The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 31 MARCH 2016

Interim report Q1/2016:

Growth projects and cost efficiency measures deliver improved earnings

Q1 2016 highlights

- Comparable EBIT increased by 34% to EUR 281 million (210 million).
- Growth projects contributed to UPM's earnings, with increasing deliveries in pulp, biofuels, label papers, fine papers in Asia and self-adhesive label materials.
- Variable and fixed costs decreased significantly, showing the full impact of last year's cost efficiency measures.
- Operating cash flow was strong at EUR 341 million (108 million).
- Net debt decreased to EUR 1,873 million (2,419 million), and gearing to 23% (31%).

Key figures

	Q1/2016	Q1/2015	Q4/2015	Q1–Q4/2015
Sales, EURm	2,446	2,486	2,574	10,138
Comparable EBITDA, EURm	403	325	363	1,350
% of sales	16.5	13.1	14.1	13.3
Operating profit, EURm	277	203	220	1,142
Comparable EBIT, EURm	281	210	247	916
% of sales	11.5	8.4	9.6	9.0
Profit before tax, EURm	263	181	214	1,075
Comparable profit before tax, EURm	267	188	241	849
Profit for the period, EURm	227	155	193	916
Comparable profit for the period, EURm	225	160	215	734
Earnings per share (EPS), EUR	0.43	0.29	0.36	1.72
Comparable EPS, EUR	0.42	0.30	0.41	1.38
Return on equity (ROE), %	11.4	8.1	9.7	11.9
Comparable ROE, %	11.3	8.4	10.8	9.5
Return on capital employed (ROCE), %	9.9	7.0	8.2	10.3
Comparable ROCE, %	10.1	7.3	9.2	8.3
Operating cash flow, EURm	341	108	390	1,185
Operating cash flow per share, EUR	0.64	0.20	0.73	2.22
Equity per share at end of period, EUR	14.94	14.61	14.89	14.89
Capital employed at end of period, EURm	11,000	11,106	11,010	11,010
Net interest-bearing liabilities at end of period, EURm	1,873	2,419	2,100	2,100
Gearing ratio at end of period, %	23	31	26	26
Personnel at end of period	19,870	20,210	19,578	19,578

From Q1 2016 UPM has relabeled the previously referenced “excluding special items” non-GAAP financial measures with “comparable” performance measures. These performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. More information on UPM's alternative performance measures is published in UPM stock exchange press release on 14 April 2016. The reconciliation of key figures to the most comparable IFRS measures is presented in Financial information.

Jussi Pesonen, President and CEO comments on the results:

"All in all, 2016 got off to a very good start. During the first quarter, we achieved a good level of operational efficiency, we were able to lower our costs significantly and the market environment was mostly favourable. Our comparable EBIT increased by 34% year-on-year to reach a record level in years. In addition, our cash flow was particularly strong, driving net debt further down.

The first quarter showed the full impact of last year's cost efficiency measures. Costs decreased in all businesses, but the impact was particularly visible in UPM Paper ENA's improved profitability. Our customers continued to rely on us with their business, while we improved operational efficiency significantly by closing up 800,000 tonnes of capacity.

Market demand continued to develop mostly favourably. We were able to respond to the increased customer demand with our growth projects in UPM Biorefining, UPM Paper Asia and UPM Raflatac. The ramp-ups started well and contributed to the deliveries and earnings.

Our work continues to realise the full earnings potential from the completed growth projects. Additionally, we will finalise the ongoing projects in Otepää plywood mill in Estonia and UPM Kaukas pulp mill in Finland. We will continue implementing our cost efficiency measures across all businesses. In the case of UPM Paper ENA, we are ensuring competitiveness by closing Madison Paper Industries in the US and selling UPM Schwedt paper mill in Germany.

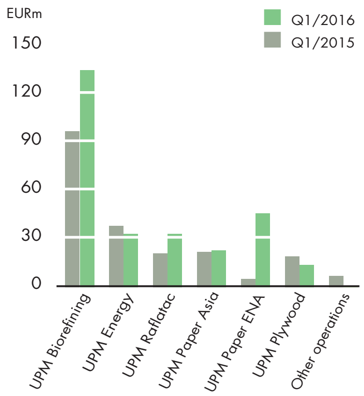
We look confidently forward. Our balance sheet and cash flow are strong and put us in a good position to act on future opportunities."

Outlook for 2016

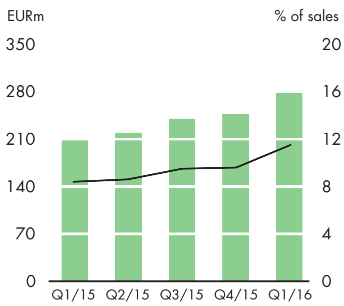
UPM's profitability improved in 2015 and the improvement is expected to continue in 2016. The business performance is underpinned by the company's growth projects and continuous cost efficiency measures.

UPM's growth projects are expected to contribute positively to the company's earnings in 2016, compared with 2015. UPM continues its measures to reduce variable and fixed costs also in 2016. Currencies are expected to contribute positively as hedges roll over, assuming relevant currencies stay at the same level as at the end of 2015.

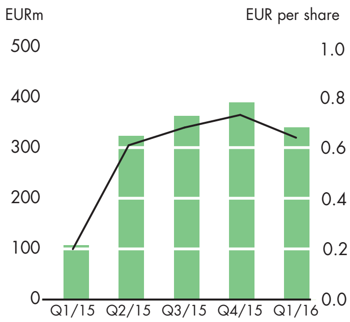
Comparable EBIT



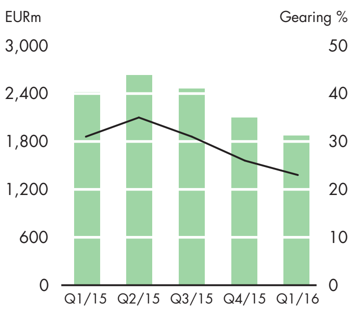
Comparable EBIT



Operating cash flow



Net interest-bearing debt



Results

Q1 2016 compared with Q1 2015

Q1 2016 sales were EUR 2,446 million, 2% lower than the EUR 2,486 million in Q1 2015. Sales grew in UPM Biorefining, UPM Paper Asia and UPM Raflatac and decreased in the other business areas.

Comparable EBITDA increased by 24% to EUR 403 million, 16.5% of sales (325 million, 13.1% of sales). Variable and fixed costs were significantly lower than in the comparison period, both largely because of the achievements in UPM´s profit improvement programme during last year. The company's growth projects contributed positively to Q1 2016 comparable EBITDA, with pulp, biofuel, label paper and fine paper deliveries in Asia, as well as self-adhesive label material deliveries growing from last year. Realised currency hedges had only a minor impact on Q1 2016 comparable EBITDA, whereas they had a significant negative impact in the comparison period. Sales prices across UPM's product range and markets had a negative impact on comparable EBITDA.

Comparable EBIT increased by 34% to EUR 281 million, 11.5% of sales (210 million, 8.4%). Depreciation excluding items affecting comparability totalled EUR 138 million (131 million). The increase in the fair value of biological assets net of wood harvested was EUR 16 million (16 million).

Operating profit totalled EUR 277 million (203 million). Items affecting comparability in operating profit totalled charges of EUR 4 million (7 million). The announced closure of the Madison Paper Industries joint operation resulted in charges of EUR 29 million (EUR 57 million in UPM Paper ENA and a corresponding elimination of EUR 28 million in Eliminations and reconciliations). The fair value change of unrealised cash flow and commodity hedges resulted in a gain of EUR 25 million (loss of EUR 6 million).

Net interest and other finance costs were EUR 15 million (15 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 1 million (loss of EUR 7 million). Income taxes totalled EUR 36 million (26 million). Items affecting comparability in taxes were EUR 6 million positive, mainly related to the closure of the Madison Paper Industries joint operation.

Profit for Q1 2016 was EUR 227 million (155 million), and comparable profit was EUR 225 million (160 million).

Q1 2016 compared with Q4 2015

Comparable EBITDA increased by 11% to EUR 403 million, 16.5% of sales (363 million, 14.1% of sales). Fixed costs were seasonally lower. Furthermore, unlike in the comparison period, there were no significant maintenance stops in Q1 2016. Variable costs also decreased slightly.

Graphic paper deliveries in Europe and North America decreased seasonally. However, pulp, label paper and fine paper deliveries in Asia increased, supported by the continued ramp-up of the pulp debottlenecking projects and the new speciality paper machine at the UPM Changshu mill in China.

Realised currency hedges had only a minor impact on the Q1 2016 comparable EBITDA, whereas they had a significant negative impact in the comparison period.

Comparable EBIT increased by 14% to EUR 281 million, 11.5% of sales (247 million, 9.6%). The increase in the fair value of biological assets net of wood harvested was EUR 16 million (16 million). Depreciation excluding items affecting comparability totalled EUR 138 million (132 million).

Operating profit totalled EUR 277 million (220 million).

Financing and cash flow

In Q1 2016, cash flow from operating activities before capital expenditure and financing totalled EUR 341 million (108 million). Working capital increased by EUR 14 million (147 million) during the period.

Net interest-bearing liabilities decreased to EUR 1,873 million at the end of the period (2,419 million). The gearing ratio as of 31 March 2016 was 23% (31%).

On 31 March 2016, UPM's cash funds and unused committed credit facilities totalled EUR 1.9 billion.

Capital expenditure

In Q1 2016, capital expenditure was EUR 47 million, 1.9% of sales (74 million, 3.0% of sales). Total capital expenditure, excluding investments in shares, in 2016 is estimated to be approximately EUR 350 million.

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

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

In June 2013, UPM announced that it was 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 93 million has been paid during the previous years. The remaining part of the share issue will be implemented in the coming years based on the financing needs of the project.

Personnel

In Q1 2016, UPM had an average of 19,664 employees (20,266). At the beginning of the year, the number of employees was 19,578 and at the end of Q1 2016, it was 19,870.

Events during Q1 2016

On 14 March, UPM announced the closure of Madison Paper Industries in the US. Madison Paper Industries is a joint operation between UPM-Kymmene Inc. and Northern SC Paper Corp., a subsidiary of the New York Times Company. With the closure of the mill, UPM will reduce its supercalendered paper capacity by 195,000 tons by the end of May 2016. Hydro power assets located at the mill site will be sold. The closure will impact approximately 214 employees located at the mill site.

On 23 March, UPM announced that UPM Biochemicals will establish an innovation unit at the Biomedicum research and educational centre in Meilahti, Helsinki. The unit will focus on biomedical applications for the cellulose nanofibril technology developed by UPM.

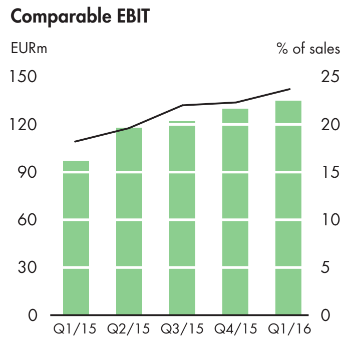
Events after the balance sheet date

The decisions of the Annual General Meeting held on 7 April 2016 are presented separately in this report.

On 26 April, UPM announced it had signed an agreement to sell its Schwedt newsprint mill site and relevant assets to LEIPA Georg Leinfelder GmbH for the aim of a conversion into liner production. The entire personnel of Schwedt mill will transfer to LEIPA as old employees. The transaction price is EUR 70 million, and the transaction is subject to customary third party approvals. As part of the transaction, the parties have agreed to enter into a contract manufacturing agreement for newsprint for a transition period lasting latest until the end of 2017. The mill's capacity is 280,000 tonnes of newsprint.

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 of UPM Biorefining are tissue, speciality paper and board producers in the pulp industry, fuel distributors in the biofuel industry and construction and joinery industries in the timber sector.



	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	568	584	554	601	533	2,272
Comparable EBITDA, EURm	175	166	161	153	134	614
% of sales	30.9	28.4	29.1	25.5	25.1	27.0
Change in fair value of biological assets and wood harvested, EURm	3	8	5	6	2	21
Share of results of associated companies and joint ventures, EURm	–	–	–	1	–	1
Depreciation, amortisation and impairment charges, EURm	–44	–44	–44	–42	–39	–169
Operating profit, EURm	135	129	122	118	97	466
% of sales	23.7	22.1	22.0	19.6	18.2	20.5
Items affecting comparability in operating profit, EURm [1]	–	–1	–	–	–	–1
Comparable EBIT, EURm	135	130	122	118	97	467
% of sales	23.7	22.3	22.0	19.6	18.2	20.6
Capital employed (average), EURm	3,217	3,203	3,164	3,205	3,193	3,191
Comparable ROCE, %	16.7	16.2	15.4	14.7	12.2	14.6
Pulp deliveries, 1,000 t	848	806	771	837	810	3,224

Pulp mill maintenance shutdowns: Q4 2015 UPM Fray Bentos, Q3 2015 UPM Pietarsaari and UPM Kymi, Q2 2015 UPM Kaukas.

[1] In Q4 2015, items affecting comparability include a charge of EUR 1 million relating to increase of pension obligations due to Finnish employee pension reform.

Actions

- Pulp production capacity increased and production efficiency improved.
- Steady production was achieved at the Lappeenranta biorefinery and a monthly production record was reached in January.
- Cost efficiency improved.

Results

Q1 2016 compared with Q1 2015

Comparable EBIT for UPM Biorefining increased mainly due to lower variable costs and higher delivery volumes. Performance was underpinned by progress in the growth projects in pulp and biofuels and the profit improvement measures.

The average price for UPM's pulp deliveries decreased by 1%.

Q1 2016 compared with Q4 2015

Comparable EBIT increased due to higher pulp deliveries and increased production efficiency, more than offsetting the negative impact of lower pulp prices. In the previous quarter profitability was negatively impacted by the scheduled maintenance shutdown at the Fray Bentos pulp mill.

The average price for UPM's pulp deliveries decreased by 5%.

Market environment

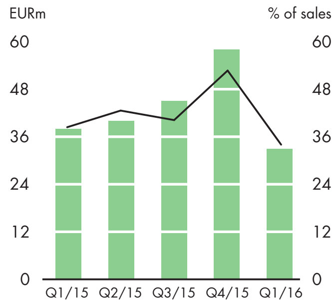
- Global chemical pulp demand remained strong. Demand growth was well spread over major regions, with the strongest growth recorded in Asia.
- The market price of both northern bleached softwood kraft (NBSK) and bleached hardwood kraft pulp (BHKP) decreased during the first quarter. The hardwood pulp market price in China experienced a more pronounced decline.
- In Europe in Q1 2016, the average market price in euros of NBSK was 10% lower and the market price of BHKP was 5% higher than last year. In China, the average market price in USD of NBSK was 13% lower and of BHKP 11% lower than last year.
- Demand for advanced renewable diesel remained strong and prices improved.
- Price competition remained stiff in sawn timber and demand was stable.

Sources: PPPC, FOEX

UPM Energy

UPM Energy creates value through cost competitive, low-emission electricity generation and through physical electricity and financial trading. UPM Energy is the second largest electricity producer in Finland. UPM's power generation capacity consists of hydropower, nuclear power and condensing power.

Comparable EBIT



	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	97	110	112	94	99	415
Comparable EBITDA, EURm	36	62	47	43	40	192
% of sales	37.1	56.4	42.0	45.7	40.4	46.3
Depreciation, amortisation and impairment charges, EURm	–2	–4	–2	–3	–2	–11
Operating profit, EURm	33	51	45	21	38	155
% of sales	34.0	46.4	40.2	22.3	38.4	37.3
Items affecting comparability in operating profit, EURm [1)]	–	–7	–	–19	–	–26
Comparable EBIT, EURm	33	58	45	40	38	181
% of sales	34.0	52.7	40.2	42.6	38.4	43.6
Capital employed (average), EURm	2,396	2,605	2,693	2,762	2,804	2,716
Comparable ROCE, %	5.5	8.9	6.7	5.8	5.4	6.7
Electricity deliveries, GWh	2,282	2,337	2,339	2,213	2,077	8,966

[1)] In Q4 2015, items affecting comparability of EUR 7 million relate to restructuring charges regarding PVO Thermal closure. In Q2 2015, items affecting comparability of EUR 19 million relate to project expenses of Olkiluoto 4 nuclear power plant.

Actions

- Strong hydro and nuclear electricity production volumes.
- Average electricity sales price clearly above Finnish area spot price due to hedging and hydro optimisation.

Results

Q1 2016 compared with Q1 2015

Comparable EBIT for UPM Energy decreased due to lower average electricity prices, more than offsetting the positive impact of higher generation volumes. In the comparison period profitability was negatively impacted by an outage at the Olkiluoto 2 nuclear power plant unit.

UPM's average electricity sales price decreased by 14% to EUR 34.6/MWh (40.0/MWh).

Q1 2016 compared with Q4 2015

Comparable EBIT decreased due to lower average electricity prices and higher costs in partly owned energy companies. The sales price decline relates mainly to the rolling over of hedges at year-end.

UPM's average electricity sales price decreased by 12% to EUR 34.6/MWh (39.2/MWh).

Market environment

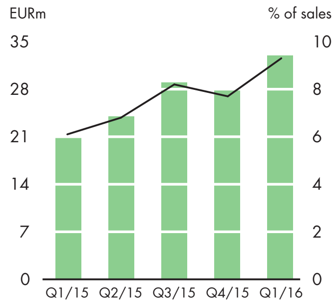
- The Nordic hydrological balance deteriorated during the quarter. At the end of March, the hydrological balance was at the long-term average level.
- The average Finnish area spot price on the Nordic electricity exchange was EUR 30.3/MWh, 6% lower than in the same period the previous year (EUR 32.1/MWh).
- Pricing was impacted by mild temperatures, good hydrological balance and low commodity prices.
- The Finnish area front-year forward electricity price closed at EUR 26.5/MWh in March, 14% lower than at the end of 2015 (30.7/MWh).
- Coal prices remained stable, while CO_2 emission allowance price decreased during the first quarter.

Sources: The Norwegian Water Resources and Energy Directorate, Svensk Energi, Finnish Environment Institute, Nord Pool, Nasdaq OMX, Bloomberg, UPM

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.

Comparable EBIT



	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	351	363	353	351	342	1,409
Comparable EBITDA, EURm	41	36	39	33	29	137
% of sales	11.7	9.9	11.0	9.4	8.5	9.7
Depreciation, amortisation and impairment charges, EURm	–8	–8	–10	–9	–8	–35
Operating profit, EURm	33	28	30	20	21	99
% of sales	9.3	7.7	8.5	5.7	6.1	7.0
Items affecting comparability in operating profit, EURm [1]	–	–	1	–4	–	–3
Comparable EBIT, EURm	33	28	29	24	21	102
% of sales	9.3	7.7	8.2	6.8	6.1	7.2
Capital employed (average), EURm	540	574	576	595	580	581
Comparable ROCE, %	24.2	19.5	20.1	16.1	14.5	17.6

[1] In Q3 2015 and Q2 2015, items affecting comparability relate to restructurings.

Actions

- Improved product mix and cost efficient growth in films and special products was achieved through growth investments, supported by an enhanced customer offering.

Results

Q1 2016 compared with Q1 2015

Comparable EBIT for UPM Raflatac increased mainly due to the improved sales margins and higher delivery volumes. Improved operational efficiency and a more favourable product mix enabled higher sales margins.

Q1 2016 compared with Q4 2015

Comparable EBIT increased thanks to the improved sales margins, resulting mainly from improved operational efficiency and a more favourable product mix. The negative impact of seasonally lower delivery volumes was offset by lower fixed costs.

Market environment

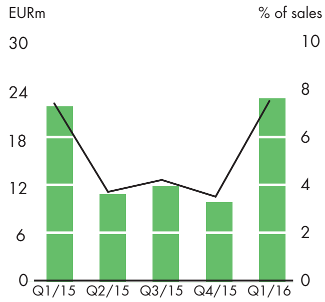
- Global demand for self-adhesive label materials increased in the first quarter.
- In Europe growth continued albeit at a lower level than last year. Growth remained stable in North America.
- In Asia growth picked up, while in Latin America demand remained weak.

Sources: FINAT

UPM Paper Asia

UPM Paper Asia serves growing, global markets with label papers and release liners, fine papers in Asia and flexible packaging in Europe. The operations consist of the UPM Changshu and UPM Tervasaari mills in China and Finland as well as label and packaging papers production lines at the UPM Jämsänkoski mill in Finland. The main customers are retailers, printers, publishers, distributors and paper converters.

Comparable EBIT



	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	312	284	286	300	298	1,168
Comparable EBITDA, EURm	48	31	35	32	43	141
% of sales	15.6	10.9	12.2	10.7	14.4	12.1
Depreciation, amortisation and impairment charges, EURm	–25	–21	–23	–21	–21	–86
Operating profit, EURm	23	10	12	11	22	55
% of sales	7.5	3.5	4.2	3.7	7.4	4.7
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–
Comparable EBIT, EURm	23	10	12	11	22	55
% of sales	7.5	3.5	4.2	3.7	7.4	4.7
Capital employed (average), EURm	1,051	1,068	1,013	983	986	1,012
Comparable ROCE, %	8.9	3.7	4.7	4.5	8.9	5.4
Paper deliveries, 1,000 t	379	342	349	361	349	1,401

Actions

- Production was ramped up successfully at the new speciality paper machine at the UPM Changshu mill in China, and product qualification has met customers' high quality requirements.

Results

Q1 2016 compared with Q1 2015

Comparable EBIT for UPM Paper Asia increased mainly due to lower variable costs and higher delivery volumes. Profitability was moderated by a less favourable sales mix.

Q1 2016 compared with Q4 2015

Comparable EBIT increased due to lower variable costs and higher delivery volumes. In the comparison period, realised currency hedges had a negative impact. Profitability was moderated by a less favourable sales mix.

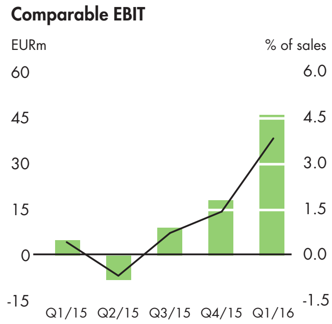
Market environment

- Fine paper demand remained stable in the Asia-Pacific region. The development varied by product and market segment. Growth in office paper demand continued.
- Overcapacity in fine papers prevailed and price competition was intense. The average market price decreased slightly in the first quarter.
- Label and release paper demand increased globally. Price development varied between the regions and were on average stable compared to the previous quarter.

Sources: UPM, RISI, Pöyry, AWA

UPM Paper ENA

UPM Paper ENA offers graphic papers for advertising, magazines, newspapers and home and office. The business has extensive low-cost operations consisting of 17 efficient paper mills in Europe and the United States, global sales network and efficient logistic system. The main customers are publishers, cataloguers, retailers, printers and merchants.



	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	1,202	1,311	1,279	1,210	1,256	5,056
Comparable EBITDA, EURm	96	64	55	38	56	213
% of sales	8.0	4.9	4.3	3.1	4.5	4.2
Share of results of associated companies and joint ventures, EURm	–	–	1	–	–	1
Depreciation, amortisation and impairment charges, EURm	–72	–46	–47	–45	–52	–190
Operating profit, EURm	–11	23	13	–9	5	32
% of sales	–0.9	1.8	1.0	–0.7	0.4	0.6
Items affecting comparability in operating profit, EURm [1]	–57	5	4	–1	–	8
Comparable EBIT, EURm	46	18	9	–8	5	24
% of sales	3.8	1.4	0.7	–0.7	0.4	0.5
Capital employed (average), EURm	2,098	2,258	2,294	2,301	2,302	2,289
Comparable ROCE, %	8.8	3.2	1.6	–1.4	0.9	1.0
Paper deliveries, 1,000 t	1,982	2,171	2,130	2,046	2,023	8,370

[1] In Q1 2016 items affecting comparability include write-offs totalling EUR 22 million and restructuring charges totalling EUR 35 million related to the closure of Madison Paper Industries in the USA. In Q4 2015, items affecting comparability include an income of EUR 7 million relating to restructurings and a charge of EUR 2 million relating to increase of pension obligations due to Finnish employee pension reform. In Q3 2015 and Q2 2015, items affecting comparability relate to restructurings.

Actions

- Challenging market conditions were mitigated through a successful commercial strategy and improved cost efficiency.
- Announced closure of Madison Paper Industries in the US.

Results

Q1 2016 compared with Q1 2015

Comparable EBIT increased for UPM Paper ENA mainly due to lower variable and fixed costs, mainly driven by ongoing profit improvement measures. In the comparison period, realised currency hedges had a negative impact.

The average price for UPM´s paper deliveries in euro decreased by 1%.

Q1 2016 compared with Q4 2015

Comparable EBIT increased mainly due to lower costs. In the comparison period, realised currency hedges had a significant negative impact. Delivery volumes were seasonally lower.

The average price for UPM´s paper deliveries remained stable. Price increases in the euro area was offset by a less favourable development in markets outside the euro area.

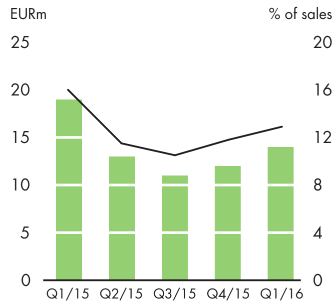
Market environment

- In Q1 2016 demand for graphic papers in Europe was 4% lower than last year. Newsprint demand decreased by 5%, magazine paper by 3% and fine paper by 5% compared to Q1 2015.
- Publication paper prices and fine paper prices in Europe decreased by 1% compared to the previous quarter.
- Compared to Q1 2015, publication paper prices were 3% lower, whereas fine paper prices were 3% higher.
- In Q1 2016 demand for magazine papers in North America was 7% lower than last year. The average US dollar price for magazine papers decreased by 2% compared to Q4 2015 and was 5% lower compared to Q1 2015.

Sources: PPI/RISI, Euro-Graph, PPPC

UPM Plywood

UPM Plywood offers plywood and veneer products, mainly for construction, vehicle flooring and LNG shipbuilding, as well as other manufacturing industries. Production facilities are located in Finland, Estonia and Russia.



	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	110	102	105	113	119	439
Comparable EBITDA, EURm	20	18	17	18	25	78
% of sales	17.8	17.6	16.2	15.9	21.0	17.8
Depreciation, amortisation and impairment charges, EURm	–5	–6	–6	–5	–6	–23
Operating profit, EURm	14	10	11	13	19	53
% of sales	12.9	9.8	10.5	11.5	16.0	12.1
Items affecting comparability in operating profit, EURm [1)]	–	–2	–	–	–	–2
Comparable EBIT, EURm	14	12	11	13	19	55
% of sales	12.9	11.8	10.5	11.5	16.0	12.5
Capital employed (average), EURm	252	259	257	269	266	263
Comparable ROCE, %	22.6	18.5	17.1	19.3	28.6	20.9
Plywood deliveries, 1,000 m^3	189	169	179	193	199	740

[1)] In Q4 2015, items affecting comparability of EUR 2 million relate to Lahti estate restructuring charges.

Actions

- Otepää mill expansion proceeded according to schedule; first installations already taken into use.
- Finnish birch mill competitiveness improvement programme proceeded according to plan.
- Production adjustments carried out in Pellos spruce plywood mills to mitigate negative impact of low-priced imports.

Results

Q1 2016 compared with Q1 2015

Comparable EBIT for UPM Plywood decreased. Delivery volumes were lower than the high level last year and sales prices decreased slightly.

Q1 2016 compared with Q4 2015

Comparable EBIT increased mainly due to seasonally higher delivery volumes.

Market environment

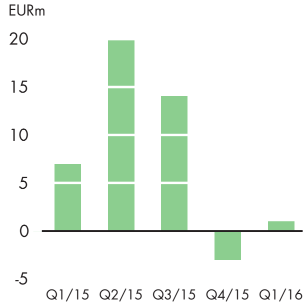
- The market balance was impacted by low-priced imports, particularly in the beginning of the quarter in some product segments.
- Market environment improved gradually during the quarter in Europe and demand is estimated to have increased slightly from last year.
- Demand grew in both industrial applications and construction-related end-use segments.

Sources: UPM

Other operations

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

Comparable EBIT



	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	73	76	97	119	114	406
Comparable EBITDA, EURm	–10	–8	–4	–1	–3	–16
Change in fair value of biological assets and wood harvested, EURm	13	8	284	25	14	331
Share of results of associated companies and joint ventures, EURm	1	–	1	–	–	1
Depreciation, amortisation and impairment charges, EURm	–3	–4	–2	–4	–3	–13
Operating profit, EURm	0	–3	280	23	6	306
Items affecting comparability in operating profit, EURm [1]	–	–	266	3	–1	268
Comparable EBIT, EURm	1	–3	14	20	7	38
Capital employed (average), EURm	1,571	1,614	1,469	1,417	1,433	1,483
Comparable ROCE, %	0.2	–0.7	3.8	5.6	2.0	2.6

[1] In Q3 2015, items affecting comparability include a capital gain of EUR 3 million from the sale of Tilhill Forestry Ltd shares, restructuring charges of EUR 2 million and a fair value increase of biological assets in Finland totalling EUR 265 million, due to adjusted long-term wood price estimates and a change in the discount rate. In Q2 2015, items affecting comparabiity of EUR 3 million mainly relate to capital gains from the sale of assets. In Q1 2015, items affecting comparability include cost of EUR 1 million relating to restructuring charges.

Actions

- UPM Biochemicals establishes an innovation unit at the Biomedicum research and educational centre.

Results

Q1 2016 compared with Q1 2015

Comparable EBIT for Other operations decreased. The increase in the fair value of biological assets net of wood harvested was EUR 13 million (14 million). The increase in the fair value of biological assets (growing trees) was EUR 24 million (25 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 11 million (11 million).

Q1 2016 compared with Q4 2015

Comparable EBIT increased. The increase in the fair value of biological assets net of wood harvested was EUR 13 million (8 million). The increase in the fair value of biological assets (growing trees) was EUR 24 million (19 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 11 million (11 million).

Risks and near-term uncertainties

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

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

Currently, the economic outlook in Europe has slightly improved, but it remains fragile. The EU is the most significant market for UPM. Growth has slowed, and there are uncertainties regarding developing economies, including China, which may significantly influence the overall global economy and many of UPM's product markets in particular. Furthermore, changes to the monetary policies of major central banks may significantly impact on various currencies that directly or indirectly affect UPM.

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

The main earnings sensitivities and the group's cost structure are presented on page 18 of the 2015 Annual Report. Risks and opportunities are discussed on pages 17–18 and risks and risk management are presented on pages 84–86 of the report.

Annual General Meeting

The Annual General Meeting held on 7 April 2016 decided that a dividend of EUR 0.75 per share (totalling EUR 400 million) would be paid on 21 April 2016. The dividend was paid to shareholders who were registered on the Company's shareholders' register maintained by Euroclear Finland Ltd on 11 April 2016, the dividend record date.

The Annual General Meeting authorised the Board of Directors to decide on the repurchase of a maximum of 50,000,000 of the Company's own shares. The authorisation will be valid for 18 months from the date of the AGM resolution.

The Board of Directors was authorised to decide on the issuance of new shares, transfer of treasury shares and issuance of special rights entitling to shares in proportion to the shareholders' existing holdings in the Company, or in a directed share issue, deviating from the shareholders' pre-emptive subscription rights. The Board of Directors may also decide on a share issue without payment to the Company itself. The aggregate maximum number of new shares that may be issued and treasury shares that may be transferred is 25,000,000, including also the number of shares that can be received on the basis of the special rights. The authorisation will be valid for three years from the date of the AGM resolution.

The Board of Directors was authorised to decide on the recognition of reversal entries of revaluations made in the balance sheet in the reserve for invested non-restricted equity to the extent they cannot potentially be fully recognised in the revaluation reserve. The maximum amount of reversal entries to be recognised in the reserve for invested non-restricted equity is EUR 158 million. The authorisation will be valid until the next AGM.

Company directors

At the Annual General Meeting held on 7 April 2016, the number of members of the Board of Directors was confirmed as ten, and all former directors, i.e. Berndt Brunow, Henrik Ehrnrooth, Piia-Noora Kauppi, Wendy E. Lane, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Suzanne Thoma, Kim Wahl and Björn Wahlroos, were re-elected to the Board for a term continuing until the end of the next AGM.

At the meeting of the Board of Directors held following the AGM, 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 the chairmen and other members to the Board committees from among its members. No changes took place in the committee compositions. Piia-Noora Kauppi was re-elected to chair the Audit Committee, and Wendy E. Lane and Kim Wahl were re-elected as other committee members. Veli-Matti Reinikkala was re-elected to chair the Remuneration Committee, and Henrik Ehrnrooth and Suzanne Thoma were re-elected as other committee members. Björn Wahlroos was re-elected to chair the Nomination and Governance Committee, and Berndt Brunow and Ari Puheloinen were re-elected as other committee members.

Shares

In Q1 2016, UPM shares worth EUR 1,673 million (2,291 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent two-thirds of all trading volumes in UPM shares. The highest listing was EUR 17.15 in January and the lowest was EUR 13.71 in February.

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

The Board of Directors' authorisations to issue or repurchase shares are presented separately in this report, in the chapter discussing the Annual General Meeting 2016. Aside from the above, the Board of Directors has no current authorisation to issue shares, convertible bonds or share options.

The number of shares entered in the Trade Register on 31 March 2016 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 March 2016, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of company shares and voting rights.

Litigation

Group companies

In 2011, Metsähallitus (a Finnish state enterprise, which administers state-owned land) filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Finnish Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the Finnish roundwood market. In addition to Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amount of all of the claims totals EUR 196 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 34 million in the aggregate. The amounts claimed may 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 item affecting comparability in Q1 2014. In May 2014 Metsäliitto and Metsä Board commenced litigation proceedings in the

Helsinki District Court challenging the arbitral award and requesting the District Court to set aside the arbitral award or to declare it null and void. On 18 June 2015 the District Court dismissed the actions by Metsäliitto and Metsä Board. Metsäliitto and Metsä Board have appealed to the Helsinki Court of Appeal.

On 27 March 2015 Helsinki District Court rendered decisions regarding UPM's action for invalidation of a patent of Neste Oil Oyj (Neste) and Neste's action for a declaratory judgment against UPM, in which Neste sought the court's declaration that based on its patent Neste enjoys protection against the technology allegedly used by UPM at its biorefinery. The District Court dismissed both actions. The decisions have been appealed to the Helsinki Court of Appeal. Neste filed a separate action with the Finnish Market Court in which Neste requested the Market Court to prohibit UPM from continuing the alleged infringement of Neste's patent at UPM's biorefinery. The Market Court rejected Neste's action on 3 December 2015. The decision has been appealed. In April 2016, Neste and UPM agreed to settle these disputes and to withdraw the above mentioned court proceedings.

In February 2015, the claims relating to the implementation of the social plan after the closure of the Docelles mill in 2014 were brought to Commercial Court of Epinal, France. The claimants, the co-operative (SCOP) established by former employees of the Docelles mill as well as certain former employees of the mill, seek the forced sale of the assets of the Docelles mill to the SCOP for 2 euros and damages in the amount of approximately EUR 55 million for the alleged lost sales. Commercial Court dismissed all of the claimants' claims in its judgment on 29 September 2015. The judgment was appealed by the claimants to Court of Appeal of Nancy, which dismissed all of the claimants' claims in its judgment on 27 January 2016.

Other shareholdings

In Finland, UPM is participating in a project to construct a new nuclear power plant unit Olkiluoto 3 (OL3) through its shareholdings in Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj (TVO), holding 58.5% of its shares. UPM's indirect share of OL3 is approximately 31%. Originally the commercial electricity production of the OL3 plant unit was scheduled to start in April 2009. The completion of the project, however, has been delayed. In September 2014 TVO announced that it had received additional information 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 information, the start of regular electricity production of the plant unit would take place in late 2018.

In December 2008 the Supplier initiated the International Chamber of Commerce (ICC) arbitration proceedings and submitted a claim concerning the delay at the OL3 project and related costs. According to TVO, the Supplier's monetary claim, as updated in February 2016, is in total approximately EUR 3.52 billion. The sum is based on the Supplier's updated analysis of events occurred through September 2014, with certain claims quantified to December 31, 2014. The sum includes penalty interest (calculated to June 30, 2016) and payments allegedly delayed by TVO under the plant contract amounting to a combined total of approximately EUR 1.45 billion, as well as approximately EUR 135 million in alleged loss of profit. TVO has considered and found the earlier claims by the Supplier to be without merit, and will scrutinize the updated claim. According to TVO, the quantification estimate of its costs and losses related to its claim in the arbitration proceedings is approximately EUR 2.6 billion until the end of 2018, which is the estimated start of the regular electricity production of OL3 according to the schedule submitted by the Supplier in September 2014. TVO´s current estimate was submitted to the tribunal in the arbitration proceedings in July 2015. The Supplier consortium companies (AREVA GmbH, AREVA NP SAS and Siemens AG) are jointly and severally liable for the plant contract obligations. The arbitration proceedings may continue for several years, and the claimed amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

Helsinki, 26 April 2016

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q1/2016	Q1/2015	Q1–Q4/2015
Sales	2,446	2,486	10,138
Other operating income	37	7	13
Costs and expenses	–2,073	–2,175	–8,840
Change in fair value of biological assets and wood harvested	16	16	352
Share of results of associated companies and joint ventures	–	–	3
Depreciation, amortisation and impairment charges	–150	–131	–524
Operating profit	277	203	1,142
Gains on available-for-sale investments, net	–	–	–
Exchange rate and fair value gains and losses	1	–7	1
Interest and other finance costs, net	–15	–15	–68
Profit before tax	263	181	1,075
Income taxes	–36	–26	–159
Profit for the period	227	155	916
Attributable to:			
Owners of the parent company	227	155	916
Non-controlling interests	–	–	–
	227	155	916
Earnings per share for profit attributable to owners of the parent company			
Basic earnings per share, EUR	0.43	0.29	1.72
Diluted earnings per share, EUR	0.43	0.29	1.72

Consolidated statement of comprehensive income

EURm	Q1/2016	Q1/2015	Q1–Q4/2015
Profit for the period	227	155	916
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	–72	–107	113
Items that may be reclassified subsequently to income statement:			
Translation differences	–130	375	221
Net investment hedge	13	–42	–28
Cash flow hedges	–1	–50	24
Available-for-sale investments	–	–1	–405
	–118	282	–188
Other comprehensive income for the period, net of tax	–190	175	–75
Total comprehensive income for the period	37	330	841
Total comprehensive income attributable to:			
Owners of the parent company	37	330	841
Non-controlling interests	–	–	–
	37	330	841

Consolidated balance sheet

EURm	31 Mar 2016	31 Mar 2015	31 Dec 2015
ASSETS			
Non-current assets			
Goodwill	236	242	241
Other intangible assets	313	345	329
Property, plant and equipment	4,704	4,904	4,895
Investment property	–	30	–
Biological assets	1,715	1,505	1,738
Investments in associated companies and joint ventures	28	26	28
Available-for-sale investments	2,085	2,510	2,085
Other non-current financial assets	327	376	332
Deferred tax assets	489	560	466
Other non-current assets	96	68	145
	9,994	10,566	10,259
Current assets			
Inventories	1,408	1,464	1,376
Trade and other receivables	1,891	2,063	1,876
Income tax receivables	55	26	56
Cash and cash equivalents	803	469	626
	4,156	4,022	3,934
Assets classified as held for sale	7	–	–
Total assets	14,157	14,588	14,193
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Treasury shares	–2	–2	–2
Translation differences	332	589	449
Fair value and other reserves	1,482	1,813	1,486
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	3,998	3,239	3,846
	7,972	7,802	7,942
Non-controlling interests	3	2	2
Total equity	7,975	7,804	7,944
Non-current liabilities			
Deferred tax liabilities	443	405	456
Retirement benefit obligations	778	989	747
Provisions	160	192	154
Interest-bearing liabilities	2,452	2,952	2,797
Other liabilities	138	142	174
	3,970	4,680	4,328
Current liabilities			
Current interest-bearing liabilities	573	350	269
Trade and other payables	1,582	1,720	1,619
Income tax payables	58	34	33
	2,213	2,104	1,921
Liabilities related to assets classified as held for sale	–	–	–
Total liabilities	6,183	6,784	6,249
Total equity and liabilities	14,157	14,588	14,193

Consolidated statement of changes in equity

	ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY								
EURm	Share capital	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	890	–2	256	1,867	1,273	3,194	7,478	2	7,480
Profit for the period	–	–	–	–	–	155	155	–	155
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	–107	–107	–	–107
Translation differences	–	–	375	–	–	–	375	–	375
Net investment hedge, net of tax	–	–	–42	–	–	–	–42	–	–42
Cash flow hedges, net of tax	–	–	–	–50	–	–	–50	–	–50
Available-for-sale investments, net of tax	–	–	–	–1	–	–	–1	–	–1
Total comprehensive income for the period	–	–	333	–51	–	48	330	–	330
Share-based compensation, net of tax	–	–	–	–3	–	–3	–6	–	–6
Total transactions with owners for the period	–	–	–	–3	–	–3	–6	–	–6
Balance at 31 March 2015	890	–2	589	1,813	1,273	3,239	7,802	2	7,804
Balance at 1 January 2016	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Profit for the period	–	–	–	–	–	227	227	–	227
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	–72	–72	–	–72
Translation differences	–	–	–130	–	–	–	–130	–	–130
Net investment hedge, net of tax	–	–	13	–	–	–	13	–	13
Cash flow hedges, net of tax	–	–	–	–1	–	–	–1	–	–1
Available-for-sale investments, net of tax	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–117	–1	–	155	37	–	37
Share-based compensation, net of tax	–	–	–	–3	–	–3	–7	–	–7
Total transactions with owners for the period	–	–	–	–3	–	–3	–7	–	–7
Balance at 31 March 2016	890	–2	332	1,482	1,273	3,998	7,972	3	7,975

Condensed consolidated cash flow statement

EURm	Q1/2016	Q1/2015	Q1–Q4/2015
Cash flow from operating activities			
Profit for the period	227	155	916
Adjustments	161	137	449
Change in working capital	–14	–147	–8
Cash generated from operations	374	145	1,357
Finance costs, net	–5	–6	–32
Income taxes paid	–28	–31	–140
Net cash generated from operating activities	341	108	1,185
Cash flow from investing activities			
Capital expenditure	–79	–82	–432
Acquisitions and share purchases	–	–	–34
Asset sales and other investing cash flow	6	2	74
Net cash used in investing activities	–73	–80	–392
Cash flow from financing activities			
Change in loans and other financial items	–88	–267	–495
Dividends paid	–	–	–373
Net cash used in financing activities	–88	–267	–868
Change in cash and cash equivalents	180	–239	–75
Cash and cash equivalents at beginning of period	626	700	700
Foreign exchange effect on cash and cash equivalents	–3	8	1
Change in cash and cash equivalents	180	–239	–75
Cash and cash equivalents at end of period	803	469	626

Quarterly key figures

In addition to the conventional financial performance measures established by the IFRS, certain key figures (alternative performance measures) are presented to reflect the underlying business performance and enhance comparability from period to period.

	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales, EURm	2,446	2,574	2,530	2,548	2,486	10,138
Comparable EBITDA, EURm	403	363	345	317	325	1,350
% of sales	16.5	14.1	13.6	12.4	13.1	13.3
Comparable EBIT, EURm	281	247	240	219	210	916
% of sales	11.5	9.6	9.5	8.6	8.4	9.0
Comparable profit before tax, EURm	267	241	225	195	188	849
Capital employed (average), EURm	11,005	11,079	11,080	11,059	11,025	10,977
Comparable ROCE, %	10.1	9.2	8.6	7.8	7.3	8.3
Comparable profit for the period, EURm	225	215	189	170	160	734
Total equity, average, EURm	7,959	7,944	7,788	7,718	7,642	7,712
Comparable ROE, %	11.3	10.8	9.7	8.8	8.4	9.5
Average number of shares basis (1,000)	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.42	0.41	0.35	0.32	0.30	1.38
Items affecting comparability in operating profit, EURm	–4	–27	273	–13	–7	226
Items affecting comparability in financial items, EURm	–	–	–	–	–	–
Items affecting comparability in taxes, EURm	6	5	–54	3	2	–44
Operating cash flow, EURm	341	390	363	324	108	1,185
Operating cash flow per share, EUR	0.64	0.73	0.68	0.61	0.20	2.22
Net interest-bearing liabilities at the end of period, EURm	1,873	2,100	2,465	2,635	2,419	2,100
Gearing ratio, %	23	26	31	35	31	26
Capital expenditure, EURm	47	188	132	126	74	520
Capital expenditure excluding acquisitions, EURm	47	157	132	123	74	486
Equity per share at the end of period, EUR	14.94	14.89	14.89	14.30	14.61	14.89
Personnel at the end of period	19,870	19,578	19,874	20,900	20,210	19,578

Formulae of key figures are presented at the end of this report.

Reconciliation of key figures to IFRS

EURm	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Items affecting comparability						
Impairment charges	–12	–	–1	1	–	–
Restructuring charges	–18	–2	4	–6	–1	–5
Change in fair value of unrealised cash flow and commodity hedges	25	–22	2	8	–6	–18
Capital gains and losses on sale of non-current assets	–	–	3	3	–	6
Fair value changes of biological assets resulting from changes in estimates	–	–	265	–	–	265
Other non-operational items	–	–3	–	–19	–	–22
Total items affecting comparability in operating profit	–4	–27	273	–13	–7	226
Total items affecting comparability in taxes	6	5	–54	3	2	–44
Items affecting comparability, total	2	–22	219	–10	–5	182
Comparable EBITDA						
Operating profit	277	220	513	206	203	1,142
Less:						
Depreciation, amortisation and impairment charges [1]	138	132	131	130	131	524
Change in fair value of biological assets and wood harvested [1]	–16	–16	–24	–31	–16	–87
Share of result of associated companies and joint ventures	–	–	–2	–1	–	–3
Items affecting comparability in operating profit	4	27	–273	13	7	–226
Comparable EBITDA	403	363	345	317	325	1,350
% of sales	16.5	14.1	13.6	12.4	13.1	13.3
[1] exluding items affecting comparability						
Comparable EBIT						
Operating profit	277	220	513	206	203	1,142
Less:						
Items affecting comparability in operating profit	4	27	–273	13	7	–226
Comparable EBIT	281	247	240	219	210	916
% of sales	11.5	9.6	9.5	8.6	8.4	9.0
Comparable profit before tax						
Profit before tax	263	214	498	182	181	1,075
Less:						
Items affecting comparability in operating profit	4	27	–273	13	7	–226
Items affecting comparability in financial items	–	–	–	–	–	–
Comparable profit before tax	267	241	225	195	188	849
Less:						
Interest exenses and other financial expenses	10	13	12	20	12	57
	277	254	237	215	200	906
Capital employed, average	11,005	11,079	11,080	11,059	11,025	10,977
Comparable ROCE, %	10.1	9.2	8.6	7.8	7.3	8.3
Comparable profit for the period						
Profit for the period	227	193	408	160	155	916
Less:						
Items affecting comparability, total	–2	22	–219	10	5	–182
Comparable profit for the period	225	215	189	170	160	734
Average number of shares basic (1,000)	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.42	0.41	0.35	0.32	0.30	1.38
Total equity, average	7,959	7,944	7,788	7,718	7,642	7,712
Comparable ROE, %	11.3	10.8	9.7	8.8	8.4	9.5
Net interest-bearing liabilities						
Non-current interest-bearing liabilities	2,452	2,797	2,742	2,844	2,952	2,797
Current interest-bearing liabilities	574	269	461	537	350	269
Interest-bearing liabilities	3,025	3,066	3,203	3,381	3,302	3,066
Non-current interest-bearing financial assets	321	318	325	313	362	318
Cash and cash equivalents	803	626	394	409	469	626
Other current interest-bearing financial assets	29	22	19	24	52	22
Interest-bearing financial assets	1,153	966	738	746	883	966
Net interest-bearing liabilities	1,873	2,100	2,465	2,635	2,419	2,100

Quarterly segment information

EURm	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q4/15
Sales						
UPM Biorefining	568	584	554	601	533	2,272
UPM Energy	97	110	112	94	99	415
UPM Raflatac	351	363	353	351	342	1,409
UPM Paper Asia	312	284	286	300	298	1,168
UPM Paper ENA	1,202	1,311	1,279	1,210	1,256	5,056
UPM Plywood	110	102	105	113	119	439
Other operations	73	76	97	119	114	406
Internal sales	–233	–248	–239	–219	–267	–973
Eliminations and reconciliations	–34	–8	–17	–21	–8	–54
Sales, total	2,446	2,574	2,530	2,548	2,486	10,138
Comparable EBITDA						
UPM Biorefining	175	166	161	153	134	614
UPM Energy	36	62	47	43	40	192
UPM Raflatac	41	36	39	33	29	137
UPM Paper Asia	48	31	35	32	43	141
UPM Paper ENA	96	64	55	38	56	213
UPM Plywood	20	18	17	18	25	78
Other operations	–10	–8	–4	–1	–3	–16
Eliminations and reconciliations	–4	–6	–5	1	1	–9
Comparable EBITDA, total	403	363	345	317	325	1,350
Operating profit						
UPM Biorefining	135	129	122	118	97	466
UPM Energy	33	51	45	21	38	155
UPM Raflatac	33	28	30	20	21	99
UPM Paper Asia	23	10	12	11	22	55
UPM Paper ENA	–11	23	13	–9	5	32
UPM Plywood	14	10	11	13	19	53
Other operations [1]	0	–3	280	23	6	306
Eliminations and reconciliations	50	–28	–	9	–5	–24
Operating profit, total	277	220	513	206	203	1,142
% of sales	11.3	8.5	20.3	8.1	8.2	11.3
Items affecting comparability in operating profit						
UPM Biorefining	–	–1	–	–	–	–1
UPM Energy	–	–7	–	–19	–	–26
UPM Raflatac	–	–	1	–4	–	–3
UPM Paper Asia	–	–	–	–	–	–
UPM Paper ENA	–57	5	4	–1	–	8
UPM Plywood	–	–2	–	–	–	–2
Other operations [1]	–	–	266	3	–1	268
Eliminations and reconciliations [2]	53	–22	2	8	–6	–18
Items affecting comparability in operating profit, total	–4	–27	273	–13	–7	226
Comparable EBIT						
UPM Biorefining	135	130	122	118	97	467
UPM Energy	33	58	45	40	38	181
UPM Raflatac	33	28	29	24	21	102
UPM Paper Asia	23	10	12	11	22	55
UPM Paper ENA	46	18	9	–8	5	24
UPM Plywood	14	12	11	13	19	55
Other operations	1	–3	14	20	7	38
Eliminations and reconciliations	–3	–6	–2	1	1	–6
Comparable EBIT, total	281	247	240	219	210	916
% of sales	11.5	9.6	9.5	8.6	8.4	9.0

[1] Q3 2015 Other operations includes a fair value increase of biological assets in Finland totalling EUR 265 million, due to adjusted long-term wood price estimates and a change in the discount rate.

[2] Q1 2016 eliminations and reconciliation includes EUR 28 million elimination adjustments of the joint operation Madison Paper Industries (MPI) reported as subsidiary in UPM Paper ENA and EUR 25 million of changes in fair value of unrealised cash flow and commodity hedges. In 2015 eliminations and reconciliation include changes in fair value of unrealised cash flow and commodity hedges.

Changes in property, plant and equipment

EURm	Q1/2016	Q1/2015	Q1–Q4/2015
Book value at beginning of period	4,895	4,707	4,707
Capital expenditure	45	73	471
Decreases	–2	–3	–14
Depreciation	–124	–121	–487
Impairment charges	–10	–	–
Translation difference and other changes	–99	248	218
Book value at end of period	4,704	4,904	4,895

Financial assets and liabilities measured at fair value

EURm	31 Mar 2016				31 Mar 2015				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Trading derivatives	5	43	–	48	1	88	–	89	6	63	–	69
Derivatives used for hedging	65	331	–	396	58	366	–	424	88	283	–	371
Available-for-sale investments	–	–	2,085	2,085	–	–	2,510	2,510	–	–	2,085	2,085
Total	70	374	2,085	2,529	59	454	2,510	3,023	94	346	2,085	2,525
Liabilities												
Trading derivatives	23	81	–	104	23	72	–	95	59	62	–	121
Derivatives used for hedging	92	94	–	186	86	284	–	370	109	89	–	198
Total	115	175	–	290	109	356	–	465	168	151	–	319

There have been no transfers between Levels.

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

Fair value measurements using significant unobservable inputs, Level 3

	AVAILABLE-FOR-SALE INVESTMENTS		
EURm	**Q1/2016**	**Q1/2015**	**Q1–Q4/2015**
Opening balance	2,085	2,510	2,510
Additions	–	–	33
Disposals	–	–	–35
Transfers into Level 3	–	–	1
Translation differences	–	2	–
Gains and losses			
Recognised in statement of comprehensive income, under available-for-sale investments	–	–2	–424
Closing balance	2,085	2,510	2,085

Fair valuation of available-for-sale investments in the UPM Energy (Pohjolan Voima Oy's A, B, B2, C, C2, 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 342 million. The discount rate of 5.85% used in the valuation model is determined using the weighted average cost of capital method. A change of +/- 0.5% in the discount rate would change the total value of the assets by approximately -/+ EUR 330 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 financial assets and liabilities measured at carrying amount

EURm	**31 Mar 2016**	**31 Mar 2015**	**31 Dec 2015**
Non-current interest bearing liabilities, excl. derivative financial instruments	2,318	2,899	2,755

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

Commitments and contingencies

EURm	**31 Mar 2016**	**31 Mar 2015**	**31 Dec 2015**
Own commitments			
Mortgages	184	252	220
On behalf of others			
Guarantees	5	6	4
Other own commitments			
Leasing commitments for the next 12 months	67	68	65
Leasing commitments for subsequent periods	358	343	355
Other commitments	163	154	180

Capital commitments

EURm	**Completion**	**Total cost**	**By 31 Dec 2015**	**Q1/2016**	**After 31 Mar 2016**
Debottlenecking / Kaukas Pulp Mill	Q4 2016	52	3	7	42
Mill expansion / Otepää	Q4 2016	42	12	6	24

Notional amounts of derivative financial instruments

EURm	31 Mar 2016	31 Mar 2015	31 Dec 2015
Interest rate forward contracts	1,359	2,438	1,906
Interest rate swaps	2,045	2,187	2,131
Forward foreign exchange contracts	3,002	5,142	2,949
Currency options, bought	18	34	25
Currency options, written	20	53	48
Cross currency swaps	646	677	669
Commodity contracts	365	397	400

Assets classified as held for sale

More information on assets classified as held for sale is presented on page 5 "Events during Q1 2016".

Basis of preparation and accounting policies

This unaudited interim report has been prepared in accordance with the accounting policies set out in International Accounting Standard 34 on Interim Financial Reporting and Group's consolidated statements for 2015. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full year.

Alternative performance measures presented in this report should not be considered as a substitute for measures of performance in accordance with the IFRS and may not be comparable to similarly titled amounts used by other companies.

Figures presented in this report have been rounded and therefore the sum of individual figures might deviate from the presented total figure. Key figures have been calculated using exact figures.

Formulae for key figures

Comparable EBITDA:
Operating profit – depreciation – impairment charges
– change in fair value of biological assets and wood harvested
– share of results of associated companies and joint ventures
– items affecting comparability

Comparable EBIT:
Operating profit – items affecting comparability in operating profit

Comparable profit for the period:
Profit for the period
– items affecting comparability

Gearing ratio, %:

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$$

Net interest-bearing liabilities:
Interest-bearing liabilities – interest-bearing financial assets

Return on equity (ROE), %:

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

Comparable ROE, %:

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

Return on capital employed (ROCE), %:

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

Comparable ROCE, %:

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

Comparable ROCE, for the segments (operating capital), %:

$$\frac{\text{Operating profit – items affecting comparability}}{\text{Non-current assets + inventories + trade receivables – trade payables (average)}} \times 100$$

Earnings per share (EPS):

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

Comparable EPS:

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

Equity per share:

$$\frac{\text{Equity attributable to owners of the parent company}}{\text{Adjusted number of shares at end of period}}$$

Operating cash flow per share:

$$\frac{\text{Operating cash flow}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

It should be noted that certain statements herein, which are not historical facts, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein including the availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates. The main earnings sensitivities and the group´s cost structure are presented on page 18 of the 2015 Annual Report. Risks and opportunities are discussed on pages 17–18 and risks and risk management are presented on pages 84–86 of the report.

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