The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 30 JUNE 2016

Interim report Q2/2016:

UPM's comparable EBIT increased by 21%, cash flow reaching new highs

Q2 2016 highlights

- Comparable EBIT increased by 21% to EUR 264 million (219 million).
- Growth projects contributed to earnings, driving delivery growth in UPM Biorefining, UPM Raflatac and UPM Paper Asia.
- Cost-efficiency measures continued on a strong track, variable and fixed costs decreased significantly.
- Operating cash flow was strong at EUR 434 million (324 million).

H1 2016 highlights

- Comparable EBIT increased by 27% to EUR 545 million (429 million).
- Operating cash flow increased to EUR 775 million (432 million).
- Net debt decreased to EUR 1,876 million (2,635 million), and gearing to 24% (35%).
- UPM sold the Schwedt newsprint mill in Germany in July and closed the Madison SC paper mill in the US in May.
- In July, UPM announced expansion of the UPM Kymi pulp mill capacity to 870,000 tonnes, continuing its focused growth investments.

Key figures

	Q2/2016	Q2/2015	Q1/2016	Q1–Q2/2016	Q1–Q2/2015	Q1–Q4/2015
Sales, EURm	2,445	2,548	2,446	4,891	5,034	10,138
Comparable EBITDA, EURm	385	317	403	788	642	1,350
% of sales	15.8	12.4	16.5	16.1	12.8	13.3
Operating profit, EURm	262	206	277	539	409	1,142
Comparable EBIT, EURm	264	219	281	545	429	916
% of sales	10.8	8.6	11.5	11.1	8.5	9.0
Profit before tax, EURm	250	182	263	513	363	1,075
Comparable profit before tax, EURm	252	195	267	519	383	849
Profit for the period, EURm	198	160	227	425	315	916
Comparable profit for the period, EURm	200	170	225	425	330	734
Earnings per share (EPS), EUR	0.37	0.30	0.43	0.80	0.59	1.72
Comparable EPS, EUR	0.37	0.32	0.42	0.79	0.62	1.38
Return on equity (ROE), %	10.1	8.3	11.4	10.9	8.3	11.9
Comparable ROE, %	10.2	8.8	11.3	10.9	8.7	9.5
Return on capital employed (ROCE), %	9.9	7.3	9.9	10.0	7.2	10.3
Comparable ROCE, %	10.0	7.8	10.1	10.1	7.6	8.3
Operating cash flow, EURm	434	324	341	775	432	1,185
Operating cash flow per share, EUR	0.81	0.61	0.64	1.45	0.81	2.22
Equity per share at end of period, EUR	14.36	14.30	14.94	14.36	14.30	14.89
Capital employed at end of period, EURm	10,403	11,012	11,000	10,403	11,012	11,010
Net interest-bearing liabilities at end of period, EURm	1,876	2,635	1,873	1,876	2,635	2,100
Gearing ratio at end of period, %	24	35	23	24	35	26
Personnel at end of period	20,711	20,900	19,870	20,711	20,900	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 Q2 results:

"The first half of 2016 gives further evidence that we are on the right track. We have a strong business model with six agile businesses, efficient capital allocation and an industry-leading balance sheet. For the future, this ensures good opportunities for focused investments in growth, continued strong cash flow and an attractive dividend.

In the second quarter, our growth projects and cost-efficiency measures continued to deliver and our comparable EBIT grew by 21% year-on-year. Cash flow strengthened even further and cumulatively reached a record of EUR 1.5 billion over the past 12 months. By the end of the quarter, our net debt was EUR 759 million lower than a year ago.

UPM businesses enjoyed mostly favourable market demand during the quarter. We are responding to the market demand with timely growth investments in UPM Biorefining, UPM Paper Asia, UPM Raflatac and UPM Plywood. At the same time, we are taking good care of our cost efficiency and the cost take-outs continue on the previous track. This is evident in our improved performance.

UPM Paper ENA was successful in releasing cash by improving profitability, reducing working capital and selling assets, in line with its role. In UPM Energy, the advantageous hedges from previous years have now largely rolled over and the profitability is on a competitive level despite the current market situation.

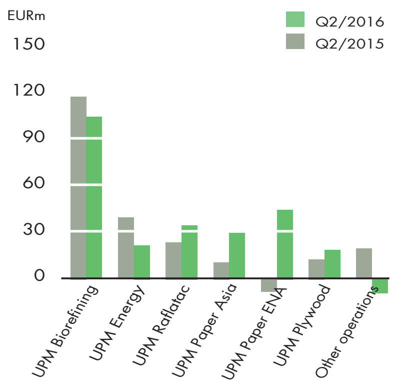
Going forward we have several growth projects in the pipeline. We are continuing to ramp up production at the new UPM Changshu speciality paper machine, as well as the Lappeenranta biorefinery, following its maintenance shutdown in Q2. Ongoing projects in the Otepää plywood mill in Estonia and UPM Kaukas pulp mill in Finland will be finalised by the end of the year. In July, we announced a EUR 98 million expansion investment in the UPM Kymi pulp mill in Finland. After this project we will have increased our total annual pulp production capacity by more than 500,000 tonnes since 2013, with low investment cost. We are also considering prospects for long-term development in Uruguay."

Outlook for 2016

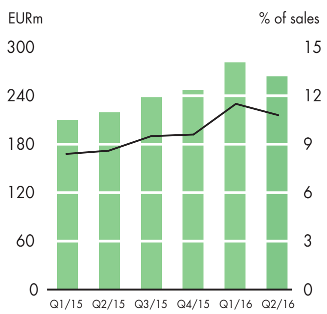
UPM's profitability improved in 2015 and the improvement is expected to continue in 2016. The business performance is underpinned by the company's growth projects and continuous cost efficiency measures.

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 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.

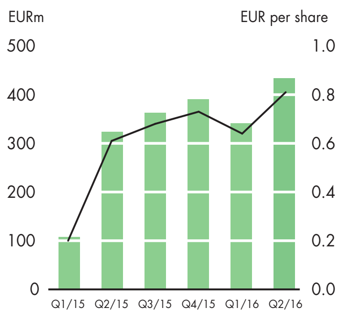
Comparable EBIT



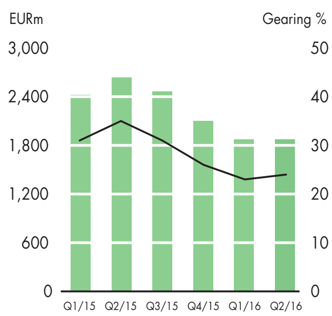
Comparable EBIT



Operating cash flow



Net interest-bearing debt



Results

Q2 2016 compared with Q2 2015

Q2 2016 sales were EUR 2,445 million, 4% lower than the EUR 2,548 million in Q2 2015. Sales grew in UPM Paper Asia, UPM Raflatac and UPM Plywood, and decreased in the other business areas.

Comparable EBITDA increased by 21% to EUR 385 million,15.8% of sales (317 million, 12.4% of sales). Variable and fixed costs were significantly lower than in the comparison period, partly driven by UPM's ongoing profit improvement measures. The company's growth projects contributed positively to Q2 2016 comparable EBITDA, with pulp, 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 Q2 2016 comparable EBITDA, whereas they had a significant negative impact in the comparison period. Changes in sales prices in UPM's product range had a negative impact on comparable EBITDA.

Comparable EBIT increased by 21% to EUR 264 million, 10.8% of sales (219 million, 8.6%). Depreciation excluding items affecting comparability totalled EUR 134 million (130 million). The increase in the fair value of biological assets net of wood harvested was EUR 11 million (31 million).

Operating profit totalled EUR 262 million (206 million). Items affecting comparability in operating profit were charges of EUR 2 million (13 million).

Net interest and other finance costs were EUR 15 million (21 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 2 million (loss of EUR 3 million). Income taxes totalled EUR 52 million (22 million).

Profit for Q2 2016 was EUR 198 million (160 million), and comparable profit was EUR 200 million (170 million).

Q2 2016 compared with Q1 2016

Comparable EBITDA decreased by 4% to EUR 385 million, 15.8% of sales (403 million, 16.5% of sales). Fixed costs were seasonally higher, partly related to maintenance activities. Variable costs and sales prices decreased slightly.

Comparable EBIT decreased by 6% to EUR 264 million, 10.8% of sales (281 million, 11.5%). The increase in the fair value of biological assets net of wood harvested was EUR 11 million (16 million). Depreciation excluding items affecting comparability totalled EUR 134 million (138 million).

Operating profit totalled EUR 262 million (277 million).

January–June 2016 compared with January–June 2015

Sales for Q1–Q2 2016 were EUR 4,891 million, 3% lower than the EUR 5,034 million in Q1–Q2 2015.

Comparable EBITDA increased by 23% to EUR 788 million, 16.1% of sales (642 million, 12.8% of sales). Variable and fixed costs were significantly lower than in the comparison period, partly driven by UPM's ongoing profit improvement measures. The company's growth projects contributed positively to Q1–Q2 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–Q2 2016 comparable EBITDA, whereas they had a significant negative impact in the comparison period. Changes in sales prices in UPM's product range had a negative impact on comparable EBITDA.

Comparable EBIT increased by 27% to EUR 545 million, 11.1% of sales (429 million, 8.5%). Depreciation excluding items affecting comparability totalled EUR 272 million (261 million). The increase in the fair value of biological assets net of wood harvested was EUR 27 million (47 million).

Operating profit totalled EUR 539 million (409 million). Items affecting comparability in operating profit totalled charges of EUR 6 million (charges of EUR 20 million). The announced closure of the Madison Paper Industries joint operation resulted in charges of EUR 28 million (EUR 55 million in UPM Paper ENA and a corresponding elimination of EUR 27 million in Eliminations and reconciliations). The fair value change of unrealised cash flow and commodity hedges resulted in a gain of EUR 22 million (gain of EUR 2 million).

Net interest and other finance costs were EUR 30 million (36 million). The exchange rate and fair value gains and losses resulted in a gain of EUR 2 million (loss of EUR 10 million). Income taxes totalled EUR 88 million (48 million). Items affecting comparability in taxes were EUR 7 million positive, mainly related to the closure of the Madison Paper Industries joint operation.

Profit for Q1–Q2 2016 was EUR 425 million (315 million), and comparable profit was EUR 425 million (330 million).

Financing and cash flow

In Q1–Q2 2016, cash flow from operating activities before capital expenditure and financing totalled EUR 775 million (432 million). Working capital increased by EUR 4 million (116 million) during the period.

A dividend of EUR 0.75 per share (totalling EUR 400 million) was paid on 21 April 2016, in accordance with the decision of the Annual General Meeting held on 7 April 2016.

Net interest-bearing liabilities decreased to EUR 1,876 million at the end of the period (2,635 million). The gearing ratio as of 30 June 2016 was 24% (35%).

On 30 June 2016, UPM's cash funds and unused committed credit facilities totalled EUR 1.5 billion.

Capital expenditure

In Q1–Q2 2016, capital expenditure excluding investments in shares was EUR 132 million, 2.7% of sales (197 million, 3.9% of sales). Total capital expenditure, excluding investments in shares, in 2016 is estimated to be approximately EUR 400 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–Q2 2016, UPM had an average of 20,049 employees (20,458). At the beginning of the year, the number of employees was 19,578 and at the end of Q2 2016, it was 20,711.

Events during January–June 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. The mill ceased production on 21 May. With the closure of the mill, UPM reduced its supercalendered paper capacity by 195,000 tonnes. The closure impacted 214 employees located at the mill site. Hydropower assets located at the mill site will be sold.

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.

On 26 May, UPM-Kymmene Corporation announced proceeding with its plan to change its corporate structure in Finland to better match its current business structure. The plan was originally announced on 10 December 2015. Three new subsidiaries were established in Finland: UPM Energy Oy, UPM Paper Asia Oy and UPM Paper ENA Oy. The personnel and assets of UPM Energy, UPM Paper Asia and UPM Paper ENA (Europe & North America) in Finland were transferred to the new companies on 1 July 2016. UPM Raflatac and UPM Plywood already operated in their own subsidiaries in Finland. UPM Biorefining remains part of UPM-Kymmene Corporation.

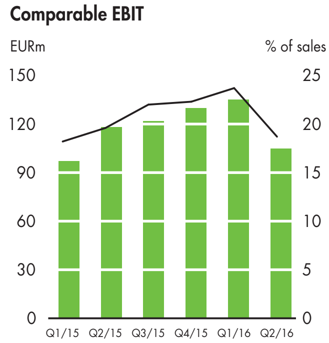
Events after the balance sheet date

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 with the aim of a conversion into liner production. The mill site and relevant assets were transferred from UPM to LEIPA Georg Leinfelder GmbH on 1 July 2016. The entire personnel of the mill transferred to LEIPA as old employees. The transaction price was EUR 70 million, and UPM will book a gain of approximately EUR 47 million as an item affecting comparability in its Q3 2016 results. 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 annual capacity is 280,000 tonnes of newsprint.

On 4 July UPM announced it will invest EUR 98 million in UPM Kymi pulp mill in Finland to further strengthen its position as a supplier of bleached chemical pulp for growing consumer and industrial end-use segments like tissue, speciality as well as packaging papers and board. Kymi's annual pulp production capacity is expected to increase from the current 700,000 tonnes to 870,000 tonnes of bleached northern softwood and birch pulp by the end of 2017. Moreover, the new investment will further improve UPM Kymi's cost-competitiveness and environmental performance.

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.



	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	563	568	584	554	601	533	1,132	1,134	2,272
Comparable EBITDA, EURm	140	175	166	161	153	134	315	287	614
% of sales	24.8	30.9	28.4	29.1	25.5	25.1	27.8	25.3	27.0
Change in fair value of biological assets and wood harvested, EURm	9	3	8	5	6	2	12	8	21
Share of results of associated companies and joint ventures, EURm	1	–	–	–	1	–	1	1	1
Depreciation, amortisation and impairment charges, EURm	–44	–44	–44	–44	–42	–39	–88	–81	–169
Operating profit, EURm	105	135	129	122	118	97	240	215	466
% of sales	18.7	23.7	22.1	22.0	19.6	18.2	21.2	19.0	20.5
Items affecting comparability in operating profit, EURm [1]	–	–	–1	–	–	–	–	–	–1
Comparable EBIT, EURm	105	135	130	122	118	97	240	215	467
% of sales	18.7	23.7	22.3	22.0	19.6	18.2	21.2	19.0	20.6
Capital employed (average), EURm	3,185	3,217	3,203	3,164	3,205	3,193	3,201	3,199	3,191
Comparable ROCE, %	13.2	16.7	16.2	15.4	14.7	12.2	15.0	13.4	14.6
Pulp deliveries, 1,000 t	891	848	806	771	837	810	1,739	1,647	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.
- Potential for further increases in production identified at UPM Kymi pulp mill; investment decision announced in July.
- Scheduled maintenance shutdown carried out at the Lappeenranta biorefinery.
- Cost efficiency improved.

Results

Q2 2016 compared with Q2 2015

Comparable EBIT for UPM Biorefining decreased. Lower variable and fixed costs as well as higher delivery volumes partly offset the negative impact of lower pulp prices.

The average price for UPM's pulp deliveries decreased by 12%.

Q2 2016 compared with Q1 2016

Comparable EBIT decreased due to lower pulp prices, more than offsetting the positive impact of higher pulp deliveries. Profitability was negatively impacted by the scheduled maintenance shutdown at the Lappeenranta biorefinery.

The average price for UPM's pulp deliveries decreased by 7%.

January–June 2016 compared with January–June 2015

Comparable EBIT for UPM Biorefining increased due to lower variable and fixed costs as well as higher delivery volumes, more than offsetting the negative impact of lower pulp prices. 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 7%.

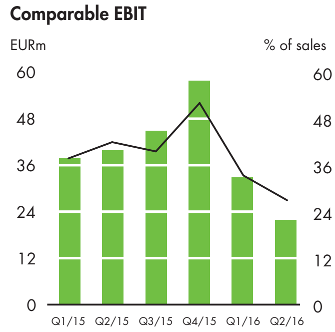
Market environment

- Chemical pulp demand remained strong. Demand growth was primarily recorded in Asia, particularly in China.
- In Europe, the market price of northern bleached softwood kraft (NBSK) pulp was stable, while the market price of bleached hardwood kraft pulp (BHKP) decreased in the second quarter. The hardwood pulp market price in China, which experienced a more pronounced decline in the first quarter, levelled off in the second quarter.
- In Europe in the first half of 2016, the average market price in euros of NBSK was 10% lower and the market price of BHKP was 5% lower than last year. In China, the average market price in USD of NBSK was 11% lower and of BHKP 17% lower than last year.
- Demand for advanced renewable diesel remained strong and prices remained stable compared to the previous quarter.
- Sawn timber demand improved and prices increased slightly in Q2 2016.

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.



	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	81	97	110	112	94	99	177	193	415
Comparable EBITDA, EURm	25	36	62	47	43	40	60	83	192
% of sales	30.4	37.1	56.4	42.0	45.7	40.4	34.1	43.0	46.3
Share of results of associated companies and joint ventures, EURm	–	–1	–	–	–	–	–1	–	–
Depreciation, amortisation and impairment charges, EURm	–2	–2	–4	–2	–3	–2	–4	–5	–11
Operating profit, EURm	22	33	51	45	21	38	55	59	155
% of sales	27.6	34.0	46.4	40.2	22.3	38.4	31.1	30.6	37.3
Items affecting comparability in operating profit, EURm [1)]	–	–	–7	–	–19	–	–	–19	–26
Comparable EBIT, EURm	22	33	58	45	40	38	55	78	181
% of sales	27.6	34.0	52.7	40.2	42.6	38.4	31.1	40.4	43.6
Capital employed (average), EURm	2,360	2,396	2,605	2,693	2,762	2,804	2,378	2,783	2,716
Comparable ROCE, %	3.8	5.5	8.9	6.7	5.8	5.4	4.6	5.6	6.7
Electricity deliveries, GWh	2,102	2,282	2,337	2,339	2,213	2,077	4,384	4,290	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

- Scheduled maintenance shutdown at Olkiluoto nuclear power plant units.

Results

Q2 2016 compared with Q2 2015

Comparable EBIT for UPM Energy decreased mainly due to lower average electricity prices and lower generation volumes.

UPM's average electricity sales price decreased by 13% to EUR 32.1/MWh (36.9/MWh).

Q2 2016 compared with Q1 2016

Comparable EBIT decreased due to lower average electricity prices and lower generation volume in nuclear, mainly relating to scheduled maintenance.

UPM's average electricity sales price decreased by 7% to EUR 32.1/MWh (34.6/MWh).

January–June 2016 compared with January–June 2015

Comparable EBIT for UPM Energy decreased due to lower average electricity prices.

UPM's average electricity sales price decreased by 13% to EUR 33.4/MWh (38.4/MWh).

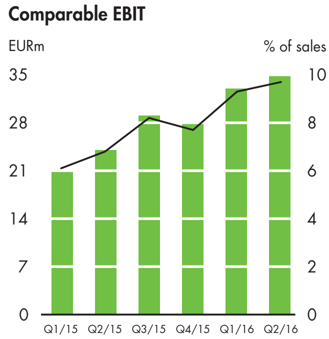
Market environment

- The Nordic hydrological balance deteriorated during the first half of 2016. At the end of June, the hydrological balance was below the long-term average level.
- In the first half of 2016, the average Finnish area spot price on the Nordic electricity exchange was EUR 30.3/MWh, 5% higher than in the same period the previous year (EUR 28.9/MWh).
- Pricing was driven by the deteriorating hydrological balance, while temperatures remained mild and commodity prices low.
- The Finnish area front-year forward electricity price closed at EUR 29.2/MWh in June, 10% higher than at the end of Q1 2016 (26.5/MWh).
- Coal prices increased while the CO_2 emission allowance price decreased in Q2 2016.

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.



	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	360	351	363	353	351	342	711	693	1,409
Comparable EBITDA, EURm	43	41	36	39	33	29	84	62	137
% of sales	12.1	11.7	9.9	11.0	9.4	8.5	11.9	8.9	9.7
Depreciation, amortisation and impairment charges, EURm	–8	–8	–8	–10	–9	–8	–17	–17	–35
Operating profit, EURm	35	33	28	30	20	21	68	41	99
% of sales	9.7	9.3	7.7	8.5	5.7	6.1	9.5	5.9	7.0
Items affecting comparability in operating profit, EURm [1)]	–	–	–	1	–4	–	–	–4	–3
Comparable EBIT, EURm	35	33	28	29	24	21	68	45	102
% of sales	9.7	9.3	7.7	8.2	6.8	6.1	9.5	6.5	7.2
Capital employed (average), EURm	524	540	574	576	595	580	532	588	581
Comparable ROCE, %	26.7	24.2	19.5	20.1	16.1	14.5	25.4	15.3	17.6

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

Actions

- Improved product mix and operational efficiency enabled record strong profitability.

Results

Q2 2016 compared with Q2 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.

Q2 2016 compared with Q1 2016

Comparable EBIT increased due to higher delivery volumes.

January–June 2016 compared with January–June 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.

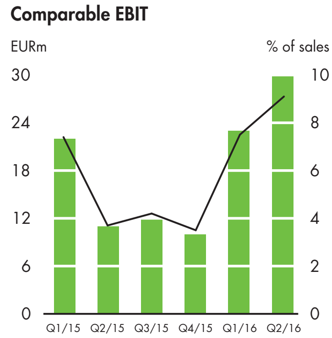
Market environment

- Global demand for self-adhesive label materials increased in the first half of 2016.
- 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.

Source: 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.



	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	327	312	284	286	300	298	639	598	1,168
Comparable EBITDA, EURm	53	48	31	35	32	43	102	75	141
% of sales	16.2	15.6	10.9	12.2	10.7	14.4	15.9	12.5	12.1
Depreciation, amortisation and impairment charges, EURm	–23	–25	–21	–23	–21	–21	–49	–42	–86
Operating profit, EURm	30	23	10	12	11	22	53	33	55
% of sales	9.1	7.5	3.5	4.2	3.7	7.4	8.3	5.5	4.7
Items affecting comparability in operating profit, EURm	–	–	–	–	–	–	–	–	–
Comparable EBIT, EURm	30	23	10	12	11	22	53	33	55
% of sales	9.1	7.5	3.5	4.2	3.7	7.4	8.3	5.5	4.7
Capital employed (average), EURm	1,027	1,051	1,068	1,013	983	986	1,039	984	1,012
Comparable ROCE, %	11.6	8.9	3.7	4.7	4.5	8.9	10.2	6.7	5.4
Paper deliveries, 1,000 t	407	379	342	349	361	349	785	710	1,401

Actions

- Production ramped up successfully at the new speciality paper machine at the UPM Changshu mill in China, contributing to solid growth in deliveries.

Results

Q2 2016 compared with Q2 2015

Comparable EBIT for UPM Paper Asia increased due to lower variable costs and higher delivery volumes, more than offsetting a less favourable sales mix and lower paper prices. In the comparison period, realised currency hedges had a negative impact.

Q2 2016 compared with Q1 2016

Comparable EBIT increased mainly due to higher delivery volumes.

January–June 2016 compared with January–June 2015

Comparable EBIT for UPM Paper Asia increased due to lower variable costs and higher delivery volumes, more than offsetting a less favourable sales mix and lower paper prices. In the comparison period, realised currency hedges had a negative impact.

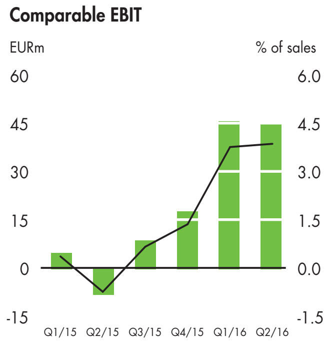
Market environment

- 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. Having decreased slightly in the first quarter, the average market price remained stable in the second quarter. In the first half of 2016 the average price was lower compared with the last year.
- 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 16 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.



	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	1,155	1,202	1,311	1,279	1,210	1,256	2,357	2,466	5,056
Comparable EBITDA, EURm	93	96	64	55	38	56	189	94	213
% of sales	8.1	8.0	4.9	4.3	3.1	4.5	8.0	3.8	4.2
Share of results of associated companies and joint ventures, EURm	–	–	–	1	–	–	1	–	1
Depreciation, amortisation and impairment charges, EURm	–47	–72	–46	–47	–45	–52	–118	–97	–190
Operating profit, EURm	47	–11	23	13	–9	5	37	–4	32
% of sales	4.1	–0.9	1.8	1.0	–0.7	0.4	1.6	–0.2	0.6
Items affecting comparability in operating profit, EURm [1)]	2	–57	5	4	–1	–	–55	–1	8
Comparable EBIT, EURm	45	46	18	9	–8	5	92	–3	24
% of sales	3.9	3.8	1.4	0.7	–0.7	0.4	3.9	–0.1	0.5
Capital employed (average), EURm	1,988	2,098	2,258	2,294	2,301	2,302	2,043	2,301	2,289
Comparable ROCE, %	9.1	8.8	3.2	1.6	–1.4	0.9	9.0	–0.3	1.0
Paper deliveries, 1,000 t	1,940	1,982	2,171	2,130	2,046	2,023	3,922	4,069	8,370

[1)] In Q2 2016, items affecting comparability include income amounting to EUR 2 million related to Madison mill closure and restructuring charges of EUR 2 million and impairment reversals of EUR 2 million related to prior capacity closures. 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

- Successful cash release as a result of profit improvement, reduction in working capital and sale of assets.
- In line with the decision announced in March, paper production ceased at Madison Paper Industries in the US.
- According to the agreement announced on 26 April 2016, the UPM Schwedt mill site and relevant assets were transferred from UPM to LEIPA Georg Leinfelder GmbH on 1 July 2016.

Results

Q2 2016 compared with Q2 2015

Comparable EBIT increased for UPM Paper ENA mainly due to lower variable and fixed costs, partly 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 2%. Price increases in the euro area were offset by a less favourable development in markets outside the euro area and product mix.

Q2 2016 compared with Q1 2016

Comparable EBIT remained broadly stable. Lower variable costs offset the negative impact of lower sales prices and deliveries. The average price for UPM's paper deliveries decreased by 2%, partly impacted by a less favourable development in markets outside the euro area.

January–June 2016 compared with January–June 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 2%. Price increases in the euro area were offset by a less favourable development in markets outside the euro area and product mix.

Market environment

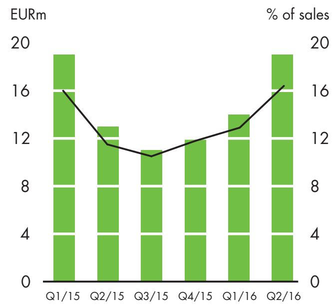
- In the first half of 2016 demand for graphic papers in Europe was 4% lower than last year. Newsprint demand decreased by 3%, magazine paper by 2% and fine paper by 5% compared with the first half of 2015.
- Publication paper prices and fine paper prices in Europe were on the same level as in Q1 2016.
- Compared to the first half of 2015, publication paper prices were 3% lower, whereas fine paper prices were 2% higher.
- In the first half of 2016, demand for magazine papers in North America decreased by 6% compared with last year. The average US dollar price for magazine papers was on the same level as in Q1 2016, and 5% lower in the first half of 2016 compared with first half of 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.

Comparable EBIT



	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	119	110	102	105	113	119	229	232	439
Comparable EBITDA, EURm	25	20	18	17	18	25	44	43	78
% of sales	20.9	17.8	17.6	16.2	15.9	21.0	19.4	18.5	17.8
Depreciation, amortisation and impairment charges, EURm	–5	–5	–6	–6	–5	–6	–11	–11	–23
Operating profit, EURm	19	14	10	11	13	19	34	32	53
% of sales	16.4	12.9	9.8	10.5	11.5	16.0	14.7	13.8	12.1
Items affecting comparability in operating profit, EURm [1]	–	–	–2	–	–	–	–	–	–2
Comparable EBIT, EURm	19	14	12	11	13	19	34	32	55
% of sales	16.4	12.9	11.8	10.5	11.5	16.0	14.7	13.8	12.5
Capital employed (average), EURm	262	252	259	257	269	266	257	267	263
Comparable ROCE, %	29.7	22.6	18.5	17.1	19.3	28.6	26.2	24.0	20.9
Plywood deliveries, 1,000 m^3	206	189	169	179	193	199	395	392	740

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

Actions

- Strong performance.
- Otepää mill expansion proceeded.
- UPM Pellos mills exceeded 10 million cubic meters in all-time total production.

Results

Q2 2016 compared with Q2 2015

Comparable EBIT for UPM Plywood increased due to higher delivery volumes and lower costs, more than offsetting the negative impact of lower sales prices.

Q2 2016 compared with Q1 2016

Comparable EBIT increased mainly due to higher delivery volumes.

January–June 2016 compared with January–June 2015

Comparable EBIT for UPM Plywood increased due to lower costs, partly supported by favourable currency impact, more than offsetting slightly lower sales prices.

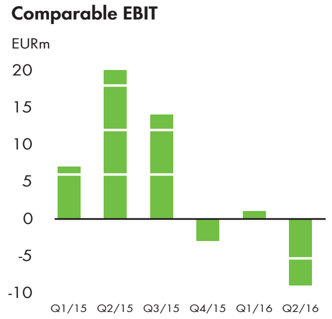
Market environment

- Market environment improved gradually during the first half of 2016 in Europe, and demand is estimated to have increased from last year.
- Impact of low-priced imports in the beginning of the year eased in the second quarter, and demand grew in both industrial applications and construction-related end-use segments.

Source: UPM

Other operations

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



	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	76	73	76	97	119	114	149	233	406
Comparable EBITDA, EURm	–9	–10	–8	–4	–1	–3	–19	–4	–16
Change in fair value of biological assets and wood harvested, EURm	2	13	8	284	25	14	15	39	331
Share of results of associated companies and joint ventures, EURm	1	1	–	1	–	–	2	–	1
Depreciation, amortisation and impairment charges, EURm	–3	–3	–4	–2	–4	–3	–7	–7	–13
Operating profit, EURm	–9	0	–3	280	23	6	–9	29	306
Items affecting comparability in operating profit, EURm [1)]	–	–	–	266	3	–1	–	2	268
Comparable EBIT, EURm	–9	1	–3	14	20	7	–9	27	38
Capital employed (average), EURm	1,553	1,571	1,614	1,469	1,417	1,433	1,562	1,425	1,483
Comparable ROCE, %	–2.4	0.2	–0.7	3.8	5.6	2.0	–1.1	3.8	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

- The University of Helsinki and UPM Biochemicals have started a joint research project with the purpose of investigating the applicability of UPM's new cellulose-based gel material for cancer research.

Results

Q2 2016 compared with Q2 2015

Comparable EBIT for Other operations decreased. The increase in the fair value of biological assets net of wood harvested was EUR 2 million (25 million). The increase in the fair value of biological assets (growing trees) was EUR 17 million (38 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 15 million (13 million).

Q2 2016 compared with Q1 2016

Comparable EBIT decreased. The increase in the fair value of biological assets net of wood harvested was EUR 2 million (13 million). The increase in the fair value of biological assets (growing trees) was EUR 17 million (24 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 15 million (11 million).

January–June 2016 compared with January–June 2015

Comparable EBIT for Other operations decreased. The increase in the fair value of biological assets net of wood harvested was EUR 15 million (39 million). The increase in the fair value of biological assets (growing trees) was EUR 41 million (63 million), including gains on forest sales. The cost of wood harvested from UPM forests was EUR 26 million (24 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.

The UK's EU referendum was held on 23 June, to decide whether the UK should leave or remain in the EU. The Leave side won the referendum. This has increased uncertainty and risks related to economic growth, especially in the UK and the EU. The EU is the most significant market for UPM, representing 59% of the company's sales in 2015. The UK represented 9% of UPM's sales.

Changes to the monetary policies of major central banks may significantly impact on various currencies that directly or indirectly affect UPM. The UK's EU referendum has also increased uncertainty related to currencies.

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.

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.

Shares

In Q1–Q2 2016, UPM shares worth EUR 3,474 million (4,498 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 17.78 in June 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 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.

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

The number of shares entered in the Trade Register on 30 June 2016 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 30 June 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. 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. On 22 June 2016 the District Court rendered a judgment whereby it rejected the damages claim of Metsähallitus against UPM, and the other two Finnish forest companies. The District Court ordered Metsähallitus to pay UPM compensation for legal expenses. The capital amount of Metsähallitus' claim was in total EUR 159 million, of which EUR 23 million was based on agreements between Metsähallitus and UPM. Metsähallitus may appeal the District Court judgment to the Court of Appeal.

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. In 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.

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 Supplier consortium companies (AREVA GmbH, AREVA NP SAS and Siemens AG), 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. TVO´s current estimate was submitted to the tribunal in the arbitration proceedings in July 2015. The Supplier consortium companies 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 July 2016

UPM-Kymmene Corporation
Board of Directors

Financial information

Consolidated income statement

EURm	Q2/2016	Q2/2015	Q1–Q2/2016	Q1–Q2/2015	Q1–Q4/2015
Sales	2,445	2,548	4,891	5,034	10,138
Other operating income	–5	25	32	32	13
Costs and expenses	–2,058	–2,270	–4,131	–4,445	–8,840
Change in fair value of biological assets and wood harvested	11	31	27	47	352
Share of results of associated companies and joint ventures	2	1	2	1	3
Depreciation, amortisation and impairment charges	–133	–129	–283	–260	–524
Operating profit	262	206	539	409	1,142
Gains on available-for-sale investments, net	1	–	1	–	–
Exchange rate and fair value gains and losses	2	–3	2	–10	1
Interest and other finance costs, net	–15	–21	–30	–36	–68
Profit before tax	250	182	513	363	1,075
Income taxes	–52	–22	–88	–48	–159
Profit for the period	198	160	425	315	916
Attributable to:					
Owners of the parent company	197	160	424	315	916
Non-controlling interests	1	–	1	–	–
	198	160	425	315	916
Earnings per share for profit attributable to owners of the parent company					
Basic earnings per share, EUR	0.37	0.30	0.80	0.59	1.72
Diluted earnings per share, EUR	0.37	0.30	0.80	0.59	1.72

Consolidated statement of comprehensive income

EURm	Q2/2016	Q2/2015	Q1–Q2/2016	Q1–Q2/2015	Q1–Q4/2015
Profit for the period	198	160	425	315	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	–43	170	–116	63	113
Items that may be reclassified subsequently to income statement:					
Translation differences	22	–110	–108	265	221
Net investment hedge	–5	9	8	–33	–28
Cash flow hedges	12	67	11	17	24
Available-for-sale investments	–97	–97	–97	–98	–405
	–68	–131	–186	151	–188
Other comprehensive income for the period, net of tax	–111	39	–301	214	–75
Total comprehensive income for the period	87	199	124	529	841
Total comprehensive income attributable to:					
Owners of the parent company	86	199	123	529	841
Non-controlling interests	1	–	1	–	–
	87	199	124	529	841

Consolidated balance sheet

EURm	30 Jun 2016	30 Jun 2015	31 Dec 2015
ASSETS			
Non-current assets			
Goodwill	239	238	241
Other intangible assets	300	346	329
Property, plant and equipment	4,664	4,822	4,895
Investment property	–	29	–
Biological assets	1,706	1,471	1,738
Investments in associated companies and joint ventures	30	27	28
Available-for-sale investments	1,983	2,411	2,085
Other non-current financial assets	349	307	332
Deferred tax assets	488	515	466
Other non-current assets	100	135	145
	9,859	10,301	10,259
Current assets			
Inventories	1,340	1,406	1,376
Trade and other receivables	1,860	2,023	1,876
Income tax receivables	19	37	56
Cash and cash equivalents	459	409	626
	3,678	3,875	3,934
Assets classified as held for sale	30	–	–
Total assets	13,566	14,176	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	349	488	449
Fair value and other reserves	1,398	1,785	1,486
Reserve for invested non-restricted equity	1,273	1,273	1,273
Retained earnings	3,752	3,195	3,846
	7,659	7,629	7,942
Non-controlling interests	3	2	2
Total equity	7,663	7,631	7,944
Non-current liabilities			
Deferred tax liabilities	446	429	456
Retirement benefit obligations	831	832	747
Provisions	145	171	154
Interest-bearing liabilities	2,148	2,844	2,797
Other liabilities	127	137	174
	3,697	4,413	4,328
Current liabilities			
Current interest-bearing liabilities	591	537	269
Trade and other payables	1,561	1,579	1,619
Income tax payables	50	16	33
	2,203	2,132	1,921
Liabilities related to assets classified as held for sale	4	–	–
Total liabilities	5,904	6,545	6,249
Total equity and liabilities	13,566	14,176	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	–	–	–	–	–	315	315	–	315
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	63	63	–	63
Translation differences	–	–	265	–	–	–	265	–	265
Net investment hedge, net of tax	–	–	–33	–	–	–	–33	–	–33
Cash flow hedges, net of tax	–	–	–	17	–	–	17	–	17
Available-for-sale investments, net of tax	–	–	–	–98	–	–	–98	–	–98
Total comprehensive income for the period	–	–	232	–81	–	378	529	–	529
Share-based compensation, net of tax	–	–	–	–1	–	–4	–5	–	–5
Dividend distribution	–	–	–	–	–	–373	–373	–	–373
Total transactions with owners for the period	–	–	–	–1	–	–377	–378	–	–378
Balance at 30 June 2015	890	–2	488	1,785	1,273	3,195	7,629	2	7,631
Balance at 1 January 2016	890	–2	449	1,486	1,273	3,846	7,942	2	7,944
Profit for the period	–	–	–	–	–	424	424	1	425
Actuarial gains and losses on defined benefit obligations, net of tax	–	–	–	–	–	–116	–116	–	–116
Translation differences	–	–	–108	–	–	–	–108	–	–108
Net investment hedge, net of tax	–	–	8	–	–	–	8	–	8
Cash flow hedges, net of tax	–	–	–	11	–	–	11	–	11
Available-for-sale investments, net of tax	–	–	–	–97	–	–	–97	–	–97
Total comprehensive income for the period	–	–	–100	–86	–	309	123	1	124
Share-based compensation, net of tax	–	–	–	–2	–	–3	–5	–	–5
Dividend distribution	–	–	–	–	–	–400	–400	–	–400
Total transactions with owners for the period	–	–	–	–2	–	–403	–405	–	–404
Balance at 30 June 2016	890	–2	349	1,398	1,273	3,752	7,659	3	7,663

Condensed consolidated cash flow statement

EURm	Q1–Q2/2016	Q1–Q2/2015	Q1–Q4/2015
Cash flow from operating activities			
Profit for the period	425	315	916
Adjustments	405	334	449
Change in working capital	–4	–116	–8
Cash generated from operations	826	533	1,357
Finance costs, net	–14	–18	–32
Income taxes paid	–37	–83	–140
Net cash generated from operating activities	775	432	1,185
Cash flow from investing activities			
Capital expenditure	–174	–194	–432
Acquisitions and share purchases	–	–2	–34
Asset sales and other investing cash flow	88	13	74
Net cash used in investing activities	–86	–183	–392
Cash flow from financing activities			
Change in loans and other financial items	–454	–170	–495
Dividends paid	–400	–373	–373
Net cash used in financing activities	–854	–543	–868
Change in cash and cash equivalents	–165	–294	–75
Cash and cash equivalents at beginning of period	626	700	700
Foreign exchange effect on cash and cash equivalents	–2	3	1
Change in cash and cash equivalents	–165	–294	–75
Cash and cash equivalents at end of period	459	409	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.

	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales, EURm	2,445	2,446	2,574	2,530	2,548	2,486	4,891	5,034	10,138
Comparable EBITDA, EURm	385	403	363	345	317	325	788	642	1,350
% of sales	15.8	16.5	14.1	13.6	12.4	13.1	16.1	12.8	13.3
Comparable EBIT, EURm	264	281	247	240	219	210	545	429	916
% of sales	10.8	11.5	9.6	9.5	8.6	8.4	11.1	8.5	9.0
Comparable profit before tax, EURm	252	267	241	225	195	188	519	383	849
Capital employed (average), EURm	10,701	11,005	11,079	11,080	11,059	11,025	10,706	10,978	10,977
Comparable ROCE, %	10.0	10.1	9.2	8.6	7.8	7.3	10.1	7.6	8.3
Comparable profit for the period, EURm	200	225	215	189	170	160	425	330	734
Total equity, average, EURm	7,819	7,959	7,944	7,788	7,718	7,642	7,804	7.556	7,712
Comparable ROE, %	10.2	11.3	10.8	9.7	8.8	8.4	10.9	8.7	9.5
Average number of shares basis (1,000)	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.37	0.42	0.41	0.35	0.32	0.30	0.79	0.62	1.38
Items affecting comparability in operating profit, EURm	–2	–4	–27	273	–13	–7	–6	–20	226
Items affecting comparability in financial items, EURm	–	–	–	–	–	–	–	–	–
Items affecting comparability in taxes, EURm	–	6	5	–54	3	2	7	5	–44
Operating cash flow, EURm	434	341	390	363	324	108	775	432	1,185
Operating cash flow per share, EUR	0.81	0.64	0.73	0.68	0.61	0.20	1.45	0.81	2.22
Net interest-bearing liabilities at the end of period, EURm	1,876	1,873	2,100	2,465	2,635	2,419	1,876	2,635	2,100
Gearing ratio, %	24	23	26	31	35	31	24	35	26
Capital expenditure, EURm	85	47	188	132	126	74	132	200	520
Capital expenditure excluding acquisitions, EURm	85	47	157	132	123	74	132	197	486
Equity per share at the end of period, EUR	14.36	14.94	14.89	14.89	14.30	14.61	14.36	14.30	14.89
Personnel at the end of period	20,711	19,870	19,578	19,874	20,900	20,210	20,711	20,900	19,578

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

Reconciliation of key figures to IFRS

EURm	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Items affecting comparability									
Impairment charges	1	–12	–	–1	1	–	–11	1	–
Restructuring charges	–	–18	–2	4	–6	–1	–18	–7	–5
Change in fair value of unrealised cash flow and commodity hedges	–3	25	–22	2	8	–6	22	2	–18
Capital gains and losses on sale of non-current assets	–	–	–	3	3	–	–	3	6
Fair value changes of biological assets resulting from changes in estimates	–	–	–	265	–	–	–	–	265
Other non-operational items	–	–	–3	–	–19	–	–	–19	–22
Total items affecting comparability in operating profit	–2	–4	–27	273	–13	–7	–6	–20	226
Total items affecting comparability in taxes	–	6	5	–54	3	2	7	5	–44
Items affecting comparability, total	–2	2	–22	219	–10	–5	–	–15	182
Comparable EBITDA									
Operating profit	262	277	220	513	206	203	539	409	1,142
Less:									
Depreciation, amortisation and impairment charges [1]	134	138	132	131	130	131	272	261	524
Change in fair value of biological assets and wood harvested [1]	–11	–16	–16	–24	–31	–16	–27	–47	–87
Share of result of associated companies and joint ventures	–2	–	–	–2	–1	–	–2	–1	–3
Items affecting comparability in operating profit	2	4	27	–273	13	7	6	20	–226
Comparable EBITDA	385	403	363	345	317	325	788	642	1,350
% of sales	15.8	16.5	14.1	13.6	12.4	13.1	16.1	12.8	13.3
[1] exluding items affecting comparability									
Comparable EBIT									
Operating profit	262	277	220	513	206	203	539	409	1,142
Less: Items affecting comparability in operating profit	2	4	27	–273	13	7	6	20	–226
Comparable EBIT	264	281	247	240	219	210	545	429	916
% of sales	10.8	11.5	9.6	9.5	8.6	8.4	11.1	8.5	9.0
Comparable profit before tax									
Profit before tax	250	263	214	498	182	181	513	363	1,075
Less: Items affecting comparability in operating profit	2	4	27	–273	13	7	6	20	–226
Comparable profit before tax	252	267	241	225	195	188	519	383	849
Less: Interest expenses and other financial expenses	15	10	13	12	20	12	24	32	57
	266	277	254	237	215	200	543	415	906
Capital employed, average	11,701	11,005	11,079	11,080	11,059	11,025	10,706	10,978	10,977
Comparable ROCE, %	10.0	10.1	9.2	8.6	7.8	7.3	10.1	7.6	8.3
Comparable profit for the period									
Profit for the period	198	227	193	408	160	155	425	315	916
Less: Items affecting comparability, total	2	–2	22	–219	10	5	–	15	–182
Comparable profit for the period	200	225	215	189	170	160	425	330	734
Less: Profit attributable to non-controlling interest	–1	–	–	–	–	–	–1	–	–
	199	225	215	189	170	160	424	330	734
Average number of shares basic (1,000)	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505	533,505
Comparable EPS, EUR	0.37	0.42	0.41	0.35	0.32	0.30	0.79	0.62	1.38
Total equity, average	7,819	7,959	7,944	7,788	7,718	7,642	7,804	7,556	7,712
Comparable ROE, %	10.2	11.3	10.8	9.7	8.8	8.4	10.9	8.7	9.5
Net interest-bearing liabilities									
Non-current interest-bearing liabilities	2,148	2,452	2,797	2,742	2,844	2,952	2,148	2,844	2,797
Current interest-bearing liabilities	592	574	269	461	537	350	592	537	269
Interest-bearing liabilities	2,740	3,025	3,066	3,203	3,381	3,302	2,740	3,381	3,066
Non-current interest-bearing financial assets	350	321	318	325	313	362	350	313	318
Cash and cash equivalents	459	803	626	394	409	469	459	409	626
Other current interest-bearing financial assets	55	29	22	19	24	52	55	24	22
Interest-bearing financial assets	864	1,153	966	738	746	883	864	746	966
Net interest-bearing liabilities	1,876	1,873	2,100	2,465	2,635	2,419	1,876	2,635	2,100

Quarterly segment information

EURm	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q1–Q2/16	Q1–Q2/15	Q1–Q4/15
Sales									
UPM Biorefining	563	568	584	554	601	533	1,132	1,134	2,272
UPM Energy	81	97	110	112	94	99	177	193	415
UPM Raflatac	360	351	363	353	351	342	711	693	1,409
UPM Paper Asia	327	312	284	286	300	298	639	598	1,168
UPM Paper ENA	1,155	1,202	1,311	1,279	1,210	1,256	2,357	2,466	5,056
UPM Plywood	119	110	102	105	113	119	229	232	439
Other operations	76	73	76	97	119	114	149	233	406
Internal sales	–229	–233	–248	–239	–219	–267	–462	–486	–973
Eliminations and reconciliations	–6	–34	–8	–17	–21	–8	–40	–29	–54
Sales, total	2,445	2,446	2,574	2,530	2,548	2,486	4,891	5,034	10,138
Comparable EBITDA									
UPM Biorefining	140	175	166	161	153	134	315	287	614
UPM Energy	25	36	62	47	43	40	60	83	192
UPM Raflatac	43	41	36	39	33	29	84	62	137
UPM Paper Asia	53	48	31	35	32	43	102	75	141
UPM Paper ENA	93	96	64	55	38	56	189	94	213
UPM Plywood	25	20	18	17	18	25	44	43	78
Other operations	–9	–10	–8	–4	–1	–3	–19	–4	–16
Eliminations and reconciliations	16	–4	–6	–5	1	1	12	2	–9
Comparable EBITDA, total	385	403	363	345	317	325	788	642	1,350
Operating profit									
UPM Biorefining	105	135	129	122	118	97	240	215	466
UPM Energy	22	33	51	45	21	38	55	59	155
UPM Raflatac	35	33	28	30	20	21	68	41	99
UPM Paper Asia	30	23	10	12	11	22	53	33	55
UPM Paper ENA	47	–11	23	13	–9	5	37	–4	32
UPM Plywood	19	14	10	11	13	19	34	32	53
Other operations [1]	–9	0	–3	280	23	6	–9	29	306
Eliminations and reconciliations	12	50	–28	–	9	–5	61	4	–24
Operating profit, total	262	277	220	513	206	203	539	409	1,142
% of sales	10.7	11.3	8.5	20.3	8.1	8.2	11.0	8.1	11.3
Items affecting comparability in operating profit									
UPM Biorefining	–	–	–1	–	–	–	–	–	–1
UPM Energy	–	–	–7	–	–19	–	–	–19	–26
UPM Raflatac	–	–	–	1	–4	–	–	–4	–3
UPM Paper Asia	–	–	–	–	–	–	–	–	–
UPM Paper ENA	2	–57	5	4	–1	–	–55	–1	8
UPM Plywood	–	–	–2	–	–	–	–	–	–2
Other operations [1]	–	–	–	266	3	–1	–	2	268
Eliminations and reconciliations [2]	–4	53	–22	2	8	–6	48	2	–18
Items affecting comparability in operating profit, total	–2	–4	–27	273	–13	–7	–6	–20	226
Comparable EBIT									
UPM Biorefining	105	135	130	122	118	97	240	215	467
UPM Energy	22	33	58	45	40	38	55	78	181
UPM Raflatac	35	33	28	29	24	21	68	45	102
UPM Paper Asia	30	23	10	12	11	22	53	33	55
UPM Paper ENA	45	46	18	9	–8	5	92	–3	24
UPM Plywood	19	14	12	11	13	19	34	32	55
Other operations	–9	1	–3	14	20	7	–9	27	38
Eliminations and reconciliations	16	–3	–6	–2	1	1	13	2	–6
Comparable EBIT, total	264	281	247	240	219	210	545	429	916
% of sales	10.8	11.5	9.6	9.5	8.6	8.4	11.1	8.5	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] Q2 2016 eliminations and reconciliation includes EUR 3 million expenses relating to changes in fair value of unrealised cash flow and currency hedges and EUR –1 million elimination adjustment related to the joint operation Madison Paper Industries (MPI). 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–Q2/2016	Q1–Q2/2015	Q1–Q4/2015
Book value at beginning of period	4,895	4,707	4,707
Capital expenditure	129	191	471
Decreases	–7	–8	–14
Depreciation	–245	–241	–487
Impairment charges	–10	–	–
Translation difference and other changes	–98	173	218
Book value at end of period	4,664	4,822	4,895

Financial assets and liabilities measured at fair value

EURm	30 Jun 2016				30 Jun 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	2	70	–	72	2	48	–	50	6	63	–	69
Derivatives used for hedging	36	355	–	391	66	333	–	399	88	283	–	371
Available-for-sale investments	–	–	1,983	1,983	–	–	2,411	2,411	–	–	2,085	2,085
Total	38	425	1,983	2,446	68	381	2,411	2,860	94	346	2,085	2,525
Liabilities												
Trading derivatives	26	94	–	120	21	101	–	122	59	62	–	121
Derivatives used for hedging	58	111	–	169	88	115	–	203	109	89	–	198
Total	84	205	–	289	109	216	–	325	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–Q2/2016	Q1–Q2/2015	Q1–Q4/2015
Opening balance	2,085	2,510	2,510
Additions	–	1	33
Disposals	–5	–	–35
Transfers into Level 3	–	–	1
Translation differences	–	1	–
Gains and losses			
Recognised in statement of comprehensive income, under available-for-sale investments	–97	–101	–424
Closing balance	1,983	2,411	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 334 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 320 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	30 Jun 2016	30 Jun 2015	31 Dec 2015
Non-current interest bearing liabilities, excl. derivative financial instruments	2,056	2,818	2,755

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

Commitments and contingencies

EURm	30 Jun 2016	30 Jun 2015	31 Dec 2015
Own commitments			
Mortgages	186	254	220
On behalf of others			
Guarantees	2	5	4
Other own commitments			
Leasing commitments for the next 12 months	65	65	65
Leasing commitments for subsequent periods	355	342	355
Other commitments	159	148	180

Capital commitments

EURm	Completion	Total cost	By 31 Dec 2015	Q1–Q2/2016	After 30 Jun 2016
Debottlenecking / Kaukas Pulp Mill	Q4 2016	52	3	18	31
Mill expansion / Otepää	Q4 2016	42	12	15	15

Notional amounts of derivative financial instruments

EURm	30 Jun 2016	30 Jun 2015	31 Dec 2015
Interest rate forward contracts	2,868	2,210	1,906
Interest rate swaps	2,041	2,167	2,131
Forward foreign exchange contracts	2,568	4,692	2,949
Currency options, bought	19	4	25
Currency options, written	29	4	48
Cross currency swaps	664	667	669
Commodity contracts	410	352	400

Assets classified as held for sale

Assets classified as held for sale relate to hydro power assets located at the mill site in Madison Paper Industries in the US and newsprint assets located at the Schwedt mill site in Germany. More information is presented under "Events during January-June 2016" and "Events after the balance sheet date".

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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