizen
Member of the Group Executive Team since 2004.
Employed by UPM-Kymmene Corporation since 2004.

HR Specialist positions at ABB 1990–1994. Human Resources Manager at Nokia Mobile Phones, Salo Operations 1995–2000. Senior Vice President, Human Resources at Raisio Group 2000–2001. Senior Vice President, Human Resources at Elcoteq Network Corporation 2001–2004.

Board member of Posti Group Corporation.

Pirkko Harrela
Executive Vice President, Stakeholder Relations
M.A.
Born 1960, Finnish citizen
Member of the Group Executive Team since 2004.
Employed by UPM-Kymmene Corporation since 1985.

Several positions in Communications in Finnpap and UPM Paper Division 1985–2002. Vice President, Corporate Communications of UPM 2003, Executive Vice President, Corporate Communications 2004–2013.

Member of S-Group's CSR Advisory Group.

Accounts for 2014

Report of the Board of Directors

Market environment in 2014

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

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

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

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

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

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

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

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

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

Key figures

	2014	2013
Sales, EURm	9,868	10,054
EBITDA, EURm [1]	1,287	1,155
% of sales	13.0	11.5
Operating profit (loss), EURm	674	548
excluding special items, EURm	847	683
% of sales	8.6	6.8
Profit (loss) before tax, EURm	667	475
excluding special items, EURm	774	610
Net profit (loss) for the period, EURm	512	335
Earnings per share, EUR	0.96	0.63
excluding special items, EUR	1.17	0.91
Diluted earnings per share, EUR	0.96	0.63
Return on equity, %	6.9	4.5
excluding special items, %	8.3	6.4
Return on capital employed, %	6.5	4.8
excluding special items, %	7.5	6.0
Operating cash flow per share, EUR	2.33	1.39
Equity per share at end of period, EUR	14.02	14.08
Gearing ratio at end of period, %	32	41
Net interest-bearing liabilities at end of period, EURm	2,401	3,040
Capital employed at end of period, EURm	10,944	11,583
Capital expenditure, EURm	411	362
Capital expenditure excluding acquisitions and shares, EURm	375	329
Personnel at end of period	20,414	20,950

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

Information on key financial and share-related indicators is presented in financial statements.

Results

2014 compared with 2013

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

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

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

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

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

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

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

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

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

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

Financing

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

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

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

Personnel

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

More information (unaudited) on personnel is published in UPM's Annual Report 2014.

Capital expenditure and divestments

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

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

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

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

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

Growth projects targeting EBITDA impact of EUR 200 million

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

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

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

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

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

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

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

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

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

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

Profit improvement programmes

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

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

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

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

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

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

Events after the balance sheet date

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

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

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

Outlook for 2015

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

Business area reviews

UPM Biorefining

2014 compared with 2013

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

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

UPM Biorefining	2014	2013
Sales, EURm	1,937	1,988
EBITDA, EURm [1]	358	435
% of sales	18.5	21.9
Change in fair value of biological assets and wood harvested, EURm	9	15
Share of results of associated companies and joint ventures, EURm	1	1
Depreciation, amortisation and impairment charges, EURm	–150	–152
Operating profit, EURm	223	306
% of sales	11.5	15.4
Special items, EURm [2]	6	6
Operating profit excl. special items, EURm	217	300
% of sales	11.2	15.1
Pulp deliveries, 1,000 t	3,287	3,163
Capital employed (average), EURm	2,862	2,825
ROCE (excl. special items), %	7.6	10.6

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

2) In 2014, special income of EUR 5 million relate to a gain on sale of property, plant and equipment and income of EUR 1 million relate to restructuring measures. In 2013, special charges of EUR 2 million relate to restructuring measures and special income of EUR 8 million to a capital gain from a sale of property, plant and equipment.

Market review

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

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

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

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

UPM Energy

2014 compared with 2013

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

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

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

UPM Energy	2014	2013
Sales, EURm	464	466
EBITDA, EURm 1)	213	198
% of sales	45.9	42.5
Share of results of associated companies and joint ventures, EURm	–	–1
Depreciation, amortisation and impairment charges, EURm	–11	–11
Operating profit, EURm	202	186
% of sales	43.5	39.9
Special items, EURm	–	–
Operating profit excl. special items, EURm	202	186
% of sales	43.5	39.9
Electricity deliveries, GWh	8,721	8,925
Capital employed (average), EURm	2,903	2,882
ROCE (excl. special items), %	7.0	6.5

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

Market review

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

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

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

UPM Raflatac

2014 compared with 2013

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

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

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

UPM Raflatac	2014	2013
Sales, EURm	1,248	1,213
EBITDA, EURm 1)	112	109
% of sales	9.0	9.0
Depreciation, amortisation and impairment charges, EURm	–35	–36
Operating profit, EURm	69	60
% of sales	5.5	4.9
Special items, EURm 2)	–11	–15
Operating profit excl. special items, EURm	80	75
% of sales	6.4	6.2
Capital employed (average), EURm	530	532
ROCE (excl. special items), %	15.1	14.1

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

2) In 2014, special items of EUR 11 million relate to restructuring charges, including impairments of EUR 3 million. In 2013, special items of EUR 15 million relate to restructuring charges, including impairments of EUR 2 million.

Market review

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

UPM Paper Asia

2014 compared with 2013

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

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

UPM Paper Asia	2014	2013
Sales, EURm	1,124	1,108
EBITDA, EURm 1)	188	161
% of sales	16.7	14.5
Depreciation, amortisation and impairment charges, EURm	–80	–81
Operating profit, EURm	108	80
% of sales	9.6	7.2
Special items, EURm	–	–
Operating profit excl. special items, EURm	108	80
% of sales	9.6	7.2
Paper deliveries, 1,000 t	1,421	1,378
Capital employed (average), EURm	861	882
ROCE (excl. special items), %	12.5	9.1

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

Market review

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

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

UPM Paper ENA

2014 compared with 2013

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

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

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

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

UPM Paper ENA	2014	2013
Sales, EURm	5,284	5,560
EBITDA, EURm 1)	392	232
% of sales	7.4	4.2
Share of results of associated companies and joint ventures, EURm	1	1
Depreciation, amortisation and impairment charges, EURm	–349	–233
Operating profit, EURm	–32	–59
% of sales	–0.6	–1.1
Special items, EURm 2)	–213	–59
Operating profit excl. special items, EURm	181	0
% of sales	3.4	0.0
Paper deliveries, 1,000 t	8,607	8,910
Capital employed (average), EURm	2,511	2,672
ROCE (excl. special items), %	7.2	0.0

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

2) In 2014, special items include write-offs totalling EUR 135 million and restructuring charges totalling EUR 73 million related to planned capacity closures and charges of EUR 5 million related to other restructuring measures, mainly to the closure of the UPM Docelles mill in France, including impairment charges of EUR 1 million. In 2013, special items include charges of EUR 25 million related to the restructuring of the UPM Docelles mill in France and net charges of EUR 34 million mainly related to the ongoing restructurings.

Market review

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

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

UPM Plywood

2014 compared with 2013

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

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

UPM Plywood	2014	2013
Sales, EURm	440	429
EBITDA, EURm 1)	68	43
% of sales	15.5	10.0
Depreciation, amortisation and impairment charges, EURm	–24	–22
Operating profit, EURm	44	21
% of sales	10.0	4.9
Special items, EURm	–	–
Operating profit excl. special items, EURm	44	21
% of sales	10.0	4.9
Deliveries, plywood, 1,000 m³	731	737
Capital employed (average), EURm	268	286
ROCE (excl. special items), %	16.4	7.3

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

Market review

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

Other operations

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

2014 compared with 2013

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

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

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

Other operations	2014	2013
Sales, EURm	447	490
EBITDA, EURm [1]	–21	–16
Change in fair value of biological assets and wood harvested, EURm	69	53
Share of results of associated companies and joint ventures, EURm	1	1
Depreciation, amortisation and impairment charges, EURm	–11	–13
Operating profit, EURm	82	–42
Special items, EURm [2]	45	–67
Operating profit excl. special items, EURm	37	25
Capital employed (average), EURm	1,445	1,533
ROCE (excl. special items), %	2.6	1.6

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

2) In 2014, special items relate to a capital gain of EUR 45 million from the sale of forestland in the UK. In 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 charges of EUR 27 million mainly related to the streamlining of global functions.

Shares

The company has one series of shares. There are no specific terms related to the shares except for the redemption clause which is presented in the consolidated financial statements (Note 27). Information on the biggest shareholders and break-down by sector and size is disclosed in Information on shares.

The company is a party to certain agreements concerning its businesses and financing. These agreements contain provisions as to the change of control in the company. The service contracts with the President and CEO, and Group Executive Team members include termination provisions in case of a change of control. The service contracts have been presented in the consolidated financial statements (Note 7). The share ownership of President and CEO and the members of the Board of Directors is presented in the financial statements (Information on shares).

Information of the authority of the Board of Directors in regard to the issuance and buy back of own shares, and regulations to amend the Articles of Association is disclosed in the consolidated financial statements (Note 27).

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

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

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

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

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

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

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

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

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

Group companies

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

In 2012 UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along right under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of shares in Metsä Fibre to Itochu Corporation. UPM claimed jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million. Metsäliitto and Metsä Board had sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto had exercised a call option to purchase UPM's remaining 11% shareholding in Metsä Fibre for EUR 150 million. The arbitral tribunal rendered its final decision (arbitral award) in February 2014 and ordered Metsäliitto and Metsä Board to pay UPM the capital amount of EUR 58.5 million and penalty interest and compensate UPM for its legal fees. As a result, UPM recorded an income of EUR 67 million as a special item in Q1 2014. In May 2014 Metsäliitto and Metsä Board commenced litigation proceedings in the Helsinki District Court challenging the arbitral award and requesting the District Court to set aside the arbitral award or to declare it null and void. UPM considers Metsäliitto's and Metsä Board's claims unfounded. At the moment, it is not known when the District Court will give its decision.

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

Other shareholdings

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

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

Risks

Risk management

UPM regards risk management as a systematic and proactive means to analyse and manage the opportunities and threats related to its business operations. This includes also risks avoided by careful planning and evaluation of future projects and business environment.

UPM seeks to transfer insurable risks through insurance arrangements if the risks exceed the defined tolerance. The insurance cover is always subject to the applicable insurance conditions.

The main risk factors that can materially affect the company's business and financial results are set out below. They have been classified as strategic risks, operational risks, financial risks and hazard risks. Risks may also arise from legal proceedings incidental to UPM's operations.

Strategic risks

Competition, markets and customers. The energy, pulp, timber, paper, label, plywood and biofuels markets are cyclical and highly competitive. In all of these markets the price level is determined as a combination of demand and supply, and shocks to either demand (decrease/increase in end-use demand, change in customer preferences etc.) or supply (e.g. new production capacity entering the market or old capacity being closed) may impact both the volume and the price level for UPM. Also competitor behaviour influences the market price development.

UPM performance is also impacted by the performance of substitute or alternative products. Most notably, the demand in graphical papers in the mature markets is forecasted to continue to decline, due to the shift away from print media to electronic media.

Consumers' environmental awareness has also increased, and this may have either a positive or negative impact on the consumption of UPM's products, depending on the product area.

UPM sells a proportion of its products to several major customers. The largest customer in terms of sales represented approximately 3% of UPM's sales in 2014, and the ten largest customers represented approximately 15% of such sales.

M&A and changes in the business portfolio. UPM's strategic direction is to increase the share of growing businesses with positive long-term fundamentals. This may require acquisitions of new businesses or divestments of existing businesses. Participation in M&A involves risks such as successful implementation of a divestment and the ability to integrate and manage acquired operations and personnel successfully, as well as to achieve the economic targets set for an acquisition/divestment.

Regulation. UPM is exposed to a wide range of laws and regulations.

The performance of UPM businesses, for example the biofuels business, the paper businesses and the energy business, are to a high degree dependent on the current regulatory framework, and changes to regulation, direct and indirect taxation or subsidies would have a direct impact on the performance of UPM. In addition, regulation may structurally restrict or exacerbate UPM's ability to compete for raw material.

UPM's environment related processes and management are based on full compliance with such laws and regulations, and environmental investments, audits and measurements are carried out on a continuous basis. UPM is currently not involved in any major proceeding concerning environmental matters, but the risk of substantial environmental costs and liabilities is inherent in industrial operations.

Political and economical risks. UPM has major manufacturing locations in Finland, Germany, the UK, France and the US. In these countries, the slow development of the individual economies and/or of Europe as a whole influences adversely UPM's performance. Furthermore, policies (on European and/or national level) that hamper economic growth or lower the competitiveness of UPM (for example through adverse regulation or increase in direct or indirect taxation) may have an adverse impact on UPM's performance. In the developed countries, the low transparency and predictability of the political system and regulation may lead to an increasing uncertainty and risk level when investing in or operating in these countries.

UPM has manufacturing operations in a number of emerging market countries, such as China, Uruguay, Russia and Brazil. In the emerging market countries, the lack of transparency and predictability of the political, economic and legal systems may lead to an increasing uncertainty and risk level when investing in, or operating in these countries. These uncertainties may materialize as unfavourable taxation treatment, trade restrictions, inflation, currency fluctuations and nationalisation of assets.

Operational risks

Earnings uncertainty. The main short-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.

The main earnings sensitivities and the Group's cost structure are presented in the Annual Report of 2014, on page 13.

Availability and price of major inputs. In 2014, third-party suppliers accounted for approximately 83% of UPM's wood requirements. Other production inputs, such as chemicals, fillers and recovered paper, are obtained from third-party suppliers. Disruptions in the supply of key inputs would impact upon manufacturing operations, for example, by interrupting or resulting in the downscaling of production or a change in the product mix. They could also cause price increases for critical inputs or shifts in the availability and price of wood. It is also uncertain how the EU energy policies may impact upon the availability and costs of fibre and energy.

Project execution. Investment projects in UPM businesses such as energy, pulp, paper or biofuels are often large and take one or more years to complete. UPM has experience in such projects in various businesses and locations around the world, and applies vigorous planning, project management and follow-up processes. Participation in large projects involves risks such as cost overruns or delays, as well as achievement of the economic targets set for the investment.

Partnerships. UPM currently works together with many partners without control over strategic direction and operational output. The highly competitive market situation and, for example, new developments in biofuels or bioenergy are likely to increase the importance of partnerships in the search for higher efficiency or new products and businesses. Partnerships, however, may create risks to the profitability, for example, through changes occurring within the partner entity or changes in how the partnership operates.

Ability to recruit and retain skilled employees. To meet the challenges of sustaining growth and improving the effectiveness of operations, a skilled workforce is necessary. UPM is continuously evaluating its recruitment, compensation and career development policies and taking measures to attract and retain skilled personnel, thereby seeking to avoid shortages of appropriately skilled personnel in the future.

Availability of information systems. UPM business operations are depending on the availability of supporting information system and network services. Unplanned interruptions in critical information services can potentially cause a major interruption of UPM business areas. UPM has implemented numerous technical, physical and process improvements to mitigate the availability risk and to reduce the service interruption related recovery time to acceptable level.

Financial risks

Changes in exchange and interest rates. Exchange rate exposure primarily affects export operations when sales are denominated in currencies other than those in which manufacturing costs are incurred. Part of UPM's sales and purchases are denominated in currencies other than the euro (primarily the US dollar and the British pound sterling). To manage exposure to such exchange rate fluctuations, close monitoring of the exposure to currency risks is carried out simultaneously with the hedging of such risks, using financial instruments including forward foreign exchange agreements and currency swaps. Furthermore, changes in interest rates may have a considerable impact on the values of the company's assets (e.g. biological assets or available-for-sale investments, such as energy assets), which are valued on a discounted cash flow model.

Availability of capital and liquidity. Availability of capital to UPM is dependent on conditions of the financial markets and the Group's financial health. If either or both of these factors were to change dramatically for the worse, the cost and availability of capital would be at risk. To mitigate possible materialisation of these risks, the UPM has liquidity reserves in the form of committed multi-year loan facilities. UPM's available-for-sale investments are recognised at fair value in the balance sheet. Changes in the assumptions used (e.g. electricity price estimate and start-up schedule of the Olkiluoto 3 nuclear power plant) might have a significant impact on UPM's financial position.

Payment defaults. There is a risk of non-payment or non-performance by the Group's customers in connection with the sale of products. UPM has various programmes in place to monitor and mitigate customer credit risk, and insurance policies cover most of the trade receivables.

Additional information about financial risks and the maturity of long term debt is disclosed in the consolidated financial statements (Notes 3 and 31).

Hazard risks

UPM operates a significant number of manufacturing facilities globally, mostly UPM-owned, and is also the largest private owner of forestland in Finland. UPM is exposed to risks in areas such as occupational health and safety, environment, fire, natural events and site security. These risks are managed through established management procedures and loss prevention programmes. UPM's insurance programme also provides coverage for insurable hazard risks, subject to terms and conditions.

Research and development

The objective of UPM's research and development programmes and business development is to create new technologies and products, provide support to and ensure the competitiveness of its core businesses.

The share of R&D work increased in new technologies and growth businesses like developing biofuels, biocomposites, biochemicals, biofibrils, pulp and CO2-neutral energy in 2014.

In 2014, UPM's direct expenditure on research and development was approximately EUR 35 million (38 million), or 0.4% (0.4%) of the Group's sales. In total, UPM spent approximately EUR 112 million (155 million) on research and development for existing and developing businesses including negative operating cash flow and capital expenditures in developing businesses, corresponding 9.0% (21.1%) of UPM's operating cash flow.

Versatile use of wood biomass

UPM's Biofore strategy is based on the versatile use of renewable wood biomass, combined with innovation, resource efficiency and sustainability. The purpose is to replace non-renewable materials with renewable, recyclable and low-impact alternatives - the main drivers for bioeconomy.

Improvements in material efficiency make it possible to consume fewer resources and raw materials in production processes. Therefore, UPM R&D work has increased its focus on more efficient use and reuse of side streams. The most recent examples are UPM's construction products Elurit and Cinerit that are made of fly ash from the thermal recovery of the biogenic waste materials.

UPM has a global network of research centres to support the businesses and their business development goals. UPM's all businesses and R&D have adopted ecodesign in their product development processes. This means that environmental aspects are systematically integrated into product design at an early stage.

Wide-scale collaboration in new businesses

UPM is a shareholder in the Finnish Bioeconomy Cluster (FIBIC). The Cluster's research programmes focus on the bioeconomy and products based on renewable materials, thus supporting UPM's internal R&D activities. Moreover, UPM is a shareholder in the Finnish CLEEN Ltd research company that is focusing on energy and environmental research.

The research clusters support the Finnish bioeconomy and cleantech strategies with the aim of increasing sustainable businesses in Finland. The clusters' research projects are in line with the research and implementation activities of UPM's Biofore strategy.

In July 2014, EU and industry leaders launched a new European Joint Undertaking on Bio-based Industries (BBI) in which UPM acted as one of the founding members in industrial consortium part.

This Public Private Partnership (PPP) aims to trigger investments and create competitive market for bio-based products and materials that are sourced locally. For UPM, the PPP is an important funding element for speeding up the implementation of future investments in new areas such as biochemicals, biocomposites and biofuels.

In 2014, UPM received approximately EUR 2.1 million (3.8 million) from Tekes (the Finnish Funding Agency for Technology and Innovation) for its research projects. These projects were carried out in co-operation with research institutes, universities and other companies.

UPM's intellectual property rights applications have increased significantly during the last few years. The importance of patent registration highlights the progress made in new businesses.

UPM's Biocomposites combine natural fibres and plastic

UPM Biocomposites business unit develops, manufactures, markets and sells high quality composite products and granulates for a wide range of consumer and industrial applications.

UPM ProFi and UPM Formi composites combine the best characteristics of natural fibres and plastic. Their principal ingredients are cellulose fibres and polymers, which can be either virgin or recycled. The non-toxic composites can be recycled.

UPM ProFi products are used for decking and other outdoor end uses. They are made mainly from the surplus paper and plastic left over from the production of self-adhesive label materials.

UPM Formi composite is used to replace plastic in many applications, from furniture to consumer electronics. UPM Formi is manufactured from cellulose fibre and plastics. Around half of the oil-based plastic is replaced with cellulose fibres in the biocomposite.

Products manufactured from UPM Formi comply with food contact material requirements stipulated in EU and US Food and Drug Administration (FDA) regulations.

The composite also complies with EU toy safety regulations.

UPM Biochemicals has profound know-how in lignin-based products

UPM Biochemicals unit develops wood-based chemical building blocks, performance chemicals and biofibrils.

Chemical building blocks are a cost competitive replacement for fossil-based monomers and chemicals such as intermediates to bioplastics. Performance chemicals utilise the basic structure of the natural biopolymers of wood, such as lignin and hemicellulose.

Biofibrils™ products and lignin, the binding agent of wood, are examples of UPM's performance chemicals. Biofibrils are cellulose micro and nanofibril products that can be used for shaping materials and giving them new characteristics. Lignin can be used in e.g. various resin mixtures and adhesives.

In 2014, UPM Biochemicals worked with Renmatix to test the company's water-based Plantrose™ process. The goal of the initiative is to convert woody biomass into intermediates for subsequent downstream processing into biochemical.

In addition, UPM Biochemicals signed a lignin supply contract with Domtar Inc. to develop the market and offer sustainable, value added products for a growing variety of end uses.

UPM Biochemicals has developed profound know-how and intellectual property in the area of lignin based products, e.g. resins, which are typically used as binders in wood based products. UPM BioPiva™ lignin for resin formulations, based on UPMs proprietary activation technology, is one example of this kind of products.

Product development of UPM Biochemicals is at the pre-commercial phase. The purpose of the work is to develop and test industrial applications with UPM's partners in order to create mill-scale industrial concepts.

Businesses

UPM Biorefining

UPM has reduced process water consumption significantly in its pulp mills. In UPM's newest mill, UPM Fray Bentos, Uruguay, the consumption of process water is among the lowest in the industry. Recently special focus has been in significant reduction of phosphor emissions.

In plantations operations, development work focuses on the tree breeding programme and developing new frost-tolerant eucalyptus clones in order to create more value and improve productivity.

UPM Pulp continued to focus on joint development activities with customers, mainly in Europe and China, in 2014.

In Biofuels, UPM focused strongly for the market entry of the UPM BioVerno renewable diesel.

As a product, UPM BioVerno has been extensively tested in engine tests and fleet tests, and has been found to function like any regular diesel. The comprehensive emission, performance and wear tests were carried out with the Technical Research Centre of Finland (VTT). Due to the high quality, there are no technical blending limits. After the start-up of the biorefinery, the emphasis will be on optimising and increasing the efficiency of the production processes.

In the long term, research work aims to extend biofuel production to new processes and raw materials, such as pyrolysis oils and solid biomass. In technology development, UPM joined a five-year project called LignoCat (lignocellulosic fuels by catalytic pyrolysis) to produce advanced high value lignocellulosic fuels for transportation.

UPM Energy

UPM Energy focuses on improving the efficiency and cost competitiveness of biomass-based energy technologies.

To reach its target, UPM Energy participates in several research programmes. These programmes are looking for new innovative solutions to improve the design and operation of large-scale energy conversion systems using biomass fuel mixtures.

UPM Raflatac

In the specialty business, UPM Raflatac focused on developing new high added value products to its end-use range as well as tailored solutions for specific customer needs.

In the standard products the re-engineering of paper-based products for greater cost efficiency and improved performance continued.

New thin film products have been developed both for the rigid and squeezable package applications. For the rigid packages UPM Raflatac launched a new VANISH™ range of ultra-thin, invisible clear film label stocks. A new thin squeezable film has also been developed mainly for labelling of personal care products. The squeezable film is based on UPM Raflatac's proprietary film technology.

UPM Paper Asia

UPM R&D centre based in Changshu concentrates to support UPM's production units in China and in the Asia Pacific region, with main focus being R&D work for paper and label products.

UPM Paper ENA

The R&D work focuses on improving cost efficiency by implementing various research results and launching new material efficient paper grades. UPM Valor is a prime example of how UPM's papers add value for customers by providing savings in mailing and delivery costs without the need to compromise on quality. UPM Valor matches the quality and the properties of the reference paper grades but is up to 15% lighter in basis weight.

One key target is to reduce water consumption at the paper mills. UPM is also studying ways to exploit deinking process waste and recycle surplus materials coming from paper mills to use waste streams more efficiently.

UPM Plywood

UPM Plywood's product management and development work focused on creating new customer-based solutions in addition to commercialising and piloting applications developed previously.

One of the key areas was to improve the properties of plywood for end-uses such as the LNG containment systems.

For concrete forming end uses, R&D work concentrated on creating new customer-focused products that are more economic with better functional properties.

For vehicle industries a more economical fire retardant plywood solution was developed.

Development of rigid structures for vehicle flooring continued with pilot installations for customers selected earlier. Piloting of the rigid structure solution was also agreed with new customers. Plywood with high friction surface was in the development pipeline.

In addition to product development, high effort was put in raw material testing and process development.

Environmental performance

In 2014, UPM's environmental investments totalled EUR 12 million (29 million). The largest investment was the combustion gas purification system at UPM Changshu paper mill.

UPM's environmental costs, which were mainly attributable to effluent treatment and waste management, totalled EUR 127 million (134 million), including depreciation.

No significant environmental incidents occurred in 2014. However, several minor temporary deviations from permit limits did arise. These deviations were reported to the relevant authorities immediately, and corrective and preventive measures were taken. These measures are part of UPM's internal Clean Run campaign that aims to improve the company's environmental performance further, sharing best practices and promoting and maintaining environmental awareness.

Taking care of the entire lifecycle

UPM's products are made from renewable, biodegradable and recyclable raw materials. UPM businesses have adopted an eco-design approach in their product development processes, which means the systematic integration of environmental aspects into product design at an early stage, covering the whole lifecycle.

The majority of UPM's production sites, as well as its forestry operations, are covered by environmental, quality and health and safety systems, which are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards respectively. UPM has certified all its European pulp and paper mills and the UPM Fray Bentos pulp mill in Uruguay and UPM Changshu paper mill in China in accordance with the voluntary EU Eco-Management and Audit Scheme (EMAS). UPM has participated in EMAS for 20 years.

UPM is the largest producer of EU Ecolabelled newsprint, graphic and office papers. In 2014, UPM was part of consortium which created the EU Ecolabel criteria for Converted Paper products.

More waste reduction through recycling and reuse

Today, approximately 90% of all UPM's production waste is reused or recycled. UPM has developed innovative ways to reduce its own waste and reuse waste or residues in new products such as UPM BioVerno, UPM's renewable diesel and UPM ProFi composite which utilises partly waste from the production of self-adhesive label materials. UPM is also the world's largest user of recovered paper for the production of graphic papers, consuming 3.4 million tonnes of paper for recycling in 2014. The total amount of solid waste sent to landfill has decreased with 17% compared to the previous year.

UPM ensures that all wood and wood fibre is sustainably sourced

All of UPM's own forests and eucalyptus plantations are certified according to the FSC and/or PEFC certification schemes. All of UPM's wood supplies are covered by third-party-verified chains of custody. 83% (80%) of all wood used by UPM is sourced from certified forests. 83% (83%) of UPM's paper is produced using fibre that meets the criteria of either the FSC or the PEFC forest certification scheme.

In connection with the biodiversity programme, UPM carried out several projects with stakeholders in 2014. UPM is a network partner in the Biodiversity in Good Company initiative in Germany and the FIBS Business & Biodiversity programme in Finland, both of which contribute to the UN Convention on Biological Diversity. UPM also co-operated with the International Union for Conservation of Nature (IUCN) in 2014.

Climate actions recognised and energy saved

Since 1990, specific CO2 (carbon dioxide) emissions per tonne of paper have been reduced by approximately 25%. UPM has a wide range of energy sources and it maximises the use of carbon-neutral energy. Biomass-based fuels make up 83% of the fuels used by UPM in Finland and 67% of those used worldwide. UPM is the second largest generator of biomass-based electricity in Europe.

In addition, UPM has invested significantly in renewable energy and modern power plants. The largest project is the combined heat and power (CHP) plant at the UPM Schongau mill in Germany, completed in late 2014. The refurbishment of the company's own hydropower production assets in Finland is also underway.

Energy efficiency has been significantly improved by energy audits, innovations and internal campaigns over the last 15 years.

More results with responsible water management

UPM has reduced wastewater volumes per tonne of paper by 25% and per tonne of chemical pulp by 17% over the last ten years. The COD load has decreased by 26% per tonne of paper, and by 39% per tonne of pulp, over the last ten years.

The optimisation of operating models continued at the UPM Pietarsaari pulp mill effluent treatment plant, completed in 2013. A working group established as part of the Clean Run campaign participates in the optimisation of all effluent treatment plans by sharing good operating models and preparing for exceptional situations. During 2014, UPM participated in developing the ISO water footprint standard and joined the WBCSD Water Cluster's WASH Pledge programme as the first forest products company. As a participant in the WASH Pledge programme, UPM is committed to ensuring that all its employees have access to clean water, sanitation and hygiene in the workplace.

Corporate Governance Statement

UPM presents the Corporate Governance Statement as a separate report which is available on the company's website www.upm.com.

Board of Directors' proposal for the distribution of profits

The Board of Directors proposes to the Annual General Meeting of UPM-Kymmene Corporation to be held on 9 April 2015 that a dividend of EUR 0.70 per share be paid based on the balance sheet to be adopted for the financial year ending 31 December 2014 and that the remaining portion of the distributable funds be retained in the Company's unrestricted shareholders' equity.

The dividend will be paid to a shareholder who is registered in the Company's shareholders' register held by Euroclear Finland Ltd on the dividend record date of 13 April 2015. The Board of Directors proposes that the dividend be paid on 23 April 2015.

On the date of the dividend proposal, 3 February 2015, the Company's registered number of shares is 533,735,699. The aforementioned number of shares includes 230,737 treasury shares. Treasury shares are not entitled to dividend. Based on this, the proposed dividend would total EUR 373.5 million.

On 31 December 2014, the distributable funds of the parent company were EUR 3,361,198,148.19 including EUR 710,263,052.06 profit for the period. No material changes have taken place in respect of the Company's financial position after the balance sheet date. In the opinion of the Board of Directors, the proposed distribution of profits does not risk the solvency of the Company.

Signatures of the annual accounts and the report of the Board of Directors for the year 2014

Helsinki, 3 February 2015

Björn Wahlroos Chairman	Berndt Brunow	Matti Alahuhta
Piia-Noora Kauppi	Wendy E. Lane	Jussi Pesonen President and CEO
Ari Puheloinen	Veli-Matti Reinikkala	Kim Wahl

Consolidated financial statements, IFRS

Consolidated income statement

EURm	Note	Year ended 31 December 2014	2013
Sales	4	9,868	10,054
Other operating income	6	91	60
Costs and expenses	7	–8,708	–9,091
Change in fair value of biological assets and wood harvested	8	78	68
Share of results of associated companies and joint ventures	9	3	2
Depreciation, amortisation and impairment charges	10	–658	–545
Operating profit (loss)	4	674	548
Gains on available-for-sale investments, net	11	59	1
Exchange rate and fair value gains and losses	12	–4	10
Interest and other finance costs, net	12	–62	–84
Profit (loss) before tax		667	475
Income taxes	13	–155	–140
Profit (loss) for the period		512	335
Attributable to:			
Owners of the parent company		512	335
Non-controlling interests		–	–
		512	335
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	14	0.96	0.63
Diluted earnings per share, EUR	14	0.96	0.63

Consolidated statement of comprehensive income

EURm	Note	Year ended 31 December 2014	2013
Profit (loss) for the period		512	335
Other comprehensive income for the period, net of tax:			
Items that will not be reclassified to income statement:			
Actuarial gains and losses on defined benefit obligations		–181	69
Items that may be reclassified subsequently to income statement:			
Translation differences		291	–219
Net investment hedge		–41	77
Cash flow hedges		–107	–28
Available-for-sale investments		–164	58
		–21	–112
Other comprehensive income for the period, net of tax	13, 27	–202	–43
Total comprehensive income for the period		310	292
Total comprehensive income attributable to:			
Owners of the parent company		310	292
Non-controlling interests		–	–
		310	292

The income tax relating to each component of other comprehensive income is disclosed in Note 13.
Disclosure of components of other comprehensive income is presented in Note 27.
The notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

EURm	Note	As at 31 December 2014	2013
Assets			
Non-current assets			
Goodwill	16	230	219
Other intangible assets	17	340	342
Property, plant and equipment	18	4,707	4,757
Investment property	19	31	40
Biological assets	20	1,469	1,458
Investments in associated companies and joint ventures	21	25	22
Available-for-sale investments	22	2,510	2,661
Other non-current financial assets	23	334	282
Deferred tax assets	28	532	564
Other non-current assets	24	91	142
		10,269	10,487
Current assets			
Inventories	25	1,356	1,327
Trade and other receivables	26	1,856	1,948
Income tax receivables		14	50
Cash and cash equivalents	3	700	787
		3,926	4,112
Total assets		14,195	14,599

EURm	Note	As at 31 December 2014	2013
Equity and liabilities			
Equity attributable to owners of the parent company			
Share capital	27	890	890
Treasury shares		–2	–2
Translation differences		256	6
Fair value and other reserves	27	1,867	2,256
Reserve for invested non-restricted equity		1,273	1,226
Retained earnings		3,194	3,073
		7,478	7,449
Non-controlling interests	27	2	6
Total equity		7,480	7,455
Non-current liabilities			
Deferred tax liabilities	28	428	501
Retirement benefit obligations	29	867	680
Provisions	30	214	189
Interest-bearing liabilities	31	3,058	3,485
Other liabilities	32	150	164
		4,717	5,019
Current liabilities			
Current interest-bearing liabilities	31	406	643
Trade and other payables	33	1,549	1,419
Income tax payables		43	63
		1,998	2,125
Total liabilities		6,715	7,144
Total equity and liabilities		14,195	14,599

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

		Attributable to owners of the parent company								
EURm	Note	Share capital	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2013		890	–2	148	2,232	1,207	2,980	7,455	6	7,461
Profit (loss) for the period		–	–	–	–	–	335	335	–	335
Actuarial gains and losses on defined benefit obligations, net of tax		–	–	–	–	–	69	69	–	69
Translation differences		–	–	–219	–	–	–	–219	–	–219
Net investment hedge, net of tax		–	–	77	–	–	–	77	–	77
Cash flow hedges, net of tax		–	–	–	–28	–	–	–28	–	–28
Available-for-sale investments, net of tax		–	–	–	58	–	–	58	–	58
Total comprehensive income for the period		–	–	–142	30	–	404	292	–	292
Share options exercised		–	–	–	–	19	–	19	–	19
Share-based compensation, net of tax		–	–	–	–6	–	9	3	–	3
Dividend distribution	15	–	–	–	–	–	–317	–317	–	–317
Other items		–	–	–	–	–	–3	–3	–	–3
Total transactions with owners for the period		–	–	–	–6	19	–311	–298	–	–298
Balance at 31 December 2013	27	890	–2	6	2,256	1,226	3,073	7,449	6	7,455
Balance at 1 January 2014	27	890	–2	6	2,256	1,226	3,073	7,449	6	7,455
Profit (loss) for the period		–	–	–	–	–	512	512	–	512
Actuarial gains and losses on defined benefit obligations, net of tax		–	–	–	–	–	–181	–181	–	–181
Translation differences		–	–	291	–	–	–	291	–	291
Net investment hedge, net of tax		–	–	–41	–	–	–	–41	–	–41
Cash flow hedges, net of tax		–	–	–	–107	–	–	–107	–	–107
Available-for-sale investments, net of tax		–	–	–	–164	–	–	–164	–	–164
Total comprehensive income for the period		–	–	250	–271	–	331	310	–	310
Share options exercised		–	–	–	–	47	–	47	–	47
Share-based compensation, net of tax		–	–	–	–15	–	16	1	–	1
Dividend distribution	15	–	–	–	–	–	–319	–319	–	–319
Acquisition of non-controlling interests	27	–	–	–	–	–	–1	–1	–4	–5
Other items		–	–	–	–103	–	94	–9	–	–9
Total transactions with owners for the period		–	–	–	–118	47	–210	–281	–4	–285
Balance at 31 December 2014	27	890	–2	256	1,867	1,273	3,194	7,478	2	7,480

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

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

The notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

(In the notes all amounts are shown in millions of euros unless otherwise stated.)

1 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below:

Principal activities

UPM-Kymmene Corporation ("the parent company" or "the company") together with its consolidated subsidiaries ("UPM" or "the Group") is a global paper and forest products group, mainly engaged in the production of paper, with an emphasis on the manufacture and sale of printing and writing papers. UPM reports financial information for the following business areas (segments): UPM Biorefining, UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA, UPM Plywood and Other operations. The Group's activities are centred in European Union countries, North and South America and Asia with production plants in 13 countries.

UPM-Kymmene Corporation is a Finnish limited liability company, domiciled in Helsinki in the Republic of Finland. The address of the company's registered office is Alvar Aallon katu 1, 00100 Helsinki, where a copy of the consolidated financial statements can be obtained.

The parent company is listed on NASDAQ OMX Helsinki Ltd.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 3 February 2015. According to the Finnish Companies Act, the General Meeting of Shareholders is entitled to decide on the adoption of the company's financial statements.

Basis of preparation

These consolidated financial statements of UPM are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and IFRIC Interpretations.

The consolidated financial statements have been prepared under the historical cost convention, except for biological assets, available-for-sale investments and certain other financial assets and financial liabilities, defined benefit plan assets and obligations and share-based payment arrangements.

The preparation of financial statements requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates are employed in the financial statements to determine reported amounts, including the realisable value of certain assets, the useful lives of tangible and intangible assets, income tax and other items. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from them. The preparation of financial statements also requires management to exercise its judgement in the process of applying the Group's accounting policies. The most significant critical judgements are summarised in Note 2.

Consolidation principles

Subsidiaries

The consolidated financial statements of UPM include the financial statements of the parent company, UPM-Kymmene Corporation, and its subsidiaries. Subsidiaries are those entities in which the Group has control. The Group has control over an entity if it has power over the entity; it is exposed or has rights to variable returns from its involvement with the entity and has the ability to use its power to affect the amount of its returns from the entity.

Business combinations are accounted for by using the acquisition method of accounting. The consideration transferred in a business combination is the fair value of the assets transferred, the liabilities incurred and the equity instruments issued at the acquisition date. The consideration transferred includes the fair value of any assets or liabilities resulting from a contingent consideration arrangement. Transaction costs related to an acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (see below "Intangible assets" for goodwill accounting policy).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control in subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in income statement.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts in relation to its interest for the assets, liabilities, revenues and expenses related to a joint operation in accordance with IFRS applicable for the particular item. Transactions with joint operations are recognised in the consolidated financial statements only to the extent of other parties' interests in the joint operation.

Associated companies and joint ventures

Associated companies are entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Interests in associated companies and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Under this method the Group's share of the associated company and joint venture profit or loss for the period is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The Group's interest in an associated company and joint venture is carried on the balance sheet at an amount that reflects its share of the net assets of the associated company and joint venture together with goodwill on acquisition (net of any accumulated impairment loss), less any impairment in the value of individual investments. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associated company and joint venture, unless the loss provides evidence of an impairment of the asset transferred. Associated company and joint venture accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. Equity accounting is discontinued when the carrying amount of the investment in an associated company or interest in a joint venture reaches zero, unless the Group has incurred or guaranteed obligations in respect of the associated company or joint venture.

Non-controlling interests

The profit or loss attributable to owners of the parent company and non-controlling interests is presented on the face of the income statement. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to owners of the parent company.

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses of disposals to non-controlling interests are also recorded in equity.

Foreign currency transactions

Items included in the financial statements of each Group subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange differences relating to ordinary business operations of the Group are included in the appropriate line items above operating profit and those relating to financial items are included in a separate line item in the income statement and as a net amount in total finance costs.

Income and expenses for each income statement of subsidiaries that have a functional currency different from the Group's presentation currency are translated into euros at quarterly average exchange rates. Assets and liabilities of subsidiaries for each balance sheet presented are translated at the closing rate at the date of that balance sheet. All resulting translation differences are recognised as a separate component in other comprehensive income. On consolidation, exchange differences arising from the translation of net investment in foreign operations and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign entity is partially disposed of, sold or liquidated, translation differences accrued in equity are recognised in the income statement as part of the gain or loss on sale.

Derivative financial instruments and hedging activities

Derivatives are initially recognised on the balance sheet at fair value and thereafter remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either hedges of the fair value of a recognised assets or liabilities or a firm commitment (fair value hedge), hedges of a highly probable forecasted transaction or cash flow variability in functional currency (cash flow hedge), or hedges of net investment in a foreign operation (net investment hedge). The fair value of derivative financial instrument is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability when the remaining maturity is less than 12 months.

The Group applies fair value hedge accounting for hedging fixed interest risk on interest-bearing liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively are recorded in the income statement under financial items, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The carrying amounts of hedged items and the fair values of hedging instruments are included in interest-bearing assets or liabilities. Derivatives that are designated and qualify as fair value hedges mature at the same time as hedged items. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Amounts deferred in equity are transferred to the income statement and classified as income or expense in the same period as that in which the hedged item affects the income statement (for example, when the forecast external sale to the Group that is hedged takes place). The period when the hedging reserve is released to sales after each derivative has matured is approximately one month. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecast transaction is ultimately recognised in the income statement. However, if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The fair value changes of forward exchange contracts that reflect the change in spot exchange rates are recognised in other comprehensive income. Any gain or loss relating to the interest portion of forward exchange contracts is recognised immediately in the income statement under financial items. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an on-going basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Certain derivative transactions, while providing effective hedges under the Group Treasury Policy, do not qualify for hedge accounting. Such derivatives are classified held for trading, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement as other operating income or under financial items.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and CEO.

The accounting policies used in segment reporting are the same as those used in the consolidated accounts, except for that the joint operation Madison Paper Industries (MPI) is presented as subsidiary in UPM Paper ENA segment reporting. The costs and revenues as well as assets and liabilities are allocated to segments on a consistent basis. All intersegment sales are based on market prices, and they are eliminated on consolidation.

Revenue recognition

Group's sales mainly comprises of sale of energy, pulp, sawn timber, papers, self-adhesive label materials and plywood.

Sales are recognised when it is probable that future economic benefits will flow to the entity, the associated costs and the amount of revenue can be measured reliably, the risks and rewards of ownership have transferred to the buyer and the Group has neither continuing managerial involvement with the goods nor a continuing right to dispose of the goods nor effective control of those goods. The timing of revenue recognition is largely dependent on delivery terms. Group terms of delivery are based on Incoterms 2010, the official rules for interpretation of trade terms issued by the International Chamber of Commerce. Revenue is recorded when the product is delivered to the destination point for terms designated Delivered Duty Paid ("DDP") or Delivered at Place ("DAP"). For sales transactions designated Free on Carrier ("FCA"), Carriage paid to ("CPT") or Carriage and Insurance Paid to ("CIP"), revenue is recorded at the time of shipment.

Revenues from services are recorded when the service has been performed.

Sales are recognised net of indirect sales taxes, discounts, rebates and exchange differences on sales under hedge accounting. The costs of distributing products sold are included in costs and expenses.

Dividend income is recognised when the right to receive a payment is established.

Interest income is recognised by applying the effective interest rate method.

Income taxes

The Group's income taxes include current income taxes of Group companies based on taxable profit for the financial period, together with tax adjustments for previous periods and the change of deferred income taxes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income taxes are not recognised if they arise from initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that there will be future taxable profits against which the temporary differences can be utilised.

Special items

Certain financial performance indicators have been reported excluding special items. These indicators are non-GAAP measures applied in the Group's financial statements to eliminate the income statement impact of certain significant transactions which are unusual or infrequent in nature. The Group believes that non-GAAP measures enhance the understanding of the historical performance. Any measures derived with eliminating special items are not measures of financial reporting under the IFRS, and they may not be comparable to other similarly titled measures of other companies.

In the UPM Biorefining, UPM Paper Asia and UPM Paper ENA segments the transaction (income or expense) is considered to be special item, if the impact is one cent (EUR 0.01) after tax per share or more, and if it arises from asset impairments, asset sales or restructuring measures, or relate to changes in legislation or legal proceedings. In other segments the impact is considered to be significant if it exceeds EUR 1 million pre-tax.

Intangible assets

Intangible assets with finite lives are carried at historical cost less amortisation. Amortisation is based on the following estimated useful lives:

Computer software	3–5 years
Other intangible assets	5–10 years

Goodwill and other intangible assets that are deemed to have an indefinite life are not amortised, but are tested annually for impairment.

Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the acquired subsidiary, associated company or joint arrangement at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint ventures is included in investments in associated companies and joint ventures and is tested for impairment as part of the overall balance. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the difference is an impairment loss, which is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Research and development

Research and development costs are expensed as incurred, except for certain development costs, which are capitalised when it is probable that a development project will generate future economic benefits, and the cost can be measured reliably. Capitalised development costs are amortised on a systematic basis over their expected useful lives, usually not exceeding five years.

Computer software

Costs associated with maintaining computer software programmes and costs related to the preliminary project phase of internally developed software are recognised as an expense as incurred. Development costs relating to the application development phase of internally developed software are capitalised as intangible assets. Capitalised costs include external direct costs of material and services and an appropriate portion of the software development teams' relevant overheads. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives.

Other intangible assets

Separately acquired patents, trademarks and licences with a finite useful life are recognised at cost less accumulated amortisation and impairment. Contractual customer relationships or other intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Amortisation is calculated using the straight-line method over their estimated useful lives. Other intangible assets that are deemed to have an indefinite life are not amortised and are tested annually for impairment.

Emission rights

The Group participates in government schemes aimed at reducing greenhouse gas emissions. Emission rights received from governments free of charge are initially recognised as intangible assets based on market value at the date of initial recognition. Emission rights are not amortised but are recognised at an amount not exceeding their market value at the balance sheet date. Government grants are recognised as deferred income in the balance sheet at the same time as emission rights and are recognised in other operating income in the income statement, systematically, over the compliance period to which the corresponding emission rights relate. The emissions realised are expensed under other operating costs and expenses in the income statement and presented as a provision in the balance sheet. Emission rights and associated provisions are derecognised when disposed. Any profit or loss on disposal is recognised in the income statement.

Property, plant and equipment

Property, plant and equipment acquired by Group companies are stated at historical cost. Assets of acquired subsidiaries are stated at fair value at the date of acquisition. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. The carrying value of property, plant and equipment on the balance sheet represents the cost less accumulated depreciation and any impairment charges.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Land is not depreciated. Depreciation of other assets is based on the following estimated useful lives:

Buildings	25–40 years
Heavy machinery	15–20 years
Light machinery and equipment	5–15 years

Expected useful lives of assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed prospectively.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets accounted under IFRS 5 that are to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions. Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and recognised as a reduction to the depreciation charge of the related asset. Other government grants are recognised in the income statement in the period necessary to match them with the costs they are intended to compensate.

Investment property

Investment property includes real estate investments such as flats and other premises occupied by third parties.

Investment property is treated as a long-term investment and is stated at historical cost. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. Useful lives are the same as for property, plant and equipment. The balance sheet value of investment property reflects the cost less accumulated depreciation and any impairment charges.

Biological assets

Biological assets (i.e. living trees) are measured at their fair value less estimated costs to sell. The fair value of biological assets other than young seedling stands is based on discounted cash flows from continuous operations. The fair value of young seedling stands is the actual reforestation cost of those stands. Continuous operations, the maintenance of currently existing seedling stands and the felling of forests during one rotation, are based on the Group's forest management guidelines. The calculation takes into account growth potential, environmental restrictions and other forests conditions. Felling revenues and maintenance costs are calculated on the basis of actual costs and prices, taking into account the Group's projection of future price development.

Periodic changes resulting from growth, felling, prices, discount rate, costs and other premise changes are included in operating profit on the income statement.

Financial assets

Financial assets have been classified into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are categorised as held for trading, unless they are designated as hedges. These are measured at fair value and any gains or losses from subsequent measurement are recognised in the income statement. The Group has not used the option of designating financial assets upon initial recognition as financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets unless they mature within 12 months of the balance sheet date. Loan receivables that have a fixed maturity are measured at amortised cost using the effective interest method. Loan receivables are impaired if the carrying amount is greater than the estimated recoverable amount.

Trade receivables are non-derivatives that are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Provision for impairment is charged to the income statement when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, or default or delinquency in payments more than 90 days overdue are considered indicators that the trade receivable may be irrecoverable. Subsequent recoveries of amounts previously written off are credited to the income statement.

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless they are intended to be disposed of within 12 months of the balance sheet date. Purchases and sales of financial investments are recognised on the settlement date, which is the date that the asset is delivered to or by the Group. Investments are initially recognised at cost, including transaction costs, and subsequently carried at fair value.

Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in other comprehensive income. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in equity are included in the income statement as gains and losses from available-for-sale investments.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered when determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not subsequently reversed through the income statement.

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Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation (or depreciation) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is determined by reference to discounted future cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Leases

Leases of property, plant and equipment where the Group, as a lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised as assets and liabilities in the balance sheet at the commencement of lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made as a lessee under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the method most appropriate to the particular nature of inventory, the first-in, first-out (FIFO) or weighted average cost. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within current interest-bearing liabilities in the balance sheet.

Treasury shares

Where any Group company purchases the parent company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the parent company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the parent company.

Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, interest-bearing liabilities are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the interest-bearing liabilities. The Group has not used the option of designating financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Most non-current interest-bearing liabilities are designated as hedged items in a fair value hedge relationship. Fair value variations resulting from hedged interest rate risk are recorded to adjust the carrying amount of the hedged item and reported in the income statement under finance income and expenses. If hedge accounting is discontinued, the carrying amount of the hedged item is no longer adjusted for fair value changes attributable to the hedged risk and the cumulative fair value adjustment recorded during the hedge relationship is amortised based on a new effective interest recalculation through the income statement under finance income and expenses.

Interest-bearing liabilities are classified as non-current liabilities unless they are due for settlement within 12 months of the balance sheet date.

Trade payables

Trade payables are obligations due to acquisition of inventories, fixed assets, goods and services in the ordinary course of business from suppliers. Such operating items are classified as current liabilities if they are due to be settled within the normal operating cycle of the business or within 12 months from the balance sheet date. Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

Employee benefits

Pension obligations

The Group operates a mixture of pension schemes in accordance with local conditions and practices in the countries in which it operates. These programmes include defined benefit pension schemes with retirement, disability and termination benefits. Retirement benefits are usually a function of years of employment and final salary with the company. Generally, the schemes are either funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. In addition, the Group also operates defined contribution pension arrangements. Most Finnish pension arrangements are defined contribution plans.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the term of the related pension liability. The cost of providing pensions is charged to the income statement as personnel expenses so as to spread the cost over the service lives of employees. Changes in actuarial assumptions and actuarial gains and losses arising from experience adjustments are charged or credited in other comprehensive income in the period in which they arise. Past service costs and gains or losses on settlement are recognised immediately in income when they occur.

For defined contribution plans, contributions are paid to pension insurance companies. Once the contributions have been paid, there are no further payment obligations. Contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

Other post-employment obligations

Some Group companies provide post-employment medical and other benefits to their retirees. The entitlement to healthcare benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries.

Share-based compensation

Under the Group's long term incentive plans the Group has granted share options to executive management and key personnel. From 2011 the Group's long term incentive plans are long-term share incentive plans, a Performance Share Plan for senior executives and a Deferred Bonus Plan for other key employees. These compensation plans are recognised as equity-settled or cash-settled share-based payment transactions depending on the settlement. The fair value of the granted options and shares are recognised as indirect employee costs over the vesting period.

The fair values of the options granted are determined using the Black-Scholes valuation model on the grant date. Non-market vesting conditions are included in assumptions about the number of options expected to vest. Estimates of the number of exercisable options are revised quarterly and the impact of the revision of original estimates, if any, is recognised in the income statement and equity.

The proceeds received, net of any directly attributable transaction costs, are credited to equity when the options are exercised.

Under the Performance Share Plan the UPM shares are awarded based on the Group's financial performance and under the Deferred Bonus Plan share incentives are based on the participants´ short-term incentive targets. Shares are valued using the market rate on the grant date. The settlement is a combination of shares and cash. The Group may obtain the necessary shares by using its treasury shares or may purchase shares from the market.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when such reimbursement is virtually certain.

Restructuring and termination provisions

Restructuring provisions are recognised in the period in which the Group becomes legally or constructively committed to payment and when the restructuring plan has been announced publicly. Employee termination charges are recognised when the Group has communicated the plan to the employees affected. Costs related to the ongoing activities of the Group are not provisioned in advance.

Environmental provisions

Expenditures that result from remediation of an existing condition caused by past operations and that do not contribute to current or future revenues are expensed. The recognition of environmental provisions is based on current interpretations of environmental laws and regulations. Such provisions are recognised when it is likely that the liability has been incurred and the amount of such liability can be reasonably estimated. Amounts provisioned do not include third-party recoveries.

Emission rights

Emission obligations are recognised in provisions when the obligation to return emission rights has incurred, based on realised emissions. The provision is recognised based on the carrying amount of emission rights held. In case of deficit in emission rights, the shortage is valued at the market value at the balance sheet date.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell, if their carrying amount is recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale and represents a separate major line of business or geographical area of operations, or is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The post-tax profit or loss from discontinued operations is shown separately in the consolidated income statement.

Dividends

Dividend distribution to the owners of the parent company is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the parent company's shareholders.

Earnings per share

The basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of share options.

Adoption of new and revised International Financial Reporting Standards interpretations and amendments to existing standards

New and revised standards, interpretations and amendments to existing standards effective in 2014

In 2014, the Group has adopted the following new, revised and amended standards and interpretations:

The amendment to IAS 32 Financial Instruments: Presentation on offsetting financial assets and financial liabilities provides clarifications on the application of the offsetting rules. The amendment did not have a significant effect on the Group's financial statements.

Amendment to IAS 36 Impairment of assets: recoverable amount disclosures for non-financial assets. IFRS 13 amended IAS 36 to require disclosures about the recoverable amount of impaired assets. The new amendment clarifies that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The amendment did not have an impact on the Group's financial statements.

Amendment to IAS 39 Financial Instruments: recognition and measurement. A narrow-scope amendment that allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendment did not have an impact on the Group's financial statements.

Interpretation IFRIC 21 Levies clarifies the criteria when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. The amendment did not have an impact on the Group's financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

New and revised standards, interpretations and amendments to existing standards that are not yet effective and have not yet been early adopted by the Group

IFRS 9 Financial Instruments includes requirements for classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. The accounting and presentation for financial liabilities remained the same except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. The standards is effective for accounting periods beginning on or after 1 January 2018. IFRS 9 standard is expected to have some impacts on accounting for Group's financial assets. The standard is not yet endorsed by the EU.

IFRS 15 Revenues from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related Interpretations. The standard is effective for periods beginning on or after 1 January 2017. The Group is assessing the impact of IFRS 15. The standard is not yet endorsed by the EU.

Amendments to IAS 19 Defined benefit plans: employee contributions are effective for annual periods beginning on or after 1 July 2014. The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service. The amendments are not expected to have material impacts on the Group's financial statements.

Annual improvements to IFRSs 2010–2012 cycle, a collection of amendments to IFRSs, in response to issues addressed during the 2010–2012 cycle are effective for annual periods beginning on or after 1 July 2014. Seven standards are affected by the amendments. The amendments are not expected to have material impacts on the Group's financial statements.

Annual improvements to IFRSs 2011–2013 cycle, a collection of amendments to IFRSs, in response to issues addressed during the 2011–2013 cycle are effective for annual periods beginning on or after 1 July 2014. Four standards are affected by the amendments. The amendments are not expected to have material impacts on the Group's financial statements.

Annual Improvements to IFRSs 2012–2014 cycle, a collection of amendments to IFRSs, in response to issues raised during the 2012-2014 cycle are effective for annual periods beginning on or after 1 January 2016. Four standards are affected by the amendments. The amendments are not expected to have material impacts on the Group's financial statements. The amendments are not yet endorsed by the EU.

Amendment to IFRS 11 Joint arrangements is effective for annual periods beginning on or after 1 January 2016. The amendment provides guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are not yet endorsed by the EU.

Amendment to IAS 16 Property, plant and equipment and IAS 38 Intangible assets regarding depreciation and amortisation are effective for annual periods beginning on or after 1 January 2016. The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The amendments are not expected to impact on the Group's financial statements. The amendments are not yet endorsed by the EU.

Amendment to IFRS 10 and IAS 28 address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments are prospective and are effective from 1 January 2016. The amendments are not yet endorsed by the EU.

Amendment to IAS 1 Presentation of financial statements is part of IASB major initiative to improve presentation and disclosures in financial reports. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments are not expected to have material impacts on the Group's financial statements. The amendments are not yet endorsed by the EU.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have an impact on the Group.

2 Critical judgements in applying accounting policies and key sources of estimation uncertainty

Impairment of non-current assets

Goodwill, intangible assets not yet available for use and intangible assets with indefinite useful lives are tested at least annually for impairment. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. Estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. If the balance sheet carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. Actual cash flows could vary from estimated discounted future cash flows. The long useful lives of assets, changes in estimated future sales prices of products, changes in product costs and changes in the discount rates used could lead to significant impairment charges. Details of the impairment tests are provided in Note 16.

Biological assets

The Group owns about 1.1 million hectares of forest land and plantations. Biological assets (i.e. living trees) are measured at their fair value at each balance sheet date. The fair value of biological assets other than young seedling stands is based on discounted cash flows from continuous operations. The fair value of biological assets is determined based among other estimates on growth potential, harvesting, price development and discount rate. Changes in any estimates could lead to recognition of significant fair value changes in income statement. Biological assets are disclosed in Note 20.

Employee benefits

The Group operates a mixture of pension and other post-employment benefit schemes. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. These factors include, among others, assumptions about the discount rate, expected return on plan assets and changes in future compensation. Statistical information used may differ materially from actual results due to, among others, changing market and economic conditions, or changes in service period of plan participants. Significant differences in actual experience or significant changes in assumptions may affect the future amounts of the defined benefit obligation and future expense. Retirement benefit obligations are disclosed in Note 29.

Environmental provisions

Operations of the Group are based on heavy process industry which requires large production facilities. In addition to basic raw materials, considerable amount of chemicals, water and energy is used in processes. The Group's operations are subject to several environmental laws and regulations. The Group aims to operate in compliance with regulations related to the treatment of waste water, air emissions and landfill sites. The Group has provisions for normal environmental remediation costs. Unexpected events occurred during production processes and waste treatment could cause material losses and additional costs in the Group's operations. Provisions are disclosed in Note 30.

Income taxes

Management judgement is required for the calculation of provision for income taxes and deferred tax assets and liabilities. The Group reviews at each balance sheet date the carrying amount of deferred tax assets. The Group considers whether it is probable that the subsidiaries will have sufficient taxable profits against which the unused tax losses or unused tax credits can be utilised. The factors used in estimates may differ from actual outcome which could lead to significant adjustment to deferred tax assets recognised in the income statement. Income taxes are disclosed in Note 13 and deferred income taxes in Note 28.

Legal contingencies

Management judgement is required in measurement and recognition of provisions related to pending litigation. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past event, an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to inherent uncertain nature of litigation, the actual losses may differ significantly from the originally estimated provision. Details of legal contingencies are presented in Note 39.

Available-for-sale investments

Group's available-for-sale investments include investments in unlisted equity shares that are measured at fair value in the balance sheet. The fair valuation requires management's assumptions and estimates of number of factors (e.g. discount rates, electricity price, start-up schedule of Olkiluoto 3 nuclear power plant), that may differ from the actual outcome which could lead to significant adjustment to the carrying amount of the available-for-sale investment and equity. Fair value estimation of financial assets is disclosed in Note 3 and available-for-sale investments in Note 22.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The objective of financial risk management is to protect the Group from unfavourable changes in financial markets and thus help to secure profitability. The objectives and limits for financing activities are defined in the Group Treasury Policy approved by the company's Board of Directors.

In financial risk management various financial instruments are used within the limits specified in the Group Treasury Policy. Only such instruments whose market value and risk profile can be continuously and reliably monitored are used for this purpose.

Financial services are provided and financial risk management carried out by a central treasury department, Treasury and Risk Management (TRM). The centralisation of Treasury functions enables efficient financial risk management, cost-efficiency and efficient cash management.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD the GBP and the JPY. Foreign exchange risk arises from future commercial transactions, from recognised assets and liabilities and from translation exposure.

The objective of foreign exchange risk management is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings as well as in the Group's balance sheet by hedging foreign exchange risk in forecast cash flows and balance sheet exposures.

Transaction exposure

The Group hedges transaction exposure related to highly probable future commercial foreign currency cash flows on a rolling basis over the next 12-month period based on the units' forecasts. According to the Group's Treasury Policy 50% hedging is considered risk neutral. Some highly probable cash flows have been hedged for longer than 12 months ahead while deviating from the risk neutral hedging level at the same time. Forward contracts are used in transaction exposure management. Most of the derivatives entered into to hedge foreign currency cash flows meet the hedge accounting requirements. At 31 December 2014, 47% (46%) of the forecast 12-month currency flow was hedged.

The table below shows the nominal values of all cash flow hedging instruments at 31 December 2014 and 2013

Nominal values of hedging instruments

Currency	2014 EURm	2013 EURm
USD	439	462
GBP	288	196
JPY	134	142
AUD	45	41
Others	1	10
Total	907	851

External forwards are designated at group level as hedges of foreign exchange risk of specific future foreign currency sales on gross basis.

The Group has several currency denominated assets and liabilities in its balance sheet such as foreign currency loans and deposits, accounts payable and receivable and cash in other currencies than functional currency. The aim is to hedge this balance sheet exposure fully using financial instruments. The Group might, however, within the limits set in the Group Treasury Policy have unhedged balance sheet exposures. At 31 December 2014 unhedged balance sheet exposures in interest-bearing assets and liabilities amounted to EUR 18 million (7 million). In addition the Group has non-interest-bearing accounts receivable and payable balances denominated in foreign currencies. The nominal values of the hedging instruments used in accounts payable and receivable hedging were EUR 575 million (675 million).

Translation exposure

The Group has net investments in foreign subsidiaries that are subject to foreign currency translation differences. The exchange risks associated with net investments in foreign subsidiaries are hedged in Canada and Uruguay. The net investments of all other foreign operations are not hedged.

Foreign exchange risk sensitivity

At 31 December 2014, if Euro had weakened/strengthened by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been EUR 11 million (8 million) lower/higher due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 36 million (42 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2014, if Euro had weakened/strengthened by 10% against the GBP with all other variables held constant, pre-tax profit for the year would have been EUR 0 million (0 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 29 million (20 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2014, if Euro had weakened/strengthened by 10% against the JPY with all other variables held constant, pre-tax profit for the year would have been EUR 2 million (1 million) higher/lower.

The effect in equity would have been EUR 13 million (14 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

The following assumptions were made when calculating the sensitivity to changes in the foreign exchange risk:

- The variation in exchange rates is 10%.
- Major part of non-derivative financial instruments (such as cash and cash equivalents, trade receivables, interest bearing-liabilities and trade payables) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives i.e. the balance sheet position is close to zero. Exchange rate fluctuations have therefore minor or no effects on profit or loss.
- The position includes foreign currency forward contracts that are part of the effective cash flow hedge having an effect on equity.
- The position includes also foreign currency forward contracts that are not part of the effective cash flow hedge having an effect on profit.
- The position excludes foreign currency denominated future cash flows and effects of translation exposure and related hedges.

Interest rate risk

The interest-bearing debt exposes the Group to interest rate risk, namely repricing and fair value interest rate risk caused by interest rate movements. The objective of interest rate risk management is to reduce the fluctuation of the interest expenses caused by the interest rate movements.

The management of interest rate risk is based on the 0.5 years average duration of the net debt portfolio as defined in the Group Treasury Policy. This relatively short duration is based on the assumption that on average yield curves will be positive. Thus this approach reduces interest cost in the long term. At 31 December 2014 the average duration was 2.2 years (0.5 years). In 2014 UPM made a decision to execute certain interest fixing transactions, which prolonged the duration to 2.2 years. Duration effect of these transactions are long-term but gradually decrease over time. The Group uses interest rate derivatives to change the duration of the net debt.

The Group's net debt per currency corresponds to the parent company's and subsidiaries' loan portfolios in their functional currencies. The nominal values of the Group's interest-bearing net debts including derivatives by currency at 31 December 2014 and 2013 were as follows:

Currency	2014 EURbn	2013 EURbn
EUR	3.1	4.0
USD	0.4	0.1
GBP	–0.2	–0.2
CAD	–0.7	–0.7
Others	–0.2	–0.2
Total	2.4	3.0

Most of the long-term loans and the interest rate derivatives related to them meet hedge accounting requirements.

Interest rate risk sensitivity

At 31 December 2014, if the interest rate of net debt had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been EUR 4 million (4 million) lower/ higher, mainly as a result of higher/lower interest expense on floating rate interest-bearing liabilities. Effect to equity would be lower/higher 45 million (0 million) as a result of an decrease/increase in the fair value of derivatives designated as cash flow hedges of floating rate borrowing.

The following assumptions were made when calculating the sensitivity to changes in interest rates:

- The variation of interest rate is assumed to be 100 basis points parallel shift in applicable interest rate curves.
- In the case of fair value hedges designated for hedging interest rate risk, the changes in the fair values of the hedged items and the hedging instruments attributable to the interest rate movements balance out almost completely in the income statement in the same period. However, the possible ineffectiveness has an effect on the profit of the year.
- Fixed rate interest-bearing liabilities that are measured at amortised cost and which are not designated to fair value hedge relationship are not subject to interest rate risk sensitivity.
- In case of variable to fixed interest rate swaps which are included in cashflow hedge accounting, fair value changes of hedging swaps are booked to equity.
- Variable rate interest-bearing liabilities that are measured at amortised cost and which are not designated as hedged items are included in interest rate sensitivity analysis.
- Changes in the market interest rate of interest rate derivatives (interest rate futures, swaps and cross currency swaps) that are not designated as hedging instruments in hedge accounting affect the financial income or expenses (net gains or losses from remeasurement of the financial assets and liabilities to fair value) and are therefore included in the income-related sensitivity analysis.

Liquidity and refinancing risk

The Group seeks to maintain adequate liquidity under all circumstances by means of efficient cash management and restricting investments to those that can be readily converted into cash. The Group utilises commercial paper programmes for short term financing purposes. Committed credit facilities are used to secure financing under all circumstances and as a backup for commercial paper programmes.

Refinancing risks are minimised by ensuring balanced loan portfolio maturing schedule and sufficient long maturities. The average loan maturity at 31 December 2014 was 4.9 years (5.1 years).

UPM has some financial agreements which have Gearing as financial covenant. According to this covenant gearing should not exceed 110% (31.12.2014 gearing was 32%).

Liquidity

EURm	2014	2013
Cash at bank	535	462
Cash equivalents	165	325
Committed facilities	925	1,025
of which used	–	–
Loan commitments	–25	–
Used uncommitted credit lines	–76	–49
Long-term loan repayment cash flow	–291	–506
Liquidity	1,233	1,257

The most important financial programmes in use are:
Uncommitted:

- Domestic commercial paper programme, EUR 1,000 million
  Committed:
- Revolving Credit Facility, EUR 500 million (matures 2016)

The contractual maturity analysis for financial liabilities is presented in Note 31.

Credit risk

Financial counterparty risk

The financial instruments the Group has agreed with banks and financial institutions contain an element of risk of the counterparties being unable to meet their obligations. According to the Group Treasury Policy derivative instruments and investments of cash funds may be made only with counterparties meeting certain creditworthiness criteria. The Group minimises counterparty risk also by using a number of major banks and financial institutions. Creditworthiness of counterparties is constantly monitored by TRM.

Operational credit risk

With regard to operating activities, the Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Open trade receivables, days of sales outstanding (DSO) and overdue trade receivables are followed on monthly basis.

Potential concentrations of credit risk with respect to trade and other receivables are limited due to the large number and geographic dispersion of companies that comprise the Group's customer base. Customer credit limits are established and monitored, and ongoing evaluations of customers' financial condition are performed. Most of the receivables are covered by credit risk insurances. In certain market areas, measures to reduce credit risks include letters of credit, prepayments and bank guarantees. The ageing analysis of trade receivables is disclosed in Note 26. The Group considers that no significant concentration of customer credit risk exists. The ten largest customers accounted for approximately 17% (17%) of the Group's trade receivables as at 31 December 2014 – i.e., approximately EUR 240 million (240 million). The credit risk relating to the commitments is disclosed in Note 39.

Electricity price risk

UPM is hedging both power production and consumption in the markets. UPM's sensitivity to electricity market price is dependent on the electricity production and consumption levels and the hedging levels.

In the Nordic and Central European market areas the operative risk management is done by entering into electricity derivatives contracts. In addition to hedging UPM is also trading electricity forwards and futures. As well as hedging, proprietary trading risks are monitored on a daily basis. Value-At-Risk levels are set to limit the maximum risk at any given time. Cumulative maximum loss is limited by stop-loss limits.

Electricity derivatives price sensitivity

Sensitivity analysis for financial electricity derivatives is based on position on 31 December 2014. Sensitivities change over time as the overall hedging and trading positions change. Underlying physical positions are not included in the sensitivity analysis. Sensitivity analysis is calculated separately for the hedge accounted and non-hedge accounted volumes. In the analysis it is assumed that forward quotation in NASDAQ OMX Commodities and EEX would change EUR 1/MWh throughout the period UPM has derivatives.

EURm	Effect	2014	2013
+/- EUR 1/MWh in electricity forward quotations			
Effect on profit before taxes	+ / -	8.6	9.6
Effect on equity	+ / -	5.0	5.8

Capital risk management

The Group's objective in managing its capital is to ensure maintenance of flexible capital structure to enable the Group to operate in capital markets.

To measure a satisfactory capital balance between equity investors and financial institutions the Group has set a target for the ratio of net interest-bearing liabilities and total equity (gearing). To ensure sufficient flexibility, the aim is to keep the gearing ratio well below 90%.

The following capitalisation table sets out the Group's total equity and interest-bearing liabilities and gearing ratios:

EURm	As at 31 December 2014	2013
Equity attributable to owners of the parent company	7,478	7,449
Non-controlling interests	2	6
Total equity	7,480	7,455
Non-current interest-bearing liabilities	3,058	3,485
Current interest-bearing liabilities	406	643
Interest-bearing liabilities, total	3,464	4,128
Total capitalisation	10,944	11,583
Interest-bearing liabilities, total	3,464	4,128
Less: Interest-bearing financial assets, total	–1,063	–1,088
Net interest-bearing liabilities	2,401	3,040
Gearing ratio, %	32	41

Fair value estimation

The different levels of fair value hierarchy used in fair value estimation have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair values of commodity derivatives traded in active markets are based on quoted market rates and included in Level 1

Fair values of Level 2 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. Embedded derivatives that are identified are monitored by the Group and the fair value changes are reported in other operating income in the income statement.

The Group's fair valuation procedures and processes are set by the Group management. Fair valuations are performed quarterly by respective business areas or functions. Fair valuations are reviewed by the Group's Finance & Control management and overseen by the Audit Committee.

Available-for-sale investments categorised in Level 3 are disclosed in Note 22 and biological assets categorised in Level 3 in Note 20.

The following table analyses financial instruments carried at fair value, by valuation method.

Financial assets and liabilities measured at fair value

	Fair values as at 31 December 2014			
EURm	Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	1	61	–	62
Derivatives used for hedging	52	328	–	380
Available-for-sale investments	–	–	2,510	2,510
At 31 Dec.	53	389	2,510	2,952
Liabilities				
Trading derivatives	22	111	–	133
Derivatives used for hedging	81	156	–	237
At 31 Dec.	103	267	–	370

	Fair values as at 31 December 2013			
EURm	Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	1	56	–	57
Derivatives used for hedging	101	307	–	408
Available-for-sale investments	–	–	2,661	2,661
At 31 Dec.	102	363	2,661	3,126
Liabilities				
Trading derivatives	20	166	–	186
Derivatives used for hedging	104	43	–	147
At 31 Dec.	124	209	–	333

There have been no transfers between levels.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2014

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

The following table presents the changes in Level 3 instruments for the year ended 31 December 2013

EURm	Available-for-sale investments
Opening balance	2,587
Additions	31
Transfers into Level 3	1
Transfers from Level 3	–
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	43
Closing balance	2,661

4 Segment Information

The Group's management has determined the operating segments based on management reporting regularly reviewed by the Group's chief operating decision maker. The chief operating decision maker has been identified as the Group's President and CEO.

The operating segments are organised on a product basis.

UPM's business structure consists of the following business areas and reporting segments: UPM Biorefining, UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA (Europe and North America) and UPM Plywood. Wood sourcing and forestry, UPM Biocomposites, UPM Biochemicals business units and Group services are reported in Other operations.

Reportable segments

UPM Biorefining

UPM Biorefining segment consists of pulp, timber and biofuels businesses. UPM has three pulp mills in Finland, one pulp mill and plantation operations in Uruguay and four sawmills in Finland. UPM's biorefinery for producing wood-based renewable diesel has started up in January 2015 in Finland.

UPM Energy

UPM Energy segment operates in power generation and physical and derivatives trading. The segment consist of UPM's hydro power assets in Finland and shareholdings in energy companies

UPM Raflatac

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

UPM Paper Asia

UPM Paper Asia segment consists of UPM Changshu paper mill in China and label paper operations in the Tervasaari and Jämsänkoski mills in Finland.

UPM Paper ENA

UPM Paper ENA segment produces magazine paper, newsprint and fine paper in Europe and North America.

UPM Plywood

UPM Plywood segment produces plywood and veneer products in Finland, Estonia and Russia.

Other operations

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

The information reported for each segment is the measure of what the Group's President and CEO uses internally for evaluating segment performance and deciding on how to allocate resources to operating segments.

The performance of an operating segment is evaluated primarily based on the segment's operating profit. The joint operation Madison Paper Industries (MPI) is reported as subsidiary in UPM Paper ENA segment reporting. In addition, the changes in fair value of unrealised commodity hedges are not allocated to segments. Otherwise the segment's operating profit is measured on a basis consistent with the consolidated financial statements. Sales between the segments are based on market prices.

The amounts provided to the President and CEO in respect of segment assets and liabilities are measured on a basis consistent with consolidated financial statements. Assets and liabilities are allocated to the segments based on segment operations. Unallocated assets and liabilities comprise other than energy shares under available-for-sale investments, non-current financial assets, deferred tax assets and liabilities, other non-current assets, income tax receivables and payables, cash and cash equivalents, assets classified as held for sale and related liabilities, retirement benefit obligations, provisions, interest-bearing liabilities and other liabilities and payables.

Segment information for the year ended 31 December 2014

EURm	UPM Biorefining	UPM Energy	UPM Raflatac	UPM Paper Asia	UPM Paper ENA	UPM Plywood	Other operations	Eliminations and reconciliations 8)	Group
External sales	1,374	251	1,248	939	5,216	415	442	–17	9,868
Internal sales	563	213	–	185	68	25	5	–1,059	–
Total sales 1)	1,937	464	1,248	1,124	5,284	440	447	–1,076	9,868
Share of results of associates and joint ventures	1	–	–	–	1	–	1	–	3
Operating profit	223	202	69	108	–32	44	82	–22	674
Finance costs, net									–7
Income taxes									–155
Profit (loss) for the period									512
Special items in operating profit 2)	6	–	–11	–	–213	–	45	–	–173
Operating profit excluding special items	217	202	80	108	181	44	37	–22	847
Assets 3)	3,171	2,826	678	1,008	2,754	284	1,605	–246	12,080
Unallocated assets									2,115
Total assets									14,195
Liabilities 4)	170	8	125	86	451	26	188	–191	863
Unallocated liabilities									5,852
Total liabilities									6,715
Other items									
Depreciation and amortisation	151	11	32	80	213	24	11	–2	520
Impairment charge	–1	–	3	–	136	–	–	–	138
Capital expenditure 5)	151	35	24	84	102	8	8	–1	411
Capital expenditure, excluding acquisitions and shares	147	3	24	84	102	8	8	–1	375
Capital employed, 31 December 6)	3,002	2,818	553	922	2,303	257	1,417	–328	10,944
Capital employed, average	2,862	2,903	530	861	2,511	268	1,445	–117	11,263
Return on capital employed, excluding special items % 7)	7.6	7.0	15.1	12.5	7.2	16.4	2.6	18.8	7.5
Personnel at year end	2,529	80	2,847	1,652	10,467	2,441	509	–111	20,414
Personnel, average	2,612	85	2,845	1,663	10,735	2,463	559	–110	20,852

1) The Group's sales comprise mainly of product sales.

2) In 2014, special income of EUR 5 million in the UPM Biorefining segment relate to a gain on sale of property, plant and equipment and income of EUR 1 million relate to restructuring measures. In the UPM Raflatac segment special items of EUR 11 million relate to restructuring charges, including impairments of EUR 3 million. In the UPM Paper ENA segment special items include write-offs totalling EUR 135 million and restructuring charges totalling EUR 73 million related to planned capacity closures and charges of EUR 5 million related to other restructuring measures, mainly to the closure of the UPM Docelles mill in France, including impairment charges of EUR 1 million. In the Other operations special items relate to a capital gain of EUR 45 million from the sale of forestland in the UK.

3) Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

4) Segment liabilities include trade payables and advances received.

5) Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures and other shares.

6) Capital employed is segment assets less segment liabilities. Eliminations and reconciliations include unallocated assets and unallocated non-interest-bearing liabilities.

7) Formulae for calculation of the return on capital employed; for segments: Operating profit excluding special items/Capital employed (average) x 100, for the Group: (Profit before tax + interest expenses and other financial expenses–special items)/(Total equity+interest bearing liabilities (average)) x 100.

8) Eliminations and reconciliations include the elimination of internal sales and internal inventory margin and the consolidation of MPI as a joint operation. In addition the changes in fair value of unrealised commodity hedges that are not allocated to segments are included in reconciliations.

Segment information for the year ended 31 December 2013

EURm	UPM Biorefining	UPM Energy	UPM Raflatac	UPM Paper Asia	UPM Paper ENA	UPM Plywood	Other operations	Eliminations and reconciliations 8)	Group
External sales	1,299	222	1,210	914	5,451	402	496	60	10,054
Internal sales	689	244	3	194	109	27	–6	–1,260	–
Total sales 1)	1,988	466	1,213	1,108	5,560	429	490	–1,200	10,054
Share of results of associates and joint ventures	1	–1	–	–	1	–	1	–	2
Operating profit	306	186	60	80	–59	21	–42	–4	548
Finance costs, net									–73
Income taxes									–140
Profit (loss) for the period									335
Special items in operating profit 2)	6	–	–15	–	–59	–	–67	–	–135
Operating profit excluding special items	300	186	75	80	–	21	25	–4	683
Assets 3)	2,946	2,984	616	937	3,013	299	1,677	–247	12,225
Unallocated assets									2,374
Total assets									14,599
Liabilities 4)	156	22	108	67	451	25	214	–196	847
Unallocated liabilities									6,297
Total liabilities									7,144
Other items									
Depreciation and amortisation	152	11	33	81	229	22	13	–3	538
Impairment charge	–	–	3	–	4	–	–	–	7
Capital expenditure 5)	159	39	13	22	97	10	23	–1	362
Capital expenditure, excluding acquisitions and shares	158	7	13	22	92	9	29	–1	329
Capital employed, 31 December 6)	2,790	2,962	508	870	2,562	274	1,463	154	11,583
Capital employed, average	2,825	2,882	532	882	2,672	286	1,533	–19	11,593
Return on capital employed, excluding special items % 7)	10.6	6.5	14.1	9.1	–	7.3	1.6	21.1	6.0
Personnel at year end	2,376	92	2,869	1,457	11,081	2,455	735	–115	20,950
Personnel, average	2,539	95	2,905	1,510	11,695	2,507	760	–113	21,898

1) The Group's sales comprise mainly of product sales.

2) In 2013, special charges of EUR 2 million in the UPM Biorefining segment relate to restructuring measures and special income of EUR 8 million to a capital gain from a sale of property, plant and equipment. In the UPM Raflatac segment special items of EUR 15 million relate to restructuring charges, including impairments of EUR 2 million. In the UPM Paper ENA segment special items include charges of EUR 25 million related to the restructuring of the UPM Docelles mill in France and net charges of EUR 34 million mainly related to the ongoing restructurings. In the Other operations 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 charges of EUR 27 million mainly related to the streamlining of global functions.

3) Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

4) Segment liabilities include trade payables and advances received.

5) Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures and other shares.

6) Capital employed is segment assets less segment liabilities. Eliminations and reconciliations include unallocated assets and unallocated non-interest-bearing liabilities.

7) Formulae for calculation of the return on capital employed; for segments: Operating profit excluding special items/Capital employed (average) x 100, for the Group: (Profit before tax + interest expenses and other financial expenses–special items)/(Total equity+interest bearing liabilities (average)) x 100.

8) Eliminations and reconciliations include the elimination of internal sales and internal inventory margin and the consolidation of MPI as a joint operation. In addition the changes in fair value of unrealised commodity hedges that are not allocated to segments are included in reconciliations.

Geographical information

External sales by destination

EURm	Year ended 31 December 2014	2013
Germany	1,694	1,788
Finland	980	1,011
United Kingdom	919	915
France	414	454
Other EU countries	2,052	1,900
Other European countries	508	563
United States	1,006	1,077
Canada	50	50
China	637	715
Uruguay	41	43
Rest of world	1,567	1,538
Total	9,868	10,054

Total assets by country

EURm	As at 31 December 2014	2013
Germany	1,222	1,252
Finland	8,753	9,344
United Kingdom	250	294
France	67	152
Other EU countries	335	347
Other European countries	79	96
United States	464	421
Canada	11	20
China	913	767
Uruguay	1,790	1,626
Rest of world	311	280
Total	14,195	14,599

Capital expenditure by country

EURm	Year ended 31 December 2014	2013
Germany	59	52
Finland	236	242
United Kingdom	9	9
France	2	5
Poland	11	1
Other European countries	2	6
United States	5	7
China	77	21
Uruguay	8	17
Rest of world	2	2
Total	411	362

5 Acquisitions and disposals and notes to the cash flow statement

Acquisitions

In 2014 and 2013, no acquisitions were made.

Disposals

In 2014, UPM had minor company disposals. In 2013, there were no disposals.

Notes to the consolidated cash flow statement

Adjustments

EURm	Year ended 31 December 2014	2013
Change in fair value of biological assets and wood harvested	–78	–68
Share of results of associated companies and joint ventures	–3	–2
Depreciation, amortisation and impairment charges	658	545
Capital gains on sale of non-current assets, net	–117	–19
Finance costs, net	66	74
Taxes	155	140
Change in restructuring provisions	14	–13
Other adjustments	84	93
Total	779	750

Change in working capital

EURm	Year ended 31 December 2014	2013
Inventories	18	33
Current receivables	59	12
Current non-interest-bearing liabilities	–4	–173
Total	73	–128

The total amount of taxes paid in 2014 amounted to EUR 81 million (161 million). In 2013, EUR 4 million of total taxes paid related to investing activities.

6 Other operating income

EURm	Year ended 31 December 2014	2013
Gains on sale of non-current assets	62	19
Rental income, investment property	4	5
Rental income, other	11	10
Emission rights received (Note 7)	27	16
Derivatives held for trading	–53	32
Exchange rate gains and losses	23	–36
Other	17	14
Total	91	60

7 Costs and expenses

EURm	Year ended 31 December 2014	2013
Change in inventories of finished goods and work in progress	–12	37
Production for own use	–6	–9
Materials and services		
Raw materials, consumables and goods	5,559	5,801
Derivatives designated as cash flow hedges	47	13
External services and charges 1)	913	902
	6,519	6,716

EURm	Year ended 31 December 2014	2013
Personnel expenses		
Salaries and fees	1,020	1,047
Share-based payments (Note 37)	10	8
Indirect employee costs		
Pension costs-defined benefit plans (Note 29)	16	27
Pension costs-defined contribution plans	116	119
Other post-employment benefits (Note 29)	2	2
Other indirect employee costs [2]	126	123
	260	271
Other operating costs and expenses		
Rents and lease expenses	52	59
Emission expenses (Note 6)	15	9
Losses on sale of non-current assets	4	2
Other operating expenses [3]	846	951
	917	1,021
Costs and expenses, total	8,708	9,091

1) External services and charges mainly comprise delivery costs of products sold.

2) Other indirect employee expenses primarily include other statutory social expenses, excluding pension expenses.

3) Other operating expenses include, among others, energy and maintenance expenses as well as expenses relating to services and the Group's administration.

The research and development costs included in costs and expenses were EUR 35 million (38 million).

Government grants

In 2014, the Group recognised government grants of EUR 3 million (1 million) as reduction of non-current assets. In 2014, government grants relate to environmental investments in Austria. Government grants recognised as deduction of costs and expenses totalled to EUR 7 million (11 million) in 2014. In addition, the Group received emission rights from governments, Note 17.

Remuneration paid to members of the Board of Directors and the Group Executive Team

The Annual General Meeting 2014 resolved that the annual fee to the Board Chair is EUR 175,000, to the Board Deputy Chair and Chair of the Audit Committee EUR 120,000 and to other members of the Board EUR 95,000. Of the annual fee, 60% was paid in cash to cover taxes and 40% in company shares purchased on the Board members' behalf. Since General Ari Puheloinen was able to participate in the Board work only from the start of August, the Annual General Meeting decided that he was entitled to two-thirds of the Board member's annual fee. No annual fee was paid to the President and CEO for his role as a member of the Board.

In 2014, 5,595 (8,925) company shares were paid to the Chair, 3,836 (6,120) shares to the Deputy Chair and the Chair of the Audit Committee respectively and 3,037 (4,845) shares to each of the other members of the Board, except for Ari Puheloinen 2,025 shares.

Shareholdings (no. of shares) and fees of the Board of Directors

	Shareholdings 31 Dec. 2014 [1]	Fees (EUR 1,000) 2014	2013
Board members			
Björn Wahlroos, Chair	250,249	175	175
Berndt Brunow, Deputy Chair	300,703	120	120
Matti Alahuhta	58,991	95	95
Piia-Noora Kauppi	8,981	120	95
Wendy E. Lane	30,649	95	95
Ari Puheloinen	2,025	63	–
Veli-Matti Reinikkala	33,821	95	95
Kim Wahl	11,799	95	95
Jussi Pesonen, President and CEO	195,280	–	–
Former Board members			
Karl Grotenfelt		–	120
Ursula Ranin		–	95
Total	892,498	858	985

1) The above shareholdings include shares held by the Board members' closely associated persons and controlled entities.

Salaries, fees and other benefits of the Group Executive Team

EUR 1,000	Year ended 31 December 2014	2013
President and CEO Jussi Pesonen		
Salaries and benefits		
Salaries	1,052	1,059
Incentives	627	553
Benefits	27	26
Total	1,706	1,638

In 2014, costs under the Finnish statutory pension scheme for the President and CEO amounted to EUR 303,000 (282,000) and costs under the voluntary pension plan were EUR 682,000 (677,000). In addition, a single premium of EUR 268,000 was paid into to the President and CEO's voluntary group pension plan (EUR 1.1 million) to cover past service pension liabilities.

EUR 1,000	Year ended 31 December 2014	2013
Group Executive Team (excluding the President and CEO) [1]		
Salaries and benefits		
Salaries	3,457	3,396
Incentives	869	1,067
Benefits	249	137
Total	4,575	4,600

1) 11 members in 2014 and in 2013.

In 2014, costs under the Finnish and German statutory pension schemes for Group Executive Team members (excluding the President and CEO) amounted to EUR 752,000 (740,000) and costs under the voluntary pension plan were EUR 686,000 (531,000).

The total remuneration of the President and CEO and the members of the Group Executive Team consists of base salary and benefits, short-term incentives and share-based long-term incentive schemes.

The short-term incentive plan for the President and CEO and the members of the Group Executive Team has been linked with achievement of the predetermined financial targets of the Group or Business Areas and individual targets. The incentives amount to a total maximum of 100% of annual base salary to the Business Area Executives and to a total maximum of 70% of annual base salary to the other members of the Group Executive Team. For the President and CEO the maximum annual incentive amounts to 150% of the annual base salary.

The expenses recognised in income statement in respect of share-based payments for the Group Executive Team were EUR 2.8 million (1.4 million).

In accordance with the service contract of the President and CEO the retirement age of the President and CEO, Jussi Pesonen, is 60 years.

For the President and CEO, the target pension is 60% of average indexed earnings calculated according to the Finnish statutory pension scheme from the last ten years of employment. The costs of lowering the retirement age to 60 years is covered by supplementing statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company prior to the age of 60, immediate vesting right corresponding to 100% of earned pension (pro rata) will be applied. The retirement age of the other members of the Group Executive Team is 63 years. The expenses of the President and CEO's defined benefit pension plan in 2014 were EUR 0.5 million (0.5 million), and the plan assets amounted to EUR 6.6 million (4.6 million) and obligation to EUR 5.1 million (3.8 million). Other Group Executive Team members are under defined contribution plans.

In case the notice of termination is given to the President and CEO, a severance pay of 24 months' fixed salary will be paid in addition to the salary for six months' notice period. Should the President and CEO give a notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period. For other members of the Group Executive Team, the period for additional severance compensation is 12 months, in addition to the six months' salary for the notice period, unless notice is given for reasons that are solely attributable to the employee.

If there is a change in the control over the company, as defined in the employment or service contracts, the President and CEO may terminate his service contract within three months and each member of the Group Executive Team may terminate his/her service contract within one month, from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months' base salary.

Auditor's fees

EURm	Year ended 31 December 2014	2013
Audit	2.0	2.6
Audit-related	–	0.1
Tax consulting	0.6	0.9
Other services	0.5	0.1
Total	3.1	3.7

8 Change in fair value of biological assets and wood harvested

EURm	Year ended 31 December 2014	2013
Wood harvested	–91	–88
Change in fair value	169	156
Total	78	68

9 Share of results of associated companies and joint ventures

EURm	Year ended 31 December 2014	2013
Associated companies	3	3
Joint ventures	–	–1
Total	3	2

10 Depreciation, amortisation and impairment charges

EURm	Year ended 31 December 2014	2013
Amortisation of intangible assets		
Intangible rights	16	17
Other tangible assets	30	28
	46	45
Depreciation of property, plant and equipment		
Buildings	81	81
Machinery and equipment	373	390
Other tangible assets	17	19
	471	490
Depreciation of investment property		
Buildings	3	3
Other assets	1	–
	4	3
Impairment charges of intangible assets		
Emission allowances	–1	4
	–1	4
Impairment charges of property, plant and equipment		
Land areas	1	–
Buildings	42	–
Machinery and equipment	93	3
Other tangible assets	2	–
	138	3
Total	658	545

In November 2014, UPM announced that it is planning to permanently reduce its publication paper capacity in Europe by approximately 800,000 tonnes, including newsprint machine 3 at UPM Chapelle in France, newsprint machine 1 at UPM Shotton in UK, SC paper machine Jämsänkoski 5 at UPM Jämsänkoski in Finland and coated mechanical paper machine 2 at UPM Kaukas in Finland. Based on the plan, UPM recognised impairment charges of EUR 135 million related to property, plant and equipment in the UPM Paper ENA segment. In addition, impairment charges of EUR 3 million related to restructuring in the UPM Raflatac segment were recognised in property, plant and equipment.

In July 2013, UPM Raflatac announced that it will reduce labelstock production capacity in Europe, South-Africa and Australia. Impairment charges EUR 3 million were recognised in the UPM Raflatac segment´s property, plant and equipment.

11 Gains on available-for-sale investments, net

EURm	Year ended 31 December 2014	2013
Net gains and losses on disposals [1]	59	1
Total	59	1

1) In 2014, includes a gain of EUR 59 million related to the sale of Metsä Fibre Oy shares in 2012.

12 Finance costs

EURm	Year ended 31 December 2014	2013
Exchange rate and fair value gains and losses		
Derivatives held for trading	96	–190
Fair value gains on derivatives designated as fair value hedges	51	–124
Fair value adjustment of interest-bearing liabilities attributable to interest rate risk	–50	126
Fair value adjustment of firm commitments attributable to foreign exchange risk	5	–
Foreign exchange gains/losses on financial liabilities measured at amortised cost	–123	105
Foreign exchange gains/losses on loans and receivables	17	93
	–4	10
Interest and other finance costs, net		
Interest expense on financial liabilities measured at amortised cost	–148	–146
Interest income on derivative financial instruments	90	85
Interest income on loans and receivables	15	5
Other financial expenses	–19	–28
	–62	–84
Total	–66	–74

Net gains and losses on derivative financial instruments included in the operating profit

EURm	Year ended 31 December 2014	2013
Derivatives designated as cash flow hedges	30	75
Derivatives held for trading	–53	32
Total	–23	107

The aggregate foreign exchange gains and losses included in the consolidated income statement

EURm	Year ended 31 December 2014	2013
Sales	11	56
Other operating income	23	–36
Net financial items	–11	4
Total	23	24

13 Income taxes

EURm	Year ended 31 December 2014	2013
Major components of tax expenses		
Current tax expense	100	123
Change in deferred taxes (Note 28)	55	17
Income taxes, total	155	140
Income tax reconciliation statement		
Profit (loss) before tax	667	475
Computed tax at Finnish statutory rate of 20% (24.5%)	133	116
Difference between Finnish and foreign rates	9	–6
Non-deductible expenses and tax-exempt income	–27	–42
Tax loss with no tax benefit	25	32
Results of associated companies	–1	–
Change in tax legislation	1	–80
Change in recoverability of deferred tax assets	19	129
Utilisation of previously unrecognised tax losses	–5	–
Other	1	–9
Income taxes, total	155	140
Effective tax rate	23.2%	29.5%

Profit before taxes for 2014 and 2013 include income not subject to tax from subsidiary operating in tax free zone.

In 2014, change in recoverability of deferred tax assets relates to reassessment of estimated recoverability of deferred tax assets in France.

In 2013, change in tax legislation includes a tax income of EUR 76 million from tax rate change in Finland and a tax income of EUR 5 million from tax rate change in UK. Change in recoverability of deferred tax assets relates to reassessment of estimated recoverability of EUR 120 million related to deferred tax assets in Canada.

Tax effects of components of other comprehensive income

EURm	2014 Before tax	2014 Tax	2014 After tax	2013 Before tax	2013 Tax	2013 After tax
Actuarial gains and losses on defined benefit obligations	–235	54	–181	103	–34	69
Translation differences	291	–	291	–219	–	–219
Net investment hedge	–51	10	–41	102	–25	77
Cash flow hedges	–133	26	–107	–36	8	–28
Available-for-sale investments	–173	9	–164	43	15	58
Other comprehensive income	–301	99	–202	–7	–36	–43

(Year ended 31 December)

14 Earnings per share

	Year ended 31 December 2014	2013
Profit (loss) attributable to owners of the parent company, EURm	512	335
Weighted average number of shares (1,000)	531,574	527,818
Basic earnings per share, EUR	0.96	0.63

For the diluted earnings per share the number of shares is adjusted by the effect of the share options.

	2014	2013
Profit (loss) attributable to owners of the parent company, EURm	512	335
Profit (loss) used to determine diluted earnings per share, EURm	512	335
Weighted average number of shares (1,000)	531,574	527,818
Weighted average number of shares for diluted earnings per share (1,000)	531,574	527,818
Diluted earnings per share, EUR	0.96	0.63

15 Dividend per share

The dividends paid in 2014 were EUR 319 million (EUR 0.60 per share) and in 2013 EUR 317 million (EUR 0.60 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 373 million, EUR 0.70 per share, will be paid in respect of 2014.

16 Goodwill

EURm	As at 31 December 2014	2013
Carrying value at 1 Jan.	219	222
Translation differences	11	–3
Carrying value at 31 Dec.	230	219

Goodwill by reporting segment

EURm	As at 31 December 2014	2013
UPM Biorefining	209	198
UPM Raflatac	7	7
UPM Plywood	13	13
Other operations	1	1
Total	230	219

Impairment tests

The Group prepares impairment test calculations at operating segment or at lower business unit level annually. The key assumptions for calculations are those regarding business growth outlook, product prices, cost development, and discount rate.

The business growth outlook is based on general forecasts for the business in question. Ten-year forecasts are used in these calculations as the nature of the Group's business is long-term, due to its capital intensity, and is exposed to cyclical changes. In estimates of product prices and cost development, forecasts prepared by management for the next three years and estimates made for the following seven years are taken into consideration. The Group's recent profitability trend is taken into account in the forecasts. In addition, when preparing estimates, consideration is given to the investment decisions made by the Group as well as the profitability programmes that the Group has implemented and the views of knowledgeable industry experts on the long-term development of demand and prices.

In annual impairment tests, the recoverable amount of groups of cash generating units is determined based on value in use calculations.

The discount rate is estimated using the weighted average cost of capital on the calculation date adjusted for risks specific to the business in question. The pre-tax discount rate used in 2014 for pulp operations Finland was 9.86% (10.06%), and for pulp operations Uruguay 9.62% (8.48%). The recoverable amount is most sensitive to pulp sales prices and the cost of wood raw material. As at 31 December 2014, for pulp operations Finland, a decrease of more than 13.4% in pulp prices would result in recognition of impairment loss against goodwill. The Group believes that no reasonable change in wood cost would cause the aggregate carrying amount to exceed the recoverable amount. For pulp operations Uruguay, a decrease of more than 3.9% in pulp prices or an increase of more than 10% in wood cost would result in recognition of impairment loss against goodwill. A decrease of more than 5.6% in pulp prices or an increase of more than 15% in wood cost would result in a write-down of the entire goodwill.

17 Other intangible assets

EURm	As at 31 December 2014	2013
Intangible rights		
Acquisition cost at 1 Jan.	536	536
Additions	3	3
Disposals	–2	–1
Reclassifications	–	2
Translation differences	12	–4
Acquisition cost at 31 Dec.	549	536
Accumulated amortisation and impairment at 1 Jan.	–300	–294
Amortisation	–16	–17
Disposals	2	2
Reclassifications	–	8
Translation differences	–9	1
Accumulated amortisation and impairment at 31 Dec.	–323	–300
Carrying value at 1 Jan.	236	242
Carrying value at 31 Dec.	226	236

EURm	As at 31 December 2014	2013
Other intangible assets [1]		
Acquisition cost at 1 Jan.	673	669
Additions	6	13
Disposals	–10	–15
Reclassifications	11	8
Translation differences	5	–2
Acquisition cost at 31 Dec.	685	673
Accumulated amortisation and impairment at 1 Jan.	–591	–582
Amortisation	–30	–28
Disposals	10	15
Reclassifications	–	2
Translation differences	–5	2
Accumulated amortisation and impairment at 31 Dec.	–616	–591
Carrying value at 1 Jan.	82	87
Carrying value at 31 Dec.	69	82
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	13	12
Additions	2	7
Reclassifications	–13	–6
Acquisition cost at 31 Dec.	2	13
Carrying value at 1 Jan.	13	12
Carrying value at 31 Dec.	2	13
Emission rights		
Acquisition cost 1 Jan.	18	40
Additions [2]	42	2
Disposals and settlements	–13	–24
Acquisition cost 31 Dec.	47	18
Accumulated amortisation and impairment at 1 Jan.	–7	–15
Impairment charges	–	–4
Impairment reversal	1	–
Disposals	2	12
Accumulated amortisation and impairment at 31 Dec.	–4	–7
Carrying value at 1 Jan.	11	25
Carrying value at 31 Dec.	43	11
Other intangible assets, total	340	342

[1] Other intangible assets consist primarily of capitalised software assets.
[2] Additions include emission rights received free of charge.

Water rights

Intangible rights include EUR 189 million (189 million) in respect of the water rights of hydropower plants belonging to the UPM Energy segment that are deemed to have an indefinite useful life as the company has a contractual right to exploit water resources in the energy production of these power plants. The values of these water rights are tested annually for impairment based on expected future cash flows of each separate hydropower plant.

18 Property, plant and equipment

EURm	As at 31 December 2014	2013
Land and water areas		
Acquisition cost at 1 Jan.	670	683
Additions	2	11
Disposals	–15	–5
Reclassifications	3	–3
Translation differences	48	–16
Acquisition cost at 31 Dec.	708	670
Accumulated depreciation and impairment at 1 Jan.	–34	–34
Impairment charges	–1	–
Translation differences	1	–
Accumulated depreciation and impairment at 31 Dec.	–34	–34
Carrying value at 1 Jan.	636	649
Carrying value at 31 Dec.	674	636
Buildings		
Acquisition cost at 1 Jan.	3,489	3,598
Additions	22	17
Disposals	–17	–105
Reclassifications	43	9
Translation differences	74	–30
Acquisition cost at 31 Dec.	3,611	3,489
Accumulated depreciation and impairment at 1 Jan.	–2,333	–2,352
Depreciation	–81	–81
Impairment charges	–42	–
Disposals	17	101
Reclassifications	–8	–14
Translation differences	–31	13
Accumulated depreciation and impairment at 31 Dec.	–2,478	–2,333
Carrying value at 1 Jan.	1,156	1,246
Carrying value at 31 Dec.	1,133	1,156
Machinery and equipment		
Acquisition cost at 1 Jan.	14,504	15,184
Additions	115	84
Disposals	–374	–691
Reclassifications	50	32
Translation differences	303	–105
Acquisition cost at 31 Dec.	14,598	14,504
Accumulated depreciation and impairment at 1 Jan.	–11,900	–12,291
Depreciation	–373	–390
Impairment charges	–93	–6
Disposals	369	684
Reclassifications	19	32
Translation differences	–200	71
Accumulated depreciation and impairment at 31 Dec.	–12,178	–11,900
Carrying value at 1 Jan.	2,604	2,893
Carrying value at 31 Dec.	2,420	2,604
Other tangible assets		
Acquisition cost at 1 Jan.	873	910
Additions	5	5
Disposals	–3	–44
Reclassifications	10	5
Translation differences	12	–3
Acquisition cost at 31 Dec.	897	873

EURm	As at 31 December 2014	2013
Accumulated depreciation and impairment at 1 Jan.	–752	–770
Depreciation	–17	–19
Impairment charges	–2	–
Disposals	2	43
Reclassifications	–6	–7
Translation differences	–8	1
Accumulated depreciation and impairment at 31 Dec.	–783	–752
Carrying value at 1 Jan.	121	140
Carrying value at 31 Dec.	114	121
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	240	161
Additions	225	216
Disposals	–	–66
Reclassifications	–103	–70
Translation differences	4	–1
Acquisition cost at 31 Dec.	366	240
Carrying value at 1 Jan.	240	161
Carrying value at 31 Dec.	366	240
Property, plant and equipment, total	4,707	4,757

Finance lease arrangements

Property, plant and equipment includes property that is acquired under finance lease contracts:

EURm	As at 31 December 2014	2013
Buildings		
Acquisition cost	2	3
Accumulated depreciation	–1	–2
Carrying value at 31 Dec.	1	1
Machinery and equipment		
Acquisition cost	265	330
Accumulated depreciation	–95	–126
Carrying value at 31 Dec.	170	204
Leased assets, total	171	205

Capitalised borrowing costs

In 2014, the borrowing costs capitalised as part of non-current assets amounted to EUR 5 million (2 million). In 2014, amortisation of capitalised borrowing was EUR 3 million (4 million).

The average interest rate used was 2.34% (2.33%), which represents the costs of the loan used to finance the projects.

19 Investment property

EURm	As at 31 December 2014	2013
Acquisition cost at 1 Jan.	71	67
Additions	1	5
Reclassifications	–14	–1
Acquisition cost at 31 Dec.	58	71
Accumulated depreciation and impairment at 1 Jan.	–31	–28
Depreciation	–4	–3
Reclassifications	8	–
Accumulated depreciation and impairment at 31 Dec.	–27	–31
Carrying value at 1 Jan.	40	39
Carrying value at 31 Dec.	31	40

The fair value of investment property is determined annually on 31 December by the Group. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature of the specific asset.

The fair value of investment property in Finland at 31 December 2014 was EUR 31 million (31 million) and fair value of investment property in other countries at 31 December 2014 was EUR 0 (11 million).

The amounts recognised in the income statement

EURm	Year ended 31 December 2014	2013
Rental income	4	5
Direct operating expenses arising from investment properties that generate rental income	–3	–3

There were no contractual obligations for future repair and maintenance or purchase of investment property.

All assets under investment property are leased to third parties under operating leasing contracts.

20 Biological assets

EURm	As at 31 December 2014	2013
At 1 Jan.	1,458	1,476
Additions	8	8
Disposals	–65	–38
Wood harvested	–91	–88
Change in fair value	120	108
Reclassifications	–	2
Translation differences	39	–10
At 31 Dec.	1,469	1,458

The Group owns approximately 765,000 and 75,000 hectares forests in Finland and in the United States, respectively, and 235,000 hectares plantations in Uruguay. Biological assets (living trees) are measured at fair value less costs to sell. The fair value is determined using discounted cash flow models. Main factors used in the valuation are estimates for growth and wood harvested, stumpage prices and discount rates. Stumpage price forecasts are based on the current prices adjusted by the management's estimates for the full remaining productive lives of the trees, up to 100 years for forests in Finland and in the US and up to 10 years for plantations in Uruguay. The cash flows are adjusted by selling costs and risks related to the future growth. Young saplings are valued at cost.

The pre-tax discount rates used in to determine fair value in 2014 were 7.50% (7.50%) for Finnish forests and 10% (10%) for Uruguayan plantations. A decrease (increase) of one percentage point in discount rate would increase (decrease) the fair value of biological assets by approximately EUR 200 million.

21 Investments in associated companies and joint ventures

EURm	As at 31 December 2014	2013
At 1 Jan.	22	20
Additions	1	1
Share of results after tax (Note 9)	3	2
Dividends received	–2	–1
Translation differences	1	–
At 31 Dec.	25	22

Investments in associated companies at 31 December 2014 include goodwill of EUR 1 million (1 million).

Associated companies and joint ventures

EURm	As at 31 December 2014	2013
Associated companies	17	16
Joint ventures	8	6
At 31 Dec.	25	22

UPM has no individually material associated companies or joint ventures.

Transactions and balances with associated companies and joint ventures

EURm	Year ended 31 December 2014	2013
Sales	2	2
Purchases	83	80
Non-current receivables	8	8
Trade and other receivables	1	1
Trade and other payables	2	2
Loan receivables from associated companies and joint ventures		
At 1 Jan.	8	7
Loans granted	1	1
Repayments	–1	–
At 31 Dec.	8	8

22 Available-for-sale investments

EURm	As at 31 December 2014	2013
At 1 Jan.	2,661	2,587
Additions	31	31
Disposals	–1	–1
Reclassification	–10	1
Changes in fair values	–173	43
Translation differences	2	–
At 31 Dec.	2,510	2,661

At 31 December 2014 and 2013, the available-for-sale investments include only investments in unlisted shares.

Principal available-for-sale investments

	Number of shares	Group holding %	Carrying value, EURm 2014	2013
Pohjolan Voima Oy, A serie	8,176,191	61.24	381	407
Pohjolan Voima Oy, B serie	4,140,132	58.11	1,370	1,313
Pohjolan Voima Oy, B2 serie	1,859,255	50.98	187	306
Kemijoki Oy	100,797	4.13	401	443
Länsi-Suomen Voima Oy	10,220	51.10	107	109
OEP Technologie B.V.	243,670	10.86	35	35
Other [1]	–	–	29	48
At 31 Dec.			2,510	2,661

[1] Includes C, H, M and V series of Pohjolan Voima Oy.

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 369 million. The discount rate of 5.82% used in the valuation model is determined using the weighted average cost of capital method. A change of +/- 0.5% in the discount rate would change the total value of the assets by approximately -/+ EUR 360 million. Other uncertainties and risk factors in the value of the assets relate to start-up schedule of the fixed price turn-key Olkiluoto 3 nuclear power plant project and the on-going arbitration proceedings between the plant supplier AREVA-Siemens Consortium and the plant owner Teollisuuden Voima Oyj (TVO). UPM's indirect share of the capacity of Olkiluoto 3 is approximately 31%, through its PVO B2 shares. The possible outcome of the arbitration proceedings has not been taken into account in the valuation. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

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

Pohjolan Voima Oy B and B2 series relate to shareholdings in Teollisuuden Voima Oyj, which operates and constructs nuclear power plants in Olkiluoto, Finland. The operation of a nuclear power plant involves potential costs and liabilities related to decommissioning and dismantling of the nuclear power plant and storage and disposal of spent fuel and, furthermore, is governed by international, European Union and local nuclear regulatory regimes. Pursuant to the Finnish Nuclear Liability Act, the operator of a nuclear facility is strictly liable for damage resulting from a nuclear incident at the operator's installation or occurring in the course of transporting nuclear fuels. Shareholders of power companies that own and operate nuclear power plants are not subject to liability under the Nuclear Liability Act. In Finland, the future costs of conditioning, storage and final disposal of spent fuel, management of low and intermediate level radioactive waste and nuclear power plant decommissioning are the responsibility of the operator. Reimbursement of the operators' costs related to decommissioning and dismantling of the power plant and storage and disposal of spent fuel are provided for by state-established funds funded by annual contributions from nuclear power plant operators. The contributions to such funds are intended to be sufficient to cover estimated future costs which have been taken into consideration in the fair value of the related available-for-sale investments.

23 Other non-current financial assets

EURm	As at 31 December 2014	2013
Loan receivables from associated companies (Note 21)	8	8
Other loan receivables	35	35
Derivative financial instruments	291	239
At 31 Dec.	334	282

The maximum exposure to credit risk in regard to other loan receivables is their carrying amount.

24 Other non-current assets

EURm	As at 31 December 2014	2013
Defined benefit plans (Note 29)	40	88
Other non-current assets	51	54
At 31 Dec.	91	142

25 Inventories

EURm	As at 31 December 2014	2013
Raw materials and consumables	548	565
Work in progress	55	39
Finished products and goods	713	684
Advance payments	40	39
At 31 Dec.	1,356	1,327

26 Trade and other receivables

EURm	As at 31 December 2014	2013
Trade receivables	1,412	1,398
Loan receivables	6	10
Prepayments and accrued income	143	154
Derivative financial instruments	151	226
Other receivables	144	160
At 31 Dec.	1,856	1,948

Ageing analysis of trade receivables

EURm	As at 31 December 2014	2013
Undue	1,225	1,191
Past due up to 30 days	133	137
Past due 31–90 days	32	37
Past due over 90 days	22	33
At 31 Dec.	1,412	1,398

In determining the recoverability of trade receivables the Group considers any change to the credit quality of trade receivables. There are no indications that the debtors will not meet their payment obligations with regard to trade receivables that are not overdue or impaired at 31 December 2014. In 2014, impairment of trade receivables amounted to EUR 8 million (17 million) and is recorded under other costs and expenses. Impairment is recognised when there is objective evidence that the Group is not able to collect the amounts due.

Maximum exposure to credit risk, without taking into account any credit enhancements, is the carrying amount of trade and other receivables.

Main items included in prepayments and accrued income

EURm	As at 31 December 2014	2013
Personnel expenses	14	11
Interest income	5	2
Energy and other excise taxes	70	89
Other items	54	52
At 31 Dec.	143	154

27 Equity and reserves

Share capital

EURm	Number of shares (1,000)	Share capital
At 1 Jan. 2013	526,124	890
Exercise of share options	3,177	–
At 31 Dec. 2013	529,302	890
Exercise of share options	4,434	–
At 31 Dec. 2014	533,736	890

Shares

At 31 December 2014, the number of the company's shares was 533,735,699. Each share carries one vote. The shares do not have any nominal counter value. The shares are included within the book entry system for securities.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes, under the Companies' Act, the exercise value of shareholders' investments in the company unless otherwise decided by the company.

Treasury shares

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. The authorisation is valid for 18 months from the date of the decision.

As at 31 December 2014, the company held 230,737 (230,737) of its own shares, 0.04% (0.04%) of the total number of shares. 211,481 of the shares were returned upon their issue in 2011 to UPM without consideration as part of the contractual arrangements relating to the Myllykoski transaction and 19,256 shares in accordance with the Group's share reward scheme due to the termination of employment contracts in 2012.

Authorisations to increase the number of shares

The Annual General Meeting, held on 4 April 2013, authorised the Board of Directors to decide on the issuance of shares and/or the transfer of the company's own shares held by the company and/or the issue of special rights entitling holders to shares in 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) The new shares and special rights entitling holders to shares in 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 right. This authorisation is valid until 4 April 2016.

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

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

The shares available for subscription under the Board's share issue authorisation may increase the total number of the company's shares by 4.68%, i.e. by 25,000,000 shares, to 558,735,699 shares.

Redemption clause

Under § 12 of UPM-Kymmene Corporation's Articles of Association, a shareholder who, alone or jointly with another shareholder owns 33 1/3 percent or 50 percent or more of all the company's shares or their associated voting rights shall, at the request of other shareholders, be liable to redeem their shares and any securities that, under the Companies Act, carry the right to such shares, in the manner prescribed in § 12.

A resolution of a general meeting of shareholders to amend or delete this redemption clause must be carried by shareholders representing not less than three-quarters of the votes cast and shares represented at the meeting.

Fair value and other reserves

EURm	As at 31 December 2014	2013
Fair value reserve of available-for-sale investments	1,988	2,152
Hedging reserve	–128	–21
Legal reserve	–	53
Share premium reserve	–	50
Share-based compensation	7	22
At 31 Dec.	1,867	2,256

Changes in hedging reserve

EURm	Year ended 31 December 2014	2013
Hedging reserve at 1 Jan.	–21	7
Gains and losses on cash flow hedges	–102	33
Transfers to sales	–85	–85
Transfers to costs and expenses	51	14
Transfers to financial costs	3	2
Tax on gains and losses on cash flow hedges	20	–9
Tax on transfers to income statement	6	17
Hedging reserve at 31 Dec.	–128	–21

Components of other comprehensive income

EURm	Year ended 31 December 2014	2013
Actuarial gains and losses on defined benefit obligations	–181	69
Translation differences	291	–219
Net investment hedge	–41	77
Cash flow hedges		
gains/losses arising during the year	–82	24
reclassification adjustments	–25	–52
	–107	–28
Available-for-sale investments		
gains/losses arising during the year	–164	58
	–164	58
Other comprehensive income	–202	–43

Non-controlling interests

On 11 December 2014, the Group acquired the remaining 10% of the issued shares of Wisapower Oy for a purchase consideration of EUR 4 million. The Group now holds 100% of the equity share capital of Wisapower Oy. The carrying amount of the non-controlling interests in Wisapower Oy on the date of acquisition was EUR 3 million. The Group derecognised non-controlling interests of EUR 3 million and recorded a decrease in equity attributable to owners of the parent of EUR 1 million. The effect of changes in the ownership interest of Wisapower Oy on the equity attributable to owners of the parent company during the year is summarised as follows:

	Year ended 31 December	
EURm	2014	2013
Carrying amount of non-controlling interests acquired	3	–
Consideration paid to non-controlling interests	–4	–
Excess of consideration paid recognised in equity attributable to owners of the parent company	–1	–

28 Deferred income taxes

Reconciliation of the movements of deferred tax asset and liability balances during the year 2014

EURm	As at 1 Jan. 2014	Charged to the income statement	Charged to OCI	Translation differences	As at 31 Dec. 2014
Deferred tax assets					
Intangible assets and property, plant and equipment	213	–53	–	–	160
Inventories	27	8	–	–	35
Retirement benefit obligations and provisions	135	–23	46	–	158
Other temporary differences	30	7	–	–	37
Tax losses and tax credits carried forward	252	–12	–	1	241
Deferred tax assets, total	657	–73	46	1	631
Deferred tax liabilities					
Intangible assets and property, plant and equipment	239	–28	–	–	211
Biological assets	198	3	–	4	205
Retirement benefit obligations and provisions	18	–1	–8	–	9
Other temporary differences	139	8	–45	–	102
Deferred tax liabilities, total	594	–18	–53	4	527
The amounts recognised in the balance sheet					
Deferred tax assets	564	–79	46	1	532
Deferred tax liabilities	501	–24	–53	4	428
Deferred tax liabilities, less deferred tax assets	–63	55	–99	3	–104

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Reconciliation of the movements of deferred tax asset and liability balances during the year 2013

EURm	As at 1 Jan. 2013	Charged to the income statement	Charged to OCI	Translation differences	As at 31 Dec. 2013
Deferred tax assets					
Intangible assets and property, plant and equipment	221	–8	–	–	213
Inventories	40	–13	–	–	27
Retirement benefit obligations and provisions	164	–12	–18	1	135
Other temporary differences	68	–39	–	1	30
Tax losses and tax credits carried forward	368	–103	–	–13	252
Deferred tax assets, total	861	–175	–18	–11	657
Deferred tax liabilities					
Intangible assets and property, plant and equipment	366	–127	–	–	239
Biological assets	224	–26	–	–	198
Retirement benefit obligations and provisions	5	–3	16	–	18
Other temporary differences	139	–2	2	–	139
Deferred tax liabilities, total	734	–158	18	–	594
The amounts recognised in the balance sheet					
Deferred tax assets	739	–146	–18	–11	564
Deferred tax liabilities	612	–129	18	–	501
Deferred tax liabilities, less deferred tax assets	–127	17	36	11	–63

At 31 December 2014, net operating loss carry-forwards for which the Group has recognised a deferred tax asset amounted to EUR 782 million (831 million), of which EUR 630 million (678 million) was attributable to German subsidiaries and EUR 39 million (74 million) to a Canadian subsidiary. In Germany the net operating loss carry-forwards do not expire. In other countries net operating loss carry-forwards expire at various dates and in varying amounts. The net operating loss carry-forwards for which no deferred tax is recognised due to uncertainty of their utilisation amounted to EUR 1,088 million (903 million) in 2014. These net operating loss carry-forwards are mainly attributable to a Canadian subsidiary and certain German and French subsidiaries.

No deferred tax liability has been recognised for the undistributed profits of Finnish subsidiaries and associated companies as such earnings can be distributed without any tax consequences.

In addition the Group does not recognise a deferred tax liability in respect of undistributed earnings of non-Finnish subsidiaries to the extent that such earnings are intended to be permanently reinvested in those operations or such earnings can be distributed without any tax consequences.

29 Retirement benefit obligations

The Group operates a number of defined benefit and contribution plans in accordance with local conditions and practices in the countries in which it operates. About 90% of the Group's defined benefit arrangements exist in Finland, in the UK and in Germany. The Group has defined benefit obligations also in Austria, Holland, France, Canada and in US. Globally about one quarter of employees belong to defined benefit arrangements.

In Finland employers have to insure their employees for statutory benefits, as determined in Employee's Pension Act (TyEL). Under TyEL, the benefits that are funded during employment are old age benefit and disability benefit. The benefits can be insured with an insurance company or the employer can establish a fund or a foundation to manage the statutory benefits. Approximately 92% of UPM's Finnish employees are insured with an insurance company and these arrangements are regarded as defined contribution plans. In addition, the Group operates a TyEL foundation to fulfil the requirement for approximately 8% of employees. The TyEL foundation, Kymin Eläkesäätiö, is regarded as a defined benefit plan for the benefits that are based on employee's average salary. The TyEL Foundation is administered by the representatives of both the employer and the employees. The foundation has named an authorised representative to take care of its regular operations. The Plan is supervised by Financial Supervisory Authority.

In the UK, the Group operates a legacy defined benefit scheme, which is closed both to new members and future accrual. A defined contribution section also exists and is open to all current employees. The UK Pension Scheme operates under a single Trust which is independent from the Group.

In Germany employees within defined benefit arrangements are entitled to annual pensions on retirement based on their service and final salary. The members also receive benefits on disability and on death.

Post-employment and other long-term benefits as at 31 December 2014

EURm	Pension benefits	Other post-employment benefits	Other long-term employee benefits	Total
Present value of funded obligations	923	–	–	923
Present value of unfunded obligations	625	33	–	658
Fair value of plan assets	–794	–	–	–794
Net defined benefit liability	754	33	–	787
Other long-term employee benefits	–	–	40	40
Defined benefit asset reported in the assets (Note 24)	40	–	–	40
Total liability in the balance sheet	794	33	40	867

Post-employment and other long-term benefits as at 31 December 2013

EURm	Pension benefits	Other post-employment benefits	Other long-term employee benefits	Total
Present value of funded obligations	736	–	–	736
Present value of unfunded obligations	503	29	–	532
Fair value of plan assets	–717	–	–	–717
Net defined benefit liability	522	29	–	551
Other long-term employee benefits	–	–	41	41
Defined benefit asset reported in the assets (Note 24)	88	–	–	88
Total liability in the balance sheet	610	29	41	680

The net liability of pension and other post-employment benefits by country as at 31 December 2014

EURm	Finland	Germany	UK	Other countries	Total
Present value of funded obligations	355	33	494	41	923
Present value of unfunded obligations	–	559	–	99	658
Fair value of plan assets	–394	–2	–363	–35	–794
Net liability	–39	590	131	105	787

The net liability of pension and other post-employment benefits by country as at 31 December 2013

EURm	Finland	Germany	UK	Other countries	Total
Present value of funded obligations	294	29	381	32	736
Present value of unfunded obligations	–	447	–	85	532
Fair value of plan assets	–380	–2	–305	–30	–717
Net liability	–86	474	76	87	551

Present value of obligation and fair value of plan assets 2014

	Present value of obligation			Fair value of plan assets			
EURm	Pension benefits	Other post-employment benefits	Total	Pension benefits	Other post-employment benefits	Total	Net
At 1 Jan. 2014	1,239	29	1,268	–717	–	–717	551
Current service cost	11	1	12	–	–	–	12
Curtailments	–4	–	–4	–	–	–	–4
Past service cost and gains and losses from settlements	–7	–	–7	–	–	–	–7
Interest expense (+) income (–)	43	1	44	–27	–	–27	17
Total included in personnel expenses (Note 7)	43	2	45	–27	–	–27	18
Actuarial gains and losses on defined benefit obligation arising from changes in demographic assumptions	1	–	1	–	–	–	1
Actuarial gains and losses on defined benefit obligation arising from changes in financial assumptions	276	3	279	–	–	–	279
Actuarial gains and losses on defined benefit obligation arising from experience adjustments	6	–	6	–	–	–	6
Actuarial gains and losses on plan assets	–	–	–	–51	–	–51	–51
Total remeasurement gains (–) and losses (+) included in other comprehensive income	283	3	286	–51	–	–51	235
Benefits paid	–47	–3	–50	47	3	50	–
Settlements	–	–	–	–	–	–	–
Contributions by the employer	–	–	–	–23	–3	–26	–26
Translation differences	30	2	32	–23	–	–23	9
At 31 Dec. 2014	1,548	33	1,581	–794	–	–794	787

Present value of obligation and fair value of plan assets 2013

	Present value of obligation			Fair value of plan assets			
EURm	Pension benefits	Other post-employment benefits	Total	Pension benefits	Other post-employment benefits	Total	Net
At 1 Jan. 2013	1,296	31	1,327	–659	–	–659	668
Current service cost	12	1	13	–	–	–	13
Curtailments	–3	–	–3	–	–	–	–3
Past service cost and gains and losses from settlements	1	–	1	–	–	–	1
Interest expense (+) income (–)	39	1	40	–22	–	–22	18
Total included in personnel expenses (Note 7)	49	2	51	–22	–	–22	29
Actuarial gains and losses on defined benefit obligation arising from changes in demographic assumptions	–	–1	–1	–	–	–	–1
Actuarial gains and losses on defined benefit obligation arising from changes in financial assumptions	–51	–	–51	–	–	–	–51
Actuarial gains and losses on defined benefit obligation arising from experience adjustments	4	1	5	–	–	–	5
Actuarial gains and losses on plan assets	–	–	–	–56	–	–56	–56
Total remeasurement gains (–) and losses (+) included in other comprehensive income	–47	–	–47	–56	–	–56	–103
Benefits paid	–50	–3	–53	46	3	49	–4
Settlements	–	–	–	3	–	3	3
Contributions by the employer	–	–	–	–35	–3	–38	–38
Translation differences	–9	–1	–10	6	–	6	–4
At 31 Dec. 2013	1,239	29	1,268	–717	–	–717	551

The significant weighted actuarial assumptions used as at 31 December

	Finland		Germany		UK		Other countries	
	2014	2013	2014	2013	2014	2013	2014	2013
Discount rate %	1.56	2.95	1.62	2.95	3.50	4.50	2.42	3.62
Inflation rate %	1.25	2.00	2.00	2.00	3.35	2.25	2.12	2.05
Rate of salary increase %	1.50	2.50	2.50	2.50	N/A	N/A	2.46	2.63
Rate of pension increase %	2.21	2.26	2.00	2.00	3.20	3.25	1.00	1.10
Expected average remaining working years of participants	10.3	10.3	12.8	12.6	12.0	12.0	10.9	9.1

The sensitivity analysis of the defined benefit obligation to changes in the significant weighted assumptions

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate %	0.5%	Decrease by 8.1%	Increase by 9.4%
Rate of salary increase %	0.5%	Increase by 1.3%	Decrease by 1.2%
Rate of pension increase %	0.5%	Increase by 4.9%	Decrease by 4.6%
Life expectancy	Increase by 1 year	Increase by 3.6%	–

The weighted average duration of defined benefit obligation is 17.4 years.

The above analyses assume that assumption changes occur in isolation, holding all other assumptions constant. The same method (projected unit method) has been applied when calculating the pension liability as well as these sensitivities.

The main categories of pension and other post-employment benefit plan assets

	2014			2013		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Money market						
Europe	1	–	1	2	–	2
Debt instruments						
Europe	28	–	28	29	–	29
US	2	–	2	2	–	2
Other	7	–	7	3	–	3
Equity instruments						
Europe	12	–	12	14	–	14
US	11	–	11	12	–	12
Other	32	–	32	31	–	31
Property						
Europe	3	4	7	–	7	7
Total	96	4	100	93	7	100

In Finland, plan assets include the company's ordinary shares with a fair value of EUR 0.7 million (0.7 million). In 2015 contributions to the Group's defined pension plans are expected to be EUR 33 million and to other post-employment plans EUR 2 million.

Main risk areas related to defined benefit plans

The main risks related to the Group's defined benefit plans are changes in discount rate, asset volatility, inflation, changes in salaries and longevities of the beneficiaries.

Discount rates

The discount rates are based on corporate bond yields as at reporting date. A decrease in yields increases the defined benefit obligation. The decrease of 0.5% in discount rate would increase Group's defined benefit obligation by EUR 149 million.

Asset volatility

The Group is exposed to changes of assets' values especially in the investments of the foundations and schemes in Finland and in the UK. The asset values of these arrangements constitute 90% of total asset values in defined benefit plans within Group.

Inflation risk

In Finland, the plan's benefits in payment are tied to TyEL index which depends 80% on inflation and 20% on common salary index. Higher inflation increases the TyEL index which increases the employer's payments to the pooling system. Index increments do not increase directly the plan's liabilities as they are covered through the pooling system.

In the UK the pensions in payment are tied to Retail Price Index whilst being tied to Consumer Price Index during deferment. An increase of 0.5% in indexes will increase the liabilities by some EUR 35 million.

In Germany the pensions have to be adjusted in accordance with the Consumer Price Index.

Salary risk

In Finland the salary risk is related to 8% of employees that are insured through TyEL foundation.

As all UK defined benefit arrangements are closed to future accrual, changes in salary levels have no impact on the funding position.

In Germany the salaries affect directly to benefit cost in part of the plans and to part of the plans salary changes have no impact.

Life expectancy

Adjustments in mortality assumption have an impact on Group's defined benefit obligation. An increase in life expectancy by one year will increase liabilities in Finland of EUR 16 million, in the UK of EUR 15 million and in Germany of EUR 24 million.

30 Provisions

EURm	Restructuring provisions	Termination provisions	Environmental provisions	Emission rights provision	Other provisions	Total
At 1 Jan. 2014	50	93	20	9	17	189
Additional provisions and increases to existing provisions	15	76	8	11	5	115
Utilised during year	–10	–55	–2	–8	–3	–78
Unused amounts reversed	–5	–5	–	–	–2	–12
At 31 Dec. 2014	50	109	26	12	17	214
At 1 Jan. 2013	73	84	25	10	15	207
Additional provisions and increases to existing provisions	19	81	–	8	7	115
Reclassification	–3	3	–	–	–	–
Utilised during year	–25	–62	–3	–9	–3	–102
Unused amounts reversed	–14	–13	–2	–	–2	–31
At 31 Dec. 2013	50	93	20	9	17	189

Provisions

Restructuring provisions include charges related primarily to mill closures. Termination provisions are concerned with planned mill closures and operational restructuring primarily in Germany, Finland, France and the UK. In Finland provisions include also unemployment arrangements and disability pensions. Unemployment pension provisions are recognised 2–3 years before the granting and settlement of the pension.

In 2014, additions in provisions relate mainly to planned capacity closures in UPM Paper ENA. In November, UPM announced the plan to permanently close four of its paper machines: PM3 at UPM Chapelle, PM1 at UPM Shotton, PM5 at UPM Jämsänkoski and PM2 at UPM Kaukas. In addition, the restructuring measures have started in the UPM Raflatac segment in April.

In 2013, additions in provisions are mainly related to restructuring of UPM Docelles mill and closures of paper machines Rauma PM3 and Ettringen PM4 in UPM Paper ENA segment and the restructuring in the UPM Raflatac segment. In addition, provisions were recognised due to the streamlining of global functions and other actions under UPM's profit improvement programme.

Environmental provisions include expenses relating to closed mills and the remediation of industrial landfills.

The Group takes part in government programmes aimed at reducing greenhouse gas emissions. In 2014, the Group has recognised provisions amounting to EUR 12 million (9 million) to cover the obligation to return emission rights. The Group possesses emission rights worth EUR 43 million (11 million) as intangible assets. In 2013 UPM has recognised current receivables of EUR 14 million due to the delayed distribution of 2013 emission rights.

Allocation between non-current and current provisions

	As at 31 December	
EURm	2014	2013
Non-current provisions	112	83
Current provisions	102	106
Total	214	189

31 Interest-bearing liabilities

	As at 31 December	
EURm	2014	2013
Non-current interest-bearing liabilities		
Bonds	1,081	955
Loans from financial institutions	1,335	1,655
Pension loans	241	323
Finance lease liabilities	100	270
Derivative financial instruments	99	100
Other loans	191	171
Other liabilities	11	11
	3,058	3,485
Current interest-bearing liabilities		
Current portion of non-current liabilities	290	512
Derivative financial instruments	41	82
Other liabilities	75	49
	406	643
Total interest-bearing liabilities	3,464	4,128

As of 31 December 2014 the contractual maturity of interest-bearing liabilities

EURm	2015	2016	2017	2018	2019	2020+	Total
Bonds							
Repayments	–	–	321	206	–	378	905
Interests	58	58	58	31	25	211	441
	58	58	379	237	25	589	1,346
Loans from financial institutions							
Repayments	45	233	316	302	451	44	1,391
Committed facilities	–	–	–	–	–	–	–
Interests	20	19	18	15	2	1	75
	65	252	334	317	453	45	1,466
Pension loans							
Repayments	74	74	74	74	–	–	296
Interests	13	10	6	3	–	–	32
	87	84	80	77	–	–	328
Finance lease liabilities							
Repayments	171	30	4	4	5	58	272
Interests	6	1	1	–	–	2	10
	177	31	5	4	5	60	282
Other loans							
Repayments	2	2	2	2	1	148	157
Interests	7	7	7	3	10	62	96
	9	9	9	5	11	210	253
Interest rate swaps (liabilities)							
Repayments	–	–	48	–	–	19	67
Interests	4	3	4	4	6	16	37
	4	3	52	4	6	35	104
Current loans							
Repayments	74						74
Interests	–						–
	74						74
Guarantees, repayments	5						5
Non-current loans repayments excl. committed facilities	292	339	717	588	457	628	3,021

As of 31 December 2013 the contractual maturity of interest-bearing liabilities

EURm	2014	2015	2016	2017	2018	2019+	Total
Bonds							
Repayments	363	–	–	300	181	341	1,185
Interests	73	53	53	53	28	212	472
	436	53	53	353	209	553	1,657
Loans from financial institutions							
Repayments	29	333	233	317	300	496	1,708
Committed facilities	–	–	–	–	–	–	–
Interests	28	30	30	32	27	6	153
	57	363	263	349	327	502	1,861
Pension loans							
Repayments	74	74	74	74	74	–	370
Interests	17	13	10	6	3	–	49
	91	87	84	80	77	–	419
Finance lease liabilities							
Repayments	39	171	30	4	4	61	309
Interests	6	6	1	1	1	2	17
	45	177	31	5	5	63	326
Other loans							
Repayments	1	2	2	2	1	150	158
Interests	6	6	6	6	3	63	90
	7	8	8	8	4	213	248
Interest rate swaps (liabilities)							
Repayments	19	–	–	67	4	18	108
Interests	–1	–1	–1	–	2	37	36
	18	–1	–1	67	6	55	144
Current loans							
Repayments	49						49
Interests	–						–
	49						49
Guarantees, repayments	5						5
Non-current loans repayments excl. committed facilities	506	580	339	697	560	1,048	3,730

Amounts are based on the exchange rates and interest rates on the reporting date.

The difference between the above listed cash-based repayment amounts and the respective balance sheet values mainly arise from fair value adjustments to balance sheet items.

Bonds in interest-bearing liabilities

Fixed rate	Interest rate %		Nominal value issued m	As at 31 Dec. 2014 EURm	2013 EURm
1997–2027	7.450	USD	375	424	342
2000–2030	3.550	JPY	10,000	85	80
2002–2014	5.625	USD	500	–	374
2002–2017	6.625	GBP	250	346	329
2003–2018	5.500	USD	250	226	203
Total at 31 Dec.				1,081	1,328
Current portion				–	373
Non-current portion				1,081	955

Fair value hedge of non-current interest-bearing liabilities

Fair value hedge accounting results in a cumulative fair value adjustment totalling EUR 261 million (211 million), which has increased the carrying amount of the liabilities.

Accordingly, the positive fair value of the hedging instruments, excluding accrued interests, amounts EUR 279 million (229 million) in assets, and negative fair value of EUR 0 million (1 million) in liabilities. The effect of the fair value hedge ineffectiveness on the income statement was profit EUR 1 million (2 million).

Net interest-bearing liabilities

EURm	As at 31 December 2014	2013
Total interest-bearing liabilities	3,464	4,128
Interest-bearing financial assets		
Non-current		
Loan receivables	11	11
Derivative financial instruments	281	212
Other receivables	29	31
	321	254
Current		
Loan receivables	4	9
Other receivables	13	11
Derivative financial instruments	25	24
Cash and cash equivalents	700	790
	742	834
Interest-bearing financial assets	1,063	1,088
Net interest-bearing liabilities	2,401	3,040

Finance lease liabilities

As at 31 December 2014 the Group has one sale and leaseback agreement and five finance lease agreements regarding power plant machinery. The Group uses the energy generated by these plants for its own production. The Group also has a finance lease arrangement over the usage of a waste water treatment plant. In addition, the Group leases certain production assets and buildings under long term arrangements.

Finance lease liabilities – minimum lease payments

EURm	As at 31 December 2014	2013
No later than 1 year	177	45
1–5 years	45	218
Later than 5 years	60	63
	282	326
Future finance charges	–10	–17
Finance lease liabilities – the present value of minimum lease payments	272	309

Finance lease liabilities – the present value of minimum lease payments

EURm	As at 31 December 2014	2013
No later than 1 year	171	39
1–5 years	43	209
Later than 5 years	58	61
Total	272	309

32 Other liabilities

EURm	As at 31 December 2014	2013
Derivative financial instruments	51	66
Other [1]	99	98
Total	150	164

[1] Consists mainly of non-current advances received and a put liability that is not estimated to mature within 12 months.

33 Trade and other payables

EURm	As at 31 December 2014	2013
Advances received	8	16
Trade payables	854	831
Accrued expenses and deferred income	429	414
Derivative financial instruments	179	85
Other current liabilities	79	73
Total	1,549	1,419

Trade and other payables mature within 12 months.

Main items included in accrued expenses and deferred income

EURm	As at 31 December 2014	2013
Personnel expenses	194	188
Interest expenses	33	35
Indirect taxes	8	8
Other items [1]	194	183
Total	429	414

[1] Consists mainly of customer rebates.

34 Financial instruments by category

2014 EURm **Balance sheet item**	**Financial assets/ liabilities at fair value through profit or loss**	**Loans and receivables**	**Available for sale financial assets**	**Derivatives used for hedging**	**Financial liabilities measured at amortised cost**	**Carrying amounts by balance sheet item**	**Fair values**	Note
Non-current financial assets								
Available-for-sale investments	–	–	2,510	–	–	2,510	2,510	22
Non-current financial assets								
Loan receivables	–	43	–	–	–	43	43	23
Derivative financial instruments	9	–	–	282	–	291	291	23
						334	334	23
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,562	–	–	–	1,562	1,562	26
Prepayments and accrued income	–	143	–	–	–	143	143	26
Derivative financial instruments	53	–	–	98	–	151	151	26
						1,856	1,856	
Carrying amount by category	62	1,748	2,510	380	–	4,700	4,700	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	2,959	2,959	3,037	31
Derivative financial instruments	50	–	–	49	–	99	99	31
						3,058	3,136	31
Other liabilities								
Other liabilities	–	–	–	–	99	99	99	32
Derivative financial instruments	12	–	–	39	–	51	51	32
						150	150	32
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	365	365	365	31
Derivative financial instruments	41	–	–	–	–	41	41	31
						406	406	31
Trade and other payables								
Trade and other payables	–	–	–	–	941	941	941	33
Accrued expenses and deferred income	–	–	–	–	429	429	429	33
Derivative financial instruments	30	–	–	149	–	179	179	33
						1,549	1,549	
Carrying amount by category	133	–	–	237	4,793	5,163	5,241	

2013 EURm **Balance sheet item**	**Financial assets/ liabilities at fair value through profit or loss**	**Loans and receivables**	**Available for sale financial assets**	**Derivatives used for hedging**	**Financial liabilities measured at amortised cost**	**Carrying amounts by balance sheet item**	**Fair values**	Note
Non-current financial assets								
Available-for-sale investments	–	–	2,661	–	–	2,661	2,661	22
Non-current financial assets								
Loan receivables	–	43	–	–	–	43	43	23
Derivative financial instruments	3	–	–	236	–	239	239	23
						282	282	23
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,568	–	–	–	1,568	1,568	26
Prepayments and accrued income	–	154	–	–	–	154	154	26
Derivative financial instruments	54	–	–	172	–	226	226	26
						1,948	1,948	
Carrying amount by category	57	1,765	2,661	408	–	4,891	4,891	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	3,385	3,385	3,489	31
Derivative financial instruments	75	–	–	25	–	100	100	31
						3,485	3,589	31
Other liabilities								
Other liabilities	–	–	–	–	98	98	98	32
Derivative financial instruments	7	–	–	59	–	66	66	32
						164	164	32
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	561	561	561	31
Derivative financial instruments	82	–	–	–	–	82	82	31
						643	643	31
Trade and other payables								
Trade and other payables	–	–	–	–	920	920	920	33
Accrued expenses and deferred income	–	–	–	–	414	414	414	33
Derivative financial instruments	22	–	–	63	–	85	85	33
						1,419	1,419	
Carrying amount by category	186	–	–	147	5,378	5,711	5,815	

Fair values of long-term loans, have been estimated as follows:

The fair value of quoted bonds is based on the quoted market value as of 31 December. The fair value of fixed rate and market-based floating rate loans is estimated using the expected future payments discounted at market interest rates and it is within level 2 of the fair value hierarchy.

The carrying amounts of current financial assets and liabilities approximate their fair value.

35 Derivative financial instruments

Net fair values of derivative financial instruments

EURm	2014 Positive fair values	2014 Negative fair values	2014 Net fair values	2013 Positive fair values	2013 Negative fair values	2013 Net fair values
Interest rate swaps						
Cash flow hedges	–	–23	–23	–	–	–
Fair value hedges	201	–	201	183	–1	182
Held for trading	31	–2	29	32	–	32
Forward foreign exchange contracts						
Cash flow hedges	49	–77	–28	60	–18	42
Net equity hedges	–	–30	–30	18	–	18
Held for trading	24	–18	6	23	–31	–8
Currency options						
Held for trading, bought	–	–	–	–	–	–
Held for trading, written	–	–	–	–	–	–
Cross currency swaps						
Cash flow hedges	–	–26	–26	–	–24	–24
Fair value hedges	78	–	78	46	–	46
Held for trading	6	–90	–84	–	–135	–135
Commodity Contracts						
Cash flow hedges	52	–81	–29	101	–104	–3
Held for trading	1	–23	–22	2	–20	–18
Interest rate forward contracts						
Held for trading	–	–	–	–	–	–
Total	442	–370	72	465	–333	132

No derivative financial instruments are subject to offsetting in the Group's financial statements. All derivative financial instruments are under ISDA or similar master netting agreement.

Net fair values calculated by counterparty

EURm	As at 31 December 2014 Positive fair values	Negative fair values	Net fair values
Derivative financial instruments	219	–147	72

Notional amounts of derivative financial instruments

EURm	As at 31 December 2014	2013
Interest rate swaps	2,134	1,609
Forward foreign exchange contracts	4,465	4,973
Currency options	38	33
Cross currency swaps	617	804
Commodity contracts	442	490
Interest rate forward contracts	2,310	2,332

Cash collaterals pledged for derivative contracts totalled EUR 8 million of which EUR 6 million relate to commodity contracts and EUR 2 million to interest rate forward contracts.

36 Principal subsidiaries and joint operations as at 31 December 2014

Subsidiaries, country of incorporation	Group holding %
Blandin Paper Company, US	100.00
Forestal Oriental S.A., UY	100.00
Gebrüder Lang GmbH Papierfabrik, DE	100.00
LLC UPM Ukraine, UA	100.00
MD Papier GmbH, DE	100.00
Nordland Papier GmbH, DE	100.00
NorService GmbH, DE	100.00
nortrans Speditionsgesellschaft mbH, DE	100.00
OOO UPM-Kymmene, RU	100.00
OOO UPM-Kymmene Chudovo, RU	100.00
PT UPM Raflatac Indonesia, ID	100.00
Rhein Papier GmbH, DE	100.00
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT	100.00
Tilhill Forestry Ltd, GB	100.00
UPM (China) Co., Ltd, CN	100.00
UPM (Vietnam) Ltd, VN	100.00
UPM AS, EE	100.00
UPM Asia Pacific Pte. Ltd, SG	100.00
UPM France S.A.S., FR	100.00
UPM GmbH, DE	100.00
UPM Manufatura e Comércio de Produtos Florestais Ltda, BR	100.00
UPM Raflatac (Changshu) Co., Ltd, CN	100.00
UPM Raflatac (S) Pte Ltd, SG	100.00
UPM Raflatac Co., Ltd, TH	100.00
UPM Raflatac Iberica S.A., ES	100.00
UPM Raflatac Inc., US	100.00
UPM Raflatac Mexico S.A. de C.V., MX	100.00
UPM Raflatac NZ Limited, NZ	100.00
UPM Raflatac Oy, FI	100.00
UPM Raflatac Pty Ltd, AU	100.00
UPM Raflatac s.r.l., AR	100.00
UPM Raflatac Sdn. Bhd., MY	100.00
UPM Raflatac South Africa (Pty) Ltd, ZA	100.00
UPM Raflatac Sp.z.o.o., PL	100.00
UPM S.A., UY	91.00
UPM Sales GmbH, DE	100.00
UPM Sales Oy, FI	100.00
UPM Silvesta Oy, FI	100.00
UPM Sähkönsiirto Oy, FI	100.00
UPM-Kymmene (UK) Ltd, GB	100.00
UPM-Kymmene AB, SE	100.00
UPM-Kymmene Austria GmbH, AT	100.00
UPM-Kymmene B.V., NL	100.00
UPM-Kymmene Inc., US	100.00
UPM-Kymmene India Private Limited, IN	100.00
UPM-Kymmene Japan K.K., JP	100.00
UPM-Kymmene Kagit Urunleri Sanayi ve Ticaret Ltd. Sti, TR	99.99
UPM-Kymmene Otepää AS, EE	100.00
UPM-Kymmene S.A., ES	100.00
UPM-Kymmene Seven Seas Oy, FI	100.00
UPM-Kymmene S.r.l., IT	100.00
UPM-Kymmene Wood Oy, FI	100.00
Werla Insurance Company Ltd, MT	100.00
Wisapower Oy, FI	100.00

The table includes subsidiaries with sales exceeding EUR 2 million.

Joint operations, country of incorporation	Group holding %
Oy Alholmens Kraft Ab (Pohjolan Voima Oy, G serie), FI	27.88
EEVG Entsorgungs- und Energieverwertungs-gesellschaft m.b.H., AT	50.00
Järvi-Suomen Voima Oy (Pohjolan Voima Oy, G3 serie), FI	50.00
Kainuun Voima Oy, FI	50.00
Kaukaan Voima Oy (Pohjolan Voima Oy, G9 serie), FI	54.00
Kymin Voima Oy (Pohjolan Voima Oy, G2 serie), FI	76.00
Madison Paper Industries, US	50.00
Rauman Biovoima Oy (Pohjolan Voima Oy, G4 serie), FI	71.95

37 Share-based payments

Share options

The Annual General Meeting held on 27 March 2007 approved the Board of Directors' proposal to issue share options to the Group's key personnel. The number of options was no more than 15,000,000, entitling subscription for a total of no more than 15,000,000 UPM-Kymmene Corporation shares. Of the share options, 5,000,000 were marked with the symbol 2007A, 5,000,000 are marked with the symbol 2007B and 5,000,000 are marked with the symbol 2007C. The subscription periods were 1 October 2010 to 31 October 2012 for share options 2007A, 1 October 2011 to 31 October 2013 for share options 2007B, and 1 October 2012 to 31 October 2014 for share options 2007C.

The share subscription price was the trade volume weighted average quotation of the share on the NASDAQ OMX Helsinki Ltd, from 1 April to 31 May 2008 for share option 2007A i.e. EUR 12.40 per share, from 1 April to 31 May 2009 for share option 2007B i.e. EUR 6.24 per share and from 1 April to 31 May 2010 for share option 2007C i.e. EUR 10.49 per share.

The share subscription period for share options 2007A ended on 31 October 2012. During the entire share subscription period 300 shares were subscribed with share options 2007A.

The share subscription period for share options 2007B ended on 31 October 2013. During the entire share subscription period 4,330,009 shares were subscribed with share options 2007B.

The share subscription period for share options 2007C ended on 31 October 2014. During the entire share subscription period 4,435,302 shares were subscribed with share options 2007C.

Changes in the numbers of share options granted

	2014 Weighted average exercise price, EUR	2014 Number of share options	2013 Weighted average exercise price, EUR	2013 Number of share options
Outstanding 1 Jan.	10.49	4,501,500	8.71	7,734,478
Share options granted	–	–	–	–
Share options forfeited	–	–	–	–
Share options exercised	10.49	–4,433,802	6.24	–3,177,487
Share options expired	10.49	–67,698	6.24	–55,491
Outstanding 31 Dec.		–	10.49	4,501,500
Exercisable share options 31 Dec.		–		4,501,500

Weighted average remaining contractual life was 10 months as at 31 December 2013.

Share-based rewards

The Group's long-term incentives consist of the Performance Share Plan (PSP) for senior executives and the Deferred Bonus Plan (DBP) for other key employees.

The Performance Share Plan consists of annually commencing three-year plans. The plan is targeted at Group Executive Team (GET) members and other selected members of the management and it consists of a three-year earning period. The earned shares are delivered after the earning period has ended. Under the plans, UPM shares are awarded based either on group-level performance or total shareholder return during a three-year earning period. Total shareholder return takes into account share price appreciation and paid dividends. The number of shares delivered to participants under Performance Share Plans as well as other key figures of the plans are presented in the table below.

Performance share plans	PSP 2011-2013	PSP 2012-2014	PSP 2013-2015	PSP 2014-2016
No. of participants (31 Dec. 2014)	30	32	35	26
Actual achievement	0%	22.3%	–	–
Max no. of shares to be delivered 1):				
to the President and CEO	–	48,837	219,000	125,000
to other members of GET	–	103,695	470,000	410,000
to other key individuals	–	85,855	465,000	347,500
Total max no. of shares to be delivered	–	238,387	1,154,000	882,500
Share delivery (year)	2014	2015	2016	2017
Earning criteria (weighting)	Operating cash flow (60%) and EPS (40%)	Operating cash flow (60%) and EPS (40%)	Operating cash flow (60%) and EPS (40%)	Total shareholder return (100%)

1) For PSP 2011-2013 and PSP 2012-2014 actual no. of shares delivered.

The Deferred Bonus Plan is targeted at other selected key employees of the Group and it consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. Prior to share delivery, the share rewards earned are adjusted with dividends and other capital distribution, if any, paid to all shareholders during the restriction period. The shares earned on the basis of DBP 2011 were delivered in the spring of 2014 and shares earned on the basis of DBP 2012 in the spring of 2015. Key figures related to the Deferred Bonus Plans are presented in the table below.

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Deferred bonus plans	DBP 2011	DBP 2012	DBP 2013	DBP 2014
No. of participants (at grant)	520	580	560	395
No. of participants (31 Dec. 2014)	445	489	523	390
Max no. of shares to be delivered (at grant)	1,200,000	1,800,000	1,640,000	950,000
Estimated no. of shares to be delivered as at 31 Dec. 2014 [1]	333,000	613,000	253,000	343,000
Share delivery (year)	2014	2015	2016	2017
Earning criteria	Financial STI targets	Financial STI targets	Group/Business Area EBITDA	Group/Business Area EBITDA

[1] For DBP 2011 actual no. of shares earned.

The above indicated estimates of the share rewards under the Performance Share Plan and the Deferred Bonus Plan represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants. The amount of estimated payroll tax accruals recognised as liabilities were EUR 9.9 million (6.9 million).

38 Related party transactions

The Board of Directors and the Group Executive Team

There have not been any material transactions between UPM and its members of the Board of Directors or the Group Executive Team (key management personnel) or persons closely associated with these members or organisations in which these individuals have control or significant influence. There are no loans granted to any members of the Board of Directors or the Group Executive Team at 31 December 2014 and 2013. Shares and share options held by members of the Board of Directors and members of the Group Executive Team are disclosed in pages 61 and 64. Remuneration to members of the Board of Directors and the Group Executive Team are disclosed in Note 7.

Associated companies and joint ventures

The Group's recovered paper purchases in 2014 from associated companies and joint ventures were close to 620,000 tonnes (610,000 tonnes). In Finland, the Group organises its producer's responsibility of recovered paper collection through Paperinkeräys Oy, in which the Group has 33.1% interest. Austria Papier Recycling G.m.b.H purchases recovered paper in Austria, in which the Group has a 33.3% equity interest. LCI s.r.l. is an Italian recovered paper purchasing company in which the Group has a 50.0% interest. The purchases from those three companies represented approximately 62% (64%) of total recovered papers purchase amount from associated companies and joint ventures. Recovered paper purchases are based on market prices.

The balances with the Group's associated companies and joint ventures are presented in Note 21.

Pension Funds

In Finland, UPM has a pension foundation, Kymin Eläkesäätiö, which is a separate legal entity. Pensions for about 8% of the Group's Finnish employees are arranged through the foundation. In 2014 the contributions paid by UPM to the foundation amounted to EUR 7 million (11 million). The foundation manages and invests the contributions paid to the plan. The fair value of the foundation's assets at 31 December 2014 was EUR 351 million (337 million), of which 48% was in the form of equity instruments, 42% in the form of debt instruments and 10% invested in property and money market.

In the UK, all UPM Pension Schemes now operate under a single Trust which is independent from the Company. The Trust consists of various Defined Benefit sections, all of which are closed to future accrual and one common Defined Contribution section which is open to all UPM employees in the UK. The Group made contributions of EUR 6 million (5 million) to the Defined Benefit sections of the Scheme in 2014 following completion of the triennial Actuarial Valuation in April 2013. The next UK actuarial valuation will be in April 2016. The fair value of the UK Defined Benefit fund assets at 31 December 2014 was EUR 363 million (305 million), of which 63% was invested in equity instruments, 31% in debt instruments and 6% in property and money market.

Subsidiaries and joint operations

The Group's principal subsidiaries and joint operations are disclosed in Note 36.

39 Commitments and contingencies

Contingent liabilities

The Group is a defendant or plaintiff in a number of legal proceedings incidental to its operations. These lawsuits primarily involve claims arising from commercial law issues.

Group companies

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

In 2012 UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along right under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of shares in Metsä Fibre to Itochu Corporation. UPM claimed jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million. Metsäliitto and Metsä Board had sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto had exercised a call option to purchase UPM's remaining 11% shareholding in Metsä Fibre for EUR 150 million. The arbitral tribunal rendered its final decision (arbitral award) in February 2014 and ordered Metsäliitto and Metsä Board to pay UPM the capital amount of EUR 58.5 million and penalty interest and compensate UPM for its legal fees. As a result, UPM recorded an income of EUR 67 million as a special item in Q1 2014. In May 2014 Metsäliitto and Metsä Board commenced litigation proceedings in the Helsinki District Court challenging the arbitral award and requesting the District Court to set aside the arbitral award or to declare it null and void. UPM considers Metsäliitto's and Metsä Board's claims unfounded. At the moment, it is not known when the District Court will give its decision.

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

Other shareholdings

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

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

Commitments

In the normal course of business, UPM enters into various agreements providing financial or performance assurance to third parties. The maximum amounts of future payments for which UPM is liable is disclosed in the table below under "Other commitments".

The Group has also entered into various agreements to provide financial or performance assurance to third parties on behalf of certain companies in which the Group has a non-controlling interest. These agreements are entered into primarily to support or enhance the creditworthiness of these companies. The Group has no collateral or other recourse provisions related to these guarantees. It is the Group's policy not to give guarantees on behalf of third parties.

Commitments

EURm	As at 31 December 2014	2013
On own behalf		
Mortgages and pledges	289	357
On behalf of others		
Guarantees	5	5
Other commitments, own		
Operating leases, due within 12 months	60	57
Operating leases, due after 12 months	339	339
Other commitments	160	141
Total	853	899
Mortgages and pledges	289	357
Guarantees	5	5
Operating leases	399	396
Other commitments	160	141
Total	853	899

Property under mortgages given as collateral for own commitments include property, plant and equipment, industrial estates and forest land.

In addition, UPM has committed to participate in the share issue from Pohjolan Voima Oy to finance the Olkiluoto 3 nuclear power plant project. UPM's total commitment of the share issue is EUR 119 million, of which EUR 31 million was paid in 2014 and EUR 31 million in 2013. The remaining part of the share issue will be implemented during the coming years based on the financing needs of the project.

Operating lease commitments, where a Group company is the lessee

The Group leases office, manufacturing and warehouse space through various non-cancellable operating leases. Certain contracts contain renewal options for various periods of time.

The future aggregate minimum lease payments under non-cancellable operating lease contracts

EURm	As at 31 December 2014	2013
No later than 1 year	60	57
1–2 years	47	42
2–3 years	39	35
3–4 years	35	31
4–5 years	31	29
Later than 5 years	187	202
Total	399	396

Capital commitments at the balance sheet date but not recognised in the financial statements; major commitments under construction listed below

EURm	Total cost	Commitment as at 31 December 2014	2013
Changshu PM3	277	212	268
Capacity increase/Kymi	160	118	–

40 Events after the balance sheet date

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

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

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

Parent company accounts

(Finnish Accounting Standards, FAS)

Income statement

EURm	Note	Year ended 31 Dec. 2014	2013
Turnover	1	3,395	3,715
Change in inventories of finished goods and work in progress		–33	–4
Production for own use		5	7
Other operating income	2	186	113
Materials and services			
Materials and consumables			
Purchases during the financial period		–2,079	–2,377
Change in inventories		–7	17
External services		–36	–107
		–2,122	–2,467
Personnel expenses	3		
Wages and salaries		–361	–372
Social security expenses			
Pension expenses		–59	–68
Other social security expenses		–22	–20
		–442	–460
Depreciation and value adjustments	4		
Depreciation according to plan		–227	–239
Value adjustments to goods held as non-current assets		–50	–25
		–277	–264
Other operating costs and expenses	3	–499	–432
Operating profit		213	208
Financial income and expenses			
Income from investments held as non-current assets			
Dividends from Group companies		559	2
Interest income from Group companies		8	10
Other interest and financial income			
Other interest income from Group companies		3	4
Other interest income from other companies		11	–
Other financial income from Group companies		8	94
Other financial income from other companies		1	30
Value adjustments on investments		–10	–
Interest and other financial expenses			
Interest expenses to Group companies		–37	–39
Interest expenses to other companies		–37	–39
Other financial expenses to other companies		–101	–3
Total financial income and expenses		405	59
Profit before extraordinary items		618	267
Extraordinary items	5		
Extraordinary income		70	35
Extraordinary expenses		–9	–31
Total extraordinary items		61	4
Profit before appropriations and taxes		679	271
Appropriations			
Increase or decrease in accumulated depreciation difference		117	96
Income taxes	6	–86	–116
Profit/loss for the financial period		710	251

Cash flow statement

EURm	Note	Year ended 31 Dec. 2014	2013
Operating activities			
Profit before extraordinary items		618	267
Financial income and expenses		–405	–59
Adjustments to operating profit	1	384	305
Change in working capital	2	99	227
Interest paid		–75	–78
Dividends received		560	2
Interest received		23	19
Other financial items		25	1
Income taxes paid	3	–63	–140
Net cash generated from operating activities		1,166	544
Investing activities			
Investments in tangible and intangible assets		–181	–199
Proceeds from sale of tangible and intangible assets		100	79
Investments in shares and holdings		–29	–36
Proceeds from sale of shares and holdings		59	4
Increase in other investments		–9	–11
Decrease in other investments		39	265
Net cash used in investing activities		–21	102
Financing activities			
Increase in non-current liabilities		–	527
Decrease in non-current liabilities		–766	–244
Increase or decrease in current liabilities		–223	–337
Share options exercised		47	20
Dividends paid		–319	–317
Group contributions received and paid		4	–70
Net cash used in financing activities		–1,257	–421
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		576	351
Change in cash and cash equivalents		–112	225
Cash and cash equivalents at end of year		464	576

Notes to the cash flow statement

	2014	2013
1 Adjustments to operating profit		
Depreciation	227	239
Gains and losses on sale of non-current assets	102	46
Value adjustments on non-current assets	50	25
Change in provisions	5	–5
Total	384	305
2 Change in working capital		
Inventories	37	–15
Current receivables	77	236
Current non-interest-bearing liabilities	–15	6
Total	99	227

3 Taxes from sales of non-current assets are reported here on a net basis.

Balance sheet

EURm	Note	As at 31 December 2014	2013
Assets			
Non-current assets			
Intangible assets	7		
Intangible rights		5	5
Other capitalised expenditure		198	219
Advance payments		3	6
Total intangible assets		206	230
Tangible assets	8		
Land and water areas		934	974
Buildings		441	460
Machinery and equipment		720	841
Other tangible assets		38	41
Advance payments and construction in progress		209	142
Total tangible assets		2,342	2,458
Investments	9		
Holdings in Group companies		4,648	4,922
Receivables from Group companies		666	693
Holdings in participating interest companies		99	99
Receivables from participating interest companies		6	5
Other shares and holdings		582	562
Other receivables		30	31
Total investments		6,031	6,312
Total non-current assets		8,579	9,000
Current assets			
Inventories			
Raw materials and consumables		229	236
Finished products and goods		77	110
Advance payments		38	35
Total inventories		344	381
Current receivables	10		
Trade receivables		121	155
Receivables from Group companies		953	969
Receivables from participating interest companies		11	13
Loan receivables		2	2
Other receivables		79	70
Prepayments and accrued income		91	109
Total current receivables		1,257	1,318
Cash and cash equivalents		464	576
Total current assets		2,065	2,275
Total assets		10,644	11,275

EURm	Note	As at 31 December 2014	2013
Equity and liabilities			
Shareholders' equity	11		
Share capital		890	890
Revaluation reserve		463	493
Reserve for invested non-restricted equity		1,273	1,226
Retained earnings		1,378	1,446
Profit/loss for the financial period		710	251
Total equity		4,714	4,306
Appropriations			
Accumulated depreciation difference		564	682
Provisions	12		
Provisions for pensions		17	17
Other provisions		51	46
Total provisions		68	63
Non-current liabilities	13		
Bonds		905	822
Loans from financial institutions		1,223	1,523
Pension loans		202	270
Other liabilities		145	145
Total non-current liabilities		2,475	2,760
Current liabilities	14		
Bonds		–	363
Loans from financial institutions		16	8
Pension loans		68	68
Advances received		1	6
Trade payables		280	303
Payables to Group companies		2,123	2,383
Payables to participating interest companies		6	7
Other liabilities		37	30
Accruals and deferred income		292	296
Total current liabilities		2,823	3,464
Total liabilities		5,298	6,224
Total equity and liabilities		10,644	11,275

Notes to the parent company financial statements

(All amounts in millions of euros unless otherwise stated.)

Accounting policies

The parent company financial statements are prepared in accordance with Finnish Accounting Standards. The main differences in accounting policies between the Group and the parent company relate to the measurement of derivative financial instruments and biological assets and the recognition of defined benefit obligations, revaluations and deferred income taxes. See Notes to the consolidated financial statements, Note 1.

1 Turnover

Owing to the corporate structure of the Group, the turnover of the parent company has not been divided by segment and destination. See Notes to the consolidated financial statements, Note 4.

2 Other operating income

EURm	Year ended 31 Dec. 2014	2013
Gains on sale of non-current assets	163	94
Rental income	17	15
Gains on sale of emission rights [1]	–	1
Other	6	3
Total	186	113

[1] Emissions trading rights are accounted for on a net basis.

3 Personnel expenses and other operating costs and expenses

EURm	Year ended 31 Dec. 2014	2013
Wages and salaries		
President and CEO, and members of the Board of Directors [2]	3	3
Other wages and salaries	358	369
Total	361	372

[2] See Notes to the consolidated financial statements, Note 7.

	Year ended 31 Dec. 2014	2013
Average number of personnel	5,880	6,410

Owing to the corporate structure of the Group, the average number of personnel has not been divided by segment. See Notes to the consolidated financial statements, Note 4.

EURm	Year ended 31 Dec. 2014	2013
Auditor's fees	0.8	1.0

4 Depreciation and value adjustments

EURm	Year ended 31 Dec. 2014	2013
Depreciation according to plan		
Intangible rights	2	3
Other capitalised expenditure	32	36
Buildings	35	33
Machinery and equipment	151	160
Other tangible assets	7	7
Total	227	239
Value adjustments		
Intangible and tangible assets	50	25
Total	277	264

5 Extraordinary items

EURm	Year ended 31 Dec. 2014	2013
Extraordinary income		
Group contributions received	70	35
Total	70	35
Extraordinary expenses		
Group contributions paid	–9	–31
Total	–9	–31
Total extraordinary items	61	4

6 Income taxes

EURm	Year ended 31 Dec. 2014	2013
Income taxes for the financial period	86	116
Total	86	116

Deferred income taxes

Deferred income tax assets and liabilities of the parent company are not recorded on the balance sheet. Deferred tax liability mainly comprises depreciation differences, for which the deferred tax liability at 31 December 2014 was EUR 113 million at 20% tax rate (136 million). Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued asset is EUR 124 million at 20% tax rate (131 million). Deferred tax asset mainly comprises provisions, for which the deferred tax asset at 31 December 2014 was EUR 14 million at 20% tax rate (13 million).

7 Intangible assets

EURm	As at 31 Dec. 2014	2013
Intangible rights		
Acquisition cost at 1 Jan.	19	19
Increases	3	3
Decreases	–2	–3
Acquisition cost at 31 Dec.	20	19
Accumulated depreciation at 1 Jan.	–14	–13
Accumulated depreciation on decreases and transfers	1	2
Depreciation for the period	–2	–3
Accumulated depreciation at 31 Dec.	–15	–14
Book value at 31 Dec.	5	5
Other capitalised expenditure		
Acquisition cost at 1 Jan.	535	522
Increases	5	12
Decreases	–2	–4
Transfers between balance sheet items	6	5
Acquisition cost at 31 Dec.	544	535
Accumulated depreciation at 1 Jan.	–316	–283
Accumulated depreciation on decreases and transfers	2	3
Depreciation for the period	–32	–36
Accumulated depreciation at 31 Dec.	–346	–316
Book value at 31 Dec.	198	219
Advance payments		
Acquisition cost at 1 Jan.	6	6
Increases	3	5
Transfers between balance sheet items	–6	–5
Book value at 31 Dec.	3	6

8 Tangible assets

EURm	As at 31 Dec. 2014	2013
Land and water areas		
Acquisition cost at 1 Jan.	487	492
Increases	3	4
Decreases	–14	–9
Acquisition cost at 31 Dec.	476	487
Revaluations at 1 Jan.	488	507
Reversal of revaluation	–30	–20
Revaluations at 31 Dec.	458	487
Book value at 31 Dec.	934	974
Buildings		
Acquisition cost at 1 Jan.	1,206	1,177
Increases	12	19
Decreases	–2	–2
Transfers between balance sheet items	24	12
Acquisition cost at 31 Dec.	1,240	1,206
Accumulated depreciation at 1 Jan.	–746	–706
Accumulated depreciation on decreases and transfers	3	2
Depreciation for the period	–35	–33
Value adjustments	–21	–9
Accumulated depreciation at 31 Dec.	–799	–746
Book value at 31 Dec.	441	460

EURm	As at 31 Dec. 2014	2013
Machinery and equipment		
Acquisition cost at 1 Jan.	5,013	5,040
Increases	45	44
Decreases	–3	–93
Transfers between balance sheet items	13	22
Acquisition cost at 31 Dec.	5,068	5,013
Accumulated depreciation at 1 Jan.	–4,172	–4,089
Accumulated depreciation on decreases and transfers	3	92
Depreciation for the period	–151	–160
Value adjustments	–28	–15
Accumulated depreciation at 31 Dec.	–4,348	–4,172
Book value at 31 Dec.	720	841
Other tangible assets		
Acquisition cost at 1 Jan.	200	199
Increases	3	1
Decreases	–1	–1
Transfers between balance sheet items	1	1
Acquisition cost at 31 Dec.	203	200
Accumulated depreciation at 1 Jan.	–159	–152
Accumulated depreciation on decreases and transfers	2	1
Depreciation for the period	–7	–7
Value adjustments	–1	–1
Accumulated depreciation at 31 Dec.	–165	–159
Book value at 31 Dec.	38	41
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	142	65
Increases	105	112
Transfers between balance sheet items	–38	–35
Book value at 31 Dec.	209	142

9 Investments

EURm	As at 31 Dec. 2014	2013
Holdings in Group companies		
Acquisition cost at 1 Jan.	6,109	6,163
Increases	–	5
Decreases	–39	–37
Transfers between balance sheet items	–	–22
Acquisition cost at 31 Dec.	6,070	6,109
Accumulated depreciation at 1 Jan.	–1,187	–1,069
Transfers between balance sheet items	–	–1
Value adjustments	–235	–117
Accumulated depreciation at 31 Dec.	–1,422	–1,187
Book value at 31 Dec.	4,648	4,922

Value adjustments relate to holdings in Group companies in Finland and in foreign countries. Value adjustments are included in other operating costs and expenses. The principal subsidiaries are disclosed in the consolidated financial statements, Note 36.

EURm	As at 31 Dec. 2014	2013
Receivables from Group companies		
Acquisition cost at 1 Jan.	693	950
Increases	7	7
Decreases	–34	–264
Book value at 31 Dec.	666	693

EURm	As at 31 Dec. 2014	2013
Holdings in participating interest companies		
Acquisition cost at 1 Jan.	99	332
Transfers between balance sheet items	–	–233
Acquisition cost at 31 Dec.	99	99
Revaluations at 1 Jan.	–	103
Transfers between balance sheet items	–	–103
Revaluations at 31 Dec.	–	–
Book value at 31 Dec.	99	99
Receivables from participating interest companies		
Acquisition cost at 1 Jan.	5	21
Increases	2	–
Decreases	–1	–
Transfers between balance sheet items	–	–16
Book value at 31 Dec.	6	5
Other shares and holdings		
Acquisition cost at 1 Jan.	398	111
Increases	30	30
Value adjustments	–10	–
Transfers between balance sheet items	–	257
Acquisition cost at 31 Dec.	418	398
Revaluations at 1 Jan.	164	61
Transfers between balance sheet items	–	103
Revaluations at 31 Dec.	164	164
Book value at 31 Dec.	582	562
Other receivables		
Acquisition cost at 1 Jan.	31	14
Increases	–	3
Decreases	–1	–1
Transfers between balance sheet items	–	15
Book value at 31 Dec.	30	31

There were no loans granted to the company's President and CEO, and members of the Board of Directors at 31 December 2014 or 2013.

10 Current receivables

EURm	As at 31 Dec. 2014	2013
Trade receivables	229	227
Loan receivables	848	872
Other receivables	79	70
Prepayments and accrued income	101	149
Total at 31 Dec.	1,257	1,318
Main items included in prepayments and accrued income		
Personnel expenses	6	7
Interest income	42	41
Derivative financial instruments	8	60
Income taxes	–	2
Other items	45	39
At 31 Dec.	101	149
Receivables from Group companies		
Trade receivables	97	59
Loan receivables	846	870
Prepayments and accrued income	10	40
At 31 Dec.	953	969
Receivables from participating interest companies		
Trade receivables	11	13
At 31 Dec.	11	13

11 Shareholders' equity

EURm	Share capital	Revaluation reserve	Reserve for invested non-restricted equity	Retained earnings	Total shareholders' equity
Balance at 1 January 2013	890	512	1,207	1,762	4,371
Share options exercised	–	–	19	–	19
Dividend distribution	–	–	–	–317	–317
Revaluations	–	–19	–	–	–19
Other items	–	–	–	1	1
Profit for the financial period	–	–	–	251	251
Balance at 31 December 2013	890	493	1,226	1,697	4,306
Balance at 1 January 2014	890	493	1,226	1,697	4,306
Share options exercised	–	–	47	–	47
Dividend distribution	–	–	–	–319	–319
Revaluations	–	–30	–	–	–30
Profit for the financial period	–	–	–	710	710
Balance at 31 December 2014	890	463	1,273	2,088	4,714

EURm	As at 31 Dec. 2014	2013
Distributable funds at 31 Dec.		
Reserve for invested non-restricted equity	1,272.8	1,226.4
Retained earnings from previous years	1,378.1	1,446.0
Profit/loss for the financial period	710.3	251.3
Distributable funds at 31 Dec.	3,361.2	2,923.7

12 Provisions

EURm	As at 31 Dec. 2014	2013
Provisions for pensions	17	17
Restructuring provisions	17	13
Environmental provisions	13	12
Other provisions	21	21
Total at 31 Dec.	68	63

Changes of provisions are included in personnel and other operating expenses. Information of provisions is disclosed in the consolidated financial statements, Note 30.

13 Non-current liabilities

EURm	As at 31 Dec. 2014	2013
Bonds	905	822
Loans from financial institutions	1,223	1,523
Pension loans	202	270
Other liabilities	145	145
Total at 31 Dec.	2,475	2,760
Maturity of non-current liabilities		
In 2–5 years		
Bonds	527	481
Loans from financial institutions	1,215	1,075
Pension loans	202	270
	1,944	1,826
Later than 5 years		
Bonds	378	341
Loans from financial institutions	8	448
Other liabilities	145	145
	531	934
Total at 31 Dec.	2,475	2,760

Bonds

Fixed-rate	Interest rate %		Nominal value issued m	As at 31 Dec. 2014 EURm	2013 EURm
1997–2027	7.450	USD	375	309	272
2000–2030	3.550	JPY	10,000	69	69
2002–2014	5.625	USD	500	–	363
2002–2017	6.625	GBP	250	321	300
2003–2018	5.500	USD	250	206	181
Total at 31 Dec.				905	1,185
Current portion				–	363
Non-current portion				905	822

14 Current liabilities

EURm	As at 31 Dec. 2014	2013
Bonds	–	363
Loans from financial institutions	16	8
Pension loans	68	68
Advances received	1	6
Trade payables	331	353
Other liabilities	2,080	2,321
Accruals and deferred income	327	345
Total at 31 Dec.	2,823	3,464

EURm	As at 31 Dec. 2014	2013
Main items included in accruals and deferred income		
Personnel expenses	102	95
Interest expenses	40	38
Income taxes	20	–
Derivative financial instruments	160	207
Customer rebates	4	1
Other items	1	4
At 31 Dec.	327	345
Payables to Group companies		
Trade payables	45	43
Other liabilities	2,043	2,291
Accruals and deferred income	35	49
At 31 Dec.	2,123	2,383
Payables to participating interest companies		
Trade payables	6	7
At 31 Dec.	6	7

15 Contingent liabilities

EURm	As at 31 Dec. 2014	2013
Mortgages [1]		
As security against own debts	289	357
Guarantees		
Guarantees for loans		
On behalf of Group companies	903	907
Other guarantees		
On behalf of Group companies	120	67
Other commitments [2]		
Leasing commitments for next year	104	22
Leasing commitments for subsequent years	66	146
Other commitments	111	52

1) The mortgages given relate mainly to giving mandatory security for borrowing from Finnish pension insurance companies.

2) Other commitments relate to procurement of commodities.

Pension commitments of the President and CEO and the members of the Group Executive Team

See Notes to the consolidated financial statements, Note 7.

Other commitments

The commitment to participate in the share issue from Pohjolan Voima Oy would total EUR 55 million (86 million).

Derivative contracts

Fair values and notional values are disclosed in the consolidated financial statements, Notes 35. All derivatives disclosed have been contracted by the parent Company.

Related party transactions

See Notes to the consolidated financial statements, Note 38.

Information on shares

Changes in number of shares 1 January 2010 – 31 December 2014

		Number of shares
2009	Number of shares at 31 Dec. 2009	519,970,088
2010	Options exercised	–
	Number of shares at 31 Dec. 2010	519,970,088
2011	Share issue	5,000,000
	Options exercised	2,750
	Number of shares at 31 Dec. 2011	524,972,838
2012	Options exercised	1,151,572
	Number of shares at 31 Dec. 2012	526,124,410
2013	Options exercised	3,177,487
	Number of shares at 31 Dec. 2013	529,301,897
2014	Options exercised	4,433,802
	Number of shares at 31 Dec. 2014	533,735,699

Stock exchange trading

UPM's shares are listed on NASDAQ OMX Helsinki Ltd. The company's ADSs are traded on the U.S. over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt programme.

A total of 508.3 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2014 (563.4 million). This represented 95.2% (106.7%) of the total number of shares. The highest quotation was EUR 13.99 in December and the lowest EUR 10.07 in October. The total value of shares traded in 2014 was EUR 6,233 million (5,308 million).

During the year, 6.0 million 2007C share options were traded for EUR 10.3 million (5.4 million, EUR 6.1 million).

Treasury shares

As at 31 December 2014, the company held 230,737 (230,737) of its own shares, 0.04% (0.04%) of the total number of shares. Of these shares 211,481 were returned upon their issue to UPM without consideration as part of Myllykoski transaction and 19,256 shares in accordance with the Group's share reward scheme due to the termination of employment contracts.

Shares and options held by the Board of Directors and the Group Executive Team

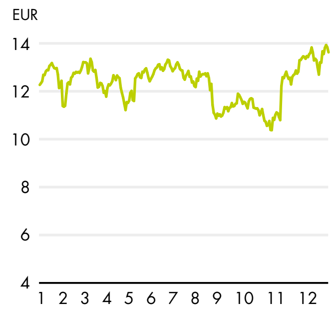
At the end of the year, the members of the Board of Directors including President and CEO owned a total of 892,498 (946,727) UPM-Kymmene Corporation shares, including shares held by persons closely associated with him or her or by organisations of which the person has control. These represent 0.17% (0.18%) of the shares and 0.17% (0.18%) of the voting rights . At the end of the year, President and CEO Jussi Pesonen owned 195,280 shares. At the end of the year, the other members of the Group Executive Team owned a total of 238,859 shares.

Biggest registered shareholders at 31 December 2014

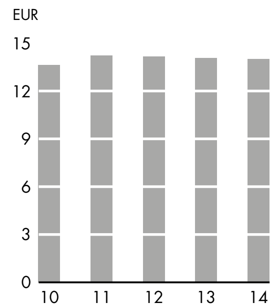
	Shares at 31 December 2014	% of shares	% of votes
Ilmarinen Mutual Pension Insurance Company	12,930,409	2.42	2.42
Mandatum Life Insurance Company	9,531,219	1.79	1.79
Varma Mutual Pension Insurance Company	8,074,488	1.51	1.51
ELO Mutual Pension Insurance Company	6,610,000	1.24	1.24
The Local Government Pensions Institution	4,521,794	0.85	0.85
The State Pension Fund	4,230,000	0.79	0.79
Svenska litteratursällskapet i Finland	3,868,600	0.72	0.72
Swiss National Bank	3,126,520	0.59	0.59
Skagen Global Verdipapirfond	2,433,683	0.45	0.45
Etera Mutual Pension Insurance Company	2,280,968	0.43	0.43
Nominees & registered foreign owners	333,204,242	62.43	62.43
Others	142,923,776	26.78	26.78
Total	533,735,699	100.00	100.00

During 2014, the company received the following notifications of changes in holdings pursuant to Chapter 9, Section 5 of the Securities Market Act: UPM has received an announcement according to which Norges Bank's (The Central Bank of Norway) holding in UPM has fallen below the threshold of 5 per cent on 3 April 2014 after a share lending transaction where Norges Bank is the lender. UPM has received an announcement according to which Norges Bank's (The Central Bank of Norway) holding in UPM has gone above the threshold of 5 per cent on 17 April 2014 after a share lending transaction where Norges Bank is the lender.

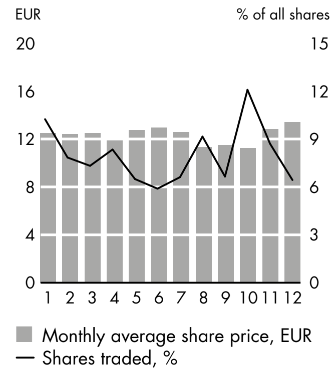
Share price in 2014



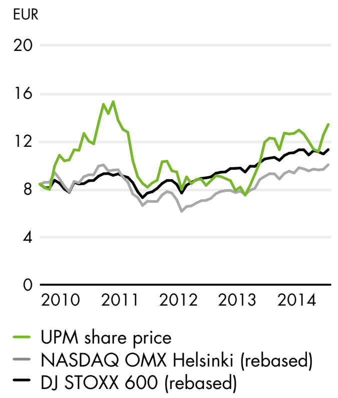
Equity per share



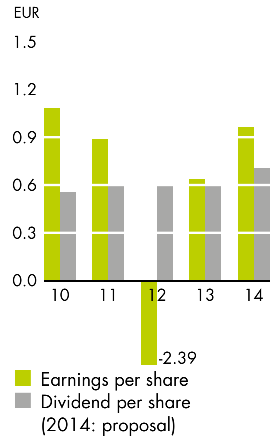
Monthly average share price and shares traded 1–12/2014



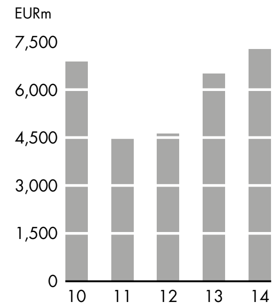
UPM share price 2010–2014 compared with indices



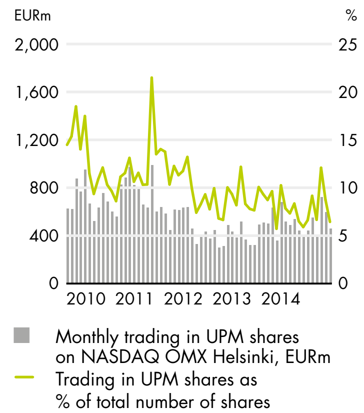
Earning and dividend per share



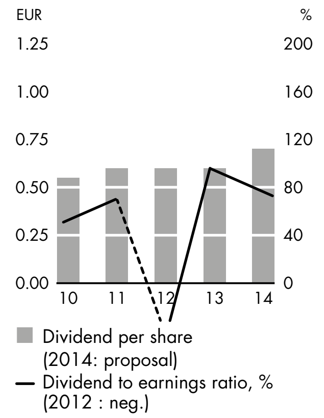
Market capitalisation



Shares traded on Helsinki stock exchange 2010–2014



Dividend per share (EUR) and dividend to earnings ratio (%)



Charts in this page are unaudited.

Distribution of shareholders at 31 December 2014

Size of shareholding	Number of shareholders	% of share-holders	Number of shares, million	% of shares
1 – 100	20,359	22.74	1.2	0.2
101 – 1,000	50,184	56.05	21.2	4.0
1,001 – 10,000	17,434	19.47	48.1	9.0
10,001 – 100,000	1,404	1.57	33.6	6.3
100,001 –	152	0.17	106.0	19.9
Total	89,533	100.00	210.1	39.4
Nominee-registered			323.4	60.6
Not registered as book entry units			0.2	0.0
Total			533.7	100.0

Shareholder breakdown by sector at 31 December, %

	2014	2013	2012	2011	2010
Companies	2.8	3.2	4.3	4.2	4.1
Financial institutions and insurance companies	4.3	4.1	5.4	6.5	5.1
Public bodies	8.0	7.8	7.9	11.3	9.8
Non-profit organisations	5.3	5.7	6.2	6.3	6.4
Households	17.2	18.7	19.9	19.9	18.4
Non-Finnish nationals	62.4	60.5	56.3	51.8	56.2
Total	100.0	100.0	100.0	100.0	100.0

Key figures 2005–2014

Adjusted share-related indicators 2005–2014

		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Earnings per share, EUR (diluted 2014: 0.96)		0.96	0.63	–2.14	0.88	1.08	0.33	–0.35	0.16	0.65	0.50
Equity per share, EUR		14.02	14.08	14.18	14.22	13.64	12.67	11.74	13.21	13.90	14.01
Dividend per share, EUR	1)	0.70	0.60	0.60	0.60	0.55	0.45	0.40	0.75	0.75	0.75
Dividend to earnings ratio, %		72.9	95.2	neg.	68.2	50.9	136.4	neg.	468.8	115.4	150.0
Effective dividend yield, %		5.1	4.9	6.8	7.1	4.2	5.4	4.4	5.4	3.9	4.5
P/E ratio		14.2	19.5	neg.	9.7	12.2	25.2	neg.	86.4	29.4	33.1
Operating cash flow per share, EUR		2.33	1.39	1.98	1.99	1.89	2.42	1.21	1.66	2.32	1.63
Dividend distribution, EURm	1)	373	317	317	315	286	234	208	384	392	392
Share price at 31 Dec., EUR		13.62	12.28	8.81	8.51	13.22	8.32	9.00	13.82	19.12	16.56
Market capitalisation, EURm		7,266	6,497	4,633	4,466	6,874	4,326	4,680	7,084	10,005	8,665
Shares traded, EURm 2)		6,233	5,308	5,534	8,835	8,243	5,691	10,549	16,472	16,021	11,358
Shares traded (1,000s)		508,318	563,382	600,968	790,967	790,490	805,904	932,136	952,300	876,023	697,227
Shares traded, % of all shares		95.6	106.7	114.4	151.5	152.0	155.0	180.1	182.1	167.4	133.6
Lowest quotation, EUR		10.07	7.30	7.82	7.34	7.37	4.33	8.15	13.01	15.36	15.05
Highest quotation, EUR		13.99	13.02	10.98	15.73	13.57	9.78	13.87	20.59	20.91	18.15
Average quotation for the period, EUR		12.26	9.42	9.21	11.17	10.43	7.06	11.32	17.30	18.29	16.29
Number of shares, average (1,000s)		531,574	527,818	525,434	521,965	519,970	519,955	517,545	522,867	523,220	522,029
Number of shares at end of period (1,000s)		533,736	529,302	526,124	524,973	519,970	519,970	519,970	512,569	523,259	523,093

Formulae for calculating indicators are given on page 135.

1) Proposal.

2) Trading on the NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.

Financial indicators 2005–2014

EURm	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Sales	9,868	10,054	10,492	10,068	8,924	7,719	9,461	10,035	10,022	9,348
EBITDA	1,287	1,155	1,312	1,383	1,343	1,062	1,206	1,546	1,678	1,428
% of sales	13.0	11.5	12.5	13.7	15.0	13.8	12.7	15.4	16.7	15.3
Operating profit, excluding special items	847	683	556	682	731	270	513	835	725	558
% of sales	8.6	6.8	5.3	6.8	8.2	3.5	5.4	8.3	7.2	6.0
Operating profit	674	548	–1,318	459	755	135	24	483	536	318
% of sales	6.8	5.5	–12.6	4.6	8.5	1.7	0.3	4.8	5.3	3.4
Profit (loss) before tax	667	475	–1,271	417	635	187	–201	292	367	257
% of sales	6.8	4.7	–12.1	4.1	7.1	2.4	–2.1	2.9	3.7	2.7
Profit (loss) for the period	512	335	–1,122	457	561	169	–180	81	338	261
% of sales	5.2	3.3	–10.69	4.5	6.3	2.2	–1.9	0.8	3.4	2.8
Exports from Finland and foreign operations	8,923	9,089	9,565	9,252	8,139	7,054	8,515	9,170	9,102	8,397
Exports from Finland	4,340	4,118	4,248	4,313	3,882	3,442	4,371	4,546	4,644	4,006
Non-current assets	10,269	10,487	11,066	11,412	10,557	10,581	10,375	10,639	11,355	12,321
Inventories	1,356	1,327	1,388	1,429	1,299	1,112	1,354	1,342	1,255	1,256
Other current assets	2,570	2,785	2,489	2,548	1,956	1,912	2,052	1,972	1,859	1,964
Assets, total	14,195	14,599	14,943	15,389	13,812	13,605	13,781	13,953	14,469	15,541
Total equity	7,480	7,455	7,461	7,477	7,109	6,602	6,120	6,783	7,289	7,348
Non-current liabilities	4,717	5,019	5,430	5,320	4,922	5,432	5,816	4,753	4,770	5,845
Current liabilities	1,998	2,125	2,052	2,588	1,781	1,571	1,828	2,417	2,410	2,348
Total equity and liabilities	14,195	14,599	14,943	15,389	13,812	13,605	13,781	13,953	14,469	15,541
Capital employed at year end	10,944	11,583	11,603	12,110	11,087	11,066	11,193	11,098	11,634	12,650
Return on equity, %	6.9	4.5	neg.	6.3	8.2	2.8	neg.	1.2	4.6	3.5
Return on capital employed, %	6.5	4.8	neg.	4.4	6.6	3.2	0.2	4.3	4.7	3.4
Cash flow from operating activities	1,241	735	1,040	1,041	982	1,259	628	867	1,215	853
Equity to assets ratio, %	52.7	51.1	50.0	48.6	51.5	48.6	44.5	48.8	50.4	47.3
Gearing ratio, %	32	41	43	48	46	56	71	59	56	66
Net interest-bearing liabilities	2,401	3,040	3,210	3,592	3,286	3,730	4,321	3,973	4,048	4,836
Capital expenditure	411	362	357	1,179	257	913	551	708	699	749
% of sales	4.2	3.6	3.4	11.7	2.9	11.8	5.8	7.1	7.0	8.0
Capital expenditure excluding acquisitions	375	329	347	340	252	229	532	683	631	705
% of sales	3.8	3.3	3.3	3.4	2.8	3.0	5.6	6.8	6.3	7.5
Personnel at year end	20,414	20,950	22,180	23,909	21,869	23,213	24,983	26,352	28,704	31,522

Formulae for calculating indicators are given on page 135.

Deliveries

	Deliveries									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Pulp (1,000 t)	3,287	3,163	3,128	2,992	2,919	1,759	1,982	1,927		
Electricity (GWh)	8,721	8,925	9,486	8,911	9,426	8,865	10,167	10,349		
Papers, total (1,000 t)	10,028	10,288	10,871	10,615	9,914	9,021	10,641	11,389	10,988	10,172
Plywood (1,000 m³)	731	737	679	656	638	567	806	945	931	827
Sawn timber (1,000 m³)	1,609	1,661	1,696	1,683	1,729	1,497	2,132	2,325	2,457	2,016

Quarterly figures 2013–2014

EURm	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q1–Q4/14	Q1–Q4/13
Sales	2,531	2,415	2,441	2,481	2,588	2,472	2,520	2,474	9,868	10,054
Other operating income	61	14	9	7	5	28	–10	37	91	60
Costs and expenses	–2,286	–2,082	–2,161	–2,179	–2,365	–2,190	–2,245	–2,291	–8,708	–9,091
Change in fair value of biological assets and wood harvested	32	17	17	12	37	11	14	6	78	68
Share of results of associated companies and joint ventures	–	1	2	–	–	1	1	–	3	2
Depreciation, amortisation and impairment charges	–267	–129	–132	–130	–131	–135	–134	–145	–658	–545
Operating profit (loss)	71	236	176	191	134	187	146	81	674	548
Gains on available-for-sale investments, net	–	–	–	59	–	1	–	–	59	1
Exchange rate and fair value gains and losses	3	–3	–1	–3	–	–	5	5	–4	10
Interest and other finance costs, net	–17	–19	–16	–10	–19	–22	–23	–20	–62	–84
Profit (loss) before tax	57	214	159	237	115	166	128	66	667	475
Income taxes	–49	–32	–30	–44	–79	–28	–14	–19	–155	–140
Profit (loss) for the period	8	182	129	193	36	138	114	47	512	335
Attributable to:										
Owners of the parent company	8	182	129	193	36	138	114	47	512	335
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
	8	182	129	193	36	138	114	47	512	335
Basic earnings per share, EUR	0.01	0.34	0.25	0.36	0.06	0.26	0.22	0.09	0.96	0.63
Diluted earnings per share, EUR	0.01	0.34	0.25	0.36	0.06	0.26	0.22	0.09	0.96	0.63
Earnings per share, excluding special items, EUR	0.32	0.32	0.26	0.27	0.27	0.26	0.20	0.18	1.17	0.91
Average number of shares basic (1,000)	532,916	531,932	531,932	529,514	528,887	528,211	527,922	526,252	531,574	527,818
Average number of shares diluted (1,000)	532,202	532,114	532,201	529,777	528,329	528,155	528,158	526,631	531,574	527,818
Special items in operating profit (loss)	–159	1	–10	–5	–73	–7	8	–63	–173	–135
Operating profit (loss), excl. special items	230	235	186	196	207	194	138	144	847	683
% of sales	9.1	9.7	7.6	7.9	8.0	7.8	5.5	5.8	8.6	6.8
Special items in financial items	–	–	–	66	–	–	–	–	66	–
Special items before tax	–159	1	–10	61	–73	–7	8	–63	–107	–135
Profit (loss) before tax, excl. special items	216	213	169	176	188	173	120	129	774	610
% of sales	8.5	8.8	6.9	7.1	7.3	7.0	4.8	5.2	7.8	6.1
Impact on taxes from special items	–6	11	4	–13	–31	6	–	15	–4	–10
Return on equity, excl. special items, %	9.2	9.1	7.3	7.7	7.5	7.5	5.7	5.1	8.3	6.4
Return on capital employed, excl. special items, %	8.2	8.0	6.5	6.6	7.2	6.8	4.9	5.1	7.5	6.0
EBITDA	330	346	298	313	302	311	258	284	1,287	1,155
% of sales	13.0	14.3	12.2	12.6	11.7	12.6	10.2	11.5	13.0	11.5
Sales by segment										
UPM Biorefining	484	480	477	496	497	484	512	495	1,937	1,988
UPM Energy	115	113	112	124	115	109	110	132	464	466
UPM Raflatac	330	312	306	300	298	307	309	299	1,248	1,213
UPM Paper Asia	288	274	285	277	268	274	289	277	1,124	1,108
UPM Paper ENA	1,361	1,303	1,286	1,334	1,445	1,392	1,358	1,365	5,284	5,560
UPM Plywood	107	101	118	114	112	98	111	108	440	429
Other operations	113	102	113	119	120	117	128	125	447	490
Internal sales	–248	–248	–241	–263	–259	–283	–292	–297	–1,000	–1,131
Eliminations and reconciliations	–19	–22	–15	–20	–8	–26	–5	–30	–76	–69
Sales, total	2,531	2,415	2,441	2,481	2,588	2,472	2,520	2,474	9,868	10,054
Operating profit (loss) excl.special items by segment										
UPM Biorefining	67	63	31	56	66	67	97	70	217	300
UPM Energy	57	43	46	56	45	40	46	55	202	186
UPM Raflatac	22	21	17	20	16	22	19	18	80	75
UPM Paper Asia	27	29	27	25	16	20	22	22	108	80
UPM Paper ENA	30	62	47	42	31	29	–23	–37	181	–
UPM Plywood	14	7	12	11	9	1	7	4	44	21
Other operations	19	14	6	–2	27	5	3	–10	37	25
Eliminations and reconciliations	–6	–4	–	–12	–3	10	–33	22	–22	–4
Operating profit (loss) excl. special items, total	230	235	186	196	207	194	138	144	847	683
% of sales	9.1	9.7	7.6	7.9	8.0	7.8	5.5	5.8	8.6	6.8

Calculation of key indicators

Formulae for calculation of financial indicators

Return on equity, %:

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

Return on capital employed, %:

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

Equity to assets ratio, %:

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

Net interest-bearing liabilities:

Interest-bearing liabilities – interest-bearing assets

Gearing ratio, %:

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$$

EBITDA:

Operating profit + depreciation + impairment
+/– change in value of biological assets
+/– share of results of associated companies and joint ventures +/– special items

Return on capital employed (ROCE) for the segments (operating capital), %:

$$\frac{\text{Operating profit – special items}}{\text{Non-current assets + inventories + trade receivables – trade payables (average)}} \times 100$$

Formulae for calculation of adjusted share-related indicators

Earnings per share:

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

Equity per share:

$$\frac{\text{Equity attributable to owners of the parent company}}{\text{Adjusted number of shares at end of period}}$$

Dividend per share:

$$\frac{\text{Dividend distribution}}{\text{Adjusted number of shares at end of period}}$$

Dividend to earnings ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at 31.12.}} \times 100$$

P/E ratio:

$$\frac{\text{Adjusted share price at 31.12.}}{\text{Earnings per share}}$$

Market capitalisation:

Total number of shares x share price at end of period

Adjusted share price at end of period:

$$\frac{\text{Share price at end of period}}{\text{Share issue coefficient}}$$

Adjusted average share price:

$$\frac{\text{Total value of shares traded}}{\text{Adjusted number of shares traded during period}}$$

Operating cash flow per share:

$$\frac{\text{Cash from operating activities}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

Key exchange rates for the euro at end of period

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

CONTENTS ACCOUNTS

Auditor's report

(Translation from the Finnish Original)

To the Annual General Meeting of UPM-Kymmene Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of UPM-Kymmene Corporation for the year ended 31 December, 2014. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 13 February 2015

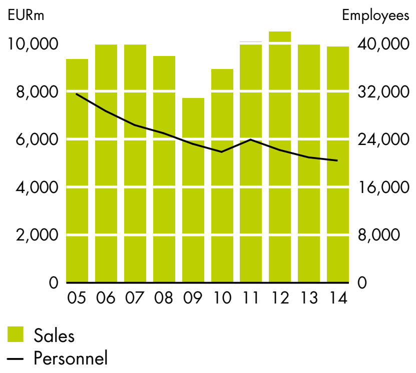
PricewaterhouseCoopers Oy
Authorised Public Accountants

Merja Lindh
Authorised Public Accountant

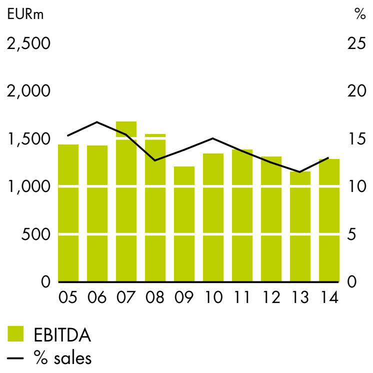
Key financial information

2005–2014

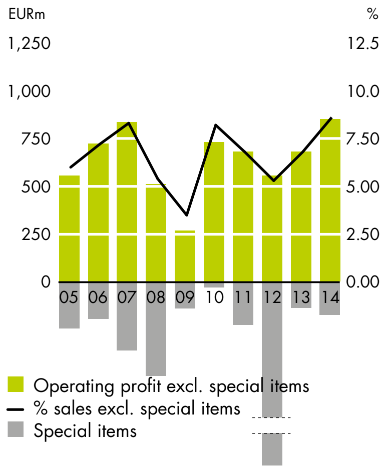
Sales and personnel



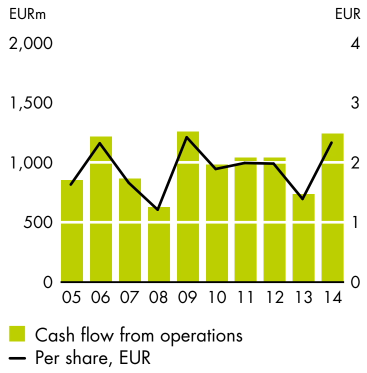
EBITDA



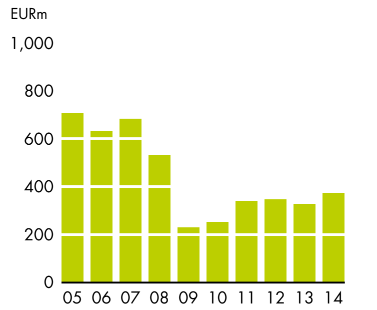
Operating profit



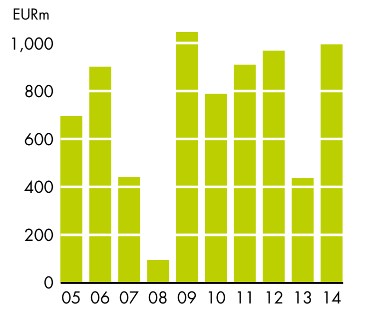
Cash flow from operations



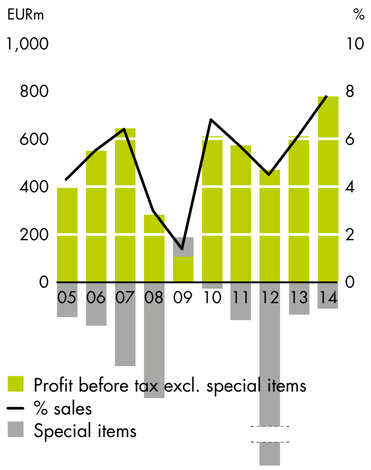
Capital expenditure excluding acquisitions



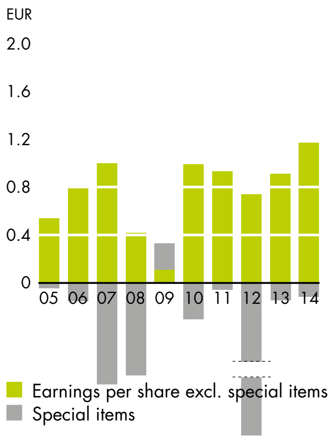
Cash flow after investing activities



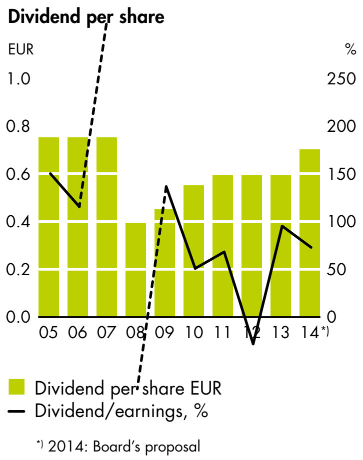
Profit before tax



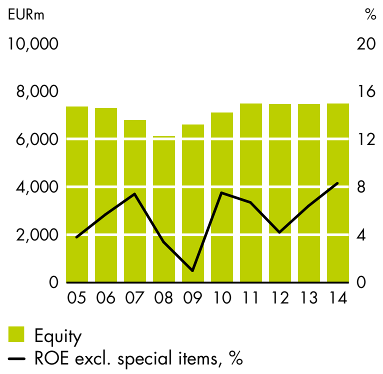
Earnings per share



Dividend per share

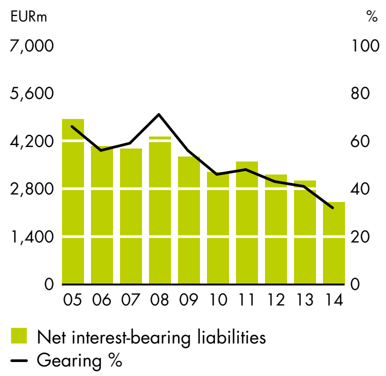


Equity and ROE



Capital employed and ROCE

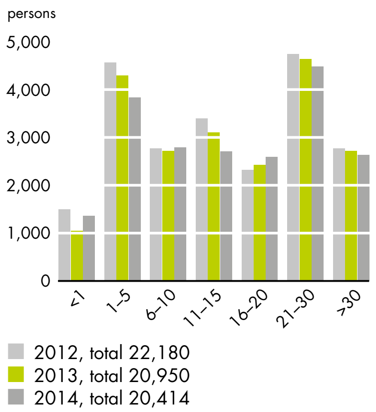
Net interest-bearing liabilities and gearing



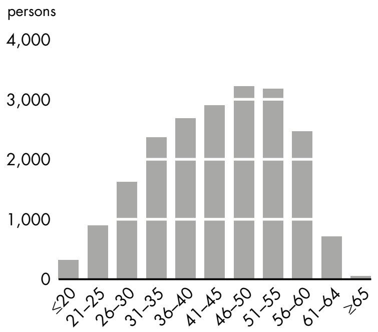
Additional responsibility information

2005–2014

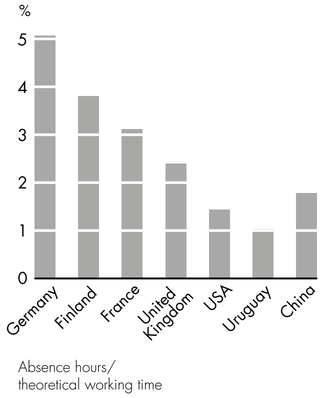
Employees' years of service with UPM 2012–2014



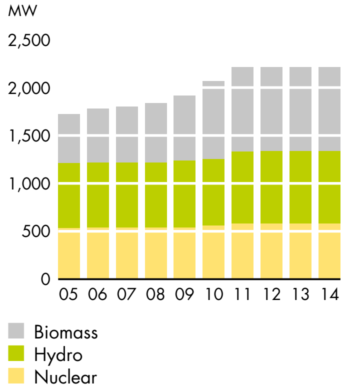
Age structure of UPM personnel 2014



Absenteeism due to sickness and accidents at work, all UPM personnel

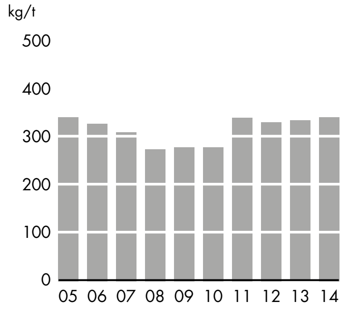


UPM's CO_2 emission-free power generation capacity



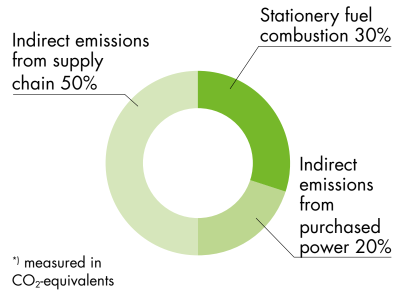
UPM's capacity for CO_2 emission-free power generation has increased continuously over the last ten years.

UPM's fossil CO_2 emissions per tonne of paper



Improvements were made not only through investments in renewable energy production, but also by continuously improving energy efficiency. In 2011, the acquisition of paper mills with a high share of fossil fuels increased the CO_2 (carbon dioxide) emissions significantly. Since 1990, specific CO_2 emissions per tonne of paper have been reduced by approximately 25%.

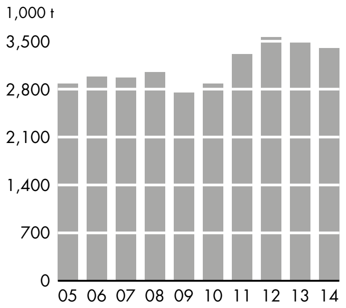
Sources of UPM's greenhouse gas emissions[*]



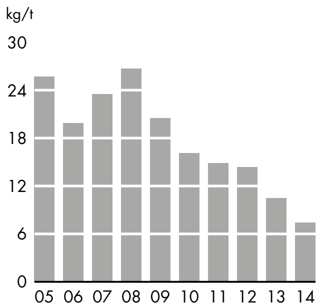
[*] measured in CO_2-equivalents

Compared to the previous year UPM's overall greenhouse gas emissions decreased by approximately 3%. According to the calculations, approximately 50% of the direct and indirect greenhouse gas emissions are related to UPM's energy use, but raw materials, transportation and processing of sold products also have a significant impact. More details are available at www.upm.com/responsibility.

UPM's recovered paper consumption

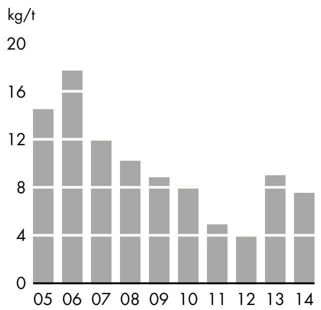


UPM's solid waste to landfills per tonne of converted products



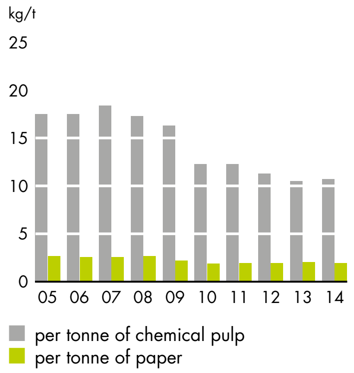
Solid waste to landfills per tonne of converted product decreased by 71% over the last ten years. Since 2007 the figure includes UPM Raflatac's label products only.

UPM's solid waste to landfills per tonne of paper



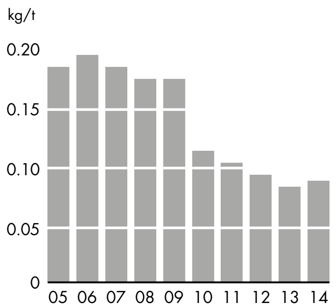
The amount of solid waste sent to landfills has decreased by 48% over the last ten years. However, from 2012 to 2013 the total amount of waste sent to landfill increased significantly. This is due to the fact that former reuse possibilities for ash ceased at one of UPM's paper mills. In 2014, new methods of reuse were established, with further options for reuse still being investigated.

UPM's COD load



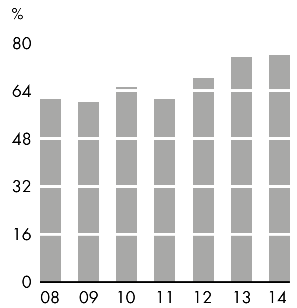
The COD load has decreased by 26% per tonne of paper, and by 39% per tonne of chemical pulp, over the last ten years.

UPM's AOX load per tonne of bleached chemical pulp



AOX indicates the amount of halogens bound to the organic compounds present in the effluent. Over the last ten years, the AOX load per tonne of bleached chemical pulp has decreased by 53%.

Development of UPM's ecolabelled sales 2008–2014



From 2008 (61%) sales of ecolabelled paper, chemical pulp, plywood, timber and biocomposite products have increased by 15% until 2014 (76%). The figure includes FSC, PEFC and EU Ecolabels as well as national ecolabels.

UPM businesses on a world map

Our 20,000 people work in 45 countries across six continents. With head office in Finland, our most important markets are in Europe, North America and Asia, China in particular.

UPM BIOREFINING

- A versatile range of chemical pulp for many growing end uses with annual production capacity of 3.4 million tonnes produced at three pulp mills in Finland and one in Uruguay
- Annual capacities by mills: UPM Fray Bentos 1.3 million; UPM Pietarsaari 800,000; UPM Kaukas 740,000 and UPM Kymi 600,000 tonnes
- Certified sawn timber with annual capacity of 1.5 million cubic metres, produced at four sawmills in Finland
- Wood-based renewable diesel with the annual capacity of 120 million litres produced in Finland

Pulp mills
Finland: UPM Kaukas (Lappeenranta), UPM Kymi (Kouvola) and UPM Pietarsaari
Uruguay: UPM Fray Bentos

Sawmills
Finland: UPM Alholma (Pietarsaari), UPM Kaukas (Lappeenranta), UPM Korkeakoski (Juupajoki) and UPM Seikku (Pori)

Biorefinery
Finland: UPM Lappeenranta Biorefinery (Lappeenranta)

UPM ENERGY

- Cost competitive low-emission power generation in Finland consisting of hydropower, nuclear power, condensing power and wind power
- The total electricity generation capacity is 1,610 MW, including UPM's own hydropower plants and shareholdings in energy companies
- Largest shareholdings:
  – 44.3% of Pohjolan Voima Oy (PVO), which is a majority shareholder (58.5%) in Teollisuuden Voima Oyj (TVO)
  – 19% of Kemijoki Oy's hydropower shares

Hydropower plants:
Finland: Harjavalta, Kallioinen (Sotkamo), Kaltimo (Joensuu), Katerma (Kuhmo), Keltti (Kouvola), Kuusankoski (Kouvola), Tyrvää (Sastamala), Voikkaa (Kouvola) and Äetsä

UPM RAFLATAC

- Self-adhesive label materials for product and information labelling
- 11 factories and 24 slitting and distribution terminals in all continents

Labelstock factories
Brazil: Rio de Janeiro
China: Changshu
Finland: Tampere
France: Nancy
Malaysia: Johor
Poland: Kobierzyce (Wroclaw) and Nowa Wieś (Wroclaw)
United Kingdom: Scarborough
USA: Mills River, NC; Fletcher, NC and Dixon, IL

Slitting and distribution terminals
Argentina: Provincia de Buenos Aires
Australia: Adelaide, Brisbane and Melbourne
Brazil: Jaguariúna
China: Guangzhou and Tianjin
India: Bangalore and Navi Mumbai
Indonesia: Jakarta
Italy: Osnago
México: Ciudad de México and Guadalajara
New Zealand: Auckland
Russia: Moscow and St Petersburg
South Africa: Cape Town and Pinetown
Spain: Barcelona
Thailand: Bangkok
Turkey: Istanbul
Ukraine: Kiev
USA: Ontario, California
Vietnam: Binh Thang Ward Di An District

UPM PAPER ASIA

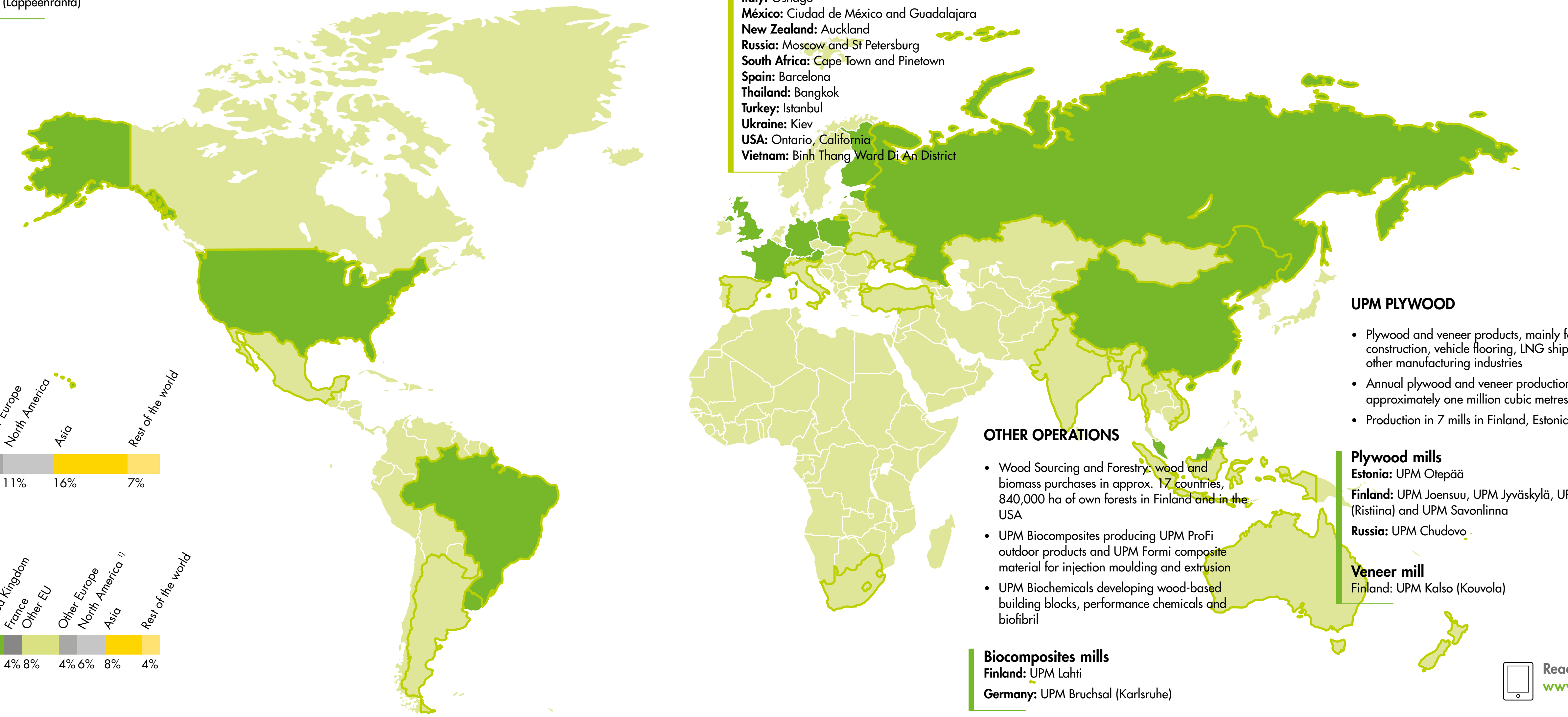
- Labelling materials for global markets and fine papers for Asian markets
- Annual production capacity of 0.8 million tonnes of fine papers and 0.6 million tonnes of labelling and packaging materials

Paper mills
China: UPM Changshu
Finland: UPM Jämsänkoski (Jämsä) and UPM Tervasaari (Valkeakoski)

UPM PAPER ENA

- Magazine papers, newsprint and fine papers for a wide range of end uses
- Annual paper production capacity of 9.4 million tonnes, manufactured in 17 paper mills
- Capacities: 4.8 million tonnes of magazine papers, 2.4 million tonnes of newsprint and 2.2 million tonnes of fine papers annually
- The combined heat and power (CHP) plants operating on paper mill sites included in the business area

Paper mills
Austria: UPM Steyrermühl
Finland: UPM Jämsä River Mills (Jämsänkoski and Kaipola), UPM Kaukas (Lappeenranta), UPM Kymi (Kouvola) and UPM Rauma
France: UPM Chapelle Darblay (Grand-Couronne)
Germany: UPM Augsburg, UPM Ettringen, UPM Hürth, UPM Nordland Papier (Dörpen), UPM Plattling, UPM Schongau and UPM Schwedt
United Kingdom: UPM Caledonian Paper (Irvine), UPM Shotton Paper
USA: UPM Blandin (Grand Rapids, MN) and UPM Madison (Madison, ME) (50%)



UPM PLYWOOD

- Plywood and veneer products, mainly for construction, vehicle flooring, LNG shipbuilding and other manufacturing industries
- Annual plywood and veneer production capacity: approximately one million cubic metres
- Production in 7 mills in Finland, Estonia and Russia

Plywood mills
Estonia: UPM Otepää
Finland: UPM Joensuu, UPM Jyväskylä, UPM Pellos (Ristiina) and UPM Savonlinna
Russia: UPM Chudovo

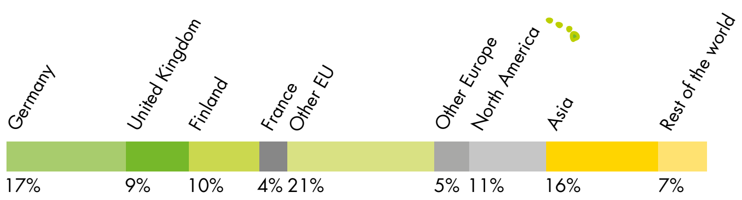
Veneer mill
Finland: UPM Kalso (Kouvola)

OTHER OPERATIONS

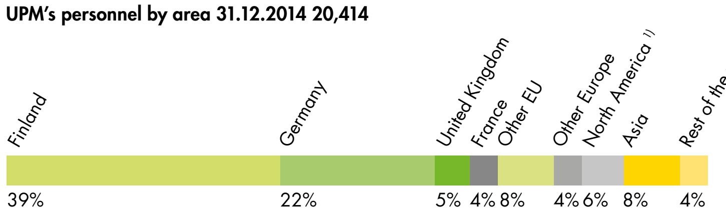
- Wood Sourcing and Forestry: wood and biomass purchases in approx. 17 countries, 840,000 ha of own forests in Finland and in the USA
- UPM Biocomposites producing UPM ProFi outdoor products and UPM Formi composite material for injection moulding and extrusion
- UPM Biochemicals developing wood-based building blocks, performance chemicals and biofibril

Biocomposites mills
Finland: UPM Lahti
Germany: UPM Bruchsal (Karlsruhe)

UPM's sales by market 2014 EUR 9,868 million



UPM's personnel by area 31.12.2014 20,414



1) USA, Canada and Mexico

Read more: www.upm.com

CONTENTS

▲ UPM Biofore House features the company's own, renewable timber, plywood and composite materials. The building has been awarded LEED® Platinum Certification for sustainable design.

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Contents

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Please collect used paper for recycling.

UPM Annual Report 2014 has been awarded the EU Ecolabel for printed products.

The printing process has to meet strict criteria in relation to chemicals, energy consumption, emissions to air and water and waste management. Also the paper used shall be EU Ecolabelled. UPM promotes sustainability of print media.

Annual General Meeting

UPM-Kymmene Corporation will hold its Annual General Meeting on Thursday 9 April 2015 at 14:00, at the Exhibition and Convention Centre, Messuaukio 1, 00520 Helsinki, Finland. Instructions for those wishing to attend are given in the notice to the meeting, which is available on the company's website at **www.upm.com**.

Dividend

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.70 per share be paid for the 2014 financial year. The dividend will be paid to the shareholders who are registered in the company's shareholder register held by Euroclear Finland Ltd. on 13 April 2015, which is the record date for the dividend payment. The Board of Directors proposes that the dividend will be paid on 23 April 2015.

Financial information in 2015

UPM will publish the interim reports in 2015 as follows:

The Interim Report for January–March (Q1) on 28 April 2015
The Interim Report for January–June (Q2) on 28 July 2015
The Interim Report for January–September (Q3) on 27 October 2015

UPM does not publish a separate environmental and corporate responsibility report but has integrated the contents into this annual report. Various highlights from the year 2014 can be found under the sections for each business area. The GRI content index is on pages 57–58.

To find out more about UPM's responsibility agenda, please visit www.upm.com/responsibility.

UPM

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